

Neoliberal Restructuring

The Origin and Formation of Economic Groups in Chile

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ABSTRACT

In modern day Chile the economic entrepreneurial landscape is made up of large multinational conglomerates, local economic groups, and so-called emerging economic groups (that burgeoned with the transformation of former government employees into owners of important parts of state-owned companies). This last group is mainly comprised of the neoliberal technocracy that designed the economic policy of the Pinochet dictatorship. The power of these emerging technical groups in democratic Chile is based not only on direct private property, but also on their participation as high-ranking officials that dominate strategic decision-making in companies and conglomerates. Their power has been consolidated with the so-called second wave of privatizations (1985–90), as they took advantage of both profound neoliberal convictions and the unconditional support for multinational companies, which technocratic officials consider to be the materialization of the globalization of the Chilean economy. In turn, many of these technocrats operate as agents or strategic executives, associating with local economic groups and transnational conglomerates. The analysis of the origin and formation of the economic groups and conglomerates that today dominate the globalized Chilean economy is the main objective of this article.

Keywords: Chile, conglomerates, economic groups, neoliberalism, technocracy

In modern day Chile the entrepreneurial landscape of major companies is made up of three groups: first, large multinational conglomerates; second, large local economic groups; and third, so-called new economic groups, which burgeoned with the transformation of former government employees into owners of important parts of privatized state companies. This last group mainly stems from the neoliberal technocracy that designed the economic policy of the Pinochet dictatorship. Their current power in democratic Chile is based not only on direct private property, but also on their participation as high-ranking officials that dominate strategic decision-making in companies and conglomerates. This

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article's analysis is focused on the origin and formation of the economic groups and conglomerates that today dominate Chile's globalized economy.

In the first stage of privatizations, from 1974 until 1982, the intention was to lay the foundations of what the military called 'the re-foundation of Chilean capitalism'. This involved the privatization of most of the companies that had been nationalized or had otherwise experienced state interventionism during the Unidad Popular (Popular Unity) government (1970-3). The aim was not only to restore capitalist mechanisms within the Chilean economy, but also to eliminate the domain of 'Social Property', which had been the guideline for the economic policy of the 'Chilean path to socialism'. This first stage, of which local economic groups were the main beneficiaries, came to its end with the Chilean foreign-debt crisis and the economic recession it generated from 1981 until 1983. The second stage of privatizations started after the economic recovery in 1985 and lasted until 1990. This second stage was characterized by the massive transfer of the ownership of large state-owned companies to multinational conglomerates. In addition, the power-base of new economic groups was consolidated, as they took advantage of both profound neoliberal convictions and the unconditional support for multinational companies, which they consider to be the materialization of the globalization of the Chilean economy.

Both economic groups and entrepreneurial organizations considered the 1973 coup as the installation of a dictatorship with the objective to restore the economic and political regime prior to 1970. The entrepreneurial class recognized that the Pinochet government would need a long time-period to reestablish the capitalist functioning of the economy, which had been seriously disturbed during the state-centered economic policy of the Unidad Popular. They aimed at a restoration of the prior system of corporate-state relations established during the period of Import Substitution Industrialization (ISI). With the restoration of these relations the entrepreneurial class expected the financial support and government subsidies to companies to be restored. Such support had previously helped to end the dominance of rentier conduct among entrepreneurs, and had facilitated a development away from patrimonial capitalism based on large families that gained their fortune through the control over banks, such as the Edwards group, which still controls most of Chile's mass media (Dermota, 2002).

It was not until the 1970s that the first modern conglomerates emerged, which strengthened their position in the financial market through portfolio investments. They thus managed to replace the dominance of the family-based groups by the logics of the expansion of financial capital. Furthermore, the conflict that had emerged between the agricultural elite and the central government during the agricultural reform of the Eduardo Frei government (1964-70) had put an end to the direct access of the agricultural elite to the government. It was the beginning of a process in which the new technocrats demanded economic rationality to accomplish the wishes of the entrepreneurial elite

(Lagos, 1961; Montero, 1994). This obliged the entrepreneurs to organize themselves as a collective actor if they wished to continue to influence government politics. The forthcoming success of this organization permitted the entrepreneurs to successfully withstand the destabilization and the overthrow of the Salvador Allende government.

Nevertheless, during 1974 and 1975 the entrepreneurs and economic groups had to abandon their hope of the restoration of the patrimonial and rentist capitalist structures. After September 1973, their influence on the military regime was little by little replaced by the influence of a civil neoliberal technocracy, which fostered the implementation of a drastic neoliberal adjustment of the economy. Their schemes were based on a complete abandoning of any form of corporatism in state-entrepreneurial relations to the benefit of the so-called 're-foundation of capitalism in Chile'. From then on, the major entrepreneurial organizations started to wave the banners of the social market economy in an attempt to manifest their opposition to the neoliberal politics of the military rulers (Campero, 1984). The Sociedad de Fomentos Fabril (SOFOFA) and the Confederation of Production and Commerce (CPC) qualified the social market economy as humane and ethical compared to the neoliberal economy, which they defined as a pure mercantilist doctrine favoring economic concentration and financial speculation at the cost of productive capitalism. Only after the dictatorship had clearly expressed that economic liberalization, shock therapies and privatizations would lead to the transfer of 571 companies representing 39 percent GDP to the private sector, the entrepreneurs put an end to their anti-neoliberal position. The entrepreneurs came to consider the structural adjustment policies as a necessary price to pay to pass from a state-centered economy to a market economy.

