

**“Business power in the making of social policies:  
the case of old-age pensions in Chile, 1973-2017”**

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for the Degree of Doctor of Philosophy in International  
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by

Ignacio Schiappacasse

Oxford Department of International Development  
St Antony's College  
University of Oxford

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## DECLARATION OF AUTHORSHIP

Name (in capitals): **IGNACIO SCHIAPPACASSE**

Candidate number: **689371**

College (in capitals): **ST ANTONY'S**

Supervisor(s): **DIEGO SÁNCHEZ-ANCOCHEA**

Title of thesis (in capitals): **BUSINESS POWER IN THE MAKING OF SOCIAL POLICIES:  
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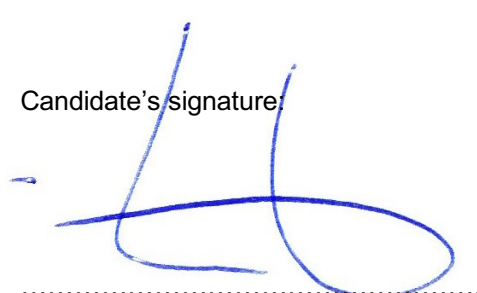
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## ABSTRACT

The 1980-1981 reform to the pension system in Chile represents the most notable case of pension privatisation as it pioneered private-oriented pension reforms worldwide. After almost four decades since its inception, the main pillars of this old-age pension system remain largely intact in spite of significant insufficiencies such as low effective coverage and low benefits. Hence, this dissertation aims to explain, in the first place, why and how pension privatisation took off during the authoritarian regime (1973-1990). Secondly, it seeks to address the question of why the scheme has proved so resilient during thirty years of democracy dominated mostly by centre-left administrations, growing public opposition and increasing electoral competition. In so doing, this work combines a long-term historical approach (stretching back to the early 1960s) with an in-depth analysis of five pension policymaking processes developed during the 1973-2017 period. The research is based on extensive archival research and more than ninety interviews with key informants. In this context, I argue that in order to have a more accurate picture of the system's inception in 1981 and the subsequent lack of paradigmatic changes in democracy, we need to pay more attention to the role played by the economic elite as a whole and by its different segments. Among other findings, this thesis shows the significance of including in the analysis ideational elements of power, which have been overlooked so far in the literature on business politics. Specifically, I show the significant influence of long-term, strategic investments carried out by the economic elite in order to avoid the overt exercising of power -which usually entails high costs and risks- through the dissemination of dominant ideological frameworks. At a more empirical level, this research shows the extraordinary adaptive capacity of the Chilean economic elite throughout the period under analysis. Through a vast repertoire of sources of power, this group has been able to overcome different challenges from below and safeguard their minority interests.

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## ACRONYMS AND ABBREVIATIONS

<b>AAFP</b>	Asociación de AFP (Association of Pension Fund Administrators)
<b>ABIF</b>	Asociación de Bancos e Instituciones Financieras (Association of Banks and Financial Institutions)
<b>AFP</b>	Administradora de Fondos de Pensiones (Pension Funds Administrators)
<b>APS</b>	Aporte Previsional Solidario (Solidarity Welfare Pension)
<b>CChC</b>	Cámara Chilena de la Construcción (Chilean Chamber of Construction)
<b>CEP</b>	Centro de Estudios Públicos (Centre for Public Studies)
<b>CIEPLAN</b>	Corporación de Estudios para Latinoamérica (Corporation for Latin American Studies)
<b>CNC</b>	Cámara Nacional de Comercio (National Chamber of Commerce)
<b>CPC</b>	Confederación de la Producción y Comercio (Confederation for Production and Commerce)
<b>CUT</b>	Central Unitaria de Trabajadores (National Workers' Union)
<b>DL</b>	Decreto de Ley (Decree Law)
<b>ICARE</b>	Instituto Chileno de Administración Racional de Empresas (Chilean Institute of Business Management)
<b>INP</b>	Instituto de Normalización Previsional (Institute for Pension Normalisation)
<b>ISI</b>	Import Substitution Industrialisation model
<b>LyD</b>	Libertad y Desarrollo (Liberty and Development)
<b>MPG</b>	Minimum Pension Guarantee
<b>PBS</b>	Pensión Básica Solidaria (Basic Solidarity Pension)
<b>PDC</b>	Partido Demócrata Cristiano (Christian Democrat Party)
<b>PPD</b>	Partido Por la Democracia (Party for Democracy)
<b>PS</b>	Partido Socialista (Socialist Party)
<b>RN</b>	Renovación Nacional (National Renewal)
<b>SAFP</b>	Superintendencia de AFP (Superintendency of AFPs)
<b>SOFOFA</b>	Sociedad de Fomento Fabril (Society for Manufacturing Promotion)
<b>SVS</b>	Superintendencia de Valores y Seguros (Superintendency of Securities and Insurance)
<b>UDI</b>	Unión Demócrata Independiente (Independent Democrat Union)

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<sup>1</sup> National Archives of Chile.

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“Keep Ithaka always in your mind.  
Arriving there is what you’re destined for.  
But don’t hurry the journey at all.  
Better if it lasts for years,  
so you’re old by the time you reach the island,  
wealthy with all you’ve gained on the way,  
not expecting Ithaka to make you rich.”

C.P. Cavafis, *Ithaka*, fragment.

“(…) when he spoke of science, he was also speaking of  
politics and everything else, and when he spoke of politics he  
was also speaking of science and everything else (…).”

Thomas Bernhard, *Correction*.

# **Chapter 1. Exploring the determinants of the inception and continuity of Chile's private pension system**

## 1.1 Introduction

It began on 18 October 2019, when a group of high-school students started to jump turnstiles at subway stations in Santiago, Chile's capital city. They were protesting against a fare hike established earlier that month. These acts became the catalyst for large, sustained street protests, which soon challenged the whole country's economic and societal model. Indeed, the protests expanded throughout all major cities, becoming a nationwide uprising. Suddenly, a country self-regarded and considered by the international community as an example of economic success and political stability in Latin America became the scene of widespread protests and violence. As of this writing in early 2020, the crisis continues, with no signs of a definitive solution. Most commentators and analysts, in this context, agree that one of the main drivers of this cycle of protests -never before seen in such a sustained way and on such a huge scale in the country's history- is Chile's high levels of inequality (e.g. Pribble, 2019; Rovira, 2019; Sehnbruch, 2019). Poor and middle-class Chileans who have taken to the streets complain about low wages, poor health services, high levels of domestic indebtedness, and, critically, low pension benefits.

Widespread frustration with the social security system has been growing since the late 1990s (Latinobarómetro, 1998; Arenas, 2010). Such frustration has been further fuelled by the fact that the pension system did not live up to the promises made by policymakers who established in 1981 the fully-funded system managed by for-profit providers. Private and public statements given by those policymakers at the time explicitly asserted that Chilean workers affiliated to the new system would retire with 70-80% of their employment income (Piñera, 1980; Secretaría de la Junta, 1980: 32-33). Furthermore, those promises were reiterated -and even reinforced- in post-authoritarian Chile. Ironically enough, 2020 was to be the year in which a famous forecast published by "El Mercurio", the influential Chilean daily newspaper, should have become reality. On 4 February 2000, the newspaper headlined "Chileans would retire with 100% of their income by 2020" (El Mercurio, 2000a). Nonetheless,

nowadays on average Chilean workers retire with pension benefits that equal only 33% of their income (Comisión Presidencial Pensiones, 2015).

Considering these issues and developments, the question on the origins and continuity of the Chilean pension system becomes all the more pressing. Even more so considering that this system served as a model for market-oriented pension reforms for many countries worldwide, which have adopted the “Chilean model” to varying degrees (Weyland, 2005; Orenstein, 2008; Brooks, 2009; Mesa-Lago, 2012). Regarding the origins of the system, in 1981 the authoritarian regime replaced the traditional public pension system based on shared contributions with the new scheme of individual capitalisation, funded by workers’ contributions only as eliminated employers’ contributions (Borzutzky, 2002; Kritzer, 2008). The reform did not include intra- or inter-generational elements of solidarity, therefore the scheme reproduces inequalities generated in the Chilean labour market (Sehnbruch and Siavelis, 2014). The 1981 pension thus reduced even more the already limited redistributive capacity of the Chilean state, which constitutes a critical and immediate cause of Chile’s high levels of inequality (Huber and Stephens, 2012; Pribble, 2013). As such, the 1981 radical reform crystallised one of the main tenets of neoliberalism, namely: to reduce the social functions of the State and to transfer the provision of social services to the private sector.

In this context, the radical 1981 pension reform became the most notable example of the rise and entrenchment of neoliberalism in Chile. By the late 1970s, the neoliberal approach of the military regime translated most notably into a set of market-oriented policies, called “modernisations” (Borzutzky, 1983, 2002; Kurtz, 1999). The 1981 pension reform was the poster child among those neoliberal reforms. This radical reform, nonetheless, was not the authoritarian regime’s original plan. Such an original proposal -on the agenda until 1976- aimed to solve the severe economic burden of the traditional pay-as-you-go (PAYG) system by streamlining benefits, and introducing a system of individual capitalisation (to be managed by non-profit corporations) mixed

with the establishment of a common fund (Ministerio del Trabajo, 1975). Therefore, the first research question this dissertation seeks to address is to explain why the authoritarian regime ended up imposing the privatised, individually-managed pension scheme if the original project was to implement a reform based on corporatist ideas.

Then, the resilience of the pension system in post-authoritarian Chile constitutes a further puzzling outcome. Why do the basic parameters of the 1981 pension reform remain intact almost four decades later in spite of thirty years of democracy, dominance of centre-left governments and widespread public discontent? Indeed, the privatised pension system has endured strong challenges from below, especially when in July 2016 large-scale protests against the system broke out for the first time. Initial protests -with hundreds of thousands taking to the streets- became a fully-fledged, sustained movement that extended until 2017. Although this movement forced the government of the time to change its agenda on pensions by introducing a progressive reform package, the status quo prevailed as Congress did not pass such a reform proposal. Especially significant in the analysis of the political economy of pension policymaking in Chile, then, is the striking continuity of the privatised pension system. In spite of delivering low benefits (Consejo Asesor Presidencial para la Reforma Previsional, 2006; Comisión Presidencial Pensiones, 2015), corruption scandals (El Mercurio, 2015a, 2016e, 2016g; Tromben, 2016) and growing public opposition (Bril-Mascarenhas and Maillet, 2019), the system is still in place.

In this context, this dissertation will attempt to address the two research questions presented above by analysing the political economy of pension regulations in Chile from 1973 to 2017. Overall, I will argue that the scholarly work developed so far has considered causal factors that constitute necessary but not sufficient conditions to explain both the inception and the remarkable resilience of the Chilean pension system. As I will demonstrate, in order to gain a more accurate picture of the system's inception in 1981 and the subsequent lack of paradigmatic changes in democracy, we need to pay more attention to the role played by the economic elite as a whole and by

its different segments. In so doing, this dissertation combines a long-term historical approach (stretching back to the early 1960s) with an in-depth analysis of five pension policymaking processes developed during the 1973-2017 period. The research draws on a wealth of primary data from original documents, press records, and more than ninety interviews with key informants.

After this brief contextualisation of the research undertaken in the dissertation, this introductory chapter is structured as follows. The next section discusses explanations developed so far by different bodies of literature for understanding the research questions posed above. Next, the third section develops the argument of this dissertation regarding the necessity of including business' sources of power in the analysis of the shaping and structuration of pension regulation. Then, section four presents the research strategy implemented for this work. In section five, this introductory chapter discusses the contributions of this dissertation to the current state of knowledge on three different levels, namely: theoretical, methodological and empirical. Finally, the last section offers an outline of the remaining chapters.

## 1.2 Analysis of Previous Research

This section will discuss alternative explanations developed so far to understand in the first place why pension privatisation took off and, next, what factors explain the remarkable resilience of the pension scheme in post-authoritarian Chile. I will address this analysis by period, since the two political regimes that this work covers (dictatorship 1973-1990, and democracy 1990-2017) constitute fundamentally different settings. Besides, the politics of retrenchment for the period 1973-1981 are significantly different from those that have determined the continuity of the pension system in democracy (Ewig and Kay, 2011). The introduction of private pension provision created powerful actors (i.e. pension fund managers) which obviously favour the continuity of the system. Furthermore, the intertwined processes of privatisation and financialisation determined a growing role of pensions as providers of capital (see

Ebbinghaus, 2019 and Hassel, Naczyk and Wiß, 2019), which in turn have produced a new political configuration in post-retrenchment.

### 1.2.1. Inception of the 1981 pension reform

So far, a state-centric approach has dominated the literature explaining the rise of neoliberalism in Chile and the implementation of the 1981 radical pension reform. In the case of the inception of the pension defined-contribution scheme, these works have emphasised the significance of the political power of state bureaucrats (Borzutzky, 2002; Mesa-Lago and Müller, 2002), the lack of “veto points” given the centralised structure of the dictatorship (Castiglioni, 2001b), and the ideological position of technocratic elites (Borzutzky, 1983; Castiglioni, 2005; Ewig and Kay, 2011). Such conventional wisdom might be summarised as follow: the consolidation of Augusto Pinochet’s one-man rule by late 1974 facilitated the rise of a group of University of Chicago-trained economists -the so-called Chicago Boys- to the upper echelons of the Chilean state (Borzutzky, 1983, 2002, 2019; Madrid, 2003; Castiglioni, 2005, 2018). During the first years of dictatorship, they only occupied advisory posts in different ministries. However, by 1975 and promoted by Pinochet, they reached ministerial posts, and from such positions and with high degrees of autonomy, they were able to push successfully for a radical re-structuring of the country’s economy based on market-oriented ideas. The passage of the 1981 pension reform, in this context, coincided with the peak of influence of the Chicago Boys within the state apparatus.

These are helpful but incomplete explanations of the process. The Chicago Boys did not act based purely on -and encouraged by- free-market ideas. As such, the literature has not addressed, for instance, the potential role exerted by policymakers’ material interests in carrying out a radical reform such as the one based on individual capitalisation accounts managed by for-profit providers, which opened up new business opportunities. Schamis (1999: 245-250) argues that in the context of Chile’s process of liberalisation “*policymaking elites did [form] alliances with groups of*

*beneficiaries well informed about the payoffs of the reforms at the very outset of, or prior to, the implementation of those programmes*". Material interests, therefore, may certainly become powerful incentives for pursuing certain kinds of pension reforms (Jacobs, 2011, 2015).

Likewise, authors in this context have not systemically assessed the role of shifting political coalitions. "Winning" coalitions seek to exercise authority aiming at imposing their preferences over the "losers" (Silva, 1993; Schamis, 1999, 2002). In modern polities, this process necessarily entails the institutionalisation of that advantage via changes in public policies (in the "rules of the game"), such as the pension system (Pierson, 2016). Last but not least, we have to explain the deeper issue of what ultimately determined the triumph of the Chicago Boys and neoliberalism over another group of policymakers who, at the same moment, attempted to develop a competing ideological framework from within the State. What power resources did the Chicago Boys count on that allowed them to defeat corporatist officers and top officials?

The literature on social policies in Latin America has also emphasised other variables to explain the establishment of market-oriented reforms. One of the leading explanations argues that transnational policy actors pushed for the introduction of market-oriented reforms. For instance, Orenstein (2008) extensively shows the role played by international financial institutions -chief among them was the World Bank (see Brooks, 2007: 33), aid agencies, transnational policy entrepreneurs, and expert networks in the ascent of pension privatisation. In this view, these actors promoted pension privatisation embedded in a new paradigm of coherent ideas which associated such a process with positive macroeconomic outcomes (such as increased savings, growth and capital market deepening), and, by contrast, considered state-centric solutions as an inherent failure. These explanations do not apply to Chile since it was a first mover in the world (Mesa-Lago and Müller, 2002; Brooks, 2005: 276; Weyland, 2005; Orenstein, 2008: 71). Indeed, the 1981 reform served as an example for other Latin

American, Asian and European countries as they modelled their reforms during the 1990s based on the Chilean case.

### 1.2.2. Continuity in Post-authoritarian Chile

The resilience of the pension system based on individual accounts in democratic Chile has also been the subject of scholarly debate. Leading theories of the welfare state predicts a significant expansion of welfare provision under democracy through the role played by left-wing parties and their access to power (e.g. Huber and Stephens, 2012). In this context, twenty years of democracy led by centre-left administrations should have led to significant changes in the pension system and the expansion of benefits. However, after thirty years of democracy the fundamental structures of the system remain in place. Some explanations for this outcome lie in the institutional constraints left by the military regime: the existence of “authoritarian enclaves”, which gave the Right a de facto veto power in Congress during the first sixteen years of democracy (Garretón, 2003). For instance, the Right could designate nine nonelected senators, which cancelled out the elected majority obtained by the governing centre-left coalition, the Concertación, via elections. Furthermore, some of these “authoritarian enclaves” led to the emergence of new institutional constraints (Siavelis, 2014b). This is what Siavelis (2014b) calls “transitional enclaves”. Among those transitional enclaves, Siavelis argues that the existence of an informal institution, the “democracy by agreements”<sup>3</sup>, played a significant role. The democracy of agreements meant that the executive branch negotiated deals directly with the Right and extra-parliamentary actors thereby bypassing Congress (Siavelis, 2014a). The imperative of maintaining a consensual democracy to avoid destabilising confrontations was one of the main drivers to maintain this extra-institutional form of policymaking.

Although this approach based on the analysis of informal institutions may explain the dynamics for the first years of democracy, it fails to capture the dynamics for the full period. This is so for two reasons. First, because the 2005 Constitutional reform

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<sup>3</sup> La “democracia de los acuerdos” in Spanish.

eliminated the nonelected senators, so the Concertación could have effectively used its majority in Congress to push for significant equity-enhancing reforms. And secondly, because during the complete democratic period the Concertación refrained from mobilising popular support for policies that the Right opposed (Barrett, 1997, 2001; Posner, 1999, 2004; Donoso, 2013b). Indeed, the Concertación demobilised and excluded labour and social organisations from policymaking (Roberts, 1998). The Concertación never promoted the potential power of popular collective action as a means to override the power of the Right even when it began to wane. Moreover, the argument on “transitional enclaves” does not explain the sharp ideological conversion undergone by left-wing policymakers who ended up embracing neoliberal ideas.

From an institutionalist perspective, we may argue that institutions tend to persist, for example, through lock-in or feedback effects (Pierson, 1996). From this vantage point, the continuity of the pension system might not represent a puzzle. However, a comparative analysis indicates that several countries, which once followed the Chilean example, have reversed their pension privatisation. Some countries such as Argentina, Bolivia and Hungary have fully reversed pension privatisation by renationalising their old-age pension system. Others, like Poland, have maintained the individual capitalisation accounts, but reduced its significance and restored public pension provision (Naczyk and Domonkos, 2016). As such, Chile represents a puzzling case from a comparative perspective.

Another stream of global research has pointed to the significance of issue salience and public opinion for predicting outcomes. For instance, Culpepper (2011) emphasises the role of political salience as potential mediator of business influence. As such, with high issue salience (e.g. intense media coverage), conventional wisdom expects that public opinion would moderate business power and influence, driving politicians to consider the average voter rather than economic elites in their decisions. By contrast, under low political salience, far from the public spotlight, business would prevail more easily since it does not confront countervailing actors. This theory is able to explain pension

policy outcome for the first fifteen years of democracy, when pension policymaking was characterised by its top-down approach, restricted to experts, technocrats, and the executive branch. However, it fails to capture the dynamics once pensions came to occupy a central role in the agenda. This is especially the case for the period 2014-2017, when a massive social movement demanding wholesale changes to the pension took off as never before seen in Chilean history.

Finally, the outcome of the period 2014-2017 also contradicts another school of thought, which has highlighted the importance of electoral competition and mobilisation from below to explain outcomes. Garay (2016) has carried out the most extensive work in this regard. She argues, for example, that the lack of social movements pushing for pension reforms has determined the development of mild reforms which have not challenged the dominant paradigm. However, as with the account centred on salience of policy issues, this account fails to explain the outcome of the policy process developed during the 2014-2017 period: in spite of broad and sustained mobilisation from below, there were no changes. Congress did not pass the reform package introduced by the second Bachelet administration in 2016.

### **1.3 The argument: business power in pension policymaking**

This thesis argues that all the explanations discussed above constitute at most necessary causal factors to explain the inception and continuity of the Chilean pension system. As such, those causal factors already discussed complement -rather than challenge- the main contention of this thesis, namely: that the implementation and continuity of the 1981 radical pension reform cannot be fully explained without tracing the causal leverage of business power. Without incorporating business power in the analysis, our understanding of decision-making and outcomes in the realm of social policies will inevitably be biased and partial. Overall, this thesis will show the impressive capacity of the Chilean economic elite to adapt to different contexts and prevail in policymaking. The economic elite was first able to shape policy reform during

the dictatorship and then use formal and informal tools to prevent major reforms during three decades of democracy.

To be fair, the power of the economic elite has not been completely absent from the scholarly debate on pensions in Chile and on social policy reform on Latin America more generally. Yet most of the time the inclusion of business power has been piecemeal, and underspecified since discussions do not delineate a concrete set of factors to be observed. Regarding under-specification, studies of pension regulation tend to lump together all means by which business might exert influence. Besides, there is no clear distinction between the various causal mechanisms whereby business power translates into particular outcomes, and they tend to make inferences of influence from ex-post correlation between actors' preferences and outcomes. For instance, in explaining why the reforms carried out during the 2000s could not challenge the core of the 1980 pension system, Ewig and Kay (2011: 85-87) state that private interests that gained from such market-oriented reform (i.e. the pension fund industry) "played a prominent role in the politics" of the reforms. Subsequently in their analysis, they tend to assume that business preferences toward the reform bill introduced to Congress directly determined the Government's strategy during the process that led to the 2008 reform. Likewise, the authors mention the significance of the financial centrality acquired by the pension system in Chile's economic structure, but yet again there is no clarity regarding the mechanisms by which this actor exerted influence on policymakers.

The second problem arises from piecemeal analyses. As in the work of Ewig and Kay (2011), in their study of pension regulation in Chile for the period 1990-2018, Brill-Mascarenhas and Maillet (2019) analyse the scope of business power only in relation to those private fund management companies -the AFPs, Administradoras de Fondos de Pensiones<sup>4</sup>- that emerged with the 1981 reform. They thus overlook the interests that the whole Chilean economic elite -and its different segments- has in the

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<sup>4</sup> Pension Fund Administrators in English.

maintenance of the system as source of “patient” capital (see Estevez-Abe, 2001), the multiple links between the broad economic elite and the AFPs (through shared directors of boards, for instance), and how the economic elite as a whole has operated for the continuity of the pension scheme established in 1981. By looking at just one small piece of the puzzle, much of this work underestimates the potential influence of the Chilean economic elite.

It is thus important to consider the role of the business elite fully, exploring its influence during the various periods. To do so, rich and influential literature on business politics offers a useful conceptual framework. This literature has focused on the ways business exerts influence on the policy process, focusing on two types of power. The first is “political power” (called *instrumental power* in the literature), which constitutes the most common way in which we conceive business power. As such, instrumental power entails actions carried out based on collective action, for instance, lobbying, and funding political parties, among others. The second type of power is “investment power” (called *structural power* in the literature), which is based on the idea that policymakers themselves would refrain from pursuing a particular reform if they assess that it could harm investment levels and thereby the aggregate economic outcome. Critically, structural power is highly context-specific, hence it cannot be reduced to the use of proxies such as capital mobility (e.g. Brooks, 2009) or the economic significance of a sector of the economy (Fairfield, 2015a).

Amidst intense debate, instrumental and structural conceptualisations of power were seen as mutually exclusive up to the 1970s. It was not until the 2000s that Hacker & Pierson (2002) explored the methodological opportunities of unifying both conceptualisations of business power in one analytical approach. In their view, both instrumental and structural power are relevant for the analysis of business’ influence (Hacker & Pierson 2002: 283).<sup>5</sup> More recently, Fairfield (2015a, 2015b) developed a groundbreaking operationalisation of both types of business power, with detailed

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<sup>5</sup> Unfortunately, in their subsequent work these authors abandoned this conceptualisation (e.g. Hacker & Pierson 2010; Pierson 2015).

attention to how they work in particular contexts. Focusing on 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 powerful influence on policymaking. The recognition that instrumental power and structural power are mutually reinforcing is critical. In this study, for example, one critical source of instrumental power such as privileged media access (see Table 3.1) was critical at certain stages to enhance structural power (i.e. fear of disinvestment) by expanding messages that a particular reform to the pension system could affect investors' confidence. Hence, policymakers refrained from pursuing reforms that would challenge the prevailing paradigm (see Chapter 6 and 9).

This thesis confirms the importance of instrumental and structural power and shows how they operate in the particular case of pension policy in Chile in both authoritarian and democratic contexts. At the same time, the thesis goes beyond this framework, by introducing additional sources of business power which the canonical approach does not capture. This dissertation argues that this issue arises from the fact that the canonical business power framework focuses mostly on contemporary evidence to the particular policy process under study (e.g. Fairfield, 2010, 2015b; Fairfield and Garay, 2017). In so doing, these studies fail to capture long-term processes -which might occur long before a particular policy process under analysis- by which the economic elite might influence policymaking. We need, therefore, to examine long-term historical dynamics in order to capture structurally deeper conditions that might make economic elites able to wield a determinant influence on policymaking, and to understand how economic elites adapt their strategies to different challenges and successive rounds of policymaking. The prevailing static approach makes those questions intractable (Bril-Mascarenhas and Maillet, 2019).

The importance of adopting a long-term view is especially critical in capturing investment strategies that might exert a powerful influence on policymaking but tend to remain obscured. Specifically, the examination of long-term historical dynamics

might shed light on processes of development and spread of dominant ideas or policy paradigms favourable to business interests. According to Lukes (1974, 2005), the shaping of ideas, norms and wants might indeed have a powerful effect on policymaking by keeping issues off the agenda through the shaping of society's conceptions of the issues altogether.<sup>6</sup> Then, potential issues are kept out of politics not only through direct action but also through ideational elements of power, which might constitute pervasive mechanisms of influence (Gaventa, 1980). Following Lukes' work, Korpi (1985) asserts that indeed economic elites might invest in the cultivation of particular paradigms through long-term investment processes. In this context, especially in polities characterised nowadays by extremely concentrated income and wealth, we should pay more attention to the ways in which business actors may employ their sources of power to reshape normative beliefs or spread ideological frameworks favourable to their material interests.

As such, this thesis supplements the canonical framework with a third type of business power: systemic power. I carefully operationalise and define the observable implications of ideational elements of power which have so far been discussed mostly at a theoretical level. In this context, systemic power fundamentally arises from collective long-term, strategic investment efforts carried out by a segment of the economic elite aimed at cultivating and spreading certain ideologies or paradigms favourable to business interests. With the incorporation of systemic power, this *augmented business power framework* considers that the economic elite may invest some sources of power (e.g. money, technical expertise, media access) in order to convert them into dominant ideological frames in the long-run.

Critically, the cultivation and spreading of a dominant set of ideas might exert a powerful influence, especially during the first stage of the policymaking process: agenda-setting. Agenda formulation is the most significant and decisive step in the policy process; influence and control over the agenda may be much more substantial

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<sup>6</sup> This phenomenon is what Lukes calls *the bias of the system*.

than potential gains effected by business once the government has formally initiated the policy process (Hacker and Pierson, 2002; Fairfield, 2015a). In this context, one of the main additional explanatory leverages provided by systemic power is to capture significant restrictions to the agenda space. Indeed, the influence exerted by systemic power might restrict the agenda-setting even before structural power and instrumental power play any role in the policymaking process. This is the case because systemic power set distinct limits to the set of acceptable reforms at the very beginning of the policymaking process, and indeed beforehand.

The examination of the Chilean case offers some examples of how systemic power might work. For example, during the 1990s, after the reinstatement of democracy, the agenda on the pension system was very much limited to the discussion of the adoption of additional market mechanisms. In spite of contemporary evidence that already pointed to the weaknesses of the system (Gillion and Bonilla, 1992; Barrientos, 1993; see also Arenas, 2010: 24-28), the dominance of the neoliberal paradigm caused left-wing policymakers to refrain from advocating equity-enhancing reforms. These policymakers accepted that such reforms were off the agenda as they did not have the resources to counterbalance the dominant neoliberal ideology and promote a more progressive agenda. As such, by introducing and operationalising this new, third type of power (in addition to instrumental power and structural power), this research work will illustrate that business in Chile is even more powerful than previously thought. Chapter 3, which focuses on the discussion of the conceptual framework, will present more mechanisms by which systemic power might influence policymaking, and it will present a three-stage approach to understanding how the economic elite may build systemic power over the long term.

Empirically, this thesis will show how, from the beginning of systemic power's development, a significant segment of the economic elite supported and controlled the work carried out by the Chicago Boys. Accordingly, this group of neoliberal technocrats promoted the class interests of the economic elite (especially the interests

of the financial fraction) (Silva, 1993, 1996b; Schamis, 1999; Teichman, 2001). Then, early on during the 1960s a significant segment of the economic elite supported the economists who came back from Chicago, employing them in their economic groups, in their associations, funding their academic work, providing them with the necessary infrastructure and -critically- a network of connections (Fontaine, 1988; Valdés, 1995; Silva, 1996b). Later, once the military was in power, the Chicago Boys rotated between the government and financial conglomerates. This revolving door involved the most prominent Chicago Boys who came back and forth from the Ministries of Economy, Finance, the National Planning Office<sup>7</sup>, the Central Bank, and boards and top-executive posts of the largest business conglomerates (Dahse, 1979, 1983), including the boards of the newly created AFPs. In summary, this dissertation argues that without the support of the economic elite, the successful story of the Chicago Boys would have not occurred.

## 1.4 Research strategy

Although the next chapter will touch upon methodological issues in more detail, at this stage it is important to establish the main aspects of the analytical approach of this dissertation, which determines more specific methodological issues. In this way, this dissertation draws on business power literature in order to understand and analyse the multiple means of influence wielded by the economic elite. This research, thus, is grounded in the classic concepts of instrumental power (Mills, 1956; Miliband, 1969) and structural power (Block, 1977; Lindblom, 1977, 1982). Regarded as competing conceptualisations of business power until recently, now both types of power constitute a powerful conceptual and methodological approach. Then, this dissertation will supplement such classic, canonical instrumental-structural power framework with the third type of power defined above: systemic power. The core building block of this research, therefore, is the identification, description and analysis of the multiple sources of power possessed by the Chilean economic elite following the augmented business power framework.

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<sup>7</sup> Known as ODEPLAN by its initials in Spanish (Oficina de Planificación Nacional).

As discussed above, systemic power arises from long-term, strategic investment efforts aimed at cultivating a dominant ideological framework. In this context, I study business power as a process unfolding over time. This temporal approach is necessary to understand (i) how economic elites may build and expand their sources of power over time, and (ii) how these groups adapt their repertoire of mechanisms of influence to different rounds of policymaking, contexts and challenges. Given its focus on the analysis of processes unfolding over time, Pierson (2016) argues that historical institutionalism is precisely suited to the study of power. Explicitly recognising Lukes' (1974) contribution by incorporating ideational elements to the study of power, he argues that an historical institutional approach is especially appropriate for the study of deeply-rooted and highly consequential structures of power (Pierson, 2016: 131). Critically, he argues that a systematic analysis of power must focus on the ways in which societal institutional arrangements -such as the pension system, for instance- advance the interests of particular political coalitions. As such, this dissertation seeks to make a substantial contribution to our current understanding of business influence by bridging some contributions from historical institutionalism with those recent contributions in the literature of business power discussed above.

In this context, it is critical to consider that economic elites do not operate in a vacuum. Actually, the potential influence of business elites on policy outcomes is modulated by other societal actors (Fairfield, 2015b). In this regard, my framework follows insights from Power Resource Approach (PRA), which considers the distribution of power resources in society as determinant of distributive processes (Korpi, 1983; Huber and Stephens, 2012). According to PRA, changes in the societal balance of power are the crucial driving force behind changes in welfare programmes provision (Korpi, 1985, 2006) Therefore, though business power is the main, primary object of this research, other causal factors such as electoral competition, popular mobilisation, and state actors will be also analysed complementarily in order to gain analytical leverage for explaining variation in outcomes.

Methodologically, then, this work combines a long-term historical approach with an in-depth analysis of policymaking processes on the conviction that it is a suitable strategy for advancing theory on business power and redistributive politics. The dynamics of business power under analysis cover a period of more than half a century in Chilean history (from early 1960s to 2017). This historical scope is needed in order to study business as a process unfolding over time. Then, the in-depth analysis of the pension policy process is based on the principle that policymaking is an arena in which the societal balance of power is distinctly expressed through the exclusion and inclusion of different groups and actors (Schattschneider, 1960; Korpi, 1983). Accordingly, I will assess the significance of business power with a comparative analysis of five pension policymaking processes carried out both under authoritarian and democratic contexts. Changes in the dependent variable (i.e. pension policy) will be analysed using the framework developed by Hall (1993) to identify distinct degrees of change. Essentially, Hall's framework distinguishes three different magnitudes or orders of change in policymaking. These three orders of change, in turn, are measured according to variations on three central aspects, namely:

- (i) The overarching goals that guide policymaking in a particular arena (e.g. pension benefits should be linked to individual effort, the outcome of worker's lifetime savings);
- (ii) The policy instruments applied to attain such goals (e.g. workers' contributions to individual capitalisation accounts); and
- (iii) The setting of those instruments (e.g. percentage of workers' monthly income that goes to their accounts).

As such, Hall's framework is helpful to address the puzzles this dissertation attempts to address. For instance, why, despite the arrival of democracy, were there no reforms that challenged the overarching goals established in the 1981 reform, and only very moderate changes which took place? Then, I will argue that, in order to understand

the lack of paradigmatic change in pension policy from 1990 onwards, we need a focus on business power (including its “systemic” component).

Finally, it is important to highlight that the analysis of the policymaking processes will consider the preferences and sources of power of the economic elite as a whole, and of its different segments depending on the empirical context. As we shall see, there are periods in which the distinction of preferences and sources of power between segments (e.g. financial fraction vs traditional industrialists) is critical for understanding the policy process. On the other hand, in other periods intra-capital conflicts are overridden by high levels of cohesion or shared interests. Therefore, in such contexts the analysis of the economic elite’s segments is not critical for understanding a particular policy process.

## 1.5 Contributions

This dissertation seeks to make contributions on three different levels to the literature on business power in Latin America, and, more broadly, to the literature on the politics of social policy in highly unequal democracies.

Firstly, this dissertation makes substantial empirical contributions to Chile’s recent history in general, and its history on pensions in particular. By focusing on the economic elite, the thesis better explains the origins and resilience of the pension model in Chile. For example, Chapter 5 touches upon the development of the radical pension reform during the dictatorship, covering the period 1973-1981. Although this period has been studied before by other authors, the participation of the economic elite in the imposition of the privatised, individually-managed pension system has been approached from a descriptive and general viewpoint only (e.g. Borzutzky, 1983, 2002, 2005). There has not been an attempt so far to establish those systematic, pervasive links between the economic elite and the policymakers in charge of shaping the reform. In short, Chapter 5 shows the direct participation of the economic elite’s financial segment in the making of the radical 1981 pension reform.

Then, Chapter 6 is completely focused on the analysis of pension politics during the first democratically-elected administration after the reinstatement of democracy in 1990. The pension policymaking during the Aylwin administration (1990-1994) had not been analysed before, and sheds significant light on the role of business power in understanding the continuity of the pension scheme imposed during the authoritarian regime. Chapter 8, subsequently, discounts the myth that the 2008 pension reform passed during the first Bachelet administration (2006-2010) was mainly based on the consultative, participatory process that took place at the Marcel Commission. On the contrary, the chapter shows in detail how the reform agenda was set well before Bachelet took power, and that the Marcel commission was a mechanism implemented to filter social demands. Furthermore, in the analysis of these policy processes, this work also explores within-elite conflicts concerning the pension system. These fascinating and illustrative dynamics had not been analysed by the literature either.

As such, a further empirical contribution of this dissertation is to show that -although it was required to be supplemented with systemic power- the structural-instrumental framework developed by Fairfield travels well to other policy areas and macro-institutional contexts. While she applies her framework for the analysis of tax reforms in democratic contexts, this research applies such a framework for the analysis of pension reforms under both authoritarian and democratic regimes. Fairfield's framework is significantly helpful in understanding the dynamics that determine the outcome of the policymaking processes under analysis.

Secondly, methodologically, I demonstrate the need to consider long-term, historical dynamics to explain the influence of business power. In other words, this research work contends that it is urgently necessary to "historicise" the study of business power if the aim is to capture its full scope and complexity. A historical viewpoint is needed in order to trace the economic elite's long-term, strategic investments in relation to systemic power, and to understand their role in future or contemporary political

scenarios. Besides, the study of business power as a process unfolding over time is also helpful in capturing short-term investments aimed at enhancing instrumental power (see sub-section 3.3.1 for more details). In her groundbreaking work, Fairfield (2015a, 2015b) fails to fully capture the whole potential of business power (at least in her analyses on Chile) since her perspective is too focused on contemporary events and dynamics. In order to capture the powerful role of dominant ideologies, for instance, in this work it was necessary to carry the research inquiry back to the 1960s, when the Chilean economic elite began to invest in the development and dissemination of neoliberalism.

The findings of this dissertation have further methodological implications. Methodological guidelines for the study of business power usually tend to emphasise the importance of understanding business' preferences, sources of power and mechanisms of influence through interviews with business representatives and high-ranking government officials (former Presidents and Finance Ministers, for example). Nevertheless, this thesis highlights the importance of interviewing actors who might play a secondary role in policymaking. Actors, for example, that might belong to the lower echelons of the political elite. The accounts of such actors are critical in understanding significant aspects of the policymaking process which otherwise would remain obscured. Sometimes, both high-ranking officials and members of the economic elite do not have incentives to disclose critical aspects of the policymaking process or power dynamics, more broadly. In our context, interviews with politicians playing secondary roles were critical in understanding the whole scope of the economic elite's sources of power.

Then, thirdly, on a theoretical level, this research seeks to contribute to the literature on business politics by introducing the novel conceptualisation of systemic power. The incorporation into the analysis of this type of power will help us to understand the full scope of business power and to capture the multiplicity of sources of business power. This third type of business power, then, is based on long-term investments made by

the economic elite in order to convert high-cost sources of instrumental power (e.g. money) into low-cost sources of power that tend to generate a routine management of decision-making, among other effects. As such, this research contends that it is necessary to add this third type of power to the canonical approach in order to capture the full multiplicity and complexity of business power and its potential influence over policymaking.

Finally, this work also seeks to contribute to the discussion on the relationship between democracy and the provision of public goods. In spite of being one of the most unequal countries in Latin America -and indeed the world-, in Chile there have not been significant increases in taxation nor in redistributive spending. Thus, the Chilean case contradicts the conventional wisdom that democracy along with high levels of inequality, should drive redistributive outcomes (Meltzer and Richard, 1981; Boix, 2003). For the case of Chile, it seems that the power of the economic elite matters more than median-voter preferences in the policymaking process and its outcomes, and overwhelms other sources of power wielded by other actors in society (Winters, 2011). Hence, the findings of this work thus concur with recent research that has shown, for instance, that regime change from autocracy to democracy does not secure the implementation of redistributive welfare programmes (Ansell and Samuels, 2014). Democracy in polities with high levels of inequality does not necessarily improve income distribution (e.g. Fairfield and Garay, 2017). Economic elites, in this context, tend to either prevent the passage of reform proposals altogether or distort and affect different stages of the process (Schneider, 2014).

## 1.6 Dissertation outline

In the next chapter, I discuss the methodological approach applied to this research. Importantly, this chapter discusses and adapts the framework developed by Hall (1993) to characterise different degrees of policy change. While Hall (1993) introduces this framework analysing macroeconomic policymaking in Britain, I apply such conceptual apparatus for measuring changes on the dependent variable of this study:

reforms to the pension system for the period 1973-2017. **Chapter 3** further develops the framework presented in this introductory chapter, focusing on the discussion of business preferences toward pension regulation and on the concept introduced in this first chapter, namely: business systemic power. Then, **Chapter 4** describes the main sources of power wielded by the Chilean economic elite according to the conceptual framework discussed in Chapter 3. Chapter 4 will also offer a contextualisation and characterisation of the main changes undergone by Chile's economy and the domestic economic elite in the past half century. In this context, this chapter shows the rise of the financial segment which was to play a critical role in the inception of the 1981 radical pension reform.

**Chapter 5** is the first empirical chapter proper. It analyses the policymaking process regarding pensions during the dictatorship (1973-1981). This chapter is critical since it addresses the inception of the privatised, individually-managed pension system. Contrary to conventional wisdom, the road to the final enactment of the Decree Law 3.500 (DL 3.500 henceforth) -which legally imposed the defined contribution system- was plagued with tensions and internal fights within the authoritarian regime. Indeed, as the chapter will show, the original project until 1976 was to implement a wide-ranging reform to the social security system. The corporatist fraction within the regime led those efforts. When this group was politically defeated by the neoliberal coalition of economists trained in Chicago (the so-called Chicago Boys) and the top financial economic elite, the regime drastically changed its plan regarding pensions. From late-1976 onwards, neoliberal economists, supported and controlled by the economic elite, pursued the implementation of the current pension system (widely known as the AFP system, after the private pension providers). Different factors coalesced during this period whereby only the top economic elite had access to the policymaking process. In such a context, the reform imposed on Chilean society was a sharp reflection of the economic elite's interests.

**Chapter 6** analyses the policymaking process undergone during the first democratically-elected government after the authoritarian regime. The Aylwin Administration (1990-1994) pursued a reform to the capital market, in which the most significant aspect was a reform to the AFP system. This reform mainly favoured the interests of the economic elite by liberalising investment ceilings for the AFPs. As such, the first Concertación government did not live up to its well-established campaign promise of implementing equity-enhancing measures and reforming the system to establish clearer rights for Chilean workers in order for them to have a say in the way their savings are managed. In this context, the economic elite showed an extraordinary capacity to cope with the shock of the reinstatement of democratic rule. Instead of losing power, the economic elite reinforced its sources of power. It was able to maintain almost exclusive access to the policy process, while popular sectors remained mostly excluded.

Next, **Chapter 7** represents a transition between the more historical analysis conducted in Chapter 5 (1973-1981) and Chapter 6 (1990-1994), and the more contemporary analyses of Chapter 8 (2004-2008) and Chapter 9 (2014-2017). Fundamentally, it illustrates the significance of systemic power and the ways in which the economic elite enhanced its sources of instrumental power for the period 1995-2005. It is possible for the economic elite to augment their sources of instrumental power by making short-term investments (Bril-Mascarenhas and Maillet, 2019). In this context, the chapter illustrates how, by means of co-option, the economic elite augmented their links with the governing coalition, thereby expanding their access to the policymaking process.

**Chapter 8** offers the analysis of the policy process that led to the 2008 pension reform. Empirically, it shows that the much-praised “Marcel Commission” only constituted an *ad-hoc* instance to filter popular demands and give legitimacy to the reform bill prepared by neoliberal economists during the previous administration of Ricardo Lagos (2000-2006). Indeed, approximately half of the Marcel Commission’s membership had

strong links with the economic elite. In this context, although the reform significantly expanded the non-contributory pillar, it left the core of the AFP system largely untouched.

In the last empirical analysis of the dissertation, **Chapter 9** analyses pension policymaking during the second Bachelet administration (2014-2017). This policy process ended up in a non-reform. In spite of a pension reform not figuring prominently in Bachelet's government programme, the administration was obliged to prepare a reform bill due to mounting pressure from below. In mid-2016, a sustained social movement against the AFP system, called "No + AFP", took to the streets. At the time, this social mobilisation constituted the largest demonstrations since the reinstatement of democracy. The movement succeeded in altering the agenda on pensions, and put the economic elite on the defensive. As acknowledged by representatives of the economic elite, for the first time they felt that they were losing the privileged, exclusionary access to instances of decision-making. However, in spite of the sustained demonstrations, the economic elite once again prevailed. The executive introduced a reform package by mid-2017, only months before the general elections, but Congress did not pass it. Conveniently for the AFPs and the economic elite, there were no changes. The main pillars of the system remained in place.

Finally, the last chapter, entitled **Conclusions and implications**, offers concluding remarks. It attempts to sum up the findings of each chapter, highlighting the relevance of such findings to other social security systems within Chile and to other countries, and offering recommendations for future research. For example, the analysis of the political economy of pension regulation may inform the politics of reform in other areas in Chile such as health and unemployment insurance. Indeed, the unemployment insurance established in 2002 very much mirrored the core mechanisms of the pension system: based on individual accounts and with a minimal risk-sharing component (Contreras and Sehnbruch, 2014). It seems, then, that the establishment of the unemployment insurance in Chile came only to partial fruition

because of the same causal factors that determined the continuity of the AFP system. In this context, I highlight the extraordinary ability of the Chilean economic elite to not only maintain but also increase its sources of power. In this regard, this work shows the outstanding adaptive capacity of Chile's economic elite. This adaptive capacity is revealed in its ability to prevail in different macro-institutional contexts and in scenarios of open, harsh contestation in which their privileged position and access to policymaking has been severally challenged by popular sectors.

## **Chapter 2. Research methods**

## 2.1 Introduction

Much of the economic elites' political engagement takes place out of the public eye (Culpepper, 2011), and accessible, quantifiable indicators of business influence are rarely available (Karcher & Schneider 2012: 281). Accordingly, the study of economic elites requires intensive qualitative research (Ames, Carreras and Schwartz, 2012). As such, this chapter presents in detail the qualitative methodological approach applied in this dissertation. This research combines insights from business politics literature and historical institutionalism. I follow an historical approach in order to capture the multiplicity of mechanisms and channels by which business exerts influence over the long term. I combine such a long-term approach with an in-depth analysis of five pension policy processes. Process-tracing, in this context, is applied to establish systematic links between the main independent variable (i.e. business power) and changes in the pension system (our dependent variable). The analytical approach based on the instrumental and structural conceptual framework -augmented by the incorporation of systemic power- is employed to identify and examine the empirical fingerprints of how business sources of power are built, enhanced or exerted.

Beginning with the dependent variable, this chapter opens with a characterisation of the Chilean pension system. Next, the chapter presents the adaptation of Hall's (1993) framework to characterise and distinguish different magnitudes of change in the realm of pension policymaking. I then explain the overall research strategy of this dissertation. I finish with a discussion of the sources of data and a brief conclusion.

## 2.2 Selection of the case study and characterisation of the Chilean pension system

The selection of Chile as a case study is grounded in the fact that it constitutes a key case since it has served as a model for market-oriented pension reforms elsewhere. Indeed, Chile's pension reform represents the world's most notable case of pension privatisation (Orenstein, 2008; Brooks, 2009). In the midst of the neoliberal turn in the 1990s -in a process that lasted until the early 2000s- more than 30 countries in Latin

America and Central and Eastern Europe adopted the “Chilean model” to varying degrees (Orenstein, 2008; Brooks, 2009; Mesa-Lago, 2012). As such, the imposition of the fully-funded, individually managed pension system in Chile in 1981 anticipated by more than a decade the trend encouraged by International Financial Institutions during the 1990s (Weyland, 2005). Then, during the last decade a number of countries that once emulated the Chilean reform have reversed pension privatisation and restored the role of public provision by either fully renationalising their pension systems or scaling back their mandatory individual capitalisation accounts (Naczyk and Domonkos, 2016). In this context, the striking resilience exhibited by the 1981 reform over that last four decades merits an in-depth analysis of the causal factors that have determined such an outcome.

The 1981 reform replaced Chile’s traditional PAYG system. Rooted in the Bismarckian social insurance tradition, from the mid-1920s onwards Chile developed a defined-benefit pension system that exhibited a mixed record. On the one hand, the system showed one of the highest levels of coverage in Latin America, reaching more than 70% of the economically active population (Mesa-Lago, 1989, 1994; Pribble and Huber, 2011), and the scheme was progressive: by the late 1960s, the poorest 61% of the population contributed 31% of the total amount of social security contributions and received 41% of the benefits (Foxley, Aninat and Arellano, 1977). On the other hand, the system was highly stratified and underfinanced, and showed inefficiencies and discriminations among different plans of retirement (Mesa-Lago, 1978). For example, amongst the most severe problems was the discriminatory nature of the system to obtain benefits -the number of years required to obtain a pension ranged from 15 years for a member of Congress to 35 for white-collar workers- and the insufficiency of pensions for the majority of the blue-collar workers given the combined effect of inflation and the system applied to compute pension benefits (Mesa-Lago, 1978; Borzutzky, 2002). Furthermore, the clientelistic nature of the process of expanding benefits to different groups over the years determined the existence of an uncoordinated, cumbersome system: by the mid-1970s there were more than 160

social security funds, with entitlements contained in more than two thousand legal texts (Mesa-Lago, 1978).

A decree law passed by the military junta in 1978,<sup>8</sup> in this context, solved most of the problems. It standardised critical aspects such as the retirement age (65 years for males and 60 years for females), the requirement for obtaining pension benefits (at least 10 years of contributions), and the system of readjustment (linking pensions to the consumer price index). However, for the neoliberal technocrats in power, that wide-ranging reform was not enough. As such, under no public scrutiny, the Military Junta enacted the DL 3.500 on 4 November 1980, establishing the system based on individual capitalisation accounts. Then, on 1 May 1981, the new pension scheme started operating.

The reform amounted to a radical departure from the previous system. Financially, the reform legally mandated each worker to transfer 10% of their taxable income to their individual accounts, not including intra- or inter-generational elements of solidarity (Castiglioni, 2005). The reform also introduced a Minimum Pension Guarantee (MPG henceforth) to those workers with at least twenty years of contributions (Arellano, 1985), which added to the non-contributory social assistance pensions (known as PASIS by its initials in Spanish) also created by the military regime in 1975. PASIS<sup>9</sup> provided pension benefits to poor individuals older than 65 and disabled people older than 18, which amounted to one third of the MPG approximately (Gana, 2002). Therefore, with the 1981 reform, the Chilean pension was fundamentally constituted by two pillars: (i) a first pillar formed by a non-contributory, means-tested assistance pension plus the state-guaranteed minimum pension, and (ii) a pension based on workers' contributions accumulated in their individual accounts plus returns.

Regarding the administrative structure, the new scheme transferred the management of those pension funds to the private sector, which involved the creation of a new type

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<sup>8</sup> See Chapter 5 for more details.

<sup>99</sup> PASIS did not represent a universal benefit because of strict means-test requirements and given that the programme was subject to the setting of annual quotas for new beneficiaries (Gana, 2002; Pribble, 2013).

of enterprise: the AFPs (Borzutzky, 1983, 2002). Critically, it did not include mechanisms for workers' participation in the management of their funds.

In this context, the very structure established in 1981 indicated that the system was not to be able to provide decent pensions for the majority as it placed all the responsibility and the risk on the workers' shoulders, among other issues. The lack of redistributive or risk-pooling instruments, the low levels of contributions, and the fact that pensions were now linked to the vagaries of capital markets, among other factors, prefigured that the pension system established 1981 was to fail in providing for decent pensions. Moreover, given its structure, this pension system was naturally tied to the prevailing conditions in the labour market, which compounded the situation (Uthoff, 2002). The new scheme necessarily required job stability, high levels of formal employment, and adequate wages to deliver sufficient pension benefits for most of the population (Contreras and Sehnbruch, 2014; Madero-Cabib *et al.*, 2019). However, Chile has not exhibited such requirements, neither in historical terms nor in the recent past. Some of the main, deep-rooted characteristics of the Chilean labour market are its high levels of informality, and formal workers' poor-quality employment (Sehnbruch, 2006). As a result, this pension system has reproduced inequalities generated by the labour market. Indeed, Arenas and Mesa-Lago (2006) show that the 1981 pension system tends to expand differences in the labour market between affiliates of different income levels (see also Madero-Cabib *et al.*, 2019).

Worryingly, according to Sehnbruch (2014), labour-market conditions have deteriorated during recent decades, which further negatively impacts on pension benefits. This phenomenon is explained by a sharp decline in the proportion of formal and stable employment contracts, and, at the same time, a growing proportion of short-term jobs and the persistence of high levels of informal employment. Underreporting of income, in this context, is an additional severe problem that affects the system's performance (Consejo Asesor Presidencial para la Reforma Previsional, 2006). All these factors have negatively affected the levels of pension benefits because

they have produced low levels of contribution density (Comisión Presidencial Pensiones, 2015). Then, according to the findings -published in 2015- of the Presidential Advisory Commission on the Pension System<sup>10</sup> in terms of coverage, 63.3% of the employed population regularly contributes to their individual accounts. However, contribution densities are lower than 50% of the total population affiliated to an AFP. More recently, Madero-Cabib *et al.* (2019) have shown that more than half of the individuals from the cohort of workers who were incorporated into the private scheme from the outset had labour-force trajectories inconsistent with continuous pension contributions and formal employment. Hence, Chile's precarious labour market represents a structural weakness for the country's fully-funded, defined-contribution pension system, to the extent that increased fiscal contributions could not suffice to resolve such weakness (Uthoff, 2002).

The problem of low densities is especially severe among women. For the period 1980-2002, Arenas and Mesa-Lago (2006) estimated that while men had an average contribution density of 59.8%, women reached only 43.8%. Later the Bravo Commission confirmed the existence of that gap: while for men the median contribution density is 47.5%, for women the figure is 12.8% (Comisión Presidencial Pensiones, 2015). Women have lower contribution densities since they retire before – at the statutory age of 60-, obtain lower pay for the same task, and accumulate significant non-contribution periods owing to time out for raising children and higher unemployment, among other factors (Arenas and Mesa-Lago, 2006). Indeed, the privately managed pension system accentuated gender inequalities, since in the old PAYG system the calculation of benefits did not differ among gender, and women could obtain pension benefits with fewer requirements than men (Arenas and Montecinos, 1999).

An additional issue that has increased the problems of the 1981 pension system is the returns on the pension funds. According to the Bravo Commission, investment returns

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<sup>10</sup> Better known as the Bravo Commission after its chairman.

have averaged more than 8% since 1981, which is considerably higher than the 4% considered when the system was designed (Comisión Presidencial Pensiones, 2015; Financial Times, 2016). The problem is that net returns obtained by affiliates are only 3% after commissions are deducted.<sup>11</sup> Somehow, this issue is related to the lack of competition in the AFP market. Competition among AFPs -which extends to fees, rates of return and quality of service- has been traditionally low as the market is very concentrated (Barrientos and Boussofiane, 2005; Arenas and Mesa-Lago, 2006). Historically around 70% of the total insured have been affiliated to the three largest AFPs, and these AFPs have managed over 50% of the total assets (Comisión Presidencial Pensiones, 2015). Low competition has resulted, especially before the 2008 reform that introduced the bidding system, in high and sustained administrative costs paid mostly by the insured (Arenas and Mesa-Lago, 2006). All these factors have negatively affected the level of pension benefits.

In spite of these issues, democratic governments maintained and deepened this pension scheme (Borzutzky and Hyde, 2016; Garay, 2016). Only in 2008 did Congress pass a moderately universalistic reform, which expanded minimum pension and established a set of pension top-ups for the bottom 60% of income earners financed from fiscal revenues (Arenas, 2010). However, the reform did not include components of risk socialisation nor of redistribution (Contreras and Sehnbruch, 2014). Indeed, the reform somehow entrenched one original feature of the 1981 radical reform: the need for incorporating -and indeed, expanding- public subsidies in order to compensate for the inherent regressiveness of the pension system based on individual capitalisation accounts (Huber, 1996). In this context, the problem persists: nowadays, for instance, the average monthly benefit is less than Chile's minimum wage (Velasco, 2016; UNDP, 2017). As such, including the benefits provided by the Solidarity Welfare Pension programme (APS for its initials in Spanish) established with the 2008 reform, between 2007 and 2014 50% of retirees received pensions which were less or equal to \$82,650

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<sup>11</sup> Moreover, until October 2008, when the fixed commission was eliminated, capital returns tend to discriminate against low-income insured since the fixed commission charged by AFPs bore more heavily on smaller accounts (Arenas and Mesa-Lago, 2006).

Chilean pesos<sup>12</sup> (Comisión Presidencial Pensiones, 2015). Regarding replacement rates, they are extremely low by international standards. Indeed, the gross pension replacement rate in Chile is 33.5% while the OECD average reaches 53% (OECD, 2017). In light of these figures, the research question over the endurance of the Chilean pension system attains a high significance and justifies research efforts to understand this case.

## 2.3 Framework for comparative analysis

During the period under study, 1973-2017, the Chilean pension system was subject to more than fifty reform processes (Biblioteca del Congreso, 2019a). From such a universe of reforms, the policy processes selected for this dissertation constitute major policymaking processes that allow for comparative analyses in order to assess the analytical framework developed in this research. The five policy processes thus selected for analysis provide a wide variation on those independent variables under study (i.e. business power, business sectoral interests, macro-institutional settings, power from below, and electoral competition). Hence, among the cases studied are processes carried out under different political regimes (dictatorship and democracy), with different outcomes (e.g. successful and failed reforms), and in different historical periods (e.g. with low and high levels of mobilisation from below). In this context, the study will include the comparative analysis of the following five policymaking processes, namely:

- i. The period 1973-1976, which covers the first years of dictatorship ending up in a non-reform;
- ii. The process that led to the privatisation of the pension system (1976-1981),
- iii. The first major pension reform passed under democracy (1994),
- iv. The reform carried out in 2008, which enhanced the “solidarity pillar”, and
- v. The policymaking process encouraged by the social movement “No + AFP” (No more AFP, in English) which ultimately did not lead to any significant changes.

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<sup>12</sup> It equals US\$120, approximately.

As mentioned in the previous chapter, for the comparative analysis of these policymaking processes, the work will follow the framework developed by Hall (1993) for the study of policy change. Hall's framework is helpful to characterise each policy process according to a set of standards, thereby establishing a clear and comparable measure of change on our dependent variable. For the characterisation of policymaking processes, then, Hall (1993) specifies three main standards or criteria, namely: (i) the overarching goals that guide decision-making in a particular policy realm; (ii) the policy instruments used to achieve those goals; and (iii) the settings or levels of the different policy instruments. Correspondingly, the combined analysis of these three variables allows us to distinguish between three different kinds or magnitudes of changes in policy (see Table 2.1 for a characterisation of each policy process under study according to this framework). These distinctions will allow us to better illustrate the magnitude of each reform proposal, and to establish clear comparisons between the reforms and non-reforms under analysis. Therefore, this framework is helpful to understand if a particular reform is structurally significant or not, and, most importantly, the puzzling outcomes this dissertation seeks to address: why, for instance, have only first- and second order changes been introduced in post-authoritarian Chile?

Then, when a certain reform only alters the current level or setting of some instrument(s), and the instruments of policy and the central aims remain the same, we would be observing a policy process of *first order change*. An example of first order change would be a reform considering a change in the rate of workers' contributions to their individual accounts. For this dissertation, the reform process analysed in Chapter 6 represents a clear example of first order change. During the first democratic administration after the military government (1990-1994), a broad reform to the capital market was on the agenda. The most significant aspect of this reform were several changes to the pension system, which entailed changes to the settings of existing instruments. For instance, the reform meant a significant liberalisation of AFPs' overseas investment portfolios by extending existing ceilings.

In contrast, when a reform entails changes to the policy instruments employed for the provision of benefits but it does not challenge the system's overarching goals, then we can describe that process as *second order change* in policy. One example of this second order change is the reform carried out under the first Bachelet administration (2006-2010), which Congress passed in January 2008. This reform entailed both changes in the settings of existing instruments and the introduction of new ones. Among the former, the reform significantly expanded the MPG funded by public revenues. Although the government and media presented this change as the "creation of the solidarity pillar", the fact is that the core of the 2008 reform was the replacement of the already existing non-contributory subsidies -the MPG and PASIS- for a unified programme (Valdés, 2009). Actually, the MPG already introduced a top-up for those workers whose savings did not reach the minimum of contributions (Brooks, 2007). As such, the 2008 reform maintained the same scheme but raised the top-up's ceiling significantly, thereby increasing pension benefits substantially and, accordingly, fiscal expenditure (Valdés, 2009). Also, in terms of changes to the instruments' settings, this reform further liberalised overseas portfolio investment.

Among the new instruments introduced by this reform, the most significant was a bidding system that forced AFPs to participate in auctions for monopoly rights over the portfolio of new affiliates. Through this mechanism, policymakers sought to introduce more competition to the market of pension providers. True, Concertación policymakers considered this reform *structural* as it significantly expanded the non-contributory pillar, reaching the lower three quintiles of the population and thereby ending with significant restrictions such as the PASIS' annual quotas (Arenas, 2010). Nonetheless, this reform still did not mean a paradigmatic change as it did not challenge the system's core aims. In summary, the 2008 pension represented a mix of changes in the settings of already existing instruments and the introduction of new ones, such as the auction mechanism.

**Table 2.1.** Characterisation of the policymaking processes according to Hall’s three-order-of-change framework.

	<b>Reform Title</b>	<b>Period of the policymaking</b>	<b>Status</b>	<b>Main features</b>	<b>Kind of Change (Hall 1993)</b>
1	“Statute of Principles and Bases of the Social Security System”	1973-1976	Non-reform	It sought to replace the traditional pay-as-you-go system with a system of individual capitalisation accounts mixed with a common fund and managed by Corporations of Social Security (run by the workers themselves).	Third order
2	Decree Law 3.500, which “establishes an old-age pension system from mandatory individual capitalisation accounts”	1976-1981	Reform passed by the military junta in November 1980	Replacement of the traditional state-managed, pay-as-you-go system with the scheme based on individual capitalisation accounts managed by private fund management companies.	Third order
3	Reform to the Capital Market, Law 19,301	1990-1994	Reform passed by Congress in January 1994	It extended ceilings for investing in international markets and in domestic companies.	First order
4	Law 20,255 that establishes Pension Reform	2004-2008	Reform passed in January 2008	The reform significantly expanded the solidarity pillar established in the 1981 reform. Without doubt, it was an equity-enhancing reform. However, the basic parameters of the scheme remained intact.	Second order
5	Package of three different reforms	2014-2017	Non-reform	Reform package that included a new 5% contribution to be paid by the employer, and the creation of a common fund, the “System of Collective Saving”, which would also entail the creation of a state agency in charge of its management.	Second order

Source: Author’s elaboration.

Another example of the second-order degree is the reform proposal developed by the second Bachelet administration (2014-2018). Although it maintained the main policy paradigm (i.e. individual capitalisation accounts), it proposed new instruments to increase pension benefits (see Table 2.1). Among them, the reform package introduced to Congress in August 2017 included a new, additional 5% in the monthly contributions charged to employers. A fraction of that additional contribution would have gone to a new System of Collective Saving, which, through cross-subsidies, was to increase lower pensions. As such, this reform was also going to introduce the creation of a new, autonomous state agency that was to manage the new common fund

Finally, when a reform proposal alters the central, overarching goals of a policy, we talk about a *third order change*. This kind of radical shift entails changes in the three main components applied to describe a policy: the levels of the policy instruments, the policy instruments themselves and the main goals underlying a particular policy area. Hence, a reform of this kind necessarily entails a wholesale change in the paradigm of a policy realm. By contrast, first and second order changes represent continuity in patterns of policy; they can be seen as “normal policymaking” according to Hall (1993: 279). In this context, this thesis analyses two policy processes that entailed third order change, namely: the non-enacted reform discussed during the 1973-1976 period, and the 1981 radical pension reform.

The reform proposal discussed during the 1973-1976, known as the *Anteproyecto* (Draft in English), represented a major departure from the traditional social security system exhibited by Chile. Although not as radical as the 1981 reform, since it aimed at maintaining significant mechanism of social insurance and solidarity, this reform proposal entailed a paradigmatic shift. Several features reflect such a paradigmatic shift. Overall, the *Anteproyecto* aimed at ending the highly fragmented character of the pension system, composed at the time by 35 funds or schemes, with entitlements and obligations contained in more than two thousand legal texts (Mesa-Lago, 1978). In so doing, the proposal entailed the introduction of individual saving accounts managed by “Corporations of Social Security”. These corporations

were to be run by workers themselves (Ministerio del Trabajo, 1975). The reform proposal also sought to eliminate privileges by establishing uniform retirement ages (65 years for men and 60 for women). In terms of universality and solidarity, the proposal considered the creation of a common fund and cross-subsidies in order to fund other programmes included in the reform, such as family allowances and unemployment insurance, among others. In summary, while the proposal sought to introduce individual capitalisation accounts, it proposed different mechanisms that followed social security principles.

As mentioned, the 1981 pension reform is also characterised a *third order change*. Up to 1979, the overarching goal of the Chilean social security system was to deliver pension benefits through a defined-benefit system organised in different funds managed by quasi-public entities. The 1981 pension reform entailed a radical change of such a policy paradigm given that it established a defined-contribution, fully-funded system. From a public social insurance pension system, Chile moved towards a fully private individual savings scheme (Brooks, 2005). In sum, the 1981 reform marked a major departure from the social security system that had persisted in Chile since the mid-1920s (Orenstein, 2008: 74), amounting to a major paradigmatic shift.

## 2.4 Research approach

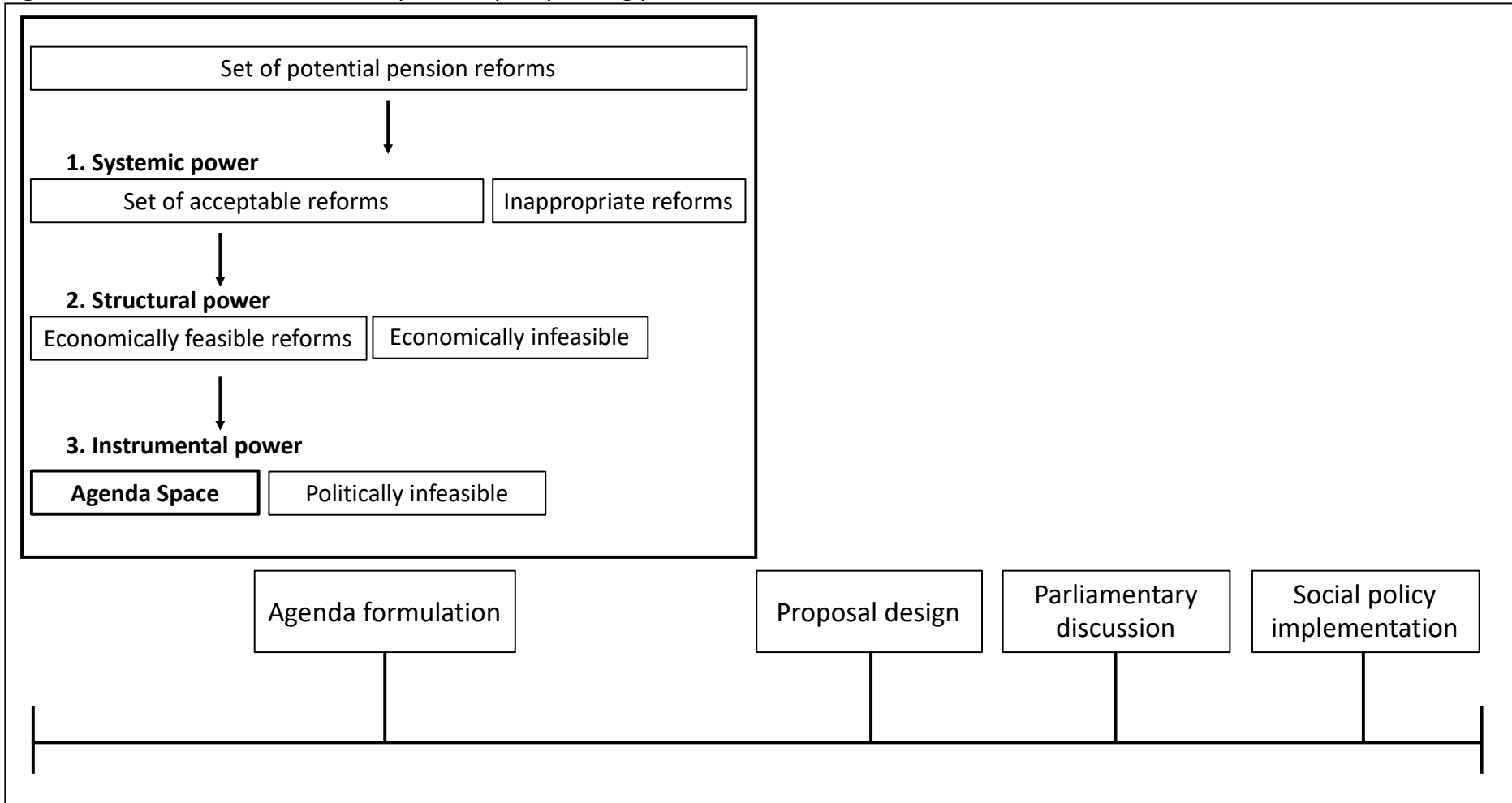
This dissertation's theoretical and empirical insights come from systematic, in-depth qualitative research. As mentioned in the introduction, this dissertation attempts to study the effects of business power over the pension policy process on an intertemporal basis. In this particular sense, this dissertation will follow an historical institutionalist approach, since it constitutes a research tradition that focuses on the examination of temporal processes that determine the origin and subsequent transformation of the institutions that govern our societies (Fioretos, Falletti and Sheingate, 2016). Arguing for the study of power based on insights from historical institutionalism, Pierson (2016) points out that a systematic analysis of power must hold two central tenets, namely: (i) focus on how institutional arrangements -which includes social policies- advance the interests of particular political coalitions, and (ii) attention to political and policy processes unfolding over time. In this context, an expansive

temporal range of analysis is especially critical to detect ideational effects over outcomes (Jacobs, 2015). As such, in order to understand deep-rooted, slow-moving processes developed over a sustained period, this work carries the research inquiry back to the 1960s. This long-term, historical approach is combined with in-depth analyses of the five policymaking processes mentioned above. Following Fairfield and Garay (2017), this thesis argues that the analysis of the policymaking process is a key strategy for advancing theory on business power and redistributive politics.

Regarding the policymaking processes, the analysis will focus on every stage of the process. Figure 2.1 below summarises the main stages. The literature on economic elites' influence on social policies has mainly paid attention to two stages: reform design and legislative discussion. In this research, special attention will be given to agenda setting, considering the ability of economic elites to move the set of policy options toward their preferences (Hacker and Pierson, 2002). As Fairfield (2015a: 9) asserts, "*close attention to agenda formulation is imperative for assessing to what extent economic elites influence policy decisions because they may be able to shift the set of options toward their own policy preferences*". So far, not much attention has been given to this crucial stage in the literature. Following Fairfield (2015a), Figure 2.1 shows an idealised diagram of the agenda-setting stage.

The diagram breaks down the agenda formulation into four idealised steps. Each step delineates increasingly restricted reform options according to the limits imposed by different factors. For Fairfield, however, the first critical step in the agenda formulation involves the effect of policy legacies in determining the set of social policy reforms available to policymakers. Then, in a second phase, technical and administrative considerations will shape the set of policy alternatives, narrowing down the set of policies. In this way, these two first stages, in Fairfield's view, tend to define *how* policy reform would be proposed (Fairfield, 2015a).

**Figure 2.1:** Idealised sketch of the steps in the policymaking process.



Source: author's elaboration.

By contrast, this work contends that the first critical step in the formulation of the agenda is determined by systemic power. Ideational processes play a critical role in determining the set of “available” or “acceptable” reforms, thereby limiting in the first place the set of all potential reforms (see Chapter 3 for more details). Next, in phase 2, fears of disinvestment could lead policymakers to rule out certain options, narrowing further the set of potential reforms. Finally, in a third stage, instrumental power shapes the final subset of policy reforms that policymakers deem as technically, administratively, economically and politically feasible. For example, instrumental power arising from favourable relationships with policymakers may lead the latter to refrain from proposing reforms that the economic elite opposes.

