

Labour Policy, Labour–Business Relations and the Transition to Democracy in Chile

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Abstract. Chile's new civilian government, the centre-left Concertación de Partidos por la Democracia, has been strongly praised for its efforts to strengthen the rights of labour and correct Chile's severe social inequalities. After nearly a decade of civilian rule, however, it has become increasingly clear that these efforts have not succeeded. Indeed, one of the defining features of Chile's new democracy is the profound inequality and imbalance of power between capital and labour upon which it has been constructed. This article seeks to explain this outcome and examine its implications for Chile's post-military political and economic order.

Introduction

In the last decade and a half Latin America has witnessed the inauguration of a large number of civilian regimes, among which Chile is widely regarded as offering the greatest promise for democratic consolidation. Both Chile's transition from military rule and the civilian regime to which that transition gave birth have proved remarkably stable, while its economic performance over the last fifteen years has been unquestionably the most dynamic of any country in the region. No less significantly, Chile's new civilian government, the centre-left Concertación de Partidos por la Democracia, has been strongly praised for its efforts to strengthen the rights of labour and correct the country's severe social inequalities.¹

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¹ See, for example, Rodolfo Bonifaz and David Bravo, 'Mercado del trabajo e institucionalidad laboral en Chile durante los gobiernos de la Concertación', in René Cortázar and Joaquín Vial (eds.), *Construyendo opciones: propuestas económicas y sociales para el cambio de siglo* (Santiago, 1997); Cristián Echeverría, 'La institucionalidad laboral en Chile', in CIEDLA, *Mercados laborales en los 90: cinco ejemplos de América Latina* (Buenos Aires, 1997); Pablo González, 'Normativa y política laboral en Chile', *Colección de Estudios CIEPLAN*, no. 43 (Sept. 1996), pp. 49–99; Pilar Romaguera, Cristián

In fact, the Concertación was elected with the strong backing of labour and has made ‘growth with equity’ its principal stated objective, which it has sought to achieve by means of labour reforms, an historic business-labour accord and increased social spending. After nearly a decade of civilian rule, however, it has become increasingly clear that this objective has not been realised. To the contrary, one of the defining features of Chile’s new democracy is the profound imbalance of power between capital and labour upon which it has been constructed. Indeed, while Chilean business today finds itself more powerful than perhaps at any time in the past sixty years, the return to civilian rule has left Chilean labour organisationally weakened, politically marginalised and with only very modest and precarious material gains.

What explains this outcome, and what implications does it have for Chile’s post-military political and economic order? More specifically, how is it that the rise of a centre-left government with strong labour support and a commitment to equity has produced so few benefits for labour, while producing so many for business? And what consequences does this deepening imbalance have for both the strength and stability of Chile’s new democracy? In addressing these questions, this article starts from the basic theoretical premise that labour–capital relations and the policies that regulate them are key to understanding the possibilities for democratic stability in capitalist societies. Put simply, the greater the balance in labour–capital relations, or the more labour is able to counterbalance the power of capital, the greater the prospects for a robust democracy ‘in which the disadvantaged many, as citizens, have a real voice in the collective decision-making of politics’.² Conversely, the greater the imbalance in labour–capital relations, or the weaker labour is vis-à-vis capital, the greater the likelihood of a limited democracy, one in which state institutions and the exercise of formal political power primarily serve those with greatest income, wealth and privilege. As Rueschemeyer, Stephens and Stephens have persuasively argued, capitalist democracy has historically rested on a relative balance of class power between labour and capital. Furthermore, rather than propertied classes, it has been those who have had the most to gain from democracy – namely, subordinate classes and labour in particular – that have fought hardest for it.³

Echeverría, and Pablo González, ‘Chile’, in Gustavo Márquez (ed.), *Reforming the Labor Market in a Liberalized Economy* (Washington, DC, 1995); René Cortázar, *Política laboral en el Chile democrático: avances y desafíos en los noventa* (Santiago, 1993); and Kurt Weyland, “‘Growth with Equity’ in Chile’s New Democracy?’, *Latin American Research Review*, vol. 32, no. 1 (1997), pp. 37–67.

² Dietrich Rueschemeyer, John Stephens and Evelyn Huber Stephens, *Capitalist Development and Democracy* (Chicago, 1992), p. 41.

³ *Ibid.*

To a large degree, the balance of power between labour and capital can be understood as a structural phenomenon, reflecting the particular stage and character of capitalist development experienced by a given country. This is very clear in the case of less developed countries, where the working class is typically smaller and weaker than that found in advanced industrialised countries. Nevertheless, labour policies have two effects on labour–capital relations that bear significantly on labour’s strength as a socio-political force, and thus on its capacity to counter the power of capital. On the one hand, by establishing rules governing collective bargaining, union formation and contract termination, they can have a major impact on labour’s *organisational* strength and bargaining power. On the other hand, by affecting income and the level and quality of employment, they can have a significant impact on labour’s vulnerability to the labour market and thus on its *structural* strength and bargaining capacity.

When examining the effects of labour policies on labour–capital relations, however, it is also necessary to consider the link between those policies and a country’s development strategy. In other words, the labour policies a given country adopts will be heavily influenced by the development strategy it pursues. This is particularly clear in the case of neoliberalism, a strategy which has gained considerable ascendancy in recent decades, not only in Chile, but worldwide. According to this strategy, efforts to increase the organisational capacity, bargaining power and income share of labour through state-enforced labour standards pose an inherent threat to accumulation and economic efficiency. This is because they are fundamentally seen as a drain on savings and investment and a source of labour market rigidity. Indeed, in the neoliberal view, it is only by limiting union power and allowing wages and the supply of labour to respond flexibly to market signals that sustained growth will be achieved.⁴ In addition to its supposed economic benefits, however, neoliberalism also produces a major political ‘benefit’ – namely, its debilitating impact on labour’s socio-political power and capacity for political disruption. In fact, in some cases, including Chile, the political discipline of labour has been a central objective of neoliberal economic policy.⁵

Finally, as Collier and Collier have argued in their analysis of twentieth century Latin America, the degree and manner of labour incorporation into the political arena can have a major bearing on a country’s political

⁴ By contrast, under a Keynesian strategy there is substantially greater room for raising labour standards, given the central importance of demand to that strategy.

⁵ For an analysis of Argentina under military rule, see Adolfo Canitrot, ‘Discipline as the Central Objective of Economic Policy: An Essay on the Economic Programme of the Argentine Government since 1976’, *World Development*, vol. 8, 1980, pp. 913–28.

stability.⁶ Specifically, the political marginalisation or exclusion of labour, or its incorporation in a controlled manner from above by the state, may make for stability in the short term by helping to preserve the prevailing distribution of social, economic, and political power. Over the long term, however, it may foster greater instability by generating a process of deepening socio-political polarisation. In contrast, a fuller and more autonomous incorporation of labour, strongly linked to a party (or parties) that effectively represents its interests, is likely to generate greater long-term stability.