Privatization and Economic Groups

The first stage of the privatization process in Chile took place between 1974 and 1982 and signified the subsidized transfer of government goods to the economic groups, the control by these groups over the capital market and the financial system (national and foreign credit), and the start of repressive salary politics. The privatization of state controlled banks to local economic groups was considered necessary to resolve the shortage of financial capital that the Chilean economy had suffered between 1971 and 1977. Additionally, from 1972 until 1977, Chile experienced high levels of inflation while the 1975–6 recession decapitalized great parts of companies in Chile. On the other hand, the economic groups that purchased the state-owned companies could benefit from repressive salary reductions. This salary reduction was a direct result from the repression of the labor movement between 1973 and 1979 when all forms of collective bargaining were forbidden as well as any form of union activities while the right to strike was cancelled (Fernández Jilberto and Riethof, 2003).

Table 1.
Chile 1974-84, macroeconomic indicators (percentages)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
GDP growth	1.0	-13.3	3.2	8.3	7.8	7.1	7.7	6.7	-13.4	-3.5	5.6
Unemployment ^a		18.8	19.3	17.5	17.7	18	16.1	16	28.2	22	20.2
Inflation	369.2	343.3	197.9	84.2	37.2	38.9	31.2	9.5	20.7	23.1	23
Salary change	-16.3	-3.2	2.9	10.3	6.4	8.2	8.6	9	0.3	-10.9	1.3

Source: Instituto Nacional de Estadísticas (1986)

^a Percentages include underemployed workers.

The first privatizations included the return of 259 companies that had been nationalized by the Allende government, and this number eventually rose to 325 re-privatized companies in 1982. The lack of available capital and the fears of foreign investors created by the political instability of the military government forced the Pinochet dictatorship to perform debt-led privatizations. By doing so the dictatorship strongly favored the large national conglomerates and economic groups. The transfer of these companies to the private sector was done through an auction sale and resulted in the highest level of economic concentration (of productive and financial capital) in Chilean history. Between 1969 and 1978 the global assets of the hundred largest companies of the country, including Cruzat-Larraín, Javier Vial, Matte, Angelini, Luksic and Lepe, increased 52.4 percent (Dhase, 1979). Although a major relocation of these assets had occurred among economic groups, the major beneficiaries were the traditional economic groups.

The majority of these traditional local groups originated from the 1960s and was based on family structures under the legal umbrella of corporations or limited liability companies. In most cases no division existed between ownership, control and management of the company. The privatizations of the military dictatorship converted these economic groups into conglomerates of numerous companies with multiple economic activities and highly diversified assets, which involved lower risks and stable profits. This concentration of property and activities are exemplified by the Matte group, controlling 46 companies in 1978, the Vial group (66 companies in 1978), the Cruzat-Larraín group (109), the Angelini group (21) and the Luksic group (31) (Sanfuentes, 1984). The total number of companies these five largest groups controlled rose from 41 in 1969 to 273 in 1978 (see Table 2). These expanding groups were formed by joining a number of diverse companies that had been rapidly privatized and that originated from different economic sectors.

Although the diverse assets of the expanding economic groups can be seen as a positive factor, the lack of efficient vertical integration among the individual companies constituting the groups formed one of the largest risks if confronted with an economic recession. Eventually the 1981 debt crisis and its consequent economic recession showed that the collapse of a few of a conglomerate's companies could lead to the total collapse of the conglomerate, as

Table 2.
Global assets of Chile's five main economic groups 1969–78

Economic group	Companies (no.)		Assets 1969	Assets 1978	Change in assets
	1969	1978	(millions of USD)	(millions of USD)	1969–78 (%)
Angelini	6	21	43	140	224
Cruzat-Larraín	13	109	191	1000	423
Matte	7	46	168	360	115
Vial	8	66	116	520	347
Luksic	7	31	90	150	67
Total	41	273	608	2170	257