Once the agenda space has been set, the executive branch turns to the design of the policy proposal. At this stage, the executive would usually consult the reform with business interests through formal instances or informal ties. Then, the fate of a particular social policy reform depends once again on the power of the business elite, among other factors (Fairfield, 2010). Where reforms require congressional approval, legislators may take into consideration aspects related to systemic, instrumental and structural power. In an authoritarian context, where initiatives may be easily enacted by administrative decrees, economic elites may still exert influence; either by blocking the enactment of a particular reform, or obtaining substantial concessions according to their preferences. Finally, the process of policy implementation also creates opportunities for business influence (this stage will be examined in Chapter 5 only). In most developing countries, the transformation of laws into actual policies is riddled with difficulties, a stage in which influential collective groups may seek to re-tailor the new programmes according to their own interests (Martínez Franzoni and Sánchez-Ancochea, 2014b).

Then, through in-depth, comparative analysis of the policymaking process, this research aims to establish systematic links between independent variables (e.g. business power) and the observed outcome (e.g. regulatory continuity). Lange (2012), in this context, classifies both small-N comparison and process-tracing as synergetic methods: process-tracing

supplements small-N comparison by offering evidence that the patterns highlighted through comparison are indeed causal. Importantly, for each policy process I evaluate the weight and influence of different actors (state, social and business actors), institutional contexts and other relevant variables (e.g. mobilisation from below), thereby considering counterfactuals and alternative explanations discussed in the introductory chapter.

Process-tracing, in this context, is especially suited to discovering and understanding the causal effect -or the causal chain- that links an independent variable under study to a particular outcome (Bennett, 2010; Collier, 2011; Bennett and Checkel, 2015; Waldner, 2015). Then, the analysis of each reform is based on process-tracing in order to develop strong evidence-based inferences about causal processes. Crucially, process-tracing allows us to elucidate the mechanisms through which business managed (or failed) to use its sources of power to influence pension policy in different cases (Bennett, 2010; Fairfield, 2010). Tracing each policymaking process reveals patterns and evidence that support hypothesised causal mechanisms. That is, that business power played a critical role first in promoting the 1981 radical reform. Later during democracy, business power was also critical in blocking comprehensive equity-enhancing reforms and in consolidating the AFP pension scheme. Following Pouliot (2015), this thesis applied an “inductive process tracing”, meaning that the evidence gathered was used to test those hypotheses, but the research work also generated additional testable implications. The potential role played by systemic power in restricting the agenda constitutes one example of how the inductive research procedure followed here may generate new testable implications.

## 2.5 Sources of data

The empirical evidence for this research comes from different sources and aims to capture the multiplicity of business’ sources of power. Besides this, the aim was to collect diverse data sources to carry out triangulation; this is, to cross check causal inferences derived from the process tracing (Bennett and Checkel, 2015). Among the main sources of information are semi-structured interviews -with business leaders, politicians, experts, and high-level government officials- and an extensive work of archival research of press records over a

period of fifty years (1966-2017). In addition to interviews and press records, I draw on business publications, archival records from Chilean libraries, congressional documents, the recently released secret minutes of the military junta, and undisclosed documentation provided by some of the interviewees.

In this context, most of the data was gathered through fieldwork conducted between 2016 and 2018. This fieldwork included three research trips. The first one, from early July to late August 2016, had an exploratory aim, and the first set of interviews was conducted. Then, from March to October 2017 took place the core of the research process. Most of the interviews were conducted in this period, and the team who worked on the archival research was formed. During this period, research efforts were split between preparing and conducting interviews, working with the team of students of history with press records held by the National Library, and searching for primary documents in other libraries. Finally, the last stage of the fieldwork was conducted in December 2018. During this last stage, I conducted a complementary set of interviews aimed at filling in missing links and gaps in the policy processes under analysis and worked with the research team working on press records.

Press records constituted the basis for reconstructing the unfolding of the reform processes and some of the dynamics of the decision-making process. This work was carried out from June 2016 to June 2019. From June 2016 to early 2017, this work focused on the collections held by the Bodleian Library at the University of Oxford. The Bodleian holds a unique collection of Chilean press records, specifically the magazines *Hoy* and *Ercilla*. The *Hoy* magazine was a significant source of information for the analysis of the decision-making during the military government since it maintained throughout the process high standards of journalism, critical of the regime and with extensive and high-quality coverage of the country's economic situation, the pension system and the Chilean economic elite. By contrast, the *Ercilla* magazine developed an editorial policy favourable to the military dictatorship after the Cruzat-Larraín business group, the largest business conglomerate at the time, purchased it in 1976. As we shall see in Chapter 5, through the pages of the *Ercilla*

magazine it was possible to observe the campaign waged in favour of the establishment of the 1981 radical reform.

The work also includes extensive archival research of press records at the National Library (i.e. the daily newspapers *El Mercurio*, *La Tercera*, *La Nación*, and *Estrategia*, and the magazines *Análisis* and *Qué Pasa*). Among press records, the work carried out with *El Mercurio* was critical. In its section of “Economic and Business”, the daily newspaper gives daily coverage to news on pensions. Pension policymaking has received privileged treatment in the daily agenda of this newspaper so it is possible to use this section as the basis to reconstruct the main features of the policymaking process such as key players, critical dates, points of contention, and the agenda.

Given the historical approach of this research, the archival research entailed the review of every single issue of *El Mercurio* for the period 1966-2017. As discussed in more detail in Chapter 4, *El Mercurio* is the conservative daily newspaper considered the voice of the most influential segments of the Chilean economic elite. In order to accomplish this task, a team of three students of history, led by the author of the thesis, worked together in order to check every issue, identify news related to the pension system, and then provide brief descriptions of every piece of news, which were coded and organised in yearly files. All this extensive material was then applied to reconstruct the “timeline” of each reform process, and this information was compared with the information provided by other media outlets. In total, the work carried out by the four members of the research team amounted to 1,877 working hours checking press records at the National Library. Finally, in terms of archival research, this thesis also includes extensive research carried out in the UK at the National Archives at Kew, in the Library of the National Congress at Chile, and the Chilean National Archives.

The second source of empirical evidence comes from 90 in-depth, semi-structured interviews conducted during the three stages of the fieldwork. I conducted interviews with business leaders, policymakers, members of the political elite, and experts, among others

(the Appendix provides a complete list of the interviewees). These interviews provided a wealth of information to understand the policy processes. The selection of interviews followed a non-probabilistic method of sampling. This was the case because the aim was to gather information over processes of decision-making to which just a few informants might have first-hand access. The reconstruction of the policy process through press records constituted the basis for the identification and selection of potential interviewees. Following Tansey (2007), then, this research applied a *snowball or chain-referral sampling*, in which an initial set of relevant respondents leads to other potential subjects who might have relevance to the study. An important challenge, in this context, is to gain access to members of the elite. A critical issue to succeed in this aspect is to be politely persistent (Aberbach and Rockman, 2002). Importantly, I obtained several interviews over the course of the research process with some key informants, which allowed me to triangulate information and pursue new lines of inquiry. In this context, interviews conducted with politicians who occupied second-tier positions of the political elite were critical in understanding the arrangements developed between the economic elite and democratic governments. Leading members of the political elite might have incentives to skew their accounts, for instance, about informal arrangements carried out with members of the economic elite.

As noted, the interviews were semi-structured. Once I had gained access to the interviewee and arranged the actual interview, I studied the professional careers and political profile of each one of them. Combining such information with the data about the policy process that I wanted to study, I prepared a set of questions for each interviewee. However, the interviews did not necessarily follow the pre-set order since follow-up and additional questions arose based on the interaction developed during the conversation. Indeed, in most cases interviewees willingly shared their own experiences and views of the processes under discussion, sometimes seeking to highlight the role played by themselves. This led to new follow-up questions on topics that had not been considered in the elaboration of the original questionnaire. Importantly, a number of interviewees provided access to undisclosed and unpublished documents. On average, the length of the interviews was one

hour. Following standard procedures (Checkel, 2005), interviews were finalised when the informant was not adding new or meaningful information to the research process.

The treatment of each interview depended on the requirements established by the informants. As a standard procedure, most of the interviews were recorded after previous explicit agreement with the interviewee. However, when informants raised the request, some segments of the interviews were kept off the record or those segments were simply not recorded. Anonymisation was necessary in some cases since a number of informants did not want to go on record. In a minority of cases, the informant straightforwardly did not allow the interview to be recorded. In such cases, I took detailed notes of the conversation. In summary, the research process respected the requirements established by every interviewee. Once interviews were finished, I transcribed them. The use of software for qualitative data was not suited to the aims of this research, since -through process tracing- it sought to identify and examine the temporal sequence of events through which hypothesised explanatory variables affected or led to particular outcomes (Munck, 2004; Bennett and Checkel, 2015). More specifically, the aim was to obtain specific information about well-defined and specific events, such as particular stages and features of the decision-making process, negotiations between the executive and the economic elite, different reform options, and the role of political parties, among others (Tansey, 2007). In this way, this thesis followed the research strategy applied by Fairfield (2010, 2015a, 2015b) and Bril-Mascarenhas and Maillet (2019), who have previously studied business power in the Latin American context.

Critically, the multiple sources of data allowed us to triangulate information, which was critical for resolving factual inconsistencies. As such, records from one newspaper or magazine served for assessing the accuracy of the accounts offered by other media outlets. Likewise, the accounts offered by different actors through interviews were compared among them. In addition, the process of triangulation entailed the verification of an accounts' accuracy between the comparison of different sources of information; that is, for

example, comparison and verification of the information given by one interviewee with written records, and vice versa.

## 2.6 Conclusion

This chapter has presented the methodological approach followed for this research. The research strategy fundamentally combines insights from historical institutionalism and literature on business power which are aimed at addressing the puzzles posed in the previous chapter. Important for capturing the multiplicity of business' sources of power is the historical approach followed, which will enable us to uncover deeply-rooted structures of power. Then, the literature on business power offers useful insights to search for the observable implications, the fingerprints, of business power during specific rounds of policymaking. In this context, the research focuses on the analysis of five pension policymaking processes. Each policy process will be examined applying process tracing, and Hall's (1993) framework for the analysis of policy change will enable the establishment of clear comparisons between the five policy processes. Finally, data for process tracing comes from multiple sources, namely: interviews with key informants, press records, and congressional records, among others.

## **Chapter 3. Conceptual framework: pensions, business preferences and business power**

## 3.1 Introduction

In this third chapter, I will explore in further detail those concepts already introduced in the introductory chapter. In summary, this chapter seeks to further substantiate the need to supplement the instrumental-structural power conceptual framework. I will argue that such a canonical approach fails to capture additional sources of business power. By “historicising” the study of business power, this dissertation contends that it is possible to capture an additional type of business power, namely: systemic power. This discussion will demonstrate the need to incorporate this new type of power into the analysis, and then it will operationalise it. Before discussing in detail the conceptual framework, this chapter opens with a literature review of the study of business power in the context of social policy development, and discusses business preferences towards old-age pensions. This review establishes the need to incorporate business power as an independent variable into the analysis of the shape and development of social policies, and the importance of considering the incentives of the different segments of the economic elite.

## 3.2 The role of business in the development of social policy

### 3.2.1 The study of social policy in Latin America

Since the seminal work of Mesa-Lago (1978), there has been increasing attention paid to the study of welfare systems in Latin America. Much of the literature has focused on explaining overall levels, composition and redistributive power of social spending (e.g. Segura-Ubierno 2007; Haggard & Kaufman 2008). Other studies, inspired by the work of Esping-Andersen (1990), have attempted to build different typologies of Latin American welfare regimes, finding stark contrasts between levels of social provision and coverage among countries (Filgueira and Filgueira, 2002; Martínez Franzoni, 2008; Martínez Franzoni and Voorend, 2009; Pribble, 2011). Finally, a recent wave of prolific research has explored the macro-political conditions that would favour the delivery of universal social policies in the region, highlighting the significant influence of policy architecture in shaping subsequent reforms (Martínez Franzoni and Sánchez-Ancochea, 2014b, 2016).

Great research efforts, in this context, have been conducted to understand the politics of retrenchment in Latin America, particularly in the case of pensions. The wave of market-oriented reforms by which most Latin American countries scaled back or replaced their existing public pension systems with fully funded systems has been approached from different perspectives. For example, Castiglioni (2001, 2005), Borzutzky (1983, 2002, 2005), and Madrid (2003) have argued that the degree of power concentration in the state, the role of technocrats, and the ideological position of such technocrats have played a critical role in the implementation of pension privatisation. However, these state-centric accounts fail to develop a full picture of the politics of pension privatisation. Undoubtedly, the explanatory factors mentioned above are necessary factors for explaining retrenchment, but these statist arguments fail to account for additional factors. After all, as Silva (1993, 1996) points out, state structures do not provide, per se, content to social policies, and although ideologies do, at any given moment there are competing policy alternatives rooted in different, also competing, ideological frames. As such, one of the challenges is to explain how and when one ideological framework (e.g. neoliberalism) triumphed over another (e.g. nationalism, corporatism).

Then, fiscal demands have also been considered as an explanatory variable to understanding retrenchment in Latin America. Madrid (2003), for example, argues that policymakers opted for privatisation aimed at reducing the long-term economic burden represented by PAYG systems to boost domestic savings rates. Nonetheless, more recent research has questioned the direction in which financial pressures may exert influence over decisions regarding pension privatisation. In this sense, Brooks (2007, 2009) has aptly shown that the high costs involved in pension reforms may hinder the prospects for privatisation even among most cash-strapped countries, given that those costs could severely impact key indicators of sovereign creditworthiness. In terms of post-retrenchment politics, scholars have mainly focused on the role played by private providers in blocking more significant equity-enhancing reforms (Ewig and Kay, 2011; Bril-Mascarenhas and Maillet, 2019). However, in focusing on private providers only, these studies have not considered the potential played by different segments of the economic elite. Given that pension

privatisation has generated mammoth sources of funds injected into the financial system and has served as a source of capital for large companies, one may expect that not only pension providers but also other segments of the economic elite are active in the pension realm.

Regarding determinants of social policy expansion, different authors have highlighted the contribution of democracy to the expansion of social policies in Latin America (e.g. Haggard and Kaufman, 2008; McGuire, 2010; Huber and Stephens, 2012). Huber & Stephens (2012), for instance, analysed the determinants of redistributive social policies, finding that the resurgence of democracy in the region has been significant in the emergence of left-leaning parties, which in turn has significantly influenced the allocation of social spending. These findings are consistent with Pribble's (2013) account, which emphasises the role of party politics in welfare reforms, finding that left-wing parties are a necessary condition for the passage of expansive social reforms.

However, from a historical perspective, more often democratic arrangements have not led to implementation of generous social policies (Borzutzky, 1998; Martínez Franzoni and Sánchez-Ancochea, 2014a). Hence, the use of democracy as a determinant of variation in welfare programmes tends to be problematic (Mesa-Lago and Müller, 2002). The role of political parties does not escape this conundrum either. Political parties in Latin America commonly confront the double problem of costly political campaigns and failed efforts to provide public financing to parties and regulate campaign expenditure (Bugarin, Portugal and Sakurai, 2011; Luna, 2014). As a result, left parties are dependent on private donors, which certainly enhances economic elites' opportunities to influence policy outcomes (Griner and Zovatto, 2005; Huber, Pribble and Stephens, 2010).

In this context, the role played by economic elites in the development of social policies has not been considered appropriately in the Latin American context. Considering the dominant role played by these groups in the political economy of Latin American countries (Schneider, 2013), it seems necessary to include economic elites as an independent variable for

explaining variation in social policy outcomes. Indeed, the role of economic elites has been underplayed in studies of social policy determinants. For instance, in the case of the influential work carried out by Huber and Stephens (2012), the core of their theoretical framework is based on PRA. According to PRA, variations in the balance of power between labour and capital is the central variable for explaining different distributional outcomes (Korpi, 1978, 1983, 2001). However, Huber and Stephens (2012) focused most of their research efforts on understanding the role of labour, left-leaning parties and macro-institutional settings, therefore neglecting the potential role of capital. As such, capital is somehow implicitly considered as a constant. However, once we enter into the domain of the distribution of power resources in society, we have to necessarily take into account the sources of power wielded by economic elites. These sources of power are by no means constant; they vary across countries, across policy areas and, critically, over time.

### 3.2.2 Business preferences towards old-age pensions

In contrast to Latin America, the analysis of the role of business in the development of social policy has had a revival during the last three decades in the Global North. Institutional approaches, in this context, have generated important insights. This literature has focused on economic elites' social policy preferences, and how those interests are mediated by institutions (e.g. Swenson, 2002; Martin and Swank, 2012). The analysis of this work is crucial in order to achieve an accurate picture of business preferences towards pension reform, thereby increasing our understanding of the incentives faced by business and the drivers of business' sources of power mobilisation. Economic elites will wield their power to obtain the policies they prefer. As such, an adequate understanding of business preferences toward pensions is a necessary first step in the analysis of business power and business influence. Overall, literature on business preferences in the realm of old-age pensions show that there could be significant variation in economic elites' preferences and interests across segments and across countries.

In some instances, some segments of the economic elite may actually support welfare expansion. This will happen, for example, when there are cross-class coalitions between

segments of employees and employers within the same sectors (Estevez-Abe, Iversen and Soskice, 2001; Mares, 2001; Swenson, 2004; Martin, 2014). In these instances, economic elites could favour, for instance, the development of social insurance to secure the provision of skilled workers that they need to be competitive in particular international markets (Estevez-Abe, Iversen and Soskice, 2001; Mares, 2003; Martin, 2010). Critically, these studies have also given attention to significant material cleavages within the private sector (large versus small firms, for example), and have consequently challenged the conventional wisdom of monolithic business opposition to welfare policy expansion (Gordon, 1994; Jacoby, 1997; Swenson, 1997; Martin, 2000; Estevez-Abe, Iversen and Soskice, 2001; Mares, 2003).

In his study of business preferences toward contemporary pension reforms in Continental Europe, Naczyk (2013) argues that it is essential to disaggregate the positions of the different segments of the economic elite. As such, we might encounter common, shared positions among different segments of the economic elite towards certain features of old-age pension schemes, while we might also find evidence of sharp, categorical differences within the economic elites' different segments. Based on the comparison of pension debates in France and Belgium since the end of the 1970s, Naczyk (2013) provides strong evidence of a common position in relation to public statutory pensions: organised business as a whole favours cost-containment, pushing for retrenchment in public pensions. This business preference is based on the detrimental effects that non-wage labour costs may have on companies' competitiveness, especially in the case of small open economies. Nevertheless, there are instances in which segments of business hold opposing preferences. Furthermore, disagreements between segments of business over the content of potential reforms may delay or block altogether the implementation of new policies (Naczyk, 2016).

In this regard, Naczyk (2013, 2016) stresses the importance of explicitly including the financial sector in the analysis. The financial industry has its own distinct preferences over pensions as potential pension providers. For instance, in the case of France, segments of French business -especially industrialists- involved in the management of supplementary

occupational pensions<sup>13</sup> opposed plans for pension privatisation, thereby blocking the entrance of financial firms. Employers have clear incentives to continue managing these occupational plans given that (i) they have been particularly effective at retaining skilled workers, and (ii) the financing mechanism of such plans has been a source of internal finance for capital investment (Naczyk, 2013: 447). By contrast, private insurance companies have consistently opposed occupational plans on the grounds of their alleged financial unsustainability since benefits are funded on a PAYG basis. Indeed, insurance firms have opposed plans for strengthening occupational plans (aimed at overcoming difficulties related to demographic ageing and deindustrialisation) because they meant an obstacle for the further development of private insurance. Overall, in contrast to the bulk of organised business, the financial sector has been a key and unambiguous proponent of pension privatisation.

In this context, the “welfare-finance nexus” conceptualisation developed by Estevez-Abe (2001) highlights the fact that different welfare arrangements affect the financial market in different ways. Hence, the financial implications of different welfare programmes will in turn affect not only savings rate but the flow of capital and corporate governance, thereby the behaviours of economic elites as a whole (Naczyk, 2018; Hassel, Naczyk and Wiß, 2019). Thus, who manages and invests pension funds becomes a critical issue because it determines where and how those funds are invested. The fact that pension funds generate large, sustained sources of financial capital is a powerful incentive for different actors in order to control the institutions deciding over the use of those assets (Naczyk, 2016). Critically, different types of “welfare-finance nexus” can in turn consolidate key financial relations that define a particular brand of capitalism. For instance, Japanese welfare plans, tightly regulated by the government, were employed during the 1950s and 1960s to produce a large volume of long-term or patient capital, which in turn produced a coordinated market economy (Estevez-Abe, 2001). In summary, the key point here is that the regulatory framework governing the accumulation and -critically- the management of

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<sup>13</sup> These supplementary plans topped up public statutory pensions.

pension funds has wide-ranging implications on the economic relations between the state, the private sector, workers, and the financial sector.

Therefore, the study of business preferences in the context of the Global North offers -at least- two key lessons for the study of business power and business influence over the structuration of old-age pensions. First, in order to achieve a more accurate picture of business influence over pension policymaking is critically necessary to disaggregate the economic elite; different segments might have different, competing preferences toward pension reforms. Furthermore, Svallfors and Tyllström (2019) have recently shown that even within the private welfare industry there might be substantial heterogeneity in firms' preferences according, for example, to their size and the type of business ownership (self-owned v. those owned by venture capitalists). Hence, those different preferences will determine how each different segment of the economic elite will mobilise their power resources. Secondly, research efforts should be specially directed to the role played by the financial sector. Financial companies tend to exert sustained lobby efforts favouring pension privatisation given its own distinct preferences: to become providers of retirement savings products. Then, the fact that pension systems may become a potential large source of financial capital opens up a whole new range of questions regarding the role played by the economic elite as a whole -and not only the pension fund industry- in the structuration of pensions.

### 3.2.3 Business preferences in Latin America

Although the previous discussion on business preferences offers critical insights for this research, certain aspects of Latin America's political economy suggest that we have to reconsider some of the points raised above. Firstly, in cases like Chile, business preferences towards pension are eminently materially constructed, and seldom considering the preferences and interests of workers. Unlike some affluent democracies, such as those in continental Europe and Japan, the influence of coordination arrangements between organised labour and capital is virtually nil. In historical terms, welfare arrangements based on social partnership is not a feature of Chile's political economy. At most, up to the early

1970s some segments of business (i.e. industrialists) did not oppose (or passively supported) the expansion of pension benefits for the working class as part of the bargain that supported the import-substitution industrialisation model (Campero, 1991). But there have not been instances in which social partnership has truly influenced outcomes in pensions via collective agreements endorsed by both employers and trade unions.

Secondly, evidence indicates that cost-containment is particularly important for Latin America's economic elites. The constellation of (i) high levels of wealth and income inequality (Frankema, 2009; Klasen and Nowak-Lehmann, 2009), (ii) economic elites with comparatively higher amounts of material resources at their disposal (Palma, 2011), and (iii) a labour force characterised by a large informal sector (which chiefly limits the scope of union organisation) (Sehnbruch, 2006), has far-reaching effects. Unions in Latin America, for example, unlike in Europe, have represented narrow segments of the labour force. In general, this constellation of factors weakens the opportunities for class political mobilisation from below compared, for instance, to that of Western Europe (Huber and Stephens, 2012), hindering the development of coordinated efforts between capital and labour. Indeed, the development of pensions in Latin America have been more characterised by clientelistic policies applied in order to neutralise some vocal groups (e.g. the military) and appease lower-class segments of the population (Mesa-Lago, 1978; Huber and Stephens, 2012). Hence, these factors led to the Bismarckian legacy of contributory welfare regimes covering only formal workers -and with high levels of stratification even among those covered- that is characteristic of Latin America (Martínez Franzoni and Sánchez-Ancochea, 2014a).

A third point is that the type of capitalism exhibited by Latin America might soften conflicts between segments of the economic elite. In contrast to Coordinated Market Economies of Germany and Japan, for example, Schneider (2013) points out that Latin America is characterised by a hierarchical variety of capitalism. Large and diversified business groups play a dominant role in the economy and development outcomes. Given that a small number of diversified, family-owned business groups play such a dominant role, with

ownership control of different sectors of the economy including finance and industry, one may hypothesise that these conglomerates will have unambiguous preferences towards pension privatisation. This is explained by the fact that the financial companies of these groups could enjoy the benefits of managing the savings accumulated in individual retirement accounts. Then, companies of the same conglomerates in other sectors of the economy could benefit from the flow of “cheap” capital generated by funded pensions via equity-based financial markets or debt finance. Therefore, in terms of welfare arrangements, we could expect less conflict -although still occurring at some points- among segments of the economic elite in comparison to other types of capitalism.

### **3.3 Types and sources of business power**

Having explored business preferences towards pensions, this chapter now turns to the study of business’ sources of power potentially employed in the policymaking process to pursue such preferences. As mentioned in the first chapter, the analysis of business power will partially draw on the framework recently developed by Fairfield (2015a, 2015b). Overall, an important aspect of this framework is that it establishes a clear distinction between power and influence. These two concepts tend to be used interchangeably. In this framework, power, or rather sources of power, is treated as a cause that influences outcomes (the effect). The more numerous and stronger sources of power an economic elite may wield, the greater the likelihood that business will influence the policymaking process and its outcome. As such, the framework developed by Fairfield (2015a) clearly identifies the causal mechanisms connecting sources of power to influence over the policymaking process and the outcomes. As mentioned in the introductory chapter, different sources of business power are associated with two types of power, namely: instrumental and structural power. The fundamental difference between both types of power lies in the requirement of collective action. Instrumental power refers to the capacity for deliberate, active political action that creates bias in favour of business interests (Mills, 1956; Miliband, 1969). This chapter then turns to the discussion of these two types of business power.

### 3.3.1 Instrumental power

Importantly, Fairfield's framework (2015a) differentiates between *sources of instrumental power* and political *actions* undertaken based on such sources of power (see Table 3.1). Hence, lobbying in this framework is considered an action undertaken based on sources of power such as informal ties or partisan linkages. Lobbying efforts, in this context, are more likely to succeed when the economic elite has more than one source of instrumental power to sustain such action. By contrast, if economic elites do not wield strong sources of instrumental power, no matter how hard they lobby, they will surely not be able to influence the policymaking according to their interests. Hence, it is critical to identify and assess the sources of instrumental power in order to analyse the degree of business influence. A central point in this context is that instrumental power does not operate deterministically (Fairfield, 2015a). For example, in spite of exhibiting strong and various sources of instrumental power economic elites may fail to succeed in pursuing their preferred outcome if they face sustained mobilisation from below. Strong social movements may exert a significant countervailing effect on business power.

Then, the capacity for deliberate political action depends on the availability of various *sources* of instrumental power. Observable sources of instrumental power that make policymakers more responsive to economic elites are classified into two broad categories (see Table 3.1), namely: (i) *relationships with policymakers*, and (ii) *political resources*. In terms of relationship-based sources of instrumental power, more institutionalised relationships, such as partisan linkages and institutionalised consultation will provide economic elites with more sustained and consistent influence over policymaking (Fairfield, 2015a 29-30).

Partisan linkages with conservative, right-wing parties constitute one of the more (if not the most) consistent and systematic sources of instrumental power for the economic elite. Economic elites tend to be the core constituency of conservative parties (Siavelis, 2014a). There are different pathways to establish partisan linkages. One, for instance, is to establish clear programmatic convergence between the economic elite's preferences and the stances

defended by the party in policy debates. Another way of establishing partisan linkages is to identify when economic elites systematically contribute financial resources to a party. This source of power affords the economic elite influence over the policy process via representation of their interests in Congress and/or the Executive. Then, power derived from partisan linkages is by definition variable: in Congress, for instance, this will be stronger when conservative parties hold more seats. For this dissertation I draw on well-developed literature on right-wing parties in Chile (e.g. Huneeus, 2014; Luna, 2014; Siavelis, 2014), press records and my own interviews to identify partisan linkages. In the realm of pension policymaking, I expect conservative parties to defend the fully funded scheme established in 1980-1981, and to block major departures, such as the introduction of redistributive instruments.

As mentioned, institutionalised consultation is an additional source of instrumental power. This source of power will be analysed in more detail in Chapter 4, with a specific focus on Chile, given its strong significance and pervasiveness. At this point, suffice to say that institutionalised consultation constitutes a bargaining locus between the government and the economic elite. This bargaining takes place through regular meetings and consultation, which may proceed via formal bodies (e.g. congressional committees) or informally between high-level policymakers (e.g. Ministers of Finance) and business leaders. This source of power affords economic elites influence by granting regular access to policymakers and, furthermore, because it makes it easier for the economic elite to advance their interests - and for the government to cede on business preferences- given that these consultations are developed out of the public eye. For the analysis of this source of power I draw especially on interviews with high-level government officials, members of Congress, and business leaders, as well as press records and literature (e.g. Cortés Terzi, 2000) to establish when this source of power is at work. In this study, the causal role of institutionalised consultation tends to be most significant during two stages: (a) agenda formulation and (b) proposal design (see Table 3.1). Finally, less institutionalised sources of instrumental power, such as *informal ties*, *election to public office* and *recruitment into government*, also affords economic elites significant potential influence.

Recruitment into government is the traditional way early theorists of instrumental power conceived this category (Mills, 1956; Miliband, 1969). Appointments to high-level posts in the executive branch provide economic elites with direct participation in policymaking, and thereby an efficient means to influence outcomes. This source of power may be especially significant in the case of pension policymaking at the stage of agenda formulation: reforms that the elite opposes might be excluded from the agenda through the role played by businessmen within the executive. Election to public office also enables economic elites to have direct participation in policymaking. Wealthy businessmen may be elected to Congress, for instance. Then, through informal ties economic elites may have easy access to high-level officials and legislators, who in turn may support and promote reforms favoured by business. As Fairfield (2015a: 37) asserts, these three sources of instrumental power are highly variable: for example, election outcomes usually produce sweeping in government appointments. In order to identify these sources of instrumental power and to establish their causality I will rely on press records, interviews and the analysis of the professional background of policymakers.

In terms of informal ties, the analysis of this source of power has traditionally considered linkages based on shared social circles or extraction from the same social class (Miliband, 1969). Nonetheless, the nexus of linkages between policymakers and economic elites may also purposively be enhanced by revolving door dynamics, akin to a process of co-optation. These dynamics are not considered by Fairfield in her work. The long-term approach of this work allows for the capture of economic elite's strategies to augment this source of instrumental power by providing well-paid political career opportunities to members of the political elite, who circulate between executive positions in the private sector and high-level state offices. In this way, these revolving-door dynamics may enhance economic elite's access to the policy process and augment business influence over members of government. In this context, it is important to distinguish this process of the enhancement of informal ties from the process of conversion of policymakers' ideological commitments described below as a mechanism of systemic power (the latter is not driven by material incentives). In

their analysis of the Chilean case, Bril-Mascarenhas and Maillet (2019) argue that pension fund industry's hiring of politicians across the political spectrum constitutes a long-term power-building investment strategy. As we shall see, the reach of processes of co-optation and revolving-door dynamics is even larger when we consider the economic elite as a whole.

Regarding political resources, they are significant because they enhance the potential effects of political activities such as campaign financing, direct participation in policymaking, and lobbying (Fairfield, 2015a). Among the resources specified in Table 3.1, *cohesion* and *privileged media access* are especially significant. Generally, cohesion constitutes a source of instrumental power that augments economic elites' capability to resist reforms contrary to their interests. High levels of organisation, in this context, constitutes a proxy for cohesion. For instance, for highly organised economic elites -through peak associations, for example- it is easier to coalesce into a common stance in policy debates (Durand and Silva, 1998). In this context, I expect high levels of cross-sectoral cohesion enables the economic elite to sustain a united front during pension policymaking in order to defend the maintenance of the status quo. Cohesion, moreover, may critically augment the effectiveness of lobbying, as it makes it more difficult to dismiss business' demands as self-seeking, and it strengthens business' bargaining position. In general, cohesion facilitates economic elites' engagement in various types of collective action. Given that organization is a proxy for cohesion, I will analyse the organisation of the Chilean economic elite -through press records, business associations' publications and web sites- in order to establish its potential level cohesion.

Then, *privileged media access* constitutes an additional and highly significant political resource for economic elites. Privileged media access enables economic elite to expand their messages and, for example, to enhance the other type of economic power: structural power (see more on this below). Moreover, under certain circumstances, preferential media access may allow economic elites to shape the agenda via editorials and extensive coverage of their positions in policy debates. This is especially the case in contexts of heavy concentration of media ownership. For the analysis of media access, I will draw mostly on the analysis of press records.

In the case of a highly technical, complex topic such as pensions, *expertise* constitutes a further significant source of power to exert influence. Expertise enables economic elites to enhance the effect of other sources of instrumental power such as institutionalised consultation. Expertise wielded by members of the economic elite allows them to enter into negotiations with government officials in informally institutionalised business-government consultation (highly trained policymakers might not have incentives in consulting business actors unless they also contribute with technical expertise) (Fairfield, 2015a). Besides, technical expertise may augment the effectiveness of business participation in formally sanctioned instances of consultation, such as congressional committees, and, more generally, in lobbying, since it might allow them to craft their arguments more persuasively as consistent with social security principles. Therefore, I expect expertise to play a critical role during the proposal design and then at the stage of parliamentary discussion, when business representatives may formally participate in hearings and committees.

Finally, it is important to remark that these sources of instrumental power may vary not only over time but also across sectors or segments of the economic elite. For instance, a segment of the economic elite may be better organised via a stronger peak association. Another example is one of a business segment with greater media access. This may well be the case with large conglomerates that decide to diversify into media holdings. Depending on what is the core business of such a conglomerate, it may tilt the agenda, favouring the interests of its segment or sector of the economy.

### 3.3.2 Structural power

Structural power, in contrast to instrumental power, does not require collective action to influence the policy process. Put differently, it does not entail any organised effort on the part of business to influence policymakers. Rather, structural power arises from the fact that governments in market societies depend heavily on business to invest in ways that foster economic growth (Block, 1977; Lindblom, 1982; Culpepper, 2015). Governments themselves, in this context, will refrain from fostering particular reforms *if they anticipate*

that could harm business confidence, and thereby their investment decisions (Lindblom, 1977). Potential negative aggregate economic outcomes arising from lower investments rates may be, for instance, severely punished at the polls. Fairfield (2015a: 43) operationalises structural power as “a credible and economically significant *disinvestment threat*”. Considering this operationalisation, such disinvestment threat may take several different forms. For instance, policymakers might anticipate that a particular reform could provoke capital flight. In other cases, policymakers could anticipate that the economic elite might cancel or postpone investment plans. It is important to stress, though, that structural power requires *market* coordination only; it does not entail any *political* collective action as in the case of instrumental power.

Structural power fundamentally depends on policymakers’ perceptions. What matters for the analysis of policymaking and its outcomes is the policymakers’ anticipated assessment of the potential disinvestment threat, and not the actual economic consequences of a reform (unobservable during the policy process). For example, if policymakers assess that a particular reform may generate disinvestment and an aggregate negative impact, they would eliminate such a reform from the agenda, from the set of available options for reform, regardless of the actual, unobservable actual impact of such a reform over the country’s economy. Given that structural power arises from policymakers’ perception, it is not possible to establish a proxy or an objective metric for measuring it. Different authors have applied proxies such as capital mobility, market integration, but they fail to account and predict structural power, or to explain policy change (Fairfield, 2015b). Once again, the core of the issue is that policymakers’ perceptions and anticipations are the key drivers of structural power. Therefore, interviews with policymakers are critical to assess the occurrence and credibility of a disinvestment threat.

Importantly, structural power varies over time and across sectors of the economy. If a sector of the economy plays an important role in the country’s economy (e.g. financial sector), then the disinvestment threat would be more credible and the structural power associated with it would be stronger. By contrast, a substantial disinvestment threat in a less

significant sector of the economy (say, agriculture) may produce little concern among policymakers. In this context, one may expect that a sector that plays a large role in the country's economy will generate stronger structural power. In terms of time, structural power varies according, for example, to the prevailing economic conditions, although there is not a clear relationship (Fairfield, 2015a). Economic crisis may both enhance and diminish structural power. A recession, for example, might strengthen structural power, given the need for boosting investment, but it also could weaken structural power when levels of investment are already at their lowest (in which case disinvestment threats are not credible). As Fairfield (2015a: 48) points out, considering all these specificities mentioned above, structural power has to be assessed carefully on a case-by-case basis. In general, structural power tends to be especially influential during the agenda setting, but it may also operate in subsequent stages of the policymaking process.

### 3.3.3 Systemic Power

#### 3.3.3.1 Theoretical discussion

Notwithstanding its path-breaking contribution, Fairfield's work exhibits one significant drawback. This drawback arises from Fairfield's research strategy, which tends to focus on the analysis of specific, discrete reforms rather than continuous historical processes. As such, casual mechanisms identified and described by Fairfield (2015a, 2015b) are very much based on contemporary actions carried out by the economic elite (or by policymakers in anticipation of business' potential behaviour) in order to influence a specific policymaking process. Then, one of the main contentions of this work is that business had an additional type of power apart from structural power and instrumental power. This additional type of business power, called systemic power, has not yet been defined and operationalised. To capture such additional type of power, this work argues, it is strictly necessary to historicise the study of business power.

**TABLE 3.1.** Main descriptive aspects of Instrumental Power, Structural Power and Systemic Power.

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	<ul style="list-style-type: none"> <li>• Partisan linkages</li> <li>• Institutionalised consultation</li> <li>• Recruitment into government</li> <li>• Election to public office</li> <li>• Informal ties</li> </ul>	<ul style="list-style-type: none"> <li>• Lobbying</li> <li>• Business involvement in the management of state services.</li> <li>• Editorialising in the press</li> <li>• Engagement in various types of collective action</li> <li>• Direct participation in policymaking</li> <li>• Funding Political Parties</li> <li>• Funding Political Campaigns</li> </ul>	<ul style="list-style-type: none"> <li>• Government negotiates a reform to the pension system with business representatives before its introduction to Congress.</li> <li>• Former top-executives of the pension fund industry are recruited into office, which may result in convergence of preferences between the economic elite and policymakers. As a consequence, reforms that the economic elite opposes may automatically be excluded from the agenda.</li> <li>• Business editorialises in the press to block progressive aspects of a reform.</li> <li>• Conservative, right-wing parties block the introduction of redistributive mechanism to the pension system in Congress.</li> <li>• By lobbying in Congress pension fund managers extract some concessions such as to manage workers’ additional contributions.</li> </ul>	
Resources	<ul style="list-style-type: none"> <li>• Money</li> <li>• Media access</li> <li>• Technical expertise</li> <li>• Cohesion</li> </ul>	Structural Power	Market-coordinated investment decisions. It does not require organisation.			Policymakers’ perceptions of how investors would react toward a particular policy ( <i>fear of disinvestment</i> )

Type of power	Foundation-Defining attribute	Sources of Power	Actions	Observable implications in the realm of pension policymaking
Systemic Power	Long-term investments	Dominant set of ideas favourable to business interests.	Business invests in the cultivation and spread of a particular set of ideas in previous periods to the policy process under study. Among the actions taken with such aim are: (i) creation and financing of think tanks, (ii) financial support of academic and outreach activities in universities for the cultivation of a potentially dominant ideological framework, and (iii) use of privileged media access to disseminate those ideas, among others.	<ul style="list-style-type: none"> <li>• Reduced scope of acceptable reforms to the pension system on the agenda.</li> <li>• Sharp changes in policymakers' ideas and beliefs favourable to the dominant set of ideas.</li> <li>• Shift in the locus of authority over decision-making (e.g. from the Ministry of Social Security to the Ministry of Finance).</li> <li>• Policymakers who should oppose the dominant ideological framework refrain from pursuing different agendas.</li> <li>• Ideational consensus: broad agreement on dominant ideas between politicians from different coalitions.</li> <li>• Attentional bias: policymakers tend to disregard or overlook information against the dominant framework</li> </ul>

This work, thus, contends that the examination of long-term historical dynamics might shed light on some structurally deeper conditions that make the Chilean economic elite able to wield an extraordinarily determinant influence on policymaking outcomes. This analysis will show us that business in Chile is even more powerful than previously thought, which could help us to understand why, after thirty years of democracy, Chile's pension system imposed under dictatorship remains largely intact (with only second-order changes). As already mentioned, Fairfield's focus is still very much based on actual behaviour and actions. Fairfield's framework, for instance, very much leaves out the chance that certain issues are kept out of the agenda through the operation of social forces and institutional practices, and not necessarily through either the direct action of the economic elite (i.e. instrumental power) or by anticipated reactions of policymakers (i.e. structural power, instrumental power, or both acting simultaneously in a mutually reinforcing way). Fairfield's view of power does not consider ideational processes, which exert a powerful and extensive influence on the policymaking process according to the evidence gathered for this research.

In this context, Lukes (1974, 2005) made a significant contribution by analysing the "hidden" dimensions of power. Criticising both pluralists' (Dahl, 1957, 1958) and neo-elitists' (Bachrach and Baratz, 1962, 1970) conceptions, Lukes outlined his three-dimensional conceptualisation of power. The problem with the pluralist view was its narrow focus on open contestation over political issues, which, for Lukes constituted just the "first dimension" of power (cf. Dahl 1957; Dahl 1958). The pluralist view may be summarised by the dictum "*you can't study what you can't see*" (Pierson, 2015: 128). The anti-pluralists, on the other hand, posed that there were other dimensions, equally or more important for the exercise of power, which did not entail open conflict (Korpi, 1985, 1998). For instance, one potential mechanism of influence not entailing open conflict is that of *anticipated reactions*, in which the weaker actor rationally decides not to contest considering the high costs involved in such behaviour (Korpi, 1974, 1998; Fairfield, 2015a). Another central mechanism of influence not entailing open conflict refers to *agenda control*, whereby institutions may advantage particular actors taking to the fore some issues, while other matters are organised out of politics (Schattschneider, 1960; Hacker and Pierson, 2010b; Pierson, 2015).

These two additional mechanisms in which open contestation does not occur are included in the “second dimension” as developed by Bachrach and Baratz (1962).

Then, Lukes (1974) went beyond those two dimensions of power by explicitly incorporating into the analysis the possibility of keeping issues off the agenda through the shaping of society’s conceptions of the issues altogether. As such, potential issues are kept out of politics not only through direct action but also through ideational elements of power, which might constitute pervasive mechanisms of influence (Gaventa, 1980). This phenomenon is what Lukes (1974) defines as *the bias of the system*. As Lukes (1974: 22) puts it, “A may exercise power over B by getting him to do what he does not want to do<sup>14</sup>, but he also exercises power over him by influencing, shaping, or determining his very wants”.

Importantly, in this extension of the concept of power, such an influence may occur in the absence of observable conflict. In this way, this approach suggests that power might be used to pre-empt the occurrence of manifest conflict through the shaping of societal conceptions (Gaventa, 1980).

Although Fairfield (2015a: 30) claims that her framework captures the three dimensions of power -by asserting that her framework follows insights from the power resources approach as developed by Korpi (1985) and that the latter “includes ‘second’ and ‘third dimensions’ of power”<sup>15</sup>- the fact is that her work fails to capture the third dimension of power. Indeed, in her book (Fairfield, 2015a) and subsequent work (Fairfield, 2015b; Fairfield and Garay, 2017) she does not incorporate what Korpi (1985: 40) considers to be one of the most critical and disguised strategies of business power, namely: the role of ideologies and preferences as “potential mediators of power”. Then, although she explicitly acknowledges Lukes’ (1974, 2005) contribution by stating that “this dimension of power is a well-established concept” (Fairfield, 2015a: 53), Fairfield then asserts that such ideas are already incorporated in the theoretical framework based on instrumental and structural power. More specifically, considering that shaping ideas and wants requires deliberate, strategic collective actions carried out to influence policy outcomes, instrumental power would already capture the

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<sup>14</sup> The pluralist approach covers only this first fragment of Lukes’ statement.

<sup>15</sup> She refers explicitly to this point in footnote 6, page 30, of her book (Fairfield, 2015a).

third dimension of power. She suggests that the following sources of instrumental power: (i) *media access*, (ii) *technical expertise*, and (iii) *informal ties to policymakers* (see Table 2.1), provide enough analytical leverage for analysing socialisation and indoctrination processes (Fairfield, 2015a: 52).

This research argues, by contrast, that the instrumental-structural power framework by itself does not incorporate the third dimension of power as defined by Lukes (1974, 2005). As, methodologically, Fairfield puts too much weight on the analysis of discrete reforms and on economic elite's actions aimed at influencing specific, contemporary policy processes, her analysis lacks a historical perspective, thereby missing the powerful effect that ideational processes might have. In this context, the problem arises when those sources of instrumental power specified by Fairfield as capturing the third dimension of power are applied in a specific period but not aimed at influencing a contemporary policymaking process. Instead, those "investment" efforts are aimed at influencing future rounds of policymaking. Hence, the lack of historical perspective prevents Fairfield from capturing the potential conversion -in the long run- of instrumental power in other types of power. In this regard, Korpi (1985: 34) argues that "*through processes of conversion, from basic power resources [i.e. instrumental power in our case] actors can derive other power resources, which, however, ultimately depend on the basic power resources for their effectiveness*". Sources of instrumental power invested in certain ways, therefore, might acquire a completely different meaning and scope in the future.

Therefore, a critical aspect for capturing the full scope and potential of business power is to introduce into the analysis the role of business power in the development of dominant ideological frameworks. This whole aspect is certainly left out in Fairfield's research approach. As Lukes (1974: 21) puts it "*decisions are choices consciously and intentionally made by individuals between alternatives, whereas the bias of the system can be mobilised, recreated and reinforced in ways that are neither consciously chosen nor the intended result of particular individuals' choices*". To then add that "*the bias of the system is not sustained simply by a series of individually chosen acts, but also, most importantly, by the socially*

*structured and culturally patterned behaviour of groups, and practices of institutions (...)*" (Lukes 1974: 21-22). The problem with Lukes' conceptualisation, nevertheless, is that it fails to specify those conditions under which *the bias of the system* might emerge. This research work contends, therefore, that it is necessary to operationalise *the bias of the system* through a new variable that captures such type of power.

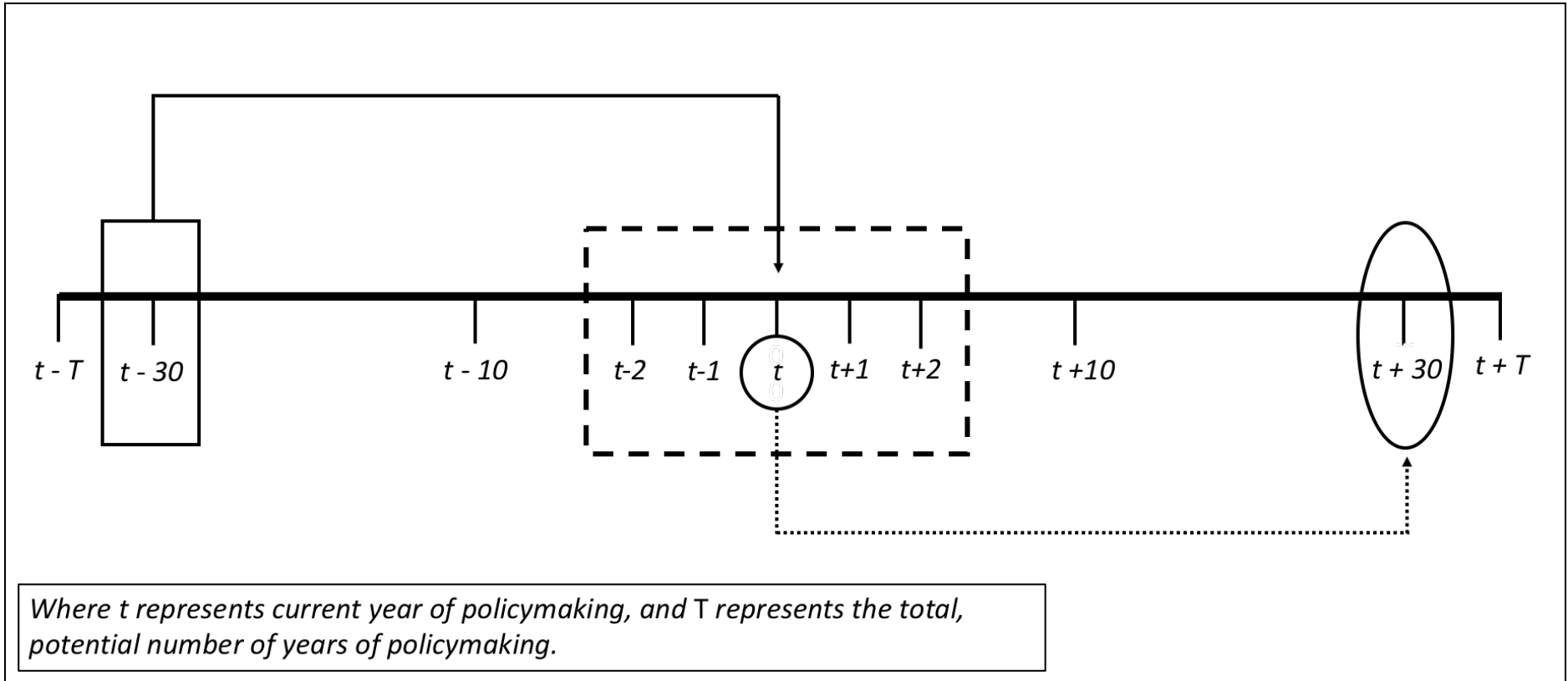
As such, Lukes' conceptualisation needs to be supplemented by explicitly accounting for the capacity of business actors to develop strategic actions in the pursuit of goals in the distant future. In this regard, the work of Korpi (1985) is critical. Korpi (1985) asserts that cultivation and spread of ideologies constitute a major form of investment. This is explained by the fact that the actual exercising of power always entails significant costs (e.g. funding political parties). In extreme cases (e.g. use of violence), the mobilisation of power resources increases the costs but, what is more important, also increases uncertainty. From this line of reasoning, two conclusions arise: (i) economic elites have strong incentives to avoid the overt exercising of power; and (ii) the avoidance of open confrontation entails a high premium. As rational and utility maximising agents, economic elites should be willing, therefore, to sacrifice a portion of their instrumental sources of power (e.g. money) in order to obtain larger future benefits. Using Korpi's jargon, *normative* power resources (i.e. ideology) have much lower costs than, say, *pressure* power resources (e.g. violence). Then, economic elites would have strong incentives "*to invest in the conversion of high-cost power [e.g. use of violence or lobbying] resources into low-cost ones [ideology]*" (Korpi, 1985: 56). The cultivation of ideologies, thus, is an efficient strategy for decreasing the costs of the exercising of power. In brief, powerful actors -such as business- can gain advantage and exert influence by inculcating views on the wider public; views which are conceptualised to their advantage (Pierson, 2016).

Then, by combining Korpi's theoretical analysis of economic elite's incentives for the cultivation of ideologies with Lukes' conceptualisation of *the bias of the system*, this work introduces *systemic power*. I define *systemic power* as those forms of business power that entail long-term strategies aimed at avoiding the actual exercise of power through the

shaping of societal ideational views, norms and values. Systemic power, therefore, arises from the fact that economic elites have strong incentives to *invest* in strategies for the generalised and routine handling of decision-making and for constraining potential controversies on the agenda. Then, while from a historical perspective the creation or development of systemic power necessarily requires instrumental power resources, the effects of systemic power are effected on an intertemporal dimension, extending far beyond the discrete, limited time frame of instrumental or structural power. Indeed, given the long-term perspective of these strategies, even taken together, both structural power and instrumental power stop short of considering the full range of the possibilities by which the economic elite may exert influence on the policymaking process. As such, without incorporating systemic power into our analyses, our understanding of business influence over the policymaking process will be partial.

Figure 3.1 (see below) illustrates some of the points made above. Specifically, it illustrates the process of conversion defined by Korpi, and why the canonical approach to studying business power fails to capture such power mechanisms based on long-term investment decisions. As Figure 3.1 conveys,  $t$  denotes the “current” year of analysis or a particular year considered the starting point of a specific analysis. The dotted square around  $t$  represents the methodological approach of the instrumental and structural power conceptual framework. For the analysis of particular policy processes, such an approach tends to focus research efforts only on evidence of business influence or actions which occurred *during* -or simultaneous to- the policy process under study or around the vicinity of the year or period in which such particular policy process occurred. That is to say, alongside contemporary evidence, the instrumental-structural power conceptual framework considers actions which occurred in the immediate previous years to the policy process or event under study (i.e. years  $t-1$  and  $t-2$  in the figure) and anticipated reactions of policymakers to potential actions of the economic elite which may be carried out in the immediate future (i.e. years  $t+1$  and  $t+2$ ). In sum, the canonical framework focuses research efforts only on contemporary evidence to the policy process, and on business actions that could have shaped the policy process in the immediate years previous and on anticipated reactions of policymakers.

**FIGURE 3.1.** Illustration of how systemic power operates in time.



Source: Author's elaboration.

For example, in her analysis of tax reforms in Latin America, Fairfield highlights for the case of Chile that business' strong instrumental power restricted Concertación's tax policy agenda, especially during the Lagos administration (2000-2006). As such, in 2001 (time  $t$  in the figure), the government was able to pass only a modest increase in corporate tax<sup>16</sup> (2-percentage-point; far below the aim of the then Minister of Finance, Nicolás Eyzaguirre) because strong cross-sectoral unity among business (cohesion; see below for definition of each specific source of power) and strong partisan linkages with the right-wing parties determined that business was finally able to prevail in the negotiations (time  $t-1$  and  $t$  in our figure).

Indeed, the 2001 corporate tax increase ultimately did not raise additional revenue since it had to be combined with a cut on personal income tax in exchange for the increase in corporate tax (Fairfield, 2015a: 83-84). Afterwards, instrumental power restricted the government's agenda on tax policy in years  $t+1$  and  $t+2$ . The government decided not to pursue tax reforms in order to avoid additional conflicts with business and the right-wing parties later during the Lagos administration (Fairfield 2015a: 86-89). As such, the causal mechanisms for explaining the passage of a modest tax reform or the subsequent removal of the issue from the agenda is only based on actions or factors developed *during or shortly before* the policy process under analysis, and on potential actions in the *immediate* future. These factors constitute only contemporary evidence with the occurrence of a particular policy process.

The canonical approach, then, fails to capture investment decisions carried out by the economic elite in the past (for example, year  $t-30$  in the figure)<sup>17</sup> that might influence future policy processes (at time  $t$ , for instance). Hence, the rectangle over  $t-30$  represents that fact that economic elites might carry out investment decisions in order to influence not contemporary but future rounds of policy processes (dynamic represented by the solid

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<sup>16</sup> Which ultimately did not raise additional revenue since it had to be combined with a cut on personal income tax in exchange for the increase in corporate tax.

<sup>17</sup> The selection of 30 years as the time frame for the figure has only descriptive, analytical purposes; it does not reflect any specific historical milestone.

arrow connecting the rectangle over  $t-30$  with year  $t$ ). Following Korpi, in this *investment* process there is a process of conversion from one type of power to another. In short, this work asserts that sources of instrumental power invested in time  $t-30$  might become systemic power in time  $t$ . Then, Figure 3.1 shows that, analogously, it is possible that, say, nowadays (time  $t$ ) the economic elite might be investing in ideational power mechanisms that would be applied or used in the next future (time  $t+30$ ) for gaining advantage or shaping the policy process. That process is represented by the dotted arrow that connects year  $t$  with year  $t + 30$  (surrounded by the ellipse).

### 3.3.3.2 Observable implications of systemic power

To better understand and identify the observable implications of systemic power, I propose a three-stage sequential approach. This sequential approach draws on Pierson's (2016) insight that the study of power must entail the analysis of processes unfolding over time, and Widmaier's (2016) sequential model for the study of shifts in ideational power. The sequential approach proposed in this thesis seeks to explain the rise, entrenchment and dominance of a particular dominant ideological framework. Correspondingly, these three stages are (i) construction of systemic power, (ii) entrenchment, and (iii) dominance, which means systemic power becomes a causal mechanism for explaining outcomes. Importantly, this theoretical illustration based on a sequential mechanism is schematic, and aimed at illustrating the process of development of systemic power since the origins up to the moment when is a fully-fledged source of business power. In this context, it does not purport to portray an exact account of the process, given that empirically there may be some observable implications that overlap two stages. For instance, we may expect that during entrenchment (the second stage), when systemic power has not yet gained the status of the dominant ideological framework at a societal level, it may exert influence over policymaking. Chapter 4 (sub-section 4.3.2) and Chapter 5 (section 5.3) empirically develop the first two stages -construction and entrenchment- for the Chilean case.

## FIRST STAGE: CONSTRUCTION OF SYSTEMIC POWER

In the first stage of dominant ideology *construction*, there has to be evidence of strategic, concerted efforts carried out by a fraction of the economic elite to cultivate and disseminate a particular set of ideas favourable to their interests. As Abercrombie and Turner (1978) discuss, in contemporary societies the development of a dominant set of ideas is primarily directed toward the economic elite itself, aiming to organise and discipline this group. The need to organise the whole economic elite behind a dominant ideology arises from the fact that proponents of new ideological frameworks often want to transmit such ideas aimed at influencing and changing the country's developmental goals or, more specifically, the course of political events (Jacobs, 2015). In summary, for this stage research efforts should be directed at finding evidence of a fraction of the economic elite investing resources to cultivate and spread a pervasive set of beliefs that would broadly serve their interests and discipline the whole economic elite according to such ideas.

Identifying the paths of ideational diffusion, in this context, are key steps in order to establish that ideas mattered in a decision-making process. According to Jacobs (2015), to establish that a dominant set of ideas is part of the causal mechanism for explaining a particular outcome, we must first determine that such ideas were *exogenous* to the prevailing, material circumstances in which a decision was made. This condition of exogeneity requires that "there should be evidence of a source for the idea that is both *external* and *antecedent* to the decision being explained" (Jacobs, 2015: 65). In other words, the condition of exogeneity demands to demonstrate "prior intellectual ancestry", to find evidence that there were previous efforts to develop and transmit a dominant ideological framework before such ideas are applied in a particular decision-making process.

In this sequential approach, therefore, the analysis of the construction of systemic power must entail evidence regarding ideational diffusion. More specifically, this involves (i) the identification of the origins of *conscious* long-term, strategic investments carried out by a fraction of the economic elite aimed at developing a dominant ideological framework favourable to their interests, (ii) to demonstrate a pathway (e.g. social interaction) by which

the set of ideas was transmitted to different actors and groups, and (iii) identification of ideational carriers across different settings. These observable and interrelated pathways for the construction of systemic power must involve the investment of resources of instrumental power such as money, technical expertise and media access. For instance, regarding the origins of the dominant framework there should be evidence of the investment of money and technical expertise in the creation and funding of think tanks or research institutes devoted to the cultivation of a potential dominant framework (see Table 3.1). Universities may also constitute a critical place for the development of ideological frameworks. For example, in tracing the evolution of neoliberal ideas from ascendancy to supremacy in the US, Jones (2012) documents, through extensive archival research, the key role played by private financial support in the cultivation and spread of neoliberal thinking within universities. Jacobs (2015), in this context, adds an additional condition for fulfilling the condition of exogeneity: sources of the ideas employed during decision-making must have been sufficiently prominent as to have influenced the general intellectual environment of the case under analysis.

As noted above, along with (i) the *origins* of dominant frameworks, we have to trace (ii) the paths of ideational transmission and (iii) mobile carriers of the set of ideas. Therefore, evidence of organisational structures or social interaction should be available. More specifically, this evidence may entail the direct exposure of members of the wider economic elite to the ideological framework through meetings, seminars and conferences carried out by those *mobile carriers*, and the use of privileged media access to disseminate such ideas. Business associations or groups may play a critical role in the transmission of ideas. Regarding media access, evidence should be gathered directly through archival work on, for example, media outlets directed toward business groups or the elite in general. In terms of direct exposure to ideas, press records may also be helpful for finding evidence since conservative newspapers tend to give pre-eminence in their editorial line to events or activities carried out by the economic elite. Personal accounts or memoirs usually offer evidence of ideational transmission put into effect by ideational mobile carriers, as well.

## SECOND STAGE: ENTRENCHMENT OF SYSTEMIC POWER

Then, in the second stage of *entrenchment* of systemic power, we expect to find additional observable implications. These factors are related to a broader dissemination and acceptance of the “new” dominant ideology. Among the most significant are: (i) evidence that actors in positions of authority came into contact with the future dominant belief system, (ii) policymaking process is delegated to technical experts known to hold the dominant set of ideas (i.e. mobile carriers); (iii) a shift in the locus of authority over decision-making (Hall, 1993), (iv) further transmission of the dominant ideology to the public through the media and other societal channels (e.g. the educational system), and critically (v) the formation of a political coalition. Among these factors, the rise of policy entrepreneurs (or mobile carriers) to government appointments and the emergence of a coalition organised around the dominant ideological framework are especially interrelated.

Surely, the first stage of construction of systemic power requires the existence of a fraction or a group of the economic elite pushing for a set of ideas to become dominant. As discussed above, in the beginning a segment or a fraction of the economic elite necessarily has to invest sources of instrumental power in order to convert such resources into systemic power in the long-term. However, in order to become *dominant*, the ideological framework initially pursued by a narrow fraction afterwards has to be supported -and adopted- by a wider group in a second stage. During the entrenchment phase, therefore, a significant change should occur, which I expect to be a traceable evidence of the existence of systemic power: the initial rather narrow business fraction investing in the dissemination of a dominant set of ideas becomes a much stronger, wider coalition. Groups that might otherwise have contradicting, different interests finally join the new dominant coalition.

My explanation of coalition formation differs from what Béland and Cox (2016) call “ideas as coalition magnets”. For them, the primary determinant for the formation of a coalition is how attractive and malleable the set of ideas are which are aimed at becoming dominant frameworks. In this account, I argue that the formation and strengthening of coalition behind a dominant framework is primarily determined by the shifting balance of power

within the economic elite. Therefore, the formation of a coalition is explained by changes in material conditions rather than how attractive a set of ideas could be per se. As such, if the balance of power favours the original, narrow business segment that pushed for a particular ideational framework, then such a positional advantage should translate into concrete outcomes and policies reflecting the new paradigm. Afterwards, other segments of the economic elite should respond to the new set policies -in order to become winners and not losers in the process of economic restructuring-, by adapting and accommodating their business strategies. In this way, new segments should join the originally narrow fraction that cultivated the dominant ideology, by adapting, for instance, their business portfolios according to the new structure of the economy or the new incentives created by new policies.

These outcomes are related to the first two observable implications identified for this stage: the set of potentially dominant ideas should be transmitted to authoritative actors and/or identifiable carriers of the relevant ideas should enter into key loci of political authority. Then, there has to be evidence of decision-makers being exposed to the ideological framework or policy entrepreneurs -either designers or followers of the new ideological paradigm- receiving government appointments (or both). Critically, once supporters of the dominant ideological framework secure positions of authority, they will control, at least partially, the policymaking process, thereby rearranging the standard operating procedures of that process seeking to institutionalise the new dominant framework (Hall, 1993). This brings an additional observable implication already mentioned above: the locus of authority over policymaking should shift in accord with the new framework.

In his study of the policy paradigms dominating British macroeconomic policy, Hall (1993) notes, for example, that when monetarism replaced Keynesianism as the dominant paradigm, the locus of authority moved away from the Treasury. Up to the late 1970s, the Treasury had enjoyed a virtual monopoly of authority over macroeconomic issues. However, at some point the Treasury began to be overruled by the Bank of England. Considering the prominence given to aspects such as fiscal balance by neoliberalism, I expect to find

evidence of a shift in the locus of authority away from state agencies traditionally in charge of pension policymaking (e.g. Ministry of Labour and Social Security). This shift in the locus of authority should be in favour of the state agencies in charge of budgetary issues, such as the Ministry of Finance. As mentioned above, these shifts rearrange the standard operating decision-making procedures, which in turn tends to generate a routine handling of decision-making. For instance, the neoliberal depoliticised, top-down decision-making process dominated by the Ministry of Finance may act as a causal mechanism in the third stage of systemic power's building (dominance; see below) through the exclusion of social actors from policymaking.

Finally, in this stage I expect to find evidence of the use of different platforms for the transmission of the new ideological paradigm. In their historical and theoretical review of the construction and transmission of dominant ideologies, Abercrombie and Turner (1978) point out that the development of mass education and systems of mass communications<sup>18</sup> represent a much more effective means for the transmission of dominant frameworks. The educational system might be an important carrier of dominant values. As such, I expect to find evidence of attempts to transmit neoliberal-based ideas (such as the supreme importance given to individual effort) through the educational system. Besides, there should also be evidence of efforts carried out by different media outlets to transmit neoliberal ideas. I draw on archival research as well as press records and new literature to establish if these channels of transmission are used to entrench and strengthen the new dominant paradigm.

### THIRD STAGE: DOMINANCE

In this third stage, the ideological framework has acquired a dominant, systemic weight. Sources of instrumental power invested in the past have acquired a completely different form, meaning and scope in comparison to their original form. Literature focused on ideational power emphasises that when a set of coherent ideas has reached such a systemic scope, they become cognitive frameworks that determine what ideas are viable and

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<sup>18</sup> These authors were making this point four decades ago. With the rise of social media in the last decade, this argument acquires even more strength.

reasonable, and what other ideas are too extreme or unrealistic to include among policy options (Carstensen and Schmidt, 2016; Widmaier, 2016). Somehow, ideas are depoliticised, thereby becoming background knowledge of the policymaking process. Hence, dominant frameworks may determine that certain policy areas (e.g. pension policy) become taken-for-granted in terms of their overarching goals and instruments to pursue such goals. Critically, then, dominant frameworks in this context constrain the range of policy or reform alternatives that are acceptable for political elites and technocrats (Widmaier, 2016). In summary, once they have become dominant, ideational frameworks may significantly limit the agenda formulation. And crucially, agenda setting is the most critical stage in the policymaking process (Hacker and Pierson, 2002).

Specifically, I argue that the influence of dominant frameworks at this stage is observable in five mechanisms. Firstly, as already suggested above, by limiting the range of policy alternatives perceived as acceptable in the general debate. If, say, neoliberalism becomes the dominant ideological framework, one may well expect that the agenda formulation on pensions be restricted to the adoption of market-based instruments or merely on changes in the settings of existing instruments (first and second order changes according to Hall's [1993] framework). As such, a defining feature of systemic power -in comparison to instrumental power and structural power- is that it sets decisive limits to the agenda at the very beginning of the policymaking process, or even beforehand. By determining the "background knowledge" of policy alternatives, systemic power tends to restrict the agenda before structural and instrumental power play any influential role in the policy process. Any reform proposal incompatible or conflicting with the dominant ideological framework would be dismissed almost automatically. Empirical evidence of this causal mechanism may be observable by analysing the different narratives and discourses disseminated in the media.

An example of the influence of systemic power is provided by the debate on the Chilean labour market. In her analysis of trends in the Chilean labour market during the 1990s and 2000s, Sehnbruch (2010) asserts that according to main employment indicators such as unemployment rates, the Chilean labour market looks relatively good in comparison to

other Latin American countries. However, that is on the surface. When she considers additional metrics, she concludes that the quality of employment in Chile has deteriorated significantly since 1990. For instance, there has been a marked increase in informality and in the number of short contracts. Add to this an increasing level of discontent among Chilean workers, reflected in a sharp increase in labour mobilisation due to job insecurity, low incomes and unemployment.

In spite of all this evidence of the need for changes, Sehnbruch (2010) points out that policymakers are still very much attached to the neoliberal idea that economic growth constituted the main vehicle to lower unemployment, increased wages, and improved employment conditions, and that the modern labour market has to be flexible. She asserts that such a set of ideas “*is so firmly entrenched in the consciousness of Chilean policymakers that most experts do not even analyse the deterioration of the characteristics of employment in Chile*” (Sehnbruch, 2010: 142). Hence, we can see how neoliberal ideas have become a dominant cognitive framework in the realm of labour market policy, thereby limiting the agenda formulation as policymakers discarded evidence that challenged the dominant framework. This ideational effect resonates with Jacobs' (2015: 53) conceptualisation of *attentional mechanism*. In this view, a particular dominant ideology is expected to direct policymakers' attention disproportionately to evidence and lines of reasoning logically implied by the framework, and away from evidence that could challenge it or from logic extrinsic to it. As such, via this ideational mechanism, policymakers did not pursue policies extrinsic to the neoliberal framework. Systemic power, therefore, constrained the range of policy reforms, hindering a new focus on legislative priorities towards the generation of higher-quality and more stable jobs.

To better understand the powerful influence of a dominant ideological framework in the realm of pensions, consider Figure 3.2 (below), which depicts different policy options. Following Brooks (2009), we might think of a range of pension policy options, ranging from designs based on the principle of social protection (i.e. risk-pooling and redistribution) to institutional designs relying purely on market mechanisms and individual self-insurance, the

antipode. The former is represented by defined-benefit pension systems such as PAYG, and the latter is represented by pension privatisation, usually linked to defined-contribution, individually managed schemes. Between these two polar options we might think of notional, defined-contribution pension systems, which link contributions and benefits (as in privatisation) but preserve PAYG financing of pension benefits and state management. Such a range of options is represented by the dotted lines in Figure 3.2a and Figure 3.2b, stretching along a simple left-right continuum. In reality, our two endpoints are rarely seen; most pension systems combine some degree of risk-pooling with self-insurance mechanisms. For example, the radical 1980-1981 Chilean pension reform included some risk-pooling through a residual, means-tested MPG. Then, as Brooks (2009) points out, pension reforms typically occur as movements along the continuum defined above and shown in Figure 3.2, and not as discrete movements from one endpoint (e.g. collective insurance provision or PAYG) to another (e.g. wholesale self-insurance).

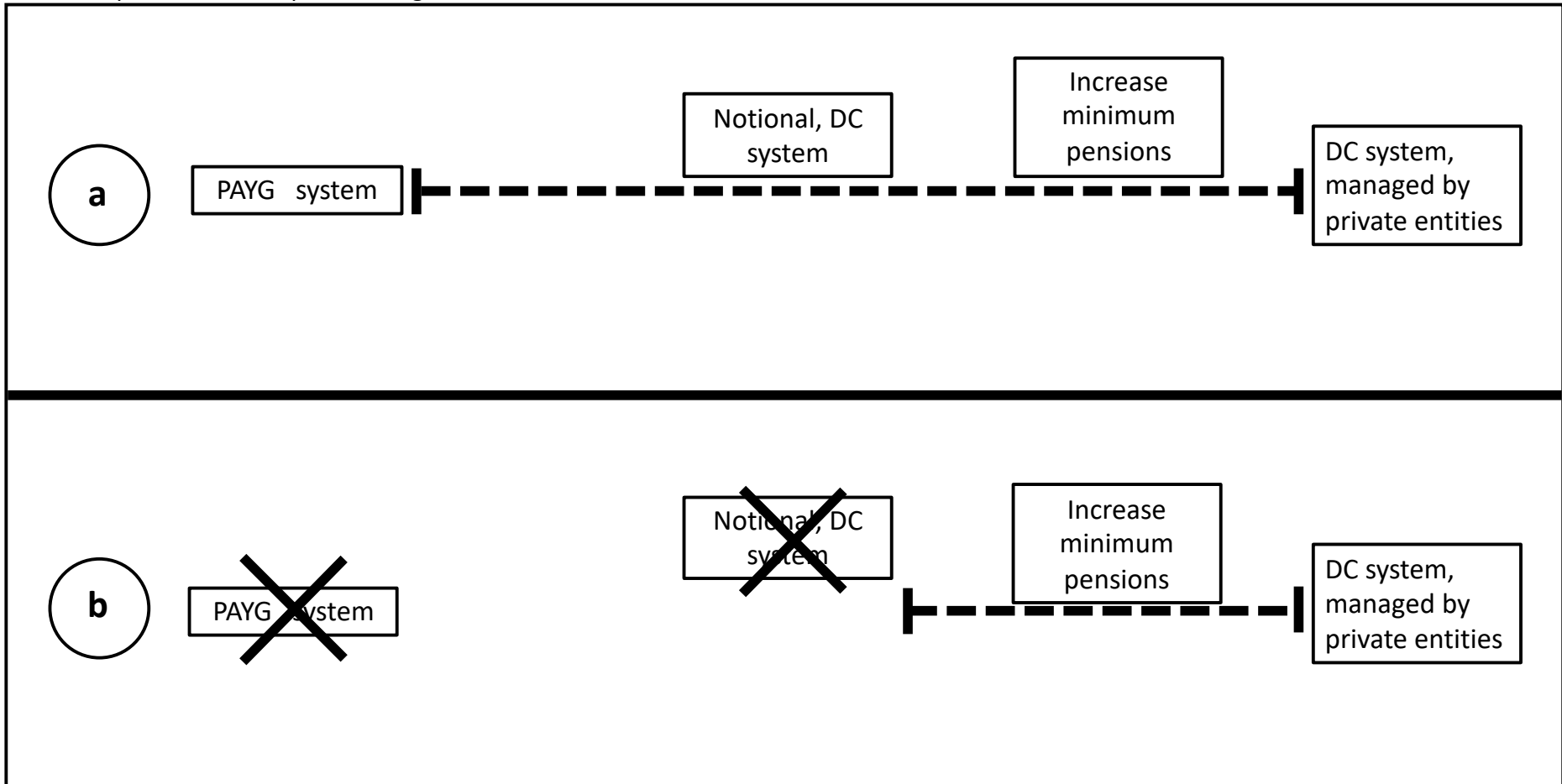
A dominant ideological framework may operate as a powerful causal mechanism by reducing the range of “viable” alternatives for pension reform. In other words, it may move the decision making agenda toward the economic elite’s preferred end of the spectrum (see Hacker and Pierson, 2002: 284). As Figure 3.2 conveys, policy options such as the strengthening of a PAYG system or the introduction of solidarity mechanisms are excluded from the debate, moving and reducing the policymaking agenda from “a” towards “b”. As such, the agenda’s reduced scope would entail just minor reforms based on market mechanisms. Only minor changes, which would not challenge the system’s constitution, would be on the agenda. That is the case, for example, with an increase in the system of minimum pensions.