By examining the evolution of labour policy and labour–business relations in Chile during the 1990s, then, this article seeks to accomplish three objectives. The first is to demonstrate empirically how little Chilean labour has actually benefited from the return to civilian rule.⁷ This question is addressed in section I, beginning with an analysis of the 1990–1993 labour reforms. The article argues that while the reforms contained some measures of benefit to labour, they did little or nothing to alter the fundamental features of the military regime’s labour code. In fact, by giving that code a democratic veneer, they helped to further institutionalise the imbalance of power between capital and labour and the subordination of labour policy to the logic of Chile’s neoliberal development model. Section I also presents recent data on unionisation rates, collective bargaining, employment and income, all of which indicate that labour’s material gains during the 1990s have been both quite modest and precarious, while its already very limited organisational strength has suffered further decline.

The second objective of this article is to explain why this has occurred; that is, why Chile’s highly regarded transition to democracy and, in particular, the rise to power of a centre-left government with strong labour support and a commitment to equity, has produced such meagre benefits for labour. The answer to this question is presented in Section II.

⁶ Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton, 1991).

⁷ I thus join a growing number of observers who have presented a critical view of the Concertación’s accomplishments vis-à-vis labour. See, for example, Rafael Agacino, “‘Todo lo flexible se desvanece’: el caso chileno”, in Rafael Agacino and Magdalena Echeverría (eds.), *Flexibilidad y condiciones de trabajo precarias* (Santiago, 1995); Manuel Barrera, ‘La negociación colectiva en Chile: Una descentralización excesiva’, *Estudios Sociales*, No. 86, trimestre 4 (1995); Joseph Collins and John Lear, *Chile’s Free Market Miracle: A Second Look* (Oakland, 1995); Hugo Fazio, *Mapa actual de la extrema riqueza en Chile* (Santiago, 1997); Cristián González Santibáñez, ‘Notas sobre empleo precario y precarización del empleo en Chile’, *Economía y Trabajo en Chile*, Informe Anual, 1997–1998 (Santiago, 1998); Rachel Schurman, ‘Uncertain Gains: Labour in Chile’s New Export Sectors’, ms. (1999); and Sonia Yáñez and Diego López, ‘Globalización, reestructuración competitiva y empleo’, *Economía y Trabajo en Chile*, Informe Anual, 1995–1996 (Santiago, 1996).

There it is argued that labour's experience during the 1990s is explained only in part by the debilitating effect of nearly seventeen years of political and economic repression under military rule. Of equal importance was the evolution of the centre-left's strategy of opposition toward the military regime during the 1980s and, as a by-product of that strategy, its changing posture toward the regime's economic model and Chilean business. Indeed, despite the labour movement's key role in triggering a resurgence of political opposition to the military regime, over the course of the 1980s it found itself and its demands increasingly ignored, as the centre-left gradually abandoned a social mobilisation strategy in favour of an electoral one, and gave ever greater priority to maintaining the regime's economic model and gaining the confidence of business. This served to weaken the labour movement further, not only by marginalising it politically and seriously aggravating its internal divisions, but also by subordinating its demands to the dictates of the economic model and of business. At the same time, however, another effect of this emerging government-business accommodation has been to produce a labour movement, which while weakened, has grown increasingly hostile toward both the Concertación and business.⁸

The final objective of the article, which is taken up in section III, is to assess the implications of this outcome for Chile's political and economic future. It is argued that if the current imbalance in capital-labour relations goes unaltered, Chile's new democracy will remain quite limited and potentially unstable. However, any serious effort on the part of the Concertación to correct this imbalance will require more than a commitment to new labour reforms. It will also require a rebuilding of its ties to the labour movement, a significant shift in the country's development strategy and a much greater determination to challenge the power of business.

I. How much has labour benefited?

As noted in the Introduction, one of the distinguishing characteristics of the centre-left governments that came to power in Chile in March 1990

⁸ For other works that have criticised the quality of democracy emerging from Chile's transition from military rule, see, for example, Patrick Barrett, 'The Limits of Democracy: Socio-Political Compromise and Regime Change in Post-Pinochet Chile,' *Studies in Comparative International Development*, vol. 34, no. 3 (Fall 1999); Javier Martínez and Alvaro Díaz, *Chile: The Great Transformation* (Washington D.C., 1996); James Petras and Fernando Ignacio Leiva, *Democracy and Poverty in Chile: The Limits to Electoral Politics* (Boulder, 1994); Peter Siavelis, *The President and Congress in Postauthoritarian Chile: Institutional Constraints to Democratic Consolidation* (University Park, PA, 2000); and Eduardo Silva, *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics* (Boulder, 1996).

has been their stated commitment to achieving ‘growth with equity’. A key element of that effort has been labour reform. Indeed, in its 1989 programme, the Concertación proposed a series of ‘profound’ changes in the military regime’s repressive labour code (the so-called Labour Plan) aimed at restoring the ‘fundamental rights of workers’ and creating ‘equality’ in labour–capital relations.⁹ With the passage of the labour reforms of 1990–1993, moreover, it appeared that the Concertación had delivered on this promise. In fact, the administration of Patricio Aylwin hailed the new labour code as the first promulgated under a democratic regime in Chilean history. It also pointed to improvements in the material conditions of workers, a growth in unionisation and the absence of labour conflict as proof that its policies had succeeded in reconciling growth, stability and equity. Upon closer examination, however, the experience of labour during the 1990s does not warrant such a positive assessment.

We begin with an examination of the labour reforms of 1990–1993, which concerned the termination of contracts,¹⁰ labour centrals,¹¹ union organising and collective bargaining,¹² and individual labour contracts.¹³ With respect to the termination of contracts, the principal controversies centred on the employer’s freedom to dismiss workers, and the amount of severance pay to which the latter were entitled. While under the Labour Plan, the employer’s freedom to dismiss workers was unrestricted, under the new law, the employer had to invoke either the failure of the worker to discharge his/her duties satisfactorily or the ‘necessities of the firm’. In the former case, the worker is not entitled to severance pay, while in the latter, he/she is entitled to one month’s pay per year of service up to 11 months (as opposed to five months under the Labour Plan). The worker is also entitled to appeal against the dismissal through the labour courts, and if it is found to be unjustified, she/he is to be granted an additional 20 per cent.

Nevertheless, these changes in the law had no real effect on the employer’s freedom to dismiss workers, other than making it somewhat more expensive in the case of those workers who have been with a firm for more than five years.¹⁴ In the first place, this is because it makes appeal a practical impossibility, given that workers are not entitled to their severance pay until after a lengthy appeal process is completed and average legal costs exceed the additional 20 per cent to which they are

⁹ Concertación de Partidos por la Democracia, *Programa de Gobierno* (Santiago, 1989), pp. 25–30.

¹⁰ Law No. 19.010 of Dec. 1, 1990.

¹¹ Law No. 19.049 of Feb. 19, 1991.

¹² Law No. 19.069 of Dec. 1, 1991.

¹³ Law No. 19.250 of Sept. 23, 1993.

¹⁴ This change represented an average increase in costs of less than 1%. See René Cortázar, *Política laboral en el Chile democrático: avances y desafíos en los noventa* (Santiago, 1993), p. 45.

entitled if they win.¹⁵ In addition, the labour courts are widely recognised to be slow and inefficient and the ‘necessities of the firm’ is such a broad and vaguely defined justification as to be nearly impossible to disprove. Furthermore, the employer is not required to exhaust other methods of addressing the needs of the firm (such as retraining) or to consult with workers prior to dismissing them. It is also revealing that the government, the right and the business community all rejected the labour movement’s call for reinstatement of the worker who is fired without justification.