Source: Dhase (1979) and Sanfuentes (1984)

happened with the Vial group and the Cruzat-Larraín group. One of the most illustrative characteristics of the functioning of the economic groups that benefited from the first stage of privatizations was the lack of competition among them, as they controlled almost all national production and shared management and ownership over several companies (Dhase, 1979). The strategy of the formation of holdings was the dominant mechanism applied by the main economic groups to exercise power over financial and industrial capital. Through the holdings the groups obtained control over a package of shares without having to perform economic activities in any of the related companies. In legal terms one can speak of the formation of a corporation, which allow groups to evade direct insight by third parties (among which the government) over the real control they exercise over the assets of several companies. Another mechanism applied to obtain industrial and financial control in Chile was the interaction of dominant economic groups with allied groups or subgroups. With the help of these smaller groups the dominant groups managed to dominate the conglomerates of which they possessed significant share packages and in turn the smaller groups came to depend financially on the dominant groups. The overall management of these economic groups was realized through interlocking directories, which resulted in a secure presence of the groups' partners in strategic enterprises. With this strategy the five main economic groups managed to control two-thirds of the total assets of the 250 major private companies in Chile.

A high level of indebtedness was a main characteristic of the economic groups that had taken advantage of the privatizations. Their initial indebtedness originated from the preferential access to government credits for the subsidized acquisition of the public companies, in an economic landscape that between 1971 and 1977 was characterized by a profound lack of national as well as foreign credits. This lack of credit was a result of the forming of the Areas of Social Property (ASP) during the government of the Unidad Popular and the high levels of inflation in the 1972–7 period, which de-capitalized large numbers of the entrepreneurs during the 1975–6 inflation. The acquisition of the privatized state banks and their access to credits with preferential interest rates on

Table 3.
Level of indebtedness of Chile's 15 main economic groups in 1978 (millions of USD)

Economic groups	Assets	Direct internal debt	Direct foreign debt	Brokers credit	Debt with public sector (CORFO)	Debt with pension funds	Total indebtedness per group
Cruzat-Larraín	1000	452.31	110.28	26.6	71	79	452.31
B.H.C. (Vial)	520	205.61	117.99	38.8	45	30	436.7
Matte	360	18.12	9.7				27.82
Angelini	140	16.5	1.5				18
Edwards	74	40.28	22.22	7.58			70
Luksic	150	31.53	17.55				49
Yarur Banna	100	61.96	26.7				88.66
Hochschild	70	2.33					2.33
Briones	55	13.24	5.44				18.68
Puig	40	26.61	15.9	9.16			51.67
Galmez	95	20.75	8.5		8		37
Lepe, Piquer and Lehman	70	13.43	1.5				14.94
Sumar	26	41.39	6.85				48.24
Abalos and Gonzalez		14.83	54.33				69.16
Mustakis	22	23.48	5.68				29.16

Source: Dhase (1979, 1983)

the international financial markets allowed dominant economic groups to self-finance themselves and monopolize credits (see Table 3). The Vial and Cruzat groups, for instance, together were responsible for 51.9 percent of Chile's total external banking debt in December 1981, 73.6 percent of the pension funds and 81.8 percent of the capture of mutual funds (Dhase, 1983). Yet the 1981 international debt crisis and the subsequent anti-recessive economic politics applied in Chile turned the high levels of indebtedness of economic groups into the trigger that set off a prolonged economic crisis. The final solution to this crisis was sought in a second stage of privatizations, this time directly favoring the inflow of foreign investment and transnational capital. Consequently, the economic groups that managed to survive the economic crisis were forced to either associate themselves with foreign companies, or simply subordinate themselves to foreign investment. This accelerated the process of globalization of the Chilean economy.

Debt Crisis, Recession and Economic Groups

The recession that started in 1981 marked the end of the first cycle of privatizations by the dictatorship. It had become clear that the indebtedness of the economy and economic groups, which had enhanced the first phase of privatizations, was out of control. Chile's foreign debt had risen from US\$4.9 billion in 1975 to US\$15.5 billion in 1981. In 1981, for the first time since 1976, a balance of payments deficit was reached of US\$174 million, and this could not be compensated for by the inflow of foreign credit. In that same year the balance

of payments dropped to US\$67 million as compared to US\$1244 million dollars the year before (Rozas and Marín, 1988). These developments brought to light the widespread insolvency among the majority of economic groups, which furthermore saw the volume of their expired portfolios (investments and non-recoverable investments) increase. By 1982, the major 20 Chilean banks had accumulated non-paid credits worth 103 percent of their total reserves.

In 1981 the overall bankruptcy of the banks and private financial institutions forced the government to nationalize important parts of the financial sector and furthermore invest US\$800 million to prevent the collapse of the financial system. Thus a start was made on a prolonged process of socialization of the losses generated by the economic groups, and in the case of expired portfolios this process continued until the end of the Eduardo Frei government (1994–2000). The intervention in the financial system gave the government an indirect but effective control over the totality of companies forming part of economic groups, by regulating credit access and imposing a policy of debt reduction. The prevailing argument used by the government to justify the nationalization of the financial system, was that it was to put a stop to the concentration of credits in order to save the neoliberal model applied up till then. The conflicts caused by these nationalizations, between the government and economic groups intensified in 1982 as the government intended to force the banks to spread out and diversify their investments, which was considered by economic groups as intended to weaken their financial position. In January 1983 these conflicts led to nationalization of the banks that formed the fundamental financial backing of the Vial group (Banco de Chile and Banco Hipotecario de Chile) and Cruzat-Larraín (Banco de Santiago and Banco Colocadora Nacional de Valores). By doing so, the state had put two of Chile’s most important economic groups under its control.