A second mechanism by which systemic power operates, and that somehow derives from the first implication discussed above, is that it imposes limits on policymakers themselves. Given that dominant frameworks serve as guides for what policymakers can and cannot do or propose (Carstensen and Schmidt, 2016), we expect that politicians who should oppose the dominant ideological framework -given their political allegiances- end up refraining from

pursuing different agendas. The occurrence of this mechanism may be explained by the fact that members of the political elite simply do not count on a coherent, comprehensive set of ideas with which they could oppose the dominant ideological framework. As such, this observable implication of systemic power resonates with the description of anticipated reactions discussed above, in which the weaker actor in this case rationally decides not to contest or challenge the dominant ideology. In-depth interviews with policymakers and politicians opposed to the dominant ideological framework may shed light on their actual policy preferences and the reasons why they did not pursue them.

A third mechanism entails the conversion of policymakers from critics to supporters of the dominant framework. In other words, I expect systemic power to produce a variation in policymakers' normative, ideological commitments. Critically, in order for systemic power to be the causal mechanism of such ideological shifts, and that such shifts affect policymaking, the condition of exogeneity mentioned above must hold. Again, the exogeneity condition means that policymakers' ideas or goals are not fully determined by the material incentives of the decision or policy process being explained (Jacobs, 2015). As such, a requisite is to show policymakers' previous exposure to the dominant framework through processes of political socialisation or policy networks ("prior intellectual ancestry"). Therefore, following Jacobs (2015) the researcher has to demonstrate the influence of systemic power by presenting evidence that (i) policymakers changed their ideological commitments (measure of independent variable), (ii) such a set of ideas shaped their decisions or were applied to the process under study (mechanism of influence), and (iii) those ideas were not simply reducible to the material incentives of the circumstances of decision or choice (evidence of exogeneity of systemic power). In this case, I draw mainly on written records as evidence to establish variation in policymakers' ideological commitments, and to show how that process affected the policy process. More specifically, I will compare how written records produced by key decision-makers varied over time, paralleling and reflecting the variation in their ideological commitments.

**FIGURE 3.2.** Dominant ideology: restricting the scope of policymaking agenda. Figure 3.2a represents an agenda in which all policy options might be potentially considered. Figure 3.2b represents, in contrast, a restricted policy agenda where risk-pooling options or collective insurance provision are kept off the agenda



Source: Author's elaboration.

Then, a fourth mechanism that derives from policymakers' ideational conversion is that of *ideational consensus*. Given the ideological shift of former opponents of the dominant ideological framework, I expect to find an ideological consensus across the political spectrum regarding pension policymaking. This ideational consensus (between, for example, policymakers from different coalitions) further reduces the options for reform on the agenda. I will trace this mechanism through press records and the analysis of policymakers' statements from different coalitions interviewed for this research.

Finally, a fifth observable mechanism by which systemic power influences policymaking is the effect of the values promoted by the dominant framework on the general public. As discussed above, systemic power entails the shaping of societal ideational views, norms and values in order to avoid the -generally costly- actual exercise of power. In this sense, Pierson (2016: 127) asserts that "powerful actors can gain advantage by inculcating views in others that are to their advantage". As such, systemic power may impact the cognitive processes and preferences of social actors. This process is further reinforced by policies enacted under the paradigm of the dominant ideological framework. Feigenbaum and Henig (1994: 200), for example, assert that privatisation of social services may have a *systemic* scope in the sense that not only a material aim (e.g. giving to the private sector a functioning traditionally performed by the state), but it may also seek to change the attitudes and values of the public, or employees more specifically in the case of the pension system (see also Pierson, 1993).

#### 3.3.4 Sources of power: mutually reinforcing

Empirical evidence related to the study of the instrumental-structural power framework indicates that economic elites just require one of those two types of power to shape policymaking according to their interests when they are strong enough (Fairfield, 2010, 2015b). Such a conclusion may also be extended to systemic power: when systemic power is strong enough, for example, the economic elite may rule out

policy options opposed to their interests from the very beginning of the policymaking process. Business actors, nonetheless, will have better chances of getting what they want when more than one type of power -structural, instrumental and systemic- are strong. In short, the more types and sources of instrumental power an economic elite may wield, the more sustained their influence will be on the policymaking process.

In this context, an important caveat in the analysis is that sources of business power can be mutually reinforcing, thereby making one source stronger in the presence of other. For example, different sources of instrumental power may reinforce each other. Privileged media access may expand a particular position of the economic elite during the legislative process, which may augment business effectiveness during rounds of institutionalised consultation. Technical expertise may enable representatives of the economic elite to be recruited into government. Conversely, relationships such as informal ties might help business to gain privileged media access.

Then, and critically, instrumental power, structural power, and systemic power may also reinforce each other. Thus, economic elites can use their sources of instrumental power to amplify policymakers' fears of disinvestment. For example, via lobbying the economic elite may reinforce incipient concerns over investment among policymakers (being the usual argument that not following business policy recommendations could provoke negative economic consequences), hence augmenting business' structural power. Also, instrumental power may enhance systemic power: via privileged media access, the economic elite may reinforce dominant ideological frameworks in the face of challenges from below, for example. Fears of disinvestment (i.e. structural power), in turn, may reinforce instrumental power. Policymakers, in this case, may grant economic elites greater access to the policy process when they are concerned about investment reactions. Another scenario may involve systemic enhancement of structural power. As such, certain dominant ideas that privilege economic growth over other considerations may expand fears of disinvestment among policymakers.

Therefore, the mutually reinforcing nature of business sources of power makes them

even stronger, which may play a critical role especially in the context of challenging scenarios.

### 3.4 Conclusion

This chapter has firstly discussed business preferences towards the structuration of old-age pensions. Then, it presented and critically discussed the canonical approach to studying business power, asserting that it needs to be supplemented with a new type of power, namely: systemic power. Finally, the chapter developed a sequential approach in order to identify the observable implications of systemic power. This sequential approach -constituted by three stages: construction, entrenchment and dominance- is required to capture the scope and influence of systemic power given that its development is a process which unfolds over time. Next, based on the analysis carried out in this chapter, the dissertation will analyse those sources of power held specifically by the Chilean economic elite.

## **Chapter 4. Characterisation of the Chilean economic elite and its sources of power**

## 4.1 Introduction

Before going into the specific analysis of Chile's economic elite's sources of power, this chapter deals with a brief characterisation of the Chilean economic elite since the mid-twentieth century onwards. This characterisation is necessary in order to contextualise the discussion developed in the following empirical chapters. Among the topics raised in this chapter, especially critical is the structural change underwent by the Chilean economy during the first years of the authoritarian regime. These structural changes ultimately meant the rise of the financial segment of the economic elite, which became dominant in a short period of time. As we shall see in Chapter 5, this fraction was to play a critical role in the imposition of the 1980-1981 pension reform.

## 4.2 The Chilean economic elite from a historical perspective

In the Latin American context, Chile stands out for showing a well-developed body of literature on the domestic economic elite. In the case of Chile, Schneider (2004; 2008; 2010; 2013), Silva (1996; 1997; 1998; 2002) and Fazio (1997, 2000, 2005, 2015) have made substantial contributions to our understanding of the Chilean economic elite. These contemporary contributions combined with past, classical works (Lagos, 1961; Stallings, 1978; Dahse, 1979, 1983; Zeitlin, 1988; Rozas and Marín, 1989) allow us to obtain an accurate idea of the structure of the Chilean economic elite and its sources of power during the past half-century.

The fundamental issue to understand here in this brief review is that Chile underwent a radical economic restructuring in the period 1974-1981. And the core of such a radical productive transformation of the country's economy has persisted since then, in spite of the occurrence of several shocks, namely: the 1982 banking crisis, the series of sustained, public demonstrations against the authoritarian regime in 1983-1984, the reinstatement of the democracy in 1990, and the last series of public demonstrations initiated in 2006, increased in 2011 and reaching its climax in 2016-2017, precisely when millions of Chileans took to the streets to protest against the AFP system.

Furthermore, in spite of all the productive changes undergone by the country's economy since the Chicago Boys dominated policymaking, the players are roughly the same. In short, à la Schneider (2013), we may assert that in Chile's version of Latin America's hierarchical capitalism, the same family business conglomerates have controlled the country's economy since the late 1960s. With changes, of course, but they are basically the same groups (see Table 4.1). By itself, this fact speaks volumes about the impressive, extraordinary adaptive capacity of the Chilean economic elite. This is an aspect on which we will come back later.

To study the complete evolution of business actors from the 1960s onwards falls outside the scope of his study. Nonetheless, the critical point to grasp from this review is that the transformation implemented by the Chicago Boys (in brief, the financialisation of Chile's economy) would have a direct bearing on the radical transformation of the pension system. In short, the inception of the individually-managed, defined-contribution pension system managed by private providers was masterminded and pursued by financial conglomerates. As we shall see in Chapter 5, the very same groups which benefited handsomely from the economic policies imposed by the dictatorship (especially those imposed after the 1975 economic crisis) were precisely those that successfully pushed for the radical 1981 reform.

#### 4.2.1 Changes in the structure of Chile's economy: the rise of the financial sector

In the study of the Chilean economic elite over the past half-century one has to distinguish two different levels of analysis: the first one is the study of the transformations undergone by the overall economic structure of the country, and the second is the analysis of changes in the composition of the economic elite itself. That is, those changes (and continuities) in the largest business groups or conglomerates that control large swaths of the economy. The analysis of these aspects is critical for understanding the trajectory of pension policymaking in the period under study. As we shall see, overall changes in the composition of the country's economic during the

mid-1970s meant the rise of a few mammoth financial conglomerates, which, centred on the banking sector, controlled companies in virtually every sector of the economy (Rozas and Marín, 1989). These conglomerates were to play a critical role in the imposition of the 1981 radical pension reform.

The structure of the Chilean economy underwent significant changes since 1975, when the authoritarian regime began with the implementation of a stabilisation programme to cope with the recession which began that year. The dictatorship implemented a menu of policies that severely affected the industrial sector, and favoured the financial sector of the economy. In sum, the main elements of this free-market programme were (1) a policy of privatisation and the withdrawal of the state from its regulatory functions, (2) an opening up of the economy to international trade and financial flow, which, among other things, meant an across-the-board tariff reduction, and (3) the application of free market policies more generally (Foxley, 1983, 1986; Rozas and Marín, 1989).

Regarding the financial sector, early changes in the financial market allowed for the establishment of private financial companies that operated with no more restrictions than a maximum monthly rate of interest of 25%. In comparison, the interest rate for banks (which were still part of the public sector after the nationalisation programme implemented by the Allende administration, 1970-1973) was controlled and fixed at 9.6%. This discrimination was deliberate in order to stimulate a transfer of funds away from the state and toward the private sector. This process meant huge profits for those groups who owned those small financial companies called “financieras” (Foxley, 1983). Then, when in September 1975 banks were auctioned, in a moment of deep recession and high interest rates, those financial groups with liquid resources or with access to cheap foreign credit had the upper-hand to take over the auctioned banks and other public enterprises. In other words, cheap access to public assets in the financial sector, coupled with capital market liberalisation, implied massive gains for some business groups. Furthermore, later in 1975, once banks had been transferred to

private hands, interest rates were freed, which constituted an additional stimulus to the development of a private capital market. This financial deregulation policy resulted in huge, fast increases in interest rates. For instance, domestic real interest rates increased from -23.4% in the second quarter of 1975 to 178.4% in the third quarter (Foxley, 1986).

Overall, these policies meant significant changes in the productive structure of the economy. Primary sectors such as agriculture and mining increased their relative importance in production from 9.7% and 10.7% in 1970 to 10.2% and 12.0% in 1978, respectively. By contrast, the manufacturing sector's participation in the GDP dropped: between 1970 and 1978 it diminished by more than three percentage points, from 26.0 to 22.7%. In contrast, commerce and services were the most dynamic sectors of the whole period. Commerce increased their participation in production from 22.3% in 1970 to 23.6% in 1978, while services expanded from 19.9 to 21.6 for the same period (Foxley, 1983: 77-80). The importance achieved by the service sector was such that by 1982 their participation in generating the product and in employment was higher than that of all productive sectors jointly considered (agriculture, mining, and industry) (Foxley, 1986). As such, the direction of the changes in the productive structure of Chile's economy was clear: they privileged the financial sector, which grew at a significant rate over a short period (1974-1979).

All these processes resulted in the development of large business groups. The same groups that were able to take over banks by 1975, then were further benefited by those policies of interest liberalisation mentioned above. Afterwards, in a short time, these groups became large conglomerates centred on well-established banks. Even more, this double process of transference (of resources from the public to the private sector) and concentration was further reinforced since the liberalisation of the foreign credit market was partial. This was the case since a ceiling was imposed on foreign borrowing as a percentage of the value of assets (Foxley, 1983). Given that only large enterprises and the better-established banks and financial institutions had access to

cheap, rationed external credit and that domestic interest rates were much higher, this constituted a source of large profits for banks and larger firms. At the end of 1982, 48% of the external credits flowing into the financial system had been received by the biggest groups (Foxley, 1986). Given that domestic interest rates (from 42 to 118%) were much higher than foreign rates (from 6% to 11%), large banks and firms made massive profits from such differential interest rates (Foxley, 1983).

Consequently, this package of orthodox stabilisation policies generated higher concentration of assets. And importantly for the present work, it also significantly increased the size of few economic groups. According to Dahse (1979), at the end of 1978 just six conglomerates controlled 56% of the assets of the 250 largest private enterprises in the country (see Chapter 5 for more details). An update to that study indicates that the assets of the enterprises owned by five of these groups doubled between 1978 and 1980 in real terms (Dahse, 1983). By December 1980, the same six economic groups controlled 61% of the assets of the 100 largest private companies. Dahse (1983) shows that in 1980 these six conglomerates controlled 54 private companies out of 191 whose shares were sold in Chile's stock exchange. That is to say, the six biggest conglomerates controlled 28% of the Chilean listed companies. Moreover, the assets of those 54 companies represented 68% of the listed shares. In this context, concentration was greatest in the financial sector. Indeed, by December 1982, the two major economic groups -the Cruzat-Larraín and Vial conglomerates- owned 30% of the capital and reserves of all financial institutions, and they controlled 42% of the credit.

**Table 4.1:** Major economic conglomerates in Chile, 1960s-2010s

N	1950s	1960s	1970s	1980s	1990s	2000s	2010s
1	Aldunate	Angelini	Angelini	Angelini	Angelini	Angelini	Angelini
2	Braun-Menéndez	BHC (Vial)	BHC (Vial)	Claro	Luksic	Claro	Anglo American
3	Cosatán	Hirmas Atalá	Cruzat-Larraín	Fernández León	Matte	ENDESA (Enersis)	BHP
4	Edwards	Ménendez	Edwards	Hurtado Vicuña	Said	Ibañez	Cueto
5	Furman, Pollack y Lamas	Matte	Luksic	Luksic	Yuraszeck (Enersis)	Luksic	ENDESA (ENEL)
6	García Vela	Edwards	Hochschild	Matte		Marín	Luksic
7	Matte	Said	Matte	Ménendez		Matte	Matte
8	Said and Hirmas	Yarur Asfura	Said			Paulmann	Paulmann
9	Salinas y Fabres	Yarur Banna	Yarur Banna			Santander Chile	Santander Chile
10	Yarur	Yarur Lolas	Yarur Lolas			Solari-Cuneo-Del Río (Falabella)	Solari-Cuneo-Del Río
Other positions		11. Briones 12. Furman Levy 13. Lepe et al 14. Luksic 15. Marín 16. Pollack Ganz 17. Sumar	11. Briones 14. Lepe et al 15. Sumar			14. Said 23. Yarur	Other groups among the 20 largest: Yarur Said Marín
Sources	Lagos (1961)	Garretón & Cisternas (1970); (Montero, 1997)	Dahse (1979, 1983)	Rozas & Marín, (1989)	(Fazio, 1997, 2000)	Fazio (2005); Lefort (2010)	Fazio (2015); Martínez (2016)

**Note 1:** Highlighted in grey are those conglomerates that have remained (at least three times) among the 20 largest business groups. In pale grey are those economic groups with two nominations.

**Note 2:** Conglomerates appear in alphabetical order as reference only since every author used different methodologies, so they are not rigorously comparable.

#### 4.2.2 Continuity and change: Composition of the economic elite

The literature, in general, tends to regard the 1970s as a period of massive changes in the composition of the Chilean economic elite (e.g. Albertus & Menaldo, 2018: 209-246). More generally, some studies -analysing the evolution of Chilean business groups since the 1960s- tend to characterise Chile's economic elite as an intrinsically dynamic group with significant mobility (Martínez, 2016; Salvaj and Couyoumdjian, 2016). That is true but it is necessary to temperate such vision (see Table 4.1 above). The Chilean economic elite certainly underwent significant changes during Allende's nationalisation process (1970-1973). Pinochet returned some of these companies to their previous owners, but other companies (especially banks) were auctioned and in those processes previous owners -weakened by Allende's policies- were not able to re-take over their assets (Remmer, 1980, 1989b). These processes certainly produced realignments in the Chilean economic elite.

Dahse (1979) asserts, in this context, that significant changes in the composition of the economic elite occurred during the period 1970-1978. In the first place, the number of "grupos económicos" or conglomerates had raised vis-à-vis a reduction in the number of individual entrepreneurs. Likewise, conglomerates tended to augment the number of firms that they control and their assets. As such, in a sample of 100 private companies, the assets of the firms controlled by the five most important conglomerates grew by 97% between 1969 and 1978, while assets of the remaining firms grew by only 14% (Dahse, 1979). As we have seen, this higher concentration is explained to a great extent by the privatisation of the banking system in 1975. Most of the entrepreneurs and conglomerates that took over banks were already important businessmen by the late 1960s, and were the least affected by Allende's policies. As a result, all major conglomerates but one controlled or participated in the ownership of one or more banks. Through this ownership, they controlled the financial market and, more importantly, they were the main source of external credit.

Secondly, there was a significant realignment in the economic power of the different conglomerates. For instance, the Edwards group used to be the most important and

powerful up to late 1960s. But it was displaced to fifth place by Cruzat-Larrain, Vial, Matte and Angelini conglomerates. Thirdly, several groups that grew during the import-substitution industrialisation (ISI) period, shored up by state policy, lost much of their economic importance. Such is the case of conglomerates related to the textile industry. Conglomerates such as Sumar, Hirmas, Yarur Asfura, Yarur Lolas and Pollak do not appear in the ranking developed by Dahse in 1979 and updated in 1983. Yarur-Bana was the only textile-based conglomerate that retained some economic power.

As said, in spite of all these transformations (and those that occurred later) there are marked continuities in the composition of Chile's largest conglomerates. As Table 4.1 shows, several of the business groups that were among the most important during the late 1960s continued to be so up to late 1970s. Table 4.1 shows high levels of continuity among the 20 largest business groups from 1950s onwards. Indeed, Angelini, Matte, and Luksic business groups, for instance, have continued to occupy such positions up to the present (see also Table 5.1). These continuities are especially significant considering that organisational capacity (see next section) is one of the most outstanding sources of power of the Chilean economic elite. Certainly, these high levels of cohesion and organisational capacity might at least be explained by the fact that the very same business actors have played a leading role in Chilean politics during the past century. Thus, they have vast, accumulated experience and knowledge of the policy process and political dynamics, which adds to the historically high levels of organisation of these actors.

### **4.3 Sources of Power of the Chilean Economic Elite**

This section discusses the main sources of power identified in the Chilean case. Specifically, it will discuss the most relevant, persistent sources of instrumental power. Then, the section addresses the first two stages in the development of systemic power -construction and entrenchment- discussed in the previous chapter. Regarding structural power, given that this type of power entails only one source of power already explained above (which arises from the profit-maximising behaviour of

business), its significance to the Chilean case will be discussed in each empirical chapter.

#### 4.3.1 Instrumental power

##### RESOURCES

Firstly, **cohesion** constitutes one of the most significant and persistent sources of business power for the case of Chile. Cohesion refers to the capacity to form and sustain a united front for influencing the policymaking process (Fairfield, 2015a: 38). As mentioned in the previous chapter, organisation capacity is a key indicator of economic elite cohesion. Chile shows, in this regard, one of most politically organised business sectors in the Latin American context (Haggard and Kaufman, 1995; Payne and Bartell, 1995; Silva, 1998). It counts on a long tradition of high levels of professionalisation and institutionalisation (Silva, 1996b; Schneider, 2013). Six peak business associations -one for each sector of the economy- conform its organisational structure<sup>19</sup>, which in turn coalesce into one encompassing association, the CPC (*Confederación de la Producción y Comercio*).<sup>20</sup> The CPC aggregate, coordinate and reconcile business interests (Silva, 1996a). In this way, the economic elite count on a long tradition of high levels of institutionalisation which most of the time allows the achievement of high levels of cohesion.

Furthermore, the existence of a special type of encompassing organisation enhances even more the cohesion of the Chilean economic elite. Not only do peak associations participate in this organisation, but also, and more widely, representatives of the private sector in general and politicians from the whole political spectrum who are sympathetic to business interests. As such, this organisation -called ICARE- is crucial as a space to encounter and forge wide consensus within the private sector. A group of entrepreneurs founded ICARE in 1953 aimed at “*promoting business excellence in the country*” (ICARE, 2018a).

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<sup>19</sup> These peak associations are: Chilean Chamber of Construction (CChC), National Society of Mining (SONAMI), National Society of Agriculture (SNA), Chamber of Commerce and Tourism (CNC), Banking Association, and the Society for Industrial Promotion (SOFOFA).

<sup>20</sup> Confederation for Production and Commerce, in English.

In sum, ICARE's work is twofold: they provide up-to-date information about markets and contingency to the private sector, and through the organisation of a vast range of meetings, seminars, and congresses, it serves as a hub, as a gathering place for business (ICARE, 2018a). As mentioned, at ICARE coalesce not only all business peak associations themselves but also individual companies, business groups, law firms, private universities funded during the dictatorship<sup>21</sup> and controlled by academics who were close to or members of UDI<sup>22</sup>, the party most closely identified with the authoritarian regime and its legacy (Siavelis, 2014a; Mönckeberg, 2017), and communications agencies that operate in Chile (such as Burson-Masteller and Tironi) (ICARE, 2018b). Indeed, nowadays ICARE groups more than 1,200 companies of different sizes and different sectors of the economy (ICARE, 2018a).

Importantly for this study, the three largest AFPs, HABITAT, CUPRUM and PROVIDA, are active members of ICARE. Indeed, Juan Benavides, former president of Habitat AFP from 2014 to 2018, is currently a member of the ICARE's board of directors as "past president", after two years at the head of the organisation (El Mercurio, 2018). Also, the influential Martín Costabal, who holds an impressive record, was member of ICARE's board of directors (El Mercurio, 2005h). Among different posts that Costabal has held, he was head of the committee that prepared the final version of the 1981 reform, member of both Marcel and Bravo Commissions, former minister of Finance during the dictatorship and former general manager of HABITAT AFP (from 2000 to 2004). Besides, from 1998 to 2006 Costabal was member of UDI's supreme tribunal (UDI, 2018). In this context, ICARE plays a significant role as a place for business cohesion and for setting the agenda (see Chapter 8).

Moreover, in 1983 the newly created private companies to manage workers' Pension Funds banded together to create their business association. They founded "*The Association of Administrators of Pension Funds*" (AAFP). The AAFP have played a

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<sup>21</sup> Universidad del Desarrollo and Universidad Mayor, for example

<sup>22</sup> Independent Democratic Union, called UDI by its Spanish initials.

critical role in reducing intra-sectoral conflicts and crafting a common position among AFPs. As Svallfors and Tyllström (2019) have noted, contrary to conventional wisdom, intra-industry conflict among private providers of social security services may potentially be significant. Such conflicts may arise from the industry's heterogeneity (small versus large AFPs) or simply because they are all competitors in the market of individual retirement savings accounts. Overall, the AAFP has been very effective in deflecting internal conflicts and exhibiting a common stance in most debates.

Although the AAFP has never been a formal member of CPC, there are close ties between these two organisations. For example, José Antonio Guzmán (interviewed for this research) was CPC president from 1990 to 1996. Before assuming the CPC presidency, he was president of the Chilean Builder's Chamber. Crucially, the Chilean Builder's Chamber is a business peak association that owns an AFP (HABITAT AFP). Guzmán, as well, was member of that AFP's board from 2005 to 2014 (Mönckeberg, 2001). Besides, he maintained affiliations with UDI as he attempted to run for the Senate supported by that party (Qué Pasa, 2014). The case of Guzmán exemplifies very well the broad business coalition forged since 1983 (see more on this below), with presence in business associations, the UDI, boards of AFPs and newly privatised companies, and the participation of traditional business groups.

Then, the incorporation into the analysis of ICARE alongside the CPC, the peak associations, and the AAFP helps us to understand the multi-layered nature, complexity and efficiency of Chile's economic elite's organisational capacity. As such, the lesson to be drawn from this review is that the Chilean economic elite count on a very efficient, complex and elaborate structure, which forges cohesion and a monolithic stance over most political discussions. This complex structure also provides the Chilean economic elite with another critical source of instrumental power: **technical expertise**. In summary, the strong organisational capacity of the Chilean economic elite significantly strengthens its prospects of influencing policymaking via cross-sectoral cohesion.

Then, in terms of **privileged media access**, it is difficult to overestimate the degree of influence of the conservative press in Chile. Previous research has tended to focus on the structure of Chile's newspaper market -which is basically a duopoly controlled by two business groups- to explain the role played by *privileged media access* as a source of power (Fairfield, 2015b: 433). However, the historical role and influence of El Mercurio, the most traditional conservative daily newspaper, largely exceeds the potential impact given by its market share. Historically, El Mercurio has constituted a "barometer" of the Chilean economic elite's sentiments and political positions (Petras, 1969), and given the authority wielded by the newspaper, it has acted as arbiter in conflicts within right-wing, conservative sectors of Chilean society (Valdés, 1995: 231). For their readers, it constitutes a "*cultural institution with an irreplaceable educational and guiding mission*" (see Soto, 1995: 23).

In practice, at least for the period under study, El Mercurio sets the daily agenda of Chile's politics, and exerts a powerful influence on individual politicians, who either hope to feature in its pages or fear potential attacks by the newspaper. Indeed, the editorial board of El Mercurio consistently articulated a particularly strong and clear position on the new pension scheme during the entire period. The newspaper, besides, gave extensive coverage to the debate on the pension system in its specialised section "Economy and Business". This section, as we shall see, constitutes a critical source of information for this research.

#### RELATIONSHIPS WITH POLICYMAKERS

Next, in terms of relationship with policymakers, **institutionalised consultation** plays an extremely important role during the whole period under study as well. One important aspect that characterises each period under study, in this context, is the channels through which the economic elite exerts influence. Fairfield (2015a) notes that these relationships may take the form of either formal or informal institutionalised consultation. Under dictatorship, for instance, representatives of the economic elite participated in formal instances of decision-making. These instances were the so-called "Council of Ministers", which later became known as "Legislative

Commissions” (Barros, 2002). Through these formally institutionalised mechanisms of consultation, the economic elite had a direct, completely exclusionary say on policymaking. Later, in 1990, with the reinstatement of democracy, this mechanism could not continue to serve the interests of the economic elite. Hence, the exclusionary access to policymaking was re-created in *concertation* with the centre-left governing coalition that governed Chile uninterruptedly from 1990 to 2010 (precisely named the Concertación).

In this context, the economic elite certainly viewed the 1980 Constitution enacted during the authoritarian regime as a safeguard in order to face the new democratic setting. And indeed, through a set of institutional constraints (discussed in the introductory chapter), the 1980 authoritarian Constitution limited the scope for progressive reforms in the new democratic setting (Siavelis, 2000, 2014b). However, according to Silva (2002) and other authors (e.g. Petras and Leiva, 1994; Barrett, 1997), the maintenance of their privileged and exclusionary interaction with the state was more (or at least equally) important to the economic elite than the rules established by the Constitution in order for them to accept the transition to democracy. The economic elite thus was able -in conjunction with the new democratic administration- to recreate business’ privileged access to policymaking through the establishment of an informally institutionalised consultation process. In this arrangement, Concertación’s neoliberal technocrats (see Chapter 6) would formulate policy, but before submitting the reform bill to Congress, the government would negotiate the proposal with business representatives (Silva, 1996b, 1996a; Cortés Terzi, 2000). Overall, the existence of this business-state consultation meant that pension reform bills were introduced to Congress “pre-cooked”, and thereby members of Congress were limited to discussing marginal issues of each proposal.<sup>23</sup>

The Chilean author Antonio Cortés Terzi (2000)<sup>24</sup> termed this mechanism of consultation “the extra-institutional circuit of power”. In his analysis, the influence of

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<sup>23</sup> Interview, José Ruiz de Giorgio, Christian Democrat Senator 1990-2006, 26 September 2017.

<sup>24</sup> Unfortunately, the early death of Cortés Terzi in 2009 (when he was 56 years old) meant the

this business-state consultation was so pervasive in Chilean politics that it severely undermined the legitimacy and functionality of the Chilean democracy. This is explained by the fact that formal instances of decision-making lost significance, and business-state consultation became the main loci of decision-making. In his analysis of the policymaking process that led to the transformation of the Chilean justice system during the Frei administration (1994-2000), Cortés Terzi (2000) concludes that main decisions were taken through “informal mechanisms”, which were “mysterious” not only to the broad Chilean society but also to actors included in formal decision-making locus (such as member of Congress). Hence, this business-state consultation, or concertation in Schneider’s words (Schneider, 1997), constitutes a pivotal source of business power.

With the reinstatement of democracy, two sources of instrumental power become pivotal, namely, partisan linkages and informal ties. Regarding **partisan linkages**, for the period under study the economic elite have strong ties with right-wing parties, National Renewal (RN, in its Spanish initials) and, especially, with UDI, the Independent Democratic Union (Angell and Pollack, 1990; Scully, 1995; Pollack, 1999).

Programmatic convergence, shared class interests and close ties established during the dictatorship transformed UDI virtually in business interests’ transmission belt during this period (Pollack, 1999; Huneeus, 2014). Founded in 1983 by Jaime Guzmán, one of the key ideologues of the dictatorship, in democracy UDI remained pro-Pinochet, committed to the defence of the neoliberal model, and unwaveringly catholic (Scully, 1995; Siavelis, 2014a).

Although there is no data on election spending for this period (Huneeus, 1998), more recent reports suggest that big business funded UDI disproportionately in comparison to other political parties (Luna, 2014), especially during the first two decades of democracy. The total absence of a regulatory framework governing relations between money and politics during this period facilitated business financial support to UDI and

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interruption of this line of research in Chilean politics.

RN (Huneeus, 1998: 97). Furthermore, information provided by interviewees and anecdotal evidence suggests that business representatives usually intervened decisively in the internal operations of both UDI and RN. These interventions usually involved arbitrating internal quarrels between both parties - favouring UDI most of the time<sup>25</sup>- and imposing candidates.

Most of UDI leaders began their careers either in business or as officials of the authoritarian regime. UDI became, in this way, the political space in which members of the traditional economic elite, Pinochet's technocrats -some of whom often served on boards of both business groups and AFPs-, bureaucrats of the dictatorship, and top-executives of former public companies coalesced (Angell & Pollack, Angell 1991, Schamis 1999). The review of prosopographical data helps to understand these pervasive links. For instance, Guillermo Arthur was Minister of Labour during the dictatorship, from 1988-1999, and became AFPs board member during the 1990s (National Gazette, 1998). Then, he was promoted to the post of the President of the AAFP from 1999 to 2014. Moreover, he was a founding member of UDI in 1983, and member of its political commission several times during the 1990s and 2000s (El Mostrador, 2013)<sup>26</sup>.

Another example is Sergio de Castro, leader of the Chicago Boys. UDI member, by 1993 he was President of the Board of Provida AFP, the largest AFP with more than 40% of the market share (El Mercurio, 1993). The role of José Piñera, the self-proclaimed father of the 1981 radical pension reform (Piñera, 1991), is also paradigmatic. In the early 1990s, he became member of the board of ENDESA, a newly privatised company of the energy sector, supported by AFPs' voting rights (Fiscalía Nacional Económica, 1991). Piñera, as well, was a member of UDI until he embarked in a personal political adventure for the 1994 presidential election.

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<sup>25</sup> One anonymous interviewee stated that for the 1993 parliamentary election, RN planned to break with UDI by leaving the "Democracy and Progress" alliance. The plan was to present RN's candidates in a different electoral list. However, this plan was blocked by the economic elite through overt threats. If RN decided to carry out their plan, the economic elite would cut off their funding to the party.

<sup>26</sup> Guillermo Arthur was contacted several times through different channels for this research, but he never replied to any message.

Then, **informal ties** are also pivotal in post-authoritarian Chile. From the outset, it is important to distinguish the causal effect of this source of power from the effect of systemic power via ideological conversion of policymakers. The latter is not explained by material factors. Informal ties, by contrast, arise mainly from extraction from a common social background between policymakers and businesspeople, and also from ties strategically strengthened by the economic elite. As discussed in the previous chapter, the economic elite may strategically enhance their nexus of linkages with policymakers through material means, such as providing well-paid political career opportunities to members of the political elite. Bril-Mascarenhas and Maillet (2019) describe this power-building investment strategy in their analysis of the political economy of pensions in Chile focusing, however, on the AFP industry only. These authors show the systematic efforts carried out by the pension fund industry to build a group of business-friendly policymakers, thereby strengthening instrumental power. As we shall see in Chapter 7 in more detail, strengthening bonds with the governing centre-left coalition was one of the main strategies carried out by the whole economic elite in order to cope with the increasing criticism that the AFP system attracted from the public from the late 1990s onwards.

#### EXCURSUS: ECONOMIC ELITE'S COHESION ON THE AFP SYSTEM

Silva (1992, 1996b, 1997) documents that since the mid-1980s, the Chilean economic elite has been able to defend a common position in most policy debates. In the case of the new pension scheme, in spite of sporadic disagreements triggered by the banking sector (which aims to participate in the “pension industry”; see especially Chapter 8), there has been strong cross-sectoral cohesion since the establishment of the new scheme in 1980-1981. As we shall see in Chapter 5, although the radical, narrow coalition formed by conglomerates centred on finance was the main driving force behind privatisation, the whole economic elite rapidly supported the new scheme. The lack of intra-capital conflicts around the pension system established in 1981 constitutes a critical explanatory factor for explaining its resilience. Several factors

explain the -nearly monolithic- cohesion exhibited by the Chilean economy in the realm of pensions.

The first significant factor that explains this cohesion is that the 1980 pension reduced non-wage labour dramatically. As noted in the previous chapter, this factor tends to constitute a shared preference among business, even more so in the case of Latin America. The 1981 pension reform eliminated employers' contributions to the system, which basically meant an across-the-board reduction in non-wage labour costs for all segments of the economic elite. In this context, this dramatic cost containment generated wide support for retrenchment within the economic elite. Then, the second factor has to do with the "welfare-finance nexus" discussed in the previous chapter. The 1981 reform also established an entirely pro-business regulatory framework. Actually, the arrangement established by DL 3.500 determined a *de facto* authority of the economic elite over the financial capital generated by the new system. This was the case since the law did not guarantee the representation -not to mention the participation- of employees in the boards of the AFPs (Borzutzky, 1983, 2002). Furthermore, the institutional design imposed high entry barriers (e.g. high levels of capital requirement to create an AFP) which facilitated large conglomerates' control of the newly-created pension market.

Indeed, as we shall see in Chapter 5, as soon as the military government passed DL 3.500, most of the pension market was dominated by AFPs owned by the very same conglomerates that had pushed for the reform. Besides, other traditional conglomerates, with more interests in manufacturing industries and agriculture but still with participation in the financial sector, also created AFPs (such the Angelini and Matte conglomerates). Therefore, from the beginning, large conglomerates controlled the institutions which were to decide how to use workers' assets. Moreover, these interrelated facts allowed for the emergence of a network of entrepreneurs and top-executives that controlled the AFP market and benefited handsomely from that control (Huneus, 2007).

The third critical factor is the structure of Chile's economy dominated by large, diversified conglomerates. Although the two large conglomerates that pushed most notably for the pension reform went bankrupt with the 1982 crisis (the Cruzat-Larraín and Vial groups), large conglomerates with interests in almost every sector of the economy continued to be dominant. During the 1980s, large conglomerates such as the Matte and Edwards groups, owned AFPs, insurance companies which sold retirement annuities, and also controlled companies that could enjoy of the newly source of long-term capital, injected into the financial system. Then, during the 1990s, as the Concertación persisted with the application of free-market policies thereby consolidating the neoliberal model, the concentration and centralisation of domestic capital in a handful of large conglomerates -centred around or linked to the financial sector- was further reinforced (Fazio, 1997, 2000). As discussed in more detail in Chapter 6 (section 6.3.1), companies raised capital from welfare funds through a number of different channels such the equity market and debt finance (e.g. bonds). The importance of welfare funds generated by individual savings accounts has become central to Chilean companies.

Finally, the fourth factor is the economic elite's cohesion itself, enhanced since 1983. In 1983 there emerged a broad business coalition as a result of the fall of the radical business coalition controlled by the financial segment, which had been the economic elite's dominant segment since 1975 (Silva, 1996b). The 1982 banking crisis produced the bankruptcy of the two major -and most powerful- conglomerates mentioned above, thereby shifting the balance of power within the economic elite. From 1983 onwards, there emerged a broader business coalition -including all segments of the economic elite- in which peak associations played a more influential role than in the previous coalition dominated by financial conglomerates, which augmented business cohesion. Weakened by the banking crisis and a strong mass mobilisation, the military government accepted in 1983 the adoption of the pragmatic -rather than orthodox- neoliberal economic plan sponsored by the CPC, the encompassing business association. This enhanced cohesion facilitated the development of a common stance towards the AFP system in policy debates.

### 4.3.2 Systemic power

Following the sequential approach presented in the previous chapter, in this section I will discuss the first two stages in the development of systemic power, namely: construction and entrenchment. The discussion will be supplemented with further illustrations in Chapter 5. As for the third stage in the sequential approach in which fully-fledged mechanisms of systemic power exert influence on policymaking, they will be analysed in each empirical chapter.

#### CONSTRUCTION OF SYSTEMIC POWER

As already defined, observable implications of the construction of a dominant ideological framework entails evidence of (i) the origins of concerted, strategic investments carried out by a fraction of the economic elite, (ii) pathways through which the set of ideas was transmitted, and (iii) ideational carriers across institutional settings. In terms of the origins of long-term, strategic investments aimed at developing a dominant set of ideas, at least from the mid-1960s, there were concerted investment efforts to cultivate and spread the neoliberal ideology (Valdés, 1995; Herrero, 2014). These efforts were based on sources of instrumental power such as *money, privileged media access, and technical expertise*, among others. Hence, the Chilean case fulfils the condition of exogeneity -for both authoritarian and democratic regimes- as defined by Jacobs (2015), in the sense that the source of ideas was antecedent to the 1980-1981 reform and to principles that guided pension reforms in under democracy.

By the mid-1960s, the economic elite was on the back foot since it lacked a coherent project to oppose the reformist programme pursued by the Christian Democrat administration in power (Vergara, 1984; Valdés, 1995). In that context, a narrow group of business conglomerates with significant holdings in finance (banks and insurance companies) and the international sector of the economy joined efforts, and began a process of strategic, long-term investment in the cultivation of neoliberalism. At that time, these were mainly two conglomerates, the Edwards group and the BHC.

Critically, these conglomerates were the first and second largest in Chile, respectively (Dahse, 1979, 1983). Those long-term investment efforts carried out by these conglomerates find explanation in the fact that they needed the advancement of the monetarist doctrine for the sake of their economic interests, and for what they saw as a transcendent mission (Silva, 1996b). This was especially the case for Agustín Edwards, Head of the Edwards conglomerate.

As such, Edwards led strategic investment efforts through a number of channels. These included (i) the creation of a think tank, (ii) the support of academic and outreach activities developed by the School of Economics and Administration at the Catholic University (which included the purchase of a new campus), and (iii) the dissemination of the neoliberal doctrine through *El Mercurio* (and other media outlets) aimed at educating readers on economics (especially businesspeople), among other channels of dissemination. In his study of the rise of the Chicago Boys and neoliberalism in Chile, Valdés (1995) stresses that in carrying out these investments, business leaders were conscious and aware of the need to both “educate the masses” and to bring on board other segments of the economic elite (especially industrialists), who adhered to the ISI model. In the end, all these efforts and investment were to be enormously successful. As Roberts (1998: 82) asserts, no ideological vision before the rise of neoliberalism had embedded in such an all-encompassing and distinctive way the interests of the economic elite.

Thus, one of the first, explicit products of these efforts was the creation of a think tank (see Table 3.1). The Edwards conglomerate, owner of influential daily newspaper *El Mercurio*, played a critical role in these efforts. In 1964, Agustín Edwards approached a group of eminent economists from the Catholic University, who held postgraduate degrees from the University of Chicago (the so-called Chicago Boys), with the aim of creating a think tank devoted to the promotion of neoliberal ideas (Soto, 1995: 35-37; Herrero, 2014). Thus, Edwards and a group of Chicago Boys created the Centre for Social and Economic Studies (CESEC) (Qué Pasa, 1975; O’Brien, 1981). According to Herrero (2014), CESEC may be considered the first Chilean think tank proper. Among

the neoliberal economists approached by Edwards were technocrats who later became either key figures in Pinochet's economic team or entrepreneurs who benefited from the neoliberal economic restructuring (see Table 5.2). The centre was organised out of the need to find "mechanisms to disseminate economic science *and create a coherent ideology among entrepreneurs*" (Valdés, 1995: 227). Valdés (1995) reckons, in this context, that CESEC's strategic aim of disseminating the principles of free market and economic efficiency was quite evident. Its creation constituted the first expression of investment in the dissemination of neoliberalism.

In terms of pathways for the dissemination of the potentially dominant set of ideas, three mechanisms were critical. Firstly, the Catholic University played a critical role in explaining both (i) the origins and (ii) the transmission of the dominant neoliberal ideational framework. Most of the Chicago Boys shared a common social background: they were economists from the Catholic University, who later pursued postgraduate degrees at Chicago. In 1955, Chile's Catholic University signed an agreement with the University of Chicago, which supported approximately one hundred students who studied economics at Chicago between 1955 and 1963 (Qué Pasa, 1975; Valdés, 1995). In this context, once they returned to Chile, some of the most prominent Chicago Boys came back to the Catholic University and were appointed to professorships. Rapidly, they drastically transformed the curriculum of the School, introducing courses on price and monetary theory (Valdés, 1995). Then, by 1965, the Chicago Boys took control of the School of Economics and Administration when Sergio de Castro -leader of the group- took over as Dean (O'Brien, 1981).

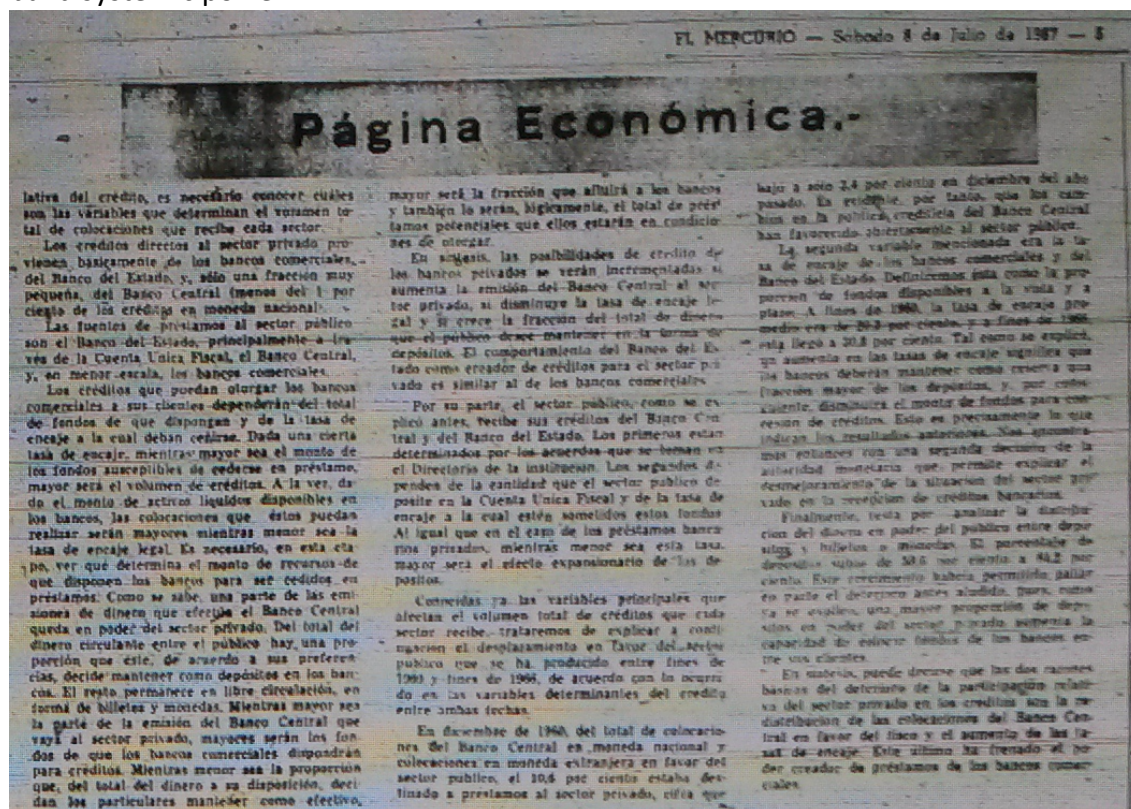
At that moment the Edwards group started a close collaboration with the School of Economics. This collaborative relationship consisted of substantial financial support for the School's projects, which included a new campus purchased in 1967 (Valdés, 1995). The strong collaborative association also extended to the appointment of graduates and academics as researches at the Edwards group's planning office (called OPLA by its acronym in Spanish, Oficina de Planificación) and as executives in conglomerate's bank (called Banco de A. Edwards) and in other group's firms. Along with the Edwards

group, other conglomerates and peak business associations supported the Chicago Boys during the 1960s (Soto, 1995). For instance, Fontaine T. (1992) points out that they started serving in executive positions at the BHC group. Significantly, as large companies began to employ graduates from the School of Economics, these companies absorbed management practices and the prioritisation of financial aspects over production according to the monetarist training.

Secondly, privileged media access played a critical role. As mentioned, the Edwards conglomerate owned the daily newspaper *El Mercurio*. Since the beginning, *El Mercurio* constituted the most influential means of spreading neoliberal ideas among Chilean society. In this context, besides the creation of the CESEC, Agustín Edwards used his flagship newspaper to spread monetarism, especially among the Chilean economic elite. Indeed, in 1967 the Chicago Boys acquired a highly-efficient channel for disseminating their ideology: *El Mercurio* created an economic section (Valdés 1995). Through the creation of this section, the Chicago Boys obtained an important foothold in the media, from where they disseminated Chicago School's dogmatic ideas (Fontaine T., 1992; Soto, 1995). The Chicago Boys were in charge of the edition of that new section in the newspaper.

Figure 4.1 (below) shows the first edition of *El Mercurio*'s economic section. On the 8<sup>th</sup> July 1967, for the first time *El Mercurio* published the section entitled "Página Económica" ("Economic Section"), prepared by the Chicago Boys. Through that section, the Chicago Boys began to spread neoliberal ideas massively, especially among the economic elite, which is the main audience of *El Mercurio*. In this way, two critical sources of instrumental power (i.e. *privileged media access* and *technical expertise*) were used not necessarily to influence contemporary rounds of policymaking occurring in the late 1960s. Rather, they were applied to disseminate neoliberal ideas among the Chilean economic elite (many of them very used to and comfortable with the ISI model), which over time would become systemic power.

**Figure 4.1** Example of long-term, strategic investment of business resources in order to build systemic power.



The image corresponds to the first edition of the “Página Económica” (“Economic Section” in English) published by El Mercurio on the 8<sup>th</sup> July 1967.

Finally, a third channel for the dissemination of neoliberalism was the relationship between some peak associations and the Chicago Boys. Fontaine (1988), for instance, reports that some Chicago Boys began working as consultants to the industrialists’ peak association, SOFOFA. In this context, a group of prominent Chicago Boys participated in the first attempts to disseminate monetarism among Chilean entrepreneurs through courses organised by SOFOFA in 1965 (Soto, 1995; Valdés, 1995). In this way, the Chicago Boys became the *mobile carriers* of neoliberalism since they constituted the core group that transmitted those ideas from the places in which they were cultivated (i.e. CESEC, the Economic Section at El Mercurio, and the Catholic University) to wider audiences and actors in positions of authority.

In this context, these first attempts were critical since Chilean industrialists resisted neoliberal ideas. These efforts for disseminating neoliberalism within the economic elite resonates well with Abercrombie & Turner's (1978) contention that attempts to

cultivate and transmit an ideology are primarily directed at the dominant rather than the subordinate class. As such, although resisted by most of the Chilean economic elite in the late 1960s and early 1970s, accustomed to the protectionism of the ISI model, the Chicago Boys -bearers of the monetarist orthodoxy- counted on the support of the economic elite's most powerful conglomerates, with interests chiefly in the financial sector. As we shall see, this group of capitalists and policy entrepreneurs were to be able to discipline the wider economic elite around the neoliberal ideology (Silva, 1996b). Once imposed, the neoliberal ideology had enduring influences on Chilean society.

#### ENTRENCHMENT OF SYSTEMIC POWER

In this stage of entrenchment two main facts occur: (i) neoliberalism becomes dominant within the institutional structures of the authoritarian regime, and afterwards, (ii) such dominant ideology is disseminated, imposed on Chilean Society. Following the discussion on the observable implications of systemic power, critically in this stage actors in positions of authority come into contact with neoliberal ideas, and those mobile carriers identified above (the Chicago Boys) receive government appointments (i.e. *polycymaking is delegated to technical experts*). The interaction between neoliberal ideas, actors in positions of authority and mobile carriers was facilitated by the preparation of an eventual economic programme in case a military takeover occurred. This programme, widely known as "The Brick" and carried out during the early 1970s, was commissioned by members of the economic elite to a group of prominent Chicago Boys (Fontaine, 1988; Valdés, 1995; Silva, 1996b).

The group that prepared The Brick also included businessmen (with a background in economics), and top-executives. As such, the preparation of The Brick, arguably the main intellectual product of the construction of systemic power in Chile, brought together top-executives who, from the beginning, achieved positions of authority in the military government, and young policy entrepreneurs (the Chicago Boys, the mobile carriers), who first reached advisory positions during the dictatorship thanks to these connections. Critically, The Brick already contained the blueprint for the radical

pension reform implemented in 1981 (see CEP, 1992: 118-136). This blueprint is developed in one chapter, including the main features of the reform that was to constitute a paradigmatic shift in the Chilean model of social security (a three-order change in Hall's [1993] framework).

In terms of actors in positions of authority, this was especially the case with the National Planning Office (ODEPA, for its initials in Spanish). ODEPA was headed by Roberto Kelly, former top-executive of the Edwards group and former officer of the Navy, who was also involved in the preparation of *The Brick*. He was exposed to the neoliberal ideas and recruited Chicago Boys early on (Arancibia, 2013). As such, ODEPA became the main state agency from which the Chicago Boys operated before reaching ministerial positions. As we shall see, the turning point came in 1975, when facing a severe economic crisis, General Pinochet embraced neoliberalism (and more specifically, the policies contained in *The Brick*) as the way forward to overcome the crisis. In this context, we have evidence of two observable implications of systemic power: (i) a shift in the locus of authority, and (ii) policymaking is delegated to technical experts.

These changes are observable with the cabinet reshuffle carried out in April 1975. Then, a prominent economist, Jorge Cauas (trained at the University of Columbia and Chicago Boy sympathiser), was appointed by Pinochet as "Super-minister of Finance", granting him extraordinary powers, and shifting the locus of authority from the Ministry of Economy, which thus far used to be the commanding state agency in economic policies, to the Ministry of Finance. From then on, the network of businessmen, top-executives and policy entrepreneurs in the government began to restructure the country's economy based on the set of ideas developed years ago in *The Brick*. In this context, the policymaking process was largely delegated to this group of technocrats as Chile embraced an extreme version of neoliberalism. In the context of pension policymaking, neoliberalism becomes well entrenched within the state in early 1976, when the Chicago Boys defeated the corporatist project (see next chapter, section 5.4). This triumph is marked by the fall of the corporatist General Díaz Estrada

(former Minister of Labour) and the removal from the agenda of the pension reform developed by him and his team from the Ministry of Labour.

Regarding coalition formation, there was a progressive strengthening and expansion of the original narrow group that began with strategic investments. Importantly for this study, by 1981, the year in which the dictatorship imposed the radical pension reform, there was a strong, wide coalition that supported the neoliberal agenda. In brief, the narrow group that started investing strategically in cultivating neoliberalism had become a strong network by the early 1970s (see Table 5.2). And, by 1979, the year before the passage of the pension reform, there was a strong neoliberal coalition composed chiefly of the two largest (financial) conglomerates plus the Edwards group, and by technocrats controlling most of Pinochet's cabinet. Significantly, as we shall see, this coalition was strengthened even more by the fact that traditional conglomerates shifted their portfolios in order to resemble those of the two largest conglomerates centred on finance, with more liquid-assets (see section 5.4.2 for more details). In this context, it may well be argued that the passage of the 1980 pension reform coincided with the peak in the power position of the radical neoliberal coalition.

Then, once neoliberalism was well entrenched within the state structure, the authoritarian regime sought to transmit and impose those ideas on the wider Chilean society. From 1975 onwards, the authoritarian regime imposed neoliberalism by means of violence and terror in order to attain social discipline (Weibel, 2019). Later on, during the 1980s, such "imposition" of values was systematically carried out through the education system and the media (Tedesco and Barton, 2004). In this regard, Tedesco and Barton (2004) extensively show how the dictatorship re-shaped "the social and cultural" behaviour of Chilean society. More recently, Weibel (2019) has made a substantial contribution to our understanding of the scope of the dictatorship's influence over Chile's socio-economic structure, and how, by means of genocidal social practices in the Chilean school education system, the regime changed social relations.

Weibel's work is based on a whole corpus of thousands of secret archives recently discovered in the vaults of Chile's National Archives. In sum, Weibel contends that Pinochet's dictatorship carried out a "re-organising genocide". That is to say, the Chilean state itself from 1973 to 1990 applied a series of mechanisms aimed at provoking a whole transformation of the relations between the state, the economy and society. Core among these mechanisms, according to Weibel (2019), was the use of the Ministry of Education to destroy social and political groups opposed to the exclusionary and neoliberal policies imposed by the dictatorship. In this context, the 1980 pension reform came to crystallise the set of values that provides the grounds of neoliberalism, namely: the subsidiary role of the state, the need to augment the role of the private sector, and individualism (see Piñera, 1991).

#### 4.4 Conclusion

This chapter firstly discussed the radical changes undergone by Chile's economy during the authoritarian regime and how they affected the economic elite. It showed that those changes determined the rise of the financial fraction of that group. Then, the chapter touched upon the main sources of power wielded by Chile's economic elite. The discussion developed here followed the conceptual framework developed in Chapter 3. In this way, regarding instrumental power, the chapter identified the main sources of power in terms of relationship with policymakers and resources. The Chilean economic elite is characterised, in this context, by (i) high levels of cohesion, (ii) dominant, privileged media access, (iii) high levels of technical of expertise, (iv) a privileged institutionalised business-state relation, (v) strong partisan links and (vi) multiple and growing informal ties. Regarding systemic power, the chapter discussed the process of systemic power's construction and entrenchment. Therefore, at this point we have all the elements required to move on to the discussion developed in the empirical chapters of this dissertation. The next chapter will discuss the policy process that led to the inception of the fully-funded, individually-managed pension in 1980-1981.

**Chapter 5. Business power in authoritarian  
Chile: the inception of the privatised pension  
system, 1973-1981**

## 5.1 Introduction

When the military seized power in September 1973, the need for a wide-ranging reform to the pension system had long been on the agenda. At least since the administration of Jorge Alessandri (1958-1964), a reform to the pension system featured predominantly (Borzutzky, 2002; Gárate, 2012). Since early on, therefore, the reform to the pension system was a priority for the authoritarian regime (e.g. Secretaría de la Junta, 1974b). Notwithstanding the leeway enjoyed by the military government to impose a reform -given, of course, its authoritarian nature-, the implementation of a new pension system took almost a decade.

In this context, the puzzling outcome that this chapter attempts to address is the fact that the authoritarian regime ended up imposing a privatised, individually-managed pension scheme despite the initial project being to implement a comprehensive reform, which included equity-enhancing mechanisms. More specifically, the initial project, known as *Anteproyecto*, sought to solve the severe economic burden of the old PAYG system by streamlining benefits and introducing a mixed system of individual capitalisation but managed by non-profit “Corporations of Social Security”. As such, this reform entailed a third order change. By late 1975, the design of the bill, which also considered the introduction of a common fund and cross-subsidies in order to fund other social security programmes, was completed. Indeed, the Ministry of Labour disseminated the reform through the media and a special publication (Ercilla, 1975a; Ministerio del Trabajo, 1975). The military government, nonetheless, never passed nor implemented this reform.

Afterwards, however, the authoritarian government did pass and implement another reform that entailed a more radical paradigmatic shift in relation to the existing pension system. The pension reform enacted in 1980 amounted to a radical departure as it established a fully-funded, defined-contribution system, managed by for-profit providers, thereby establishing a regulatory framework which did not guarantee employees’ participation in the management of their savings. Furthermore, the reform eliminated employers’ contributions. The military junta passed the DL 3.500 in

November 1980, and the system began operating in May 1981. This third order reform then became the example for other market-oriented reforms elsewhere in the world (Orenstein, 2008; Brooks, 2009).

In this context, previous studies have cited the significance of macroeconomic concerns such as extreme budget deficits for explaining retrenchment (e.g. Madrid, 2003). However, that argument fails to explain why other Latin American countries facing budgetary crisis over the same period (and under authoritarian regimes as well), such as Uruguay and Argentina, did not pursue radical, market-oriented pension reforms such as the Chilean case. Other accounts of this period have adopted state-centric approaches to analyse the policymaking process. These accounts have emphasised General Pinochet's concentration of power (and the lack of veto players), the influence of his economic team -the Chicago Boys-, and their ideological position (Borzutzky, 1983, 2002, 2019; Castiglioni, 2001b, 2005, 2018). This chapter argues that this last set of alternative explanations are not incorrect but rather incomplete.

Concentration of power and the ideological position of policymakers definitely played a role in this policymaking process. But still we must explain, for example, why the neoliberal framework advocated by the Chicago Boys triumphed over other competing ideological frameworks within the regime. We also need to understand why the Chicago Boys and their ideas became so dominant. In this context, one of the main contentions of this chapter is that we have to consider the role of the economic elite in order to achieve a more accurate picture of the policy process that led to the 1980-1981 radical pension reform. As such, the interaction between the economic elite (specifically, the financial segment) and the Chicago Boys is critical to explaining the rise of this group of policymakers to top ministerial positions. Since the very beginning, a significant fraction of the economic elite provided the Chicago Boys with the necessary power resources to reach spaces of influence. In this context, the material relationship between the Chicago Boys and businessmen is pivotal to explaining the occurrence and the content of the final pension reform.

The remainder of this chapter is structured as follows. The next section offers an outline of the arguments developed throughout the chapter. The third section presents the background of the period under study, showing investment efforts carried out by the economic elite to construct systemic power. The fourth section touches upon the policy process led by corporatist officers which ended up in a non-reform. Then, the chapter proceeds to explain the simultaneous change in the balance of power within the economic elite and the State, which led to a critical juncture in the policy process: from then on, neoliberal technocrats dominated pension policymaking. In the fifth section, the chapter continues with a discussion of the process that led to the 1981 reform. Finally, I draw some conclusions in light of the findings presented in the analysis of this period.

## 5.2 Outline of the argument

This chapter contends that a complex set of disputes for supremacy within the State and the economic elite largely determined the outcome of the process. The authoritarian regime violently repressed subordinate classes since the beginning, so these groups did not play a significant role in policymaking (Remmer, 1980). In the case of the economic elite, shifting business coalitions with changing power resources influenced policymaking critically (Silva, 1993). The broad business coalition that initially supported the military regime constituted a compromise between different segments of the economic elite. Such a broad business coalition favoured a gradual restructuring toward a market-based economy with an emphasis on industrialisation. However, the radical neoliberal fraction of that broad gradualist coalition, constituted by financial conglomerates, broke with such initial compromise in late 1974, fiercely striving for a swift and radical neoliberal restructuring (Silva, 1996b). As for the State, the central conflict occurred between corporatist and neoliberal elements, who battled against each other over control of the agenda and policy formulation (Vergara, 1984; Valdivia, 2003).

In light of these intense conflicts, the following analysis distinguishes two main phases (see Figure 5.1 below). The first extends from the military takeover from September

1973 to March 1976, in which corporatist top-officers led the pension policy process. Corporatist top-officers, who were in charge of the Ministry of Labour and Social Security, controlled policymaking and attempted to implement a comprehensive reform to the whole social security system. Although during this period the policymaking process excluded most social actors, it still showed some porosity: different business segments had access to the process, and the public had a say through a national consultation. Policymaking took place mainly in institutionalised settings (i.e. legislative commissions set by the authoritarian government), but the economic elite also resorted to informal channels (e.g. use of memoranda).

By early 1976, however, a reversal occurred. The narrow, radical, neoliberal business segment had significantly expanded its economic base and power resources, superseding traditional economic conglomerates that had constituted the core of the gradualist coalition. Hence, financial conglomerates constituted the radical coalition, becoming the dominant fraction of the economic elite. At the same time, the increasing personalisation of the military regime favoured neoliberal technocrats, the Chicago Boys. As we shall see, these technocrats had long-standing social, intellectual and material ties with those conglomerates that composed the radical coalition. The increasing opposition of the economic elite -executed mainly by the radical coalition- to the corporatist reform proposal was ultimately successful: by mid-1976, the government had discarded it. The outcome of this period, therefore, was a non-reform.

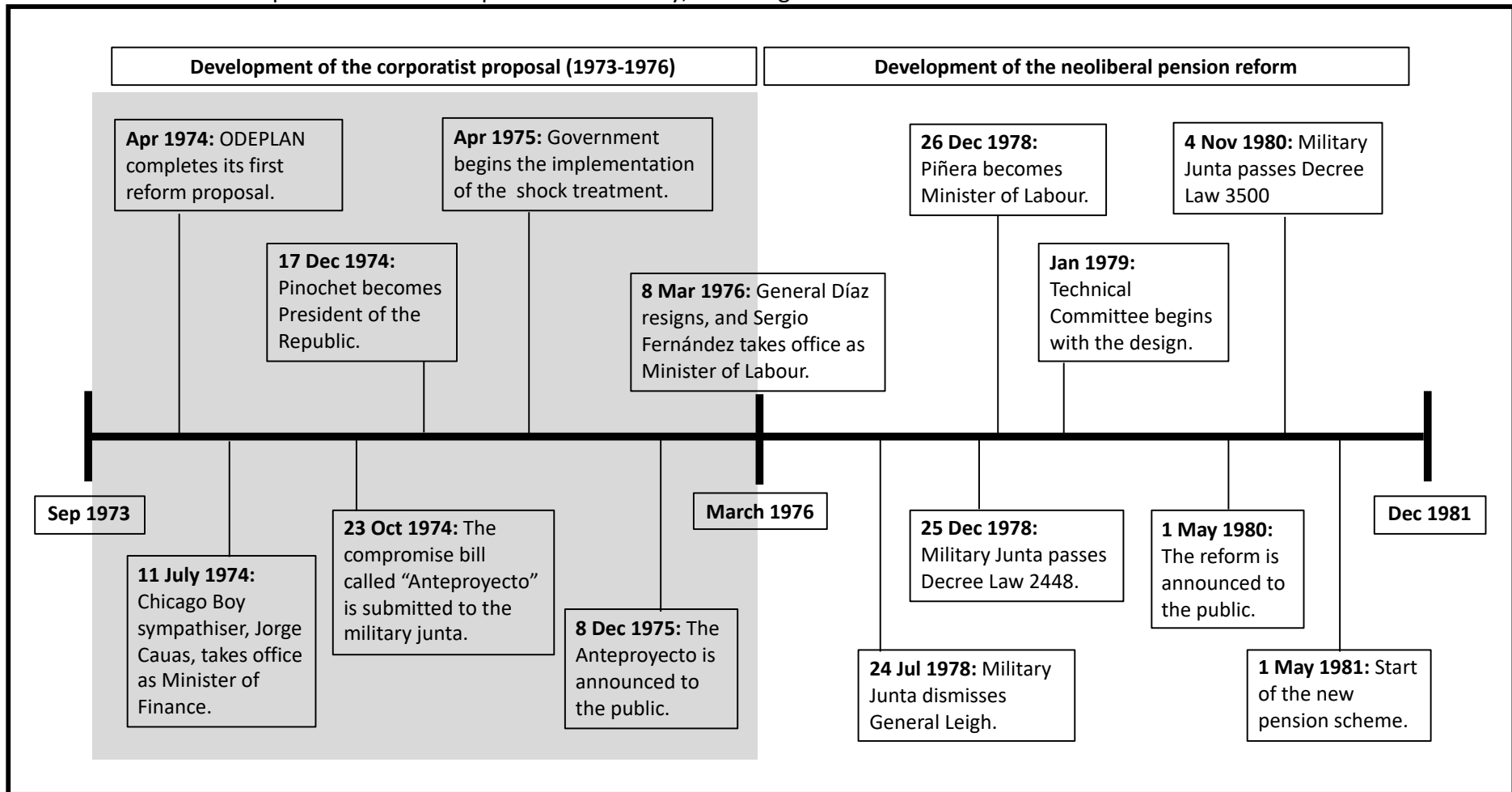
Due mainly to those changes in the balance of power within the economic elite, from March 1976 to December 1981 we observe a highly exclusionary policy process characterised by unmediated access of the financial segment to the policy process. In this period, the narrow coalition formed by internationally oriented financial conglomerates, and of which neoliberal technocrats were also members, dominated the policymaking process. A handful of neoliberal technocrats controlled virtually every stage of the process. The total demobilisation of popular sectors reinforced those dynamics. The degree of control achieved by the economic elite's dominant

segment was such that they did not need to resort to informal channels. There was an unmediated relationship between heads of financial conglomerates and their allied neoliberal policymakers. In such a context, the outcome was a sweeping pension reform, instrumental to the interests of the neoliberal coalition.

Overall, this chapter shows the suitability of the structural-instrumental framework for the analysis of business power even under authoritarian regimes. So far, the framework has been applied for the analysis of economic elites' sources of power and influence in representative democracies only. Then, the chapter also illustrates how critical variations are in the strength of sources of power within the economic elite itself, since such variations determine what segment is dominant, which tends to have greater influence on the definition of the overall direction of business strategies and actions (for example, see O'Donnell, 1978, for an outstanding analysis of the effects of intra-economic elite conflicts in the case of Argentina). In this case, the financial segment achieved a dominant position, thereby winning the ideological battle against the corporatist, gaining exclusionary access to policymaking, and finally pushing for a pension reform tailor-made according to their preferences.

Then, the chapter shows how the Chicago Boys required business' sources of power to achieve influence. Without their partnership with the domestic economic elite, the successful history of the Chicago Boys would not have existed. As such, this chapter complements the discussion carried out in Chapter 4 on the construction and entrenchment of systemic power. It shows how a small fraction of the economic elite began to invest strategically in the construction of systemic using sources of instrumental power, and how by 1975, such investment was already bearing fruit. By 1975 neoliberalism was entrenched within the state structure as there was a clear shift in the locus of authority over decision-making (see section 5.5). Hence, the Chicago Boys were able to begin with the process of restructuring Chile's economy. As noted in the previous chapter, then that process of entrenchment was expanded to the broader Chilean society through different mechanisms and channels.

**FIGURE 5.1.** Schematic representation of the period under study, including main milestones.



Source: author's elaboration.

### 5.3 Chile and its economic elite in the mid-1960s-early 1970s: building systemic power

By the mid-1960s, Chile's economic elite and the political Right were in a difficult position. In the 1964 general election, the Right was virtually swept from Congress (Vergara, 1984; Correa, 2005). Eduardo Frei, the first Christian Democrat elected to office, won the presidential election that year, calling for a "Revolution in Liberty". Inspired mainly by papal encyclicals<sup>27</sup>, Frei's programme proposed to carry out sweeping reforms in almost every area of Chilean society (Angell, 1991), threatening the privileges of the economic elite (Loveman, 1979). In these adverse circumstances, a few economic conglomerates led a struggle aimed at regaining political influence and protecting their interests (Fontaine, 1988; Fontaine T., 1992). The core of the strategy consisted of concerted investment efforts to promote the neoliberal ideology in Chile. As discussed in the previous chapter, this investment process has been very well documented in the literature by different authors, including insiders (e.g. Fontaine, 1988; Soto, 1995; Valdés, 1995).

The economic groups that led this initiative constituted a powerful fraction of the economic elite. They came from two segments: traditional, internationally competitive conglomerates -especially the Edwards group-, and financial conglomerates with connections to international financial markets, represented by the BHC group.<sup>28</sup> As Table 5.1 shows, traditional conglomerates had a composition in which, roughly, half of their holdings were in the industrial or fixed-asset sectors and the other half were in liquid-asset industries. Financial conglomerates, in contrast, held portfolios characterised by a heavy concentration of liquid assets (Silva, 1996b). Crucially, these two segments were to be the main partners of the broad gradualist coalition that initially supported the military regime (traditional conglomerates being the leaders of such coalition, and radical, financial conglomerates occupying a subordinate position). Given their material interests, these segments fully adhered to the orthodox discourse of efficiency and the use of comparative advantages as elements to develop the

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<sup>27</sup> In particular *Rerum Novarum* (1891) and *Quadragesimo Anno* (1931)

<sup>28</sup> The BHC conglomerate was latter called the Vial group.

economy (Soto, 1995; Valdés, 1995). By the time, the Edwards group was the largest conglomerate in Chile (Dahse, 1979), with significant holdings in finance (banks and insurance companies) and in internationally oriented companies (Lagos, 1961; Garretón and Cisternas, 1970).

