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CHAPTER II

THE NEOLIBERAL EXPERIMENT IN 1973-82: A CRITICAL SUMMARY[*]

During the 1970s, the Southern Cone of Latin America witnessed the pioneering implementation of broad neoliberal economic reforms. The most orthodox and comprehensive neoliberal example is that of the model imposed in Chile between 1973 and 1982.[1] Subsequently, the second half of Pinochet's regime includes heterodox changes that differentiate it from the pure neoliberal model analyzed in this chapter.

There are four reasons for the particular relevance of the Chilean experiment. First, Chile was noted for its long democratic tradition and the broad pluralism characteristic of its institutions and citizens. After the military coup in 1973, an authoritarian regime was established during which the neoliberal model was developed. Under the aegis of this regime, the executors of the economic model enjoyed exceptional autonomy in the design, implementation, and adjustment of their policies. Second, the Chilean experiment is an outstanding example of the contemporary application of monetarist orthodoxy, because of its "purity", depth, and extensive coverage. Third, its prolonged survival, nearly one decade, provides a broad field for the assessment of its effects. Fourth, the case has been widely publicized as a "success", with support of some international institutions, financial agents, and "neoliberal" circles, which tend to give absolute priority to "economic freedom" over any other dimension of human activity. The experiment has frequently been cited by these media as a model for other developing countries. Hence, an understanding of its real features and the results it has provoked has a significance that goes beyond the particular case of Chile.

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[1] The model imposed in Chile has also been named as orthodox or global monetarism. The authorities referred to it as a social market economy model. The latter denomination leads to misinterpretation when confused with approaches such as that of the Federal Republic of Germany and those which give priority to social aspects and their interaction with the economic dimension. These are humanistic approaches as opposed to the "economicistic" approach of neoliberalism.

In this chapter, we shall study, first, the most outstanding features of the economic model (section 1). Then, the policies implemented in three strategic areas of the model are analyzed; that is, the anti-inflationary program and the financial and trade reforms (section 2). It follows a discussion on the main results related to domestic output, income and wealth distribution, and their implications for future potential growth, especially with regard to the investment-saving process (section 3). The chapter closes with a brief recapitulation of the lessons provided by this orthodox neoliberal experiment.

My assessment shows the failures of neoliberalism in three strategic areas, which prevent it from working efficiently in developing economies. First, the heterogeneity of productive structures, sectoral and regional problems, and persistent market segmentation implies demanding challenges to the efficacy of global economic policies. A growing but minor segment of increased productivity coexisted with numerous bankruptcies and a deterioration of income and employment quality in most areas of the economy. Second, the initial inequality among economic agents, which are indiscriminately thrown into competition among themselves, in a context of overall liberalization, privatization and "neutral" policies, causes an increasing concentration of economic power. Third, in the macroeconomic framework created by neo-liberalism, the presence of destabilizing and asymmetrical trends in the adjustment processes has made them notably pro-cyclical and exceptionally costly from a social and economic point of view. The macroeconomic environment tended to encourage speculative forces at the expense of real capital formation and productive development.

1. Core features of the model

In Latin America, there have been many attempts to establish economic policies that allow a larger role to markets than it had before.[2] This, however, can involve a wide variety of intensities of market action, the role of the state, the ownership of the means of production, and

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[2] Chilean experiences in 1952-70 are analyzed in Ffrench-Davis (1973). A comprehensive analysis on the economic reforms in Latin America under the "Washington Consensus" approach can be found in Ffrench-Davis (2005a).

the participation of different social forces in decision making and the distribution of the benefits of development.

It is undeniable that in 1973 there were substantial macroeconomic imbalances that had to be corrected. Likewise, the economy was over-intervened, with excessive "microeconomic" controls over private and public enterprises. Evidence of this appears in the self-criticism during 1972-73 by various spokesmen of Popular Unity, the governing coalition under President Allende (Bitar, 1979, chap. V).

The size of imbalances and the open inconsistency of public interventionism facilitated the introduction of the orthodox neoliberal approach after September 1973.[3] Thus, as a contrast to other authoritarian regimes in Latin America, an extreme version of global monetarism was imposed in Chile (Foxley, 1983, chap. 2). The model under discussion is an extreme case because of the amplitude of the role granted to the market, the intensive privatization of the means of production, and the change imposed on social organizations. Various channels of social participation and development, which had arisen in the continuing process of democratization in Chile during the preceding decades, were suppressed or controlled after 1973.

The implementation of the model gave rise to substantial changes in the economic role played by the public sector. It implied a general withdrawal, gradual or abrupt, from the broad field of action covered by the state. This embraced public ownership,[4] the role of the state in development, and the orientation of indirect economic policies, which it was stated should become absolutely neutral. The principle of a "subsidiary state" was applied within markedly narrow limits and on the premise that private markets could take over numerous functions, which in fact it could not perform satisfactorily.

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[3] The more extreme aspects of the model were not fully apparent at the outset. The economic team was taking shape and consolidating its hegemony between 1973 and 1975, and at the same time imposing its neoliberal approach. The peak of orthodoxy was reached in the early 1980s.

[4] Notwithstanding the intensity of privatization, public ownership was still more significant in Chile than in several other Latin American countries in 1982. The norm, however, was the passivity imposed on public enterprises. The case of the state-owned copper enterprise, which is described later, is an example of this.

The government carried out the structural transformations without having resolved the severe distortions and macroeconomic disequilibria confronting the Chilean economy. This procedure was due in part to the priority assigned to structural transformations; it was thought then that a delay in initiating them might mean the loss of the opportunity provided by the authoritarian political framework and the widespread anti-interventionist views prevailing in large social segments that had been traumatized by supply shortages and bureaucracy, among other things, in 1973. Additionally, the proponents of the model claimed that the existing problems had resulted from interventionistic public policies applied both during the regime of President Allende and in the four preceding decades, which included governments that covered the entire political spectrum.[5]

The main economic transformations took place on fiscal, financial, and labor issues, international economic relations, and public ownership of means of production; later, a profound social security reform was also introduced. In all of these areas, economic action by the public sector was persistently reduced throughout this period (Vergara, 1981).

Fiscal policy comprised a tax reform and a restructuring and reduction of most public expenditure. The tax reform included the elimination of taxes on wealth and capital gains and a reduction of the burden on profits. On the other hand, the adoption of a value-added tax was completed and the existing exemptions for basic consumer goods were in general suppressed. The target was to reduce the tax burden, concentrating it in taxes that, in the opinion of the economic team, were “neutral”. The official speech claimed that any differentiation was inefficient and “distorted” resource allocation (DIPRES, 1978).