The intervention and indirect control over substantial assets of the conglomerates Cruzat-Larrain and Vial obliged the Chilean government to grant numerous loans to the intervened banks with the aim of preventing an economic crisis. Consequently, this policy ended up increasing the difficulties for the renegotiation of Chile’s debt with the international banking sector, as both groups had considerable international debts. Eventually this led to Chile’s non-compliance of the agreements made with IMF and the loss of Chile’s

Table 4.
Chile’s debt (millions of USD)

	1975	1979	1980	1981	1982	1983
Total	4854	8484	11,084	15,542	17,153	17,654
Public	3731	4812	4720	4430	5171	7619
Private	536	2695	4693	8123	8644	8335
Short-term	587	977	1671	2989	3338	1700

Source: Durán (1985)

bargaining power on the financial markets, but also in national politics, leading to a loss of confidence from the military bureaucracy towards the economic groups and the neoliberal technocracy.

The economic groups that were most affected by the recession and state-interventionism attempted to evade the negative effects of nationalization of their banks with a strategy of interweaving credits and loans between the companies forming part of their groups. As a result the government took an even tougher position. In the case of the Vial group the government used the nationalized banks to break up the main companies of this holding. To facilitate such break-ups the government applied the procedure of denying any form of renegotiation to the main indebted companies. Additionally, the government took legal action against the highest executives and the owners of the conglomerate, which ended up in the incarceration of the Minister of Finance himself. He was related to these groups and responsible for the start of the nationalizations in the banking sector. In a period of two years the Vial group ended up disintegrating entirely. The Cruzat-Larraín group, on the other hand, could rely on the political influence of many of its executives and shareholders, which had been members of the Pinochet government, and the group could develop a relatively successful strategy to maintain an important part of the group's companies under its control. Contrary to the Vial group, the Cruzat-Larraín group did not manifest itself publicly and openly against state intervention, and it maintained an important part of its internal organization intact, allowing it to prevent the overall collapse of the group (Sanfuentes, 1984). Of the company's total liquid assets 91 percent became administered by a commission composed of representatives of both the government and the conglomerate, which gave the latter the right to veto the commission's decisions. Finally, in 1984, the Cruzat-Larraín group was forced to dispose of 91.5 percent of its assets to its creditors.

The Socialization of Losses and the Privatization of Profits

The debt crisis of the early 1980s gave way to an economic and financial crisis that forced Chile's military dictatorship to turn its economic policies towards temporary new state intervention, and wait until 1985 before starting with a second phase of privatizations. The debt crisis threatened to result in an overall political crisis as it questioned the legitimacy of the most outspoken neoliberals in the Pinochet government. Furthermore, the formation of the Alianza Democrática (Democratic Alliance) in 1983 represented the first form of publicly outspoken opposition against the dictatorship in 10 years. The crisis demonstrated that neoliberal restructuring had limited itself to a traditional scheme based on the principle that 'the political right privatizes and the economic right buys'. However, the debt crisis was overcome through renewed state interventionism and through the insertion of transnational companies

attracted by a new wave of privatizations as a means of compensating for the lack of national and international credits due to the debt crisis. With a 13.4 percent reduction of the GDP in 1982 as well as a 28.2 percent unemployment rate, the dictatorship was forced to postpone a second stage of privatizations until 1985. After the debt crisis and the 1981–3 economic recession, Chile faced a collapse of its financial system and a total shut-off from the international financial markets. The national economic groups from the financial sector, with their banks nationalized or in bankruptcy, were in no condition to take advantage of the second stage of privatizations and were replaced by the transnational companies as buyers. The only economic groups that managed to survive were those that engaged into partnership with the foreign investors.