**TABLE 5.1.** Major Conglomerates in 1970 and concentration of companies by economic activities.

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
	Menéndez	8	---	100.0
	Angelini	4	---	100.0
	Cruzat-Larraín (1974)	11	36.2	63.6

Source: Dahse (1979); Silva (1996b).

As discussed in the previous chapter, these conglomerates invested different resources of instrumental power in order to cultivate and disseminate the neoliberal ideology. Among those efforts were the funding of the first proper think-tank in Chile, the support of academic activities at the Catholic University (which included the purchase of a new campus for the School of Economics), and the dissemination of neoliberal ideas through *El Mercurio*. A critical by-product of these intellectual efforts was the development of a cohesive network (see Table 5.2). Such a cohesive network constituted a sign of the rise of systemic power, and also was to constitute an additional source of instrumental power: as we shall see, *cohesion* played a significant role in the rise of the radical, neoliberal coalition.

From the classic account “The Economists and President Pinochet”, written by an insider,<sup>29</sup> it is possible to appreciate how this collaborative effort to promote

<sup>29</sup> Arturo Fontaine Aldunate, director of *El Mercurio* from 1978 and 1982.

neoliberalism nurtured personal ties between Chicago Boys, top-executives and heads of conglomerates (Fontaine, 1988). For example, Sergio de Castro -usually regarded as the “dean” of the group- was a close friend of Manuel Cruzat. Cruzat was to become the head of the mighty conglomerate Cruzat-Larraín. They met at the University of Chicago and, afterwards, were colleagues at the Catholic University. Before entering government, Sergio de Castro worked for the Edwards group, and once he left the Ministry of Finance in 1982, he returned to the same conglomerate.

Another prominent Chicago Boy was Pablo Baraona, future President of the Central Bank (1975-1976), Minister of Economy (1976-1978) and afterwards top-executive at the Cruzat-Larraín conglomerate (Hoy, 1981a; Teichman, 2001). Along with de Castro and Cruzat, Barahona participated in the construction phase of systemic power by carrying out the first attempts to disseminate monetarism among Chilean entrepreneurs through courses organised by SOFOFA in 1965 (Soto, 1995; Valdés, 1995). Before entering government, Baraona served at the BHC group. Once he left his post as Minister of Economic Affairs in 1978, he became president of COPEC, one of the largest companies of the Cruzat-Larraín conglomerate.

### *Allende, the socialist project and the military coup*

The mood among the economic elite was optimistic about the 1970 presidential election. Polls showed that the right-wing candidate, former President Jorge Alessandri, was the likely victor (Loveman, 1979). Contrary to their expectations, however, the socialist candidate, Salvador Allende, won the election. His was a programmatic platform based on the promise of a “democratic road” to socialism (Angell, 1991; Constable and Valenzuela, 1991). Upon taking office, and in spite of having obtained a slim majority and the lack of a Congress majority, Allende launched an ambitious plan that included a sweeping agrarian reform, the nationalisation of the copper industry, and the takeover of banks and factories (Valenzuela, 1978; Loveman, 1979). In such a context, business opposition to the Allende government started soon after his election (González, 2012).

**TABLE 5.2.** Membership matrix of the network formed by businessmen, economists, and top-officers.

Name	Catholic University	University of Chicago	Edwards group <sup>2</sup>	BHC (Vial)	Cruzat-Larraín	Government	The Brick	Nautical Brotherhood <sup>3</sup>	Monday Club <sup>4</sup>	SOFOFA <sup>5</sup>
Baraona, Pablo	Yes	Yes	Yes	Yes	Yes	Yes				Yes
Bardón, Álvaro		Yes	Yes			Yes	yes			Yes
Büchi, Hernán						Yes				
Cauas, Jorge	Yes				Yes	Yes				
Cruzat, Manuel	Yes	Yes			Yes		Yes		Yes	Yes
Cubillos, Hernán			Yes			Yes		Yes	Yes	
De Castro, Sergio	Yes	Yes	Yes		Yes	Yes	Yes			Yes
De la Cuadra, Sergio	Yes	Yes	Yes			Yes				Yes
Edwards, Agustín			Yes					Yes		
Fernández, Sergio						Yes				
Kast, Miguel	Yes	Yes				Yes				
Kelly, Roberto			Yes	Yes		Yes		Yes		
Léniz, Fernando			Yes			Yes		Yes		
Méndez, Juan Carlos	Yes	Yes				Yes				
Merino, José Toribio						Yes		Yes		
Piñera, José	Yes				Yes	Yes				
Vial, Javier <sup>1</sup>	Yes	Yes		Yes					Yes	

**Sources:** Análisis, 1981; Cavallo, Salazar, & Sepúlveda, 2008; Corbo & Hernández, 2005; Dahse, 1983; Dougnac, Harries, Salinas, Stange, & Vilches, 2009; El Mercurio, 2000, 2001; Empresa Periodística de Chile, 1986; Fischer, 2015; Fontaine, 1988; Gazmuri, 2012; Hoy, 1981a, 1981b, 1981c, 1981d, 1984; La Tercera, 2012; Magasich, 2013; Mönckeberg, 2001; Revista Capital, 2013, 2015; Silva, 1996b; Valdés, 1995.

**Notes:**

<sup>1</sup> Vial was head of the BHC conglomerate (later called Vial group);

<sup>2</sup> It includes participation in CESEC;

<sup>3</sup> Secret society founded by Edwards and Merino, among others. It coalesced with the Monday Club in the conspiracy to topple Allende.

<sup>4</sup> It constituted the core of the business conspiracy against Allende, and contributed with the organisation that supported The Brick.

<sup>5</sup> It included those Chicago Boys who worked as consultants to the industrialists' peak association, SOFOFA

One of the critical aspects of such opposition was the preparation of an economic plan in case a military takeover occurred. Months before the coup d'état, representatives of SOFOFA, the industrialists' peak association, convened a group of Chicago Boys with the aim of drafting a post-coup economic programme (Fontaine, 1988; Valdés, 1995). This was the already mentioned The Brick, written by technocrats and top executives, selected and controlled by business representatives. The Brick largely defined the agenda during the military government, especially once Chicago Boys achieved ministerial posts (Silva, 1996b), and specifically in the realm of pensions. Among the authors of The Brick were the aforementioned Chicago Boys: Cruzat, de Castro, and Baraona. The Brick represented a compromise between the main segments of the economic elite that formed the gradualist coalition: traditional conglomerates and the radical financial conglomerates. As such, though The Brick contained a number of reforms along the lines of monetarism and advocated for a shift toward a market-based economy, the document did not detail any timetable. In this last sense, The Brick represented a compromise: it indeed advocated for economic restructuring, but the process was to be *gradual*, not a swift, radical transformation.

In this context, the military coup of September 1973 was chiefly the reaction of the Chilean propertied classes to the socialist project of Salvador Allende (Vergara, 1984; Roberts, 2016). In such circumstances, there was a basic consensus among the different segments of the Chilean economic elite. Such consensus centred on a clear set of goals: the return to their owners of nationalised companies, the need to restore economic growth, and a *gradual* approach to re-establish market mechanisms and reduce inflation (Foxley, 1983). Nevertheless, essential differences in sectoral interests underlay that consensus.

Out of the broad, gradualist coalition, for example, were the industrialists, which constituted a segment of internationally uncompetitive capitalists producing for domestic markets. This segment did not favour a departure from the ISI strategy, and Allende's policy of nationalisation had heavily weakened them. This group had been

the dominant fraction in the coalition that supported the ISI model from the 1930s to 1970 (Albertus and Menaldo, 2018). As such, internationally uncompetitive industrialists had been passive supporters of the expansion of social policies (Campero, 1991). The expansion of social security constituted a vital aspect of the bargain which maintained the multiclass alliance that supported the ISI model (Albertus and Menaldo, 2018).

Then, 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. Top-officers involved in the conspiracy did not have a clear economic plan (Vergara, 1984; Valdivia, 2003). Immediately after the coup, therefore, officers asked for help from precisely those neoliberal technocrats who had worked on The Brick. Thus, early on *technical expertise* constituted an additional source of instrumental power for the economic elite.

Furthermore, civilians materially connected to the gradualist coalition promptly became ministers in influential positions (O'Brien, 1981). The compromise reached between the gradualist coalition's segments was not to last long, however. Overall, disputes over the pace and extent of the economy's liberalisation broke the coalition in early 1975. Then, the radical, neoliberal segment became the dominant fraction of the economic elite. From such a dominant position, the radical coalition was able to impose its pension reform proposal in 1980. To the analysis of those dynamics, this chapter now turns.

#### **5.4 September 1973 – March 1976: failed reform**

The authoritarian nature of the political regime determined the absence of electoral competition and a violent demobilisation of popular sectors. As such, the policymaking outcome in this period was primarily determined by the complex interplay between (i) the balance of power within the state between corporatists and neoliberals, and (ii) the balance of power within the economic elite. As mentioned, within the economic

elite the central conflict was between the broad gradualist coalition and internationally oriented financial groups that advocated for the rapid implementation of the programme contained in *The Brick*. Still, decision-making exhibited some permeability to social groups other than the top-economic elite. Business associations' representatives, for instance, had access to policymaking. Business representatives resorted to both informal and institutionalised channels to influence the process. Institutionalised channels refer in this case to Ministerial Councils set up by the military junta in late 1973. These councils were in charge of legislative procedures (Barros, 2002).<sup>30</sup> Albeit restricted, labour organisations -and the public, more broadly- also had access to the process through a national consultation. Changes in the balance of power in both the state and business in favour of neoliberal technocrats and financial conglomerates, respectively, resulted in a non-reform as outcome.

During this period, the Ministry of Labour and Social Security was the state agency in charge of designing the pension reform. The Minister of Labour was the corporatist Air General Nicanor Díaz, who was very close to General Gustavo Leigh, also corporatist and, as Commander in Chief of the Air Force, a member of the military junta.<sup>31</sup> General Díaz, with the support of Leigh, promoted not only a comprehensive reform to social security but also the creation of a labour movement supportive of the regime (Winn, 2004). Moreover, this corporatist project also considered the creation of a new labour code (Valdivia, 2003). These efforts aimed to harmonise the labour-capital relations as a means of purging Marxism from Chilean society and strengthening national security (Cardoso, 1979; Bawden, 2016). Corporatist top-officers were to face powerful contenders who had in mind different plans for the pension system.

Although the Ministry of Labour was officially in charge of the agenda on pensions, the military junta also requested a study of a reform proposal to ODEPLAN, the National

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<sup>30</sup> Later, in early 1975 "legislative commissions" replaced those councils. It is important to note, nevertheless, that these commissions were just in charge of legislative procedures (i.e. formulation of proposals, mainly). The legislative power always resided ultimately in the military junta (Barros, 2002).

<sup>31</sup> Three commanders-in-chief of the armed forces (Navy, Army and Air Force) plus the commander-in-chief of the militarised police formed the junta.

Planning Office (Borzutzky, 1983). Soon after the coup d'état, ODEPLAN became headed by no other than Roberto Kelly, former top executive of the Edwards group and ex-navy captain who was one of the main links between military plotters and members of the economic elite during the preparation of the coup (Arancibia, 2005, 2013; see Table 5.2). *Recruitment of business representatives into government*, therefore, was for the gradualist coalition one of most decisive sources of instrumental power since the military takeover.

Furthermore, Kelly recruited neoliberal technocrats –with links to economic conglomerates- to ODEPLAN. In this way, those Chicago Boys recruited by Kelly prepared the proposal that ODEPLAN developed as a response to the junta's request. The most prominent of those Chicago Boys was the renowned Miguel Kast. Since the beginning, Kast played a key role in the process: in 1972, his report on the US system of private retirement accounts constituted the basis for the pension reform proposal contained in *The Brick* (Arancibia and Balart, 2007; Muñoz, 2008). From then on Kast became the most persistent, prominent ideologist and promoter of the neoliberal reform to the old-age pension system (Kast, 2006b [1976], 2006a [1976]).<sup>32</sup> As such, following the proposal developed at *The Brick* (see CEP, 1992), ODEPLAN developed and advocated for a pension reform based on an individual capitalisation scheme.

Importantly, during this period radical neoliberal technocrats were subordinate to representatives of the gradualist coalition in the governmental apparatus. This is evident in Figures 5.2a and 5.2b (prepared by integrating different primary and secondary sources), which show that during much of this first period Chicagoans occupied only advisory posts. By mid-1974, they had not yet reached ministerial posts. They were subordinate to gradualists such as Fernando Léniz, Minister of Economy and former top executive of the Edwards group, and Raúl Sáez, Minister of Economic Coordination and friend of General Gustavo Leigh. Regarding pension policymaking, Chicago Boys were subordinate to corporatist officers who controlled the Ministry of

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<sup>32</sup> Also interview with Vasco Costa, Undersecretary of Labour 1976-1978, Minister of Labour and Social Security January 1978-December 1978, 11 October 2017.

Labour. Furthermore, as commander in Chief of the Air Force, General Leigh led the Social Ministerial Council in charge of studying social legislation, which included the pension reform. In this context, soon emerged bitter disputes between the Ministry of Labour and ODEPLAN. Both state agencies had developed radically different reform proposals.

The conflict between corporatists and neoliberals was acute. Roberto Kelly, for instance, recalls that when Miguel Kast proposed in 1974 for the first time the idea of replacing the common fund for individual capitalisation accounts, the meeting ended with a strong quarrel: "*Leigh was furious, he said that it was madness to propose such reform*" (Vial, 2002: 274). In this complex context, Minister Díaz and General Leigh did not merely constitute a veto player as Castiglioni (2001a, 2005) and Huneus (2007: 321) suggest. Rather, they actively pursued a comprehensive reform of the social security system. The Superintendency of Social Security –which was Labour Ministry's specific agency in charge of the reform - advocated for overhauling the social security system (Secretaría de la Junta de Gobierno, 1974b). In stark contrast, in ODEPLAN's report completed in April 1974, Chicago Boys advocated for the implementation of a system based on individual capitalisation, managed by private providers (Kast *et al.*, 1974).

To complicate matters even further, a third player significantly influenced the process. They were supporters of the gradualist approach and participated in the process mainly in opposition to ODEPLAN's proposal. These players were non-profit organisations of the old social security system. These private, non-profit organisations (i.e. "Mutual Insurance Societies" and "Compensatory Funds")<sup>33</sup> were in charge of providing complementary services such as the provision of occupational accidents and family allowances.

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<sup>33</sup> "Mutuales de Seguridad" and "Cajas de Compensación" in Spanish, respectively.

**FIGURE 5.2.** Evolution of Cabinet Composition, 1973-1981  
 (Grey-shaded squares represent Chicago Boy ministers or policymakers associated with the network)

**Figure 5.2a**

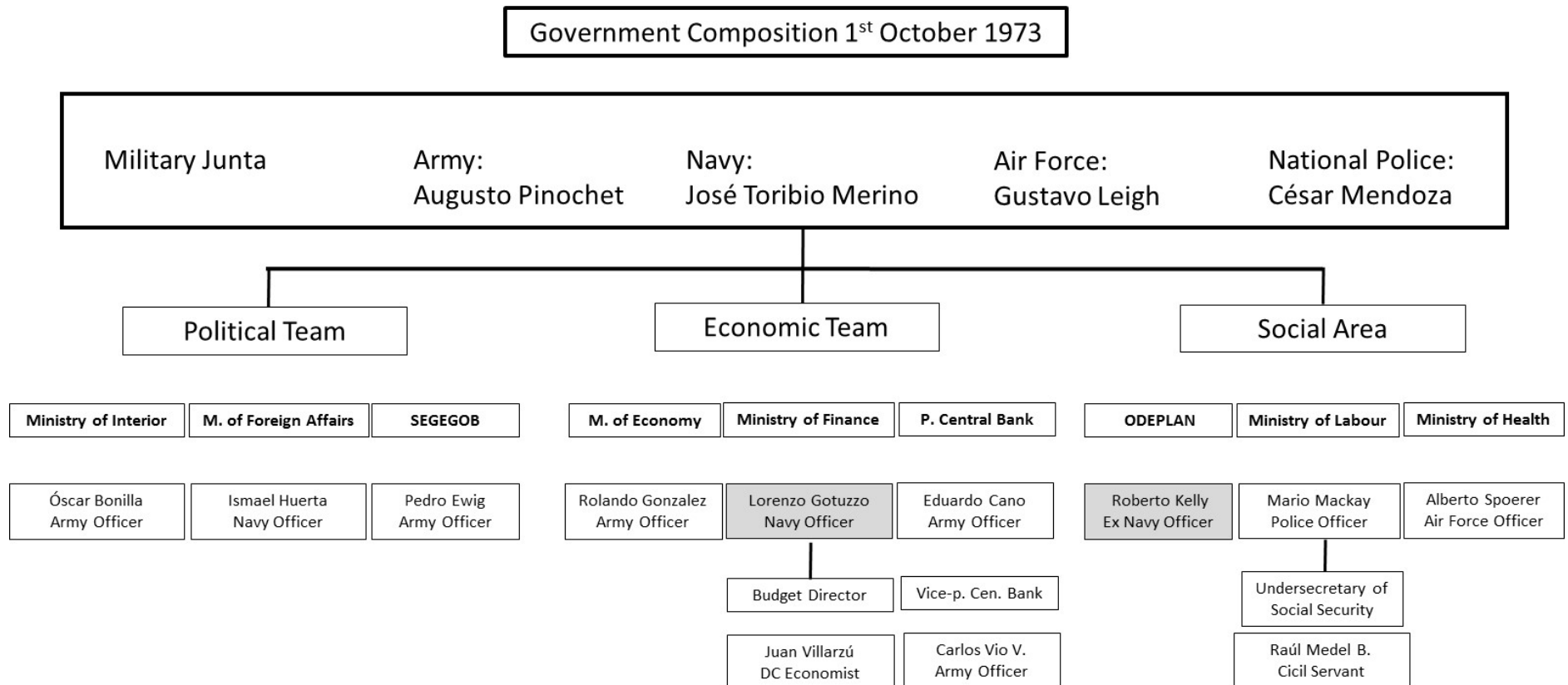


Figure 5.2b

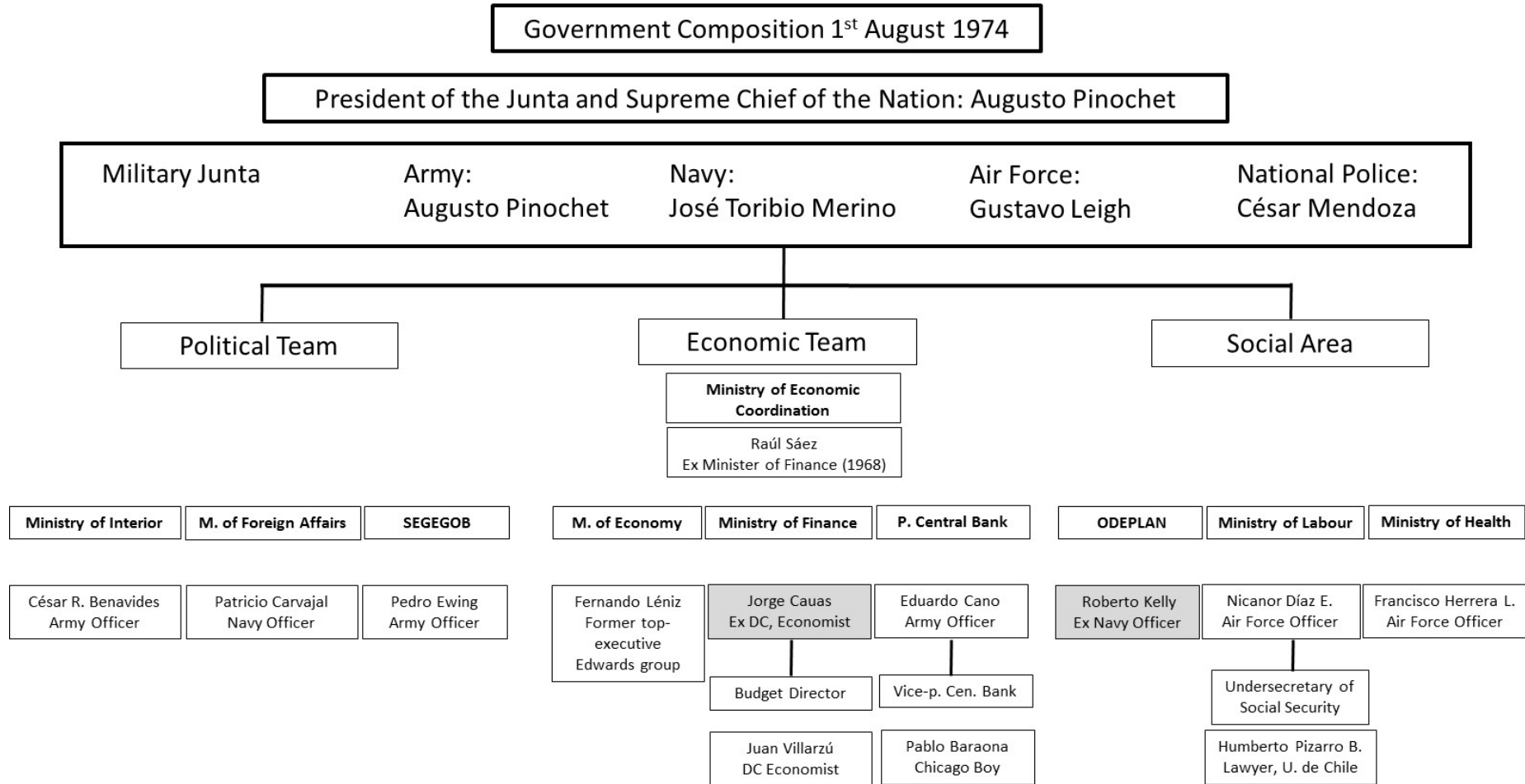


Figure 5.2c

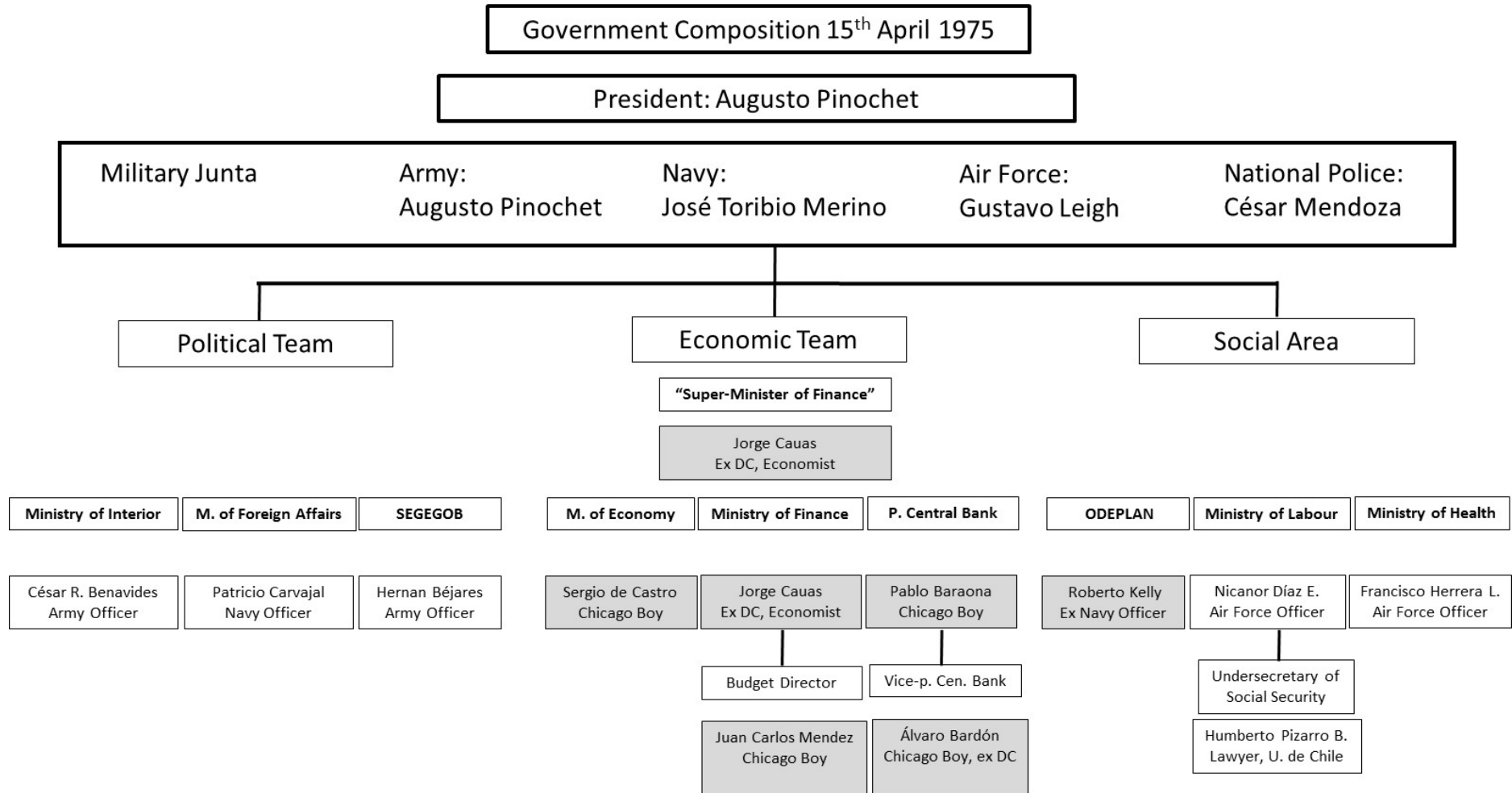
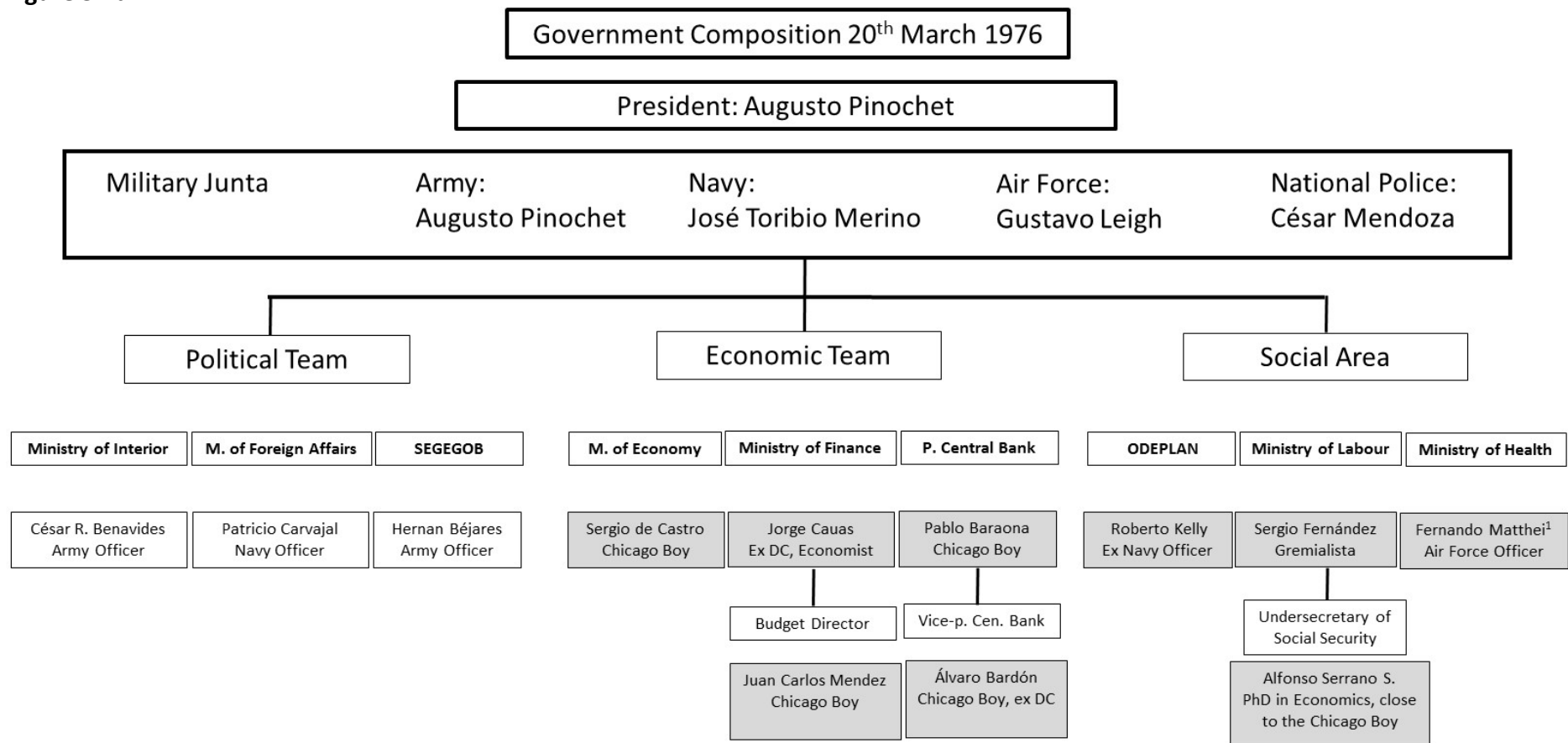
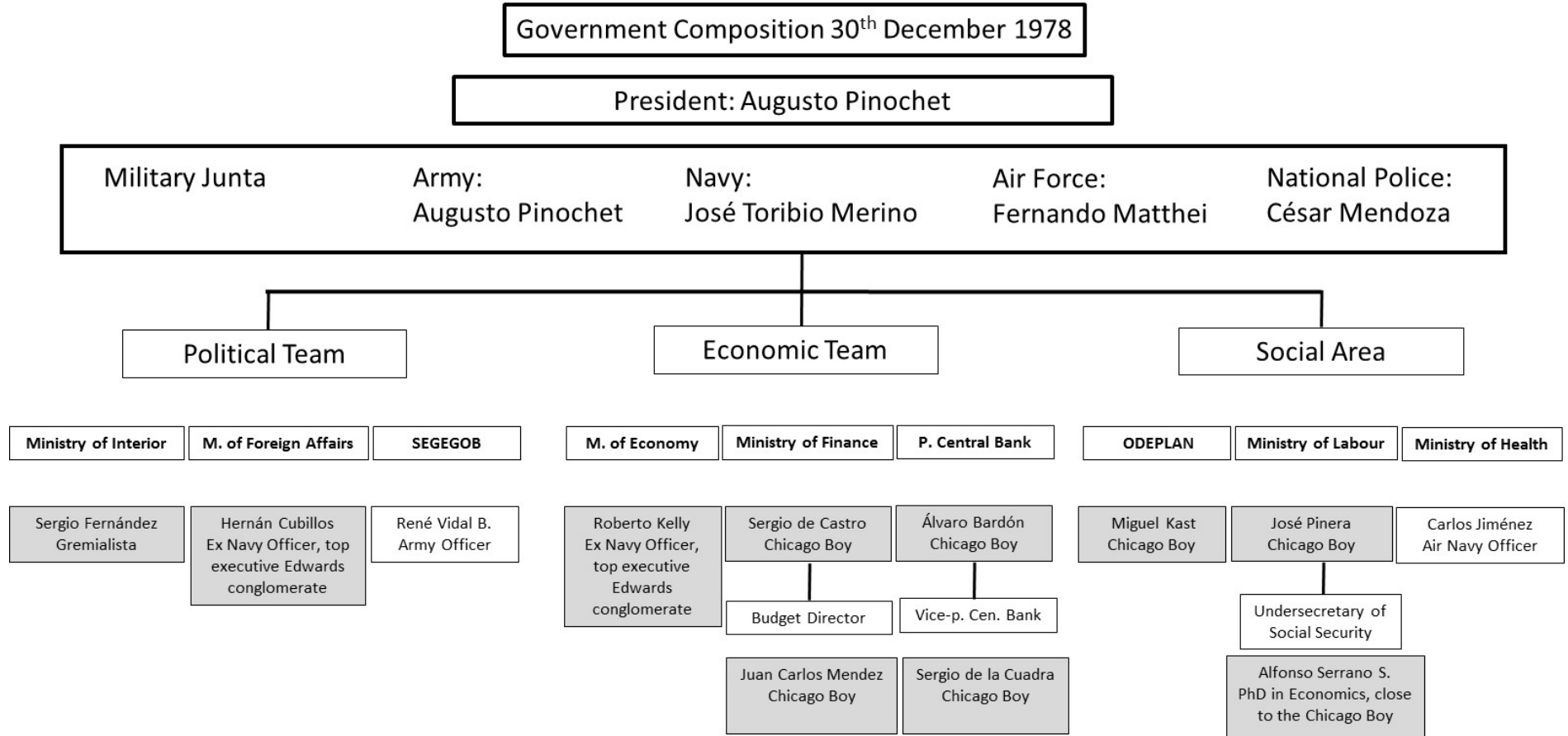


Figure 5.2d



<sup>1</sup> Despite being an officer of the air force, General Matthei became a Chicago Boy sympathiser under the influence of Miguel Kast. Later, in 1978, Pinochet promoted him to the Military Junta.

Figure 5.2e



So far, this player has been neglected in previous analyses (e.g. Borzutzky, 1983, 2002; Castiglioni, 2005). This group was led by Eugenio Heiremans, president of the “Chilean Society of Security”, which was -and indeed still is- a mutual insurance society controlled by the industrialist peak association (SOFOFA). Heiremans, former president of SOFOFA from 1966 to 1969, was a member of the most traditional economic elite, very close to former president Jorge Alessandri, a leading figure in traditional business (Matamala, 2015). Heiremans was indeed a cunning lobbyist. The archive of the Ministry of Labour offers examples of the way he tried to approach policymakers. Since early on, for instance, he sent memoranda -with a rather complacent tone- to the Minister of Labour, informing him about his organisation’s statistics (Heiremans, 1973). Then, he gained access to the Social Ministerial Council by invitations granted by air force top-officers.<sup>34</sup>

Heiremans and his allies opposed Chicago Boys’ reform on one critical ground. These businessmen perceived the very idea of “individual capitalisation” as a threat to their organisations, which were structured around common funds and collective saving.<sup>35</sup> Secondly, they opposed the reform because the original plan of both neoliberals and corporatist officers was to carry out a profound reform of the whole social security system,<sup>36</sup> which included occupational accidents and family allowances. As such, Heiremans had direct access to the policymaking process from 1974 to 1976. He, for instance, fiercely led the defence of his sector, which usually involved fraught, heated debates with Miguel Kast at the council meetings.<sup>37</sup> Overall, they continually blocked the progress of the reform and constituted one of the strongest adversaries to the concept of individual capitalisation. The opposition led by Heiremans was ultimately somewhat successful. Although the reform proposal led by General Díaz considered the whole social security system (Ministerio del Trabajo, 1975), after the government dismissed such a reform, the discussion dealt exclusively with the old-age pension

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<sup>34</sup> Interview, María Teresa Infante, Advisor to ODEPLAN 1974-1976, Minister of Labour and Social Security 1989-1990, 7 June 2017.

<sup>35</sup> Interview, María Teresa Infante, *ibid.*

<sup>36</sup> This was one of few aspects on which both corporatists and neoliberals agreed.

<sup>37</sup> Interview, María Teresa Infante, *ibid.*

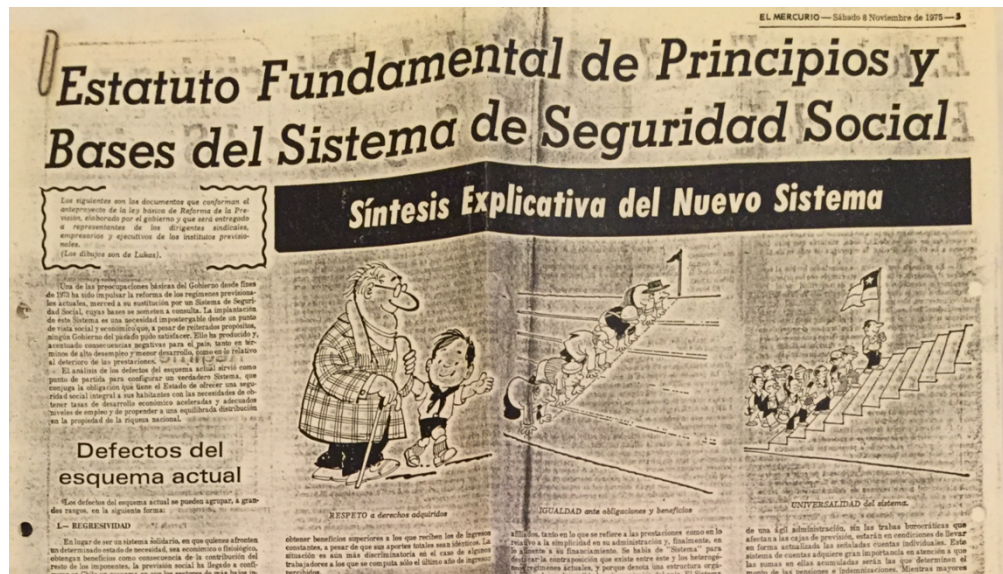
system. This situation left the organisations represented by Heiremans largely untouched, even to this day. The role played by Heiremans, then, highlights two sources of the economic elite's instrumental power which was critical in this process, namely: *institutionalised consultation* and *cohesion*. Given that his sector was well organised and cohesive, Heiremans was able to penetrate and influence the policymaking process.

Then, as with the overall dynamic of the first months of authoritarian government, the military junta initially supported a “compromise” bill. Concerning core ideas, the proposal constituted a remarkable attempt to harmonise concepts at odds such as universalism and redistribution with state subsidiarity (Ministerio del Trabajo, 1975: 8). ODEPLAN, in this scenario, prevailed in the financial aspects of the proposal (i.e. creation of individual accounts) (Borzutzky, 1983). The Superintendence, on the other hand, prevailed in aspects related with the administration of the system: Pension Funds were to be managed by semi-public organisations run by workers. This first draft was widely known as “Anteproyecto”, and the ministerial council formally submitted the bill to the junta on 23 October 1974 (Secretaría de la Junta, 1974a). Given that the document submitted to the military junta was a first draft, at that moment the junta agreed on the need to analyse the bill one more time later that year (Secretaría de la Junta, 1974a).

Finally, the government announced the “Anteproyecto” to the public in November 1975 (see Figure 5.3) (Ercilla, 1975a; Filippi, 1975). The Anteproyecto maintained the compromise between the Superintendency and ODEPLAN (Secretaría de la Junta, 1974a, 1975; Ministerio del Trabajo, 1975). The Ministry of Labour aimed to develop an open discussion about the proposal, and for that purpose, it sent copies of the bill to different actors such as labour law specialists, workers' associations, and special interest groups, among others (El Mercurio, 1975; Borzutzky, 1983). Then, minister Díaz confidently declared that the deadline for submitting comments was 15 February 1976 (Ercilla, 1975b). The result of this consultation process was a mammoth report of

four volumes with comments and suggestions (Ercilla, 1976a). However, the process came to a halt when Sergio Fernández, a hardliner allied to the Chicago Boys, replaced General Díaz as the head of the Ministry of Labour in March 1976 (O'Brien, 1981). Fernández had been already working with Miguel Kast in ODEPLAN's committee in charge of the reform (Cavallo, Salazar and Sepúlveda, 1988: 85; Fernández, 1994).<sup>38</sup>

**FIGURE 5.3.** The government announces the “Anteproyecto”.



The Anteproyecto's official title was “Estatuto Fundamental de Principios y Bases del Sistema de Seguridad Social” (“Fundamental Statute of Principles and Bases of the Social Security System”). Source: El Mercurio (1975).

By that time Díaz' position in the cabinet was untenable, and consequently, he resigned (Cavallo, Salazar and Sepúlveda, 1988). He had battled for the pre-eminence of corporatist ideas in the reform, opposing Chicagoans' orthodox views (Fontaine, 1988). The main dispute was over the way in which Pension Funds were to be managed. The economic elite resisted the creation of workers associations (called Corporation of Social Security in the Anteproyecto) that were to manage Pension Funds. In this regard, another source of instrumental power, *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

<sup>38</sup> Also interview with Vasco Costa, Undersecretary of Labour 1976-1978, Minister of Labour and Social Security January 1978-December 1978, 11 October 2017.

*directly to my office to criticise the bill given that, in their opinion, workers would not be able to manage their funds efficiently” (Hoy, 1980b: 20).*

A second dispute centred on employers’ contributions to the pension system. In their orthodox view, Chicago Boys considered such contributions as a “labour tax”, and hence they attributed to that “tax” Chile’s endemic high levels of unemployment (Kast, 2006b [1976]). In this regard, General Díaz asserted *“they thought that the easiest way was to reduce labour costs to entrepreneurs; the rationale was: the cheaper the labour cost, the better the entrepreneurs’ condition to compete in international markets. Then, they pushed for such changes, we had long arguments, very long indeed and great rows with the economic team and with Miguel Kast, who openly advocated for the elimination of employers’ contribution”* (Díaz, 1988: 116). To top it off, Díaz grew increasingly isolated in the cabinet given neoliberal technocrats’ growing ascendancy. As Figure 5.2c shows, by April 1975 Chicago Boys already controlled all the economic ministerial positions. With the esprit de corps that characterised this group, and with the support of Pinochet himself, they exerted a powerful opposition to General Díaz (Vergara, 1984). In summary, instrumental power in the form of *recruitment into government, informal ties, and cohesion* afforded the economic elite -especially the segment of financial conglomerates, which were becoming increasingly powerful- the opportunity to defeat one critical opponent.

The fall of Díaz Estrada -and to a certain extent, the fall of the corporatist project as well- reflected the lack of support for those ideas and the triumph of neoliberalism within the state. Finally, Díaz Estrada was wholly isolated: the economic elite opposed his plans (not just the internationally oriented financial groups) because they were too “statist”, and labour, on the other hand, did not support General Díaz either because they deemed the corporatist proposal to be insufficient. In such a context, Fernández swiftly ended the more open stance developed by Díaz (Vial, 2002). Fernández was a hardliner -quickly becoming Pinochet’s close collaborator- and cooled the relation that General Díaz had developed with the labour movement close to the Christian

Democratic Party (Cavallo, Salazar and Sepúlveda, 1988; Winn, 2004). According to the review of the minutes of the junta's sessions, from March 1976 onwards such body never discussed the "Anteproyecto" again. Although the Anteproyecto continued in the press agenda for some months (e.g. Ercilla, 1976b), neoliberal technocrats successfully removed the proposal from the governmental agenda. Notwithstanding this victory, neoliberals still could not take a definite advantage. Remaining corporatist elements secluded at the Advisory Committee of the Junta (COAJ, in its Spanish initials) and the presence of General Leigh still exerted a counterbalance to the Chicago Boys. Nevertheless, the fall of Díaz marked a key stage in the entrenchment of neoliberalism as the dominant framework in the realm of pensions.

## 5.5 Transformation in the balance of power

In the previous section, we analysed the phase that took place from September 1973 to March 1976. In spite of its exclusionary nature, the policy process exhibited some porosity: subordinate classes did have some access through the consultation process, for example. Now, this section aims to understand the factors that ushered in a new, relatively durable balance of power from March 1976 onwards. The main determinants of this change are fundamentally two: (i) the rise of the radical, neoliberal coalition, which superseded the gradualist coalition at the helm of the economic elite; and (ii) the consolidation of Augusto Pinochet's one-man rule (Silva, 1996b: 97-135). Under these new conditions, in practice just the dominant business coalition's core -formed now by only three financial conglomerates- and neoliberal technocrats materially allied to them controlled policymaking. The outcome of this policymaking process characterised by the unmediated relationship between the radical business coalition and policymakers was the imposition of a sweeping reform.

### 5.5.1 Dynamics within the state

Pinochet's concentration of power became decisive early on. DL 806, passed on 17 December 1974, designated Pinochet President of the Republic, putting an end to the initial dispersal of power. Two factors explain Pinochet's increasing concentration of

power, namely: i) the creation of DINA in mid-1974, the unified national military intelligence agency directed by Pinochet himself, and (ii) the gradual purging of Pinochet's political rivals from the ranks of the army (Remmer, 1980). At the same time (late 1974), the country faced clear recessionary signs and Pinochet badly needed a recovery in order to legitimise his rule. The unemployment rate, for instance, jumped from 9.5% in 1974 to 13.3% in the first quarter of 1975 (Foxley, 1983). The clash between gradualists and neoliberals marked the discussion on how to cope with the recession. Radical neoliberal technocrats, on the one hand, upheld that the critical situation required the implementation of an orthodox stabilisation programme. Gradualists, on the other, opposed Chicago Boys' plan for being too radical. Pinochet finally tipped the scale in favour of neoliberal technocrats' prescription.

The immediate effect of such a decision was a crucial cabinet reshuffle, which was to be critical for the *entrenchment* of neoliberalism. As discussed in the previous chapter (see section 4.3.2), this reshuffle ultimately meant a delegation of decision-making to the Chicago Boys (*mobile carriers* of neoliberal ideas) and a *shift in the locus of authority* from the Ministry of Economy to the Ministry of Finance. Firstly, Jorge Cauas, a former Christian Democrat and Chicago Boy sympathiser, took the post of "Super-minister of Finance"<sup>39</sup> through a decree granting him extraordinary powers. Secondly, Sergio de Castro replaced gradualist Fernando Léniz as Minister of Economy (Bawden, 2016). Hence, neoliberal technocrats finally reached ministerial positions, controlling the state's commanding heights as the comparison of Figures 5.2b and 5.2c shows (they convey cabinet compositions in August 1974 and April 1975, respectively). Later, in December 1976, Sergio de Castro replaced Jorge Cauas as Minister of Finance, which further consolidated Chicago Boys' grip. These changes marked a reversal of fortunes: gradualists and corporatists now occupied a subordinate position to radical neoliberal technocrats, and Chile began to embrace an extreme version of neoliberalism (Angell, 1991).

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<sup>39</sup> He had originally taken over the Ministry of Finance in July 1974.

Then, a question arises: how do we explain Pinochet's blind support for a radical and risky stabilisation programme? The answer lies in the fact that he needed a platform to distance himself from his adversaries inside the military junta, especially Gustavo Leigh (Valdivia, 2003). Chicagoans, precisely, offered Pinochet such a differentiating ideological platform (Remmer, 1989b; Bawden, 2016), and the crisis provided him with the opportunity to reaffirm his authority. As Pinochet's political star rose, Chicago Boys, still occupying just advisory posts at the time, began to court him (Cavallo, Salazar and Sepúlveda, 1988). Pinochet, in turn, responded by promoting Chicago Boys and demoting supporters of gradualism (Valdivia, 2003).

In this way, Pinochet augmented his power by supporting a group of technocrats who did not represent a menace to him. Concurrently, the increasing personalisation of the authoritarian regime was functional to the Chicago Boys. The establishment of the one-man rule, without parallel within contemporary Latin American authoritarian regimes (Barros, 2002), was pivotal for the neoliberal project (Remmer, 1989b; Castiglioni, 2005). With such power, Pinochet effectively insulated Chicago Boys from the pressure of those groups in society negatively affected by the radical economic restructuring (Remmer, 1979; Campero, 1984). Power centralisation, moreover, allowed Chicagoans to exert tight control over the state apparatus. Shortly after the reshuffle, for instance, they assigned to each ministry an overseer whose mission was to ensure strict compliance with budgetary guidelines (Díaz, 1988; Spooner, 1999)<sup>40</sup>. According to General Díaz, the authoritarian regime had become an "economic dictatorship" (Díaz, 1988: 114).

### 5.5.2 Change in the economic elite's balance of power

The cabinet reshuffle gave a clear advantage to the internationally oriented financial groups. The reshuffle significantly enhanced the *instrumental power* of such segment, affording them multiple *relations with policymakers*, which in turn secured access to and influence over policymaking. For instance, financial conglomerates had advance

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<sup>40</sup> This episode led General Díaz Estrada to describe ironically the regime as an "economic dictatorship, and when I say it, I really mean it" (Marras, 1988: 115-116).

knowledge that interest rates were to be liberalised in non-banking financial institutions (i.e. financieras), which gave them a clear competitive advantage over other economic groups (Silva 1996: 108). These distortions and the lack of regulation created opportunities for tremendous short-term gains (Remmer, 1979). Moreover, financial conglomerates' stronger sources of *instrumental power* augmented their *structural power*. Silva (1996b, 1996a) points out that the government's rationale was that such groups were to back neoliberal policies with increasing levels of investment. Furthermore, the government had an urgent need for foreign exchange (Angell, 1991), which augmented financial conglomerate's *structural power* even further. The fact that these conglomerates had the ability to provide foreign reserves made them even more attractive to the military. Together, both Cruzat-Larraín and Vial conglomerates -the core of the radical neoliberal coalition- controlled almost 41% of private banking assets by 1978 (see Table 5.3), and controlled 52% of the external credit (Dahse, 1979) (see Table 5.4). In brief, this state of affairs consolidated an unmediated relationship between the state and two powerful economic conglomerates.

Moreover, the orthodox stabilisation programmes further strengthened the financial segment of the economic elite. Those conglomerates, better positioned to weather the effects of a harsh recession, made massive gains (Foxley, 1983, 1986). For instance, given their preferential access to finance, they gained the upper hand when the state auctioned public, low-priced companies during the recessionary period (Foxley, 1986; Montero, 1997). By September 1975 more than half of the assets the state had acquired from more 200 companies during Allende's government had been auctioned off (Remmer, 1989b). In stark contrast, the traditional industrial sector suffered several dislocations because of the swift lifting of trade tariffs and their lack of access to credit (Foxley, 1983, 1986). This process ultimately produced further concentration (Dahse, 1979; Remmer, 1979; Angell, 1991). By the end of the period under analysis, both Cruzat-Larraín and Vial conglomerates alone controlled more than 37% of the assets of Chile's largest 250 companies (Dahse, 1983).

**TABLE 5.3.** Conglomerate control of banking assets by 1978.

Type of Conglomerate	Conglomerate	US\$ Millions	% of Total	% of Private
Internationalist	BHC (Vial)	146,46	18,8	35,8
	Cruzat-Larraín	20,91	2,7	5,1
	Other	55,16	7,1	13,5
Former traditional	Edwards	28,61	3,7	7,0
Total International		251,14	32,3	61,4
Traditional Groups	Yarur-Bana	47,94	6,2	11,7
	Luksic	32,63	4,2	8,0
	Other	15,01	1,9	3,7
Total Traditional		95,58	12,3	23,4
Foreign sector		62,56	8,0	15,2
Total Private sector		409,28	52,6	100
State sector		368,28	47,4	n.a.
Total		777,56	100	n.a.

Source: Dahse (1983).

**TABLE 5.4.** Control of external credit by December 1981.

Type of Conglomerate	Conglomerate	Number of banks controlled	US\$ Millions	% of Total
Internationalist	BHC (Vial)	3	2,286.8	36.5
	Cruzat-Larraín	3	966.2	15.4
Former traditional	Edwards	1	177.5	2.8
	Matte	1	112.9	1.8
Total International		8	3,543.4	56.5
Traditional Groups	Luksic	2	750.1	12.0
Other	Other national banks	12	1,581.9	25.2
Total Private sector		22	5,875.4	93.7
State sector		1	397.8	6.3
Total		23	6,273.8	100

Source: Dahse (1983).

As a result, the 1975 recession marked the rise of the radical, neoliberal economic restructuring coalition and signalled the downfall of the gradualist alliance.

Conglomerates with a heavy concentration in liquid assets displaced traditional, internationally competitive industrialists from the dominant position in the economic elite (Silva, 1996b: 97-98). Concretely, this change meant that Cruzat-Larraín and Vial conglomerates displaced to a subordinate position economic groups such as the traditional Matte and Luksic conglomerates. Afterwards, a fact that further strengthened the radical coalition that pushed for the economy's neoliberal

restructuring was its expansion. According to our framework, this is a further observable implication of the entrenchment of *systemic power*. As such, in the coming years several conglomerates started to restructure their business strategies resembling financial conglomerates' portfolios (including the Matte and Luksic groups), in order to take advantage of the new economic structure inspired by neoliberalism. Edwards was the first conglomerate to follow suit (Silva, 1996b: 99-102). Hence, by early 1975 three powerful, mighty conglomerates formed the core of the radical coalition. The Cruzat-Larraín, Vial and Edwards conglomerates were to put all their power behind the neoliberal project. Such restructuring, in the case of pensions, occurred by 1980. To the analysis of such an outcome this chapter now turns.

## 5.6 March 1976 – December 1981: imposition of a privatised pension scheme

In the previous section, I asserted that the policymaking process determined by the new balance of power was largely controlled by the radical coalition. That is, an unmediated relationship between the core of such a coalition -heads of the three main conglomerates- and neoliberal technocrats in ministerial positions characterises this second phase. In such a context, the radical business coalition did not need to resort to informal channels. Such a narrow network virtually controlled every stage of the policymaking process to the exclusion of other groups. The only -and feeble- opposition to this coalition came from corporatist top-officers sheltered by the COAJ.

A key player in this process was José Piñera, Minister of Labour and Social Security from December 1978 to December 1980. Piñera embodied the direct, unmediated access of the radical coalition to the policymaking process. Before heading the ministry, he was a top executive of the Cruzat-Larraín conglomerate. From such a position, he began to advocate for the adoption of ODEPLAN's original radical proposal. Working in close collaboration with Manuel Cruzat, head of the Cruzat-Larraín group, and abetted by the enormous instrumental power wielded by this conglomerate (especially as *privilege media access* in this case), since 1976 Piñera waged a campaign for the imposition of

private accounts managed by private providers. Then, once he became Minister of Labour, his main task was to get the neoliberal pension reform proposal off the ground (US Department of State, 1978). As we shall see, the reform approved by the military junta precisely reflected those ideas advocated by Piñera while being a top-executive of Chile's most powerful financial conglomerate, and the blueprint for the privatisation of pensions established in The Brick.

#### 5.6.1 The build-up to the 1981 radical reform, March 1976-December 1978

By late 1976, the discussion was in a stalemate. According to a report published by *Ercilla* magazine, the Anteproyecto was almost ready for its final submission to the military junta (Ercilla, 1976b). The junta, nevertheless, did not pass the bill in 1976, nor in 1977. Indeed, the junta's secret minutes did not register any discussion on the reform either. Leigh's continuity in the junta mainly explains the deadlock: he still exerted a strong counterbalance to the Chicagoans. This state of affairs is well captured by General Díaz' words: "*they [Chicago Boys] did not dare to touch the reform for two years since I left the ministry*" (Díaz, 1988). Chicago Boys, however, did not miss any chance for furthering their project. Interviewed for this research, Vasco Costa, under-secretary of Labour at the time, pointed out that the appointment of Fernández was a tipping point; Fernández' main goal was to block the "Anteproyecto" in order to "change course".<sup>41</sup> Crucially, the newly appointed group of civilians in charge of the ministry asked Pinochet to have the exclusive initiative in the conduct of the reform (Cavallo, Salazar and Sepúlveda, 1988).<sup>42</sup> Pinochet consented. The aim of such a petition was to circumvent the opposition of Leigh and the group of corporatist top-officers grouped at the COAJ.

In the meantime, the neoliberal coalition began to push for a radical reform from outside the government. From 1976 up to 1980, this dominant segment of the economic elite exploited the insufficiencies of the pay-as-you-go system: its inefficiencies, unfairness, and its alleged imminent financial crush. As Arellano (1980,

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<sup>41</sup> Interview with Vasco Costa, *ibid.*

<sup>42</sup> Also interview with Vasco Costa, *ibid.*

1981) shows, neoliberals took these arguments to the extreme, usually involving inaccurate facts. The campaign was based on the radical coalition's *instrumental power* (i.e. *privileged media access*), being heavily supported by the media associated with financial conglomerates (Herrero, 2014). The newspapers of the Edwards conglomerate,<sup>43</sup> for instance, played a crucial role in savaging the *status quo* and legitimising a radical reform (see Figure 5.4 below for an example).

The opening salvos of the campaign came in 1976, from a bulletin called "Informe Económico" (Economic Report) edited by José Piñera. The bulletin was a publication of the Cruzat-Larraín group's investment bank,<sup>44</sup> circulated among their customers and associates (Mönckeberg, 2001). Although the publication had a narrow readership, it was highly influential since it offered well-informed market analyses. From his position as editor, Piñera relentlessly advocated for a radical reform. Fontaine (1988: 128), editor-in-chief of *El Mercurio* from 1978 to 1982, points out that Manuel Cruzat, as head of the Cruzat-Larraín conglomerate, had a direct influence on Piñera's analyses. In October 1976, for instance, Piñera stated that "*it is imperative to change the social security's funding system, to eliminate the fraction that might be considered labour tax*" (Colocadora Nacional de Valores, 1978: 38). In the same article, Piñera reports the results of another study -it is not possible to check the source-, which asserts that the elimination of employers' contributions would increase employment by 15%.

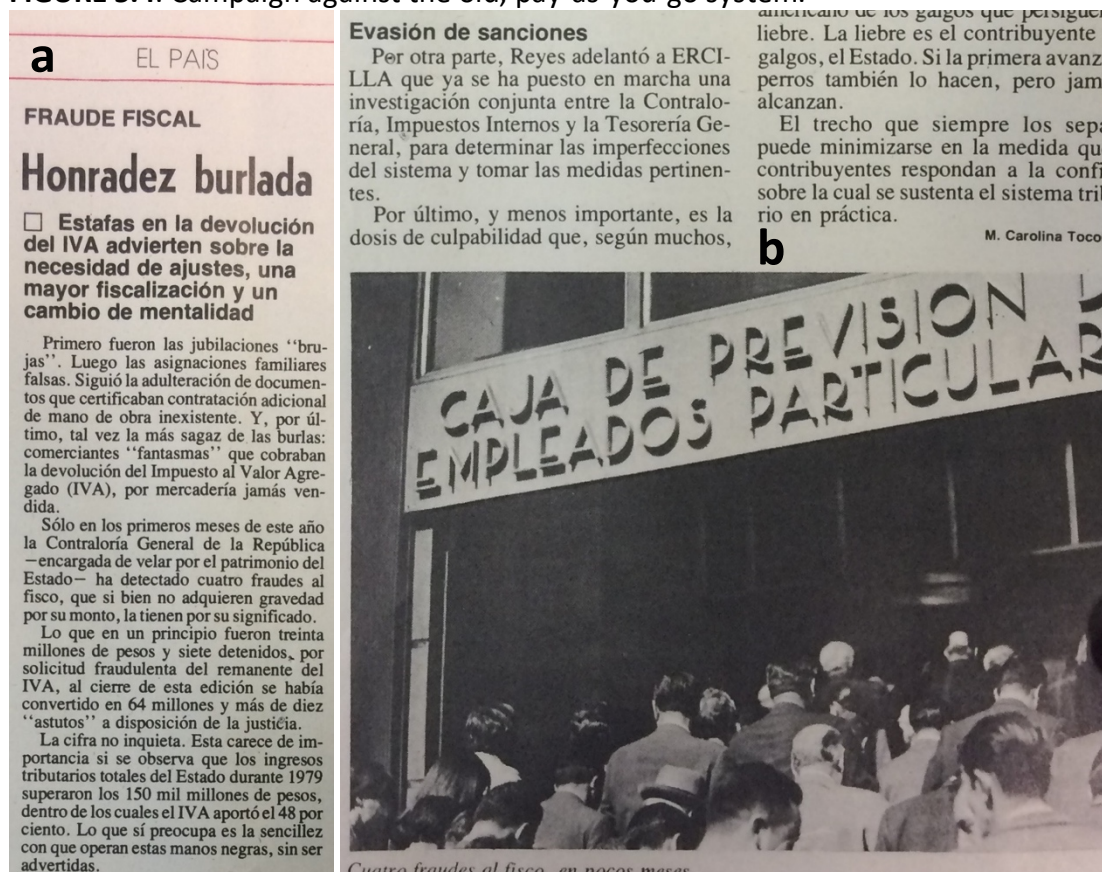
In mid-1976, José Piñera was to have an additional media outlet to promote the radical pension proposal. That year the Cruzat-Larraín conglomerate took over the influential and government-critical *Ercilla* magazine (Human Rights Watch, 1998). Piñera regularly wrote op-eds for the magazine (e.g. Piñera, 1977, 1978), alongside Miguel Kast, who also became a regular contributor (e.g. Kast, 1978). In summary, radical Chicagoans based their campaign on exaggerated figures, disseminated by media controlled by the radical coalition.

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<sup>43</sup> Besides *El Mercurio*, the Edwards group controlled (and still does) the evening newspaper "*La Segunda*", and the more popular "*Las Últimas Noticias*".

<sup>44</sup> Its name was "*Colocadora Nacional de Valores*".

FIGURE 5.4. Campaign against the old, pay-as-you-go system.



On 20 May 1980, Ercilla Magazine reports a fiscal fraud ("Fraude Fiscal"; 4a) perpetrated by companies that did not return the value-added tax to the Treasury (Ercilla, 1980). However, Ercilla illustrated the article with a picture of the main entrance of the "White-Collar Workers Fund" ("Caja de Previsión de Empleados Particulares"; 4b), the most well-known and large social security fund of the old pension system, which did not have participation in the fraud.

Then, in mid-1978, a significant event augmented the radical coalition's power. In July 1978, the junta dismissed their fellow commander-in-chief, General Gustavo Leigh. Leigh's ousting ended the stalemate. Sergio de Castro, Minister of Finance at the time, asserted, "*I was very much interested in carrying out reforms in sectors such as labour, pensions, and education. General Leigh's dismissal gave us more political space for implementing those reforms*" (Arancibia and Balart, 2007: 306). Then, the policymaking process became even more exclusionary. Leigh was the only member of the military junta with connections to those business sectors left outside the dominant business coalition (Campero, 1991; Varas, 1979: 34). Furthermore, by December 1978 Chicagoans and their allies totally controlled the cabinet: they controlled not only the economic team but also the political and social ministerial posts (see Figure 5.2e). With

no counterbalance, Chicago Boys' multiple ties with the radical coalition blurred the boundary between public and private interests (Remmer, 1989a).

Cabinet's prosopographical analysis supports the last statement. From the information gathered for this research, it might be said that at least seven of the twelve top governmental positions shown in Figure 5.2e were or were to be top-executives, or on the boards of the Cruzat-Larraín, Vial and Edwards groups. The other three (Sergio Fernández, Miguel Kast and Alfonso Serrano) did not have direct links with conglomerates; however, they were convinced neoliberals.<sup>45</sup> Among the first group, the case of Roberto Kelly has already been mentioned. He had been a long-standing, loyal collaborator of Agustín Edwards. Sergio de Castro had also been a top executive of the Edwards group and was an intimate friend of Manuel Cruzat (Fontaine 1988). After his tenure in government, he came back to the Edwards groups as a personal advisor to Agustín Edwards.

Although not directly connected to pension policymaking, a paradigmatic case was that of Alfonso Márquez de la Plata, Minister of Agriculture (1977-1980). Just before entering government, he was president of the Banco de Santiago, the flagship bank of the Cruzat-Larraín conglomerate. Then, once he left his position as minister, he began to serve simultaneously in government and private companies. While he was working as board member in two conglomerates (Cruzat-Larraín, and Yarur-Banna), he was serving in one of the legislative commissions. Remarkably, in 1983 Márquez de la Plata returned to the cabinet, but this time promoted as Minister General Secretariat of Government (El Mostrador, 2014b). This data clearly shows the revolving door between the private and public realms and the gross conflation of public and private interests.

### 5.6.2 Pension reform in the interim

In this context, on 26 December 1978, just five months after General Leigh's dismissal, the government passed DL 2.448. The authoritarian government finally approved a

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<sup>45</sup> The remaining two figures, General Vidal (Minister of SEGEGOB) and General Jiménez (Minister of Health), were handpicked by Pinochet and loyal to him.

significant pension reform. Surprisingly, the junta enacted this DL without previous announcements. Even more, the junta's secret minutes did not record any deliberation on it. A crucial aspect of this reform is that the initiative came directly from the Ministry of Finance. Economists from that ministry formulated the DL (Hepp, 1978). Although this has traditionally been regarded as a matter of the Ministry of Labour, that secretary played an ancillary role in this process.<sup>46</sup>

This fact is critical since it marks the supremacy of the Minister of Finance over governmental decision-making, and significantly reinforced the exclusionary nature of policymaking. The driver underlying this change was the neoliberal principle advanced by Chicago Boys that policy decisions had to be based only on "economic science" and free from political pressures (Vergara, 1984: 126-128). Such a technocratic criterion worked very effectively as an exclusionary device since almost any opposition was dismissed as particularistic (O'Brien, 1981; O'Brien and Roddick, 1983; Silva, 1991). This technocratisation of politics was to have a lasting effect on policymaking in Chile (Silva, 1991), which extends even to the present day. Therefore, this consolidation in the *shift in the locus of authority over decision-making* marked the further entrenchment of systemic power. The Ministry of Labour and Social Security -which is in charge of matters related to pensions- was completely excluded from this policy process, and the Ministry of Finance controlled the decision-making process following technocratic criteria.

The significance of DL 2.448 is contested. At any rate, however, DL 2.448 constituted the reform that every Chilean government, since the Alessandri administration (1958-1964), tried to achieve (Cisternas, 1979). According to Borzutzky (1998), this decree addressed the two most pressing problems of the social security system (i.e. inequalities and insufficiency of pensions) while it eliminated its most costly vices (e.g. pensions based on years of service). For the corporatist officers secluded at the COAJ, this reform meant a significant improvement. Indeed, during the discussion of the

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<sup>46</sup> Interview, Margarita Hepp, Member of the Technical Committee of the 1980 Pension Reform, 4 July 2017.

1980 reform, top-military officers based their opposition to such reform on the argument that *“this government, with the decree law enacted so far, it has already reformed the system”* (Secretaría de la Junta, 1980a: 55). In contrast, for the Chicago Boys DL 2.448 constituted just a new step toward their long-cherished reform. As Piñera (1991: 61) puts it: *“we had much more ambitious goals for Chile’s modernisation (...) It was necessary to go beyond. Far beyond.”*

### 5.6.3 The 1980 pension reform

On 27 December 1978, just one day after the government passed DL 2.448, another crucial step took place. Pinochet appointed José Piñera as Minister of Labour. The appointment of Piñera significantly augmented, once again, neoliberal coalition’s instrumental power; now one outstanding member of such coalition, with impeccable academic credentials (economist from the Catholic University and PhD in economics from Harvard) was *recruited into government*. Thereafter, the radical neoliberal coalition of financial conglomerates was to give the final push to impose their long-awaited pension reform.

#### PROPOSAL DESIGN AND INITIAL LEGISLATIVE DISCUSSION

Soon after his appointment, Piñera convened a commission charged with the formulation of the reform. The commission, coordinated by Martín Costabal, was formed by Piñera’s close associates but maintaining the supremacy of the Ministry of Finance (Cavallo, Salazar and Sepúlveda, 1988; Infante, 1997). Costabal was also associated with the radical coalition; before entering government, he was a top executive of the Matte group<sup>47</sup> (Dahse, 1983). Along with Costabal were the economists Alfonso Serrano, Luis Larraín, Renato Gazmuri, Sergio Guzmán, and Margarita Hepp, and the lawyer Patricio Mardones (Comité Técnico, 1979). Most of them were also associated with the radical coalition. For example, between 1978 and 1979, Luis Larraín served as researcher for Piñera’s magazine *“Economía y Sociedad”* (*“Economy and Society”*), and during the 1980s he continued to serve in the

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<sup>47</sup> At that time, the Matte conglomerate had already joined the radical coalition, albeit in a subordinate position. The group had restructured its portfolio closely resembling internationalists’ strategy.

authoritarian regime in various positions (LyD, 2014). After the reinstatement of democracy in 1990, he has been based at the highly influential neoliberal think tank Liberty and Development (Libertad y Desarrollo, henceforth LyD), linked with UDI. Besides, Larraín has been a regular columnist at El Mercurio.

Thenceforth, the neoliberal coalition were aware of the opportunity. Both Hernán Büchi, the future Minister of Finance (1985-1989), and Miguel Kast, firmly supported the committee.<sup>48</sup> In early 1979 the committee began to meet twice weekly (La Tercera, 2016c) and held regular meetings with representatives of the Ministry of Finance (Arancibia and Balart, 2007: 324-325). The Committee worked on actuarial studies and the specific reform design (core ideas had been already formulated in The Brick and later by ODEPLAN).<sup>49</sup> Publicly, the first announcement came in May 1980. In the commemoration of May Day, the government officially declared 1980 “*the year of social security*” (Hoy, 1980a). In that event, both Pinochet and Piñera re-asserted the main arguments for legitimising the reform: they declared to an audience of 3000 attendees that “*the old system was totally bankrupt*” (Hoy, 1980a: 10). Shortly before the event, Pinochet had convened a joint, special legislative commission to speed up the reform’s review. The junta charged this commission with the single task of discussing the proposal prepared by Piñera’s team (Secretaría de Legislación, 1980a, 1980b). By July, however, the legislative process was “completely frozen” (Secretaría de Legislación, 1980a: 75; Piñera, 1991: 31). The constitutional referendum called for in September 1980 dominated the agenda and, besides, the opposition carried out by corporatist elements from the COAJ hindered the process. Piñera feared the worst.

However, Piñera cunningly seized the opportunity offered by the triumphant atmosphere surrounding the aftermath of the 1980 constitutional referendum. In spite of well-founded allegations of electoral fraud, the approval of the new Magna

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<sup>48</sup> Interviews, (i) Martín Costabal, Advisor to the Minister of Economy 1974-1979, Head of the Budget Office 1981-1984, Minister of Finance 1989-1990, 31 May 2017; (ii) Margarita Hepp, Member of the Technical Committee of the 1980 Pension Reform, 4 July 2017.

<sup>49</sup> Interview, Luis Larraín, Member of the Technical Committee of the 1980 Pension Reform, 30 May 2017.

Carta represented an immense boost to Pinochet's legitimacy (Arriagada, 1991). Hence, Piñera (1991: 93) points that *"the day after the referendum [12 September 1980], I insisted on requesting an appointment with the President. I congratulated him on the victory, and before the smile disappeared from his face, I told him that the regime was enjoying (...) one of those moments that strengthen individuals and nations to go beyond anything they have ever been before. It was the moment to act and approve the pension reform"*. In the end, persistence paid off: Pinochet agreed to discuss the bill at the junta's secret sessions.

Afterwards, the Ministry of Labour formally introduced the bill to the junta on 7 October 1980 (Secretaría de Legislación, 1980a). The reform proposal considered that for-profit corporations were to manage workers' savings. This was a key aspect for the team convened by Piñera.<sup>50</sup> The proposal legally mandated each worker to transfer 10% of their taxable income to their individual savings accounts, managed by for-profit corporations, the AFPs. Their responsibility was to invest workers' savings in capital markets. 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, workers would receive a pension based on their savings plus returns (Secretaría de Legislación, 1980a, 1980b).

This structure ultimately meant that a growing stream of savings was to be managed by for-profit providers. For financial conglomerates, this pension scheme meant huge opportunities to develop economies of scale and vertical integration. Indeed, the two largest conglomerates -Cruzat-Larraín and Vial- created two AFPs each. In this way, AFPs could invest in debt instruments issued by their banks, shares issued by their companies and their insurance companies could sell life annuities to retirees (Tromben, 2016). The new pension system was compulsory for all those

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<sup>50</sup> Interview, Cristian Larroulet, Advisor at ODEPLAN 1979-1980; Chief of Staff Minister of Finance 1985-1989, Executive Director at Libertad & Desarrollo 1990-2009, 24 May 2017.

workers who had become employed for the first time after December 1982. With minor changes, this was the reform passed by the military junta on 4 November 1980.

#### DISCUSSION IN THE MILITARY JUNTA SECRET MEETINGS

By mid-October, in two meetings held on 14 and 24 October, respectively, the junta discussed the reform (Secretaría de la Junta, 1980a, 1980b). Finally, it passed the bill (known as DL 3.500) on the 4<sup>th</sup> of November (Secretaría de la Junta, 1980c; see Figure 5.5 below). The road to the reform approval, nevertheless, was to require once again Piñera's political skills.