Public expenditure recorded, as a share of GDP, was reduced by over a quarter from the levels it had reached by the late 1960s,[6] after having resulted in sizable expenditures and budget deficits in 1972-73. There was a dramatic decline in government investment, which diminished

[5] See statements by public officials in DIPRES (1978) and in Moulián and Vergara (1979).
[6] There are severe problems of comparability in the figures on public expenditure. Due to changes in definition and erroneous deflators, the official figures for social spending were overestimated. Homogenized figures for the period 1969-79 and an analysis of the main components appear in Marshall (1981). All figures in the text come from that source.

by more than half, as a share of GDP, between 1970 and 1979. Public expenditure also decreased in the productive sectors, in activities to support the private sector, in subsidies to public enterprises, and in infrastructure. Social expenditure, mainly on education, health, social security, and housing, increased its share in public expenditure. This was repeatedly proclaimed by the dictatorship to be an indicator of the "social" character of the model. However, it was a larger share of a smaller total. In fact, real per capita expenditure decreased, and it also declined as a share of GDP (see chap. VIII, table VIII.1). As will be shown, the drop in per capita public social expenditure took place in the context of a marked increase in unemployment and deterioration in the real income of the middle and low-income brackets. Therefore, the socioeconomic frame required, in contrast, a compensatory increase in fiscal expenditure.

In the financial field, a drastic reform was introduced in 1975. The banks that had been nationalized under the previous regime were returned to private ownership. Interest rates were left totally free, regulations respect to the terms and allocation of credit were eliminated, new financial entities were authorized with few restrictions, and easy access was given to foreign banks. Finally, there was a gradual relaxation of restrictions on capital flows. Also, the exchange rate policy was modified sharply, from a multiple exchange rates scheme in 1973 to a unique rate in August 1975, which was finally pegged in June 1979. The transition took place under a crawling peg system until 1979, a scheme that Chile already introduced –in a pioneering way– in 1965-70 (see chap. IV, box IV.1; Williamson, 1981).

With regard to international trade, practically all restrictions other than tariffs were removed, and these were rapidly reduced from the high level predominant in 1973 (a simple mean rate of 94%) to a uniform tariff of 10% for all goods, since 1979. Likewise, trade liberalization resulted in the suppression of the price bands and public purchasing mechanisms designed to attenuate the transmission of external instability to the domestic economy. In line with the objective of the unilateral and across-the-board market opening, Chile withdrew from the Andean Pact in 1976.

Privatization was not limited to transferring businesses expropriated during the regime of President Allende. It was also extended to enterprises created during successive governments

after the establishment of the national Development Corporation (CORFO) in 1939. In 1970, CORFO controlled the ownership of forty-six enterprises, a number that rose to around three hundred in 1973.[7] In 1980 there were only twenty-four enterprises left in the hands of this institution, half of which were in the process of being sold. There were also some dozen public enterprises dependent on other governmental departments. Among these were the Copper Corporation (CODELCO) and the National Oil Enterprise (ENAP).

The sale of enterprises was largely conducted in periods of domestic recession and very high interest rates. Hence, very few agents were able to participate as purchasers. This was one of the causes for the acute concentration of ownership during those years.[8] In this process, there was weak direct participation by transnational corporations, in contrast with the official expectations of a vigorous flow of foreign direct investment (FDI). However, a massive increase in loans from international commercial banks provided a substantial proportion of the financing required by the national economic groups acquiring the enterprises being privatized.

In the agricultural sector, the transfer of ownership had dramatic significance. The agrarian reform that had taken place during the governments of Presidents Frei and Allende came to an abrupt end. After 1973, around 30% of the expropriated land was returned to its former owners and about one quarter was auctioned to non-rural dwellers. Barely one-third of the area was assigned to peasant farmers. Given the curtailment of one of the former functions of the state, that is, the provision of credit and technical support to peasants and cooperatives, these were some of the principal victims of the restructuring of public expenditure. It is estimated that as early as 1979 about half of the peasants who had been assigned land had been forced to sell or rent out their farms.[9] At the same time, a massive expelling of peasants from the farms on which they had been living before and during the agrarian reform took place.

[7] This figure does not include about 220 enterprises subject to intervention in 1973. See Vergara (1981); Bitar (1979, chap. X) examines the social property area program, its deviations, and resulting problems.

[8] Additionally, it is estimated that the transfer was made at prices lower than *normal* market values. See Dahse (1979); Foxley (1983); Marcel (1989).

[9] Two financial factors that contributed to the pressure on peasants to sell or lease their allotted land were the high cost of credit in the domestic capital market and the lack of prior relations between the peasants and commercial banks. It seems to have been assumed that they would "compete" on equal terms with the other users. On the agricultural and peasant situation, see Foxley (1983); Ortega (1987).

The dismantling of state participation in economic life was also extended to other areas. In brief and by no means exhaustive terms, two such cases are the agricultural "infrastructure" network (such as cold storage plants, supply centers for seeds and inputs, purchasing power, and technical assistance to medium and small farmers) and the mining network (mineral-processing plants).

In 1980, another major step in the process of privatization was taken in the social security system. The pension scheme, hitherto financed through a pay as you go system, was replaced with a system based on individual capitalization in private social security financing societies (AFP) created by the new system.[10] Existing pensions and those of workers who would retire within five years continued to be the responsibility of the public sector; the rest of the workers could choose between remaining in the old system or transferring to an AFP. For merely making the transfer, the worker benefited from an automatic take-home pay increase of 11%. The choice between financing societies was to be made by the worker based on quality of service and an assessment of the expected return in each social security financing society during the length of time before his or her retirement. The expected return to the worker was determined by the various commissions he or she had to pay, which could be freely modified by each society, and the return obtained from the investments of each AFP.

One enterprise of great importance that resisted privatization was CODELCO. It underwent powerful onslaughts from the economic team but succeeded in warding them off. Even so, it suffered budgetary restrictions and systematic constraints on its expansion imposed by the Ministry of Finance, despite the substantial profits it contributed to the Treasury. It was only permitted to make investments that allowed maintaining the production level reached in 1977. Within the contradictions produced by the privatization dogma, the government encouraged, unsuccessfully hitherto, the development of other copper deposits to be operated by foreign companies.[11]

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[10] The features of the pay as you go system, the new dispositions, and a comparative analysis with other options are discussed in Arellano (1985).