The strategy of state interventionism towards economic groups and the redefinition of the property of the nationalized banks paved the way for a profound reorganization of the country's financial capital and strengthened the concentration of economic power. These (re-)nationalizations were rooted in the neoliberal Chilean principle of the socialization of losses and the privatization of profits. Following this philosophy the Chilean National Bank officially informed transnational banks in January 1983 that the Chilean government had decided to take responsibility over the total external debt of the nationalized banks, which had belonged to the economic groups in bankruptcy. At the same time, however, several transnational banks starting buying troubled Chilean banks. The Spanish Banco de Santander, for instance, bought 100 percent of the Banco Español de Chile's assets, explicitly excluding expired assets and or high-risk assets (expired portfolios), of which the Chilean government assumed its debts. By doing so, the privatization of financial institutions was subsidized in a similar way as in the 1974–82 period, when privatizations had been favoring the national economic groups. The state took responsibility for the debts of both industrial and financial enterprises as well as for the overall costs for the stabilization of the Chilean economy. The Banco Español de Crédito (Banesto) took advantage of this mechanism as well, buying the Luksic group, the Banco O'Higgins and the Banco Talca in a combined operation. The operations of the Banco de Santander and Banesto show the conviction of the military dictatorship that the transnationalization of the financial system was the only alternative to a total collapse of the entire Chilean financial system, which previously had been under control of the national economic groups. Another part of the financial institutions were sold and re-privatized under the idea of 'popular capitalism', in which shares were granted to the public with long-term credits without interest and credit for tributary investment. With the intention to de-concentrate property, maximum quotes of US\$5000 were established and in this setting the sale of the Banco de Chile and the Banco de Santiago, the AFP Provida and Santa Maria – the main players in this sector – took place.

In 1985, just after the first signs of economic recovery had appeared, the government effectively launched the second stage of privatizations. This second

stage began with the sale of the companies in the so-called 'strange area' of the economy: these were companies that had belonged to the economic groups and had been intervened by the government in prior years. Many of these companies were privatized for the second time and as had happened the first time, the international buyers took charge of these companies through the bidding on share packages prior to the verification of the economic reliability of the buyers. Because of the lack of national credit and capital, a large part of these companies were destined to fall in the hands of transnational owners who in turn were linked to the surviving economic groups in Chile. Most noticeable examples were the *Compañía de Petróleos de Chile* (COPEC – oil) and the *Compañía de Cervecerías Unidas* (CCU – beer). The COPEC group was bought by the New Zealand Carter Holt in association with the Angelini group and in the case of the CCU a similar construction was applied between the German consortium Paulaner and the Luksic group. Through this new form of association, transnational capital assumed power over Chilean conglomerates. Prior to the second stage of privatizations most of the transnational companies operating in Chile invested through subsidiaries controlled by the head office, but during this second stage transnational companies operated in association or through joint ventures with the local entrepreneurial groups. New alliances resulting from the second stage privatizations also took place through investment funds in which both the local economic groups and the multinational companies participated. The intention was to combine the superior management of foreign companies with the lobbying power towards the government of local economic groups, and the financial contribution of the international banks. In previous cases, however, the participation of the local economic groups had proven to be only temporarily or decreasing as they often sold their shares to the associated transnational companies.

In this second stage of privatizations most of the largest public companies, representing a US\$1200 million government income, were privatized. With the privatization of these companies four methods were applied simultaneously to sell share packages: popular capitalism, labor capitalism, institutional capitalism, and traditional or patrimonial capitalism. The first involved the sale of share packages to the general public; the second to the employees of a company; the third method consisted of sales directed towards the pension-funds, which not only benefited from the privatization of the pension system but also from the subsidized acquisition of the large public companies; and the last method meant large scale investors were able to obtain share packages in auction or on bid in the Santiago stock exchange. The companies privatized by a combination of two or more of these methods were the *Empresa Nacional de Electricidad* (ENDESA – electricity), the *Compañía de Acero del Pacífico* (CAP – steel), *Línea Area Nacional* (LAN – airlines), the *Compañía Chilena de Electricidad Región Metropolitana* (CHILECTRA R.M. – electricity), the *Empresa Nacional de Teléfonos* (ENTEL – telecom), *Empresa Nacional de*

Petróleo (ENAP – oil) and the Sociedad Química y Minera de Chile (SOQUIMICH – chemistry and mining). The privatization of companies like CAP, ENDESA and ENERSIS had significant effects on their respective economic sectors as a whole, as they were acquired by a company from the same sector, thereby monopolizing important parts of the economic activities. Other companies like the Compañía de Teléfonos de Chile (CTC – telecom) fell directly in the hands of transnational companies. The magnitude of these privatized major public companies was enormous: halfway through the 1980s the largest six of these public companies had total assets of US\$4239 million, which was more than twice the assets of the six largest private companies (US\$2052 million). This comparison undermines the neoliberal argument on the inefficiency of the public companies, and it furthermore brings to light the weakness of a Chilean entrepreneurial class more addicted to the flight of capital, which amounted US\$5500 million between 1976 and 1982, than interested in productive investment. Their entrepreneurial weakness made local economic groups not very suitable in becoming the single new owners of large public companies, thus forcing the government to use a combination of the above-mentioned privatization methods.

The participation of transnational companies in the privatizations that started in 1985 was based on a combination of subsidiaries already present in the Chilean economy and transnational companies that for the first time entered in what was considered an emerging market. In this last concept one can consider the New Zealand consortium of Fletcher Challenger, which under the name of Tasman Forestry Ltd, bought the companies Papeles (paper) and Bosques Bio Bio S.A. (forestry) from the Matte group. There is also the case of the Swiss transnational Nestlé that acquired important companies from the food sector, like the Hacienda Rucamanqui (Chile's second largest agricultural and cattle extension), the Nacimiento de Papeles Sudamericana S.A. (paper), Forestal Colcura S.A. (forestry), the food company PRODAL and associations in different activities in the energy and mining sector with Shell and British American Tobacco.