Indeed, Pinochet himself criticised the proposal in the opening of the first meeting. *"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"*, Pinochet asserted (Secretaría de la Junta, 1980a: 3). Then, he went on: *"Who will manage the funds? That question gets me nervous because I also know that several gentlemen, who are becoming millionaires in this country, (...) want to participate (...) Therefore, minister, everything is good, but I feel very uneasy about the way in which the funds are to be managed"* (Secretaría de la Junta, 1980a: 3). Pinochet favoured a scheme managed by the state and raised his concerns several times.

In such circumstances, Piñera's attempts to convince a mistrustful military leadership were carefully framed. In the second meeting, Piñera played the ace under his sleeve:

*"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 become an owner with a direct interest in the general performance of the economy. In this way, strikes will also diminish"* (Secretaría de la Junta, 1980a: 97).

However, these arguments did not soothe corporatist top-officers' concerns. For instance, mayor Juan Romero, from COAJ, plainly stated that the old-system

bankruptcy reported by Piñera was based on the application of dubious accountable criteria (Secretaría de la Junta, 1980a: 110). Furthermore, he foresaw the political consequences of the reform: “another political problem (...) that we see for the future is that in five or ten years only the workers will bear the cost of the system. Employers, on the contrary, will not contribute. Who will be responsible for that? (...) The government will be” (Secretaría de la Junta, 1980a: 114).

FIGURE 5.5. El Mercurio announces the reform.



Figure 5.5a: Detail of El Mercurio’s front page (8 November 1980) announcing the reform (the headline reads: “Explanation of the new pension system”); Figure 5.5b: editorial of the same day, widely praising the reform as “a social transformation with historical consequences. This reform reduces the power and size of the state, through the devolution to each citizen the exercise of important rights, which the prevailing socialist scheme had snatched to them” (El Mercurio, 1980: A3).

In contrast to COAJ’s officers, members of the junta had little understanding of the project’s fiscal implications. They easily bought Piñera’s exaggerated arguments and felt intimidated when they tried to inquire about further details (e.g. Secretaría de la Junta, 1980a: 35-37). Piñera, in this context, grossly misled the junta during the debate. Among several misleading statements, one was the most flagrant. He

recklessly expressed: “*I want to emphasise what I have said before: the change (...) will mean zero cost for the state*” (Secretaría de la Junta, 1980b: 22).

Nevertheless, the reform sharply increased fiscal expenses. While many workers moved to the new scheme, the number of workers affiliated to the old system dropped from circa 1.7 million to nearly 450 thousand by 1984 (Arellano, 1985). This created an acute deficit: the state had to continue paying pensions to retirees of the old system but simultaneously received far fewer contributions from active workers. Arenas (2000) reports that the reform caused a total budget deficit of 5.7% of GDP from 1981 to 1998, more than doubling the deficit for the 1974-1980 period. The state had to finance this acute fiscal deficit somehow. Here, the government followed a strategy that favoured once again the economic elite by selling off state assets (Hachette and Lüders, 1993). In this way, the budgetary requirements produced by the reform created a justification for a second round of privatisations (Arellano, 1981). This privatisation process involved the transfer of state assets to the private sector at bargain prices (Huneus, 2007). As such, the reform directly redistributed national capital to the private sector.

## IMPLEMENTATION

This stage of the policymaking process offers a further example of how both structural power and instrumental power played out. In brief, since the government needed private agents to invest in the creation of for-profit corporations that would manage Pension Funds (i.e. *structural power*), it provided conglomerates with privileged information. Conglomerates’ *instrumental power* (i.e. *relation with policymakers*) facilitated such transmission of information. Indeed, 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<sup>51</sup> (Hoy, 1980c, 1980b). These registrations were made before the new pension system was announced to the public (6 November 1980), and even before the passage of the bill (4

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<sup>51</sup> Among the names registered were “Trust de Previsión Privada”, and “Corporación Previsional de Profesionales de Chile”.

November 1980). These facts are especially significant given the overall secrecy that characterised the process.

The media campaign against the old pension system intensified as the date for the inauguration of the new system approached (1 May 1981). Interviewed for this research, Francisco Herreros,<sup>52</sup> at the time journalist of *Las Últimas Noticias* (one of the Edwards group's daily newspapers), reports that since mid-1980 editors of that newspaper explicitly instructed journalists to focus on discrediting the old pay-as-you-go system. The Edwards conglomerate had every reason to contribute to such a smear campaign: in March 1981 the conglomerate founded an AFP called *El Libertador*.<sup>53</sup> Later, contemporary reports concur in describing the media campaign for attracting workers as something never seen before for its scale and lavishness (Hoy, 1981b). On TV, for instance, the main "face" of the campaign was the most popular TV presenter (La Tercera, 2016; see Figure 5.6). The government itself openly contributed to the campaign by bullying workers who would choose to stay in the pay-as-you-go system (Análisis, 1981a). Indeed, Juan Ariztía, the Superintendent of AFPs from 1981 to 1990, recognises that "*a TV commercial was edited, named 'the weak-minded'*<sup>54</sup> ... *It was a very tough film. That is to say, it mocked the person who chose not to move to the new system.*"<sup>55</sup> Ariztía acknowledges that this bullying campaign contributed to the success of the implementation of the new scheme.

The launch was indeed a success. Most of the economically active population moved to the new system during the first six months (Arellano, 1985). Along with the massive campaign, an additional factor explains this outcome. The new system offered a highly attractive, short-term hook: those who chose to move obtained an automatic 11% net increase in their incomes (Arellano, 1981). The government claimed that this increase in workers' take-home pay was because of "*the new system is more efficient; hence it requires fewer contributions*" (El Mercurio, 1981). The new scheme established a

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<sup>52</sup> Interview with Francisco Herreros, journalist at *Las Últimas Noticias* 1980-1981, 22 June 2018.

<sup>53</sup> *The Liberator* in English. This name seems to have been a veiled homage to Pinochet.

<sup>54</sup> "Quedado" in Chilean Spanish.

<sup>55</sup> Interview with Juan Ariztía, Superintendent of AFPs 1981-1990, 12 May 2017.

contribution rate of 17% of gross earnings, while those who stayed in the old system faced a rate of 25.6% (Arellano, 1981, 1982). Arellano (1985) points out that it would have been impossible to achieve such reduction through a mere improvement in the system's efficiency. Indeed, the increase in net salary was based on changes introduced previously by DL 2.448 (discussed above), which extended the retirement age of every worker. As such, both retirees of the new and old systems could have benefited alike. However, the government only transferred the benefit to those workers who chose the new scheme. Arellano (1981: 151) argues that this constituted an implicit tax imposed on workers affiliated to the old system.

**FIGURE 5.6.** Public figures support the launch of the new pension scheme



“Don Francisco”, by far the most popular TV presenter during the 1980s and 1990s, promoting in 1981 the newly founded Provida AFP.

Then, the initial structure of the AFP market reflects the interests involved in the reform. Initially, 11 AFPs composed the market (Análisis, 1981b). The Cruzat-Larraín conglomerate controlled two (PROVIDA and ALAMEDA), the Vial Group controlled two as well (SANTA MARÍA and SAN CRISTÓBAL), and the Edwards conglomerate controlled EL LIBERTADOR. Traditional groups associated with participating in the new “industry”: 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 Chicagoans is reflected in the structure of the boards. For instance, in the case of PROVIDA, the president was Jorge Cauas, former Minister of Finance, and Alfonso Márquez de la Plata, the former Minister of Agriculture, was a member of the board (director). INVIERTA counted Álvaro Bardón, former president of the Central Bank, as president of the board. 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 (Hoy, 1981b).

## 5.7 Conclusions

This chapter has shown how the interplay of power dynamics between the state, the economic elite, and popular sectors largely determined the outcome in pension policymaking. In the first period (1973-1976), such balance of power determined a policy process in which there was some porosity regarding access to the policymaking process. At least different fractions of the economic elite participated in the policy process, and the government implemented a national consultation on the matter. Nevertheless, this interaction changed dramatically after March 1976.

A combination of increasing concentration of power within state institutions, and the simultaneous expansion of the economic base -and power- of the economic elite’s financial segment, allowed the latter group to achieve a dominant position. Multiple and strong sources of power enabled financial conglomerates to defeat their opponents. Furthermore, based on their multiple sources of power, the neoliberal coalition also defeated the corporatist faction within the government. Then, such constellation determined an unmediated, privileged interaction between the state and the financial fraction of the economic elite. As such, the private interests of the economic elite’s financial fraction became equated with the country’s public interests.

This unmediated relationship reached its zenith from 1979 to 1981, when neoliberal civilians dominated the cabinet. Hence, the outcome of this period was the imposition in 1980 of a pension scheme based on individual accounts managed by for-profit companies. This change constituted a reform tailor-made to the material interests of the neoliberal coalition.

Therefore, this chapter demonstrates that the inclusion of the economic elite's power resources is a critical aspect in achieving a more accurate understanding of pension policymaking. Without incorporating the analysis of business power resources, our understanding of the policymaking process and outcomes will only be partial. The Chicago Boys, in this context, were not simply a group of autonomous, neoliberal technocrats endowed with a character of their own. From the beginning, the Chicago Boys were dependent upon business' sources of power to achieve influence, and actually they participated in the radical business coalition that dominated the economic elite from 1975 onwards. As such, the interaction between business and the state is critical in explaining the process that led to the 1981 reform and the very structure of the new pension scheme, which ultimately favoured a few mammoth financial conglomerates.

Finally, this chapter also empirically illustrated the first two stages in the building process of systemic power, construction and entrenchment, which complements the discussion developed in Chapter 4. During the 1960s a fraction of the economic elite strategically invested in the cultivation and dissemination of neoliberalism in Chile, a process that successfully culminated in the preparation of The Brick, the economic programme for a post-coup administration. Then, the chapter shows how via different mechanisms -such as a shift in the locus of authority over decision-making and the expansion of the initial radical neoliberal coalition- neoliberalism became *entrenched* within the state structure. In the next chapters, we will see how systemic power then influences the policymaking process.

**Chapter 6. Business Power in post-authoritarian Chile: the debate on old-age pensions, 1990-1994**

## 6.1 Introduction

In March 1990, the Concertación rose to power, marking the end of seventeen years of military dictatorship (1973-1990). The newly-elected coalition promised, “*to create a social security system based on solidarity*” (CPD, 1989: 26). While the coalition planned to preserve the foundations of the pension system imposed in 1981, it promised to implement significant equity-enhancing measures. In this context, the analysis of this chapter will focus on the debate around the old-age pension system during the first Concertación government, the Aylwin Administration (1990-1994). This debate concluded with the passage of the “Reform to the Capital Market” in March 1994, which included a reform to the pension system that consolidated the fully-funded, defined-contribution scheme. This reform amounted to a first order change, according to Hall's (1993) framework, since it just altered the setting of existing instruments. Chiefly, the reform extended ceilings for investing in international markets and in domestic companies (Biblioteca del Congreso, 1994).

As such, this outcome is rather surprising for mainstream scholarship, which views democracy as a main driver of redistributive social policies through the development of left parties and the increase in electoral competition (e.g. Huber and Stephens, 2012). Although a member of centrist Christian Democrat Party led the government in this period, the Concertación constituted eminently a centre-left political coalition (Fuentes, 1999; Sehnbruch and Siavelis, 2014). The Concertación, however, resigned its equity-enhancing agenda. Some authors have focused on the institutional constraints left by the military regime for explaining this outcome (Siavelis, 2000; Garretón, 2003). These arguments highlight the fact that the 1980 Constitution, among other issues, introduced nine, designated senators (named by the military), which tilted the balance of control in the Senate toward the Right (Siavelis, 2014b). As such, these authoritarian legacies impeded changes since they required constant consultation and negotiation between the government and the opposition (Siavelis, 2000, 2014a, 2014b).

These constitutional, authoritarian restrictions are indeed important in understanding the outcome under analysis. However, this explanation based on “authoritarian enclaves” is not sufficient. For example, it does not address the fact that the Concertación willingly refrained from mobilising their base of support in order to counterbalance their lack of votes in the Senate. Indeed, the Concertación actively discouraged social mobilisation (Roberts, 1998; Posner, 1999, 2004) as a means of ensuring governability (Drake and Jaksic, 1999). Furthermore, the sharp ideological shift experienced by leading members of the Concertación, who by the late 1980s began to praise the neoliberal economic model bequeathed by the dictatorship (Roberts, 2016), indicates that such a group was not truly constrained in social policy issues by the right-wing opposition control of the Senate. As Castiglioni (2005) reports, some prominent members of the Concertación did not feel constrained by the Right; they simply did not want “things to change”. In other words, they now believed that the best way forward was to maintain the reduced role of the state in the provision of social services.

Another possible explanation for the lack of significant change during this period deals with the role of policy legacies (Pierson, 1994, 1996). For this case, the argument focuses on the fact that the 1981 reform created a powerful new interest group of private pension providers (the AFPs), which would actively work to prevent the expansion of public pension provision or the introduction of equity-enhancing measures (Castiglioni, 2005; Ewig and Kay, 2011). This is again a correct but incomplete approximation for understanding the resilience of the Chilean pension system. This explanation focuses mainly on the role of the pension fund industry, leaving aside the analysis of the preferences and the potential role played by the economic elite as a whole. Given the “welfare-financial nexus” established with the 1981 pension reform - the fact that pension funds came to constitute a significant source of financing for Chilean conglomerates-, I expect the entire economic elite to have strong preferences towards -and to play a major role in- the maintenance of the system.

So far, only one study has specifically focused on the analysis of this period. In the last empirical chapter of her book, Castiglioni (2005) analyses the dynamics that determine the remarkable continuity of the market-oriented social policy model bequeathed by the dictatorship. She develops a general explanation for the continuity in pensions, education and the health sector during Concertación's first decade in power (1990-2000). She explains continuity based on some of the arguments already discussed above (i.e. institutional constraints, the consolidation of new interest groups), plus the ideological position of policymakers (which we have already discussed as not being a satisfactory argument in itself), and the role of business sector as a contextual variable (based on secondary sources). Through those independent variables, Castiglioni (2005) attempts to explain long-term, general dynamics in three different policy areas at the same time, which is not sufficient to advance our understanding of the dynamics determining the policymaking process. Nevertheless, through interviews, her work makes a significant contribution by capturing the ideological position of policymakers in the early 1990s. The comparison of these ideological positions with those held by these actors just a few years earlier during the 1980s will strengthen my argument regarding the significance of systemic power.

Therefore, I contend that it is necessary to include explicitly the role of the economic elite in order to achieve a better understanding of the dynamics that determined the maintenance of the pension system in this period. Before discussing the details of the policymaking process, this chapter presents the outline of the argument and the background of the period under study. Next, the chapter briefly reviews the central transformations undergone by the economic elite's sources of power since the end of the period covered by the previous chapter (1981) and the reinstatement of democracy in 1990. In this context, the discussion of structural power is critical. Since structural power fundamentally arises from the policymakers' perception, it is essential to assess the credibility of those perceptions with relevant economic data. Since the inception of the new pension scheme in 1981, pension funds managed by the AFPs had grown enormously. Therefore, based on data gathered from several State

agencies, section 6.4 shows the centrality reached by pension funds for the economic model bequeathed by the authoritarian regime.

## 6.2 Outline of the argument

The reform carried out in this period, which ultimately consolidated the 1981 pension system, mainly reflected the preferences of the economic elite. Chile's economic elite explicitly favoured only minor modifications to the new scheme, which had become a critical source of funds for the private sector (El Mercurio, 1989). Revealingly, the executive introduced this reform within a bill aimed at reforming the capital market as a whole. Alongside the relaxation of investment ceilings in international markets, it established a mechanism to facilitate AFPs' international expansion to other Latin American countries. The conservative media, in this context, termed the reform package as the "*the government's most modernising step*" (El Mercurio, 1993b, 1993h). I will argue, in this context, that the strengthening of business sources of power played a critical role in the preservation of the individually funded pension scheme.

In this context, business' multiple sources of power coupled with the governmental strategy followed by the Concertación determined the maintenance of a policymaking process characterised by the exclusion of social actors other than the economic elite. Concertación's consensual strategic formula, known as the "democracy of agreements" or "politics of consensus", rested fundamentally on the conception that the process of democratic consolidation required excluding popular sectors from policymaking in order to assuage apprehensions of powerful veto players (including business and the military) (Donoso, 2013b; Siavelis, 2014b).<sup>56</sup> The centre-left government thus favoured the continuity of the top-down policymaking process implemented during the authoritarian regime, which both restricted popular participation and augmented business power. The economic elite, then, preserved

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<sup>56</sup> In Siavelis' conception there is a second factor that explains the emergence of Concertación's governing formula: the need of building consensus within the Concertación itself, among its many parties.

their privileged access to policymaking especially via *informally institutionalised consultation* (source of instrumental power), whereby the government would consult and negotiate reforms with business before submitting the actual bill to Congress.

As we shall see, along with structural and instrumental power, the role played by systemic power is critical to understanding the policy outcome of this period. Systemic power -already well-entrenched in Chilean society during this period- exerted decisive influence over policymaking. Firstly, the dominant neoliberal framework favoured the de-politicisation of redistributive issues. In the context, the agenda was completely constrained to the discussion of market-based reforms, which was also reinforced by the ideological conversion of Concertación technocrats. As we shall see, if up to the late 1980s the group that led economic policymaking in the Aylwin administration (members of the Christian Democrat Party) advocated for a mixed economy and significant changes to the pension system (e.g. Foxley, 1984), by the early 1990s they were defending the AFP system (Castiglioni, 2005). This occurred in spite of the fact that at that time there was already available evidence that showed the system's insufficiencies (e.g. Gillion and Bonilla, 1992).

Furthermore, *the shift in the locus authority* continued to favour the maintenance of the 1981 pension system. The Ministry of Finance continued dominating the policy process, thereby consolidating the top-down policymaking. As such, the government focused efforts on reforming aspects related to the financial market, leaving aside considerations over social security. During the debate in the Senate, for instance, the Labour and Social Security Committee, precisely in charge of discussing issues pertaining to the pension system, was not allowed to process the reform bill. The argument was that committee did not have the technical expertise to conduct a proper debate of the reform.

In general, this has been a period largely overlooked by the literature on social policy. This lack of attention corresponds with a tendency to neglect processes with no open,

overt political actions on the part of business elites (see Korpi, 1985). As such, this particular policy process and its outcome give credit to Culpepper's conceptualisation of *quiet politics* (Culpepper, 2011). Political issues *with low political salience* tend to be decided through what he calls "quiet politics", in which policymaking occurs mostly away from the public spotlight. Such a setting would facilitate business's exclusive access to policymaking (Cortés Terzi, 2000). Precisely, during the early 1990s, the debate on pensions was a low-profile issue in Chile (other priorities loomed large on the agenda, such as the consolidation of the civilian government). That context certainly facilitated business access and influence over policymaking through exclusionary, "quiet" informal channels.

### 6.3 Background: business and the Concertación from the early-1980s

The economic elite confronted the transition toward democracy from a dominant position. After seventeen years, the authoritarian regime had moulded Chilean society according to their core ideas (Roberts, 1998). By the mid-1980s, Chile's economic elite was entirely and cohesively committed to neoliberal restructuring. As discussed in Chapter 4, the collapse of Chile's economy in 1982 led to the formation of a broad, encompassing business coalition. Utterly weakened by the crisis, financial conglomerates lost their dominant position, giving way to a broad coalition that included every segment of Chile's economic elite. The need of improving the balance of payments and of hard currency for debt service strengthened internationally oriented fixed-asset producers, which occupied the dominant position in such broad coalition. By the mid-1980s the economic elite exhibited a significant cohesiveness and low levels of conflicts between segments. The business encompassing association, CPC, was a crucial space for cementing business' organisational cohesion (Silva, 1996: 174). Hence, the economic elite faced the democratisation process with a critical source of instrumental power augmented: more cohesive, counting on higher levels of organisation capacity.

In this context, early on in Chile's transition to democratic rule, the Concertación leadership took critical decisions that favoured business' privileged, exclusionary access to policymaking. Firstly, in institutional terms, Otano (1995) shows that by 1984 Christian Democrats (president Aylwin, specifically) were progressively advocating for the acceptance of the 1980 authoritarian constitution as lawful. The moderate centre-left opposition (i.e. Christian Democrats plus a fraction of the Socialist Party) gradually concluded that the only way to return to democracy was to abide by the rules established in the Constitution (Barrett, 2001). In short, the Concertación opted for an electoral strategy to defeat the dictatorship<sup>57</sup> according to the timetable set in Pinochet's Constitution (Posner, 2004; Donoso, 2013b).

Such strategic decision, however, came at a cost. In exchange for accepting the 1980 Constitution, the Concertación could negotiate only modest amendments after defeating Pinochet in the 1988 plebiscite. Critical restrictions to a full democracy remained (Roberts, 1998; Siavelis, 2000). As noted in the introduction, among the most critical non-democratic aspects that persisted were the nine "institutional" senators,<sup>58</sup> which alongside the establishment of a "binomial" electoral system<sup>59</sup> (that overrepresented the Right and excluded the Communist Party), gave the Right a *de facto* control of the Senate and, thereby, veto power (Angell and Pollack, 1990; Weeks and Borzutzky, 2010; Siavelis, 2014b). There is no doubt that these authoritarian enclaves forced the Concertación to compromise and led to endless negotiations with the Right, which blocked progressive changes (Siavelis, 2000; Garretón, 2003). Such authoritarian enclaves (and especially the Right's veto power in the Senate), nonetheless, in certain circumstances enabled the Concertación to deflect the blame on the rightist opposition for such concessions or when the centre-left coalition departed from its original 1989 programme (Barrett, 2001; Castiglioni, 2005: 105-106).

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<sup>57</sup> This option, obviously, ruled out two options: (i) a social mobilisation strategy and (ii) the insurrectionary path followed by more left-leaning groups.

<sup>58</sup> These nine non-elected senators equalled one-fifth of the upper House of Congress.

<sup>59</sup> The defining characteristic of the binomial electoral system is a two-seat proportional representation arrangement, through which in a contest with two electoral lists, the top list must receive at least 66% in order to take both seats. As such, the runner-up might get the same number of seats as the top list with a little more than a third of the vote.

As such, the Concertación was able to limit the reform agenda without having to assume the political responsibility for doing so.

Secondly, in economic terms, as already noted above, leading Concertación technocrats had undergone a sharp ideological shift by the late 1980s. This process meant that they did embrace the neoliberal model progressively established since 1975, giving utmost priority to economic growth and the application of free-market policies (Petras and Leiva, 1994).<sup>60</sup> This acceptance included private and public assurances that aspects such as the primacy of private property, the prominence of fiscal discipline, and the central role of private enterprise, among others, would guide the Concertación's policy options in democracy (Silva, 1996b). Since early on, in this context, two "souls" -which cut across their political parties- characterised the Concertación: the dominant, neoliberal wing, and the more leftist, social-democrat fraction (see Chapter 7 for further discussion). Overall, a persistent concern for gaining business confidence characterised the dominant, right wing of the Concertación, which became a defining feature of the post-authoritarian period (Barrett, 2001: 595). This concern for gaining business confidence -and assuaging their concerns in the new democratic context- determined to a great extent the economic elite's continued privileged access to policymaking.

Then, the third factor of the strategic formula followed by the Concertación was to demobilise and to exclude labour and social organisations from policymaking (Roberts, 1998; Barrett, 1999, 2001). These sectors had played a critical role in the path toward democracy since the cycle of protests that started in 1983 paved the way for the transition (Donoso, 2013: 69). However, for the sake of democratic stability, the Concertación refrained from mobilising popular support for policies that the Right opposed, channelling popular participation exclusively into the electoral process (Oxhorn, 1994; Roberts, 1998; Huber, Pribble and Stephens, 2010). This factor further

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<sup>60</sup> Also interview with José Ruiz de Giorgio, Christian Democrat Senator 1990-2006, 26 September 2017.

enhanced business power since popular sectors did not counterbalance the economic elite in the policymaking process.

Hence, concerns for gaining business confidence and the demobilisation of popular sectors constituted critical aspects of Concertación's governing formula, the "democracy of agreements". This consensual strategy became the hallmark of post-authoritarian Chilean politics (Weeks and Borzutzky, 2010). In this way, the Aylwin administration and the economic elite re-created the exclusionary policymaking process established after the 1982 crash by adjusting business-government interaction channels to the democratic context. As such, if during the dictatorship the economic elite had access to policymaking through direct participation in the legislative commissions, under democracy business maintained such privileged access through *informally institutionalised consultation*. Through this arrangement, heads of business associations had direct and virtually instant access to the president and chief ministers in the cabinet hierarchy. José A. Guzmán, for instance, president of the CPC from 1990-1996, interviewed for this research asserted that he had direct lines of communication with the executive: every time that his association wanted to raise an issue, he spoke directly to the President or the Finance Minister.<sup>61</sup> Indeed, several interviewees agreed on the fact that private pension administrators did not need to lobby in Congress. Thus, business decisively influenced the policy process before congressional debates: the government and the economic elite had first negotiated the bill before its submission to Congress.

As already suggested, the other side of the coin in the post-authoritarian business-government accommodation was thus that other social actors became too weak to successfully influence the policymaking process. In the case of the labour movement, for example, the organisational strength and bargaining of power of unions continued declining substantially during the 1990s. Actually, the absolute number of union members declined significantly during the first decade of democracy, falling by

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<sup>61</sup> Interview with José Antonio Guzmán, President of the CPC 1990-1996, President HABITAT AFP 2006-2014, 22 September 2017.

112,550 from 1992 to 1998 (Barrett, 2001). As such, although the main unions had direct line to the Executive -through the Ministry of Labour-, relations rapidly soured as the Aylwin administration failed to meet its promises regarding labour policies, and the fact that some government high-officials began to praise the *modern* elements contained in the dictatorship's Labour Plan. The Aylwin administration, besides, tended to manipulate and co-opt the leadership of such organisations (especially the CUT, the main union confederation in Chile)<sup>62</sup> according to the strategy described above (Oxhorn, 1994), which is evident in the acquiescence of these organisations during the debates on pensions in Congress.<sup>63</sup> It is in this context, then, that, on the one hand, with the return to civilian rule, the economic elite found itself even more powerful and, on the other hand, labour and popular sectors were weakened and politically marginalised.

## 6.4 Enhanced sources of business power in Democracy, 1990-1994

As noted, the economic elite faced the transition toward democracy from an advantageous position. Then, it is necessary to discuss how the reinstatement of civilian rule, and other processes, affected some sources of business power. For instance, the development of the new pension scheme strengthened structural power significantly. As such, this section will briefly touch upon the significance of systemic power and structural power –critically augmented in the last years of dictatorship- for the policymaking process in this period. Regarding instrumental power, the discussion of the policy process will directly show new (and old) sources of business power. For the moment, suffice to say that the economic elite held every source of instrumental power indicated in Table 3.1.

### 6.4.1 Structural Power

As explained in the introductory chapter, structural power fundamentally arises from policymakers' perceptions. As such, it is desirable to look at relevant economic data to

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<sup>62</sup> Central Unitaria de Trabajadores (CUT), in Spanish.

<sup>63</sup> Interview, José Ruiz de Giorgio, Christian Democrat Senator 1990-2006, 26 September 2017.

assess whether stated anticipations were grounded in credible disinvestment threats (Fairfield, 2015a). This section, then, will address the growing structural power of the economic elite, and the growing importance of Pension Funds for business. This exercise will allow us to understand why the overall economic elite has shown one, united stance toward the maintenance of the system.

Firstly, it is important to note that during the last years of dictatorship the economic elite took control over a significant share of public assets. As mentioned in the previous chapter, the high transition costs entailed by the 1981 pension reform legitimised the execution of a second round of privatisations.<sup>64</sup> The military government proceeded with the programme of divestitures from 1985 to 1989. This process produced a significant shift of assets toward both traditional and new conglomerates (Hachette and Lüders, 1993). Traditional conglomerates such as Angelini, Matte and Luksic benefited significantly. This second round of privatisations meant an overall weakening of the state's power and productive capacity vis-à-vis a significant strengthening of the private sector (Huneus, 1998; Cortés Terzi, 2000). According to Larroulet (1994), by 1985 state-owned enterprises represented more than a fourth of the country GDP. Then, with the divestiture carried out between 1985 and 1989, state-owned participation in GDP fell from 25.7% to 11,7% (Hachette & Lüders, 1993; Larroulet, 1994: 193). Therefore, this second round of privatisations finished just before the reinstatement of democracy, bestowed a higher degree of agency in terms of investment decisions on the economic elite.

Then, since the establishment of the new pension scheme, pension funds have undergone an impressive growth (see Table 5.1 below). In 1989, after eight years of operation, the combined value of their assets reached \$4,4 billion (or 17.8% of GDP). By 1994, pension funds exceed \$22 billion in assets, which represented more than 41% of Chile's GDP (SVS, 2016). By mid-1990s, almost 40% of such funds were invested in equities and bonds issued by Chilean domestic companies (Superintendencia de AFP,

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<sup>64</sup> A first round of privatisations occurred from 1974 to 1979, in which non-traditional public enterprises were divested, and many firms nationalised by the Allende administration were returned.

1994). Hence, pension funds have become central to the functioning of the economy. In the case of the banking sector, Pension Funds have become a significant source of cash through time deposits and bonds. Matching the information available from the pension supervisor -the Superintendency of AFPs (SAFP henceforth)- with the financial reports of the domestic banking system -published by the SBIF<sup>65</sup>- is possible to estimate the significance of pension funds for the market of bonds issued by domestic banks. Then, by 1990 pension funds' investment holdings in bonds represented 23% of the total stock of bonds issued by Chilean banks, reaching almost 50% in 1994 (Superintendencia de AFP, 1991b, 1995; SBIF, 2007). By 1994, therefore, half of the cash raised by banks through bonds came from workers' savings.

**TABLE 6.1.** Pension Funds as percentage of PIB  
(In millions of US dollars at December each year)

<b>Pension Funds</b>		
Year	Amount	% of GDP
1985	1,539	11.0
1986	2,122	13.4
1987	2,715	15.5
1988	3,607	16.5
1989	4,489	17.8
1990	6,679	24.5
1991	10,088	31.8
1992	12,416	31.7
1993	15,972	38.7
1994	22,332	41.1
1995	25,433	38.8

Source: SVS (2016).

Furthermore, pension funds have become a crucial source of funds for Chilean corporations. By December 1990, AFPs had invested more than 11% of pension funds' assets in corporate bonds (Superintendencia de AFP, 1991a). By December 1994, Pension Funds' investments in corporate bonds represented more than 60% of the stock of bonds issued by Chilean corporations (Superintendencia de AFP, 1995; SVS,

<sup>65</sup> The Superintendency of Banks and Financial Institutions. SBIF is its acronym in Spanish.

2000)<sup>66</sup>. As such, pension funds became critical to corporate debt financing. Pension Funds' holdings in this debt instrument are highly beneficial for companies: interest rate companies pay bond investors is often less than the interest rate paid for a bank loan. As for equity holdings from Chilean companies, pension funds played a critical role in the second round of privatisation. By December 1989, 94% of AFP's corporate equity investment consisted of holdings of shares in twelve newly privatised companies (Superintendencia de AFP, 1990). The new pension scheme, therefore, constituted since early on a critical gear in the economic structure imposed by the dictatorship, providing cheap and secure funds for the private sector. In this context, perceptions of potential disinvestments that policymakers might have had become credible: AFPs by themselves controlled a key source of funds, and the country's private sector relied heavily on those funds.

#### 6.4.2 Systemic Power

Chapters 4 and 5 have already shown and discussed the first two stages in the development of systemic power: construction and entrenchment. In this chapter, we will see how systemic power influences policymaking in the third stage (*dominance*). Tedesco & Barton (2004: 154) show that during the first decade of democracy, social values and relations imposed by the military regime, such as individualism, consumerism and entrepreneurialism, remained intact. Indeed, central aspects of Chicago Boys' ideological view became progressively strong in the Concertación governments (Petras and Leiva, 1994; Silva, 1996b). In this context, one of the main causal mechanism by which neoliberal ideology reduced the political space for an equity-enhancing reform to the pension system was its effect on agenda setting. Particularly, the dominance of neoliberalism exerted its influence by reducing the set of valid policy options. Policy options not framed in the principle of "market solutions to public problems" would be kept off the agenda. The agenda's reduced scope would entail just minor reforms that did not diverge from the 1980 pension scheme: for

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<sup>66</sup> Own calculations based on data from (i) "Superintendency of Pensions" and "Superintendency of Securities and Insurance".

instance, an increase in state-provided minimum pensions, which Congress passed in December 1990 (Castiglioni, 2005).

In this context of neoliberal dominance, a second mechanism through which systemic power operated was by inducing sharp ideological shifts among leading technocrats of the Concertación. According to the discussion developed in Chapter 3, three conditions must hold to demonstrate that systemic power is at play through ideological conversion, namely: (i) to show policymakers' previous exposure to the dominant ideas (condition of exogeneity), (ii) to show that policymakers indeed changed their ideological commitments, and (iii) that the dominant ideological framework shaped their decisions. We will see that these three conditions are met in this policymaking process.

In relation to the condition of exogeneity, Edgardo Boeninger<sup>67</sup> (1997) states that the ideological shift of Concertación policymakers (especially during the transitional period 1988-1990) was facilitated by the nature of the political process: notoriously elitist, restricted only to the upper echelons of the political elite who worked with considerable freedom. Although this conversion partly reflects global trends, a significant driver of such ideological change was locally induced and inspired (Funk, 2004). There was a process of political socialisation and understanding between neoliberal technocrats working for the authoritarian government and Concertación's technical experts, by which they became closer to the neoliberal approach. Arguably, in this context, one of the main causes of this change was the good macroeconomic performance exhibited by the country since 1985 (Silva, 1996b; Weyland, 1999; Roberts, 2016). Most of these technocrats were to occupy ministerial posts during the Aylwin administration.

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<sup>67</sup> Edgardo Boeninger is usually called the "architect" or "ideologue" of the transition to democracy. He was Aylwin's closest minister (Ministry General Secretariat of Government), in charge of the coordination of the policy-making process in Congress

In terms of ideological shifts (point ii above), the most notable cases were associated with the Christian Democratic Party (PDC in its Spanish initials) and the think tank CIEPLAN (with strong links to such party). A paradigmatic case was Alejandro Foxley, future Minister of Finance (1990-1994). Christian Democrat and leader of CIEPLAN, during the early 1980s Foxley wrote influential works harshly criticising neoliberal reforms undergone both in Chile and elsewhere in Latin America (Foxley, 1983, 1986). He furthermore advocated for the development of a mixed economy (Foxley, 1984: 122). By 1988, however, he had embraced the neoliberal model praising the modernising characteristics of Chicago Boys' policies (Foxley, 1989 [1988])<sup>68</sup>.

The same ideological transformation occurred with two other preeminent Christian Democrat economists. These were René Cortázar, future Minister of Labour during the Aylwin administration, and the specialist in pensions, José Pablo Arellano, future head of the powerful Budget Office appointed by Foxley. Cortázar, for example, had worked as adviser to the labour movement, helping to elaborate its strategies (Barrett, 1997, 2001). In government, however, as Ministry of Labour, he became an active ideological supporter of the pension scheme established in 1980 (Castiglioni, 2005). In brief, the most influential centre-left intellectuals converted from being critics of the neoliberal model to becoming architects of its continuity and consolidation (Petras and Leiva, 1994; Motta, 2008).

Regarding pensions, by the mid-1980s the PDC advocated for stronger public participation. In 1984, the party published a multivolume work called "Proyecto Alternativo" (Alternative Project), which constituted an "alternative" to the neoliberal model. The three PDC economists mentioned above participated actively in that effort. Indeed, Alejandro Foxley was in charge of the key chapter entitled "Global Programmatic Framework". In that piece, Foxley proposed specific changes to the existing pension scheme. He wrote: "*the management of these financial resources must not be private, rather should be entrusted to one or*

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<sup>68</sup> The quoted article is a transcription of a speech given by Foxley in November 1988 to the National Conference of Business (ENADE, by its Spanish initials).

*several mixed institutions in which representatives of the state and the workers (...) actively participate in management decisions*" (Foxley, 1984: 136). These words amounted to an official programmatic declaration of the future governing party. Once in government, however, Foxley and his team actively supported the deepening of the privatised pension system, overlooking the rigorous evidence that they had developed during the early 1980s at CIEPLAN<sup>69</sup>. Thus, in a TV series broadcast in 2003, commemorating the 30<sup>th</sup> anniversary of the coup d'état, Foxley asserted,

*"I believe the social security system in Chile had serious difficulties, there was this multitude of social security funds, all of them had significant deficits, and that was a massive burden for the state. Therefore, the idea of testing a proposal so radically different was very courageous at the time, perhaps misunderstood, but in the long term I think it was the right decision. In fact, many countries are now following Chile's path in this issue"* (Rodríguez, 2003).

As such, Foxley had adopted the Chicago Boys' discourse *in toto*, including the reasons employed by that group to legitimise the radical reform. Like Foxley, Arellano also underwent a sharp ideological conversion. Until 1988, he wrote the most comprehensive, influential critiques of the 1980 pension reform (Arellano, 1980, 1981, 1982, 1985, 1988). However, from 1990 he also became a supporter of the privatised pension system.<sup>70</sup> Therefore, it is clear how leading policymakers of the Concertación changed their ideological commitments. And it is also clear that the condition exogeneity is met (point i above): the ideological shift is not reducible to the material circumstances of the decisions made during the policy processes under study because the conversion took place before, mainly during the transition period (1988-1990) (Petras and Leiva, 1994; Barrett, 1997). Now we will see how the dominant neoliberal framework shaped these policymakers'

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<sup>69</sup> The Corporation for Latin America Studies (CIEPLAN for its initials in Spanish) is a think tank linked to the Christian Democratic Party. In the midst of the authoritarian government, especially from the mid-1970s to the early 1980s, CIEPLAN played a crucial role in developing independent and critical research. The previous chapter referred to some of that work, especially seminal pieces written by Foxley and Arellano.

<sup>70</sup> Interviews (i) Ricardo Hormázabal, Christian Democrat Senator 1990-1998, 29 August 2017; (ii) José Ruiz de Giorgio, *ibid.*

decisions (point iii) by supporting an agenda on pensions within the limits of the neoliberal model.

## 6.5 Pension Reform in Democracy, 1990-1994

### 6.5.1 Prelude

On 14 December 1989, Patricio Aylwin was elected president of the Republic, in the first democratic election held since the 1973 military coup. His was a campaign fought on a ticket promising peace, deepening democracy, enhancing social equity and increasing public participation, among other issues (CPD, 1989). Aylwin's campaign, in such a context, was explicit about the pension system. While accepting the defined-contribution model managed by AFPs, the centre-left coalition promised significant changes. The campaign programme -a very carefully crafted document- stated:

*“We maintain that to create a broad, solidarity-based social security system constitutes a first-priority duty. Hence, it is essential to introduce greater elements of justice to the current system by means of various actions”* (CPD, 1989: 26).

The most significant proposed *actions* were (i) to abolish the regressive fixed commission, and (ii) to enshrine in law workers' right to participate in the management of their savings. These proposals did not represent a radical departure, but they meant significant modifications. Aylwin's propositions, moreover, were in tune with contemporary evidence, which already showed that the scheme required significant amendments (Arenas, 2010: 26-28). For instance, estimated replacement rates reached just 44% (Gillion and Bonilla, 1992). Barrientos (1993: 100), in turn, pointed out that changes to the system would be required to *“extend affiliation (...) and to improve the continuity of workers' contributions and employer compliance with legislation”*. The last point refers to the fact that in the new scheme, employers were in charge of collecting their employees' contributions, but they often failed to enter those contributions into the workers' individual accounts (Biblioteca del Congreso, 1999a). Even opposition, right-wing politicians, such as senator Sebastián Piñera,<sup>71</sup>

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<sup>71</sup> He is the current president of the country.

accepted that, for instance, the system had exceptionally high costs of administration (El Mercurio, 1993k).

The economic elite, in contrast, hoped the first democratic government would keep the system, or at least its foundations. In September 1989, before Aylwin's election and speaking at a seminar on pensions organised for journalists, Francisco Pérez, president of the Association of Administrators of Pension Funds (AAFP), declared that his association favoured minor changes only (El Mercurio, 1989). Among those modifications favoured by AFPs were "*the opportunity that AFPs may offer additional services*" (which ultimately meant more business opportunities), and "*the expansion of investment alternatives*". The AFPs and the business elite more generally, favoured changes within the limits of what they termed as modifications "*to perfect the system*".

Despite Concertación's campaign promises, on 25 January 1994 Chilean Congress passed Law 19.301. This law commonly referred to as the "Reform to the Capital Market", did not address any of those issues indicated above. However, it included significant changes to the DL 3.500, which structures and governs the pension scheme imposed in the dictatorship. After a long process – the reform formulation had started in 1991; see Figure 6.1- Congress passed this reform in January 1994. Since the bill's introduction, the government downplayed the fact that constituted a reform to the pension system. The reform indeed modified different aspects of the capital market (rules governing insurance companies and the banking sector, among others), but changes to the pension system were the most extensive. Among other changes, and in line with business' preferences, the reform extended ceilings for investing in international markets and domestic companies. Moreover, it established mechanisms to facilitate AFPs international expansion to other Latin American countries (Biblioteca del Congreso, 1994). Therefore, the economic elite got most of what it wanted in this debate: the pension scheme not only persisted but it also expanded and deepened.

In this context, what follows is the analysis of the specific stages that led to that outcome. The analysis of the process will proceed in three idealised stages: (i) agenda setting, (ii) design of the proposal, and (iii) parliamentary discussion (see Figure 5.1 below for a summary).

### 6.5.2 Agenda setting, March 1990-January 1991

Firstly, the dominance of the neoliberal ideology reduced the space for progressive, equity-enhancing reforms. Boeninger, in this sense, states that the economic success of the military regime in terms of economic growth influenced the Concertación's platform, encouraging a programmatic convergence that the centre-left coalition could not admit publicly for political reasons (Boeninger, 1997: 369). Regarding pensions, in that context, the dominant idea by 1990 was that individual capitalisation constituted the best way to solve the problems related to the pension system (Arenas, 2010: 29). In this way, systemic power reduced the space for equity-enhancing reforms in several ways. The extent to which neoliberal ideas exerted influence on the set of potential reforms is well captured by former Deputy Sergio Aguiló, member of the Lower Chamber from 1990 to 2018:

*“The explanation [for the lack of equity-enhancing pension reforms] does not lie neither in the shortage of legislative votes, nor in the presence of designated senators, and in the lack social mobilisation either. I mean, all those factors were certainly at work to prevent the passage of a progressive pension reform, but the fundamental explanation lies in that all of us, the whole political elite, some more, others less (...) accepted the neoliberal thinking (...) And therefore, those who were critics of the AFPs became staunch supporters of the AFPs' individual capitalisation model. I am not referring to the right, I am talking of this political world [referring to the Concertación], the one that was governing the country. And we, those politicians that the neoliberal model did not co-opt, did not have a response. At that time, to speak of a system that radically replaced the AFPs [was unthinkable] ... To those people [who had dared to advocate such a thing] would not have received a reply, instead, they would have directly been put into the sanatorium.”<sup>72</sup>*

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<sup>72</sup> Interview with Sergio Aguiló, PS Member of the Lower House 1990-2018, 4 October 2017.

The words of Aguiló capture three implications of systemic power, namely: (i) the conversion of policymakers to the dominant framework discussed above; (ii) policymakers refraining from pursuing agendas opposed to the dominant framework; and (iii) the direct reduction of the agenda's scope within the limits of the neoliberal model, which concurs with Boeninger's admission quoted above. Aguiló mentions a general "acceptance" of the neoliberal ideology, which involves (a) the conversion of those who were critics of the AFP system into supporters; and the fact that (b) those who opposed the dominant neoliberal ideology lacked a coherent, comprehensive proposal to oppose such a dominant view ("we did not have a response"), so they gave in to the model based on individual capitalisation. Along with Aguiló, other members of Congress interviewed for this research highlighted their disagreement with the Aylwin administration's agenda on pensions,<sup>73</sup> but they did not have either the strength or the resources to oppose the dominant neoliberal framework with an alternative project. Anticipating defeat, they thus refrained from pursuing a progressive agenda and were reduced to merely voicing their disagreements in the parliamentary discussion.

Early on in the policy process, then, the government acknowledged the reduced scope of the agenda. Few days after the inauguration day, the newly appointed Superintendent of AFPs, Julio Bustamante, explicitly stated that the government was not planning a way back to the old pay-as-you-go system, and that it only considered introducing minor modifications (El Mercurio, 1990b). As such, from the very beginning, options that would contradict the core aspects of the fully-funded, defined-contribution system were kept off the agenda.

Regarding Julio Bustamante, since this stage he was to play a key role in the maintenance of the system. Before his appointment as superintendent, Bustamante was a top executive of the Cruzat-Larraín conglomerate (Mönckeberg, 2013), the largest in Chile up to the 1982 crisis (Dahse, 1983). Bustamante participated decisively

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<sup>73</sup> Interviews (i) Ricardo Hormazábal, *ibid.*; (ii) José Ruiz de Giorgio, Christian Democrat Senator 1990-2006, 26 September 2017.

in the creation of one of the AFPs founded by that conglomerate and kept his job there as Corporate Lawyer until 1988. Therefore, in the light of our framework, his appointment represents a critical source of instrumental power for the economic elite: *recruitment into government*. In brief, one former top-executive of an AFP founded by the Cruzat-Larraín conglomerate was now in charge of the state agency whose main aim was to regulate and oversee the AFP industry. His hierarchical superior was the Minister of Labour, René Cortázar. Bustamante thus played a significant role as mediator between the government and the AAFP.<sup>74</sup>

Systemic power, in this context, also operated by enhancing structural power. Neoliberalism considers economic growth as the best social policy. Concertación's technocrats came to endorse the idea that economic growth was the main way (not the only, certainly, but the most efficient) to lift people from poverty, keeping political stability. As such, business' strong structural power also restricted the Aylwin administration agenda on pensions. Indeed, the priority was to boost business investment decisions in new projects to sustain the process of economic growth started in 1985, which they deemed highly successful (Boeninger, 1997). In the words of Carlos Montes, Socialist Party deputy (i.e. member of the Lower Chamber of Congress) during the period:

*“Look, the option followed during the transition was to give priority to the promotion of economic growth as the key to reinstate democracy, and hence the government subordinated everything else to such aim. (...) This option included a certain degree of understanding with big business, which was deemed functional to the achievement of economic growth, and undoubtedly pension funds was the capital market (sic), the main source of funds to support the economy.”<sup>75</sup>*

Government's perceived threat was that some reforms or policies contained in the campaign programme might cause investment to stagnate. In this context, a reform to the pension system on the line of Concertación's programmatic platform was off the

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<sup>74</sup> Interview, Guillermo Campero, Adviser to the Ministry of Labour 1990-2000, 22 August 2017.

<sup>75</sup> Interview with Carlos Montes, PS Member of the Lower Chamber 1990-2014, 4 October 2017.

agenda. While Bustamante confirmed that the government was planning to abolish the fixed commission, there was no more talk of crucial issues, such as the effective participation of workers in the management of their savings. El Mercurio observed that such views “*have generated calm among the main agents related to the system*” (El Mercurio, 1990b).

Then, the account given to this research by one Concertación senator confirms the governments’ public stance and the importance of structural power. Former Christian Democrat Senator Ricardo Hormazábal recalled that during the first months of his administration, Aylwin summoned influential left-leaning members of the Concertación:

*“In a meeting at the beginning of the administration, we discussed this issue with the president (a pension reform), and when I say ‘we’ I include Concertación union leaders and members of the parliament closed to them. In an honest conversation, Aylwin requested us not to pursue with changes to the pension system, given [...] the importance of the AFPs for the economy.”<sup>76</sup>*

In this context, Hormazábal’s and Montes’ accounts coincide with the testimony given to this research by lawyer Ramón Briones. During the 1980s and 1990s, Briones, an eminent Christian Democrat, actively worked for the return to democracy and campaigned for the correction of pitfalls exhibited by the new pension scheme. When asked about what reasons prompted Aylwin administration to maintain and consolidate the pension scheme, he replied:

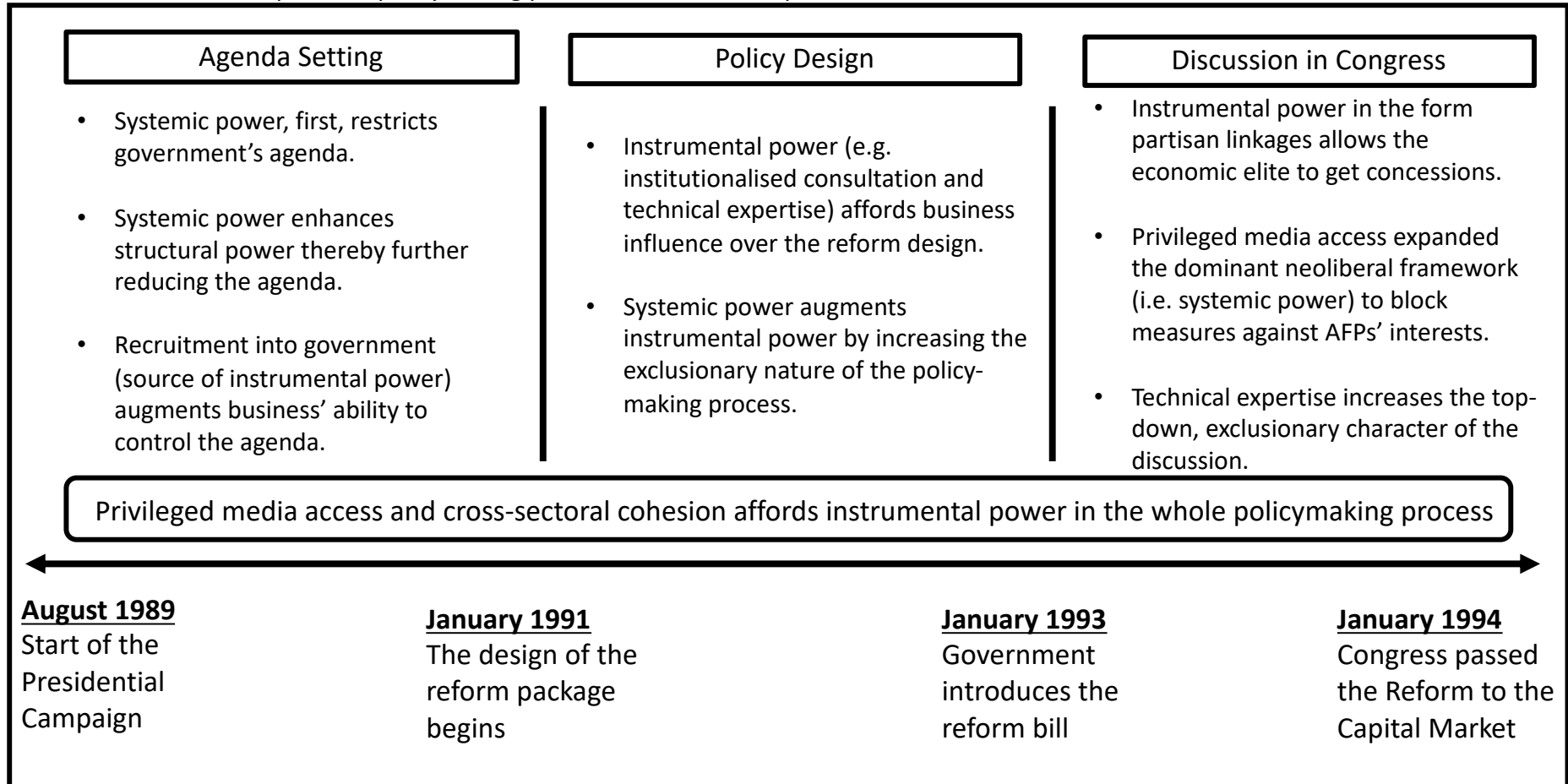
*“The authorities of those years were not alarmed regarding the system for three reasons: first, the system was just starting to pay pensions. Secondly, pension funds accumulated financial resources in the private sector, which were invested in treasury bonds, and corporations’ shares (...) the economy was growing at an 8% rate; the pension system was functional to the economy.”<sup>77</sup>*

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<sup>76</sup> Ricardo Hormazábal, Christian Democrat Senator 1990-1998, 29 August 2017.

<sup>77</sup> Interview with Ramón Briones Lawyer and author, former member of the Christian Democrat Party, 22 September 2017.

**FIGURE 6.1.** Idealised steps of the policymaking process and sources of power at work.



Source: author's elaboration.

As such, the account offered by Briones fits neatly with Montes' and Hormazábal's declarations. It confirms the importance of structural power in Aylwin's decision for not pursuing changes to the pension system: he wanted to reduce as much as possible potential causes of decreasing investment spending. Furthermore, the three accounts mentioned above and the evidence offered by Boeninger, concur with the testimony of José Antonio Guzmán, CPC president. Interviewed for this research, he declared: "*I was CPC's president during Aylwin administration (...) Ultimately, they took a strategic decision, which was valid not just for the discussion on pensions (...) it was to carry on promoting the economic model, more focused on social issues but not destroying the momentum that the country's economy was gathering from 1987 onwards*".<sup>78</sup>

Therefore, structural power, enhanced by systemic power, also contributed to keeping an equity-enhancing reform off the agenda.

Having kept off the agenda major changes to the AFP system, later on there was a further drive to stop any proposal (including modifications to the pension system) that could harm economic growth or generate "business uncertainty". In an internal policy report prepared in August 1990, Boeninger (1997: 390) proposed: "*all those proposals with potential economic impact<sup>79</sup> that we reckon we cannot promote in the next six months, simply should be eliminated from our agenda*". Structural power is clearly at work here: the policymaker wants to rule out proposals that he anticipates could harm economic growth. Following that strategic line, on 9 September 1990, Julio Bustamante announced that the government was studying a mechanism to *reduce* the fixed commission (the original plan was to *abolish* that commission; see above). Some AFPs executives strongly rebuffed the proposal, saying that could create severe complications to their financial positions (El Mercurio, 1990c). The outcome of this discussion was that government never brought the issue forward again, keeping this modification completely off the agenda.

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<sup>78</sup> Interview with José Antonio Guzmán, President of the CPC 1990-1996, President HABITAT AFP 2006-2014, 22 September 2017.

<sup>79</sup> Emphasis added.

In this way, early on the Aylwin administration decided not to undertake the reforms promised in the campaign platform. As Figure 6.1 shows, in this stage the interplay of (i) systemic power, (ii) structural power augmented by systemic power, and (iii) instrumental power via *recruitment of business representatives into government*, kept off the agenda an equity-enhancing reform.

### 6.5.3 Design of the Policy Proposal, January 1991-January 1993

The design of the “Reform to the Capital Market” started in early 1991. In this stage of the policymaking process instrumental power played a pivotal role. Relationships with policymakers -*institutionalised consultation through informal channels and recruitment into government*, specifically- afforded the economic elite critical sources of instrumental power. Asked by the relation of business associations and the government regarding the debate on pensions, José Antonio Guzmán stated that during his term as president of CPC, he “*held multiple meetings and conversations with Aylwin, Foxley, and Cortázar*”.<sup>80</sup> Foxley, as Minister of Finance, and Cortázar, as Minister of Labour and Social Security, led the policymaking process. According to a number of accounts given by interviewees, Foxley established the main guidelines of the reform. Then, Cortázar -subordinated to Foxley (Barrett, 2001: 585)- and Bustamante participated in the direct negotiations with AFPs representatives.<sup>81</sup> This setting was facilitated by the fact that, according to the 1980 constitution, the executive holds exclusive initiative on social security (Siavelis, 2000). As such, no other political agent than the president may initiate a reform. This fact facilitated the creation of an exclusionary, informally institutionalised locus of interaction between government and business representatives. In this context, the government negotiated the reform with AFPs’ representatives before introducing it to Congress.

Press records also offer evidence of the economic elite participation in the proposal’s design. The AAFP led the negotiations with the government. Given the elitist,

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<sup>80</sup> Interview with José Antonio Guzmán, *ibid*.

<sup>81</sup> Interviews (i) Andrés Palma, Christian Democrat Member of the Lower House 1990-2002, 13 September 2017; (ii) Guillermo Campero, Adviser to the Ministry of Labour 1990-2000, 22 August 2017.

exclusionary policymaking process, AAFP's *organisational capacity* (cohesion) and *technical expertise* constituted sources of instrumental power that enabled business interests to participate in the design process. As explained earlier, the Ministry of Finance was the branch of the executive in charge of the bill's preparation. Officials of that ministry tend to be highly trained economists, so technical expertise afforded AFPs the opportunity to negotiate with those officials. Then, for instance, by August 1992 the general manager of the AAFP declared that they had commissioned a report to the Department of Economics of Catholic University and ECONSULT<sup>82</sup> to analyse and propose new investment options (El Mercurio, 1992). For the Association, this report would be important since it was to be the source from which they would "*make comments and add proposals to the legal text in progress*" (El Mercurio, 1992).

As such, at least six months before the executive introduced the bill in Congress the private sector was well aware of its content. By January 1993, El Mercurio reported that because of "*last-minute negotiations*" the government had decided to postpone the introduction of the bill in Congress (El Mercurio, 1993a). Later, and in a clear example of the cosy relationship between the AFPs' regulator and business, Bustamante announced from Miami, during a meeting of the US and Chilean Commerce Chamber, that the reform would indeed include new investment alternatives for AFPs, as the AAFP has suggested earlier (El Mercurio, 1993c). Finally, when the government introduced the bill in January 1993, the AAFP president praised the reform package (El Mercurio, 1993g), stating that the bill addressed demands that the sector was formulating since long ago.

In this context, systemic power also played a significant role in this stage. The neoliberal dominant framework significantly augmented the instrumental power of the economic elite at this stage. According to neoliberal ideology, social policy was not a political issue but instead had to be addressed technically based on "*economic science*" (Borzutzky, 2002), which had determined the *shift in the locus authority*

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<sup>82</sup> Consulting firm that provides services on corporate finance, private investment advice, and institutional funds management.

towards the Ministry of Finance during the military government. Leading technocrats from the Concertación endorsed that view. Democratic participation thus could hamper the policy process, according to neoliberal technocrats (see for instance Velasco, 1994).<sup>83</sup> As such, this top-down, exclusionary way of designing and implementing policies established in dictatorship persisted during the 1990s, despite campaign promises of developing a more democratic, participatory policymaking process (CPD, 1989). Moreover, the government formulated this reform as part of the overall reform of the capital market; hence it was considered a highly “technical issue”. All of these factors contributed to the exclusionary nature of the policymaking process. Hence, the elitist nature of the policymaking process naturally augmented business influence, since labour could not counterbalance business power.

In terms of the content of the reform, neoliberal ideas were also critical (Boeninger, 1997: 370). Concertación policymakers favoured only minor adjustments, from within the existing fully-funded system. Indeed, leading policymakers on pensions (such as Foxley and Cortázar) had a clear conviction toward not only maintaining but also consolidating the fully-funded pension system (Castiglioni, 2005). One of the consequences of this view was that in this reform they sought to strengthen market mechanisms in the pension scheme. Adjustments were only introduced within the logic of the individual capitalisation system. Therefore, systemic power, alongside instrumental power, played a significant role in this stage: leading Concertación policymakers’ endorsement of the pension system established in 1981 resulted in the continuity of such a model.

#### 6.5.4 Discussion in Congress, January 1993-January 1994

On 25 January 1993, the government introduced the reform bill known as the “Reform to the Capital Market”. Since the beginning of the discussion, the government presented the reform as a “*deepening*” or “*modernisation*” of the capital market, in

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<sup>83</sup> See for example Velasco (1994). Andrés Velasco (future Minister of Finance during the first Bachelet administration) early on wrote that piece praising the policy-making process established in dictatorship in the sense discussed above. He was a close collaborator to Minister of Finance Alejandro Foxley in his position of “International Finance Coordinator”, 1990-1992.

the words of Finance Minister Alejandro Foxley (El Mercurio, 1993a). At the same time, however, the Aylwin administration downplayed the fact that this was mostly a reform to the pension system. Previous government-business negotiations determined the parliamentary discussion. Several interviewees concur on the fact that private pension administrators simply did not need to lobby in Congress.<sup>84</sup> Congress became an arena in which merely formal and minor technical aspects were discussed.

In this stage, *partisan linkages* afforded business the most important source of instrumental power. As mentioned in Chapter 4, economic elite had strong ties with right-wing parties, RN and especially with UDI (Angell and Pollack, 1990; Scully, 1995; Pollack, 1999). For the period 1990-1994, both parties formed the *Democracia y Progreso*<sup>85</sup> coalition. Then, considering the composition of the Senate, from the beginning it was clear that the Aylwin administration would have to do deals with the right-wing forces in Congress (Angell and Pollack, 1990). Especially given the higher quorum required to reform the pension system, since some aspects required a quorum of four-sevenths of the Congress. This meant that the government needed 27 senators to enact the law, and the Concertación had only 22 (Angell and Pollack, 1990). As shown in Table 5.2, right-wing parties got a minority in the Senate in the 1989 election. However, the nine institutional senators appointed by Pinochet ultimately meant that right-wing forces held the majority. Institutional senators banded with right-wing senators, especially with UDI. This source of business power was furthermore augmented by Concertación's predilection for "consensual politics".

In this context, partisan linkages were crucial to water down two articles of the bill proposed to regulate conflict of interests. AFPs had been involved in serious collusion accusations and mismanagement. An investigation carried out by the National Economic Prosecutor determined that AFPs colluded among them and with executives

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<sup>84</sup> Interviews (i) Member of the Lower House 1990-2002 representing the right-wing "Democracia y Progreso", 29 September 2017; (ii) Andrés Palma, Christian Democrat Member of the Lower House 1990-2002, 13 September 2017; (iii) Mariano Ruiz-Esquide, Christian Democrat Senator 1990-2014, 4 May 2017 and 9 August 2017.

<sup>85</sup> "Democracy and Progress" in English.

of former public companies -most of them linked to UDI- in shareholder meetings. In his investigation, the Prosecutor had access to reserved information (critically, to the board minutes of the AAFP). Then, based on various sources of evidence, which includes explicit acknowledgments of such actions recorded in AAFP's board minutes, the Prosecutor clearly established that AFPs and executives close to the military regime formed coalitions in shareholder meetings, gaining control of former public companies by achieving majority votes (Fiscalía Nacional Económica, 1991).<sup>86</sup> As such, the reform included the aforementioned articles to regulate and control those practices. The specific place in which members of Congress watered down those articles was the Senate's Finance Committee, which must process the bill before the general vote in the Senate chamber.

**TABLE 6.2.** Party Representation in Congress, 1990-1994

Political Coalition	Parties	Senators
Right Democracia y Progreso	Unión Demócrata	2
	Independiente (UDI)	
	Renovación Nacional (RN)	6
	Independents	8
	Sub-total	16
Centre-left Concertación	Christian Democratic Party (PDC)	13
	Partido por la Democracia (PPD)	4
	Partido Radical (PR)	2
	Other parties	3
	Sub-total	22
Institutional Senators	Armed forces appointments and other	9
TOTAL		47

Source: adapted from Angell & Pollack (1990)

Initially, the first of those articles established restrictions to the way in which AFPs exerted pension funds' voting rights in board elections. The measure established that AFPs should vote for independent candidates to the boards, providing specific restrictions<sup>87</sup>. The second article initially established that 30% of AFPs' boards had to

<sup>86</sup> Fiscalía Nacional Económica (National Economic Prosecutor), ord 348, Santiago 13 May 1991.

<sup>87</sup> Banning, for instance, to support candidates in board elections with commercial relations to the company in question.

be formed by directors subject to specific prerequisites. One of those prerequisites established that the director could not hold shareholder or ownership interests in the AFPs. The main responsibilities of those directors should have *“to act for the benefit of the affiliates, who have entrusted AFPs with the management of their pension funds”*, and to *“monitor the occurrence of potential conflicts of interests”* (Biblioteca del Congreso, 1994). Then, the Finance Senate Committee was the space in which both coalitions ironed out their differences regarding some details of the bill. Five senators composed the Commission: two Christian Democrats, one from the Party for Democracy (PPD), one institutional senator, and one from RN (who was Sebastián Piñera, current Chilean president). In this instance, both the institutional senator and Piñera opposed the enactment of those new, more stringent rules. *Partisan linkages*, therefore, afforded business with direct influence on the negotiation (Biblioteca del Congreso, 1994: 15-18). Indeed, during the debate in the Committee, in October 1993, Piñera recognised that he had been in touch with representatives of the AFPs (El Mercurio, 1993d).

Then, the Right on behalf of Piñera and the institutional senator opposed both articles. The rejection was stated on the grounds that those measures would *“severely affect the private property right and the freedom of association guaranteed in the Constitution”* (Biblioteca del Congreso, 1994: 691). Finally, the Congress passed a significantly watered-down version of both articles. Though it established that AFPs had to inform the way in which they exerted their voting rights, this legislation did not prevent the network of patronage and personalisation established around AFPs. Based on the analysis of board members of newly privatised companies elected by AFPs for the period 1995-1998, Huneeus (2014) established that almost half of them held posts in the military regime (19 out of 40) and that 95% (38 out of 40) had right-wing political affiliation. As such, with democracy well underway, there was complete continuity with the dynamics of the authoritarian regime in this regard.

*Privileged media access* was also pivotal in blocking those initiatives to tackle conflicts of interests by enhancing systemic power. Early on since the government introduced the bill, El Mercurio editorialised a number of times against the articles discussed above (El Mercurio, 1993i, 1993f). Other times, it published op-ed written by right-wing think tanks or representatives of the AFPs. These opinions were based on neoliberal principles such as the pre-eminence of the market and the importance of individual freedom. As such, most of the time the argument was that such restrictions would “*infringe upon the freedom of AFPs*” (El Mercurio, 1993j, 1993a), or that the reform “*would obstruct the operation of the market to solve conflicts*” (El Mercurio, 1993e). Therefore, AFPs representatives had in El Mercurio an influential space to reiterate and expand the neoliberal dominant framework (i.e. systemic power), and defend their interests during the discussion.

In turn, systemic power enhanced one source of economic elite’s instrumental power during this stage, namely *technical expertise*. As in the case of the design of the bill, the top-down policymaking process enhanced business power. Repeatedly during the discussion in Congress, government officials asserted that this was a highly technical project, and, as such, the best option was to leave the issue to “*experts*” (Biblioteca del Congreso, 1994), thereby de-politicising the discussion. The AAFP, in this context, at least since the late 1980s counted on a strong technical department that allowed it to participate in the Finance Committees.<sup>88</sup> Hence, business representatives participated actively in the committees’ hearings. At the Lower Chamber’s Finance Committee, for example, the president of the AAFP carried out an extensive exposition, specifying the position of his association on a number of technical details (e.g. limits for investing abroad) and opposing categorically those rules originally included to regulate conflict of interests (Biblioteca del Congreso, 1994: 127-130).

In contrast, congressional records indicate that labour leaders were entirely absent during the discussion of the bill in both chambers of the Congress. Furthermore, in

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<sup>88</sup> Interview, Roberto Fuentes, Director of Research at the Association of AFPs 1989 to present, 10 October 2017.

what was a very irregular situation given that the reform package modified the pension scheme substantially, the Senate Labour and Social Security Committee did not have a chance to discuss the bill. In spite of a formal request raised by this Committee, the president of the Senate –Gabriel Valdés, an illustrious Christian Democrat- rejected the petition stating “*the board has serious doubts that a bill with a distinctly financial nature have to be processed by the Labour Committee*” (Biblioteca del Congreso, 1994: 1102). Admittedly, this way of doing politics did not represent Concertación’s promise of carrying out a more democratic, participatory policymaking process. It also illustrates the enduring influence of systemic power through the technocratisation and de-politicisation of the debate on the policymaking process established under dictatorship.

## 6.6 Conclusions

This chapter has discussed the policymaking process that led to the reform of the pension system during the Aylwin administration (1990-1994). The debate centred on the “Reform to the Capital Market” passed in January 1994. The core of this reform included significant changes to the pension scheme. These changes reflected only business preferences, leading the Concertación to abandon its equity-enhancing agenda regarding pensions. In this context, this chapter has illustrated significant aspects of business power and the practicality of the conceptualisation developed in this study. Firstly, the structural-instrumental power conceptualisation undoubtedly constitutes an effective framework for understanding the mechanisms of business influence. However, this chapter demonstrates that it is necessary to complement that framework with the introduction of systemic power. In particular, the ascendancy of neoliberalism, for instance, played a significant role in blocking equity-enhancing pension reforms in the agenda setting and in augmenting other sources of business power at different stages.

Secondly, the inclusion of systemic power and the study of the strengthening of other business’ sources of power (especially structural power) helps us to understand how,

in spite of a change in the political regime, the economic elite continued to control policymaking on pensions. The economic elite and the new democratic government re-created the privileged access to policymaking that business had enjoyed during the dictatorship. The new arrangement was the establishment of an informally institutionalised consultation process. In this way, the economic elite was able to bypass *de-jure* democratic spaces of legislative work situated at the Chilean Congress, developing parallel centres of decision-making. This constitutes a clear example of how economic elites, abetted by their vast sources of power, distorted the running of democratic institutions and, more specifically, the policymaking process

Then, this chapter poses a broader question about the importance of democracy to promote particular policy outcomes. The policymaking process from 1990 to 1994 closely resembles the exclusionary nature of this process during the authoritarian regime. In this context, the Chilean transition to democracy seems to have perpetuated the elitist, non-democratic nature of the policymaking process instituted during the authoritarian regime. Indeed, the dominant business coalition which emerged in the mid-1980s continued to dominate the debate on old-age pensions. As such, the establishment of formal democracy seems not to have secured the development of a democratic policymaking process.

## **Chapter 7. Business sources of power during the 1995-2005 period**

## 7.1 Introduction

In historical terms, the analysis of pension reforms developed in this work leaps from the period 1990-1994 covered in the previous chapter, to the process that led to the 2008 pension reform (which started in 2004). As such, it is necessary to address what happened -especially regarding changes in business power- in the gap of a decade (roughly from 1995 to 2005). In such a period, the Concertación continued to govern the country, first led by the Christian Democrat Eduardo Frei (1994-2000), and then by the first member of the Socialist Party elected to the presidency after Salvador Allende, Ricardo Lagos Escobar (2000-2006). During this period, the Chilean Congress passed two reforms that were -to put it bluntly- “pro-AFPs”. They did not alter the logic of individual capitalisation managed by private providers and, furthermore, liberalised AFPs’ investment decisions and, even more, created new business opportunities for these private corporations (see CIPER, 2018). Instead of focusing the agenda on core issues of a proper social security system such as level of benefits, coverage and density of contributions, the discussion during these years centred on AFPs’ investment portfolios.

As mentioned, during this period Congress passed two major reforms to the pension system. The first one was the 1999 reform that created a more conservative pension fund aimed at affiliates that were close to retirement age (Biblioteca del Congreso, 1999b). This basically meant that a higher proportion of the investment holdings of such a fund would be invested in bonds. The Asian financial crisis of 1997, which spilled over into Latin America, motivated the creation of this second fund since the crisis severely affected those workers who were to retire in the aftermath of the crisis; there was not enough time to recover the value of their funds after that event. Then, in 2002, during the Lagos Administration, Congress passed Law 19.795, which created the “multi-funds” (Biblioteca del Congreso, 2002). After the passage of this reform, AFPs could offer to their affiliates five different pension funds (with varying levels of financial exposure) to match the profiles of their customers.

Although a detailed analysis of these two reforms is outside the scope of this research work,<sup>89</sup> it is still necessary to conduct a broad analysis of the context in which these reforms were passed in order to make sense of the policymaking process discussed in the subsequent two empirical chapters. The bulk of this transitional chapter between the more historical and more contemporary policymaking processes focuses, therefore, on the analysis of transformations undergone by business sources of power during this decade.

During much of this period the AFP system was still the paradigm of the authoritarian regime's legacy. Praised around the world, included among FMI's recommendations, adopted by many countries (Orenstein, 2008), the AFPs just saw a brilliant, uncontested future ahead. However, the industry of Pension Fund Administrators (the AFPs) began to face severe criticism from the late 1990s onwards. Increased electoral competition for outsiders put the system on the grill during the 1999 presidential election (Garay, 2016). That election was the turning point for the AFPs: from then on, especially during electoral times, they would have to face severe criticism.