With respect to labour confederations, they were given legal status for only the second time in Chilean history (the first time occurring in 1971). The law also extended job security and leave entitlements to confederation leaders and granted confederations ample freedom in arranging financing with their union affiliates. As for labour unions, three important changes were an increase in leave entitlements for labour leaders, the requirement that non-unionised workers who benefited from a collectively bargained contract pay 75 per cent of regular union dues, and a lifting of the ban on unions among seasonal farm workers. The number of workers required to form a union in medium size firms was reduced. Nonetheless, the open shop was maintained, workers in the public administration were denied the right to unionise, and significant requirements for establishing inter-firm unions were introduced, which as we shall see, also face severe obstacles to bargaining. The new labour laws thus introduced some measures to strengthen the process of unionisation, but added or preserved several others that kept unions weak and atomised, not the least of which was the lack of real protection for union activists from arbitrary dismissal.

As for collective bargaining, the most important change was the elimination of the Labour Plan’s 60-day limit on the duration of strikes. Nonetheless, a strike is legal only if it conforms to certain strict procedures once the formal process of collective bargaining has begun. Thus, only those workers who opt, or enjoy a legal right, to bargain collectively are entitled to strike. Any other form of work stoppage, such as solidarity strikes or strikes over failure to fulfil a contract, is illegal. Furthermore, the employer retained the right to hire replacement workers, and individual strikers are allowed to resume work during the course of the strike. The law also allows the employer to undercut the collective bargaining process by reaching *convenios* with small groups of workers, rather than by negotiating a contract with a union, and it offers only minor, and largely ineffective, protections to those engaged in collective

¹⁵ Indeed, according to Alvaro Pizarro, the technical adviser to the leading opposition party, RN, the law was designed with this very purpose in mind (author interview, Santiago, May 5, 1993).

bargaining. The scope of bargaining, moreover, is limited to wages, benefits and working conditions, while bargaining over the organisation, direction and administration of the firm is explicitly prohibited (this, despite the government's frequent appeal for greater firm-level co-operation). As for the level of bargaining, the restriction on bargaining beyond the level of the firm was lifted. But in order for such bargaining to take place, it has to be voluntarily agreed to by all parties involved, in practice making industry-level bargaining a virtual impossibility.

Finally, with respect to individual labour contracts, a series of measures was passed which modestly improved workers' rights. These included assuring the right to vacations, guaranteeing family leave for emergencies, establishing a minimum wage for workers over 65 years of age, extending the 48 work week to additional categories of workers, protecting certain workers from tasks that would endanger their health, and requiring special contracts for certain categories of workers (such as household employees and temporary workers in agriculture).

Thus, the labour reforms enacted by the Aylwin administration signalled a modest advance in the legal protections afforded to Chilean workers. The overall thrust of the reforms, however, was to preserve the fundamental features of the Labour Plan, introducing largely cosmetic changes that helped to further institutionalise the profound power imbalance in capital-labour relations and the subordination of labour policy to the demands of the economic model. This is clearly evident not only in the legal content of the reforms, but also in the declining organisational strength and bargaining power suffered by the labour movement during the 1990s. As the Aylwin administration contended, the rate of unionisation did increase fairly substantially during 1989–1991, rising from 11.4 per cent to 15.3 per cent of the employed labour force (see Table 1). However, this improvement predated the reforms and so was clearly the result of a more open political climate, rather than the government's legislation. For in the years that followed the reforms' enactment, the rate of unionisation declined sharply. Indeed by 1998 it had fallen to 11.3 per cent, registering a total growth for the entire period of –1 per cent. Particularly striking is the decline in the *absolute* number of union members after 1992. By 1998 this had fallen by 112,500 or 15.5 per cent. Mining and industry alone, historically the sectors in which unions have been strongest, lost 25,000 and 46,000 members, respectively. Moreover, when taking into account only firm-level unions (still the only ones effectively able to bargain collectively) the rate of unionisation falls to 7.2 per cent of the employed labour force in 1998 (in relation to 1989 this represents a decline of 8.9 per cent). More alarming still, during 1995–1997 an average of 37.6 per cent of unions were *in recess* (up from

Table 1. *Union Data, 1981–1998*

Year	Union Members <i>Thousands</i>	Total Unions	Avg. Size	Rate of Unionisation ^a All Unions			Rate of Unionisation ^a Firm-level Unions			
				Employed Labour Force	Waged Labour Force	Firm-level Union Members <i>Thousands</i>	Firm-level Unions	Avg. Size	Employed Labour Force	Waged Labour Force
1981	396.0	3977	100	12.1	na	294.5	2895	102	9.0	na
1982	347.5	4048	86	11.8	na	242.9	2792	87	8.3	na
1983	320.9	4401	73	10.1	na	221.6	2962	75	6.9	na
1984	343.3	4714	73	10.3	na	236.7	3099	76	7.2	na
1985	361.0	4994	72	8.7	na	250.9	3250	77	7.1	na
1986	387.0	5391	72	9.9	14.2	270.9	3499	77	7.0	10.0
1987	422.3	5883	72	10.5	15.1	296.9	3834	77	7.4	10.6
1988	446.2	6446	69	10.4	15.2	311.6	4191	74	7.3	10.6
1989	507.6	7118	71	11.4	16.8	349.7	4656	75	7.9	11.6
1990	606.8	8861	68	13.6	19.8	417.5	5822	72	9.4	13.6
1991	701.4	9858	71	15.3	22.4	455.9	6462	71	10.0	14.5
1992	724.0	10756	67	15.0	22.0	473.9	7037	67	9.9	14.4
1993	684.4	11389	60	13.7	19.7	460.2	7408	62	9.2	13.3
1994	662.0	12109	55	13.3	19.3	448.4	7760	58	9.0	13.1
1995	637.6	12715	50	12.7	18.3	417.8	8083	52	8.3	12.0
1996	655.6	13258	49	12.4	17.7	426.8	8401	51	8.1	11.5
1997	617.8	13795	45	11.5	16.3	401.6	8693	46	7.5	10.6
1998	611.5	14276	43	11.3	na	390.5	na	na	7.2	na
% Change 1989–1998	20.5	100.6	–39.4	–0.9	–3.0 ^b	11.7	86.7 ^b	–38.7 ^b	–8.9	–8.6 ^b

Source: Dirección del Trabajo.

Note: ^a Calculated on the basis of slightly smaller labour force estimates than those published by the Instituto Nacional de Estadísticas (INE) (see Table 5).

^b % Change 1989–1997.