Many of the transnational companies that massively entered the country during the so-called second stage of privatizations – which led to the overall denationalization and the globalization of the Chilean economy – applied a strategy of investment diversification through the creation of groups of inter-related companies that were run centrally by investment corporations in the form of financial holdings (Carmona, 2002). The so-called transnational economic groups (Rozas and Marín, 1988) concentrated their activities in the financial service sector and in strategic industrial branches linked to the food and forestry sectors. Transnational economic groups thereby played an important role in the recovery from the effects of the debt crisis, in the sense that they substituted the capital that was lacking because of the bankruptcy of the national financial groups, and consequently helped to restore and maintain the

political stability of the neoliberal dictatorship. The government stimulated this participation of transnational companies by abandoning the fixed exchange rate.

Various analyses of the role of transnational economic groups in the second stage of privatizations come to the conclusion that 13 of the 19 largest privatized public companies came under control of such groups and in the case of eight of these companies the control of the transnational groups in shares exceeded 50 percent (Rozas and Marín, 1988). In the case of the CAP holding, for instance, the Swiss Schmidheiny group was a principal 18.7 percent shareholder, sharing its power with an investment company made up out of the Menéndez group, the bankers Trust, the Angelini group and Carter Holt. Another example is that of the Azucarera Nacional Sociedad Anónima (IANSAs – sugar), and in the pharmaceutical sector Laboratorio Chile, which came under control of the Continental Illinois Bank with a respective 38.8 and 12.1 percent share.

In the 1990s, during the first democratic government of Patricio Aylwin, the globalization of the Chilean economy was consolidated in the sense that the hegemonic position of transnational groups was secured by companies like ENDESA España, Telefónica de España, Banco de Santander Central Hispano and Banco Bilbao Vizcaya Argentaria, the Australian Broken Hill Proprietary, the British Rio Tinto and Anglo American Pic, the electricity conglomerate AES Corporation, the Royal Dutch/Shell, Telecom Italia (owners of ENTEL), Exxon Mobile, Azucarera Ebro Agrícolas, Unilever, etcetera (see Table 5). When considering the 20 main conglomerates in Chile in the 1999–2000 period, nine are in the hands of transnational conglomerates, nine are local conglomerates, and two belong to the public sector. Out of these 20 largest conglomerates, four reached sales exceeding US\$1000 million: ENERSIS (64 percent owned by ENDESA España) reached sales of US\$4284 million; ENDESA (38.4 percent ENDESA España) reached sales of US\$1622 million; Telefónica CTC de Chile (46 percent Telefónica España) reached sales of US\$1602 million; and Minera la Escondida Ltda. (100 percent Broken Hill Proprietary and Río Tinto) achieved total sales of US\$1174 million (Carmona, 2002).

The absolute supremacy of the transnational conglomerates in the financial sector has been one of the main pillars of the globalization of the Chilean economy. Today the transnational entities – controlling 17 of the 29 existing financial institutions – are in charge of 59 percent of the financial system in Chile. The Banco Santander Central Hispano (BSCH) has even become Chile's, Spain's and Latin America's largest financial group. Already in 1999 and 2000 foreign banks had raised their shares in Chile's financial sector from 14 to 44.7 percent and the BSCH even controlled 28 percent of this sector in 2002. In April of that same year the Central Bank of Chile sold the Banco de Santiago – which had been intervened by the government in 1983 and belonged to the Cruzat-Larraín group – for US\$680 million to the BSCH. Another Spanish bank, ranked second in the Chilean economy, is the Banco Bilbao Vizcaya

Table 5.
The 25 largest companies with foreign participation in Chile, 1999–2000 (millions of USD)