The economic elite, in this context, strategically invested, aiming to augment some sources of instrumental power and strengthen systemic power. Critically, once the AFP system was on the agenda and increasingly under fire, leading members of the centre-left coalition, the Concertación, began to be recruited to boards of directors of some of the largest and most influential Chilean companies. These included, for instance, companies from the banking sector and the AFPs themselves. Some other Concertación neoliberal technocrats were appointed to boards with the support of those shareholder rights held by AFPs thanks to the management of workers' pension funds. As such, the economic elite's investments meant not only the enhancement of a critical source of instrumental power (i.e. *relationships with policymakers via informal ties*) but also the enhancement of systemic power. By incorporating leading Concertación economists into the board of directors of the largest companies in Chile,

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<sup>89</sup> These policy-making processes do not offer much additional explanatory leverage since they basically marked continuity with the process that led to the 1994 reform.

the economic elite not only enhanced its ties with the governing coalition, but also augmented systemic power because, through those appointments, it gave more legitimacy to the neoliberal economic model. It is thus important to understand that this process of co-optation -analysed below- not only enhanced instrumental power, but also systemic power, by augmenting *ideational consensus*<sup>90</sup> over the whole political spectrum regarding the neoliberal economic system. This chapter now turns to the analysis of these processes of business power enhancement.

## 7.2 Business power: investment efforts in instrumental power, the significance of ideational consensus, and structural power

### 7.2.1 Instrumental power: the revolving door and the funding of political parties

Since the late 1990s, the economic elite invested heavily in enhancing its sources of instrumental power, especially *relationships with policymakers* (Bril-Mascarenhas and Maillet, 2019). Building bonds with the governing coalition was the main strategy carried out by the economic elite in order to cope with the increasing criticism that the AFP system attracted from the public. Along with this strategy, the economic elite consistently engaged in political activities based on the other source of instrumental power: *resources*. In terms of resources, given the loose -indeed, non-existent up to the 2000s- regulatory framework on the funding of political parties and campaigns (Huneus, 1998), the economic elite established a strategy which consisted in founding political parties, especially the UDI.

Regarding *relationships with policymakers*, as already mentioned, the strategy followed by the economic elite was to co-opt influential Concertación technocrats via their participation in boards of directors of both the largest Chilean companies and the AFPs themselves. Before this, executives with links to the Right and the military dictatorship chiefly controlled AFPs' boards (Huneus, 2007, 2014).<sup>91</sup> Business thus

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<sup>90</sup> See section 3.3.3.2, "Observable implications of systemic power".

<sup>91</sup> Also interview with Alejandro Ferreiro, Superintendent of AFPs 2000-2003, Member of the Marcel Commission, 30 May 2017.

sought to build stronger ties with state actors, leading members of the Concertación. “I would dare to say that there is a strong promiscuity between the public sector and the financial sector”, asserts Senator Adriana Muñoz when interviewed for this research.<sup>92</sup>

In this context, members of the Concertación circulated between high-level state offices and top-executive positions in the AFPs, in companies where AFPs maintain shareholder rights, or directly in some of the largest Chilean companies (Maillet, González-Bustamante and Olivares L., 2016; see Table 7.1).

Discussing this issue with Senator Muñoz, she recognises that a number of influential members of Concertación were co-opted. “A sector of the Concertación was co-opted by the system”, she said. She adds:

“Well, we always had in the Concertación the dividing line between *auto-complacientes* and *auto-flagelantes*<sup>93</sup>. And that still lasts, even to this day. True, José Pablo Arellano, [René] Cortázar, many, let us say [were co-opted] ... And also within the Socialist Party, and the PPD, there were many *auto-complacientes*, right. I mean, when you try to connect the role of the elites in the construction, or in the development of an extreme neoliberal economic model like the one existing in Chile nowadays, I feel -and I say this being a member of the Concertación since its beginnings- that an important sector was co-opted. Many of our ministers in Cabinet were later members of boards of directors in AFPs. So, I believe there is a strong role played by the system, which has taken an important group of our thinkers, important technocrats, to their side, let us say.”<sup>94</sup>

Then, she concludes “All political parties that formed the centre-left coalition during the existence of the Concertación, all parties were co-opted. All of them. They went to work for the AFPs, the ISAPRES,<sup>95</sup> and companies”. Indeed, as shown by Table 7.1, members from every party of the Concertación became connected with the economic

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<sup>92</sup> Interview with Adriana Muñoz, PPD Member of the Lower House periods 1990-1994 and 1998-2014, 15 September 2017.

<sup>93</sup> The Chilean press coined the terms “*auto-complacientes*” and “*auto-flagelantes*” during the late 1990s referring to the more neoliberal sector of the Concertación (and hence “self-satisfied” with the performance of the governing centre-left coalition), and the more left-leaning wing of the coalition, who pushed for more structural reforms to the economic model, respectively.

<sup>94</sup> Interview with Adriana Muñoz, PPD Member of the Lower House periods 1990-1994 and 1998-2014, 15 September 2017.

<sup>95</sup> Private insurers of the Chilean health system.

elite through their participation in different board of directors. These dynamics included members from the conservative PDC, the more centrist PPD, and the left-wing Socialist Party (PS). In this context, while Brill-Mascarenhas and Maillet (2019: 104) assert “*building strong ties with state actors (...) contribute to defining the policy space and the agenda, determining what is politically ‘viable’ to enter the policy debate*”, they do not provide evidence on the specific mechanism(s) by which the co-optation of state actors would allow the economic elite to influence policymaking. Through interviews conducted for this research, however, it has been possible to determine how co-optation and revolving-door dynamics become a causal mechanism of influence in the policymaking process.

Critically, these actors influence the process in its most decisive stage: the agenda-setting. For the case of the 2008 reform, for example, these actors played a key role in blocking a structural reform to the pension system. As we shall see in the next chapter, as soon as the 2005 presidential campaign began, it was clear that a reform to the pension system was to become a central issue. Following our analytical framework, therefore, this is a case of systemic power enhanced by instrumental power: members of the governing coalition with links to the economic elite restricted the agenda through the imposition of a set of “viable” alternatives regarding pensions.

One case that illustrates neatly the strengthened ties between business and the government is that of Jorge Rosenblut. He was a member of the PPD, and participated in the board of directors of CUPRUM AFP. Rosenblut, among other leaders of the Concertación, played a pivotal role in giving legitimacy to the system and defending it from criticism. For instance, in 2005 he publicly rebuffed a motion proposed by the Lagos administration,<sup>96</sup> which would have mandated AFPs’ directors to lodge an affidavit about their assets (El Mercurio, 2005d). In his argument, Rosenblut asked why AFPs’ should lodge affidavits considering that, for example, board members of banks did not have to abide by such regulation.

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<sup>96</sup> This was in the context of a reform to the capital market.

Rosenblut's argument sheds light on the understanding -shared by influential members of the centre-left coalition- that the AFP industry had about their work: the mission of an AFP was just comparable to the services provided by a commercial bank. The position showed by Rosenblut, then, is not distant from the one defended by José Ramón Valente and Hernán Cheyre, main partners of ECONSULT. ECONSULT is an influential asset manager in Chile, and has closely collaborated with the AFPs since the late 1980s (El Mercurio, 2005e). El Mercurio, in its section "Economy & Business", provides a platform from which Valente and Cheyre constantly disseminate the conception that the AFP system is mainly an industry whose main aim is to provide financial resources for the Chilean capital market. Therefore, the role that the system should have regarding social security becomes incidental in that view.

Besides the participation of Jorge Rosenblut in its board of directors, CUPRUM AFP plays a central role in obtaining a more accurate understanding of the next rounds of policymaking. CUPRUM AFP was controlled by the PENTA Conglomerate, which in turn was owned by Carlos Alberto Délano and Carlos Eugenio Lavín. The former was a well-known and influential UDI member. In 2014, a political scandal broke out which involved the PENTA Conglomerate. They were involved in a case of illegal funding of the UDI (CIPER, 2015). Save for Andrés Velasco (Finance Minister during the Bachelet Administration) and the RN deputy Alberto Cardemil, all the politicians who received illegal contributions from PENTA were UDI (González, Ramírez and Carvajal, 2015). Indeed, under the wing of the Penta Conglomerate existed a complex and illegal financing system specifically designed for the UDI (CIPER, 2015).

**Table 7.1.** Leading members of Concertación with links to the Private Pension Industry (and the economic elite).

<b>Political Party</b>	<b>Name</b>	<b>Public Office</b>	<b>Positions in the private sector</b>
<b>PPD</b>	Marshall, Jorge	-Minister of Economy (1992-1993); Board Member -Central Bank of Chile (1993-2003) Economic advisor to the 2005 presidential campaign of Michelle Bachelet.	-Board member, AFP Provida -AFP-appointed board member, Entel
	Rosemblut, Jorge	-Undersecretary of Telecommunications (1994-1997)	-Board member, CUPRUM AFP
	Schaulsohn, Jorge	-Member of the Chamber of Deputies (1990-1998) -President of the Chamber of Deputies (1994)	-Board member, PROVIDA AFP
	Valdés, Rodrigo	-Officer at the Central Bank (1996-2008) -Minister of Finance (2015-2017)	-Chief Economist for Latin America, Barclays Capital Inc., New York, 2008-2009  -Chief Economist for the Andean Region, BTG Pactual Investment Bank, 2013-2014
<b>PDC</b>	Arellano, José Pablo	-Minister of Education (1996-2000) -Head of the Budget Office (1990-1996) -Executive President of CODELCO (2006-2010)	-AFP-appointed board member, IANSA -Board Member BCI Bank
	Bustamante, Julio	-Superintendent of AFPs (1990-2000)	-MAGISTER AFP board member
	Clarke, Álvaro	-Superintendent of Securities and Insurance (2000-2003)	-AFP-appointed member, CTC
	Cortázar, René	-Minister of Labour and Social Security (1990-1994) -Minister of Transport and Telecommunications (2007-2010)	-AFP-appointed board member, D&S and Entel
	Ferreiro, Alejandro	Chairman of AFPs (2000-2003) Chairman of the Security and Insurance Commission (2003-2006) Minister of Economy (2006-2008)	-Board Member of CORPVIDA Insurance Company (from October 2008) -AFP-appointed board member, Madeco -Board member, ESVAL SA; Board member, ESSBIO SA. Board member, Norte Grande (2010-2012)
	Lavados, Hugo	-Superintendent of Securities and Insurance (1990-1994) -Minister of Economy (2008-2010)	-Board member and President of CUPRUM AFP
	Massad, Carlos	-Minister of Health (1994-1997) -President Central Bank of Chile (1996-2003)	-AFP-appointed member, CORPBANCA
	Mladinic, Carlos	-Minister of Agriculture (1996-1999) -Minister General Secretariat of Government (1999-2000)	-AFP-appointed member, CORPBANCA

	Rincón, Ximena	-Superintendent of Social Security (2000-2006) -Regional Governor of Santiago (2005-2006) -Minister Secretary General of the Presidency (2014-2015) -Minister of Labour and Social Security (2015-2016) -Member of the Senate from 2018	-Board Member, Provida AFP (2006-2008)
	Vial, Joaquín	-Head of the Budget Office, 1997-2000  -Board member, Central Bank of Chile (2012-present)	-From 2004 to 2011 he worked at the Research Department of BBVA (controller of Provida AFP) holding the following positions: Head Economist for Chile (2004-2006), Head of Global Trends Unit (2006-2008), and Head Economist for South America (2008-2011) -President of the Board of Directors, PROVIDA AFP (2009-2011)
<b>PS</b>	Estévez, Jaime	-Member of Congress (Lower Chamber, 1990-1998). -Minister of Transport, and Minister of Public Works (2005-2006).	-AFP-appointed board member, ENDESA (2006).
	Marcel, Mario	-Head of the Budget Office, 2000-2006 -Board Member, Central Bank 2015-onwards -Chairman of the Advisory Council for the Pension Reform.	-Board Member, Metropolitan Waters Investors (parent company of Aguas Andinas)
	Puccio, Osvaldo	-Minister General Secretariat of Government (2005-2006)	-Board Member, Provida AFP
	Viera-Gallo	-Member of Congress (Lower Chamber, 1990-1998). -Member of the Senate (1998-2006). -Minister General Secretariat of the Presidency (2007-2010)	-Board Member, Provida AFP
	Pacheco, Máximo	-Minister en Energy (2014-2016)	-Board Member, Provida AFP, Banco de Chile, Falabella

Sources: El Mercurio (2006a, 2006bj, 2009, 2006bn, 2006ap, 2006x, 2006cq, 2006aq, 2006c, 2006aw); CEAIN (2015); El Mostrador (2016d); UC (2018); Central Bank of Chile (2018); Biblioteca del Congreso, (2019b).

Certainly, this fact might partially explain the resolute defence that this party has made to the maintenance of the individual capitalisation system and also the tenacious opposition that the UDI has shown against the entrance of new actors. Although the evidence gathered during the legal process stretched as far back as 2009, the context and the weak Chilean regulatory framework for political campaign funding indicate that this illegal mechanism had been working well since the early 1990s (see Huneeus, 1998). As such, the long-standing relationship of Carlos Délano with the UDI -and his influential role in the party- supports the view that this irregular funding acted as a causal mechanism during the policy process discussed in the next chapter. As a political party with a significant representation in Congress, the UDI tended to act and vote in Congress in line with the AFPs' preferences.

In sum, during the period 1995-2005 the economic elite enhanced its sources of instrumental power. First, it strengthened its relationships with policymakers (especially *informal ties*) through the recruitment of leading members of the Concertación to the boards of directors of important companies. Then, enhanced instrumental power reinforced systemic power, since now leading members of the Concertación, associated with the economic elite, supported and legitimised the dominant neoliberal framework, thereby increasing cross-party *ideational consensus* around the economic model bequeathed by the dictatorship. Furthermore, in terms of resources (the second source of instrumental power; see Table 3.1 in Chapter 3), business used its financial resources to engage in activities such as funding political parties (especially UDI).

### 7.2.2 Systemic power: ideational consensus

During this period, the dominant sector of the Concertación was a network of neoliberal technocrats with ties to business and leading right-leaning politicians. This network was dubbed as “partido transversal” (cross-party network henceforth) by political commentators (e.g. La Nación, 2006). According to Montecinos (1998: 135),

they constituted a vast network of professionals that gave absolute priority to political stability through the preservation of the existing market-oriented system. Montecinos (1998) points out that the leading member of this cross-party network was Edgardo Boeninger, the Minister of the General Secretariat of the Presidency during the Aylwin administration (see previous chapter). One of the main characteristics of this network was the dominant presence of US-trained economists in its ranks. As such, this network supported the “technocratisation” of decision-making in Chile, which in turn has led to the maintenance of top-down, exclusionary policymaking process since the authoritarian regime (Motta, 2008).

The existence of this cross-party network, then, blurred those ideological differences among the leading parties of the Concertación (i.e. DC, PPD, and PS). Moreover, it blurred ideological differences between the Concertación, the Right and business, forging a shared vision on economic policy among them (Weeks and Borzutzky, 2010: 4-5). Since the Aylwin Administration this network had become dominant, which ultimately years later produced the alienation of Concertación left-leaning members.<sup>97</sup> Therefore, although some analyses tend to highlight the overall different character of the political parties that formed the Concertación in order to explain some outcomes (e.g. Garay, 2016: 276), the evidence gathered for this research points to the existence of an elitist, neoliberal group within the Concertación, with close links to the economic elite, which cut across political parties.

In this context, previous studies have not properly considered the role played by ideas as mediators of power and their significance in the continuity of Concertación’s exclusionary governance formula. In order to explain the maintenance of the “democracy of agreements”, a number of authors have placed much significance on factors such as (i) the political learning undertaken by the leaders of the centre-left coalition (Donoso, 2013b), (ii) the institutional legacies of the military regime (i.e. the “authoritarian enclaves”), and (iii) the need to reach consensus within the

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<sup>97</sup> Interview, José Ruiz de Giorgio, Christian Democrat Senator 1990-2006, 26 September 2017.

Concertación itself (formed by four parties in this period) (Siavelis, 2014b), as the main drivers of the moderate, gradualist governance formula followed by the Concertación. As we saw in the previous chapter, this governance formula fundamentally consisted of a technocratic, top-down decision-making approach and the exclusion of popular sectors from policymaking, restricting their participation in the electoral arena (Roberts, 1998, 2016). For instance, Donoso (2013b) places a great deal of weight on the historical legacy of the 1973 democratic breakdown to explain the moderate stance of the Concertación during the post-transition era. The mainstream view of Concertación leaders tends to be somehow similar in explaining the lack of structural reforms.

As such, political leaders of the centre-left coalition tend to blame (i) institutional constraints (the authoritarian enclaves) and (ii) the role of the Right as determinants of the lack of wide-ranging, equity-enhancing reforms. Former president Ricardo Lagos, for example, argues that the opposition from the Right in Congress blocked the passage of a more progressive health reform during this administration.<sup>98</sup> However, such an argument conceals the overall unwillingness of the Concertación's major parties to be responsive to explicit demands of popular sectors. In light of their limited control over legislation, the Concertación's main political parties could have explored different strategies to circumvent the power given to the Right by the institutional constraints left by the authoritarian regime. However, political elites in the Concertación were highly reluctant to mobilise their constituencies (indeed, they demobilised them) or to grant popular sectors greater influence over the policymaking process.

This work, by contrast, emphasises the importance of sharp ideological shifts (i.e. systemic power) and co-optation (i.e. instrumental power) as the main factors that underlie the maintenance of Concertación's consensual political strategy. Although the present work does not play down the importance of historical legacies and political

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<sup>98</sup> Interview with Ricardo Lagos, President of Chile 2000-2006, 7 August 2017.

learning, it highlights the need to consider those two additional factors in order to explain the maintenance of the governance formula followed by the Concertación. In summary, the construction of a moderate, gradualist Left -or rather, of a “new” or neoliberal centre-left- is shaped not only by political learning and “authoritarian enclaves” (Camargo, 2012) but also by (i) the sharp shifts in ideational commitments undertaken by the Concertación leadership and (ii) the close relations that such group developed with the economic elite.

Indeed, intellectuals linked to conservative think tanks established an epistemic community with Concertación neoliberal intellectuals. These common intellectual grounds shaped an *ideational consensus* on the economic model established under dictatorship -and subsequently, on core aspects of the AFP system- among opposition economists and technocrats of the governing coalition. In this broader context, academics working for conservative think tanks such as LyD, and the Center for Public Studies (*Centro de Estudios Públicos*, henceforth CEP), which was under direct control of the top economic elite, strengthened links with neoliberal intellectuals -especially economists- from CIEPLAN (linked with the PDC), and Expansiva. The latter was a neoliberal think tank funded in 2003 and led by Andrés Velasco, the Finance Minister in the Bachelet administration. Most members of Expansiva were academics, technical experts, technocrats, and policymakers who belonged to -or had close links with- the Concertación and held neoliberal economic views (La Nación, 2006).

Members of Expansiva assumed influential posts from the Lagos administration onwards. Former Superintendent of AFPs, Guillermo Larraín (2003-2006) and Alejandro Ferreiro, former Superintendent of Securities and Insurance (2003-2006), were among its most prominent members (El Mercurio, 2006w, 2007d; La Tercera, 2008c). Later, with Bachelet in power, several technocrats from Expansiva came to occupy important positions in the cabinet (including Andrés Velasco himself), which gave predominance to neoliberal ideas in the government’s working (El Mercurio, 2006ai; La Nación, 2006; Castiglioni, 2012).

In this context, there was a sort of understanding between the Concertación's neoliberal wing and the Right. In a show of such ideational consensus between neoliberal economists from the centre-left and the Right, Cristián Larroulet, executive director of the highly influential conservative think tank LyD, surprisingly and explicitly praised *Expansiva* for its work around the pension system. Words such as “*Expansiva is cool*” (“*Expansiva la lleva*”, in Chilean Spanish) came during a seminar on pensions organised by his think tank (El Mercurio, 2006x, 2006ap). Furthermore, Larroulet praised members of *Expansiva* because “[they] have had the ability to have a good fraction of their associates in [Bachelet’s] cabinet positions” (El Mercurio, 2006ap). This ideational proximity between the political Right (and its policymakers) and the neoliberal wing of the Concertación are well captured by the words of Andrés Velasco. Interviewed for this research, he claimed:

“Look, the coalitions from 1990 to 2010 never operated as coalitions. If you look at every significant reform (...) All of them were cross-party reforms in which the Concertación lost some support from the left; people like Girardi<sup>99</sup>, Ominami<sup>100</sup>, or Aguiló<sup>101</sup>, and there were always votes from the Right, sometimes RN, sometimes the UDI. This was partly because sometimes in the Senate you needed that, since you did not have a majority, but also partly because there was always a will to carry out these reforms in a way that was not purely partisan. Then, it would never have occurred to me to rely on the votes of Adolfo Zaldívar<sup>102</sup> or Girardi to carry out a pension reform. Besides, this was partly the case because you needed a counterpart with whom you might have a technical debate. For instance, I share very few political ideas with Evelyn Matthei<sup>103</sup>, but I recognise her technical and professional capacity, which these other gentlemen did not. They [some politicians from the Concertación] therefore were not really a counterpart. And if you analyse other reforms, all were like this (...) Ask the team of the Health Ministry -including Michelle Bachelet herself- how they carried out the AUGE reform. All of them were with votes from the Right, all of them. And in all of them Girardi let us down. Girardi always let us down.”<sup>104</sup>

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<sup>99</sup> PPD Senator Guido Girardi.

<sup>100</sup> PS Senator Carlos Ominami.

<sup>101</sup> PS Deputy Sergio Aguiló.

<sup>102</sup> DC Senator during this policy-making process.

<sup>103</sup> UDI Senator during this period.

<sup>104</sup> Interview with Andrés Velasco, Finance Minister 2006-2010, 27 June 2017.

This statement from Velasco clearly shows the ideational consensus between the Concertación's right-wing, neoliberal sectors and the Right based on "technical" criteria and common political views. Indeed, from his words it is possible to conclude that he felt more comfortable working with right-wing parliamentarians, as he had more confidence in their "*technical expertise*" than in the criteria of professional politicians from his own coalition. Evelyn Matthei was a hardliner, and in that context, it is difficult to overestimate the fact that Velasco counted more on her than on his own coalitional partners. Importantly, in the above statement Velasco made explicit reference to the "politics of consensus" championed by his political mentors, the Christian Democrats Alejandro Foxley and Edgardo Boeninger.

In sum, if the cross-party network within the Concertación blurred ideological lines between its parties, the existence of this sort of epistemic community between right-wing economists and neoliberal economists from Concertación blurred ideological differences even between the two major, contending political coalitions (i.e. the Concertación and the right-wing "Alianza por Chile<sup>105</sup>"). Both right-wing economists and Concertación neoliberal economists were united in their support and defence of the neoliberal economic model. As such, the evidence provided above challenges views that highlight the alleged existence of two ideologically distinct coalitional blocs. For example, Castiglioni (2012: 262) asserts that "*the presence of two ideologically distinct coalitions has had a great impact on the content of Chilean social policy*". Nevertheless, ideological differences between the two main coalitions came to occupy a secondary role in Chilean politics as the dominant sector of the Concertación built a consensus with the Right centred on the commitment to market-oriented policies (which included the AFP system) and the utmost priority given to the respect for private property (Fuentes, 1999).

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<sup>105</sup> "Alliance for Chile" in English (called before "Democracia y Progreso"; see previous chapter). It was the title used at the time for the traditional coalition that grouped the two main political parties on the Right, namely: UDI and RN.

### *Crafting public consensus*

Since the transition to democracy, the “democracy of agreements” determined to a great extent the limits of possibility in Chilean politics (Donoso, 2013b). In this period under analysis, however, the idea of consensus reached a somehow higher state, a wider scope. As Barton (2002), Tedesco and Barton (2004) and others have argued, the media (especially *El Mercurio*) played a key role in naturalising the neoliberal economic model bequeathed by the authoritarian regime. In the case of the debate on the pension system, this role achieved new directions by the mid-2000s when the AFP system left the arena of “quiet politics” (see Culpepper, 2011). The main strategy in this regard was concerted efforts to craft apparent consensus on key issues of the pension system by gathering opinions from “technical experts” from the “whole political spectrum”. That is to say, this was *privileged media access* (instrumental power) augmenting *ideational consensus* (systemic power).

Nevertheless, such experts tended to be economists with doctoral degrees from the US, and representatives of only one segment of the political spectrum. That is, *El Mercurio* tended to cite as technical and knowledgeable sources, economists from conservative think tanks linked to the Right, and neoliberal think tanks linked to the neoliberal wing of the Concertación. Apart from specific articles written based on such opinions, *El Mercurio* usually covered events organised by organisations of the economic elite (e.g. ICARE, SOFOFA, and CPC) in which such technical experts participated, thereby expanding the idea of an alleged “consensus” around core issues of the AFP system. Obviously, the ideological proximity of the right-wing and Concertación economists mentioned above was functional for crafting such idea of consensus.

As we shall see in the next chapter, this tactic was constantly deployed by *El Mercurio*. Repeatedly, this newspaper attempted to expand the view that there was a sort of consensus among experts on the changes that the AFP system would require. In so doing, *El Mercurio* made every effort to limit the reform agenda. According to this newspaper, for instance, the overall consensus among “experts” during a conference

organised by Expansiva in March 2006 was to centre the discussion around three main issues: (1) coverage; (2) competition; and (3) to create incentives to increase contributions from independent workers (El Mercurio, 2006az). As such, through this mechanism the daily newspaper enhanced business' systemic power significantly by restricting the agenda and silencing dissenting voices.

Indeed, considering the list of speakers to the Expansiva's event, it is rather difficult to imagine that such a consensus had emerged among the participants. For example, Manuel Riesco gave a presentation at the conference. He is an economist from CENDA,<sup>106</sup> and long-time, staunch opponent of the AFP industry. In this context, it is almost impossible that participants have agreed on those three aspects raised by El Mercurio mentioned above. El Mercurio, however, highlighted the opinions of a handful of participants on the event in order to craft its article, highlighting the alleged consensus. The article entitled "*The issues that will mark the pension reform during 2006*", considered the opinions of only four participants, namely:

1. Ricardo Solari, outgoing Minister of Labour, close to the neoliberal wing of the Concertación;
2. Guillermo Arthur, President of the AAFP and member of the UDI;
3. Cristián Larroulet, Executive Director of LyD, think tank close to the UDI;
4. Ernesto Silva, Board member of CUPRUM AFP and UDI member as well.

From the opinion of such experts -whom, according to El Mercurio, represented the whole range of opinions about the pension system-, the conclusion was that there is "*consensus among technical aspects*" (El Mercurio, 2006az). As such, El Mercurio tried to convey repeatedly the idea that among "technical experts" there was a consensus over the convenience of maintaining the individual capitalisation system and the overall structure of the AFP system.

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<sup>106</sup> CENDA is a left-wing think-tank. CENDA stands for "Centro de Estudios Nacionales de Desarrollo Alternativo" (Centre of National Studies for Alternative Development").

### 7.2.3 Structural Power

Interviewed for this research, Regina Clark, member of the Marcel Commission, points out that *“at that time [late 1990s-early 2000s] there was a talk referring to the ‘straightjacket’ that the AFP system represented; no change to the system could be made. In other words, if you made some change to the system the country’s economy would end; there would be a major setback”*.<sup>107</sup> In light of this statement, it is difficult to escape the fact that the fear of disinvestment or a major economic crisis provoked by a major change to the pension system was too present in the debates, especially during the setting of the agenda. Given that major aspects of the reforms were determined during the first stage of the policymaking process, it is possible to state that structural power was determinant during the agenda-setting.

From an economic perspective, Alberto Arenas, high-ranking government official based at the Ministry of Finance since the late 1990s and Head of the powerful Budget Office during the first Bachelet Administration (2006-2010), offers a similar view.

Interviewed for this research, he points out that *“when people ask why you do not go further, or why you are so sensitive and careful, well because you are talking about a sum of capital accumulated in Chile that is equivalent to nothing more and nothing less than 70% of what Chile produces each year. So, when you want to change it by a little comma, you are not talking only of pensions, you see. The system carries significant weight in the country’s economy”*.<sup>108</sup> Therefore, along with systemic power, structural power played a critical role in restricting the agenda during the 1995-2005 period, and in focusing the debate on issues such as AFPs’ investment portfolios.

## 7.3 Conclusions

This chapter discussed the main dynamics related to business’ sources of power during the period 1995-2005. The aim of this chapter was to establish a clear link between the previous two more historical chapters (Chapters 5 and 6), and the subsequent two

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<sup>107</sup> Interview with Regina Clark, Member of both the Marcel Commission and Bravo Commission, 12 December 2018.

<sup>108</sup> Interview with Alberto Arenas, Head of the Budget Office 2006-2010, Finance Minister 2014-2015, 20 June 2017.

chapters which discuss more contemporary rounds of policymaking. The economic elite invested heavily in augmenting its sources of instrumental power, especially regarding its relationship with policymakers. This process involved the incorporation of leading neoliberal technocrats from the Concertación to the board of directors of the largest companies in Chile. This process also produced a simultaneous enhancement of the economic elite's systemic power, since it increased the legitimacy of the neoliberal economic model. There was general consensus over the beneficial aspects of the economic model bequeathed by the dictatorship. Having reviewed the main dynamics related to business power up to 2005, the next chapter will discuss the policymaking process that led to the 2008 pension reform during the first Bachelet administration.

## **Chapter 8. The debate of the 2008 pension reform: Progress at the Margins, 2004-2008**

## 8.1 Introduction

This chapter covers the policymaking process developed during the first Bachelet administration (March 2006-March 2010). During the 2005 presidential campaign pensions became one of the main topics on the agenda, which was determined by the widespread dissatisfaction with the privately run pension system (Ewig and Kay, 2011; Bril-Mascarenhas and Maillet, 2019) and a growing concern among top-level officials regarding the insufficiencies of the system (Arenas, 2010).<sup>109</sup> All presidential candidates pledged to make major reforms. Indeed, the promise of a reform to the pension system was the flagship proposal of the socialist Michelle Bachelet. She committed to appointing a special advisory committee that would analyse and propose reforms to the existing system. As promised, shortly after taking office Bachelet appointed the “Marcel Commission”<sup>110</sup> in March 2006, marking the first step in this policymaking process during her administration.

The policy process lasted until January 2008, when Congress passed Law 20,255 (Biblioteca del Congreso, 2008). This reform amounted to a second order change since it changed the settings of existing instruments and introduced new ones, but it did not challenge the pension system’s overarching goals. Among changes to existing instruments, the reform unified and expanded significantly the two means-tested pension schemes: the minimum-pension guarantee (established in 1980 with the DL 3.500) and the non-contributory assistance pension programme (called PASIS) created in 1975 (Valdés, 2009; Pribble, 2013). From then on, the lower 60% of individuals on the income scale, who have never contributed to the system, would be entitled to receive an old-age pension, called Basic Solidarity Pension. Undoubtedly, this change amounted to a significant shift in the provision of pension benefits as increased access and provided higher benefits. The increase in rates of coverage was significant: if, by 2006, 79% of senior citizens received some sort of pension, by 2008 such figure had reached 84% (Comisión Presidencial Pensiones, 2015). Also in terms of changes in the

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<sup>109</sup> Also interview with Guillermo Larraín, Superintendent of AFPs 2003-2006, 8 June 2017.

<sup>110</sup> Named after its chairman, Mario Marcel, former Head of Budget Office at the Ministry of Finance during the Lagos administration, 2000-2006.

settings of existing instruments, this reform further liberalised overseas portfolio investment. The reform lifted the 30% ceiling on foreign investment to 80% (Biblioteca del Congreso, 2008).

In terms of new instruments, the most significant change was a bidding system that forced AFPs to participate in auctions for monopoly rights over the portfolio of new affiliates. Policymakers sought to introduce more competition to the market via this mechanism, thereby reducing the fees charged by the AFPs. Overall, all these changes did not challenge the core of the system established in 1980-1981, since the basic model of private capitalisation individual accounts was maintained. Actually, as we shall see, the outcome of this policy process was welcomed by the economic elite: the model based on individual capitalisation was untouched, pension fund administrators maintained their market share, and the state provided pensions -funded by general revenues- to those citizens who could not contribute to their individual accounts.

In this context, the puzzle, thus, that this chapter seeks to address is why, in spite of the occurrence of high electoral competition, coupled with the fact that pensions had become a high-salience issue, did this policy process end up in a reform that did not challenge the existing paradigm? Furthermore, the reform somehow perfected and entrenched the pension system enshrined in DL 3.500 through the implementation of market- based mechanisms (the bidding system and the lift of the ceiling in foreign investment) and means-tested benefits.

One of the explanations for this outcome focuses on the role of policy legacies. Pribble (2013), for instance, contends that policy legacies influence the policymaking process by “structuring the distribution of power *within* the policy sector<sup>111</sup> – in other words, emboldening some groups while weakening others” (Pribble, 2013: 27). For Pribble and other authors such as Ewig and Kay (2011), therefore, “*the power of the Association of AFPs*” constitutes one of the main causal factors explaining the

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<sup>111</sup> Emphasis added.

resilience of the pension system during this period. Although certainly the previous design of policy has long-lasting effects, both in terms of emboldening/weakening some actors and influencing the scope for future reforms, the problem with this explanation is its narrow focus on the analysis of actors operating *within* a particular policy sector. As such, in this sense these authors miss the fact that the broad economic elite (not only the AFPs) had strong preferences towards the pension system and acted according to them.

Another body of research focuses on the role of political parties. Huber and Stephens (2012), for example, argue that the development of left parties tend to determine more egalitarian outcomes in the realm of social policies. Nonetheless, there is a problematic issue concerning political parties for the Chilean case in this period: as discussed in the previous chapter, ideological differences are less significant, especially between party elites, which had come to support the neoliberal model (see also Weyland, 2004). Indeed, as the Minister of Finance during this policy process asserted for this research,<sup>112</sup> the Concertación elite usually felt more comfortable discussing policies with the leadership of the opposition than with their own members of parliament.

A further stream of scholarly work has focused on the role of right-wing parties in blocking progressive reforms. For the case of this pension reform, for example, Pribble (2013) discusses the role of UDI (the right-wing party, linked to the legacy of the authoritarian government). In so doing, she acknowledges the fact that UDI's core constituency is the economic elite (Pollack, 1999; Luna, 2014; Siavelis, 2014a), and she illustrates how this party blocked in Congress efforts to increase state involvement in pension provision (for instance, through the creation of a state-owned AFP). Nonetheless, though the interests of the economic elite and a political party might be closely aligned, as in the case of UDI and the Chilean economic elite, political parties are not merely a transmission belt of business preferences. Moreover, as discussed in

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<sup>112</sup> Interview with Andrés Velasco, Finance Minister 2006-2010, 27 June 2017.

Chapter 3, political parties constitute only one of the channels through which economic elites seek to exert influence.

A third body of literature has focused on the role of electoral competition. Electoral competition tends to force politicians to respond to societal demands. Undoubtedly, increased electoral competition between the Concertación and the Right played a significant role in this policy process (Pribble, 2013; Garay, 2016). Garay (2010, 2016) asserts that electoral competition for the vote of outsiders constituted a powerful incentive for the Concertación to expand social programmes -albeit in a restrictive way- benefiting that group. Both Garay (2010, 2016) and Pribble (2013), illustrates the significance of this causal factor by discussing reforms in health sector and the pension reform under study in this chapter. Nonetheless, I contend that although electoral competition might be important to set the agenda, it does not necessarily determine the final content of the reform. For example, one of the main areas of contention in this policy process was the potential creation of a state-run AFP. The aims of this measure were to increase competition (via the inclusion of a public provider) and to reduce management costs by offering below-market pension fund fees. However, Congress did not pass this significant aspect of the reform since, among other factors, the Right in Congress opposed it and top officials of the Ministry of Finance gave lukewarm support to such a measure.

Hence, the analysis developed in this chapter contends that the causal factors discussed above are necessary but not sufficient to understand the outcome of this policy process. The powerful lobby exerted by the AFP (legacy of the 1980-1981 reform), the importance of electoral competition in setting the agenda, and the role of political parties certainly played a role in this process. However, I argue that we have to include in the analysis the sources of power of the whole economic elite in order to achieve a complete understanding of this process.

For example, in order to understand the failure in the creation of a state-run AFP we necessarily have to include in the analysis the preferences of the different segments of the economic elite. The creation of a state-run AFP was subject to the passage of an article of the reform that would have allowed the whole banking sector to set up AFPs (thereby also allowing the state-owned bank -called BancoEstado- to set up its own AFP). As such, most analysts explain this event purely as a conflict between the AFPs - which obviously opposed the measure since it would have meant a reduction in their market share- and the banking sector, which longed to enter into the “pension industry” (e.g. Bril-Mascarenhas and Maillet, 2019). In this way, the AFPs would have gotten the upper hand in this conflict because of their more effective lobbying capacity.

Nonetheless, the AFPs did not act alone. This was not a conflict between bankers and the AFPs only. The AFPs were able to block the entrance of banks partly because they counted on the support of the powerful industrialists’ association, the SOFOFA. The latter feared that in the short-term banks would take over the whole pension industry, thereby becoming the only source of credit. This situation would mean that eventually Chilean companies would have to pay higher interest rates and could put their bonds at lower prices in the financial market given the potential monopolistic position of the banking industry. Therefore, the inclusion of the economic elite in the analysis is critically necessary in order to achieve a more accurate picture of the policymaking process. Then, before undertaking the specific analysis of the policymaking process, I will present an outline of the argument of this chapter.

## **8.2 Outline of the argument**

One of the main contentions of this chapter is that, despite the rise of countervailing factors, the economic elite was able to successfully influence this policymaking process and safeguard their minority interests. During this period, several factors coalesced into altering to some extent the nature of Chilean politics in comparison to the dynamics observed during the first decade of democracy and discussed in Chapter 6.

Firstly, the beginning of the restoration of historically high levels of mobilisational power of subordinate classes played an important role. The most notable case of mounting pressure from below were the protests staged in 2006 by secondary school students -the so-called *Pingüino movement*<sup>113</sup>- against the segregating effects and neoliberal underpinning of the education system (Donoso, 2013a).

Sehnbruch (2010), in this context, also reports for this period an increase in social mobilisation surrounding labour market issues. She asserts that since the Bachelet government took office, there was an upsurge in labour mobilisation, strikes, and protests. In her analysis, she states that such high levels of mobilisation represented the breakdown of the consensus that had dominated the politics of labour markets since 1990: that economic growth would generate employment, leading to lower unemployment rates, increased wages and improved employment conditions. In a similar vein, Ruiz (2012) asserts that Chilean politics could no longer be constrained to the dynamics and terms that emerged from the transition to democracy in the period 1988-1990.

As discussed in the introduction, a second factor that explain these new dynamics is a sharp increase in electoral competition. Intense electoral competition gives politicians incentives to cater to marginal voters and deviate from business preferences (Fairfield and Garay, 2017). The first example of the acute electoral competition between the governing centre-left coalition, the Concertación, and the Right, took place in the 1999-2000 presidential elections, in which president Lagos unexpectedly won by a very small margin. Indeed, in the runoff election Lagos obtained a razor-thin victory of 180,000 votes (equivalent to half a point) over the right-wing candidate (SERVEL, 2019). Such growing electoral competition, therefore, led the centre-left coalition to further their programme on social policy expansion (Garay, 2016). In this context, the economic elite did not control the agenda completely in this policymaking setting.

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<sup>113</sup> Named after the students' penguin-like black and white school uniforms.

There was thus some political space for a societal discussion on the pension scheme bequeathed by the dictatorship.<sup>114</sup>

Yet despite all these changes in the political economy, the pension system changed much less than expected in this policy process, resulting in a mildly expansive reform. How is that possible? We need to consider the economic elite's strong sources of power, which sustained the continuity (and arguably the further entrenchment) of the individual capitalisation system. As we shall see, structural power played a key role in reducing the scope for policy alternatives during the agenda setting (see section entitled "2005 Presidential Campaign"). Regarding systemic power, it remained especially strong during this period. The dominance of neoliberal ideology acted powerfully and efficiently by limiting the development of a more expansive reform. The need to maintain "fiscal balance" and the absolute priority given to "economic growth" for the country's development were narratives that became powerful causal mechanisms. This causality arises from the fact that the dominant ideology directly restricted the reform agenda (especially by the development of an *ideational consensus* among different political coalitions and parties), and enhanced business' structural power.

Furthermore, a highly significant stage of the 2008 reform policymaking process -The Marcel Commission- was ideologically presented as "technical" (hence, allegedly apolitical) and free from partisan pressure. Systemic power also influenced policymaking at this stage through the mechanism of *attentional bias* and the *ideological shift* undergone by a fraction of the Concertación leadership. For Pribble (2013: 79), for instance, the "*commitment to the [AFP pension] system on the part of many Concertación political elites*" constitutes one of the main causal factors that explains the outcome of this policy process. Then, strong instrumental power determined that the economic elite continued to have privileged access to decision-making spaces. For instance, business interests were well represented in the Marcel

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<sup>114</sup> Interview, Adriana Muñoz, PPD Member of the Lower House periods 1990-1994 and 1998-2014, 15 September 2017.

Commission, as at least one third of the participants held links to the economic elite (Valdés, 2009).

In this context, at a more empirical -rather than theoretical- level this chapter challenges existing accounts of this policy process. The existing literature about this process tends to highlight the importance of formal, institutionalised loci for explaining the outcome. Garay (2016: 285-286), for example, asserts that negotiations among parties in Congress shaped this pension reform. Conventional wisdom also places too much weight on the Marcel Commission. For instance, the daily newspaper *La Tercera* stated that the “*Marcel Commission laid the foundations of the pension reform*” (*La Tercera*, 2008d). In the same vein, Borzutzky (2010, 2012, 2019) and Castiglioni (2018) highlight the role played by the Advisory Council. Borzutzky (2012: 87), for instance, asserts “*The Marcel Commission first identified the major problems (...) and it then proposed a number of solutions*”.

By contrast, this chapter contends that the most significant decision-making loci were not formal, institutionalised settings. Indeed, empirical evidence gathered for this research indicates that the agenda-setting was set well before Bachelet took power, during the Lagos Administration (2000-2006). Some key decisions, moreover, taken during the Marcel Commission itself were negotiated outside that formal decision-making instance, in informal settings. Once again, Congress, the major formal space for democratic deliberation, played a minor role in the process in the sense that there the discussion was very much restricted to a few aspects of the reform. More specifically, one of the main contributions of this chapter is to dismount the myth that this reform was based on the consultative process that took place at the Marcel Commission. On the contrary, the Commission constituted a mechanism implemented to filter social demands.

## 8.3 Analysis of the policymaking process

### 8.3.1 Agenda-setting

#### THE DEBATE DURING THE LAGOS PRESIDENCY (MARCH 2000-MAY 2005)

Contrary to conventional wisdom, the policymaking process of this reform started in 2004 during the Lagos administration (see Figure 8.1, below). Therefore, most of the agenda-setting for the 2008 pension reform occurred during that period (2004-2005). By 2003 there was a key change in the state agency in charge of overseeing the AFP system. The Christian Democrat economist, Guillermo Larraín, assumed his position as Chief of the SAFP, replacing Alejandro Ferreiro.<sup>115</sup> Early on, President Lagos entrusted Larraín to work on the design of a reform.<sup>116</sup> Alongside the fact that it was already quite obvious that the system was not going to deliver well-paying pensions, Larraín points out that an additional worry of President Lagos had to do with the industrial organisation of the scheme.<sup>117</sup> There were two intertwined problems: the high fees charged by the AFPs to their affiliates were too high by international standards, and the profits earned by AFPs were also excessively high (on average 27% return on equity) (Consejo Asesor Presidencial para la Reforma Previsional, 2006: 50-51). Indeed, Lagos himself pointed out: *“the fundamental issue for me was always AFPs’ high levels of profits; look, I do not know a regulated business in Chile in which owners make profits between 25 and 30%”*.<sup>118</sup> As such, the SAFP led by Larraín aimed at increasing market competition.

Under such circumstances, Larraín appointed a group of top economists to work on the assessments and the reform design. In brief, Larraín revamped the Studies Division within the SAFP. From early 2004 to 2005, this group of economists developed a rigorous assessment and designed a complete reform proposal (El Mercurio, 2006aj).<sup>119</sup> According to Larraín, they concluded that the AFP system had accumulated

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<sup>115</sup> Ferreiro is also a member of the PDC and participated in the Marcel Commission.

<sup>116</sup> Interview, Guillermo Larraín, Superintendent of AFPs 2003-2006, 8 June 2017.

<sup>117</sup> Interview with Guillermo Larraín, *ibid*.

<sup>118</sup> Interview with Ricardo Lagos, President of Chile 2000-2006, 7 August 2017.

<sup>119</sup> Also interview with Guillermo Larraín, Superintendent of AFPs 2003-2006, 12 December 2018.

an enormous “social deficit” over the years.<sup>120</sup> For example, the team estimated that only 2% of the retirees will make use of MPG by 2020 since most of the affiliates would not achieve the minimum conditions required to gain access to such a state guarantee (i.e. twenty years of contributions) (Berstein, Larraín and Pino, 2006). The influential economist, Andrea Repetto, member of Marcel Commission, recognises that the role played by Guillermo Larraín was crucial in setting a highly qualified team of economists.<sup>121</sup>

In this context, Larraín asserts: *“The proposals presented by the Marcel Commission had already been developed by us. The Lagos government did that reform. Therefore, there is a naïve reading of the role played by the Marcel Commission. I think the Commission did a good job, [it was] very well managed by Mario [Marcel], undoubtedly. Nevertheless, the thing is that the Lagos administration worked on this issue for three years. That administration was paving the way, talking to the stakeholders, organising seminars, preparing technical reports. Then all the documentation available for the Marcel Commission had already been prepared. Indeed, there was a bill prepared with specific articles. Therefore, of course, it is not surprising that in less than one year, approximately in six months,<sup>122</sup> the Marcel Commission has done a tremendous job, discussed the issue with 300 organisations and delivered a reform bill”*. Larraín’s statement is amply supported by press records (El Mercurio, 2006k, 2006w) and members of the Marcel Commission. Andrea Repetto also referred to this issue:

“For the Marcel Commission it was easy to carry out the assessment because much of the work had been done already.” (...) “I think that such work was very easy because everything was there (...) we were provided with the information that made evident [the need for changes], and there was work already done.”<sup>123</sup>

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<sup>120</sup> Interview, Guillermo Larraín, *ibid*.

<sup>121</sup> Interview with Andrea Repetto, Member of the Marcel Commission, 31 May 2017.

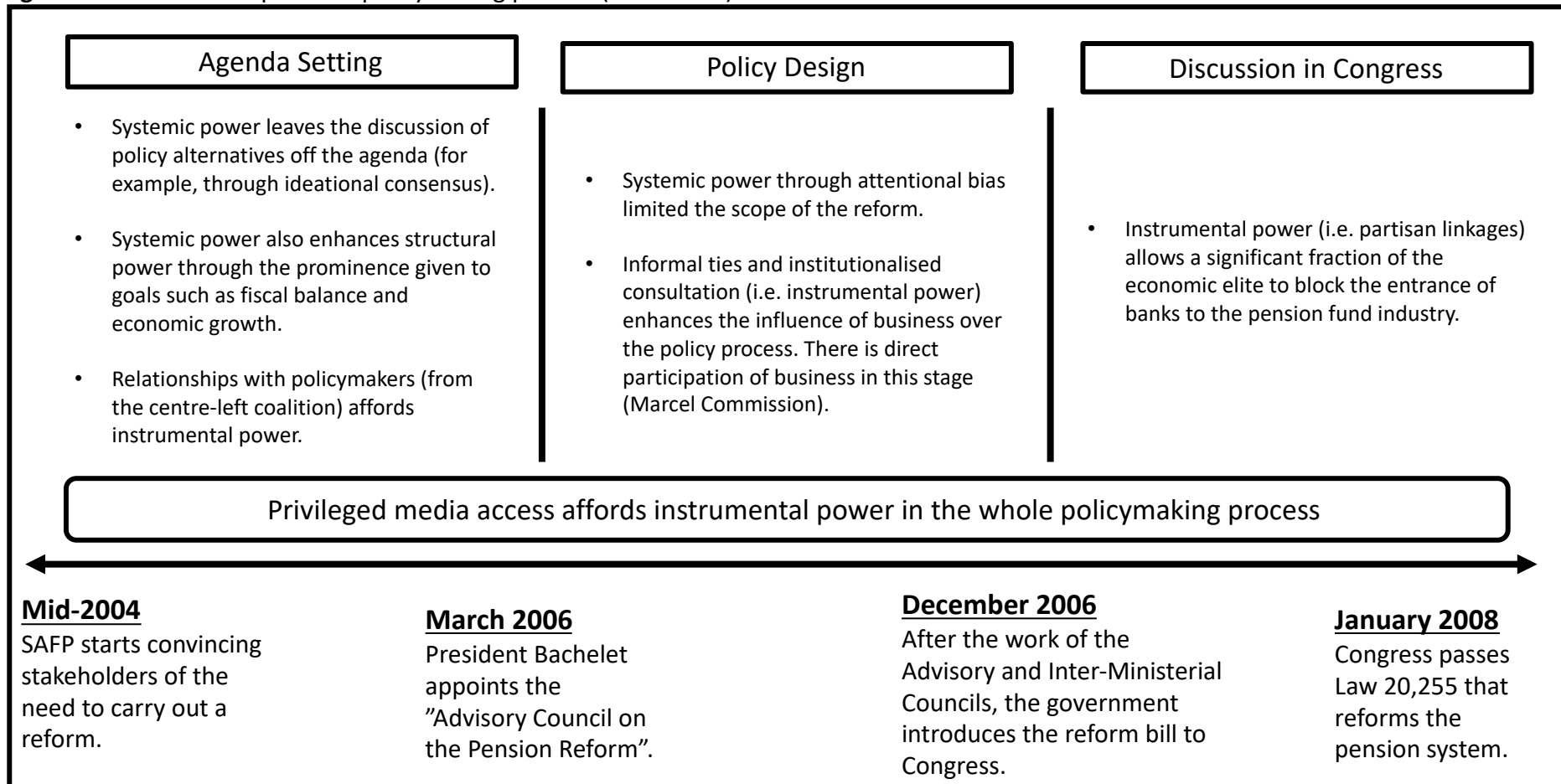
<sup>122</sup> Indeed, it was in three months.

<sup>123</sup> Interview with Andrea Repetto, Member of the Marcel Commission, 31 May 2017.

Then, the reform that the Superintendency had developed included, among other aspects, (i) increasing competition through the introduction of an auction mechanism, (ii) an overhaul of the rules regarding investment decisions in order to modernise the system (meaning lifting investment ceilings in international capital markets), (iii) and the expansion of the MPG and PASIS (El Mercurio, 2005i). These topics were to remain at the core of the reform proposal throughout the policymaking process. As such, the proposal rested very much upon market mechanisms to correct gross problems. The role of systemic power, thus, was very influential and significant in this period; other alternatives that could challenge the existing paradigm were off the agenda almost automatically, before any discussion, in spite of evidence that already showed the need for wide-ranging changes.

A top issue, in this context, was the proposal to introduce an auction mechanism. Broadly, the aim was to force fund managers to participate in an auction mechanism for monopoly rights over new enrollees. Through the introduction of a bidding system, Concertación policymakers sought to introduce more competition and, more importantly, to bolster the legitimacy of the pension system itself (El Mercurio, 2005h). The AFPs fiercely opposed this proposal from the very beginning, since they feared that such a measure would finally allow the entrance of the banking industry to the pension system (El Mercurio, 2005h, 2005a, 2006ax). Indeed, since at least the early 1990s, banks had constantly attempted to participate in the administration of Pension Funds (El Mercurio, 1990a, 1991). The other argument raised by AFPs against the introduction of the auction system was that it would entail a sort of “expropriation” (El Mercurio, 2005h). For Francisco Margozzini, general manager of the AAFP, the fact that the enrolment through an auction was mandatory (sanctioned by law and not by the individual’s decision) would constitute an expropriation.

**Figure 8.1.** Idealised steps of the policymaking process (2004-2008).



Source: author's elaboration.

During mid-2005, when there were still hopes that the Lagos administration might submit the pension reform to Congress, Guillermo Larraín focused part of his efforts on talking over the proposal with the economic elite, or “stakeholders”, as he puts it, interviewed for this research (see above). Interviewed by *El Mercurio*, Guillermo Arthur, president of AAFP, pointed out that they had discussed the reform with the Government (*El Mercurio*, 2005a). Then, on 24 October 2005, in a private meeting organised by ECONSULT, and with the participation of representatives from the Government, the AFPs, and “independent technical experts”, Larraín officially presented the reform bill (*El Mercurio*, 2005k). Most of the attendees were general managers of the AFPs. José Ramón Valente, from ECONSULT, promoter of the 2002 “multi-funds” reform (Valente, 2011)<sup>124</sup> and then adviser to the UDI presidential candidate, Joaquín Lavín, pointed out that he mostly agreed with the government’s proposal except for the introduction of the auction mechanism (*El Mercurio*, 2005k). The Superintendency led by Larraín worked on developing a space for discussion with the AFPs, aimed at getting the AFPs on board for a pension reform.

In this context, in his interview for this research, former president Ricardo Lagos stated: *“[Mario] Marcel told me -at that moment we were close to the run-off election: President, what if we now send to Congress the reform bill for [the creation of] the basic solidary pension”*.<sup>125</sup> Lagos goes on: *“The reform was entirely funded. Then I told him no, let’s leave the project for the next government”*. Afterwards, Lagos adds: *“At that moment I knew that the creation of the solidary pillar did not bother the AFPs. On the contrary; such reform solved their problem”*. Indeed, Andrea Repetto’s statements give support to the declaration of former president Lagos: *“Sure, Lagos left this issue to Bachelet. Because they had it [the reform] ready, they could have done it before”*.<sup>126</sup>

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<sup>124</sup> Also interview with Osvaldo Macías, former Chief of the Studies Division at Superintendency of AFPs 1994-2003, Superintendent of Pensions from 2016 to present, 17 December 2017.

<sup>125</sup> Interview with Ricardo Lagos, President of Chile 2000-2006, 7 August 2017.

<sup>126</sup> Interview with Andrea Repetto, *ibid*.

However, there was an additional reason for not pursuing this reform during the Lagos administration. Such reason had to do with the traumatic passage of the reform to the health sector (known as AUGE) in 2004, in which private insurers (called ISAPRES), the political right, and senators from the neoliberal sector of the Concertación fiercely blocked the creation of a Solidarity Fund (Ewig and Kay, 2011). In his interview for this research, Lagos made clear that the cosy relationship between the UDI and the economic elite (i.e. *partisan linkages*) was to be critical for hindering the reform process. The words of the Minister of Finance during Lagos administration, Nicolás Eyzaguirre, sum up the predominant political atmosphere surrounding this issue. Interviewed by El Mercurio, Eyzaguirre pointed out “*there is an inadequate regulation which renders the service [offered by AFPs] excessively expensive and makes them have monopolistic rents*” (El Mercurio, 2006ax). He then angrily attacked AFPs for systematically opposing any attempt to introduce more competition.

From the above account, two aspects are especially important since they determined the next stages of the policy process. First, when, as a candidate to the presidency, Michelle Bachelet decided to raise pensions as the flagship of her campaign, the Concertación already counted on a reform proposal which had already been designed. Secondly, potential changes had already been discussed with the economic elite and the AFPs.

#### 2005 presidential campaign (may 2005-january 2006)

The pension system became a key issue of the 2005 presidential campaign (El Mercurio, 2005f, 2005b, 2006aj). Bachelet promised to carry out a participatory reform (“*reforma ciudadana*” as she called it). In her words: “*this time we will indeed have a genuine reform guided by the interests of the beneficiaries and not for those of the fund administrators (...) This time the AFPs will not determine what reforms have to be done*”, she asserted (Bachelet, 2005: 29). Bachelet supported a participatory reform, pointing out that since 1990 most of the proposals passed in Congress had actually

arisen from the AFPs themselves, while those against AFPs' interests were stuck in endless legislative discussions (Bachelet, 2005).

In that context, discussions soon started within the campaign team about the proposal that the candidate should put forward to the public. There was a specific committee in charge of discussing and preparing a draft proposal. This committee was very much divided between two camps: the ones that supported changes within the system through market mechanisms (i.e. the continuity of the reform proposal developed during the Lagos administration), and those that pushed for a more structural reform focused on principles of social security (i.e. social democrat policy experts) (El Mercurio, 2005i). Economists from the Concertación dominant, neoliberal wing, and experts with ties to the AFPs and the economic elite mainly formed the former group.<sup>127</sup> Asked about the names that blocked or opposed a more structural reform, a member of such committee replied, *“do not make me say names; you have to check the information yourself; see which members of the Concertación are working, for example, on the boards of directors”*.<sup>128</sup>

Then, structural power -augmented by systemic power- played a key role in restricting the debate, and in tilting the balance toward the Concertación dominant neoliberal elite. In an interview for this research, Regina Clark points out that the main argument put forward by the neoliberal group at this stage was that a major change to the pension would collapse the economy. *“They were more conservative in this perspective because of that fear [of disinvestment]”*, declared Clark.<sup>129</sup> As such, at this stage a wide-ranging reform was successfully blocked and continuity with the agenda set by the Lagos government was sealed. Early on in the presidential campaign, in this context, Bachelet gave clear support to the Concertación neoliberal wing. One critical decision was the conformation of her economic team. Alejandro Foxley, former

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<sup>127</sup> Interview, Regina Clark, Member of both the Marcel Commission and the Bravo Commission, 12 December 2018.

<sup>128</sup> Interview, leading member of the Concertación who participated in Bachelet's presidential campaign, 1 June 2017.

<sup>129</sup> Interview with Regina Clark, *ibid.*

Minister of Finance during the Aylwin administration and leading member of CIEPLAN, became the economic spokesman for the campaign (Angell, 2007). As we saw in Chapter 6, he had undergone a sharp change in his ideological commitments, becoming an outright supporter of the prevailing neoliberal economic model. Later, Bachelet appointed a neoliberal economist, Andrés Velasco, as Finance Minister (see for example Velasco, 1994). These appointments epitomised Bachelet's contradictory stance: while she deployed a pro-change discourse during her campaign (Castiglioni, 2012), the appointments of Foxley and Velasco represented continuity rather than change.

Then, from August-September 2005, in the midst of the presidential campaign, Concertación neoliberal economists played a key public role in supporting a reform within the limits of the existing paradigm. For example, invited by ICARE to its XI Congress of Finance and Business, René Cortázar, Minister of Labour during the Aylwin administration and member of CIEPLAN (see Chapter 6), recognised that the pension system required changes but that such changes did not have to affect the system's structure. For Cortázar, changes should focus mainly on increasing competition, and to encourage voluntary saving for the poor and independent workers (El Mercurio, 2005c). The AFPs enthusiastically welcomed those remarks, especially Cortázar's words, saying that it was not appropriate to pursue "structural" changes to the Chilean pension system (El Mercurio, 2005h). Concertación neoliberal economists, however, suggested such limited reform proposals against a background that indicated unambiguously the need for a structural reform. In fact, El Mercurio itself reported that among the most telling weaknesses of the system was the 40% of affiliates that would not reach the MPG, given they had less than 20 years of contributions (El Mercurio, 2005j).

In spite of such evidence, the discussion remained within the margins of the system. Guillermo Arthur, president of the AAFP, showed himself to be confident when saying that *"I have looked at the declarations of every candidate and I think none of their*

*proposals constitutes a menace to the system*" (El Mercurio, 2005a). Regarding Bachelet's programme, Arthur praised the proposal on the expansion of existing non-contributory benefits and the MPG by stating that *"we could not agree more"* with the proposal of transforming them into a nearly universal pension benefit (El Mercurio, 2005a, 2005g). Apart from the overhaul of the solidarity pillar, Bachelet's promises were vague. The other concrete commitments were to convene an Advisory Council for the Pension Reform and to submit a bill to Congress by the second half of 2006 (El Mercurio, 2005b, 2006j).

### 8.3.2 The Marcel Commission

Soon after being elected, President Bachelet reaffirmed those commitments. In this context, the remainder of the policy process would proceed as follows: before introducing the reform bill to Congress, Bachelet would appoint an Advisory Council - the Marcel Commission- whose aim was to assess the pension system and propose reforms accordingly. Afterwards, the report produced by the Marcel Commission would be analysed by an Inter-Ministerial Council, a body specially constituted for that purpose and composed by ministers and undersecretaries. In this way, the definitive final reform bill introduced to Congress would be ultimately prepared by that Inter-Ministerial Council.

Therefore, a key issue soon after Bachelet took power was the composition of the Advisory Council. Then, on 13 March 2006, president Bachelet named the economist Mario Marcel, member of the Socialist Party and former Head of the Budget office during the Lagos Administration, as chairman of the council (El Mercurio, 2006am). As such, Marcel embodied the continuity of the agenda on pensions between the Lagos and Bachelet administrations. In his presentation, Bachelet asserted that the Commission would not be *"integrated just by experts from the Government, but also by experts on pensions and social actors"* (El Mercurio, 2006am). According to El Mercurio, the economic elite received with satisfaction the appointment of Marcel.

Finally, on 17 March 2006, the government enacted the “Supreme Decree” that created the “Presidential Advisory Committee for the Pension Reform”. Tellingly, the state agency that officially authored the decree was the Finance Ministry (Ministerio de Hacienda, 2006). This fact certainly constituted further evidence of the maintenance of the *shift in the locus of authority* established under dictatorship from the Ministry of Labour towards the Ministry of Finance, and a hint at the path that the policy process would take. The content of the decree immediately calls into question Bachelet’s real willingness to conduct a participatory process and to undertake a comprehensive review of the pension system. Regarding the latter point, the decree explicitly stated:

“The aim of the Council will be to elaborate proposals to reform the pension system *established in the decree law No 3.500 of 1980*. Such proposals will be oriented toward solving the main problems of the current, existing system (...)” (Ministerio de Hacienda, 2006).

In sum, the decree restricted potential changes to the limits imposed by the pension system created via the DL 3.500. Moreover, the decree neither recommended nor established any sort of legally binding participatory process. The Council formally began its work on 21 March 2006 (El Mercurio, 2006aw). In terms of its composition, 15 experts composed the Council. Although there were no *direct* AFP representatives, there were experts with close links to the Pension Fund industry. Approximately half of the Marcel Commission’s membership had strong links to the AFP industry. Participants like Axel Christensen, Martín Costabal (see Chapters 4 and 5), and Augusto Iglesias had been top-executives of some AFPs in the past, and they continued to be linked to the pension fund industry at the time of their appointments. The presence of these business representatives afforded the economic elite instrumental power in the form of *institutionalised consultation*. Moreover, most of the membership linked to the centre-left had links to the Concertación neoliberal wing, which supported the maintenance of the system (five out of eight members).

Following the discussion on *ideational consensus* developed in the previous chapter, both the economic elite and the government successfully created the public perception that the composition of the Commission was representative. It was an attempt to legitimise the Council. El Mercurio, for instance, reported that *“the Marcel Commission is composed of experts from every political sector”* (El Mercurio, 2006bb, 2006at). However, the composition of the Marcel Commission did not reflect the diversity of existing stances on the pension system. Workers, for example, did not have representatives in the Council.

The AFPs –and the economic elite in general- welcomed the composition of the Advisory Council (El Mercurio, 2006at, 2006e, 2006m). Revealingly, the CEO of COMPASS GROUP Chile,<sup>130</sup> declared, *“It is difficult to think that a commission like the one that has been appointed could have been better”* (El Mercurio, 2006u). The words of Antonio Ortúzar, president of PLANVITAL AFP, indicate the importance that the Marcel Commission had for the economic elite: *“If the Commission did not exist, and the reform bill had reached Congress directly, it would have been worrying indeed”* (El Mercurio, 2006ag). In fact, the government and the economic elite had good reasons to somehow “bypass” Congress. After the 2005 parliamentary election, the composition of Congress was more left leaning, so if Bachelet submitted the reform bill directly to Congress, she would run the risk of losing control of the policy process (Pribble, 2013: 79). Interviewed for this research, Finance Minister Andrés Velasco confirms that the composition of the Marcel Commission pleased AFPs: *“the composition of the [Marcel] Commission had a soothing effect on them”*.<sup>131</sup> The Marcel Commission was, however, legitimised as a participatory mechanism, when in reality it was exactly the contrary. It acted as a filtering mechanism to legitimise a reform that has already been developed and mostly agreed between representatives of the state and the economic elite.

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<sup>130</sup> COMPASS GROUP is one of the most important asset managers in Chile.

<sup>131</sup> Interview with Andrés Velasco, Finance Minister 2006-2010, 27 June 2017.

Former members of the Marcel Commission interviewed for this thesis confirm that the council's agenda was restricted. Andras Uthoff, for instance, pointed out "*the commissions are negotiated beforehand, it is not the case that you arrive there and we ask ourselves: well what can we do to improve the system?*".<sup>132</sup> "*The feeling that you get is that the conversations began before the actual work of the Commission*", he added. Likewise, Regina Clark, asked if she thinks that the outcome of the Commission was somehow "pre-cooked", she replied: "*well, that was what I wanted to tell you about. Yes, I believe that yes*" (see also Clark, 2007).<sup>133</sup> The fact that the commission received instructions about what was debatable and what issues should remain off the agenda is also echoed by declarations given to the press by another member of the Commission, Jaime Ruiz-Tagle: "Actually, the task that President Bachelet gave us (...) was to make changes within the regulatory framework established by the DL 3.500 and not out, because there were no chances [of going beyond those limits] (El Mostrador, 2016c)."

Once established, El Mercurio made every effort to influence the Commission's agenda. Given the proximity of topics "proposed" by the daily newspaper, the agenda set during the Lagos administration, and the information coming from Commission insiders, it is difficult to think that there were not negotiations behind the scenes, as Uthoff indicates in his interview for this work. For instance, the very same day in which the Commission started its work, El Mercurio reported that the "main challenges" of the Commission were (1) to introduce more competition; (2) to increase the coverage; and (3) to increase the returns of the funds (i.e. to liberalise investment ceilings) (El Mercurio, 2006ar). Furthermore, the newspaper resorted to the common practice of creating the perception that there was a shared, broad consensus about the policies that the Commission should follow (e.g. El Mercurio, 2006at).

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<sup>132</sup> Interview with Andras Uthoff, Member of both the Marcel Commission and the Bravo Commission, 19 May 2017.

<sup>133</sup> Interview with Regina Clark, Member of both the Marcel Commission and the Bravo Commission, 12 December 2018.

In this context, the ideational homogeneity of the Commission was important for completing its work in just three and a half months. Asked about the reasons why the Marcel Commission was successful in submitting a report in such a short time, Augusto Iglesias asserts, *“there was a technical homogeneity and certain common visions in the group that Mario [Marcel] formed”*.<sup>134</sup> Alejandro Ferreiro concurs with the view of Augusto Iglesias: *“[the government] convened a Commission (...) that was much more homogeneous and predictable [than the Bravo Commission; see next chapter].”*<sup>135</sup>

In this way, we can observe the influence of systemic power when it becomes a dominant cognitive framework. Following Jacobs’s (2015) conceptualisation of attentional mechanism (see Chapter 3), we can see how, in spite of having all the evidence pointing to the need for a wide-ranging, profound reform, policymakers participating in the Marcel Commission failed to develop a decision-making process accordingly. Indeed, they continued to be attached to market-based mechanisms as solutions to the gross weaknesses of the system. For instance, Alejandro Ferreiro was twice interviewed for this research. The first interview took place on 30 May 2017, in the midst of the discussion which emerged during the rise of the social movement “No + AFP” (see next chapter). Asked why, after less than ten years after the passage of the 2008 pension reform, the topic was once again top on the agenda, he answered:

“I ask myself the same question, but in a different sense: why were we not able in 2006 in the context of the Marcel Commission -where we had some time to think, where there was less pressure from below- to reflect on the necessary reforms to the pension system. Why did we not anticipate that the rate of contribution was insufficient, for instance. There were some discussions in this sense, but it did not take off.”<sup>136</sup>

Then later in the interview he comes back to the point:

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<sup>134</sup> Interview with Augusto Iglesias, Member of the Marcel Commission, Undersecretary of Labour and Social Security 2010-2014, 5 June 2017.

<sup>135</sup> Interview with Alejandro Ferreiro, Superintendent of AFPs 2000-2003, Member of the Marcel Commission, 30 May 2017.

<sup>136</sup> Interview with Alejandro Ferreiro, *ibid.*

“But, but, for some reason (...) we did not realise that the rate of contribution, despite that, on the average, it was objectively lower than of OECD countries, was insufficient to fund pensions such as those people like.”

Hence, Ferreiro recognises that by 2006 they had already realised the need to increase contributions, but they discarded that from the agenda. It seems that an attentional mechanism directed his attention away from the evidence that challenged the dominant neoliberal framework. Indeed, there was not much to “anticipate” as Ferreiro puts it. As discussed above, assessments developed by the Superintendency from 2004 onwards already showed an immense “social deficit”. However, the Commission insisted on a proposal based on residual, means-tested mechanisms and relying on market-mechanisms. Ferreiro’s comments, in this regard, resonate closely with the view of Augusto Iglesias:

“I think that we all have to voice a *mea culpa*. I think that everybody or almost everybody (and I include myself in this) ... we did not realise at the appropriate time -and with the necessary strength- the problem of low pensions that was coming (...) [However] we had the problem already very well assessed... you read the report of the Marcel Commission and there it is all clear. There is a whole assessment that has not changed at all since then, over what factors are negatively affecting pensions. However, when it came to conclude... but when the time came to make a proposal from that assessment, I mean, the proposal [that we made] it might appear a bit blurred.”<sup>137</sup>

In sum, according to Iglesias, the Commission understood the problem but something happened when the moment came to propose changes from such assessment. Again, it seems that the attentional mechanism prevented the Commission from making thorough recommendations and not just an expansion of the existing mechanisms (e.g. the MPG and PASIS). As such, I contend that systemic power operated precisely as one of the most significant causal mechanisms that restricted the Commission’s agenda, blocking at this stage the development of a comprehensive reform.

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<sup>137</sup> Interview with Augusto Iglesias, Member of the Marcel Commission, Undersecretary of Labour and Social Security 2010-2014, 5 June 2017.

## OUTCOME OF THE MARCEL COMMISSION AND THE REACTIONS OF THE DIFFERENT PLAYERS

On 6 July, the Marcel Commission handed in its final report. One day before (5 July), El Mercurio had access to the main conclusions of the report and published an article with full details of the main aspects (El Mercurio, 2006a). According to the newspaper, a “technical approach” prevailed to propose measures. The main proposals were (El Mercurio, 2006as, 2006aq):

- i. To increase the retirement age for women from 60 to 65 years (that is, to equalise the retirement age of women and men).
- ii. A universal basic pension that would replace the existing non-contributory scheme (PASIS). The report, however, did not propose a specific mechanism to fund such expansion.
- iii. To allow new actors, such as banks and insurance companies, to participate in the pension industry. On the condition, nevertheless, that such companies create special subsidiaries maintaining the “single line” of business.
- iv. To gradually ease ceilings for investing abroad.
- v. To introduce an auction mechanism for new affiliates.

Overall, these recommendations mark continuity with the agenda set during the Lagos administration. In general, the economic elite received this report with satisfaction. For example, Mikel Uriarte, President of the Chilean Insurance Association, stated “*We think that [the report] maintains the basics of the system of individual capitalisation, and it perfects the issues that require improvements*” (El Mercurio, 2006au). Like the general stance of the economic elite, AFPs also welcomed the report (El Mercurio, 2006aa, 2006ay). For the AFPs, the report’s main conclusion was that the system was not in crisis and, very importantly, it showed “*a technical consensus on the issue*” (El Mercurio, 2006ay). Nonetheless, they harshly rejected once again the introduction of an auction mechanism as it would limit new affiliates’ freedom of choice (El Mercurio, 2006ae, 2006l, 2006aa). AFPs, meanwhile, strongly supported the expansion of the

MPG and PASIS because they thought it would be a way of legitimising the whole pension system. In this context, the only aspect that raised conflict within the economic elite was the proposal on allowing banks and insurance companies to create AFPs. While the AFPs opposed such a measure (El Mercurio, 2006d), the ABIF, the banking association, explicitly requested to the Commission the permission to enter into the “pension business”. This conflict was to emerge strongly during the parliamentary discussion (see below).