Table 2. *Legal Strikes, 1983–1998*

Year	Strikes	Striking workers	Workers per strike	Percentage of labour force involved	Average duration	'Man-days' lost <i>Thousands</i>
1983	36	3571	99.2	0.1	13	46.2
1984	38	3595	94.6	0.1	12	46.5
1985	42	8532	203.1	0.2	21	67.6
1986	41	3940	96.1	0.1	15	69.0
1987	81	9913	122.4	0.2	14	104.2
1988	72	5645	78.4	0.1	14	87.5
1989	101	17857	176.8	0.4	16	298.6
Average 1983–1989	59	7579	124.4	0.17	15	102.8
1990	176	25010	142.1	0.6	15	245.2
1991	224	46215	206.3	1.0	12	733.8
1992	247	26962	109.2	0.6	12	334.7
1993	224	25098	112.0	0.5	12	312.0
1994	196	16209	82.7	0.3	13	229.5
1995	187	24724	132.2	0.5	12	350.1
1996	183	25776	140.9	0.5	10	228.8
1997	184	19483	105.9	0.4	10	250.6
1998	121	12608	104.2	0.2	na	123.5
Average 1990–1998	194	24676	127.2	0.51	12 ^a	312.0
Percentage change from previous period	230	226	2.3	200	–20	204

Source: Dirección del Trabajo.

Note: ^a Average 1990–1997.

21.7 per cent in 1991 and reaching a peak of 46 per cent in 1997), which would bring the effective rate of unionisation for that three-year period down to 7.6 per cent for all unions and only 5.0 per cent for enterprise unions (or only 6.2 per cent and 4.1 per cent, respectively, for 1997). Meanwhile, illustrating the growing atomisation of the labour movement, the average size of firm-level unions fell from 75 workers in 1989 to 46 in 1997, a dramatic 38.7 per cent decline.

Furthermore, while it is true that Chile experienced very limited strike activity during the 1990s, this fact should not be interpreted as evidence of peaceful labour–capital relations. Indeed, if one were to examine legal strike activity in terms of its rate of growth, rather than in absolute numbers, one would find that the number of strikes, striking workers, percentage of the labour force involved and days lost during 1990–1998 increased by 230 per cent, 226 per cent, 200 per cent, and 204 per cent, respectively, over 1983–1989 (see Table 2). The growth in illegal strike

Table 3. *Illegal Strikes, 1987–1998*

Year	Strikes	Striking workers	Percentage of labour force involved	Workers per strike	'Man-days' Lost <i>Thousands</i>
1987	na	20081	0.5	na	35.7
1988	na	23636	0.6	na	93.9
1989	na	58460	1.3	na	222.9
1990	na	58154	1.3	na	129.2
1991	na	314607	6.8	na	485.7
1992	na	85630	1.8	na	158.6
1993	na	83227	1.6	na	293.7
1994	na	97069	1.9	na	253.3
1995	52	323115	6.2	6213.8	471.8
1996	105	337475	6.4	3214.0	2827.5
1997	105	298982	5.6	2847.4	228.2
1998	86	344440	6.3	4005.1	1629.4
Average 1990–1998	87 ^a	215855	4.3	4070.1 ^a	719.7

Source: Chile: *Crecimiento, empleo y el desafío de la justicia social* (Santiago, 1998) and Dirección del Trabajo.

Note: ^a Average 1995–1998.

activity was even more dramatic, particularly during 1995–1998 (see Table 3). This apparently impressive growth should not be regarded as particularly significant, however, given the still small percentage of the workforce involved and the short duration of strikes. But one is left to wonder how much more disruptive strikes would have been had the labour movement not been so weak. In other words, rather than evidence of peaceful labour–capital relations, the low level of strike activity can more accurately be interpreted as further evidence of the fundamental power imbalance between capital and labour, and the lack of effective protection against anti-union efforts on the part of employers. Indeed, it was discovered by 1994 that the rate of dismissals due to the ‘necessities of the firm’ had doubled or even quadrupled following wage negotiations, strikes and unionisation efforts.¹⁶ There is also evidence that employers preferred to negotiate *convenios* with unorganised groups of workers rather than contracts with unions, and frequently attempted to undermine the latter by presenting the former with better wage offers.¹⁷ The overall result is that, like the rate of unionisation, the percentage of the workforce

¹⁶ Patricio Frías, ‘Sindicalismo y desarrollo de acción contestataria’, *Economía y Trabajo en Chile*, Informe Anual, 1994–1995 (Santiago, 1995), p. 68; Diego López, ‘El Proyecto de reforma laboral: avances y desafíos’, *Economía y Trabajo en Chile*, Informe Anual, 1994–1995 (Santiago, 1995), p. 103; *Las relaciones laborales en Chile*, Informe Relasur, no. 41 (Madrid, 1994), p. 101.

¹⁷ Frías, ‘Sindicalismo y desarrollo’, p. 66; *Las relaciones laborales en Chile*, p. 123.

Table 4. *Collective Bargaining, 1989–1998*

Year	Contracts				Convenios				Total workers involved <i>Thous.</i>	% of emp'd labour force	Total workers covered <i>Thous.</i>	% of emp'd labour force	Avg. initial real wage adjustment (%)
	Workers involved <i>Thous.</i>	% of emp'd labour force	Workers covered <i>Thous.</i>	% of emp'd labour force	Workers involved <i>Thous.</i>	% of emp'd labour force	Workers covered <i>Thous.</i>	% of emp'd labour force					
1989	140.4	3.1	218.3	4.9	78.6	1.8	125.5	2.8	219.0	4.9	343.8	7.7	4.06
1990	138.4	3.1	278.9	6.2	47.6	1.1	126.2	2.8	186.0	4.1	405.1	9.0	3.78
1991	200.5	4.3	338.9	7.3	55.8	1.2	103.4	2.2	256.3	5.5	442.3	9.6	2.20
1992	157.7	3.2	358.2	7.3	68.9	1.4	124.7	2.6	226.6	4.6	482.9	9.9	2.59
1993	175.7	3.4	333.4	6.5	80.5	1.6	149.4	2.9	256.2	5.0	482.8	9.4	2.25
1994	159.9	3.1	335.6	6.6	76.3	1.5	156.9	3.1	236.2	4.6	492.4	9.6	1.71
1995	147.9	2.9	307.8	5.9	66.6	1.3	143.0	2.8	214.6	4.1	450.8	8.7	1.68
1996	152.7	2.9	300.7	5.7	68.9	1.3	135.5	2.6	221.6	4.2	436.2	8.2	1.43
1997	121.3	2.3	274.0	5.1	72.0	1.3	140.9	2.6	193.3	3.6	414.9	7.7	1.44
1998	136.9	2.5	258.2	4.8	69.3	1.3	141.3	2.6	206.2	3.8	399.6	7.4	0.96

Source: Dirección del Trabajo.

covered by collectively bargained contracts has fallen steadily, as have the wage adjustments contained in those contracts (see Table 4).