Company	Sales	% Foreign capital	Owner of the investment	Country of origin
Enersis	4284	64	Endesa España	Spain
Endesa	1622	38.4	Endesa España	Spain
Telefónica CTC	1602	43.6	Telefónica España	Spain
Minera Escondida	1174	100	Broken Hill Proprietary and Río Tinto	Australia/ Great Britain
Gener	832	96.5	AES Corporation	USA
Shell Chile	768	100	Royal Dutch-Shell Group	Great Britain/ Netherlands
ENTEL	710	54.2	Telecom Italia	Italy
Santa Isabel	695	74	Royal Ahold N.V.	Netherlands
Compañía Minera Doña Inés	680	100	Anglo American Pic (44%), Flaconbrigde Ltda. (44%) and Mitsoui Group (12%)	Netherlands/Great Japan/Japan
Esso Chile Petrolera Ltda.	651	100	Exxon Mobil Corporation	USA
Nestlé Chile	650	100	Nestlé	Switzerland
Iansa	549	45	Azucarera Ebro Agrícolas	Spain
Chilectra	502	46.6	Endesa España	Spain
Lever Chile	425	100	Unilever	Great Britain
Chilquinta Energía	402	100	Sempre Energy	USA
Minera El Abra	401	51	Phelps Dodge Corporation	USA
General Motors Chile	370	100	General Motors	USA
Minera Disputada de Las Condes	368	100	Exxon Mobil Corporation	USA
Coca Cola	344	44.4	The Coca Cola Company	USA
Minera Candelária	331	100	Phelps Dodge Corp. (80%) and Sumitomo Corp. (20%)	USA/Great Britain
Soprole	311	50.5	New Zealand Dairy Board	New Zealand
Empresa Metropolitana de Electricidad	289	95.4	Pennsylvania Power and Light	USA
Johnson & Johnson Chile	260	100	Johnson & Johnson	USA
Minera Mantos Blancos	219	100	Anglo American Plc.	Great Britain
Methanex Chile	211	100	Methanex Corporation	Canada

Source: Cepal (2001) and Carmona (2002)

Argentaria (BBVA), which with US\$350 million controls 55 percent of the Banco Hipotecario de Fomento (BHIF), comprising the BBVA-BHIF, and in turn these control Chile’s largest pension fund PROVIDA. On a less dominant level as their Spanish colleagues, there are other banks that operate in Chile’s financial system, such as Citicorp, Bank of Boston, Bank of Nova Scotia – in control of 99 percent of the Banco Sudamericano, the City Bank, ABN Amro Bank, and the Deutsche Bank. They all operate in a captive financial market with an absolute freedom to establish interest rates. In 2001, for instance, the banking sector obtained profits of US\$874 million, 40 percent higher than the year before and with a return rate of 17.68 percent.

The Neoliberal Technocracy as an Emerging Economic Group

One of the most politically relevant characteristics of the Chilean privatization process – especially in its second stage from 1985 to 1990 – is the transformation of the neoliberal civil technocracy, which during the dictatorship had performed the privatizations, into an entrepreneurial ownership class of emerging economic groups and/or a political-economic elite that dominates the management of the private companies. In the democratic Chile of today, the majority of high-ranking executives of the local and transnational economic groups are made up of an entrepreneurial elite that originates from the dictatorship and their subsequent key positions in the government's economic administration, implementing the most profound substitution of Keynesianism for neoliberalism. After the end of the Pinochet dictatorship, many members of this elite have organized themselves in the UDI party (Independent Democratic Union), which represents the civil heirs of the dictatorship. In their role as neoliberal ideologists and civil servants they immediately arranged for the stabilization and privatization of the public companies that they ran, which turned them into wealthy entrepreneurs. These former civil servants, who today are the owners of the former public companies, can be divided into different categories. To ideologists, neoliberalism through privatizations has been a fundamental aim to achieve their perpetuation in power and to guarantee an irreversible reproduction of a political system with unconditional support for private enterprise and transnational capital. Others, from their positions at the different ministries, have designed and executed the privatizations. A last category is those from the private sector who have put pressure on the government to accelerate the privatization process, and to create beneficial conditions in this process for the 'new emerging owners' (Monckeberg, 2001).

These so-called 'men of the privatizations' are made up of former ministers, former sub-secretaries, former executives of the former public companies, former officers and generals of the armed forces and last but not least relatives of the dictator himself, such as the entrepreneur Julio Ponce Lerou, who is married to Verónica Pinochet and is in charge of – among others – the public company SOQUIMICH. The transformation of a neoliberal technocracy and a military bureaucracy into entrepreneurs is a phenomenon that became obvious in the 1985–90 period, but the relations between former higher officials of the military dictatorship and local economic groups had already been established in the first stage of privatizations. The Cruzat-Larraín group, for example, was the most influential economic group in the second half of the 1990s as it maintained a profound integration with the political rulers with key government officials who in the first stage of privatization had been presidents or managers of public companies. Yet there are many more examples of the close relations between the private and public sector: the minister of economy Pablo Barahona (1976–8) who had been president of COPEC; Sergio de Castro, another minister of

economy, who had been director at the Compañía Refinería de Azúcar Viña del Mar (CRAV-Sugar) and would benefit from the privatization of the state sugar refinery IANSA; Alfonso Marquez de Plata, a former agricultural and employment minister, who became the first president (1981–3) of the nationalized Banco de Santiago, when it served as source of finance for the Cruzat-Larraín group. Furthermore there are the cases of the former minister of employment and mining José Pinera, who had been chief of investigation at the National Brokers Institution, and former finance minister Jorge Cauas, who also had been president at the Banco de Chile and of the AFP Provida until the debt crisis itself (Monckeberg, 2001).

Entrepreneurs and Democracy: the End of Politics?