As for the Right, it cheerfully praised the report. In the article entitled “*The Alliance celebrates the performance of the Marcel Commission*”, RN and UDI “*enthusiastically*” celebrated the work of the Commission using carefully crafted language: “*the work was very positive*”, and “*highlighted the fact that the technical team had been cleansed of political criteria which are ‘harmful for the affiliates’*” (El Mercurio, 2006f). Overall, the Right, aligned with the economic elite, praised the maintenance of the core of the scheme: the individual capitalisation system.

Surprisingly, the report also received the support of Arturo Martínez, president of the CUT. He argued “*it is very close to what we have been suggesting*” (El Mercurio, 2006au). This statement is rather surprising because the final report did not take into account almost any of the major proposals raised by the CUT. For example, on the opening day of the hearings of the Marcel Commission (4 April 2006), the workers’ federation proposed to create a Solidarity Fund and the establishment of an employer contribution (El Mercurio, 2006i, 2006ak). At any rate, in this context, the CUT’s stance appeared incoherent, hesitant, to say the least. Moreover, days after praising the report, the federation called for social mobilisation aimed at strengthening the federation’s position in future instances (El Mercurio, 2006q). This resonates well with what Barría, Araya and Drouillas (2012) have shown in their analysis of the CUT under the Bachelet administration: the CUT held an acquiescent stance during the policymaking process. The lack of power from below ultimately gave a very strong advantage to the economic elite since there was no real counterbalance.

Indeed, the lack of a proper counterbalance to business power had become an enduring feature of post-authoritarian Chile (Barrett, 2001). Concertación governments attempted to correct the imbalance of power between capital and labour through a number of reform attempts. This was especially the case during the Lagos Administration, who promised that a comprehensive labour reform would be on top of his government's agenda (Taylor, 2004; Sehnbruch, 2006). As Sehnbruch (2006) shows, there were a number of attempts from the mid-1990s to the early 2000s to introduce changes such as the re-establishment of obligatory collective intercompany bargaining and to abolish the right of companies to hire replacement labour during strikes. Surely, if those reforms had been passed by Congress the balance of power would have changed. In this context, it seems that the lack of structural changes to labour policy is driven by the same underlying causal factors that have determined the lack of paradigmatic changes in pensions. Actually, those reform attempts were met by the fierce opposition of the economic elite (Barrett, 2001; Taylor, 2004: 89; Sehnbruch, 2006: 64). In this context, the acquiescent stance of the CUT contributed to the overall supportive consensus around the Marcel Commission's proposals.

### 8.3.3 Inter-ministerial Council

At this stage, there was some uncertainty regarding to what extent the government would actually reflect the conclusions of the Marcel Commission in the reform bill introduced to Congress (El Mercurio, 2006bc). AFPs, in this context, strategically mobilised their power resources to keep the process under control. As such, PROVIDA, the largest AFP, carried out a significant adjustment to the composition of its board. It replaced two directors who were former Pinochet cabinet members -Fernando Léniz and Miguel Ángel Poduje- by two prominent figures of the Concertación. These figures were José Antonio Viera-Gallo, member of the Socialist Party, and Ximena Rincón, ascendant figure in the Christian Democrat Party (PDC) (El Mercurio, 2006bc). The strategy, therefore, was again -see previous chapter- to augment their sources of

instrumental power by developing closer and stronger links with the leadership of the Concertación.

Then, after receiving the report from the Marcel Commission, the government committed itself to submit to Congress the reform bill before the end of the year (El Mercurio, 2006r). As such, the Inter-Ministerial Council began its work on 13 July 2006, shortly after the Marcel Commission had handed in its report (El Mercurio, 2006n). President Bachelet entrusted Osvaldo Andrade, Minister of Labour and Social Security, with the leadership in this instance. In this context, the rivalry between the Finance Minister, Andrés Velasco, and Osvaldo Andrade marked the work of this Council. Although their strong differences were evident since the beginning of the process (Borzutzky, 2010),<sup>138</sup> this conflict became more acute at this stage. Indeed, right after the Inter-Ministerial Council had begun its work the two ministers engaged in a dispute over the mechanism to fund the pension reform (El Mercurio, 2006h). The positions and rivalry of these two ministers somehow reflected the conflicts between the dominant, neoliberal wing of the Concertación (represented by Velasco), and the more progressive, social-democrat wing, represented by Andrade. Besides, this rivalry both reflected and was determined by the shift in the locus of authority over decision-making -that empowered the Ministry of Finance- established during the military regime and sustained during the Concertación administrations.

Upon taking office, then, Andrade attempted to play a leading role, advancing an agenda favourable to affiliates. With little success, he tried to address pending issues, which dated from the 1989 presidential campaign (see Chapter 6). For example, he declared that it was necessary to give more decision-making power to AFPs' affiliates, securing an effective representation as owners of such funds (El Mercurio, 2006g). *"Otherwise, what kind of ownership are we talking about?"* he declared. The economic elite, in this context, grew nervous about Andrade's prominence. *"The business sector is worried about the importance gained by the Minister of Labour, Osvaldo Andrade,*

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<sup>138</sup> Also interviews (i) Andrea Repetto, *ibid*; (ii) Regina Clark, *ibid*.

*who is close to the less moderate wing of Concertación*”, reported El Mercurio (El Mercurio, 2006ad). El Mercurio then began a systematic attack on Osvaldo Andrade, eroding his authority, and simultaneously strengthening Velasco’s position (e.g. El Mercurio, 2006bi).

Then, empowered by the ministerial hierarchy established in dictatorship, Velasco held a very strong and influential position in Cabinet. Interviewed by El Mercurio, president Bachelet mentioned a revealing anecdote, which sheds light on the extent of Velasco’s influence. Asked about how she took decisions on government spending, she replied: *“(…) every time that I am with Andrés Velasco I tell him: ‘Look, I agree with all this, but now tell me, how further we can go? Can we go a little further?’”* (El Mercurio, 2006ah). As such, presidential decisions were conditional upon the criteria established by (or rather, the approval of) the Finance Minister. Important figures in the Concertación resented the dominance of Velasco. For instance, Adolfo Zaldívar, president of the PDC, declared *“I voted for Michelle Bachelet, but nowadays the Finance Minister is in command”* (El Mercurio, 2006av). Likewise, interviewed by La Tercera, the vice-president of the Senate, Carlos Ominami, asserted, *“the supremacy of the Finance Minister was an abnormality and was something of a return to the last period of the authoritarian regime”*. Then, he pointed out *“the Minister of Finance became the main authority and he is taking decisions which fall under the responsibility of others”* (La Tercera, 2008b).

In this way, Andrade soon lost the leadership of the Inter-Ministerial Council. Actually, in its very first meeting, the Council decided to delegate to Alberto Arenas, Head of the Budget Office, the task of preparing the reform bill with a special team.<sup>139</sup> In practice, this decision meant that the Ministry of Finance became the main locus of decision-making. This was the case since Arenas was a top official of such ministry and subordinate to Andrés Velasco. In this context, the reform bill was completely

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<sup>139</sup> The team members were Alejandro Micco, from the Finance Ministry, Solange Berstein, Superintendent of AFPs, and Lissete García, Undersecretary of Social Security

designed by the Ministry of Finance. Asked about how the process was when it came to the phase of designing the actual reform, Velasco asserted:

“The truth is that the decisions were taken in a small technical team. That is to say, once Marcel had done his job we had a team that took the central decisions of the reform in which four persons participated. We were [along with Velasco himself] Alberto Arenas, who was the executive secretary of the Marcel Commission; the Superintendent of AFPs, Solange Berstein, in whom I had very much technical confidence because she was a first-rate woman; and Alejandro Micco, who was the chairman of Capital Markets at the Finance Ministry.”<sup>140 141</sup>

Andrade and the progressive wing of the Concertación thus became losers in this policymaking process. He was not able to enshrine in the reform bill any of his major points. As such, the Inter-Ministerial Council marked a stark continuity with the Marcel Commission, and meant a victory for Velasco, the economic elite and for the Concertación dominant neoliberal cross-party network. Indeed, the project submitted to Congress included all the major recommendations made by the Marcel Commission. Among the most important aspects, it considered:

- A universal minimum non-contributory pension for the poorest 60% of the population, called Basic Solidarity Pension (PBS<sup>142</sup> by its initials in Spanish),
- A series of top-ups called “Solidarity Welfare Pension” (APS<sup>143</sup> by its initials in Spanish).
- The introduction of the auction mechanism.
- The entry of new players into the AFP system, such as banks and insurance companies.
- It raises the ceilings of (and liberalises) AFPs’ investment holdings in international capital markets.

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<sup>140</sup> All of them were highly trained economists. Velasco himself has a PhD in Economics from Columbia University. Meanwhile, Arenas holds a PhD in Economics from the University of Pittsburgh. Berstein also holds a PhD in Economics, but from Boston University, and Alejandro Micco holds one from Harvard University.

<sup>141</sup> Interview with Andrés Velasco, *ibid.*

<sup>142</sup> Pensión Básica Solidaria.

<sup>143</sup> Aporte Previsional Solidario.

Therefore, this policy process did not differ very much from the top-down, technocratic approach in which the Concertación had thus far developed policymaking. In sum, in spite of the more participatory façade given by the Marcel Commission, the policymaking process of the 2008 pension reform represents, therefore, far more continuity than change.

#### 8.3.4 Parliamentary discussion

Once the bill entered Congress, the discussion was limited to four main issues, namely: the amount of the universal solidarity pension, the upper limit of the solidarity contribution, the pace of the overall implementation of the solidarity pillar, and, most notably, the entry of new actors to the AFP system.

At this point, AFPs' rejection of the introduction of the auction mechanism was more of a strategic position aimed at blocking further changes. Broockman (2012) shows that business actors might strategically misrepresent their preferences in order to advance alternatives that are more limited. In this regard, the introduction of the auction mechanism had been discussed with the AFPs at least since 2004,<sup>144</sup> so it was nothing new for them. Moreover, for Andrés Velasco that motion was a priority for the government: *"first, we were determined to put more competition into the system; second, this seemed the most efficient mechanism"*.<sup>145</sup> Alberto Arenas concurs with Velasco's view: the auction mechanism was *"out of the question"*.<sup>146</sup> In this context, it is clear that AFPs were overstating their opposition during the policymaking process (e.g. *"the auction mechanism would be an expropriation"*) in order to extract a further concession from the Government and Congress (i.e. to block the creation of a state-owned AFP).

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<sup>144</sup> Interview, Guillermo Larraín, Superintendent of AFPs 2003-2006, 12 December 2018.

<sup>145</sup> Interview with Andrés Velasco, *ibid.*

<sup>146</sup> Interview with Alberto Arenas, Head of the Budget Office 2006-2010, Finance Minister 2014-2015, 20 June 2017.

However, as never seen before in the politics of post-authoritarian Chile, the pension industry had to work strongly in order to obtain their preferred outcome. This time AFPs thus had to play *realpolitik* across the corridors of the Chilean Congress, convincing legislators to block the real, existential threat -as the AFPs viewed it- to the individually managed pension system. Such “existential threat to the AFP system” was certainly not the auction mechanism but the potential creation of a state-owned AFP. Such was the main contentious issue of the reform since the bill included a motion that allowed the entry of insurance companies and banks. The latter included the state bank, BancoEstado, which meant that the old spectre of the existence of a state-run AFP could indeed become real this time. Alberto Arenas points out that in this context both the AFPs and the banking system centred most of their lobby efforts in Congress on just one motion of the mammoth reform bill: article 81.<sup>147</sup> Such article was the one that allowed banks to directly create AFPs as their subsidiaries. It is important then to grasp that the main controversial point was not the entry of banks *per se* (actually, some international banks already owned AFPs as subsidiaries), but the potential creation of a state-run AFP. As the then Finance Minister Andrés Velasco puts it:

“The thing is that there are two different issues. One is if banks could or could not participate; put aside the BancoEstado for a moment. That was a hot issue but one has never to forget that a good number of [international] banks already had an AFP. Therefore, it was a topic that had a more symbolic element than a real one, right. Because PROVIDA, for instance, was already owned by the BBVA<sup>148</sup>... Then there were ways for a bank to participate in the pension business if they really wanted to be in it. It could not do it directly, it had to do it indirectly: it had to create a holding, after the holding to build two subsidiaries... it was not impossible, ok. So, in reality in this sense I believe [this discussion] had a more symbolic than real meaning. If the other actors, like for example Citibank, had wanted to enter in [the pension system], they would have done so. In a way a bit more expensive, a little bit more uncomfortable, but they could participate with the law as it was. And afterwards there is the topic of the BancoEstado.”<sup>149</sup>

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<sup>147</sup> Interview, Alberto Arenas, *ibid.*

<sup>148</sup> Spanish bank.

<sup>149</sup> Interview with Andrés Velasco, *ibid.*

The creation of a state-run AFP was a nightmare for the AFPs -and the economic elite as a whole- for two main reasons. Firstly, AFPs feared that the creation of a state AFP might have caused a true stampede of affiliates from the AFPs to the state-run pension fund manager.<sup>150</sup> In this context, Alberto Arenas pointed out that the creation of state-run AFP meant for the AFPs “*the beginning of the end*”.<sup>151</sup> Indeed, BancoEstado is a well-known, highly regarded state-run bank,<sup>152</sup> so the AFPs view a massive transfer of affiliates to the state-run AFP as a real, great threat. Then, the second reason for blocking the entry of domestic banks, and thereby the participation of BancoEstado, was the uncertainty regarding how the new state AFP would use its shareholding rights in the boards of private companies in which it would invest (El Mercurio, 2008d). The economic elite feared that the state could intervene in the management of the main private companies through the state-run AFP. In fact, one senator of the right-wing coalition, Alianza por Chile, anonymously informed El Mercurio that the opposition to the entry of banks arose fundamentally out of the possibility that the BancoEstado created an AFP. Otherwise, the incorporation of banks to the “pension business” would not raise so many suspicions (El Mercurio, 2008d).

In this context, the banking sector was very much alone in its efforts to enter the pension fund industry. Other segments of the economic elite opposed the entry of banks and sided with the AFPs. Firstly, most of the economic elite opposed the entry of banks because of their fears of State intervention through BancoEstado mentioned above. The second reason was that the economic elite feared that banks would gain control of the pension fund industry thereby acquiring a virtual monopoly position on domestic sources of credit (El Mercurio, 2006af). This situation would mean that eventually Chilean companies would have to pay higher interest rates and could put their bonds at lower prices in the financial market given the potential monopolistic position of the banking industry. As such, the industrialists’ peak association, SOFOFA,

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<sup>150</sup> Interviews (i) Sergio Aguiló, PS Member of the Lower House 1990-2018, 4 October 2017; (ii) Carlos Ominami, Minister of Economy 1990-1992, PS Senator 1994-2010, 7 July 2017; (iii) Alberto Arenas, Head of the Budget Office 2006-2010, Finance Minister 2014-2015, 20 June 2017.

<sup>151</sup> Interview with Alberto Arenas, *ibid*.

<sup>152</sup> Interview, Andrés Velasco, *ibid*.

and the National Chamber of Commerce and Tourism (the CNC) explicitly opposed the entry of banks to the AFP industry (El Mercurio, 2006b). In his presentation to the Marcel Commission, Bruno Philippi, president of SOFOFA, was emphatic when stating that his associates opposed the entry of banks, defending the “importance” of maintaining the “single role” of AFPs in order to “*avert potential conflict of interests*” (El Mercurio, 2006o, 2006ab). In reality, SOFOFA felt threatened by a potential “financial intermediation concentration” if banks entered the AFP industry and took over the sector. As we have seen in Chapter 6, AFPs were the main buyers of bonds issued by companies associated with SOFOFA.

Furthermore, the business encompassing association, the CPC, held a neutral position during the debate, which ultimately favoured the AFPs. CPC leadership based their neutral stance on the fact that this association was a collegiate body with different visions of the issue (El Mercurio, 2006o). On balance, then, this scenario meant that it was going to be very hard for the banking industry to gain access to the AFP system. Being against the AAFP, the powerful SOFOFA, and the Chamber of Commerce, and not counting on the support of the CPC, the likelihood that ABIF’s attempts were to be successful was virtually nil.

As for the AFPs, the sense of facing an “existential threat” was largely compounded by the new composition of the Congress after the 2005 general elections (El Mercurio, 2006s). In the congressional elections of 2005, the Concertación had won the majority in both houses of Congress for the first time since 1989 (Angell, 2007). This outcome is partly explained by the fact that it would be the first in which the Senate would not have the distorting effect of the so-called institutional senators, who usually banded with the Right. In this context, the conflict between the AFPs and the banking industry rapidly heated up during the parliamentary discussion (El Mercurio, 2007g).

## LEGISLATIVE PROCESS

The Chamber of Deputies passed the bill with no significant changes and on time (in September 2007). There the discussion centred on the need to raise the level of the benefits considered in the solidarity pillar (Biblioteca del Congreso, 2008). Still, there was a significant discussion on the motion that allowed banks to create AFPs as subsidiaries; *“the fight was constant between the two industries [AFPs and banks] and the lobby of both groups was intense”* (El Mercurio, 2007g). Alberto Arenas, at that moment the key official that oversaw the parliamentary process, also asserts that there was an intense lobby from both banks and AFPs across the political spectrum.<sup>153</sup> Then, although the motion that allowed banks to create AFPs as branches was mostly approved with votes from the Concertación, it still received support from some deputies from the Right (Biblioteca del Congreso, 2008: 1071-1072). However, the conflict was to be even stronger in the Senate.

The words of the leader of the banking association, Hernán Somerville, reflect the above analysis very well. In order to secure the votes of left-wing deputies, he cannily strengthened his position with the argument that the entry of banks also meant the creation of a state AFP:

“I said this business is also for BancoEstado, because I cannot make a distinction between BancoEstado and other Chilean banks, it would be unconstitutional and silly. That was my argument with many socialist deputies. You want a state-run AFP, then approve this bill (...) I told them, look, the easiest way of having a state-owned AFP is that you pass this reform bill and then allow BancoEstado, Banco de Chile, and whoever wants it. Therefore, those were the arguments. I spoke with most members of the Lower Chamber.”<sup>154</sup>

However, the scenario was less favourable for the banking sector in the Senate. The Concertación had lost the majority there because a series of defections had occurred (El Mercurio, 2008c). Furthermore, defecting senators banded with the Right. For

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<sup>153</sup> Interview, Alberto Arenas, *ibid.*

<sup>154</sup> Interview with Hernán Somerville, president of the Banking Association (ABIF) 1993-2011, President of the CPC 2004-2006, 4 October 2017.

Alberto Arenas, these events marked a turning point,<sup>155</sup> determining the last stage of the process since they weakened the government. Hence, the Bachelet administration was forced to make compromises with the Alianza por Chile (El Mercurio, 2007f, 2007e).<sup>156</sup>

On 13 December 2007, then, the government and senators reached a key agreement that sealed the passage of the reform (El Mercurio, 2007c). The government, and senators from the opposition and the Concertación signed a memorandum of understanding, which speeded up the parliamentary discussion. Specifically, the agreement focused on 22 amendments to the reform bill that the Bachelet administration would introduce. Among the most important aspects of the agreement were the rise of the ceiling of the APS, and the fact that auctions for new affiliates would be carried out every two years (El Mercurio, 2007b). Regarding the entry of new players, the agreement ultimately meant that the government gave in to the inclusion of banks (El Mercurio, 2007a). As the memorandum did not include this issue, it was left to the senators to decide on the matter in the final, plenary vote. Having lost the majority, the government knew that the most likely outcome was the rejection of such a measure (El Mercurio, 2008e, 2008a).

Still, both banks and the AFPs engaged in fierce lobby (in our framework, this is an action based on sources of instrumental power). The president of the banking association, Hernán Somerville, lobbied intensely, attempting to convince some senators in spite of those signs of bad omen (El Mercurio, 2008a). In his interview for this research, Somerville asserted:

“Look, here there was ruthless opposition from the Right. That is the truth. I would dare to say that there was very much influence from the PENTA Conglomerate that owned CUMPRUM AFP (...) they did a very good job... Well it is well known that PENTA was funder of the UDI, so the UDI was absolutely against [the entrance of banks], they did not want to listen to reasons.”<sup>157</sup>

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<sup>155</sup> Interview, Alberto Arenas, *ibid.*

<sup>156</sup> Also interview, Alberto Arenas, *ibid.*

<sup>157</sup> Interview with Hernán Somerville, president of the Banking Association (ABIF) 1993-2011, President

Considering that international banks -i.e. Santander and BBVA- were already participating in the AFP industry, I asked Somerville to what extent he thought such a contradictory stance of the Right in Congress might be related to the influence of AFPs.

He replied:

“Yes, it is obvious. They also lobbied hard (...) and it was a reasonable lobby, because at the end of the day when you are valuing an AFP at fifteen times its profits and at four times its total assets, you have to defend your business.”<sup>158</sup>

On the other hand, AFPs did not want to lose control of the process. AFPs used intensely their ties with members of the parliament (i.e. instrumental power) to lobby with the aim of building a majority in the Senate.<sup>159</sup> AFPs’ lobbying efforts were ultimately successful, as the Senate, on 9 January 2008, finally rejected the participation of new players (La Tercera, 2008e). When casting their vote, a number of senators from the Concertación -who opposed the entry of banks- harshly criticised the government for not putting forward a motion for the direct creation of a state-run AFP. Velasco opposed the introduction of such a motion despite promises to the contrary (El Mercurio, 2008d). According to La Tercera, Velasco opposed such an idea by his “conviction” that it would not increase competition (La Tercera, 2008d). The version offered by Andrés Velasco for this research concurs with media reports:

“[It is an] idea that I have never considered especially important; I mean, I think that to the world of the Concertación this issue mattered because of the political symbolism [that the topic had] but I think is very well clear that its impact on pensions is basically none.”<sup>160</sup>

Therefore, the motion to create a state AFP -supported strongly by president Bachelet- failed partly because of the lukewarm support it received from the Ministry of Finance. In this context, Guillermo Arthur, president of the AAFP, could not conceal his

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of the CPC 2004-2006, 4 October 2017.

<sup>158</sup> Interview with Hernán Somerville, *ibid.*

<sup>159</sup> Interviews with Mariano Ruiz-Esquide, Christian Democrat Senator 1990-2014, 4 May 2017 and 9 August 2017.

<sup>160</sup> Interview with Andrés Velasco, *ibid.*

satisfaction with the result of the vote in the Senate. He expressed *“We are very happy that [Congress] have recognised the importance that [the single line of business] has for a robust pension system, which defends the workers’ savings”* (El Mercurio, 2008b). According to Arthur, the participation of banks had put at risk the “integrity” of the pension system (La Tercera, 2008a). Evelyn Matthei, UDI senator, declared *“the entry of banks would mean severe harm to all affiliates (...) since it would lower the competition in the capital market”* (La Tercera, 2008a). By contrast, the progressive wing of the Concertación was not satisfied at all with the outcome. This feeling is well captured by the declarations of PS Senator, Carlos Ominami:

“The reform passed is insufficient in relation to the expectations, for various reasons. There is an important increase in the coverage and magnitude of the MPG, but (...) there is not the slightest change to the basic mechanism, which is the system of individual accounts. As such, the principle still is that each person has to scratch with her own nails without any support from a solidarity mechanism” (La Tercera, 2008b).

Asked about what failed in order to reach more structural changes, Ominami replied, *“there was no political will”* (La Tercera, 2008b). For Ominami, the strengthening of the solidarity pillar was no more than to continue with residual, means-tested social policies. *“[This reform] legitimised one of the most emblematic aspects of the military regime”*, he added (La Tercera, 2008b). Indeed, the hope for the AFPs was that for once and for all this reform would legitimise the system and close the debate.

## 8.4 Conclusions

Overall, this policymaking process represents more continuity than change. In spite of the evident flaws of the system, this reform fundamentally ended up perfecting and thereby strengthening the defined contribution, individually managed pension scheme. Furthermore, in spite of pro-change discourse during the 2005 presidential campaign and the promise to carry out a more participatory policymaking, the decision-making process ended up being fundamentally top-down. This overall outcome is explained to a great extent by the ability of the economic elite to maintain

its privileged, exclusionary access to the policymaking process. Through an array of sources of power and mechanisms to exert political influence, the economic elite was finally able to prevail. Decision-making instances, such as the Marcel Commission, that promised to constitute –and contribute to– a more participatory setting, in the end significantly restricted the reform agenda by filtering issues before they reached Congress. In sum, despite higher levels of electoral competition and adverse changes in the composition of Congress, the economic elite was able to influence policymaking according to their preferences through the effective employment of their sources of power in various forms of political engagement.

On balance, the reform certainly made a significant improvement by strengthening the solidarity pillar originally established in 1980. In this sense, the main progress was that, from then on, the lower 60% of individuals on the income scale, who had never contributed to the system, would be entitled to receive an old-age pension. However, this mechanism left completely untouched the model based on individual capitalisation accounts, which constitutes the central component of the pension scheme. Besides, it did not alter another critical logic of the model: to provide means-tested benefits for those in extreme need. As such, the economic elite did not oppose the introduction of the Basic Solidarity Pension. On the contrary, they supported it since, indirectly, it strengthened the system of individual accounts as the state was to provide pension benefits to the population who could not contribute and, hence, they were not a source of profit for the pension industry (as they did not pay commissions or administration fees). As such, although the reform upgraded the existing system of non-contributory and minimum pensions, it did not introduce measures to increase solidarity or pooling risks among affiliates. In the end, therefore, this outcome corresponded closely with the preferences of the economic elite and the AFPs.

Finally, in terms of conflicts within the economic elite, this analysis provides a good empirical example of how conflicts regarding sectoral interests are solved according to the existing correlation of forces. Most of the economic elite opposed the entry of the

banking sector to the pension fund industry. Different segments -the AFPs, the industrialists' associations (SOFOFA), the CNC, and the CChC (which owned HABITAT AFP)- banded together in order to block the entry of banks. Meanwhile, the business encompassing association, the CPC, kept a neutral position during the whole policymaking process. As such, the banking sector was mainly alone in its attempt to enter into the AFP system. Then, the fraction of the economic elite against the entry of banks counted on stronger and more varied sources of instrumental power (especially partisan linkages). Those stronger sources of instrumental power allowed them to block in Congress the motion that would have authorised banks to create AFPs.

**Chapter 9. Social mobilisation brings the  
debate on old-age pension reform back onto  
the agenda, 2014-2017**

## 9.1 Introduction

Only six years after the enactment of Bachelet's first administration pension reform, severe problems of coverage gaps and low benefits persisted. By 2015, for instance, the average monthly benefit was less than Chile's minimum wage, and the median replacement rate -including the additional benefits established in 2008- projected for 2025-2035 was only 37% (Comisión Presidencial Pensiones, 2015). In this context, in July 2016 large-scale protests against the AFP system broke out for the first time since its inception in 1981. The movement called "No + AFP" ("No more AFPs") took to the streets on 24 July 2016, and from then on it gathered pace, becoming a series of large-scale protests (El Mercurio, 2016o). This cycle of protests, which took place from mid-2016 to early 2017 (El Mercurio, 2017h, 2017d), changed dramatically the government's original agenda (El Mercurio, 2016o). Indeed, a reform to the pension system was not among the main priorities in Bachelet's campaign platform for the 2013 presidential election (see Bachelet, 2013). In this way, the discussion on the AFP system left the arena of *quiet politics* for good.

Then, by August 2017, the second Bachelet administration was submitting to Congress a reform package that included significant changes. After much hesitation, the government introduced a package that included three reforms, which altered the settings of existing instruments and created new ones. Among changes to existing instruments, the package included a 5% increase in the monthly contributions to be paid by employers (the 1980 reform had eliminated employers' contributions). Then, in terms of new instruments, the reform included the creation of a common fund, the "System of Collective Saving", a proposal inconceivable years before. The main aim of the common fund was to establish cross-subsidies in order to increase lower pensions. In terms of funding, a fraction of the 5% increase would go to the new system of collective saving. Thirdly, the reform package would also entail the creation of a State agency in charge of the management of the common fund. In summary, these changes amounted to the most ambitious, equity-enhancing reform discussed since the reinstatement of democracy.

Nonetheless, the reform package did not challenge the existing paradigm, so it entailed a second order change according to Hall's categorisation. Although the reforms sought to re-introduce mechanisms of intra- and inter-generational redistribution, such proposals did not amount to a wholesale change in the pension system. Hence, it did not amount to a third order change. In other words, the reform proposals did not challenge the system's overarching goals since individual capitalisation would remain at the core of the system, with the 10% of workers' income still going to their individual accounts managed by private providers. Then, in spite of the reform seeking to redress significant aspects of the pension system and, moreover, notwithstanding the historical rise in mobilisation from below, the outcome of this policymaking process was a non-reform. Congress did not pass the package.

This chapter thus attempts to explain the following two puzzles. First, why did the government not challenge the overarching goals of the existing pension system, especially considering the historic -and rather exceptional- high levels of social mobilisation around pensions? Though ambitious, the reform package did not represent a paradigmatic shift. Second, why did this policy process end up in a failed reform in spite of the simultaneous occurrence of those large-scale demonstrations, and ever-increasing electoral competition?

In this context, this outcome challenges two main strands in the literature. One is that increasing electoral competition, coupled with augmented power from below, should result in expansionary pension reforms (Garay, 2016). The acute rise in mobilisation from below meant a true counterbalance to business power and to the technocratic, top-down paradigm so ingrained in the political elite. Yet, in spite of this great challenge, the status quo prevailed. Likewise, the outcome of this process also casts doubt on the explanatory leverage of arguments based on the power of public opinion to trump business interests on high-salience issues (Culpepper, 2011). As mentioned, the cycle of protests organised by "No + AFP" was a phenomenon never seen before in

Chilean politics, which kept the issue of pensions top on the agenda for at least two years. In spite of the extremely high-salience of pensions in this period (which reached a historic peak), the outcome favoured business as there were no changes.

To the best of my knowledge, so far only one study has addressed this policy process. Bril-Mascarenhas and Maillet (2019) analyse this process as part of a broader exploration of the political economy of pension regulations in Chile between 1990 and 2018. Although they make a great contribution by analysing business power as a process unfolding over time, their focus on the AFP industry runs the risk of missing important pieces of the puzzle. As we shall see, confronting the great threat posed by the “No + AFP” movement and the reform package introduced by the government, the defence of the status quo required the active involvement of not only the AFPs, but also of the entire economic elite. This included, for instance, actions carried out by the business encompassing association and think-tanks funded by the economic elite. Besides, high levels of cohesion within the economic elite -which this time included the banking sector- were also critical as they allowed business to mobilise more effectively against the reform. Therefore, I contend that we have to include in the analysis the different sources of power wielded by the entire economic elite in order to understand this rather unique policy process.

As such, having presented the main contents of the reform proposal and discussed alternative explanations, the next section develops the argument of this chapter in more detail. Afterwards, the third section presents a brief discussion on business power for this period and changes in their strategy, which help us to better understand the following discussion. Next, the chapter moves on to the discussion of the policymaking process.

## 9.2 Outline of the argument

As discussed above, this period is characterised by a new constellation of forces which disrupted the balance of power. Electoral competition and mobilisation from below

strongly counterbalanced and challenged business power. Firstly, adding to the ongoing electoral competition between the two main traditional coalitions in Chilean politics, the right-wing Alianza por Chile and the centre-left Concertación,<sup>161</sup> in January 2017 a new left-wing coalition, the Frente Amplio, emerged. This new coalition meant a significant threat for traditional political parties of the centre-left since it aimed to dispute their constituency. The emergence of the Frente Amplio was determined to a great extent by a previous wave of social protest: the 2011 student-led demonstrations against the neoliberal underpinning of the educational system. Most of the leadership of the Frente Amplio participated in such demonstrations, and then embarked upon the creation of this new left-wing coalition.

Second, and linked to the first, this is a period of growth in social mobilisation. This rise is represented by the 2011 student movement, who carried out the largest demonstrations observed thus far since the reinstatement of civilian rule (Donoso and Von Bülow, 2017). This broad social movement shook Chilean politics to the core. As Fairfield and Garay (2017) assert, large-scale mobilisation on a specific issue (education in this case) can catalyse social mobilisation around new issues. That was precisely the role played by the 2011 mobilisations for the case analysed in this chapter. Such demonstrations expanded further the political space for challenging the legacy of the authoritarian regime, in which the AFP system plays a prominent role. Hence, the 2016-2017 mass demonstrations against the pension system threatened to disrupt social peace and stability. Intense electoral competition, then, coupled with an historical rise in social mobilisation altered the agenda and propelled the government to introduce a significant reform package.

This disruption to the balance of power is well captured by statements from business representatives. Top representatives of the economic elite -e.g. José Antonio Guzmán, former president of the CPC and HABITAT AFP- recognised that they felt left out of the

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<sup>161</sup> By 2013, the Concertación was re-branded as “Nueva Mayoría”, including this time the Communist Party.

negotiation table during the second Bachelet administration.<sup>162</sup> Other statements were more explicit. For instance, one business representative declared that since the 2011 mass demonstrations “[the economic elite] is afraid. They feel attacked. They already felt like that with Piñera<sup>163</sup>, but now they are facing a reformist government<sup>164</sup> which wants to change things” (El Mostrador, 2014a). That meant they did not enjoy such privileged, exclusionary access to policymaking that had endured for so many years in Chile. This period, therefore, illustrates the potential of mobilisation from below in counterbalancing business power.

Furthermore, from the beginning of Bachelet’s second administration the situation was hostile for the pension fund industry. In this sense, it is difficult to overstate the significance of the figures presented by the Presidential Advisory Council on Pensions convened by Bachelet in 2014 (better known as the Bravo Commission after its chairman, the economist David Bravo). This Council carried out a large opinion survey in order to measure the opinion of the public regarding the system as a whole and the AFPs in particular. The results revealed the total lack of social legitimacy of the AFP system: 72% of the Chilean population thought that only a wide-ranging change in the AFP system would improve pensions (Comisión Presidencial Pensiones, 2015). The AFPs, in this context, were on the defensive.

Nevertheless, despite all these significant challenges, the economic elite prevailed in terms of the reform’s content, and in blocking its passage. Regarding the content, we shall see that structural power played a critical role in hindering the transformation of the non-contributory pillar in a proper social security component of the pension system. “The fear of disinvestment” largely propelled policymakers -especially during the agenda-setting stage- to refrain from pursuing a wholesale reform to the system (see Section 9.4.1). Then, in terms of failure of the reform process I contend that this outcome is mainly explained by the skilful way in which the Chilean economic elite

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<sup>162</sup> Interview with José Antonio Guzmán, President of the CPC 1990-1996, President HABITAT AFP 2006-2014, 22 September 2017.

<sup>163</sup> In his first administration, Sebastián Piñera governed Chile from 2010 to 2014.

<sup>164</sup> It refers to the second Bachelet administration (2014-2018).

employed its various sources of power. As we shall see, they implemented a host of tactics to overcome the difficult situation. Most notable among them was the enhancement of systemic power by instrumental power.

In terms of instrumental power, economic elite's *cohesion* was especially significant in this policy process. Confronted by massive, large-scale social mobilisation as never seen before since 1990, the economic elite acted cohesively in defence of the pension system. Indeed, the economic elite showed a monolithic position, which even included the banking sector that refrained -at least temporarily- from pursuing its ambitions of entering into the pension industry. Cohesion significantly enhanced the ability of the economic elite to withstand the challenge from below by increasing the effectiveness of its mobilisation against the reform.

As noted, systemic power augmented by instrumental power also played a critical role in this process. As discussed in Chapter 3, one of the causal mechanisms by which systemic power may influence the policymaking process is by affecting the cognitive processes and preferences of the public. This process is further reinforced by the implementation of specific policies inspired by the dominant framework (such as the 1980 reform), seeking to change attitudes and values of the individuals (Feigenbaum and Henig, 1994). Thus, even though the AFP system suffered a severe lack of legitimacy, the general public was still very much attached to the dominant idea that "*pensions should be linked to individual effort*", which in the end was critical in blocking the proposal that would establish a solidarity mechanism.

Based on this ideological premise, the economic elite launched a successful attack on the government's proposal. As we shall see, through their privileged media access (source of instrumental power), the economic elite enhanced systemic power by constantly deploying the argument that pensions should be the result of one's own efforts and hence contributions should not be diverted to a common fund. As a result, the majority of the population ended up rejecting the reform despite the fact that

most of them -according to the polls- rejected the AFP system and would have benefited from the redistributive measures (see below examples of some surveys). Analysing the challenges faced by this reform package, the words of Senator Adriana Muñoz capture these contradictions and how systemic power operated as a causal factor in this process:

*“There is an individualistic culture that has been developed in the Chilean population which is very strong (...) that is the main triumph [of the Chicago Boys] because cultural changes are the most complex, cultural [changes] are the most durable. People are very much attached to the idea that ‘I got this for myself’ (...) ‘over here is about me’ (...) The individualistic culture established by the dictatorship... then people today say why you take my 2% to a solidarity system. And the Right take advantage of that. So, on the one hand, people complain against the AFPs, but on the other people do not understand that the only way to have a human, decent pension system, and with fair pensions, is through a proper system of social security based on solidarity. And that, the concept of solidarity, nowadays is very challenging to recover not only as a concept but also as a culture, as a behaviour, as a criterion for decision-making.”*

The successful dissemination and imposition of neoliberalism as a dominant ideology among the Chilean public -crystallised in the ascendancy of ideas such as individualism and freedom of choice- has been well documented by a number of authors (Roberts, 1998; Barton, 2002; Tedesco and Barton, 2004; Weibel, 2019) and already discussed in this dissertation (see Chapter 4 especially). In this context, Pierson (1993) argues, policies exert feedback not only by affecting interest groups’ material interests but they also have *interpretative effects* on cognitive processes of social actors. In this view, individuals’ preferences or decisions do not necessarily involve “*a simple calculation of easily discernible costs and benefits*” (Pierson, 1993: 611). Hence, although they would have materially benefited from the reform by the introduction of

redistributive mechanisms, and they opposed the existing system, a significant swath of the public rejected the reform based on the dominant ideological framework. Therefore, I argue, the outcome of this period thus cannot be properly understood without considering the role of systemic power. In this context, the next section discusses some aspects of AFPs' changes in their strategy to face this new, unfavourable scenario.

### 9.3 Economic elite and AFPs: change in strategy

Given the context described above, AFPs certainly felt threatened and carried out an adjustment to their overall political strategy. As Bril-Mascarenhas and Maillet (2019: 113) indicate, "*the AFP industry made several decisions arguably intended to reinforce its power sources should new challenges arise*". In this context, not only the AFPs but - more importantly- the economic elite as whole carried out significant adjustments to their sources of instrumental power.

The most evident of the adaptations carried out by AAFP were changes in its leadership. The most influential -and emblematic- positions underwent substantial changes. The first of these changes came in May 2014, when Rodrigo Pérez Mackenna replaced Guillermo Arthur, the long-time, staunch defender of the AFP system, and former Pinochet Labour Minister, who occupied the presidency of the association from 1999 onwards (El Mostrador, 2014a). Although both Arthur and Pérez were UDI members and held close links to the AFPs (Pérez had been investment manager at PROVIDA AFP), the former was a hardliner and the latter represented a stance more open to dialogue.

Then, the second change came in December 2015, when Fernando Larraín, a young technocrat close to the Concertación, replaced the long-time, emblematic general manager of the association, Francisco Margozzini (El Mercurio, 2015b). Margozzini had served as general manager of the AAFP for the previous 30 years. With this change the AAFP aimed at having a manager with a more technical profile and with better political

networks (El Mostrador, 2015). This change came to reinforce the more open-to-dialogue stance developed by Pérez. According to press reports, “*Margozzini was considered close to Guillermo Arthur, former president of the association, and thus seen as a harsh defender of the system, and therefore he did not match with the more pragmatic and open stance that Rodrigo Pérez wants to implement*” (El Mostrador, 2015). Indeed, during the 1990s and 2000s both Arthur and Margozzini were well known for their staunch, uncompromising positions. For instance, Guillermo Larraín, former Superintendent of AFPs, said “*they opposed everything, even the slightest changes*”.<sup>165</sup> In sum, these two changes meant a substantial change in the backbone of the AAFP.

Then, through these modifications, the AAFP augmented their two sources of instrumental power: relationships with policymakers and resources (see Table 3.1). These changes were to be critical for the enhancement of both structural and systemic power. Particularly, the case of Larraín might be read as a new example of co-option. Indeed, as former advisor to the Lagos administration, the AAFP chose Larraín as new general manager precisely for such connections: during the period 2002-2005, he had an advisory role in La Moneda itself, and then he was advisor to the Finance Minister (El Mostrador, 2015). In addition, both Pérez and Larraín arguably had better media access and counted on higher *technical expertise*. Both were younger figures, more attractive, and held postgraduate degrees from US universities. Larraín, for instance, is an economist from the Catholic University and holds a Master’s degree in Public Affairs from Princeton.

Later, as pressure against the AFP scheme mounted, business enhanced another critical source of instrumental power: *cohesion*. The whole economic elite closed ranks with the AFPs, which this time also included the banking industry. Revealingly, during this whole period the banking industry remained completely off the discussion, relinquishing -at least temporarily- their longstanding aspiration of participating as

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<sup>165</sup> Interview, Guillermo Larraín, Superintendent of AFPs 2003-2006, 8 June 2017.

pension providers. Then, the CPC actively defended the AFP system in the press, and even actively participated in the discussion through the preparation of reform proposals. This explicit engagement of the CPC in the defence of the AFP system had never been seen since the return to civilian rule in 1990<sup>166</sup>.

This engagement was to crystallise even more concretely when in January 2017 Andrés Santa Cruz replaced Rodrigo Pérez at the head of the AAFP (El Mostrador, 2016e). Andrés Santa Cruz has just left the presidency of the CPC in 2015. Certainly, this new strategy gives credit to the fact that the economic elite as a whole supported the AFP scheme, and claims rose by some informants that the existence of the AFP system constituted a non-negotiable issue for the whole economic elite. In this context, it seems as if the threat to the very survival of the AFP system represented by the mix of AFP's lack of legitimacy and the "No + AFP" movement, pushed the whole economic elite into the defence of the system.

## 9.4 Policymaking Process

As Bachelet had promised in her campaign platform (Bachelet, 2013), shortly after taking power she introduced a reform bill to create a state-managed AFP and convened a new Presidential Advisory Council on Pensions, the Bravo Commission. Hence, Bachelet's original agenda was limited to those two issues.

In this context, since the beginning the economic elite followed the policymaking process closely and gave explicit warnings about the potential danger of structural reforms. For instance, early on the newly appointed president of AAFP, Rodrigo Pérez, sought to enhance business structural power through his *privileged media access*. In an article entitled "*No industry endures three structural changes in such a short time: the 2008 reform, the state AFP and now this [the proposals that emerged from the Bravo*

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<sup>166</sup> In the same line as the role played by the CPC in the face of new challenges posed by the associational power of popular sectors, in this policy process transnational actors also participated more actively in the debate, strongly supporting the maintenance of the AFP system. This included regular appearances in the press. Their actions and positions in the debate tended always to be coordinated and modulated by the domestic economic elite, especially through El Mercurio.

*Commission]”, Pérez declared in October 2014 that “we wish this reform not to be structural, since it would severely affect one of the pillars of our development; it jeopardises economic growth, the development of the capital market and future economic balances. The system has been crucial for these issues” (La Tercera, 2014). As such, this chapter now turns to the analysis of the first formal stage in the policy process: the Bravo Commission.*

#### 9.4.1 The Bravo Commission

Contrary to what Bril-Mascarenhas and Maillet (2019: 114) assert, the appointment of the Bravo Commission was not unexpected. Bachelet announced the creation of the commission in her presidential programme (Bachelet, 2013:96-97). What was unexpected, though, was its composition. Only one month after taking office, Bachelet issued Supreme Decree 718, which established the Presidential Advisory Commission on the Pension System (Ministerio de Hacienda, 2014). As in the case of the Marcel Commission, this Supreme Decree also established that the Bravo Commission had to restrict itself to proposing changes within the range of the DL 3.500. However, this time the composition of the Advisory Council and the political context determined a very different development and outcome. Indeed, the Bravo Commission could not issue a consensual proposal.

The Bravo Commission, then, marked a stark contrast with the Marcel Commission. Bachelet this time appointed a much more diverse Council. For one thing, the membership was larger: the Council was made up of twenty-four members instead of the fifteen members that formed the Marcel Commission. Contrasts between the two instances do not end there: critically, neoliberal economists did not dominate the Council completely. Although economists were still over-represented -seventeen out of twenty-four members were economists- their background was more diverse. For instance, this time there were more progressive economists (Claudia Sanhueza and Andras Uthoff, for example), and economists affiliated to organisations with heterodox economic agendas (e.g. Fabio Bertranou, from ILO) than in the Marcel Commission.

Another difference was that in this Council international technical experts played an important role. Out of twenty-four members, seven were international experts on pensions (i.e. non-Chilean academics affiliated to world-class universities).

Furthermore, the presence of commissioners with direct links to the AFP industry was much less significant than in the Marcel Commission. The only member of the Bravo Commission with historical and well-known links (apart from ideological proximities) with the AFPs was Martín Costabal, who also participated in the Marcel Commission. In summary, the composition was much more pluralist, complex and less ideologically homogeneous than the Marcel Commission.

The composition of the Bravo Commission, therefore, opened up the space for a much broader discussion. This more diverse composition determined a much longer and turbulent process. If the Marcel Commission completed its work in three and a half months, the Bravo Commission issued its final report in September 2015, more than one year after its conformation in April 2014. In this context, it seems that in spite of its more diverse composition, the Ministry of Finance bet that it could keep the agenda of the Bravo Commission under control (just like with the Marcel Commission). As such, probably the Finance Minister, Alberto Arenas, who had a critical role in deciding the Commission's membership, did not expect that a fraction of the experts appointed would pursue their own proposals. Indeed, a group of members banded together and put forward a solid, comprehensive proposal thereby disrupting completely the plan to keep the commission under control.<sup>167</sup> The economist Andras Uthoff led the preparation of such proposal (called "Global Proposal B" in the final report), which sought to break with the logic of individual capitalisation.

In this context, Andras Uthoff indicates that from the third month of the Commission's work, he began discussing and working on the proposal of a mixed system. *"This time we were able to challenge the mainstream and to say 'you know what, this does not*

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<sup>167</sup> Interview, Member of the Bravo Commission I, 22 June 2017.

*have a solution within the current logic. We have to change the solution' (...) Hence, you start to question the role played by the AFPs", Uthoff added.<sup>168</sup> Christian Larraín adds another point of controversy: "In our case, the thing was that Andras [Uthoff] and I started to work on our proposal very early on (...) But they did not help us, they did not provide resources or facilitate the support of the technical team to, for instance, estimate the replacement rates of our proposal".<sup>169</sup> Larraín points out that when they requested information needed to carry out their estimations to the Commission's executive secretary -dependent upon the Ministry of Finance-, most of the time such information was denied or its delivery was delayed. In contrast to the Marcel Commission, therefore, the work of the Bravo Commission was marked by strong ideological differences among its members.*

In short, Proposal B planned to transform the solidarity pillar into a proper social security component, made up of citizens' social security accounts which would take the form of Notional Defined Contribution (NDC) plan (Comisión Presidencial Pensiones, 2015: 103). This system would relegate the AFPs to the margins of the overall social security system in terms of their role as pension providers. The contributory, individually managed system would remain in place only for high-income workers. Interviewed for this research, one member of the Bravo Commission indicated that when the Commission brought up the possibility of transforming the so-called solidarity pillar into a proper social insurance scheme, the Finance Minister, Alberto Arenas, became frightened. That change would have dealt a major blow to the AFPs, since they would have lost a significant market share. *"[The] Finance [Ministry] got very scared, [such policy] generated fear".<sup>170</sup>*

Therefore, in this case structural power was at play in order to block the possibility that the Bravo Commission could recommend a structural reform as the main

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<sup>168</sup> Interview with Andras Uthoff, Member of both the Marcel Commission and of the Bravo Commission, 19 May 2017.

<sup>169</sup> Interview with Christian Larraín, Economist, Member of the Bravo Commission, Director of the System of Public Companies, 25 May 2017.

<sup>170</sup> Interview with Member of the Bravo Commission I, 22 June 2017.

proposal: “the rationale was let’s maintain this [scheme] that gave stability, and let’s do something on the edges, in the margins, let’s maintain the status quo”.<sup>171</sup> The statement given for this research by Andras Uthoff, supports the above account:

*“Carmelo Mesa-Lago was very close to [Alberto] Arenas, a very close friend indeed of the group from the Finance Ministry that said ‘yes, we have to carry out an improvement, but for God’s sake this [scheme] is essential’. They were in negotiations with the economic conglomerates regarding what could and could not be done”.*<sup>172</sup>

Again, clearly structural power augmented by instrumental power (i.e. through those meetings held with representatives of the economic elite) is at play here, operating to block a structural reform.

Uthoff further asserts that *“First, they [representatives of the Finance Ministry] said that there was not space for an alternative, that the situation was not that bad (...) Then, they thought that our proposal would not take off (...) I presented our results and they looked down on us: that the proposal was too complicated, that it was not to be understood, et cetera”*.<sup>173</sup> Christian Larraín concurs with Andras Uthoff in mentioning that one of the arguments used for the neoliberal members of the Commission was to say that the Global Proposal B was too complex.<sup>174</sup> Later, the arguments were that the proposal was going to negatively affect national savings, *“it was the deliberate campaign of terror”*, Larraín adds. *“Their strategy was to exhaust us; they thought we were going to fail in coming up with a global proposal”*, he concludes.

Finally, the Commission voted on three proposals. One was the already described Proposal B. The other was Proposal A, developed by David Bravo and his team. Only at the last moment did Bravo put together a global proposal to counterbalance the proposal developed by Uthoff, Christian Larraín, and Claudia Sanhueza. Basically,

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<sup>171</sup> Interview with Member of the Bravo Commission I, 22 June 2017.

<sup>172</sup> Interview with Andras Uthoff, Member of both the Marcel Commission and of the Bravo Commission, 19 May 2017.

<sup>173</sup> Interview with Andras Uthoff, *ibid.*

<sup>174</sup> Interview, Christian Larraín, Economist, Member of the Bravo Commission, Director of the System of Public Companies, 25 May 2017.

Proposal A -which constituted the basis for the reform package presented by the government in 2017- recommended changes on the margins of the individually managed, defined-contribution system. It maintained most of the characteristics of the current pension system; changes thus focused mainly on the expansion of the solidarity pillar (Comisión Presidencial Pensiones, 2015: 100). The most radical measure of this proposal was the creation of a Solidarity Fund, which would be funded by the re-establishment of a 2% employer contribution. Promoters of this reform highlighted the fact that it was the only one that fulfilled the presidential mandate of building on the DL 3.500 and the 2008 reform. Finally, there was Proposal “C”, developed by the economist Leokadia Oresiak, which basically recommended transforming the AFP system into one that would be a purely defined-benefit, pay-as-you-go system (Comisión Presidencial Pensiones, 2015).

In a completely unexpected result, Global Proposal A won by only one vote. This outcome gave some breath to the government, but legitimised Proposal B, which was adopted by some parties of the governing centre-left coalition as their official proposal. More importantly, the final report of the Bravo Commission had to include all these three proposals. As Bril-Mascarenhas and Maillet (2019) point out, the consideration of the “dissident” proposals in the agenda was in itself highly relevant and symbolically charged. It was the first time since the return to democracy that such proposals reached official circles.

#### 9.4.2 In the wake of the Bravo Commission: conflicts within the cabinet and the scandal of irregular mergers of AFPs

After the Bravo Commission handed in its report, the overall political debate in Chile (including the agenda on pensions) was very much determined by a weakened government. So far, the second Bachelet administration had pursued a reformist agenda on education, the tax system and the Constitution, which completely upset the economic elite. In this context, Finance Minister Alberto Arenas, who many thought as

the mastermind behind such a reformist agenda, became the scapegoat.<sup>175</sup>

Representatives of the economic elite were indeed very harsh with the government, but especially with Arenas, blaming the government's reformist agenda for the lukewarm performance of the economy. This state of affairs is well captured by the declarations given to *El Mercurio* by former CPC president, José Antonio Guzmán. In what was an unusually strongly-worded message and another good example of how instrumental power may enhance structural power, he declared: *"If the government seeks to recover the entrepreneurs' confidence, Minister Alberto Arenas has to be ousted now"* (*El Mercurio*, 2015e). Then, asked for his assessment of the government's economic team, he replied even more harshly: *"Disastrous. You only need to see the extremely poor economic growth, the low levels of investment [...] the overall anti-business atmosphere, low levels of confidence among consumers and entrepreneurs."*

So, by early 2015 the government was already under heavy attack from business. Then, in February came a fatal blow that left the government virtually in a political paralysis. A high-profile corruption scandal involving president Bachelet's son broke out and dominated the agenda for several weeks (*El Mercurio*, 2015d). The case referred to an alleged case of influence peddling in which Bachelet's son would have used his influence to help his wife's company -called CAVAL- to secure a US\$ 10 million loan, which the Banco de Chile (controlled by the Luksic family) approved only the day after Bachelet was re-elected in December 2013 (*The New York Times*, 2016a). Overall, this case badly damaged Bachelet's popularity, thereby weakening the government as a whole.

In this context, Bachelet had to carry out a cabinet reshuffle in May 2015, aimed at regaining the initiative and the control of agenda. This cabinet reshuffle was critical for the discussion on pensions. First, because this reshuffle meant the ousting of Alberto Arenas from his post as Finance Minister. For Arenas, the issue of the pension system was one of his top priorities (e.g. Arenas, 2010). Therefore, when he left the

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<sup>175</sup> Indeed, he coordinated the preparation Bachelet's 2013 presidential platform, which became the route map of her government.

government, there was not an official as powerful as him interested in pursuing such an agenda.

Next, Arenas was replaced by Rodrigo Valdés, whose profile corresponded closely with the standard figure of the Finance Minister who has dominated Chilean politics since 1990. He, therefore, re-established the confidence of investors (Financial Times, 2017). Rodrigo Valdés holds a PhD in Economics from MIT, and is close to the neoliberal wing of the centre-left coalition. In the past, he had participated in some of the reforms that *perfected* the AFP system through the 1990s and early 2000s (e.g. Biblioteca del Congreso, 2002). Furthermore, during his professional career he worked on Wall Street, serving as Chief Economist for Latin America at Barclays Capital (2008-2009). Afterwards, he was employed between 2009 and 2012 by the International Monetary Fund as Deputy Director of the Western Hemisphere Department (2009-2012), to later return to the finance industry in 2012 as Chief Economist for the Andean Region for the investment bank BTG Pactual until 2014 (The Wall Street Journal, 2015). In this context, the government did not do much to pursue the conclusions of the Bravo Commission. During the first months, the report had been completely neglected by the Bachelet administration.

Nonetheless, the 2015 cabinet reshuffle entailed another significant change. Ximena Rincón replaced Javiera Blanco as Minister of Labour and Social Security. A sympathiser of the PDC was replaced by a historical, influential member of the same party. Rincón was to have continuous tensions and arguments with the newly-appointed Valdés regarding the discussion on pensions. The new political context opened up the space for challenging the deep-rooted authority of the Finance Ministry. Moreover, this time the tension between the two ministers could not be kept in the “quiet” side of politics. Ximena Rincón, and her successor in the post, Alejandra Krauss (also member of the PDC), outspokenly challenged Valdés through the press, which was something unseen in previous periods (e.g. El Mercurio, 2017f).

In this context, during this period there was one governing party that pushed hard for a reform on pensions: precisely the Christian Democrats. The PDC controlled the Minister of Labour and Social Security during the whole second Bachelet Administration. As such, tensions between the Finance Ministry and Labour Ministry sparked soon after Rincón assumed her position as Minister and well before the movement “No + AFP” took to the streets. In spite of the *pro status quo* stance followed by Valdés, Rincón -and Alejandra Krauss later as well- attempted to pursue a reformist agenda on pensions, challenging the dominance of the Ministry of Finance. The significance of electoral incentives becomes evident when one considers the professional trajectory of Ximena Rincón. As we saw in the previous chapter, she had been appointed to the board of directors of PROVIDA AFP. So, she radically changed her position in the debate from being an “insider” and supporter of the system, to pursuing a structural reform to the very same system. It is difficult to understand this sharp change without recurring to the electoral incentives she (and her party) faced.

The PDC badly needed to show “concrete” results to the electorate. This need to implement expansionary social policies is largely explained by the PDC’s electoral fortunes since the late 1989s onwards. Once the most powerful party in Chilean politics, the electoral performance of the PDC has been steadily declining since the late 1990s, and it has never recovered. For instance, its share of the vote for the elections to the Chamber of Deputies declined from 26% in 1989 to 10% in 2017 (SERVEL, 2019). Therefore, the representation of the PDC in the Lower Chamber declined from 38 deputies in 1989 to only 14 in 2017.<sup>176</sup> As such, the PDC was in need of supporting expansionary reforms in order to reverse its decline.<sup>177</sup> The PDC, then, was the party that exerted the strongest pressure for developing an expansionary, progressive reform on pensions. Ximena Rincón, therefore, a professional politician -not close to the neoliberal cross-party network described in Chapter 7- who before becoming minister was a PDC Senator, pushed for changes.

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<sup>176</sup> These figures become even more remarkable considering that the composition of the Chamber of Deputies increased from 120 deputies for the 1989 election, to 155 for 2017 election.

<sup>177</sup> Interview, Member of the Bravo Commission II, 17 August 2017.

At this point, it is helpful to note some parallels between the process that led to the 2008 reform and this policymaking process. For one thing, in both cases president Bachelet inaugurated the policymaking process by appointing a “Presidential Advisory Council” as space for political deliberation. Then, just like in 2006, once the Bravo Commission released its report, the executive constituted an Inter-Ministerial Council in order to analyse the Commission’s report and to draft the bill that president Bachelet would finally submit to Congress. Furthermore, the Ministry of Labour and Social Security was to lead, in theory, such a council (El Mercurio, 2015c, 2016f). Labour Minister, Ximena Rincón, was thus to be in charge of coordinating such an instance, which operated for eight months (January – August 2016) (La Tercera, 2016a). However, and again as we previously saw for the 2008 reform, the Ministry of Finance took over the policy process. Then, differences between the process that led to the 2008 reform and this policy process began at this point.

Since the Finance Ministry’s authority was weakened by the 2011 student demonstrations and by electoral incentives, this time such Ministry did not have the power to straightforwardly control the Inter-Ministerial Council. Instead, this time Rodrigo Valdés shrewdly undermined the authority of Labour Minister, Ximena Rincón, and by extension the work of the Council, by simply not attending the meetings.<sup>178</sup> *“Yes, we met a lot at the beginning -on a weekly basis-, and the truth is that later we did not meet anymore because Rodrigo could not attend”,* declares former Minister Rincón.<sup>179</sup> She makes clear that the Inter-Ministerial Council did not reach the point of drafting a reform bill because the group stopped the meetings, *“and well, when we stopped meeting, we abandoned the work and Rodrigo began to work simultaneously with his team (...) And I found that out by reading the newspapers”*.<sup>180</sup> Rincón mentioned that such group of technical experts compromised neoliberal technocrats

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<sup>178</sup> Interview, Ximena Rincón, Christian Democrat Senator 2010-2014, Minister of Labour and Social Security 2015-2016, 10 December 2018.

<sup>179</sup> Interview with Ximena Rincón, *ibid.*

<sup>180</sup> Interview with Ximena Rincón, *ibid.*

from all the parties of the governing coalition, which resonates with the existence of the cross-party neoliberal network discussed in Chapter 7.

The statement given for this research by the economist Andrés Solimano, advisor to the Ministry of Labour during this policy process, supports Rincón's claims: *"We did not reach the point of defining very well what we were going to propose. There was not a completed bill draft... Valdés did not want to touch the AFPs, he was always very worried about the fiscal implications that the reform would have, he did not want to use more public resources for the reform. Indeed, in the announcement made by president Bachelet yesterday<sup>181</sup> there is zero additional state contribution for the solidarity pillar. Now, this is also Bachelet's fault; she tolerates everything from him. The problem is that she was the one democratically elected; Valdés was not elected. He is just a secretary of state"*.<sup>182</sup> Valdés, in summary, boycotted the Inter-Ministerial Council. Further, another point is noteworthy from Solimano's and Rincón's statements: in spite of being weakened given the political context, once again the Finance Ministry prevailed in the policy process. The overriding Cabinet hierarchy established under dictatorship -and further entrenched into the democratic era- still critically influenced policymaking.

In this context, in her interview for this research, Ximena Rincón repeatedly made clear that the tension on the role of the Inter-Ministerial Council was not the only disagreement she had with Rodrigo Valdés. The other decisive event spanned from late-2014 to mid-2016, and so coincided with the policy process under analysis in this chapter. The events that provoked the tension were irregular mergers of AFPs aimed at exploiting a tax loophole, which involved two of the largest AFPs: CUPRUM and PROVIDA.

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<sup>181</sup> The interview with Andrés Solimano was conducted just the day after Bachelet announced the reform bill that the government was going to submit to Congress in August 2017.

<sup>182</sup> Interview with Andrés Solimano, Advisor to the Ministry of Labour and Social Security (2016), 11 August 2017.

### 9.4.3 AFPs' privileged position and the "No + AFP" movement

The analysis of these irregular mergers is important since it illustrates once again the dominant role of the Finance Minister<sup>183</sup> and, more critically, it partially explains the emergence of the "No + AFP" movement. Indeed, the movement contested the mergers and this issue became one of its main rallying cries (El Mercurio, 2017d). The largest AFP, PROVIDA, had lost almost fifteen thousand affiliates by January 2017, after "No + AFP" launched a call in October 2016 for an *en masse* disaffiliation from this AFP in response to what they viewed as illegal mergers (El Mercurio, 2017h). Furthermore, in order to counter such a huge blow, PROVIDA AFP decided to lower its fees substantially, so it was no longer the most expensive AFP in the market (El Mercurio, 2017g). As we shall see, both issues, the policymaking process and the merger affair, are very much intertwined.

The first irregular merger involved CUPRUM AFP, pension provider since the system's inception in 1981, and a newly created AFP called ARGENTUM. ARGENTUM was created on 29 December 2014, and actually never operated as an AFP (Solimano, 2017; Interferencia, 2018). The transnational financial conglomerate PRINCIPAL Financial Group took over CUPRUM in early 2013, acquiring the pension provider from the domestic conglomerate PENTA (see Chapters 6 and 7 for the role of this conglomerate in the illegal financing of UDI). In this context, PRINCIPAL created ARGENTUM right before the end of 2014, because in that way PRINCIPAL could merge both AFPs meeting the requirements for obtaining a goodwill tax deduction which was in place until 2014.<sup>184</sup> Later, by mid-2015, another transnational financial conglomerate, METLIFE, replicated the mechanism implemented by Principal Financial Group in order to obtain the tax benefits from goodwill. In that case, METLIFE took over PROVIDA AFP, merging it with another newly-created AFP, ACQUISITION (which never actually operated as an AFP either) (Solimano, 2017). The legal loophole allowed the two transnational conglomerates to save as much as US\$500 million in taxes.

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<sup>183</sup> Interview, Member of the Bravo Commission II, 17 August 2017.

<sup>184</sup> Actually, Principal created ARGENTUM only two days before the deadline to obtain the tax benefit.

Several interviewees agree that Rodrigo Valdés, the Finance Minister, strongly supported the merger between CUPRUM and ARGENTUM. Such statements concur with press records (El Mercurio, 2016l). On the other hand, the Minister of Labour, Ximena Rincón, opposed the merger in light of the information related to the case. The CUPRUM-ARGENTUM merger was plagued with irregularities. For instance, in the origin of the process the SVS, the insurance regulator, approved the merger even though ARGENTUM AFP did not exist legally at the time of SVS's decision. Next, in spite of the process being vitiated since its origin, the SAFP<sup>185</sup> gave the green light to continue with the merger. Furthermore, on 5 June 2015 the Ministry of Finance publicly and officially supported the decision taken by the SAFP (El Mostrador, 2016b).

However, by late 2015, after reviewing the case, the country's comptroller deemed the case "impracticable", even though it had been already cleared by the SAFP. In this way, by two verdicts –the first delivered on 16 December 2015, and then ratified on 8 February 2016- the country's comptroller confirmed the enquiries rose by two Christian Democrat deputies (El Mercurio, 2015a, 2016e). Furthermore, in late June the comptroller explicitly ordained to invalidate the merger between CUPRUM and ARGENTUM (El Mercurio, 2016g). This process led to the resignation of the head of the SAFP (El Mercurio, 2016e). At the time, president of the board of directors of CUPRUM AFP was the Christian Democrat Hugo Lavados (see Table 7.1), economist with a PhD from Boston University. Lavados openly defended the merger, putting into question the comptroller's ruling (Diario Financiero, 2015).

Then, in spite of the two resounding verdicts of National Comptroller, finally the SAFP approved the merger in March 2016, with the explicit support of the Ministry of Finance. Certainly, this affair added to the rage that Chileans already had against the AFPs (El Mercurio, 2017d). These irregular mergers plus the scandal related to the high pension benefit irregularly received by the former wife of the former Minister of

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<sup>185</sup> This state agency is legally autonomous, independent of the Ministry of Labour.

Labour during the first Bachelet Administration (Osvaldo Andrade), fuelled the sense of abuse that was creeping into the Chilean population. These two affairs together finally became the last straw that led to the outburst of the “No + AFP” movement.

#### 9.4.4 The AFP system on the grill: the emergence of the “No + AFP” movement and the submission of the reform package

Until mid-2016 the government maintained its unambitious agenda on pensions. In her 2016 State of the Nation Address (pronounced on 21 May), Bachelet’s announcements were indeed watery, vague. Apart from the promise of speeding up the discussion on the creation of state-managed AFP, there were no concrete announcements (Bachelet, 2016: 21). Signs of an insubstantial agenda on pensions came not only from the presidency but also from the Finance Minister. As such, only days before the first demonstration organised by “No + AFP”, the Finance Minister, Rodrigo Valdés, held a confidential meeting with AFP representatives. They held that meeting on the 2016 Chile Day<sup>186</sup> carried out in London (El Mostrador, 2016a). In such a meeting, Valdés gave assurances to AFPs that the government’s agenda was restricted to the creation of a state AFP (El Mostrador, 2016a). These statements fundamentally meant that the plan was not to do much, given that the reform bill had been submitted to Congress shortly after Bachelet took power, and the executive never committed itself to promoting the bill and pushing its passage in Congress.

That was the overall political scenario and agenda until late July 2016. Then, bubbling anger against the AFP system boiled. Although public discontent over the pension system had been brewing since the late 1990s, the scandals over the irregular AFPs’ mergers and the high pension received by the former wife of a Bachelet minister

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<sup>186</sup> “Chile Day” is a controversial conference that is held every year either in New York or London. In theory, the aim of these conferences is “to position Chile as a leading expert of financial services in Latin America”, and to promote the Chilean National branding and attract foreign investment (InBest, 2019). However, according to observations made for this research during the 2018 Chile Day held in London, the vast majority of attendees are actually Chileans with links to the financial industry (so they could hardly “sell” the country to foreign investors). In this context, a critical issue is that the setting creates opportunities for lobbying high-level officials without the need for abiding by existing Chilean regulations. There is a loophole in the Chilean regulation which means that these meetings held abroad are not subject to the domestic regulation (in short, there is no need to register the meetings).

became the straw that broke the camel's back (La Tercera, 2016b). The scandal involving the former wife of Osvaldo Andrade was dubbed by the press as “el jubilazo”<sup>187</sup> (El Mercurio, 2016m; El Mostrador, 2016a; The New York Times, 2016b). Chileans learned that after retiring from Gendarmería (i.e. the prison police department) Andrade's former wife received a monthly pension of almost US\$7,800 (The New York Times, 2016b). In comparison to the average pension benefit that Chileans received at the time (US\$ 315), such a figure represented for the people just an intolerable abuse. Her case, then, became only the most emblematic of a series of scandals involving pension benefits received by former members of the prison policy department (El Mercurio, 2016i, 2016h, 2016j, 2016p, 2016a). Then, Chileans took to the streets.

Although the series of demonstrations led by “No + AFP” movement began in 2016, this social movement has its origins in 2013. That year, a number of unions from both the private and public sectors came together and founded the movement called “National Coordinating Committee of Workers No + AFP” (La Tercera, 2016b).<sup>188</sup> It thus culminated in a process of dialogue and convergence that lasted approximately two years, and brought together 31 unions from disparate sectors of the economy such as the banking and fishing industries.<sup>189</sup> Then, in May 2014, the movement had its first National Congress in southern Chile. Traditional, strong unions from the public sector such as ANEF<sup>190</sup>, FENPRUSS<sup>191</sup> and CONFUSAM<sup>192</sup> organised the event (Coordinadora Nacional de Trabajadores No + AFP, 2016). The structure and experience provided by those traditional unions allowed the movement to take off and mobilise people. As such, by April 2016 the association carried out its second National Congress, thereby consolidating and expanding its power base. Therefore, when conditions were ripe,

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<sup>187</sup> There is not a correct, precise translation to this neologism, but a good attempt might be “the very large retirement”.

<sup>188</sup> Coordinadora Nacional de Trabajadores No + AFP, in Spanish.

<sup>189</sup> Interview, Mario Mandiola, National General Secretary of FENPRUSS, 27 March 2020.

<sup>190</sup> Agrupación Nacional de Empleados Fiscales (National Association of Public Employees).

<sup>191</sup> Federación Nacional de Profesionales Universitarios de los Servicios de Salud (National Federation of Professionals of the Health System).

<sup>192</sup> Confederación Nacional de Funcionarios de Salud Municipalizada (National Confederation of Workers of the Municipal Health System).

the National Coordinating Committee No + AFP was ready to lead a nation-wide, large-scale social movement.

In this context, the first public demonstration was on 24 July 2016, becoming the first of a series of mass demonstrations. Later in August, hundreds of thousands of people marched again through Santiago and other major cities of the country to protest against the AFP system (The New York Times, 2016b). It became the largest mass demonstration since the return to civilian rule in 1990. It was a huge blow to the AFP system, and to the economic elite in general, who saw how one of the pillars of the economic model bequeathed by the dictatorship was rebuffed by popular sectors. After these massive public demonstrations, the issue of pensions left definitively the arena of *quiet politics* for good.

Furthermore, the movement not only involved large-scale mobilisation. Once it had achieved sustained collective action, its leaders went ahead with concrete actions that disrupted the normal functioning of the AFP system and indeed the very survival of some AFPs. As already mentioned, PROVIDA AFP, the largest of the system, had been severely affected by a call launched for “No + AFP” for an en masse disaffiliation from this AFP as a protest against the irregular mergers: by January 2017, PROVIDA had lost thousands of affiliates. Besides, “No + AFP” made calls to all AFP affiliates to transfer their savings from the riskier funds (in which most investment holdings were in equity) to the most conservative alternative (which invested heavily in bonds and other more conservative instruments) aimed at destabilising the system. Indeed, the call had a massive impact, since by September more than one million had transferred their funds to the most conservative pension fund during 2016 (El Mercurio, 2016t).

Then, in response to these unparalleled demonstrations, Bachelet went public to announce a more ambitious reform to the pension system. On 10 August 2016, through a speech televised nationwide Bachelet addressed the country, announcing that she would pursue a “national agreement” on pensions, and outlining what would

be the basis of such an agreement (El Mercurio, 2016s). The outline announced by Bachelet was very similar to “Global Proposal A” of the Bravo Commission. As The New York Times reports, in seeking such national agreement Bachelet met with business representatives and leaders of political parties, among others. But, critically, she received in La Moneda the leader of the “No + AFP” protest movement, Luis Mesina<sup>193</sup> (The New York Times, 2016b). The social movement led by Mesina had certainly become the force that broke the stalemate by altering the agenda, forcing the government to dust off the Bravo Commission’s report and to break the confidential agreement that it had made with the economic elite in London.