While Chilean labour has seen its organisational strength and bargaining power decline during the 1990s, its material gains have been only modest at best; moreover, in recent years those gains have suffered important reversals. Among the clearly positive trends, perhaps the most noteworthy was the growth of employment. Indeed, between 1989 and 1998, the employed labour force grew by nearly 1 million (or 22 per cent), while the average annual rate of unemployment over the decade declined to 6.6 per cent (see Table 5). This reflected the strong performance of the economy during 1990s, which grew by an annual rate of approximately 7 per cent. Nonetheless, the growth in employment continued to mask the low quality and precarious character of the jobs held by hundreds of thousands of Chilean workers, a trend which by some accounts has worsened during the 1990s.¹⁸ In addition, the rate of employment growth has slowed considerably (falling from an annual average of 4.3 per cent during 1986–1989 to 3.2 per cent during 1990–1993 and 1.4 per cent during 1994–1998), as has the growth in waged employment. Moreover, with regard to the sectoral composition of employment, the dominance of services continued to grow, rising from 54 per cent to 60.7 per cent, while industry reversed the recovery it experienced during the 1980s, falling from 16.9 per cent to 15.1 per cent. Furthermore, the unemployment rate has not improved appreciably during the 1990s. To the contrary, reflecting Chile's economic difficulties stemming from the Asian financial crisis, it rose to 11.5 per cent in June–August of 1999 (the highest in 13 years and well above the regional average). Over three-quarters of the job losses, moreover, have been in construction, agriculture and industry, thereby reinforcing the dominance of services in the overall structure of employment.¹⁹

Progress was also made in the area of wage growth, with the average real wage growing by an annual rate of 3.6 per cent during 1990–1998 (Table 5). Nonetheless, much of the growth in wages continued to reflect a recovery from the severe decline suffered under the military regime. The growth in real wages has also decelerated significantly, dropping from an

¹⁸ See, for example, Agacino, ‘“Todo lo flexible se desvanece”’; Alvaro Díaz, ‘Chile: Neoliberal Policy, Socioeconomic Reorganisation, and Urban Labour Market’, in Richard Tardanico and Rafael Menjívar Larín (eds.), *Global Restructuring, Employment, and Social Inequality in Latin America* (Miami, 1997); Magdalena Echeverría and Verónica Uribe, ‘Condiciones de Trabajo en Sistema de Subcontratación’, (Santiago, 1998); González Santibáñez, ‘Notas sobre empleo precario’; Francisca Márquez Belloni, ‘La inserción precaria en el trabajo’, *Proposiciones*, no. 25 (Oct. 1994), pp. 132–43; Schurman, ‘Uncertain Gains’; and Yáñez and López, ‘Globalización, reestructuración competitiva y empleo’.

¹⁹ Instituto Nacional de Estadísticas.

Table 5. *Employment and Wages, 1986–1998*

Year	Total labour force ^a <i>Thousands</i>	Labour force growth	Employed labour force <i>Thousands</i>	Empl. growth	Waged labour force <i>Thousands</i>	Waged labour force growth	Unemployed <i>Thousands</i>	Rate of unemp.	Real wages Index ^d 1970 = 100	Real wages Index ^{d,e} 1993 = 100	Wage Growth
1986	4312.0	6.3 ^b	3862.9	9.2 ^b	2717.5	na	449.2	10.4	83.8	—	1.9
1987	4425.3	2.6	4001.3	3.6	2798.5	3.0	424.0	9.6	83.6	—	-0.2
1988	4656.3	5.2	4285.4	7.1	2944.9	5.2	370.8	8.0	89.1	—	6.5
1989	4805.3	3.2	4463.4	4.2	3019.6	2.5	341.9	7.1	90.8	—	1.9
1990	4888.6	1.7	4525.5	1.4	3063.1	1.4	363.1	7.4	92.4	—	1.8
1991	4983.9	1.9	4630.7	2.3	3134.6	2.3	353.2	7.1	96.9	—	4.8
1992	5199.8	4.3	4877.4	5.3	3295.4	5.1	322.4	6.2	101.3	—	4.6
1993	5459.0	5.0	5109.3	4.8	3472.5	5.4	349.7	6.4	—	105.1	—
1994	5553.8	1.7	5122.8	0.3	3422.7	-1.4	431.1	7.8	—	110.6	5.2
1995	5538.2	-0.3	5174.4	1.0	3482.6	1.8	363.8	6.6	—	116.3	5.1
1996	5600.7	1.1	5298.7	2.4	3713.1	6.6	302.0	5.4	—	119.4	2.7
1997	5683.8	1.5	5380.2	1.5	3787.7	2.0	303.6	5.3	—	120.9	1.3
1998	5851.5	3.0	5432.4	1.0	na	na	419.2	7.2	—	124.5	2.9
Average 1990–1998	5417.7	2.2	5061.3	2.2	3421.5 ^c	2.9 ^c	356.5	6.6	—	—	3.6 ^f

Source: Instituto Nacional de Estadísticas (INE).

Note: ^a October–December of each year.

^b Estimated—due to change of series in 1986.

^c Average 1990–1997.

^d December of each year.

^e New General Wage Index, April 1993 = 100.

^f Excluding 1993.

average of 4.3 per cent in 1990–1995 to 2.3 per cent in 1996–1998, a figure that is likely to decline even further as a result of the country's recent economic crisis and rising unemployment. Moreover, the wage share of GDP, after rising from an index of 92.9 (1960 = 100) in 1989 to 100.2 in 1993, fell to 94.8 in 1996.²⁰ In fact, according to the Interamerican Development Bank, Chile has the greatest disparity of income between employers and wage earners of any Latin American country, as well as the highest level of inequality by job type.²¹ In another study, Arturo León and Javier Martínez present data demonstrating a clear deterioration in the relative position of the working class. Indeed, as a percentage of the poorest 20 per cent of income earners in Chile, the working class went from 8 per cent in 1971 to 11 per cent in 1987, 9 per cent in 1990 and 17 per cent in 1995. During the same period, the number of working class individuals living in a poor household rose from one out of ten to one out of four.²²

Furthermore, the Concertación's social and tax policies, while a definite improvement over those of the military regime, have failed to compensate for the poor quality of employment and the limited growth in wages. The Concertación increased social spending fairly substantially (by approximately 7 per cent annually), particularly in education and health. But it started from a very low level and a substantial (albeit declining) portion of the spending has gone to middle and upper income groups.²³ The primary source of financing, moreover, has come from an increase in the Value Added Tax, which in recent years has accounted for roughly 50 per cent of total tax revenue. At the same time, the inequalities between the private and public health and education systems remain severe, while the problems affecting the privatised social security system (with respect to coverage, administrative costs and corporate control) have continued and even worsened.²⁴ Without a doubt, the most significant accomplishment during this period has been the reduction in poverty from 38.6 per cent in 1990 to 21.7 per cent in 1998 (see Table 6). However, this

²⁰ Fazio, *Mapa actual*, p. 93.

²¹ Inter-American Development Bank, *Facing up to Inequality in Latin America, Economic and Social Progress in Latin America, 1998–1999 Report* (Washington, DC, 1998), pp. 40–1, 44.

²² Arturo León and Javier Martínez, 'La estratificación social chilena hacia fines del siglo XX', in Cristián Toloza and Eugenio Lahera (eds.), *Chile en los noventa* (Santiago, 1998).

²³ Christopher Scott, *The Distributive Impact of the New Economic Model in Chile*, Development Economics Research Programme, no. 68, London School of Economics and Political Science, 1995; María Pía Martín, 'Integración al desarrollo: una visión de la política social', in Toloza and Lahera (eds.), *Chile en los noventa*.