[11] See Vignolo (1982). The main foreign investment, made by Exxon through the purchase of a deposit in exploitation, is discussed in Tironi and Barría (1978). Also see Bande and Ffrench-Davis (1989).

One feature of the official anti-state approach was the persistence of the privatization process, even during the severe 1982 crisis. The government constituted a commission to sell assets as part of an “economic recovery program”.

Parallel with the changes in the economic field were structural reforms in social organization. According to the official rhetoric, these were part of the project to create a competitive society of “free men”. This involved changes in the university system, in the organization and dependence of elementary schools, in health services, professional associations, and student and labor organizations.[12] The latter case was undoubtedly functional in imposing a policy that caused average real wages in 1981 to be even lower than in 1970.

2. Neoliberalism in three strategic areas

One of the distinctive features of neoliberalism is its globalism: that is, its neglect of problems of a sectoral nature, of the heterogeneity of the productive structures and access to power of different sectors, of the significance of market segmentations, and of the difficulty of transmitting information to economic agents so that they can contribute to fulfilling the expectations of policy-makers. Ultimately, it underestimates the frequent presence of destabilizing adjustment processes, lags and overshooting, and the incompleteness of markets and institutions in developing nations. These elements represent inescapable obstacles that prevent “neutral” and indirect global economic policies alone from being effective in emergent economies in the process of deep transformation like Chile was.

In this section, we consider three “'neutral” policy reforms to which the government assigned a crucial role. First, we cover the anti-inflationary policy, initially applied under an extreme closed economy monetarism until 1976, and then shifted to an extreme open economy monetarism between 1979 and 1982. Second, the domestic financial reform introduced in 1975 is analyzed. Finally, a brief discussion on trade and capital account reforms is presented.

[12] See Brunner (1981); Campero and Valenzuela (1981); Moulián and Vergara (1979); Vergara (1981) and various articles in *Revista Mensaje*, especially Ruiz-Tagle (1979; 1980; 1981) and Zañartu (1980).

a) The anti-inflationary policy[13]

Until 1976, anti-inflationary action was based solely on monetary policy. From May to August of 1973 the inflation rate had averaged 19% per month (an annualized rate of 700%).[14] The fiscal deficit climbed to 12% of GDP in 1972-73, financed principally with Central Bank money printing. The huge deficit was strongly influenced by price controls on the goods and services sold by public enterprises (Larraín, 1991).

Price controls, which extended to broad areas of the private sector, involved heavily repressed inflationary pressures and an extensive black market (Bitar, 1979). A few days after the coup, most of the controlled prices were freed within a context of high uncertainty. The foreseeable result was a dramatic upsurge of inflation, which soared to 88% in one month and reached 590% in the course of the first year of application of the model. Undoubtedly, there was an overshooting of market prices, which exceeded by far the inflationary pressures previously repressed. As the fiscal situation was being brought under control, monetary policy became effectively restrictive in the course of 1974. The official line was that the new price fixers, the private entrepreneurs, had to take money supply behavior into account in order to define the price of their products. It was claimed that in their best interest they would restrict price increases in order to maintain their market share. And this they would promptly do as soon as they observed a reduction in the expansion rate of money supply.

The concrete fact is that the information on money supply became widely available with a delay of some months and with various divergent indicators, and that prices, given the high inflation, were often adjusted even more frequently than once a month. Under these circumstances, the main point of reference for each economic agent became the actual behavior of entrepreneurs as a whole, measured through changes in the official consumer price index (CPI), the only easily available and up-to-date indicator. This indicator was published early in each month referring to the preceding period. The consequence was that annual inflation rates exceeding 300% persisted until far into the third year of application of the model, despite monetary restrictions, a fiscal budget already under control in 1975, and a large output gap (20%

[13] Anti-inflationary policy is discussed in greater depth in Corbo (1985); Foxley (1983); Ramos (1975, 1986).
[14] All the inflation figures used here refer to the consumer price index as corrected in Cortázar and Marshall (1980).

in 1975-76).

The monetary restrictions, rather than influencing prices, had a greater impact on economic activity: during 1975 industrial production fell by 28%, GDP declined by 17%,[15] and open unemployment (including emergency programs) peaked at 20%.[16] The "price", which was in fact adjusted swiftly downward, was wages: by 1975 they had lost about 40% of their purchasing power owing to the legal readjustment based on an underestimated CPI and the drastic repression of unions.

The monetarist recipe for controlling inflation did not function in the way predicted by the supporters of the model. On the contrary, it multiplied the effects deriving from the international recession and involved a notably high cost, both socially and in terms of economic activity (see Foxley, 1983; Ramos, 1986).

As late as mid-1976, the economic team recognized –implicitly– that monetary control was proving to be incapable of restraining inflation on its own. Then a second variable was incorporated into the anti-inflationary policy: the management of the exchange rate was conditioned to that objective. Thus began a long process in which this rate was used to slow inflation by reducing the cost of imported goods and attempting to influence inflationary expectations: analytically, it was a transition from closed to open monetarism. In June 1976 and March 1977, exchange rate revaluations were made (a reduction in the number of pesos per U.S. dollar), which were accompanied by a systematic mass media campaign.[17] The measure had a significant effect, since inflation rapidly fell to levels below 100% annually after the first revaluation and below 60% after the second.[18] There was a belated understanding that inflation

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The official index significantly underestimated the actual rise in prices, mainly in 1973 and in 1976-78.

[15] In the course of 1975 a severe balance of payments problem arose. This was associated with a sharp fall in the terms of trade, which the government tackled by intensifying the restriction on money supply, curtailing fiscal expenditure, and imposing a devaluation. The impact of the terms of trade deterioration was multiplied by three in the domestic economy. Naturally, the direct impact of the deterioration in the terms of trade observed in 1975 is not included in the figure of GDP decline. GDP measures real output; the terms of trade impact affects real income.

[16] The severe shortcomings of the official employment figures are examined by Jadresic (1986), who provides a revised series for the period 1970-85.

[17] After the publicized revaluations, daily minidevaluations were applied. Exchange rate policy is analyzed in chap. IV and in Ffrench-Davis (1981).

[18] As Cortázar and Marshall (1980) document, in that period there was a systematic, month after month, underestimation of the CPI; the official CPI was used as reference for wage and pension readjustments.

was not being generated by an excess of demand and monetary expansion; it is evident that misinterpretation of the workings of markets involved huge social and productive costs for Chile. The belated realization was, moreover, incomplete, since only one additional policy instrument was applied; that is, the exchange rate. This implied its excessive conditioning to the anti-inflationary policy, thereby sacrificing external equilibrium and the production of tradables.