In sum, the proposals put on the table by Bachelet continued to leave the AFP system untouched. She insisted on her long-standing wish of creating a state-managed AFP, and to that, she added proposals such as increasing the rate of contributions to the individual accounts -from 10 to 15%- by re-instituting employers’ contribution and raising the retirement age. In this context, by late August those tensions mentioned above between Ministers Rincón (Labour and Social Security) and Valdés (Finance) reached the press. For instance, the two conservative and most influential newspapers, El Mercurio (El Mercurio, 2016k) and La Tercera (La Tercera, 2016d), reported strong and public disagreements between the two ministers. The bone of contention was how and by whom the 5% employers’ contribution was to be managed. As such, while Valdés was very cautious, stating “*it is a topic under discussion and [it is] key for reaching the national agreement*”, Minister Rincón was much more emphatic, indeed challenging Valdés when she bluntly said to the press that the “*[additional percentage] is to contribute to the creation of a new pillar, a pillar of solidarity collective savings*”.

By late August, pensions was indubitably the main topic on the whole political agenda. In such a context, with the government proposal under discussion, the AFPs deployed all their sources of instrumental power. First, very visibly, leaders of the AAFP held

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<sup>193</sup> Mesina led the movement from his position as Secretary General of the Confederation of Trade Unions of Banks.

meetings with the CPC, the encompassing business association. More than searching for agreements, the key of such meetings was to show (i) coordination between the CPC and the AFPs, and (ii) that the latter had the complete support of the whole economic elite (El Mercurio, 2016f). Then, the highest authorities in government received both the President of the AAFP, Rodrigo Pérez, and the general manager, Fernando Larraín. This time the Minister of Home Affairs received them at La Moneda. In both meetings AFP representatives emphasised the need for the additional 5% contribution to be managed by the private pension providers.

On top of the efforts carried out by the AFPs, the economic elite used their sources of instrumental power to expand their message. The message was that there should be no radical departures (a call that was also reinforced by the Finance Minister, see El Mercurio, 2016r). There was clearly a concerted effort from commentators and members of think-tanks linked to the economic elite to harshly attack the rise of 5%. Top-executives such as José Ramón from ECONSULT (El Mercurio, 2016n), and neoliberal technocrats such as Felipe Larraín (former Finance Minister of the first Piñera administration, 2010-2014), Rossana Costa from LyD (El Mostrador, 2016d), and Pinochet's Finance Minister Hernán Büchi (El Mercurio, 2016q), joined in attacking the additional contribution, arguing that amounted to a tax on labour and would produce unemployment. This fierce attack may well be interpreted as a strategic misrepresentations of business' preferences in order to advance a more favourable alternative (Broockman, 2012): given that they were well aware of the need for -and the general consensus on- increasing contributions to be funded by employers, they wanted to secure that such additional funds would be managed by the AFPs. As such, conscious that the rise in contributions was a "given", through this attack business wanted to secure that at least such 5% were to be managed by the AFPs.

This "strategic misrepresentation" becomes all too clear by contrasting declarations made by the AAFP itself. If at some point they intensively lobbied to manage the additional 5% (see above), simultaneously the AAFP attacked the establishment of the

additional contribution itself. Fernando Larraín himself highlighted a number of times that the “extra 5%” would effect a loss of 120,000 jobs (El Mercurio, 2016c).

Furthermore, there is ample evidence regarding the fact that the AFPs negotiated the reform with the government (see below section “Explaining the outcome”). In short, considering that the establishment of the collective savings scheme was contrary to AFPs’ first-order preferences and that it was already on the agenda, they sought to position themselves as the natural, legitimate entities for managing such additional 5% of contributions.

In spite of the tense context, not very much happened since the announcement made by Bachelet in August 2016. The government only introduced the reform bill to Congress in August 2017, more than one year later than the first announcement of a national agreement. Such timing only reflects the government’s overall weakness and how successful the business campaign against a reform was (Bril-Mascarenhas and Maillet, 2019). In summary, the reform package proposed that out of the additional 5% contribution charged to employers, 3% would go to workers’ individual accounts and the other 2% would go to a “Collective Savings Insurance”.<sup>194</sup> Besides, this change entailed the creation of new public agency, which would manage the System of Collective Saving (Bachelet, 2017). In his interview for this research, Christian Larraín, member of the Bravo Commission, made crystal clear that it was not in the government’s plan to present a reform proposal which included the creation of a new public agency. *“Indeed, the government ended up proposing an issue that was inconceivable before, such as the re-introduction of the pay-as-you-go scheme into the overall pension system”*.<sup>195</sup> AFPs, obviously, did disapprove the proposal, but it seemed as the lesser of two evils for the pension industry. After all, their core business remained untouched, given that they would continue managing the bulk of workers’ savings: the 10% of their taxable income.

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<sup>194</sup> “Seguro de Ahorro Colectivo”, in Spanish.

<sup>195</sup> Interview with Christian Larraín, *ibid*.

9.4.5 Explaining the content of the reform package and the outcome  
Critically, President Michelle Bachelet submitted the bill to Congress only six months before the end of her administration (March 2018). Furthermore, general elections were scheduled for December 2017, so this issue was far below the top priorities of members of Congress. In spite of this context, there was a significant and strong discussion. Fundamentally, two factors account for the content and the failure in passing this reform, namely:

- (i) The economic elite's instrumental power, which translated into (a) the negotiation of the reform in an informally institutionalised consultation with business, and (b) the lack of support that the reform package received from members of parliament of the governing coalition once the government introduced the proposal to Congress, and
- (ii) the enhancement of systemic power by instrumental power (i.e. privileged media access).

Evidence gathered for this research points to the fact that AFPs knew the content of the reform before the official announcement. Andrés Solimano asserts that *“everything was negotiated [with AFPs], every week AFPs met with the government, this reform bill that Bachelet announced yesterday was completely negotiated with the AFPs. Officially, the Finance Minister met the movement ‘No + AFP’ just once, but with the AFPs these people met every week (...) For sure the AFPs knew the reform proposal before the announcement”*.<sup>196</sup> Indeed, El Mercurio itself reported about negotiations between the AFPs and the government (El Mercurio, 2016d, 2017b).

As such, we can see how durable some sources of business power are. In spite of the rise in mobilisational power, business continued to enjoy privileged access to policymaking. Sources of instrumental power provides the means to re-create and reproduce informally sanctioned spaces of negotiation just like it has been since the

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<sup>196</sup> Interview with Andrés Solimano, *ibid*.

reinstatement of civilian rule in 1990. In terms of relationships with policymakers, we already know that Rodrigo Valdés and close associates to him -such as Joaquín Vial, former member of CIEPLAN and then top-executive of PROVIDA AFP (El Mercurio, 2006ba)- had links to AFPs. Such links had meant concrete instances of coordination and negotiation, such as the meeting in London between AFPs and Minister Valdés (see above). Relationships with policymakers, then, facilitate the occurrence of informally institutionalised consultation such as the one mentioned by Andrés Solimano and El Mercurio itself. Moreover, instrumental power is clearly augmented by structural power: the government was very concerned about the fall in investment levels, and did not want to pursue any reform that could harm even further such figures. Therefore, the Ministry of Finance willingly negotiated a reform proposal that would not affect investors' confidence.

In this context, it seems that at this stage AFPs once again strategically misrepresented their preferences. In spite of having negotiated the reform with the government, AFPs harshly opposed the reform publicly. Nonetheless, as a matter of fact the reform essentially did not threaten -at least in the short-term- AFPs' interests. In public, they opposed the reform in order to avoid the need for further compromise, but in reality, they were somehow satisfied since in spite of the pressure exerted by the general public, the reform proposal left the defined-contribution system untouched. As such, considering the fact that the reform was first negotiated between the Ministry of Finance and the AFPs, the latter's reactions did not reflect their genuine views. Again following Broockman (2012), I assert that AFPs strategically misrepresented their preferences to the government's proposal in order to avoid a more structural reform.

Next, at this stage the enhancement of systemic power via instrumental power also played a critical role in blocking the reform. Three mechanisms were critical in these efforts:

1. The first was the traditional strategy of expanding their message through editorialising in the conservative press. AFPs used all their *privileged media access* to expand their ideologically charged message;
2. The second was a much more active involvement of AFPs with their affiliates, organising, for example, assemblies for their affiliates (something never seen before since their creation in 1981), sending emails and letters highlighting the advantages of the system, and creating Councils of Affiliates (El Mercurio, 2017c);
3. And thirdly, a harsh set of videos distributed in social media defending the system and emphasising the alleged unfairness of having to hand a proportion of the new employer's contribution to the "System of Collective Saving" instead of transferring the entire new contribution to the affiliates' individual accounts (El Dínamo, 2017). These set videos had a powerful effect on Chilean society, activating the individualistic culture engrained in Chilean society since the military dictatorship.

Systemic power, in this context, operated significantly as a causal mechanism since - influenced by the dominant influence of neoliberalism in Chilean society- the public tend to opt for individualistic solutions over collective mechanisms. As such, while people opposed the AFP scheme and demanded higher pensions, simultaneously they also opposed the introduction of a solidarity mechanism, which meant a speedy improvement of the *status quo*. As noted, a two-percent employer contribution would have gone to the Collective Savings Insurance, by which contributions from higher income affiliates would have been redistributed in order to increase pensions of lower income individuals. People opposed the AFP system -precisely based on individual accounts- but still wanted "individual" solutions to the issue, dismissing collective approaches.

Indeed, since September 2016 (shortly after Bachelet called for the "national agreement") different polls showed that the majority of the population wanted the

additional 5% to go into their individual accounts. El Mercurio disseminated those figures extensively. For instance, on 20 September 2016 one of the headlines of that day's edition was "*Pensions: more than half of the population considers that the extra 5% of contributions must go into individual accounts*" (El Mercurio, 2016r). Then, one month later (by late October), El Mercurio reported again on the issue. This time the article was entitled "*56% of the population believes that the additional contribution must go into individual accounts*" (El Mercurio, 2016b). As such, instrumental power (i.e. *privileged media access*) augmented business' systemic power. The influential role played by systemic power becomes even more evident when one considers that most of the people who opposed the introduction of the solidarity mechanism (from middle- and lower-income groups) would have benefited from this reform by receiving higher pension benefits.

Later, during 2017, systemic power was further enhanced by instrumental power through a campaign based on a set of videos. Under the banner "*Do you think I'm stupid?*" a series of videos was released on YouTube, Twitter, and other social media platforms in March 2017 (El Dínamo, 2017). In one of the first videos, entitled "*Do not let them pick your pocket, the 5% is yours*", a cashier of a small shop asks a customer:

"Do you wish to donate the 5% of your additional contribution which your employer will pay? The 5% that belongs to your pension fund in order to give it to another retiree, who should be the responsibility of politicians and not yours. Politicians who are worried about anything, except you" (Reforma a la reforma, 2017).

Moreover, some of these videos were shown on TV at peak time. El Mercurio, meanwhile, continued to disseminate polls -with ever higher figures- which showed that most Chileans opted for a pension system based on individual savings. For example, in early February, it reported that a study conducted by Universidad Adolfo Ibañez showed that 60% of the population preferred a system in which individual savings were the main component (El Mercurio, 2017a). All this led Juan Benavides,

president of HABITAT AFP, to say that the government wanted to legislate “*against the will of the people*” (El Mercurio, 2017e).

Business succeeded, then, in activating its systemic power via instrumental power. The contradictory fact that, as we have seen, on the one hand, the majority of the Chilean population opposed the AFP system, but, on the other, it opposed the idea that a small fraction of their savings would contribute to the creation of a common fund, speaks volumes about the influence of the systemic power of the economic elite. This apparent contradiction is resolved when one considers that support for the neoliberal individual capitalisation system remains latent among the population, until business instrumental power activates and enhances systemic power, and thereby activates and increases opposition to collective mechanisms to reform the pension system. As such, systemic power became a powerful causal mechanism that explains to a great extent the continuity in the pension system and the unsuccessful attempt of the second Bachelet administration to reform once again the pension system. Certainly, this outcome is part of the successful story of neoliberalism in Chile.

Then, the opposition from within the governing centre-left coalition itself shut the door definitively on the reform bill presented by Bachelet. In spite of having the necessary votes in Congress to pass the reform, there was not support from members of Congress of the centre-left coalition to reach such an outcome. One of the most paradigmatic and overt examples of this internal opposition occurred on 29 August 2017, a few days after the government had introduced the reform to Congress. That morning, the influential think tank CEP organised a conference to analyse the government’s proposal entitled “Reforming the Pension System: The government’s reform bill” (CEP, 2017). The conference chair was Rodrigo Vergara, former president of the Chilean Central Bank (2011-2016) and then senior researcher at CEP. The panellists were the Finance Minister Rodrigo Valdés, and the economists Salvador Valdés (former researcher at CEP), and the Christian Democrat José Pablo Arellano. Salvador Valdés and Arellano would comment on Rodrigo Valdés’ presentation of the

government's reform package. After a normal sequence of events, it came time for José Pablo Arellano to make his final remarks. Then, after having made only polite comments on the government's proposal, he surprisingly changed tone and literally blasted the reform bill. The panellist who in theory was invited to support Rodrigo Valdés, finally ended up severely weakening the proposal (see Figure 8.1 below). His arguments were the following:

**Figure 9.1.** Christian Democrat economist José Pablo Arellano opposes the government's reform proposal.



Source: La Segunda (2017).

“I would like to mention two points which worry me about the design that [Rodrigo Valdés] has presented. Although I said that I valued the 3,55% that goes to individual accounts (...) I am worried about the other 1,45% that goes to

this mechanism which I would call double-redistribution<sup>197</sup> since it is intra- and inter-generation. I am worried about it because it breaks a principle that has been maintained in a very disciplined way, which is that contributions fund future pensions and that any solidarity contribution has to be made through taxes. I think that that [criterion] is helpful to keep the system in order since today it is only 1,45% but tomorrow if pensions do not increase as much as we need, it might well be argued that [the contribution to the common fund] should be higher than the 1,45% that the government is proposing now. Therefore, I think that we are dealing with benefits, when it comes to benefitting those who are already retired, the best mechanism is not contributions as the government is making now, but the adequate mechanism is taxes. And then, the discussion is on what kind of taxes produce less adverse effects [to the economy] and to whom exactly we want to benefit. I have proposed and I think that with less than 1% increase in the value-added tax it is possible to achieve a higher or equivalent revenue to this 1,45%. And that might be distributed... I think the proposal's concern is sensible with respect to segments of the middle class, but for example I wonder: there are many people who have low pension benefits because they made withdrawals of funds, or many have low pensions because they advanced their retirement."<sup>198</sup>

In short, Arellano, the Christian Democrat, CIEPLAN economist who wrote rigorous articles criticising the 1981 reform in the early 1980s, had become by the late 2010s one of the staunchest supporters of the AFP scheme. He even opposed the implementation of any solidarity mechanism within the pension system, pushing forward the idea that higher pensions benefits had to be funded via an increase in the value-added tax (Arellano, 2017), which is indeed a very regressive measure. Arellano represents, in this context, one of the most emblematic examples of the sharp ideological shifts undergone by leading members of the Concertación discussed. By the 2010s he was board member of the BCI Bank (the fourth largest bank in Chile in terms of total assets), and had been elected to the board of directors of at least one company (IANSA) with votes from the AFPs themselves (see Table 7.1).

## 9.5 Conclusion

This chapter has shown that in spite of increased electoral competition coupled with an acute rise in mobilisation from below, the Chilean economic elite was able to prevail in the policy process analysed in this chapter. Based on its multiple sources of

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<sup>197</sup> The expression Arellano used in Spanish was “doble reparto”.

<sup>198</sup> Source: author's own recording of the event.

power, this group was able to, first, delay the discussion, then to influence the reform package submitted to Congress, and finally to block such reform that incorporated some of the societal demands for change. More specifically, we have seen how critical relationships with policymakers were (i.e. instrumental power) to influence the reform's content, and the dominant influence of neoliberal values among Chilean society (i.e. systemic power) to boost opposition to the reform's collective means to increase pension benefits. The individualistic culture so ingrained in Chilean society became a critical obstacle for the introduction of equity-enhancing, solidarity mechanisms. In this context, privileged media access played a critical role in enhancing systemic power. Finally, relationships with policymakers were also critical in delaying the discussion and, afterwards, in blocking the passage of the reform package in Congress. In summary, this chapter offers a clear illustration of the extraordinary adaptive capacity of the Chilean economic elite: ultimately, they were able to block second order changes to the AFP system in the face of the largest mass mobilisation ever seen since the reinstatement of democracy.

In spite of this outcome, this chapter showed the potential of mobilisation from below to operate as a countervailing factor to the economic elite. The movement led by "No + AFP" ultimately changed the government's agenda completely, forcing it to prepare and introduce a reform bill that was far more ambitious in terms of equity-enhancing measures than the original plan. In this context, the issue of pensions left the arena of quiet politics for good in this round of policymaking. This is maybe the main triumph of popular sectors in this policy process. From 2016 onwards, the discussion on the pension system has remained a top issue in the agenda of Chilean politics. And it will continue in that way until an administration has the conviction and strength to carry out the necessary structural changes to the system.

## **Chapter 10. Conclusions and implications**

## 10.1 Overview

The first of May 1981 constitutes a watershed moment for Chilean contemporary society. That day, the authoritarian regime began the implementation of the new pension system. The new scheme based on individual saving accounts would replace the traditional public system of shared contributions. Hence, the 1981 radical reform amounted to a paradigmatic change in Chile's social security provision. The new pension system crystallised the core ideas of neoliberalism: now the individual, not society, would be responsible for planning for her retirement. The military regime launched the new system with great fanfare, promising to solve the problems that previous governments from the early 1950s onwards had failed to address. The new pension system, thus, was born bearing great promises: workers' savings invested in the emerging domestic capital market would deliver much better pensions thanks to the burgeoning country's economy. Furthermore, the State would be freed from the heavy burden of the old, inefficient and expensive PAYG system. The pension system enshrined in DL 3.500 was a symbol of the regime's modernisation and success. Nonetheless, as we have seen, the 1981 radical pension reform failed to live up to the promises attached to it. Nowadays, workers are retiring with meagre pension benefits, which have to be supplemented by the State.

The pension system established in Chile became a model for many countries around the world, which adopted the scheme to varying degrees. Especially from the mid 1990s to the early 2000s, international financial institutions promoted the adoption of the fully-funded, defined-contribution pension system. However, in recent years some of those countries have reversed pension privatisation either by scaling down their private retirement accounts or by fully renationalising their pension systems. By contrast, in Chile pension privatisation has exhibited a remarkable resilience over the last four decades. In spite of dozens of reforms implemented since its inception, the core of the system remains in place. That is to say, until nowadays the scheme's main components are (i) a state-guaranteed low pension benefit for the poorer (and a set of pension top-ups established in 2008) funded by general revenues, and (ii) pensions

based on individual savings contributed to capitalisation accounts plus returns. It is in this context, then, that this dissertation has explored the determinants of the inception and regulatory resilience of the private pension system.

In so doing, this research has analysed the role played by different actors and contexts, showing that the factors identified by previous studies to explore the pension system are important but insufficient. The analysis has included the study of State, business and social actors in both authoritarian and democratic contexts. Among those actors, the findings of this dissertation suggest that Chile's economic elite is pivotal to explaining the inception, structuration and continuity of the pension based on private retirement accounts. Based on a research strategy that combines a long-term, historical approach with an in-depth analysis of five policy processes, this thesis has then contended that the inclusion of business power in the analysis is critical in order to achieve a more accurate understanding of the mechanisms that have determined both the system's establishment and its resilience.

In this context, this dissertation has first confirmed the validity of the instrumental-structural power framework for explaining policymaking outcomes not only in democracy -to which this conceptual framework has been applied so far- but also in authoritarian contexts. Nonetheless, the inductive approach of this research allowed me to go beyond the instrumental-structural power framework by identifying additional sources of business power, which, I argue, that approach fails to capture. Specifically, the canonical approach for studying business power and influence misses long-term, strategic investments carried out by the economic elite in order to avoid the overt exercising of power, which usually entails high costs and risks. Long-term strategic investments aimed at shaping societal ideational views are especially significant in this context. I have given the name "systemic power" to that type of business power arising from such strategic investments in order to the cultivate and disseminate a particular set of dominant ideas and beliefs favourable to their interests. Throughout this research, I thus tested an augmented business power framework,

which includes systemic power plus the two other types of business power already identified and discussed comprehensively in the literature.

In the remainder of this chapter, I summarise the main findings of this dissertation, comparing the five policy processes analysed. I then contrast those findings with other policy areas in Chile, to then discuss how the augmented framework might travel to other settings. Finally, in the last section I propose new venues for future research.

## 10.2 Main findings

### 10.2.1 The role of business in pension policymaking

Firstly, the overall analysis provides evidence of the extremely significant role played by the Chilean economic elite during the period under study. Business was not only pivotal to the imposition of the pension scheme in 1981, but also to its continuity in spite of the dominance of centre-left governments and rising public discontent after the reinstatement of democracy in 1990. Regarding the inception of the pension system, while previous studies have focused on state-centric explanations for understanding that outcome (e.g. Borzutzky, 2002; Madrid, 2003; Castiglioni, 2005), this work has found that the role played by the financial segment of the economic elite, which came to dominate Chile's economy, was critical. From such a position, the financial fraction became the dominant segment of the economic elite, forming a powerful coalition that included neoliberal technocrats.

The Chicago Boys, in this context, were not simply a group of autonomous neoliberal technocrats endowed with a character of their own. From the very beginning, the Chicago Boys depended heavily upon business' sources of power in order to achieve influence. Actually, as we saw in Chapter 4 and 5, most prominent Chicago Boys participated as insiders in the radical, neoliberal business coalition that dominated the economic elite from 1975 onwards. The top of the economic elite (i.e. leaders and top-executives of the largest conglomerates) and the Chicago Boys shared a common social background, which translated into multiple personal links between them.

Furthermore, as soon as they returned to Chile from Chicago from the early 1960s onwards, they were employed by large business groups, their academic activities were financially supported by financial conglomerates, and, overall, business provided them with the necessary infrastructure to carry out their activities. Later, once the military was in power, there was a revolving door between the private sector and top governmental posts, which ultimately meant a gross conflation of public and private interests. The interests of the few financial conglomerates became equated with the interests of the country.

As such, these findings concur with the points raised by Naczyk (2013, 2016) in relation to the importance of considering the preferences (and also sources of power, in our case) of different business segments in the study of pension policymaking. In his analysis of the European context, he found that financial companies tend to be a key proponent of pension privatisation. I observed analogous dynamics for the Chilean case in the process that led to pension privatisation in 1980-1981: based on their strong sources of power, the business coalition dominated by three mammoth financial conglomerates (Cruzat-Larraín, Vial and Edwards groups) was able to pursue a radical reform to the pension system, tailor-made to their preferences.

After the coup d'état, the financial segment counted on much stronger and varied sources of instrumental and structural power than other fractions, thereby becoming the dominant segment within the economic elite. From such a position they made their interests prevail over the other segments', such as industrialists, who had been the dominant coalition until the late 1960s and therefore supporters of social policy expansion as a means of strengthening the multiclass alliance that supported the ISI model (Campero, 1991; Albertus and Menaldo, 2018). Later on, the neoliberal coalition was able to defeat corporatist top-officers of the authoritarian regime, who opposed the neoliberal pension reform and favoured a different reform with significant redistributive aspects. At the beginning of this process, sources of instrumental power such as *technical expertise* and *informal ties* allowed the radical neoliberal coalition to

penetrate the State. Some top-executives of the neoliberal coalition occupied ministerial positions, while Chicago Boys were employed in second-tier, advisory posts, especially at the National Planning Office (ODEPLAN). Later, other sources of instrumental power (coupled with a strong structural power) such as more systematic *recruitment into government* of members of the radical neoliberal coalition (e.g. José Piñera as Minister of Labour) and *privileged media access* to expand messages favourable to pension privatisation also became relevant. Recruitment into government, in such a context, determined an unmediated involvement of business in the management of the State, especially regarding pension policymaking.

Hence, this thesis has shown how critical variations in power resources among different segments of the economic elite are for explaining outcomes in pension policymaking. The more strong and multiple sources of power a segment enjoys, the more significant and consistent its influence will be. Therefore, variations in sources of power across business segments determine what fraction or what coalition between them is dominant, which tends to have greater influence on the definition of the overall direction of business strategies and actions. In summary, the financial segment achieved a dominant position given their strong and varied sources of power, thereby winning the ideological battle over traditional, internationally uncompetitive industrialists and corporatist elements from within the State. Financial conglomerates thereby gained exclusionary access to policymaking and finally pushed for a pension reform according to their preferences.

Next, this dissertation also showed that the economic elite played a significant role in the maintenance of the pension system in democratic Chile. Previous authors have attributed the continuity of the pension system bequeathed by the dictatorship to several causes, such as the role of authoritarian and transitional enclaves (Siavelis, 2014a), the lack of pressure from mobilised social groups (Garay, 2016), and the dispersion of power in governmental authority (Castiglioni, 2005), among others discussed through this work. The work of authors such as Ewig and Kay (2011) and Bril-

Mascarenhas and Maillet (2019) have achieved a more accurate picture of the pension policy process by explicitly incorporating the role of the pension industry in their analyses. Nonetheless, they have fallen short of a complete understanding by a lack of attention to the multiple mechanisms of business power and by not including the role played by the entire economic elite. As we have seen, the different segments of the economic elite hold strong preferences toward the pension system, and consequently they have used their sources of power to pursue their aims (see more details in the discussion below). Hence, by not considering the economic elite and its segments, we run the risk of missing critical pieces of the puzzle in post-authoritarian Chile.

### 10.2.2 Types of business power

The previous discussion sheds light on a further contribution of this thesis: it confirms the validity of the classic instrumental-structural power framework for the analysis of social policies and its applicability to different political contexts. So far, this framework has been applied to the analysis of policy issues in democratic settings (Hacker and Pierson, 2002; Fairfield, 2015a, 2015b). As such, this study has shown that the classic framework also works in authoritarian contexts. As we have seen, the way in which sources of business power interact with other factors and influence the policymaking process under autocratic regimes is analogous to the dynamics observed in democracy.

Nonetheless, the long-term approach of this research has captured additional sources of power that tend to remain concealed but have pervasive influence over policymaking. In this context, this research has shown how the economic elite might invest in order to enhance its sources of instrumental power. The study of business power as a process unfolding over time allows us to discover how the economic elite is able, for instance, to augment their informal ties with the political elite by offering well-paid jobs and professional careers. As Chapter 7 showed, the economic elite augmented informal ties by co-opting leading members of the Concertación. Systematically, leading members of the Concertación became board members of the

largest conglomerates (including banks, critically), AFPs, and companies in which Pension Funds hold shareholder rights (managed by the AFPs). From such positions, they publicly defended neoliberal policies and the continuity of the pension system in particular. As such, this finding confirms the revolving-door dynamics identified by Bril-Mascarenhas and Maillet (2019) in their analysis of the political economy of pensions in Chile for the period 1990-2018. This work, however, expands that analysis by considering efforts carried out not only by the pension fund industry but also by the whole economic elite in hiring politicians across the political spectrum. Fairfield (2015a, 2015b), in this way, is not able to capture this process of instrumental power enhancement since her research is focused only on the analysis of contemporary evidence to the policy processes under analysis.

Then, this dissertation built on ideas from Korpi (1985) and Lukes (1974, 2005) to identify an additional type of power which I called systemic power. The canonical structural-instrumental power framework undoubtedly constitutes an effective analytical tool for understanding mechanisms of business influence, but it fails to explain comprehensively the stunning resilience of the exclusionary Chilean pension scheme. The ascendancy of neoliberalism has played -even nowadays- a significant role in blocking equity-enhancing pension reforms, especially during the formulation of the agenda, and in augmenting other sources of business power in different stages. This phenomenon is not captured by the canonical approach, thereby making it inevitable to critically revisit such a framework. Hence, this dissertation presents and tests an augmented business power framework by introducing the concept of systemic power, which had not been explicitly defined nor operationalised so far in the literature. As such, systemic power sheds light on mechanisms of influence that otherwise tend to remain obscured. The inclusion in the analysis of this type of power helps us to achieve a more accurate picture of why and how, since the reinstatement of democracy in 1990, the debate has been restricted to the discussion and implementation of second order changes to the system only, which have not challenged the neoliberal paradigm.

In operationalising systemic power, I identified a three-stage process by which the economic elite builds systemic power and later on exerts influence on policymaking. The first corresponds to the *construction* phase in which a narrow group of the economic elite carried out strategic investments seeking to convert sources of instrumental power (i.e. *privileged media access, money, technical expertise*) into systemic power. For example, I discussed how, during the late 1960s, such fraction used their privileged media access to spread monetarism, and how they invested resources in the creation of a think-tank and in supporting academic activities at the School of Economics at the Catholic University (by financing a new campus, for example). In the second stage of *entrenchment*, I showed, among other factors, evidence of how mobile carriers of ideas, the Chicago Boys, received government appointments. Critical in the phase of entrenchment was the strengthening of the narrow group that initially began with strategic investments. As such, by 1980, there was a strong coalition that supported the neoliberal agenda. A significant factor in this process was the fact that traditional conglomerates shifted their portfolios in order to resemble those of the conglomerates centred on finance.

Paraphrasing Korpi (1985), then, a high-cost power resource (i.e. instrumental power in the form of *money, technical expertise* and *privileged media access*) was converted into systemic power, which constitutes a low-cost power resource. Hence, systemic power constitutes a low-cost source of power in the long term: it is not necessary to recur, for instance, to violence (which constitutes a costly and highly risky power activity) or funding political campaigns in order to limit the agenda at the very beginning of the policymaking process. During the 1980s, the process of entrenchment was further enhanced by the dissemination of neoliberalism to the public through the media and other societal channels such as the educational system. As such, during democracy, in the third phase of dominance, systemic power operated as a significant causal mechanism in pension policymaking. As a potential mediator of power, then, systemic power influenced the policymaking process through various mechanisms such

as (i) limiting the range of policy alternatives deemed as acceptable (which includes policymakers' attentional bias), (ii) restricting the ability of opponents to the dominant ideology to pursue different policy alternatives, (iii) sharp shifts in policymakers' ideological commitments, (iv) the promotion of ideational consensus between different actors across the political spectrum, and (v) impacting the cognitive processes and preferences of social actors (a process that is further enhanced by the implementation of policies inspired by the dominant framework).

In this way, systemic power operates through more disguised mechanisms of influence (especially in comparison to instrumental power). What this work shows is that there are sources of power that may act at the beginning of the policy process, even before structural and instrumental power play any role in it. This is especially the case with the restriction of acceptable policy alternatives in the agenda-setting; alternatives contradicting the dominant ideological framework are ruled out almost automatically without any conflict. These more concealed mechanisms become especially clear in the analysis of the policymaking process during the Aylwin Administration (1990-1994; see Chapter 6). In the first place a system that replaced the AFPs was not an accepted, viable alternative simply because it was not included in the set of alternatives determined by the dominant neoliberal thinking. This *bias of the system*, therefore, operates by narrowing down the set of policy options from the very beginning of the policy process.

Sharp shifts in ideological commitments undergone by leading, influential members of the Concertación is another of the mechanisms mentioned earlier by which systemic power operates. As discussed in Chapter 6, leading members of Concertación -such as Alejandro Foxley, José Pablo Arellano, and René Cortázar, among others- began to praise the economic model bequeathed by the dictatorship. If during the late 1970s and early 1980s Foxley, for example, advocated for the development of a mixed economy, by the late 1980s he was entirely committed to the neoliberal economic model. From their ministerial positions during the Concertación administrations, they

supported the maintenance of the private capitalisation scheme during policymaking processes. Furthermore, their public stances further legitimised both the dominant neoliberal ideology and the economic model imposed under dictatorship.

Moreover, the attachment of these influential policymakers to neoliberalism also explains the maintenance of one observable implication of systemic power during the stage of entrenchment, namely: a shift in the locus of authority over decision-making. As we have seen, the predominant idea that policy decisions have to be based on “economic science” rather than political criteria, was established under dictatorship by the Chicago Boys, and it provides the main underlying justification for the supremacy of the Ministry of Finance over governmental decision-making. As such, the ideological shift undergone by Concertación policymakers facilitated the maintenance of the top-down, exclusionary approach of designing and implementing policies instituted under during the authoritarian regime. As discussed in Chapter 3, a key characteristic of systemic power is that it generates a routine handling of decision-making. This top-down conception of decision-making certainly became one key factor that helped to sustain the continuity of the pension system in democracy: if, during the authoritarian regime, popular sectors were excluded from policymaking through violent repression and demobilisation, in democracy they were excluded for the sake of political stability. Hence, business did not have a proper counterbalance in democracy either, which also explains to a great extent the lack of third order changes from 1990 onwards. Hence, I argue that the augmented business power framework enables us to better understand both the reproduction of the policy status quo and the striking adaptive capacity of the Chilean economic elite throughout the period under analysis. This chapter now turns to the discussion of the adaptive capacity of the Chilean economic elite.

### 10.2.3 The power of the Chilean economic elite and its implications on redistributive politics

In light of the above discussion, this dissertation demonstrated that the Chilean economic elite counts on more sources of power than those identified in the past. Put

differently, this research has shown that the Chilean economic elite is even more powerful than previously thought. If studies conducted during the mid-1990s and early 2000s highlighted the ability of business to win or impose concessions during the design and discussion of reform proposals (e.g. Silva, 1992, 1993), later works have shown that such focus underestimated the actual magnitude of business power; the economic elite exerts a much more decisive influence by controlling the setting of the agenda (e.g. Fairfield, 2015a, 2015b). Nevertheless, this thesis contends that such work also failed to capture the full extent of business power, thereby underestimating the full potential of business to influence the policymaking process. As discussed, ideational elements of power might have pervasive influence over the policymaking process. Via different mechanisms, systemic power may severely restrict the agenda, moving it to the economic elite's preferred end of the spectrum and keeping off the table reforms that contradict the dominant framework. In this context, we have seen how, during the period under study, the Chilean economic elite not only successfully wielded their sources of power, but also how they strategically invested in order to build new sources of power (i.e. systemic power) and to enhance existing sources of instrumental power (i.e. informal ties with policymakers). These abilities are examples that reflect the adaptive capacity of the Chilean economic elite to safeguard their minority interests.

Indeed, the comparative analysis of the five policy processes under study reveals the striking adaptive capacity of Chile's economic elite. This capacity is certainly related to the reproduction of the pension regulatory status quo and the lack of third-order, paradigmatic changes during the democratic period. Overall, the analysis of the five policy processes covering the period 1973-2017 shows the vast repertoire of sources of power wielded by the economic elite, their outstanding ability to adapt to different institutional and political contexts, and its capacity to stifle significant challenges from below. Not only complementary but also mutually reinforcing sources of instrumental, systemic and structural power allowed business to prevail in the debate on pensions.

Section 10.2.1 above has already summarised the sources of power that first enabled the neoliberal coalition to penetrate the State and then to pursue the radical pension reform. Both sources of instrumental and structural power were important in explaining that process. Then, during the first two decades of democracy the interplay of systemic power and structural power allowed business to keep a paradigmatic (third order change) reform off the agenda (see Chapter 6 and Chapter 8). And when reforms to the pension were on the agenda, highly institutionalised sources of instrumental power such as informal business-state consultation allowed business to negotiate with the government changes to the system within the logic of free-market ideas. Furthermore, partisan linkages with right-wing parties allowed business to block disruptive reforms, such as the implementation of measures to regulate conflict of interests (discussed in Chapter 6) or creation of state-run AFP during the first Bachelet administration (see Chapter 8).

The different channels through which the Chilean economic has influenced the policy processes studied in this thesis also reflect the varied and strong set of sources of power enjoyed by this group. Hence, if during Pinochet's dictatorship business had direct and almost completely exclusionary access to the secret commissions charged with legislative power, in democracy they were able to re-create such exclusionary access to policymaking through institutionalised consultation with the Concertación administrations. Furthermore, when authoritarian enclaves no longer existed or were weakened -which occurred from March 2006 onwards with the end of designated senators and the election of more leftist candidates from Concertación- the economic elite kept control over the policymaking through the so-called Advisory Councils. As we have seen, especially for the 2008 reform (Chapter 8), these councils severely restricted democratic deliberation and filtered political issues before they reached Congress.

Later, by 2011, with the rise of mobilisational power, the consensual, transitional framework of Chilean politics had definitively fallen apart. Increasing pressure from

below and growing electoral competition altered the societal balance of power, challenging business power and opening up the space for significant changes. As such, in 2016-2017 the economic elite faced the largest social movement around the issue of pensions in Chilean history, as we saw in Chapter 9. Protestors rallied against the low pension benefits provided by the AFP system. In the context of this significant challenge, the economic elite had to operate more intensively to safeguard their interests. Wielding their power strategically and efficiently, business was able to prevail in this round of policymaking since the government put on the table only second order changes, and subsequently Congress did not pass the government's proposal. Therefore, in a further demonstration of their adaptive capacity, the economic elite was able to overcome the enormous challenge represented by the "No + AFP" movement by maintaining the status quo.

In this case, high levels of cohesion constituted a critical source of instrumental power. Cohesion enabled the economic elite to show a monolithic position in favour of the AFP system and allowed them to mobilise more effectively against the introduction of redistributive instruments. Also critical in this process was systemic power enhanced by privileged media access. The economic elite constantly deployed the argument that pensions should be the result of one's own efforts and hence contributions should not be diverted to a common fund, which in the end garnered support among the population. Having discussed the extraordinary adaptive ability of the Chilean economic elite to first impose a paradigmatic change in the pension and afterwards to maintain the status quo in democracy, the next section will discuss the relevance of these findings to other policy areas in Chile and to other countries.

## 10.3 Implications and lessons

### 10.3.1 Other policy areas and democratic consolidation in Chile

The findings discussed above have implications to understand the dynamics that have reproduced over time income polarisation in Chile (Palma, 2011). Since the reinstatement of democracy in 1990, popular sectors have progressively opened up

channels of expression to voice their discontent against the neoliberal economic model. During the last two decades there has been growing, escalating pressure from below for changes in the Chilean neoliberal economic model, all of which ended up in the cycle of protests that broke out on 18 October 2019. Nonetheless, the core of the economic model imposed under dictatorship in terms, for instance, of private provision of social security programmes, remains in place not only in the realm of pensions. So, it seems that the dynamics explored in this thesis might be relevant to the analysis of policy outcomes in other areas.

One of the first demonstrations, in this context, of the growing discontent with the neoliberal economic model came in 2006, with the *Pingüino* movement. Such movement mobilised thousands of secondary school students against the neoliberal educational model (Donoso, 2013a). Then came the 2011 mass movements again around the educational system, this time led by university students. Later, as we have seen, hundreds of thousands of Chileans took to the streets in 2016, protesting for the incapacity of the 1981 pension system of paying decent pensions, which became a cycle protests stretching for over a year. While some commentators (e.g. Pribble, 2019) have placed the blame on a political class unwilling to transform the country's neoliberal model, I argue that we have to pay more attention to the role played by the economic elite. As shown by the analysis of the pension policy process in democracy, the economic elite has successively been able to prevent the passage of redistributive reform proposals altogether or distort different stages of the policy process, thereby obstructing the functioning of democratic institutions. Therefore, the powerful Chilean economic elite, wielding multiple sources of power, has become an obstacle for the consolidation of Chile's democracy, as it has opposed the development of a more participatory, democratic policymaking process and the implementation of redistributive policies.

As in the case old-age pensions, reforms in areas such as health and unemployment insurance were carried out with a top-down approach and came only to partial fruition

during the 1990s and 2000s. In 1981, with the introduction of a private system managed by insurance companies called ISAPRES,<sup>199</sup> the authoritarian regime established a two-tier health system. As such, workers in Chile may choose to transfer their mandatory contribution to healthcare (7% of their income) either to (i) the private tier managed by the ISAPRES, or (ii) the public system administered by the state-funded National Health Fund, called FONASA.<sup>200</sup> With the reinstatement of democracy, because of the lack of regulations on ISAPRES, the public system concentrated risks and was underfunded. As in the case of the pension system, the Aylwin administration (1990-1994) and the Frei administration (1994-2000) introduced some changes -e.g. some regulations to private providers and they increased spending- but none of them challenged the overarching goals of the health system. In a dynamic very similar to what we saw in pensions, Pribble (2013) reports that in this period left-leaning members of the Concertación attempted to push for reforms, but they were kept off the agenda by top-officials of the Ministry of Finance. Later on, the President Lagos came to power with a more ambitious agenda. Actually, in 2004 the Lagos administration achieved the passage of the Plan AUGE,<sup>201</sup> which guaranteed universal access to 80% of the most prevalent diseases treated in the health care system (Garay, 2016). However, the economic elite, along with the Right and the neoliberal wing of the Concertación, in Congress watered down the reform.

A first problematic aspect of this policy process is the top-down approach followed for the reform proposal design. As in the case of pensions, the government did not develop a participatory policy process, given the fear that social actors could contaminate the technical process (Pribble, 2013). Similarly to what we observed in the case of the Marcel Commission, the Ministry of Health -headed at the time by Michelle Bachelet- conducted a series of public forums, but the results of such meetings had no influence over the reform design. In this context, a critical aspect of the original reform bill introduced to Congress was the creation of a Solidarity

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<sup>199</sup> ISAPRES stands for Instituciones de Salud Previsional (Institutions of Health Provision, in English).

<sup>200</sup> FONASA stands for “Fondo Nacional de Salud” (National Health Fund, in English)

<sup>201</sup> AUGE stands for “Acceso Universal de Garantías Explícitas” (Universal Access with Explicit Guarantees).

Compensation Fund. With the creation of such a fund, the Lagos administration sought to establish a cross-subsidy between the private sector and FONASA (Ewig and Kay, 2011). However, private health providers -supported by the legislators of the right-wing coalition and the neoliberal sector of the Concertación<sup>202</sup>- fiercely opposed in Congress the creation of such Solidarity Fund, arguing that it was unfair that money from contributions of their affiliates (i.e. higher income workers) would end up supporting public system affiliates (Ewig and Kay, 2011; Pribble, 2013; Garay, 2016). Resorting to an argument also used in the debate on pensions as we have seen, private health providers and right-wing legislators argued that the Solidarity Fund was unconstitutional, that it affected private property, since it amounted to an “expropriation” of the contributions made by higher income workers (Garay, 2016: 279). Then, after two years of negotiations, the government dropped the Solidarity Fund from the reform bill.

Hence, although the AUGE certainly represented a step forward, it seems that the power wielded by the Chilean economic elite tends to block necessary equity-enhancing and structural reforms not only in the realm of pensions. After the 2004 reform, the Chilean health system is still widely characterised as unfair, inefficient, and based on inequality, segmentation and lack of solidarity. In terms of segmentation, 78% of the Chilean population is covered by FONASA, which covers low and middle-income sectors, while only 18% of the population is covered by the private insurance system managed by the ISAPRES, given the high premiums and costly co-payments charged by these insurance companies (OECD, 2019; Villalobos, 2019).<sup>203</sup> The public system, in this context, covers the poorer and riskier population, and the contributions paid by those sectors of Chilean society to FONASA do not make up the costs of the services provided by the system. Hence, the State has to complement workers’ contributions with general revenues. Regarding inequality, one indicator applied to measure the distribution of access to health services is the number of appointments

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<sup>202</sup> Pribble (2013: 51), for instance, points out that Christian Democrat senators Alejandro Foxley and Edgardo Boeninger opposed the creation of the Solidarity Fund.

<sup>203</sup> A further 3-4% are covered under a special insurance scheme for members of the Armed Forces.

with medical specialists. By 2015, individuals in the top income quintile had a rate of access to specialists 117% higher than the poorer 25% of the population (UNDP, 2017). As such, rich and poor sectors of the population receive significantly different standards of health care, with poor people having much worse access to specialists despite the higher burden of ill health in lower socio-economic groups.

Furthermore, prices for health insurance programmes offered by ISAPREs have risen significantly. This led to widespread discontent among affiliates, who took legal action against ISAPREs. Villalobos (2019) reports that more than 99,000 lawsuits were presented against private health insurers in 2014. This issue is worsened by the fact that ISAPREs have incentives to increase the cost of the insurance programmes they offer: ISAPREs own almost 50% of the private health providers (i.e. private hospitals). By 2011, for instance, seven ISAPREs owned 40 out of a total of 83 private hospitals existing in Chile (El Mercurio, 2013). One of the major participants in the private health system is no other than the CChC (Chilean Chamber of Construction). This business peak association, which as it has been noted also owns HABITAT AFP, controls the ISAPRE called CONSALUD. In this way, from this brief survey it is possible to assert that the Chilean health system might be dominated by similar dynamics to those observed for the pension system, where business interests defend their handsome benefits, thereby hindering structural, equity-enhancing reforms.

As for the implementation of unemployment insurance in 2002, the process also very much mirrored the debate on pensions. Actually, as in the case of pensions and also similar to what we discussed above regarding the health system, it seems that the constellation of a top-down approach of policymaking, the authority of neoliberal technocrats over other professionals in government (and their overarching budgetary concerns) and the role played by the economic elite determined a similar process and outcome. In her book on the Chilean labour market, Sehnbruch, (2006) analysed the process that led to the enactment of this unemployment insurance. The Lagos administration raised the proposal of unemployment insurance as a core theme of his

presidential campaign in 1999. Although the political debate on the need for unemployment insurance had been going on for years, the 1998 Asian crisis triggered a more substantial discussion on the issue as it stressed the need for a more robust system<sup>204</sup> to protect the most vulnerable segment of the labour market from economic shocks (Contreras and Sehnbruch, 2014). As in the case of the health system, the previous two Concertación administrations had attempted to pursue a reform to implement unemployment insurance system with no success.

From Sehnbruch's analysis (2006), one can deduce that a collective risk sharing system was off the agenda from the very beginning in the policy process given the dominant neoliberal outlook of most of the economists participating in the discussion. There was a shared belief among policymakers that the country's experience in managing individual accounts would be beneficial for an unemployment insurance system structured in the same way, and that the traditional systems of unemployment insurance were associated with moral hazard, which is the fact that unemployment benefits could lead to longer durations of unemployment since these benefits could reduce the incentives to resume working (Contreras and Sehnbruch, 2014). The CPC, in this context, explicitly rejected the establishment of a system based on collective risk sharing since it could have "tended to encourage leisure". As such, Sehnbruch (2006: 149) concludes that *"from the outset, the collectivisation of the risk of becoming unemployed was not regarded as an option by Chilean analysts"*. Concerns over the risk of moral hazard, labour market flexibility and efficiency, outweighed all concerns for social equity (Sehnbruch, 2006: 150). Furthermore, one of the arguments pointed out by the government in favour of a system centred on individual accounts was that it would inject resources into the capital market, just like the pension system (Sehnbruch, 2006: 153). Therefore, we may preliminarily hypothesise that systemic power, for instance, also influenced significantly this policymaking process by restricting the set of policy alternatives on the agenda.

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<sup>204</sup> Before the implementation of this system, Chile had a "Subsidio de Cesantía" (Unemployment Subsidy) but the coverage of this insurance was very low and provided extremely low benefits (Sehnbruch 2006).

In this context, the reform passed during the Lagos administration was less ambitious than previous proposals. For instance, while the Aylwin administration had proposed a contribution of 4.11% of a worker's monthly wage, the reform passed in 2002 considered only a 2.2% contribution. And although the 2002 unemployment insurance system established a Solidarity Fund, the conditions established to gain access to the benefits of such a fund were very restrictive. Therefore, the system established in 2002 was characterised for being based on individual saving accounts with a minimal risk-sharing component (Contreras and Sehnbruch, 2014). Besides sharing a similar structure with the pension system, another remarkable fact is that, since its inception in 2002, a consortium of four AFPs manages the unemployment fund created with this reform (CIPER, 2018). Hence, it seems that business power (structural, instrumental and systemic) may also be a significant determinant of policy processes and outcomes in other policy areas apart from pensions.

### 10.3.2 Other countries

In terms of scope conditions for the application of the "middle-range" theory proposed in the augmented framework, other Latin American countries constitute an initial natural setting for exploring the validity of that framework. Considering significant areas of convergence between Latin American political economies such as the presence of a small number of large, family-owned business groups that dominate the economy (Schneider, 2013), we might expect to find similar outcomes. That is to say, powerful economic elites blocking the development of redistributive policies or the implementation of fully-funded, defined-contribution systems, for example.

Nonetheless, as discussed in Chapter 3, we must bear in mind that business power varies over time and across sectors of the economy, some of its sources are highly context-specific, and it is modulated by countervailing social forces such as popular mobilisation. In this context, the preliminary comparative analysis discussed below seems to support the contention that the power of the economic elite might be a key predictor of cross-national variation in pension reform and the entrenchment of

dominant ideological frameworks. Although countervailing actors and political contexts (e.g. authoritarian regime versus democracy) certainly play a significant role in the policy processes discussed below, a key variable to add to our analyses is business power and its various nuances.

For the retrenchment phase, for example, Castiglioni (2000, 2001, 2005) has developed an extensive comparative work analysing pension reforms in Chile and Uruguay. Both countries were pioneers in the establishment of social protection systems in Latin America, and exhibited a similar pension system until the 1970s, being the most generous and redistributive of the continent. However, while the Chilean authoritarian regime imposed the 1981 radical reform, in Uruguay retrenchment did not occur. The thrust of Castiglioni's argument for explaining these contrasting outcomes rests upon differences in concentration of power. In the Chilean case, Pinochet controlled decision-making and the neoliberal economic team of policymakers. By contrast, the collegiate form of authority, followed by the Uruguayan military junta, would have prevented the passage of neoliberal reform since it allowed the nationalistic sectors to restrict the market-oriented agenda.

We have seen in Chapter 5 that for the Chilean case the above argument is insufficient. Financial conglomerates and their associate neoliberal technocrats were pivotal in designing the reform, and then in pushing the radical reform through from within the government. Given that Castiglioni's argument is insufficient for the Chilean case, the question therefore remains: Why, despite all their previous similarities, did the military regimes in Chile and Uruguay adopt different reform strategies? Furthermore, at the moment of the Chilean reform (late 1970s-early 1980s) both countries faced similar contextual factors: budgetary constraints, and violent repression of left-wing parties and labour movement. How, then, can we understand the striking continuity of the pension system in Uruguay during the military regime (1973-1985) and, by contrast, the radical reform undertaken by its Chilean counterpart? Business power, then, may constitute the missing link to understanding this puzzle. In contrast to the Chilean

economic elite, the Uruguayan business segment that had pre-eminence during the twentieth century was a relatively backward rural export sector (the livestock sector, more specifically) (Finch, 1991), which made little effort to penetrate the policymaking process (Rodríguez Weber and Thorp, 2014). Although these issues need further research, it seems that variations in business power and preferences have to be included in this analysis of this puzzle in order to gain a more accurate picture.

The above discussion centred on understanding why some countries in Latin America adopted pension privatisation and others not at all. In this context, I argue that the introduction of business power in the analysis might be also helpful to understanding varying degrees of pension privatisation. As such, the comparative cases of Peru and Chile, for instance, provide interesting terrain for analysis. Both Chile and Peru privatised their pension systems under authoritarian contexts. However, while the Chilean dictatorship imposed a completely substitutive model, Peru, in contrast, during the Fujimori administration (1990-2000), established in 1993 a parallel model in which a private pillar was created in direct competition to the old public system (Mesa-Lago, 2012). Why, therefore, did the authoritarian regime in Peru not establish a fully-fledged, substitute pension system as was the case in Chile (even when such reform was supported by Chilean neoliberal technocrats)?

At least part of the puzzle could lie in the fact that the Peruvian economic elite did not count on strong sources of instrumental power, in comparison to the Chilean economic elite, at the moment of pension privatisation. This is especially the case regarding *relationship with policymakers*. While the Chilean economic elite enjoyed multiple and strong relationships with the authoritarian regime through recruitment into government and informal ties, the Peruvian economic elite did not count on strong ties with the Fujimori administration. Partially, this was the case because the Peruvian encompassing business association, CONFIEP<sup>205</sup>, had supported Fujimori's opponent in the 1990 election, Mario Vargas Llosa. Therefore, when the pension

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<sup>205</sup> CONFIEP stands for Confederación Nacional de Instituciones Empresariales Privadas (National Confederation of Private Entrepreneurial Institutions in English).

reform occurred in Perú, the Peruvian economic elite did not have strong relationships with policymakers. As such, while the Peruvian economic elite favoured a complete privatisation of the pension system, they were not able to push for such a reform in 1993, when Peru established a parallel private pension system.

Lastly, for the analysis of the Latin American context, the consideration of business power might be useful for explaining why some countries in Latin America have reversed pension privatisation (e.g. Argentina and Bolivia) while others have not. In this context, a focus on business power might provide the explanation for the different paths followed by Argentina and Chile, for example. In 1994 Argentina adopted the Chilean pension model, but in 2008 Congress passed a bill that sanctioned the nationalisation of private accounts, thereby reversing the neoliberal pension reform. In this context, a question arises: how did Argentina reverse pension privatisation in spite of the presence of a consolidated pension fund industry (formed by 10 AFPs at the time of the reversal) while the pension system in Chile has exhibited a remarkable continuity?

Again, the inclusion of business power in the analysis might shed light upon these divergent paths. In her analysis of tax reforms in Latin America, Fairfield (2015a) shows that since the 1990s Argentina has enacted noteworthy tax reforms, increasing direct taxes on the economic elite. As such, now the country has the highest corporate tax in the region and it increased tax revenue notably. By contrast, for the same period Chile enacted at most marginal direct tax reforms, and direct tax collection remained basically the same. According to Fairfield (2015a), such differences are partly the reflection of key sources of instrumental power: cohesion. While the Chilean economic elite exhibited a monolithic stance against a rise in direct taxes, the Argentinian economic elite was much more fragmented. Therefore, differences in business power between these countries might explain their divergent paths in the realm of old-age pensions.

Finally, I argue that the findings of this work might travel well to cases beyond Latin America. The fact that both the implementation (or rather imposition) of the mandatory individual capitalisation system and the entrenchment phase of systemic power were carried out under an authoritarian regime may suggest that the findings of this dissertation and the applicability of augmented business power framework may have limited scope. No doubt the leeway that an autocratic regime may offer to a powerful economic elite is difficult to match in a democratic context. Nonetheless, preliminary evidence suggests that economic elites with strong and varied sources of power -coupled with weak or weakened labour movements- might circumvent the challenges that offer a democratic setting to pursue their interests. Democracy, in this context, does not necessarily represent an obstacle for pension privatisation. As such, business interests might seek to follow tactics of incremental change such as layering (Thelen, 2003; Streeck and Thelen, 2005) in order to re-shape social programmes according to their preferences. Furthermore, in democratic contexts economic elites may freely carry out long-term, strategic investments to cultivate and disseminate a dominant ideological framework.

For the US case, for instance, Hacker (2019) discusses how, during the last four decades, US workers have increasingly managed their pension savings through defined-contribution plans, such as 401(k) plans (which are akin to the Chilean individual capitalisation scheme), to the detriment of the traditional defined-benefit pension system. Since the introduction of 401(k)s in 1978, the Individual Retirement Accounts (IRAs) and 401(k) have been successively expanded via expanding tax breaks and other mechanisms. These expansions occurred in 1994 when Republicans were in control of both houses of Congress, and in 2000 when George W. Bush was in power. The figures speak for themselves regarding the degree of these incremental changes: By 1983, only 12% of the households in the age group 47-64 had a defined-contribution plan such as 401(k)s. That figure had soared to 62% in 2001. On the other hand, households with a defined-benefit plan plummeted from 69 to 45% for the same years (Wolff, 2011). Consequently, if on average in 1983 only about 6.6% of families'

private pension wealth was in defined-contribution plans, by 2007 more than half was. For households headed by workers younger than 47, the shift was even more remarkable: from around 10% of pension wealth in the defined-contribution plans in 1983 to more than 73% by 2007. As such, the US has incrementally moved to a privatised pension system, which has consequently shifted more risk and responsibilities for retirement planning from the government and employers to workers.

Regarding countervailing actors, in the US the pension privatisation process during the 1980s coincided with the decline of organised labour since 1970, with unionisation rates plummeting from nearly 25% to 7% by the 2010s (Cornfield, 1989; Hacker and Pierson, 2010a). In this context, the gradual shift towards privatisation benefited employers in terms of cost-containment: US employers have gradually reduced their contributions. Thus, if by the late 1970s private employers devoted more than 4% of workers' compensation to pensions, by the late 1980s such a figure had dropped to 2.5% (Hacker and Pierson, 2010a; Hacker, 2019: 109).

In his analysis of these outcomes and dynamics, Hacker discusses the significance of the conservative policy movement that pushed for the implementation, and later further expansion, of private accounts. In the context of long-term investments to disseminate neoliberalism in the US (Goldstein, 1993; Jones, 2012), Hacker (2019) shows how, during the 1980s, promoters of pension privatisation began a major campaign aimed at decreasing trust in the traditional Social Security programme, and discusses how ideas favouring pension privatisation -and against Social Security- circulated from conservative intellectual circles to policy experts in neoliberal think-tanks, and lastly, to Republican politicians. Therefore, cases like the US, with powerful and resourceful economic elites and weakened labour movements, might also provide interesting terrain for testing the augmented business power framework.

## 10.4 Recommendations for future research

First of all, further research should focus on the incorporation of business power into the analysis of other social policies in Chile. In this regard, unemployment insurance, health and education are critical policy domains in which the role of business power must be considered systematically in the study of the policymaking trajectory during the last four decades. Regarding unemployment insurance, Sehnbruch (2006) has already advanced our understanding of some aspects of business power. While in terms of the health system some work has already incorporated business power partially (Ewig and Kay, 2011), in the case of education scholarly work has mainly focused on the role of popular sector and mobilisation from below (Donoso, 2013a; Donoso and Von Bülow, 2017). Therefore, it is critical to incorporate into the analysis the role played by the economic elite in the implementation and maintenance of the neoliberal educational model.

Regarding systemic power, it is necessary to test the augmented business power framework in other policy areas in Chile. Industrial policy is a promising area for further research given that the canonical framework has already been applied to the analysis of business actors' influence in post-authoritarian Chile (Bril-Mascarenhas and Madariaga, 2019). This is promising terrain, given the success of the investment process in the Chilean case in developing a dominant ideology which is especially pervasive and persistent (Tedesco and Barton, 2004). Can one expect systemic power to have a similar effect on other Latin American countries and affluent democracies, for example? Considering the above discussion regarding the implications and lessons of this dissertation, it can be expected that systemic power could have similar significance in those contexts. Future research, anyway, should assess the impact of systemic power in other Latin American and European countries, and in different policy domains. In the context of the increasing academic interest in the role of business power, the European context offers a promising area for research given that much work has already been done to understand the preferences of business actors in those countries (e.g. Bonoli, 2000; Naczyk, 2013, 2016; Ebbinghaus, 2019).

Regarding pensions in the Chilean context, future research is urgently needed in order to incorporate the role of transnational actors. Unfortunately, given the limits of resources available for this research, the role of transnational actors was only incidentally studied. But the role of these actors has been increasing, especially in the last decade. Although transnational financial conglomerates began to take over AFPs in the late 1980s (Rozas and Marín, 1989), it was not until the mid-2000s that these transnational conglomerates controlled much of the AFP scheme. Then, during the policymaking process that led to the 2008 reform, the role of transnational actors is very much in tune with the role played by the domestic economic elite. As such, transnational corporations' economic interests were protected by representatives of the domestic economic elite (i.e. especially former bureaucrats of the authoritarian regime who were board members of AFPs), and those members of the governing coalition who have been co-opted. In such a context, the role played by transnational actors was mostly mediated by the domestic economic elite and its sources of power. This is especially the case with instrumental power in the form of privileged media access through *El Mercurio*.

Nevertheless, in the process that led to the failed reform of 2017, the degree of mediation played by the domestic elite of those transnational interests is less evident. During this policymaking process, transnational actors in general (that is, corporations and international organisations such as the IMF) played a distinctive role. Although again it was in correspondence with the stance of the domestic economic elite, this time their role at some points was, as said, distinctive and separated from those actions carried out by the domestic economic elite. A work in progress hypothesis is that, given the significant threats faced by the AFP scheme during the 2016-2017 period (which somehow challenged the very survival of the system), transnational actors came to the defence of the system by playing a supplementary role to that played by the domestic economic elite.

Then, if during the 2004-2008 policymaking process (see Chapter 7), transnational actors and the domestic economic elite sustained literally one voice in the debate, for 2016-2017 it is possible to observe that transnational actors intervened directly and openly in the debate. Not necessarily through representatives of the domestic economic elite nor through the AFPs, but for instance through representatives of the transnational conglomerates that controlled the AFPs. In this context, a further step is to focus more research efforts on the role played by these actors in the maintenance of the AFP system. More specifically, we require a better understanding of the sources of power that transnational players use to influence the domestic policymaking on pensions and other policy areas such as health.

Finally, in terms of the relationship between business power and democracy, future research should also explore this link. The analysis of to what extent the policymaking process is captured and distorted by business interests in representative democracies represents a pressing research task in Latin American countries and elsewhere. There have been recent advances but much more work is needed considering the multiplicity and complexity of sources of power wielded by economic elites. While it seems that income polarisation is on the rise in advanced democracies (Piketty, 2014), and Latin America continues to show extremely high levels of inequality, the relationship between concentrated material wealth and disproportionate business power constitutes by far one of the most pressing research issues at the present time.

In this context, future research has to include not only contemporary processes but also to have an historical scope in order to achieve a full understanding of different processes and mechanisms. Pensions, in this regard, constitute a critical policy area to undertake this line of enquiry given that pre-funded private pensions have become a key component of financialisation and, therefore, a key aspect of post-industrial economies (Hassel, Naczyk and Wiß, 2019). Nowadays, pensions not only matter as a social policy, but have acquired a central financial role, impacting, for instance, savings rates, corporate finance and thereby the behaviour of economic elites.

## APPENDIX: LIST OF INTERVIEWEES

91 interviews conducted to 75 informants.

N	Name	Profile	Date of interview(s)
1	Aguiló, Sergio	PS Deputy, 1990 to 2018.	2 August 2017
2	Anonymous 1	High-level Informant from the Superintendency of Pensions.	27 August 2017
3	Anonymous 2	Former Member of the Chamber of Deputies, right-wing coalition "Alianza por Chile".	30 September 2017
4	Anonymous 3	Member of the Bravo Commission I.	22 June 2017
5	Anonymous 4	Member of the Bravo Commission II.	17 August 2017
	Anonymous 5	Leading member of the Concertación, participant in Bachelet's presidential campaign 2005.	1 June 2017
6	Arellano, Alberto	Investigative journalist at CIPER.	1 September 2017
7	Arenas, Alberto	Head of the Budget Office 2006-2010, Finance Minister 2014-2015.	20 June 2017
8	Ariztía, Juan	Superintendent of AFPs 1981-1990.	12 May 2017
9	Barra, Yanara	Investigative journalist, specialist in the Chilean economic elite.	11 October 2017
10	Barros, César	Member of the Board of Directors at a number of companies, columnist at La Tercera newspaper and Qué Pasa magazine, and broadcaster at "Agricultura" radio station (linked to the Right).	12 June 2017
11	Bertranou, Favio	Director of the Office for the Southern Cone of Latin America, International Labour Organisation (ILO).	22 June 2017
12	Bitar, Sergio	PPD Senator 1994-2002; Minister of Education 2003-2005; President of the PPD 2006-2008; Minister of Public Works 2008-2010.	24 July 2017
13	Borzutzky, Silvia	Political Scientist, Academic at Carnegie Mellon University, expert in the political economy of pensions.	30 April 2017
14	Briones, Ramón	Lawyer and author, former member of the Christian Democrat Party.	22 September 2017
15	Campero, Guillermo	Adviser to the Ministry of Labour 1990-2000.	22 August 2017
16	Cárcamo, Héctor	Journalist, pension system correspondent for El Mostrador, Interferencia, and El Desconcierto.	20 April 2018

17	Castiglioni, Rossana	Political Scientist, academic at Universidad Diego Portales, expert in the political economy of pension regulation in Latin America.	3 August 2016; 12 April, 19 July 2017
18	Clark, Regina	Member of the Marcel Commission; Chief of the Legal Division, Ministry of Education 2008-2010; Member of the Bravo Commission.	12 December 2018
19	Cociña, Matías	Sociologist and author, researcher at UNDP Chile.	24 May, 17 August 2017
20	Costa, Vasco	Under-secretary of Labour 1976-1978; Minister of Labour 1978.	11 October 2017
21	Costabal, Martín	Advisor to the Minister of Economy 1974-1979; Director General of Budget 1981-1984; Minister of Finance 1989-1990.	31 May 2017
22	De Ramón, Emma	Historian, Director of the National Archives.	21 August 2017
23	Dinges, John	Investigative journalist and author, expert in Latin American authoritarian regimes.	30 April 2017
24	Donoso, Sofía	Sociologist, Academic at Universidad de Chile, expert in social movements.	11 August 2016
25	Ferreiro, Alejandro	Superintendent of AFPs 2000-2003; Superintendent of Securities and Insurance 2003-2006; member of the Marcel Commission; Minister of Economy 2006-2008.	30 May 2017, 11 December 2018
26	Flores, Yarela	Economist, academic at Universidad Arturo Prat. Her doctoral dissertation focused on the study of the Chilean pension fund industry.	15 November 2018
27	Ffrench-Davis, Ricardo	Economist, PhD at University of Chicago, member of the Christian Democratic Party, academic at Universidad de Chile, National Prize for Humanities and Social Sciences; Chief Economist at the Central Bank 1990-1992.	1 August 2017
28	Fuentes, Roberto	Director of Research at the Association of AFPs, 1989-to present.	10 October 2017, 13 December 2018
29	Guzmán, José Antonio	President of the CPC 1990-1996; President HABITAT AFP 2006-2014.	22 September 2017
30	Hepp, Margarita	Economist, member of the Technical Committee of the 1981 Pension Reform.	4 July 2017, 30 September 2017

31	Herrero, Víctor	Journalist and author. Among other books, he authored the biography on Agustín Edwards.	3 October 2017
32	Herreros, Francisco	Journalist at Las Últimas Noticias, 1980-1981.	22 June 2018
33	Hormazabal, Ricardo	Christian Democrat Senator 1990-1998.	10 August 2016, 29 August 2017
34	Huneus, Carlos	Political scientist and author; academic at Universidad de Chile.	13 December 2018
35	Iglesias, Augusto	Member of the Marcel Commission, internacional consultant on pensions, and Undersecretary of Labour and Social Security (2010-2014).	5 June 2017
36	Infante, María Teresa	Advisor to ODEPLAN 1974-1976; Undersecretary of Labour 1985-1989; Minister of Labour 1989-1990.	7 June 2017
37	Joignant, Alfredo	Academic at Universidad Diego Portales, specialist in the study of the Chilean elites.	22 August 2017
38	Kremerman, Marco	Economist, expert in pensions, active participant in the national debate on social security. Researcher at Fundación Sol.	19 August 2016, 11 August 2017
39	Lagos, Ricardo	President of Chile 2000-2006.	7 August 2017
40	Larraín, Christian	Economist, Member of the Bravo Commission; Director of the Public Companies System.	25 May 2017
41	Larraín, Guillermo	Superintendent of AFPs 2003-2006.	8 June 2017, 12 December 2018
42	Larraín, Luis	Member of the Technical Committee of the 1981 Pension Reform; Executive Director at Libertad & Desarrollo 2010-2020.	30 May 2017
43	Larroulet, Cristián	Advisor at ODEPLAN 1979-1980; Chief of Staff Minister of Finance 1985-1989; Executive Director at Libertad & Desarrollo 1990-2009; Minister General Secretariat of the Presidency of Chile 2010-2014.	24 May 2017
44	Lima, Marcos	Civil Engineer, Director of the INP (Institute of Social Security Normalisation) 1990-1994.	17 December 2018
45	Lorenzini, Pablo	Christian Democrat Deputy 1998-2018, Member of the Finance Committee of the Lower Chamber.	12 June 2017

46	Luna, Juan Pablo	Political Scientist, academic at Catholic University, specialist in the study of the Chilean Right.	18 August 2018
47	Macías, Osvaldo	Chief of the Studies Division at Superintendency of AFPs 1994-2003; Superintendent of Pensions 2016-to present.	17 December 2018
48	Mandiola, Mario	National General Secretary, FENPRUSS	27 March 2020
49	Marcel, Mario	Head of the Budget Office 2000-2006; President of the Marcel Commission; President of the Central Bank 2016-to present.	18 August 2016
50	Maillet, Antoine	Political Scientist, Academic at Universidad de Chile, expert on the political economy of pensions.	10 October 2017, 16 November 2018
51	Martner, Gonzalo	Economist and former member of the Socialist Party, currently academic at the Universidad de Santiago. Undersecretary of Regional Development 1990-1994.	13 September 2017
52	Mesina, Luis	Leader of the “No + AFP” movement.	5 September 2017
53	Molina, Sergio	Christian Democrat, President of the Central Bank 1964-1967; Minister of Finance 1964-1968; Minister of Planning 1990-1994; Minister of Education 1994-1996.	13 June 2017
54	Mönckeberg, M. Olivia	Author and journalist. During the dictatorship she worked as economics correspondent at Hoy magazine. National Prize for Journalism.	19 April 2018
55	Montes, Carlos	PS Deputy 1990-2014; PS Senator from 2014 onwards.	4 October 2017
56	Muñoz, Adriana	PPD Deputy period 1990-1994 and 1998-2014; PPD Senator from 2014 onwards.	15 September 2017
57	Ominami, Carlos	Minister of the Economy 1990-1992; Concertación Senator 1994-2010.	7 July 2017
58	Palma, Andrés	Christian Democrat Deputy 1990-2002.	13 September 2017
59	Repetto, Andrea	Economist, member of the Marcel Commission.	31 May 2017
60	Riesco, Manuel	Economist and author, founding member of CENDA (National Centre for the Studies in Alternative Development), active participant in the national debate on pensions.	8 August 2017

61	Rincón, Ximena	Christian Democrat Senator 2010-2014; Minister of Labour and Social Security 2015-2016.	10 December 2018
62	Ruiz de Giorgio, José	Christian Democrat Senator 1990-2006.	26 September, 4 April 2017
63	Ruiz-Esquide, Mariano	Christian Democrat Senator 1990-2014.	4 May, 9 August 2017
64	Sehnbruch, Kirsten	Political Scientist, currently based at the International Inequalities Institute (LSE), expert in Latin American labour markets.	5 August 2016
65	Silva, Eduardo	Political Scientist, Academic at Tulane University, expert in the Chilean economic elite.	27 April 2017
66	Solimano, Andrés	Advisor to the Ministry of Labour (2016), Regional Advisor for ECLAC - United Nations (from 2001 until retirement).	11 August 2017
67	Somerville, Hernán	President of the Banking Association (ABIF) 1993-2011; President of the CPC 2004-2006.	4 August 2017
68	Thayer, William	Minister of Labour and Social Security 1964-1968; Member of the Legislative Commission on Social Security during the dictatorship; Designated, non-elected Senator 1990-1998.	28 August, 3 October 2017
69	Tohá, Carolina	PPD Deputy 2002-2009; President of the PPD 2010-2012	4 July 2017
70	Tromben, Carlos	Economist, author and journalist; former general editor of the magazine "América Economía".	19 August 2016, 20 April 2017
71	Uthoff, Andras	Director of the Social Development Division at CEPAL (1990-2008); Member of the Marcel Commission and of the Bravo Commission.	19 May, 31 July 2017
72	Velasco, Andrés	Finance Minister 2006-2010.	27 June 2017
73	Vidal, Paula	Academic at Universidad de Chile.	28 July 2016
74	Weibel, Mauricio	Author and journalist.	17 December 2018
75	Zahler, Roberto	President of the Central Bank, 1991-1996.	11 October 2017

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