²⁴ Mario Albuquerque, 'El sistema privado de pensiones: el caso chileno', and Jaime Ruíz-Tagle, 'El nuevo sistema de pensiones en Chile: una evaluación provisoria (1981–1995)', both in Jaime Ensignia and Rolando Díaz (eds.), *La seguridad social en América Latina: reforma o liquidación?* (Caracas, 1997).

Table 6. *Poverty as percentage of total population, 1987–1998*

	1987	1990	1992	1994	1996	1998
Destitute	17.4	12.9	8.8	7.6	5.8	5.6
Non-destitute poor	27.7	25.7	23.8	19.9	17.4	16.1
Total poor	45.1	38.6	32.6	27.5	23.2	21.7

Source: *Caracterización Socioeconómica Nacional (CASEN) Surveys*.

Table 7. *Income Distribution by Household (including public transfers), 1987–1998*

Deciles	1987	1990	1992	1994	1996	1998
1	1.5	1.6	1.7	1.5	1.4	1.4
2	2.8	2.8	2.9	2.8	2.7	2.7
3	3.6	3.7	3.8	3.6	3.6	3.6
4	4.3	4.5	4.7	4.6	4.6	4.6
5	5.4	5.4	5.6	5.6	5.5	5.4
6	6.3	6.9	6.6	6.4	6.4	6.4
7	8.1	7.8	8.0	8.0	8.1	8.3
8	10.9	10.3	10.4	10.5	11.0	10.9
9	15.9	15.1	14.7	15.3	15.4	15.9
10	41.3	41.8	41.6	41.6	41.3	41.0
Ratio of 5th to 1st Quintiles	13.3	12.9	12.2	13.2	13.8	13.9
Ratio of 10th to 1st Deciles	27.5	26.1	24.5	27.7	29.5	29.3

Source: CASEN Surveys.

accomplishment may be less significant (and permanent) than it appears. On the one hand, the percentage of poor remains very high and the rate of reduction has clearly decelerated, suggesting that Chile has only gone through the easy phase of poverty reduction and that a further decrease will require a much more significant effort. On the other hand, while a large number of people have left poverty, an even larger number remain precariously close to it (2.5 million or 18 per cent of the population in 1994).²⁵ Given the recent rise in unemployment, it is therefore very likely that the poverty rate has increased again. Finally, the distribution of income (*including public transfers*) has worsened during the 1990s, with 56.9 per cent going to the richest 20 per cent and 4.1 per cent to the poorest 20 per cent in 1998, compared to 56.9 per cent and 4.4 per cent, respectively, in 1990 (see Table 7). In fact, during the 1990s, Chile ranked as the country with the sixth most unequal distribution of income in the developing world,²⁶ while its Gini Coefficient during the early 1990s

²⁵ Clarisa Hardy, *La reforma social pendiente* (Santiago, 1997).

²⁶ World Bank, *World Development Report 1997: The State in a Changing World* (Oxford, 1997).

(0.5469) far surpassed the average for Latin America and the Caribbean (0.4931), the most inequitable region in the world.²⁷

In sum, the foregoing provides strong evidence that the Concertación's stated goal of reconciling 'growth with equity' has not been achieved. The labour reforms of 1990–1993 have done little to strengthen the organisational capacity and bargaining power of labour, and have instead served primarily to reinforce the profound power imbalance in labour–capital relations. This is clearly illustrated not only by the legal content of the reforms, but also by the declining rates of unionisation, size of unions and coverage of collective bargaining. Labour's material gains, moreover, have been only modest at best. While both employment and wages have risen during the 1990s, the quality of employment for the majority of Chilean workers remains extremely low and precarious, and much of the wage growth represents a recovery from losses suffered during the military regime. Furthermore, these gains, particularly with respect to employment, have been seriously eroded by the impact of the Asian financial crisis. It is therefore not surprising that, rather than narrowing, Chile's severe income gap has grown wider during this period. What remains, then, is to explain this outcome. How is it, in other words, that Chile's much heralded transition to democracy and the rise to power of a centre-left government with strong labour support and a commitment to equity has produced so few benefits for labour?

II. Why has labour benefited so little from the return to civilian rule?

To a considerable degree, the answer to the above question can be found in the political and economic repression that labour suffered under military rule, which had a profoundly debilitating effect on what had been one of the strongest labour movements in Latin America.²⁸ But labour's experience during the 1990s is also the product of the strategy of opposition that the centre-left adopted toward the military regime during the 1980s and, as a by-product of that strategy, its changing posture toward the regime's economic model and Chilean business. Indeed, despite the labour movement's key role in contributing to the opposition's political resurgence at the beginning of the decade, over the course of the 1980s, it found itself and its demands increasingly ignored, as the centre-left gradually abandoned a strategy of social mobilisation in favour of an electoral one and gave ever greater priority to maintaining the military regime's economic model and gaining the confidence of business. This

²⁷ World Bank, *Chile: Poverty and Income Distribution in a High-Growth Economy, 1987–1995*, two volumes, World Bank Report No. 16377-CH (1997).

²⁸ Indeed, between 1973 and 1989, the rate of unionisation fell from over 30% to 7.9%.

served to weaken the labour movement further, not only by marginalising it politically and seriously aggravating its internal divisions, but also by subordinating its demands to the dictates of the economic model and of business. At the same time, however, it has produced a labour movement, which though weakened, has grown increasingly hostile toward both the Concertación and business.

Labour, the Centre-left and the Transition to Civilian Rule

As noted above, labour suffered tremendously under the military regime, as much the product of the regime's extreme market-oriented development model, which seriously weakened the labour movement's structural base of support, as its repressive labour policies, which sought to weaken it, if not destroy it, organisationally. With the promulgation of the Labour Plan in 1979, moreover, these two features of the regime's authoritarian project were functionally linked. For while the Labour Plan re-legalised union activity, it also imposed severe restrictions on the labour movement's organisational capacity and bargaining power in an effort to depoliticise labour relations, reduce labour costs and maximise labour market flexibility.²⁹ Yet, even with the institutional restrictions of the Labour Plan, increasingly severe unemployment resulting from the economic crisis of the early 1980s, and the passage of new labour legislation that further weakened job security, the labour movement proved remarkably resilient. In fact, it played a central role in launching a massive protest movement in May 1983 under the leadership of the newly formed National Workers Command (CNT), thereby triggering a resurgence of political opposition to the regime which had been largely inactive during the first decade of military rule.

Nonetheless, the CNT's efforts were frustrated by its organisational weakness, the regime's heightened use of repression in response to the protests, and not least, by the growing reticence among the moderate centre-left opposition parties (most importantly, the Christian Democrats and the so-called 'renovated' Socialists³⁰) to support a strategy of social mobilisation. Indeed, confronted by the military's overwhelming strength and willingness to resort to ever greater doses of violence to defend the

²⁹ The Labour Plan was part of a broader set of 'modernisations' designed to depoliticise Chile's social relations by reorienting them on the basis of market principles. The other areas included social security, health, education, regional decentralisation, agriculture, and justice.