The evolution of anti-inflationary policy finished in 1979 with the freezing of the exchange rate, once again supported by the weight of publicity in the mass media. The new official version was that, with a fixed exchange rate in an economy with free imports, as the Chilean economy was then, domestic prices could not rise more rapidly than international inflation. At this late stage, therefore, they had adopted the "monetary approach to the balance of payments" then in fashion in several academic and orthodox financial circles. Thus, the implementers switched from a closed economy monetary approach, the official doctrine up to 1976, to an open economy model. In the former case, domestic inflation was considered to be the *exclusive* result of monetary expansion. In the latter case, domestic inflation was assumed to be due to international price changes plus exchange rate variations; with the nominal exchange rate peg, there should be rapid equalization of domestic and external inflation (see chap. IV).

When the exchange rate was pegged (June 1979), domestic annual inflation was above 30%, while international inflation was near 12%. The convergence between the two rates occurred, but only gradually; consequently, for a year and a half, domestic inflation was markedly higher than the external rate, so that the exchange rate lost purchasing power.[19] Hence, the regime of free imports and an appreciated exchange rate caused a flood on the domestic market and an unsustainable disequilibrium in the current account during 1981. To face the external deficit, the official policy relied on an "automatic adjustment" in the style of the gold standard in force before the world crisis of 1929: it claimed that the real exchange rate would automatically adjust with the contraction of monetary liquidity associated with the current loss of international reserves in the Central Bank. This contraction should have provoked a drastic fall in

Notwithstanding, even the corrected CPI shows a gradual drop in the rate of inflation.

[19] It is relevant that external inflation (measured in US dollars) also decreased in these years, due to the sharp appreciation of the U.S. dollar with respect to the currencies of the remaining industrialized countries: in the 12 months before June of 1982, it reached an annualized average of -2%.

domestic prices and nominal wages. However, a detail apparently overlooked was the fact that the exchange rate between 1979 and 1981 had accumulated a 30% appreciation (besides the lagged effect of import liberalization, as analyzed in chap. III). The actual adjustment worked in the right direction, but with a lag, and then only in a small proportion of that 30%, when negative inflation rates were achieved in some months of 1982. At the same time, however, there was a drastic fall in sales, production and employment, and a progressive strangulation of business firms through increasing indebtedness at extremely high real interest rates. We will return to this issue later.

Despite numerous tough restrictions on labor union activities and a real wage that remained below the average level of 1970, the authorities blamed salaries for their failure to achieve a fluent and rapid automatic adjustment.[20] In mid-1982, they tried to establish a general reduction of nominal wages, but the economic team was unable to impose such a measure. Consequently, they turned to exchange rate devaluation, but with unsustainable disturbances in the productive and financial systems: between June and October of 1982, the nominal exchange rate was devalued by more than 70% amidst a general crisis. The corresponding inflationary impact implied that the CPI increase in the following twelve months jumped to 32%, in contrast with the 4% recorded in the previous period (that had included months with price deflation).

b) Reform of the financial system[21]

By 1974, the commercial banks were mainly in the hands of the state as a result of nationalization by the previous government. During 1975, most banks were auctioned back to the private sector. The larger commercial bank, the Banco del Estado, founded in 1953, remained public, but its market share fell from about 50% at the beginning of the decade to 14% of outstanding loans in 1981. Earlier in 1974, authorization had been given for the creation of

[20] The lower limit for the adjustment in wages was determined by the official CPI of the preceding period. Various authors blame this rule for the costly recessive adjustment. Nonetheless, there was no knowledge of cases of massive deflation that had resulted from restriction of the money supply, which had operated fluently, at the required intensity, and without causing severe problems for debtors or economic activity. The sticky prices model continued to be a reality around the world in addition to legal readjustment norms. A recent example is Argentina in 1995, and since 1998. In fact, the Argentinean crisis that peaked in 2002, has strong similarities with the 1982 Chilean crisis.
[21] Financial reforms are examined in chapter IV.

private financing societies that could receive and lend resources at a freely determined interest rate. Meanwhile, banks remained subject to a low legal maximum interest rate until April 1975. This and other measures that discriminated against banks while they remained public contributed to the boom of the new financing societies. Discrimination was also directed against the savings and loan cooperative system (SINAP), which was linked to the acquisition of housing. The notorious discrimination against this organization caused the funds received by SINAP to decrease from 28% of total financial loans in 1973 to 7% in 1977.

In addition to freeing the interest rate, in 1975 the government eliminated the norms relating to the quantitative control of credit in domestic currency and the selectivity of bank reserve regulations, which were largely intended to channel funds into production rather than consumption. Moreover, restrictions relating to maturity terms were removed (except for a general restriction of thirty days minimum). Next a gradual uniformity was imposed on the different financing institutions for both the operations permitted and their conditions. Within this trend toward uniform treatment came the deregulation for foreign banks.

The economic team expected that liberalization of the domestic financial market, accompanied by the gradual opening of the capital account, would lead to an increase in national savings and the quality of investment, in response to the suppression of former subsidies and the removal of discrimination between credit users. The result was strikingly different and placed the financial reform and the handling of the external sector at the core of the economic crisis that surfaced in 1982.

The two most outstanding features of the working of the domestic capital market were the maturity terms and the interest rates that prevailed during the seven years between 1975 and 1982. The most common term for deposits and loans was thirty days, with a sharp drop in long-term funding. The average real interest rate (discounting inflation) was 38% annually during 1975-82, covering in those years a range varying from 12% to 120% (see chap. IV, table IV.5). In other words, real interest rates in the domestic market, apart from a markedly high average level, varied enormously throughout the period.

Medium-term lending available at international rates were mostly those related to

external loans. These were mainly at the disposal of enterprises connected with banks and to "economic groups" (principally the so-called "Piranhas"), which grew like wildfire during the period under discussion (see Dahse, 1979). The notable market segmentation to which this gave rise was partially recognized only shortly after the emergence of the crisis. In mid-1982, it became public knowledge that the principal bank of the largest economic group had 42% of its total loans (financed with domestic and external funds) in companies related to its directors or owners (stockholders in control).