Although the three governments of the Concertación (the Agreement of Parties for Democracy) since 1990 have systematically reconciled democracy with the neoliberal economic policy of the dictatorship, Chilean entrepreneurs have up to now been outspoken Pinochetistas, identifying themselves with the economic transformations executed by the dictatorship (Hunneus, 2001). Besides, several leaders of entrepreneurial organizations, like the Confederation of Production and Commerce (CPC) and SOFOFA, had held political positions during the military government, and act as defenders of the economic interests of the local conglomerates and the transnationals in the democratic era. For this they can count on the support of the neoliberal technocracy, which in the democratic era have positioned itself in the strategic management of the larger companies. During the governments of Patricio Aylwin (1990–4), Eduardo Frei Ruiz-Tagle (1994–2000), and the current government of Ricardo Lagos (since 2000), the neoliberal technocracy has taken a position of unconditional support for the neoliberal economic policy and the protected democratic and two-party model inherited from the 1980 Constitution. The entrepreneurial class makes up a *de facto* force, which operates and confronts the democratic governments in coordination with the actions of the right-wing opposition, represented particularly by the UDI and to a lesser extent by the National Renovation Party (RN). By doing so, the Chilean entrepreneurial class is the only one in Latin America that during the 1980s had substituted dictatorships for democratic governments and identified itself with former military dictatorship and taken on its defense.

The transformation of an entrepreneurial class into a decisive political force goes back to a complexity of factors that are natural to the Chilean neoliberal democracy: the institutional weakening of the central government, not only as a result of the privatizations, but also as a result of the loss of capacity to regulate social inequality; the weakened representation and insertion of political parties in civil society, as they are looked upon by society as mere guardians of a structural macroeconomic balance; and the division itself in the political right into two parties: UDI and RN. The result is a curious contrast

between the Chilean democratic political class, characterized by pluralism and diversity, and the ideological and political one-dimensionality of the entrepreneurs.

The increased political influence of the entrepreneurial class is often considered to be an effect of the political transition, resulting from the negotiations between the opposition and the military rulers after Pinochet's defeat in the 1988 plebiscite and the 1989 presidential elections (Portales, 2000). The bargaining logics of the Concertación were based on the idea that transition to democracy should be in accordance with the interests of the political right, the military, and the entrepreneurial class. Evidently, both the military and the entrepreneurial class could provoke political tensions that would destabilize the new democracy as well as the neoliberal economy. Other scholars have stressed the explicit desertion by the first government of Concertación of Patricio Aylwin of the economic demands from the democratic opposition to the dictatorship (Fazio, 1996). This desertion would be one of the factors that ended up strengthening the direct political influence of the entrepreneurial class and the organizations by which it is represented. For the Aylwin government, the decision to legitimize the economic politics of the dictatorship would have been taken on the conviction that this would make it possible to combine economic growth with greater social equity. As a result the parties of Concertación applied a democratic strategy based on continuity (neoliberalism) and change (democratization), which consolidates a democratic political system of civil administrators that look after the retreat of the state from the economy; the deregulation of key markets; the functioning of the neoliberal model (finance, foreign credits and employment market); the self-adjustment of the economy as a natural mechanism of economic regulation and of a mechanism of internal savings based on massive tax reductions for the economic sectors with the highest income. The democratic legitimization of Concertación granted neoliberalism the explicit recognition of the local conglomerates and transnationals as essential actors in the development process.

One of the current signs of disagreement with the neoliberal nature of the Chilean democracy is the rejection of electoral participation by the young. In 2004, 80 percent of the electorate between 18 and 29 years old were not enlisted in the voters' registers, condemning the Chilean democracy to aging. The 8 million voters that are currently registered correspond to the same quantity registered in 1988, despite the population growth (Valenzuela, 2004). Consequently this had reopened the debate about the depolitization of the Chilean society as a result of the democratic consolidation of the neoliberal adjustment. In modern day Chile, with its two-party democratic system that assumes the de-ideologization of the political system, the political parties give air to the impression that they are instruments for access to the power of a political elite, which overwhelmed by the lack of opportunities intends to reproduce itself independently from civil society (Moulian, 1997). For others, the

'irrelevance' of politics is severely connected to the neoliberalization of the political elite, such as Christian Democratic Party, which in the past has shared the principles of communitarian communism, or the Socialist Party, which in the name of democracy and the end of the Cold War adopted a pragmatic neoliberal ideology (Fernández Jilberto, 2001). The depolitization, or the end of politics, which is expressed in civil apathy, has for many people been the result of the triumph of a neoliberalism conducted by the utopia of a society without a state, that by replacing a focus on politics towards a focus on the markets, hopes to constitute a model of a self-regulated society, where social and political actors lack the capacity to politicize the state. The key objective of an entrepreneurial self-regulating society is economic growth and not the struggle against the inequalities generated from economic development itself.

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