³⁰ 'Socialist Renovation' refers to the process of critical reevaluation of Socialist Party ideology and praxis following the fall of Allende, the essence of which was a determination to avoid the strategic errors that led to the collapse of democracy and a much more moderate conception of the socio-economic objectives of socialism.

regime's 1980 Constitution and its transition procedures, nearly the entire opposition (with the major exception of the Communist Party, PC) gradually reached the conclusion that it had no choice but to focus on the October 1988 plebiscite on General Augusto Pinochet's continuation as president as the only means to defeat the regime.³¹ In several respects this very risky electoral strategy proved more successful than even its strongest proponents had imagined. First, it had the paradoxical and largely unintended effect of uniting the opposition, since the rejection of Pinochet was the clearest area of common ground among opposition forces and focusing on the task of defeating him enabled them to limit debate over substantive differences that might otherwise have kept them divided. Opposition victory in the plebiscite, moreover, reinforced this unity – leading immediately to the founding of the Concertación – and opened the way to elections, in which the Concertación emerged victorious.³² It also gave them sufficient bargaining power to negotiate a series of constitutional reforms in mid-1989, which although modest, nonetheless represented an important advance.

But while this strategy proved successful in putting an end to the military regime and bringing the Concertación to power, it had other consequences that did not bode as well for democratisation and the fortunes of labour in particular. By participating in the plebiscite and obtaining only limited constitutional reforms, the Concertación helped to consolidate the 1980 Constitution and to restrict its own strategic options significantly. Moreover, despite its victory in the 1989 elections, it was unable to prevent the right from obtaining a majority in the Senate, which was made possible by the regime's 'binomial' electoral system and the designation of nine 'institutional' senators.³³ And by opting for an

³¹ The decision to participate in the plebiscite came only after years of frustration and intense debate within the opposition. For accounts of this process, see Manuel Antonio Garretón, 'The Political Opposition and the Party System under the Military Regime', in Paul Drake and Iván Jaksic (eds.), *The Struggle for Democracy in Chile: 1982–1990* (Lincoln, NE, 1991); and Jeffrey Puryear, *Thinking Politics: Intellectuals and Democracy in Chile, 1973–1988* (Baltimore, 1994).

³² The principal members of the *Concertación* were the Christian Democratic Party, the Socialist Party and the Party for Democracy. The evolution of the party system is examined in detail in Patrick Barrett, 'Regime Change, Democratic Stability, and the Transformation of the Chilean Party System', *Journal of Interamerican Studies and World Affairs*, Vol. 42, no. 3, fall 2000.

³³ The 'binomial' electoral law created two-member electoral districts, in which a minority party or coalition can obtain 50% of the seats with only 34% of the vote, which has had the effect of over-representing the right. According to the 1980 Constitution, nine of the Senate's 47 members are to be 'designated' by three state agencies: two by the Executive; four by the National Security Council; and three by the Supreme Court. All nine were originally designated by the outgoing military regime.

electoral strategy, the Concertación not only diminished labour's role in the transition; it also contributed to growing internal divisions among Christian Democrat, Socialist and Communist trade unionists. Indeed, the CNT grew increasingly torn over its failure to pressure the Concertación to maintain a social mobilisation strategy and to support its social and economic demands. In an effort to strengthen its capacity to organise and mobilise it decided in August 1988 to establish a new labour central (the Unitary Workers Central, CUT). However, the founding of the CUT, coming on the eve of the plebiscite, did little to increase its capacity to influence the strategic orientation of the opposition parties or to resolve the labour movement's internal divisions.

But perhaps most importantly, by forcing the opposition to abandon a social mobilisation strategy and to adhere to its transition procedures and timetable, the Pinochet regime was able to carry out a second phase of structural transformations and thereby go a long way toward consolidating its transformative project. The most important of these changes were the phenomenal growth of exports, a second wave of privatisations, the tremendous expansion of the privatised social security system as a source of investment capital, the greatly expanded presence of transnational capital within the domestic economy and, not least, the emergence of a business community more structurally powerful and dynamic than ever and firmly committed to the regime's economic model. These structural changes thus exposed a major shortcoming in the Concertación's electoral strategy. The implicit premise of that strategy was that it was necessary to give priority to the task of increasing the opposition's *politico-institutional* space first before pursuing changes of a more substantive, *socio-economic* character at a later stage of political struggle. However, the elimination of politico-institutional constraints was sufficiently gradual and limited that it was more than offset by the emergence of new structural constraints, such that by the time the Concertación assumed office in March 1990, both its *capacity* and its *inclination* to alter the regime's socio-economic model had diminished significantly. Indeed, the Concertación's very preferences and objectives had undergone a major transformation, as it began to abandon its earlier support for a state-led development strategy and to look increasingly favourably on the regime's economic model and the dynamic potential of Chilean business. The latter's importance to sustained economic growth also led the Concertación to moderate its programmatic objectives substantially so as to overcome business's deep-seated distrust of the centre-left and thereby avoid a destabilising fall in investment.³⁴

³⁴ The evolution of the relationship between business and the Concertación is examined in greater detail in Patrick Barrett, 'Regime Change and the Transformation of State-

The Concertación's increasingly positive assessment of the regime's economic model and the role of business contrasted with its criticism of the profound social inequalities that had worsened over the course of the 1980s. For years, opposition labour lawyers and economists had worked as advisers to the labour movement and helped to elaborate many of its demands. Many of those demands, moreover, appeared in opposition programmatic statements, such as the Christian Democrats' Alternative Project.³⁵ The Concertación therefore continued to call for increased wages and major reforms of the military regime's repressive labour code. But this laid the basis for a potentially serious contradiction, given the functional link between the regime's labour policies and its accumulation model and business' strong opposition to strengthening the rights, organisational power and income share of labour. The result was that the Concertación, and the PDC in particular, adopted an increasingly cautious and distant posture vis-à-vis labour and its demands. This was clearly evident in the PDC's January 1988 Alternative Government Programme, which in many respects constituted a restatement of the Alternative Project, but with a stronger emphasis on guarantees for private property and the role of private enterprise, a greater recognition of the country's dynamic export-led growth, and a more vague set of measures aimed at strengthening the labour movement. Almost simultaneously, the renovated faction of the Socialists published its own programme, which while similar, placed much stronger emphasis on the state's role in the economy and measures favourable to labour.³⁶ Nonetheless, at this point, it was willing to submerge its differences with the PDC for the sake of opposition unity. During the negotiations that followed the plebiscite, differences reemerged, but the PDC was once again able to insist on a moderate programme subordinated to the goal of reestablishing democratic stability and reducing the uncertainty of business.³⁷

Capital Relations in Chile', ms. (2000). For other treatments of business, see Guillermo Campero, 'Entrepreneurs under the Military Regime', in Paul Drake and Iván Jaksic (eds.), *The Struggle for Democracy in Chile, 1982-1990*; Cecilia Montero, *La revolución empresarial chilena* (Santiago, 1997); Rachel Schurman, 'Chile's New Entrepreneurs and the 'Economic Miracle': The Invisible Hand or a Hand from the State?', *Studies in Comparative International Development*, Summer, vol. 31, no. 2, 1996, pp. 83-109; and Silva, *The State and Capital in Chile*.