Repeatedly, advocates of the model predicted decreases in real interest rates. Exceptionally, during 1980 there was a significant drop in the real financial cost, which lasted for nine months. This was associated, on the one hand, with the freezing of the exchange rate during the whole year and with average domestic inflation still above 30% annually. Hence, the real cost of foreign loans was negative (-8%) for national debtors. On the other hand, the volume of external financing rose rapidly. Thus, external credit came to represent 40% of total bank financing (of domestic and foreign origin). Its high volume and negative real cost, despite the persistent segmentation of the domestic and external markets, brought down the cost of credit of domestic origin to 12%, twenty points higher than the rate applied to the large enterprises and banks, which had access to funds from international commercial banks.

Policymakers throughout the seven years anticipated that the market, once freed from public intervention, would achieve equalization of domestic and external interest rates, an integrated financial market, and increased investment and efficiency. The outcome was different: (i) there were persistent gaps, even in 1980-81, between domestic and external rates of up to over twenty points annually; (ii) in the domestic market, the spread between active rates (loans) and passive rates (deposits) was around fifteen points; (iii) the nominal and real rates were very unstable, as were the spreads mentioned; (iv) consumer credit expanded, predominantly for imported consumer goods; and (v) the high cost of credit, its instability, and the short maturities (mainly thirty days) discouraged productive investment. What non-speculative investment could pay real interest rates with annual averages of 38%?

In fact, the rate of capital formation (gross fixed domestic investment as a share of GDP) during the implementation of this neoliberal model was lower than the historical figures, and the performance of savings was even more deficient. We shall return to this in section 3.

c) Across-the-board trade opening[22]

The main feature of trade policy was the rapid reduction of protection to import substitutes (protection was clearly excessive in 1973). The target of liberalization underwent major changes during the course of its implementation. In 1974, it was stated that in 1977 there would be no tariff higher than 60%. Then in 1975 it was announced that the tariff range would be between 10 and 35% and, through gradual adjustments, it would be reached in the first half of 1978. Nevertheless, these reductions were completed earlier, in August 1977. Finally, three months later a program of monthly adjustments was announced, which resulted in a uniform tariff of 10% for (almost) all imports since June 1979.

It was repeatedly stated that the real exchange rate would devalue spontaneously as actual tariff protection decreased. Nevertheless, as noted earlier, shortly afterward the exchange rate began to be used to reduce inflationary expectations and compensate for the monetary effects of massive capital inflows. The result was that advanced phases of tariff liberalization were accompanied by intensive exchange rate revaluations, reinforcing the negative effects on domestic importables and contributing to a growing deficit on the current account. In practice, therefore, especially with the presence of voluminous capital surges, significant deviations occurred with respect to the supposed compensation between tariff reductions and the exchange rate.

Total imports, measured in constant purchasing power, considerably expanded in relation to domestic economic activity. This was mainly observable in consumer goods, particularly nonfood products, where the greater part of new imports was concentrated (see chap. III, table III.3).

[22] For more on trade opening in this period, see chapter III.

Nontraditional exports showed vigorous growth and diversification by both products and destination. Their share in GDP rose by around four points between 1970 and 1980. This brought total exports up to 20% of GDP in the latter year. Even so, there was an evident break in the expansive trend toward the end of the period, particularly in 1981. Additionally, the diversifying process showed a tendency to retract; in fact, those exports that continued to expand by the late 1970s were mostly natural resource intensive (Ffrench-Davis, 1979; 1983b).

Just as import substitution has an "easy" stage, so there is an initial easy stage in the promotion of exports in emerging economies. The increase in nontraditional exports in the 1970s relates in general to this stage. In fact, it relied on rich natural resources and underutilized installed capacities. The underutilization characteristic of overprotected import substitution and exchange-rate appreciation in 1971-73 was intensified by the great depression in domestic demand in 1975-76 and its subsequent slow recovery. This situation initially enabled exports to expand without major investments. The increase in exports was spurred by four additional factors. First, a crawling peg exchange rate policy of mini-devaluations was applied, which, despite contradictory movements since 1976, in combination with the sharp drop in labor costs initially encouraged exports. Second, the presence of Chile in the Andean Pact until 1976 provided an enlarged market for more than one-third of the increase in new exports (Ffrench-Davis, 1979). Third, there was a reduction in the cost of imported inputs to those exporters who had not benefited from tariff exemptions previously. Finally, together with the above factors, the privileged position assigned to export promotion in the official rhetoric gave a significant impetus to the hitherto incipient export mentality of entrepreneurs.[23]

The gap between imports and exports widened persistently after 1977. Several factors account for the external deficit and the poor performance of the production of tradables. Shortly, the most painful part of trade liberalization was carried out abruptly and saw its negative impact reinforced by exchange rate revaluation (see chap. III, table III.2). To make matters worse, this policy was applied in the context of very depressed domestic demand and notoriously high, open

[23] The official policy included active promotion through a public institution (PRO-CHILE). This involved a deviation with respect to orthodoxy, which claimed to base the promotion of exports exclusively on the liberalization of imports and the supposed compensatory exchange rate devaluation. As the orthodox approach gained control in public action, PRO-CHILE rapidly lost importance.

unemployment. Consequently, the existence of high unemployment and the abnormal low level of investment implied that the possibility of achieving an effective resource reallocation was scarce; this way, the released resources were frequently left unemployed. Therefore, the opportunity cost of the resources affected negatively by openness tended to be inferior to its market cost. That generated a great gap between market and social comparative advantages. Consequently, the corresponding import de-substitution was inefficient in many cases: it crowded-out domestic output that, in normal conditions (for example with respect to interest and exchange rates) could have competed with imports.

Thus, underutilization of labor and capital, outlier macroprices (interest and exchange rates), and depressed domestic demand generated a framework quite different from the theoretical one on which the arguments in favor of free trade were based. The numerous changes made in the Chilean economy and the neutrality (passivity) of the public sector made it difficult, during the transition to a new equilibrium, to identify "comparative advantages".[24] Not surprisingly, the resulting low domestic investment was concentrated mainly on resource intensive items and scarcely at all on activities intensive in value-added over the natural component and in "acquirable comparative advantages".

There is no doubt that the phenomenon was aggravated by the freezing of the exchange rate in 1979 and its sizable real appreciation in the following years. The unqualified adoption of the "monetary approach to the "balance of payments" and the belief in an "automatic adjustment" were prejudicial even to exports, that is, one of the successes that economic policy could exhibit in its nine years of implementation.

As a consequence, the reallocative message provided by trade liberalization was clearer for the sectors that should have contracted than for those to be expanded. The more rapid growth of imports than of exports was a decisive factor in the deterioration of the current account. The deficit was covered by increasing capital inflows.

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[24] *Neutrality* was an obstacle to the much needed efforts to *complete* markets, which are required for a vigorous acquisition of systemic competitiveness. See ECLAC (1998, chaps. VII and VIII) and Ffrench-Davis (2005a, chap. I).

The government expected a vigorous inflow of foreign direct investment (FDI) in response to the "economic and political system" offered and to the favorable norms established for investors by the new statute for foreign investment (Decree 600). It was hoped that FDI would exploit the "comparative advantages" previously repressed, which the model was liberating, and that it would make a decisive contribution to rapid development. However, the response of FDI dashed the hopes of the economic team. There were promises of considerable amounts, but their realization was slow (see Lahera, 1981; Vignolo, 1980). On the other hand, a significant share of actual inflows corresponded to two components that do not involve direct creation of productive capacity. One corresponds to financial capital contributed by transnational banking branches and the other to the purchase of productive assets or packages of actions.

In contrast, access to financial capital in private international markets represented the main source of financing for the growing current account deficit. Its main destination in Chile was the private sector. The fact that during a good part of the 1970s real interest rates in international capital markets were low or negative (averaging -2.3% in 1976-81) and access to private funds was expeditious, led the economic team, and many policymakers and economists throughout the world, to believe that it was "good business" to borrow and that if the debtor was the private sector the funds would be invested efficiently (see Devlin and Ffrench-Davis, 1995).

Once again the facts belied the expectations of the supporters of the model. A significant share of foreign credit was devoted to consumption. The massive net inflows, in its turn, helped to promote the excessive exchange appreciation and to maintain it for several years. In fact, if foreign credit had been less accessible, the government would have been forced to moderate the tariff liberalization and/or the exchange rate appreciation. Indeed, the loans available to Chile were larger than what could be absorbed productively. After only a moderate increase in 1977-79, the level of debt accelerated in 1980 and grew spectacularly in 1981. In contrast to other countries, which channeled external financing into investment, Chile, instead of having a "debt-led economic growth" (as in Brazil), incurred a "debt-led deficit on current account", with a crowding-out of savings and domestic output by imports and the discouragement of exports. Finally, external conditions worsened toward the end of the period: international real interest rates rose abruptly, access to funds became progressively more difficult in 1981, and experienced

a sudden stop in 1982.

The experiment in this area culminated in mid-1982, with an abrupt exchange rate devaluation after several months of costly and inefficient "automatic adjustment", a bank crisis and a deep recession.

3. Output, investment, and income distribution

In this section, I will make an assessment of the results obtained in growth and equity. First, what happened with GDP and its main components? Second, to what extent was the performance of the economy generating new productive capacity and new sources of savings? And, third, how were the benefits and costs of the implementation of the model distributed? The background data show that (i) "growth" was largely fictitious, (ii) the capital formation ratio was notably lower than in the 1960s, and (iii) the limited benefits went to a minority while high costs burdened the majority implying a sharp worsening of income and wealth distribution.

a) Global production and its composition

National accounts, both official and corrected (Marcel and Meller, 1986), show high "growth" between 1976 and 1981. However, in the first place, the model was not initially put in motion in 1976 but (in partial form) in 1973. Second, in 1975 there was a sharp recession, which multiplied threefold the depressive effect of external shocks. The overall result was a fall of 17% in GDP. Hence, to measure economic evolution from the low point implies measuring as "growth" what in fact simply is a *recovery* of former levels. Whereas 1976-81 gives a per capita annual GDP increase of 4.7%, the period 1974-81 merely averages 1.4%. It is obvious that the greater the recession of 1975 the greater could have been the subsequent recovery. Thus, the greater the loss of production as a result of the recession (a true social and private cost) the higher will appear the "growth" if the period of recession is not taken into account and the measurement begins at the lowest point. This is an extremely gross error, but it is quite frequent.

Paradoxically, then, in several ways the domestic recession was useful for the promotion of the model. First, the model was able to show "growth" for several years, a circumstance that

attracted extensive publicity in the national and foreign mass media; the degree of shortsightedness was impressive. This gave rise to the mistaken impression that Chile was growing vigorously and would continue to do so at rates in the order of 8% per year,[25] irrespective of what might happen in the rest of the world. Second, economists were able to show that employment was increasing (though only after the unemployment rate had risen from 6 to 22% and again ignoring the starting point). Third, on a more political level, after an intense recession –underestimated or ignored by the media under a strong dictatorial regime– the subsequent gradual recovery brought a sensation of relief to both entrepreneurs and workers, while consumers were making use, directly or indirectly, of voluminous foreign loans.

The weaknesses of the model are highlighted when the composition of GDP is disaggregated. Unfortunately, because there are no revised figures to follow this analysis, I use the official data in table II.1. First, there was a rise in external indebtedness and of its cost. Around one fifth of per capita GDP "growth" recorded between 1974 and 1981 corresponded to interest and profit payments accrued to foreigners, which meant that the rate of expansion of the national product was lower than that of GDP. Second, the value-added in (i) the marketing of imported products and (ii) financial services contributed a high share to GDP "dynamism"; these two sectors, which were linked with the essence of the model, exhibited a dramatic cumulative expansion of 13% annually.

The first sector expanded as a result of an unsustainable rapid growth of imports of consumer and intermediate goods. As was discussed earlier, most of these imports were financed not by higher exports but by an increase in private foreign debt. This source of "dynamism", value-added in the marketing of imports, was unsustainable in an economy that lacked vigorous real productive support and that was experiencing a notably high external deficit. The second source of "dynamism" was associated with the financial reform and responded in large measure to the spread between the rates of interest on deposits and loans and to the transfer of foreign credits in Chile. Thus, these two sources of dynamism depended on outlier values of imports and financial spreads, both of which were prejudicial to productive activity and investment.

(Table II.1)

[25] See, for example, the illustrative statements quoted in Foxley (1980, pp. 5-6).

There can be no doubt that, owing to the distortion produced by both sectors in the Chilean economy, the overall performance contained a sizable share of artificiality. Hence, it is very significant that the rest of the value-added per capita, which in 1974 amounted to 91% of gross national product, remained virtually stationary, as can be seen in column 4 of table II.1.[26] Over and above this poor performance, GDP fell by 14% in 1982-83, while Latin American GDP diminished only 3.2% in the same biennium.

b) The nexus with the future

The link with the future relates to national savings and productive investment.[27] The supporters of the model claimed that it would achieve a substantial increase in savings, investment, and efficiency, all crucial sources of economic growth. The foregoing analysis has shown that the results were negative with respect to production. However, this could be consistent with a vigorous process of slow maturing investment. Unfortunately, in each of the years between 1974 and 1980, the gross fixed investment ratio was lower than that of each year in the 1960s; only 1981 registered a ratio comparable with that decade. In 1974-81, the average rate was 15.7%, in contrast with 20.2% in the sixties. In parallel, national savings financed a lower share of investment; in 1970, around 90% was covered by national savings, whereas in 1978-81 scarcely half came from this source. The sharp increase in inequalities of wealth and income observed in these years apparently expressed itself in a notorious differentiation in lifestyles rather than in higher savings directed to finance productive investment; this is attested by the sharp fall in the rate of national savings with respect to both 1970 and 1973.

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[26] As mentioned earlier, production of exportables also grew at a significant pace. Therefore, a contraction in the rest of the economy –the non-exporting sectors– occurred. Within this subset, the industry, which accounted for the major share of economic activity, suffered the negative pulls of the recession in 1975, trade liberalization, and then exchange rate appreciation. See chapter III and Marcel and Meller (1986).

[27] There are many other connections to the future that are not considered here. These include the impact that the model may have had on the capacity for technological absorption and adaptation; the degree of creativity of the technical and university education systems; national cultural development; the channels of participation and social capital that could serve for development strategies, based on a national consensus; and the dynamism and efficiency of the function of the state as the activator of development.

c) Concentration of income and wealth

Here we shall take a brief look at the indicators of wages and pensions, employment, consumption, and wealth. A comprehensive set of indicators is discussed in chapter VIII.

Table II.2 shows the evolution of some income indicators of wage earners and retired workers. All of these indicate a regressive performance. In 1974-81, average wages reached scarcely three-quarters of the level attained in 1970 (col. 1). After a sharp fall in 1973 and 1974, real wages began to recover somewhat in 1977 but without achieving, even in 1981, the level reached eleven years before;[28] as reported below, labor income fell further given the higher unemployment. Key factors explaining the drop in income were union repression, wage policies linked to the official index of inflation (which systematically underestimated it), the high level of unemployment, and the low level of productive investment. The pensions of retired workers and family allowances for wage earners' dependants (wives and children not working) also worsened considerably (cols. 2 and 3).[29]

(Table II.2)

Finally, the labor situation also showed a significant deterioration. Despite some improvement between 1976 and 1981, open unemployment in the latter year duplicated the 1970 rate. As a palliative to growing unemployment, the government adopted in 1975 the emergency Minimum Employment Program (PEM), whose members worked mainly in municipalities and public institutions. In 1981, these workers represented around 5% of the labor force, and their income was equivalent to one-third of the minimum wage in force in 1970. If the PEM workers are included, the unemployment rate is three times that of the year of reference (col. 7). As a result of the crisis of 1982, unemployment (including PEM) climbed to an annual average of 31% of the labor force in 1983.

The decline in both real wages and employment was mirrored in the distribution of

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[28] Notice that 1970 was taken as a "normal" point of reference. Wages in 1971 were much higher and in 1972 somewhat lower than in 1970. See Cortázar (1983). The index available, calculated by INE, does not include firms with fewer than twenty workers or agricultural wage earners or workers in the Minimum Employment Program (PEM).

[29] In 1973, the family allowances for workers and employees were made equal. The equalization was made by the

income and consumption expenditures. Data on income distribution for Santiago indicates that the ratio between the richest and the poorest quintile of population deteriorated from 13 times in the sixties to 15 times in 1974-81 (see chap. VIII, figure VIII.3). Available data on the distribution of expenditure refer to surveys conducted in 1969 and 1978. They show that the poorest quintile reduced its consumption by 31% between the two years of reference, and the second and third quintiles lost 20 and 12%, respectively. In contrast, the richest quintile was the only one that increased its consumption share (see table VIII.2).

There is one important indicator that showed significant improvement during this period. This is the infant mortality rate, which improved from 66‰ in 1973 to 33‰ in 1980, despite the drop in per capita social expenditure and the worsening of employment and income distribution. The main compensating factor for the negative impact of the economic environment for the majority of people was associated with the emphasis placed by the National Health Service on the maternal and child areas and nutrition programs directed toward breast-fed and undernourished infants (Raczynski and Oyarzo, 1981; Monckeberg, 1998). In contrast to this specific area, per capita public social expenditure diminished 17% between 1970 and 1981, in education, health, and housing.

There is no doubt that deteriorating employment and income among workers influenced the distribution of expenditures and wealth. Additionally, there was a striking improvement in the income of the highest paid workers, which increased the distributive gap. But the concentration was fostered by other components of the economic model as well. As mentioned, numerous enterprises in the public sector were rapidly privatized. This took place in an economy in recession and with high interest rates. Only a small segment of the private sector was able to take them over and at prices very favorable to the purchasers. Finally, the recession hit many private businessmen (small and medium sized firms) who lacked privileged access to domestic or external credit. Hence, many of these entrepreneurs went bankrupt or were forced to sell their businesses to the same economic groups that had acquired the former public enterprises. Differential access to foreign loans was another source of concentration. It implied, apart from

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bottom, so all allowances diminished, though less in the case of blue-collar workers.

the purchasing power it conceded, a capital gain corresponding to the large spread between the domestic and external interest rates (see chap. V, table V.5; and Zahler, 1980, table 14).

The available data show the marked concentration of wealth, with two groups well ahead of the rest. By 1978, the two main economic groups controlled enterprises representing around one half of the wealth of the corporations registered in the stock exchanges of Santiago and Valparaiso, a figure notably higher than in 1970. Data on the 250 largest national and foreign private firms in Chile indicate that the two aforesaid groups controlled at least 37% of the capital of these firms in 1978 (Dahse, 1979). The process of concentration continued in subsequent years; between 1978 and 1980, the capital of firms controlled by the two main groups doubled in real terms (Dahse, 1982). Data provided by the Stock Exchange of Santiago in June 1982 on distribution of the shares of 177 open private companies indicated that the ten main shareholders of each firm had direct control, on average, of 72% of equity capital.

4. Lessons from the neoliberal experiment

In the 1970s, neoliberalism came to the forefront in various countries and achieved a leading position in many academic centers in industrialized and developing countries. Nonetheless, its practical implementation in the postwar period had been generally limited and for brief periods. The case of Chile is particularly significant because of the depth, coverage, and continuity with which the orthodox neoliberal model was applied. The dictatorial political environment, that gave free way to its imposition, provided great autonomy to its advocates, which invests this case, properly speaking, with the character of an "experiment".

The external situation prevailing during these years involved some negative shocks for the Chilean economy, which affected the success of the model. A case in point was the low price of copper, which persisted during most of the nine years considered. Even so, the external situation also contained features that facilitated the operation and duration of the model. One of the main features was that from 1977 on Chile had expeditious access to external financial loans, which, up to 1981, enabled it to more than offset the income loss caused by worsening terms of trade.

The increasing adherence to orthodoxy from 1974 onward met its first severe obstacle in 1981, and in 1982 it suffered several notable "step backs" (see chap. V). These were associated with the domestic crisis that erupted in 1981-82 with unusual virulence and spread to practically all sectors and groups in the domestic economy. During 1982, GDP and manufacturing output fell by 14 and 21%, respectively; construction was cut by one-half, and open unemployment was affecting one of every three workers in 1983.

The problems developing in the productive apparatus were closely linked to the functioning of the financial system and the indiscriminate trade opening. The model conceded a leading role to the financial reform. In fact, the financial system was transformed into the dominant decision-making center in the Chilean economy. In 1982, it became clear that indebtedness of firms and individuals was strangling economic activity and was growing rapidly owing to the prevailing high interest rates, while the revenue of enterprises was declining as a result of the domestic recession. The domestic financial reform and the opening to capital flows constituted at first a determinant factor in the concentration of wealth and in the crowding-out of productive investment. Then, toward the end of the period, it revealed the additional vulnerability that it had introduced into the national economy and the distortion of economic development created by the unbridled *financierism* to which it gave rise.

The results observed were actually the result of both intrinsic features of the model and errors in its implementation. For example, the freezing of the exchange rate at thirty-nine pesos per dollar is not an intrinsic element of the model, which was consistent with a more devalued fixed rate and/or a free rate.[30] However, given the model, the absence of an appreciated exchange rate would have prevented the reduction in inflation achieved in 1981, and this was the priority of the economic team when the exchange rate was frozen in 1979.

The intrinsic components of the model are observable in three areas, which form the pillars of orthodox neo-liberalism (see Ffrench-Davis, 2005a, chap. II). These are the assumption

[30] Evidently, with a free exchange rate the appreciation would have been even higher, which would have led to a worse crisis. See Harberger (1985) for a similar argument.

(i) that privatization and the suppression of state intervention rapidly result in integrated, flexible, and well-informed markets, and spontaneously generate dynamic development; (ii) that adjustment processes are stabilizing and characteristically speedy; and (iii) that "competition", even among unequal competitors, leads to greater well-being for the majority. All three assumptions proved to be false in the Chilean experiment.

First, the indirect and "neutral" economic policies were introduced in a context of "competition" between unequals, which intensified the differences. Furthermore, the neutrality was broken in several decisive instances, so that institutions such as the cooperatives and a semipublic system of savings (SINAP) were discriminated against. The restraint on union activity accentuated the inequality between "suppliers" and "demanders". As has been shown, The concentration of income and wealth was dramatic. Second, the slowness of adjustment processes involves substantial costs because of the inefficient underutilization of resources and the disincentive it implies for capital formation. The neoliberal approach fails to take into account the fact that to reach the long-term objective it is necessary to go through a succession of short-term effects that influence the final outcome and the quality of the transition (the so-called hysteresis in modern literature). Third, although a mistaken interventionism also severely accentuates the structural segmentation and heterogeneity of markets, the extreme alternative option, consisting of a passive state and the indiscriminate privatization of the means of production as fast as possible, disregarding the conjuncture and balance of benefits and costs, does not lead to the rapid integration and flexibility of markets (these failures are characteristic of underdevelopment). The solution to these failures demands an active state that is subject to strict norms of efficiency and accountability.

In summary, the neoliberal experiment produced a society with increased inequality on many fronts and a predominance of *financieristic economicism* over other human activities. Its lack of understanding of the strong structural heterogeneity existing in the economy was a severe obstacle for the essential task of *completing* markets. As a consequence, a highly productive segment coexisted with large impoverished segments of the economy. It markedly deepened the unemployment problem, discouraged investment, and in general favored speculative and financieristic trends at expense of other activities likely to increase overall productivity and capital formation. Finally, it intensified external vulnerability, as attested by the greater impact of the 1982 recession on the Chilean economy compared to the rest of Latin America.

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Table II.1

Evolution of GDP and its composition, 1975-81

(annual rates of growth)

	Total		Per capita	
	1975-80	1975-81	1975-80	1975-81
	(1)	(2)	(3)	(4)
1. Gross domestic product	3.8	4.0	2.3	2.5
2. Gross national product	3.4	3.5	1.9	2.0
3. Value added				
a) Marketing of imports	15.5	16.2	13.8	14.5
b) Financial services	14.6	14.2	12.9	12.5
4. Gross national product excluding value added in 3.	**1.9**	**1.8**	**0.4**	**0.3**

Source: Calculations based on official figures of Cuentas Nacionales de Chile, 1960-81, in pesos of 1977. Revised figures by Marcel and Meller (1986) give GDP growth of 2.6% for 1975-81, and not the official 4.0%; the main correction was placed in the industrial sector (here included in line 4). There are no disaggregated corrected figures in order to build a revised table.

Table II.2

Income and unemployment indicators, 1970-81

	Incomes (1970=100)			**Unemployment (%)**			
	Average wage	Average pension	Average family allowance	Average PEM income (%)	Open	PEM	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970	100.0	100.0	100.0	--	5.9	--	5.9
1974	64.8	51.3	69.5	--	9.1	--	9.1
1976	65.0	52.3	61.8	80.5	16.6	5.2	21.9
1978	75.0	62.1	56.0	45.5	13.8	4.2	18.0
1980	89.0	74.3	54.4	37.6	11.7	5.2	16.9
1981	96.8	78.0	54.0	32.1	10.4	4.7	15.1
1974-81	**75.7**	**61.9**	**59.3**	**48.8**[a]	**13.0**	**4.8**[a]	**16.8**

Sources: INE, General wage index for column (1); Arellano (1985) for column (2); Cortázar (1983) for column (3), which is a weighted average of all family allowances. Column (4) indicates the net income of PEM (Minimum Employment Program) workers as a percentage of the minimum wage of 1970. All figures in current pesos have been deflated by the corrected CPI (Cortázar and Marshall, 1980) up to 1978, and by the official index for the later years. Columns (5) and (7) are based on Jadresic (1986). [a] Average for 1976-81.