³⁵ Partido Demócrata Cristiano, *Proyecto Alternativo: Seminario de profesionales y técnicos humanistas cristianos*, three volumes (Santiago, 1984).

³⁶ Partido Socialista de Chile, *Democracia y cambio: Propuesta socio-económica para la transición* (Santiago, 1988).

³⁷ See Ascanio Cavallo, *Los hombres de la transición* (Santiago, 1992), pp. 150-2; and *Análisis* (10-16 July and 21-27 Aug. 1989).

Thus, it was only after it had published a draft of its programme in June 1989 that the Concertación agreed to negotiate with the CUT over their respective proposals.³⁸ And although its programme was very favourable to labour, the Concertación made only general statements regarding the improvements needed in labour and social policy, and provided few details as to how far it intended to go. In fact, it stated explicitly that its proposals were only basic criteria that were open to debate.³⁹ Furthermore, it frequently stressed that the final form that labour reforms would take under a Concertación government would be the decision of the new Congress and that, in any case, it was preferable that the greater part of the problems in labour–capital relations be resolved via a direct accord between labour and business, with minimal intervention by the state. Indeed, once a dialogue began between the CUT and the Confederation of Production and Commerce (CPC), the peak association of business, immediately following the December 1989 elections, the Concertación contended that the importance of its response to the CUT’s proposals had diminished significantly.⁴⁰

The Framework Accord and the 1990–1993 Labour Reforms

The importance that the Concertación attached to a business–labour accord had two principal sources. On the one hand, it hoped that such an accord would enable it to remain above the fray and thereby strengthen its hold on power. On the other hand, it felt that if a stable set of rules of the game were established that was considered legitimate by both business and labour, it would create a propitious climate for rising investment, employment and income. The result would therefore be the realisation of both sides’ interests, a class compromise of sorts that would solidify the country’s economic and political stability. But this proved to be an unrealistic set of goals, not only because of the profound antagonism and imbalance of power between Chilean business and labour, but also

³⁸ In April 1989, the CUT put forward the clearest and most elaborate statement of its objectives to date in an extensive document titled ‘Proposal for the Transition to Democracy’. This was followed two months later by the so-called ‘80 Measures’ (*APSI*, 11–17 Dec. 1989).

³⁹ *Programa de Gobierno* (Santiago, 1989), pp. 25–30.

⁴⁰ See the comments of Alejandro Foxley, the future Minister of Finance, in *Análisis* (25–31 Dec. 1989). Foxley’s conception of ‘concertación social’ had changed significantly since the early 1980s. See, for example, Alejandro Foxley, *Para una democracia estable: economía y política* (Santiago, 1985). He now came to view it primarily as a means to ‘decongest’ the state. See Foxley, ‘Bases para el desarrollo de la economía chilena: una visión alternativa’, in *ENADE 88: La libre empresa y el futuro de Chile* (Santiago, 1989) and Eugenio Rivera and Mario Albuquerque, ‘El debate en torno a la concertación social y económica’, *Proposiciones*, 18 (Jan. 1990), pp. 101–2.

because of the character of the development model which the Concertación had committed itself to maintaining, and because of its reluctance to challenge the power of business.

Initially, it appeared that there was considerable reason for optimism. Indeed, one month after the Aylwin administration took office, the government, the CUT and the CPC signed the so-called Framework Accord, building on a preliminary accord between the CUT and the CPC reached in January 1990. The Accord contained agreements confirming property rights, the central role of private enterprise, the market and an open economy, and the importance of free, representative and autonomous labour and business organisations. In addition, it stipulated that the minimum wage and minimum pensions would be increased, that an accord over labour reforms would be sought, that increased social spending would be financed by a tax reform, and that the three parties would maintain a permanent dialogue.⁴¹

Yet, despite the historically unprecedented character of the Framework Accord, it simply served to mask (and only briefly at that) the deep hostility in business-labour relations, especially on the part of the former. The very negotiation of the Accord had required overcoming fierce opposition within the business leadership. Throughout the 1980s, in fact, most business leaders, and the powerful industrialists' association (SOFOFA) in particular, were extremely reluctant even to talk to organised labour, much less entertain the possibility of changes in the military regime's Labour Plan. There were three principal reasons for this. One was their profound distrust of the CNT (and later, the CUT), which they viewed as 'Communist', 'the enemy of private property' and an 'instrument of the Allende government'. These attitudes had their origins in the increasingly anti-business orientation of organised labour during the two decades preceding military rule and were only reinforced during the 1980s by the CNT's aggressive discourse and prominent role in the protest movement.⁴² The second was their fear that by engaging in a dialogue with the CNT/CUT, they would not only validate it as labour's principal representative, they would, more importantly, open the door to bargaining beyond the level of the firm. Finally, and closely related to this previous point, they were fully aware that the labour flexibility that the

⁴¹ 'Acuerdo Marco Gobierno, Central Unitaria de Trabajadores y Confederación de la Producción y del Comercio', in *Documentos de la concertación sindical/empresarial*, CIASI, Serie de Documents, no. 5 (June 1990).

⁴² In fact, it was the military regime's repressive labour policies and unmistakable class bias that help to explain business' unusually strong political support for the regime, even in the face of the significant costs many were forced to bear as a result of the regime's economic policies. For more on state-capital relations under the military regime, see Barrett, 'State-Capital Relations in Chile'.

Labour Plan afforded them had played a key role in the economic expansion of the 1980s, and were therefore determined to preserve it.⁴³

Thus, despite the fact that the basic principles contained in the Framework Accord were far more favourable to business than labour, the negotiations proved extremely difficult, in large part because of the SOFOFA's endless demands for concessions from the CUT. In fact, even after all of its demands were incorporated and the CUT was still willing to sign, the SOFOFA vetoed the Accord. At that point, however, the other branches of the CPC, seeing the Accord as a historic victory for business, declared that they would all sign separately and leave the SOFOFA isolated.⁴⁴ Yet, despite losing this battle, the SOFOFA remained by far the most powerful member of the CPC and continued to pose a major obstacle at nearly every stage of negotiating the fulfilment of the Accord's objectives, most importantly the labour reforms. Furthermore, while the actions of the subordinate branches of the CPC signalled a growing willingness on their part to challenge the traditional hegemony of the SOFOFA, there were clear limits to what even the most moderate and pragmatic among them were willing to concede.⁴⁵ In fact, the signing of the Framework Accord, coming only one month after the new government assumed office, marked the high point in business-labour relations under the Concertación. Negotiating an agreement over labour reforms proved far more difficult and quickly led to an impasse between the CPC and the CUT.

Faced with this impasse, the Aylwin administration was forced to take the initiative and, inevitably, to take sides. It negotiated separately with the CUT and the CPC with the ostensible purpose of maintaining a neutral

⁴³ Author interviews with business leaders, Santiago, Oct. 1992–July 1993.

⁴⁴ Chamber of Commerce (CNC) President Daniel Platovsky led the initiative. In addition to his conviction that the Accord represented a historic victory for business, Platovsky explained that his action was a reflection of the growing organisational strength of the CNC and the strong expansion of commerce during the latter half of the 1980s, which enabled him to challenge the traditional hegemony of the SOFOFA (author interview, Santiago, 29 April 1993). Similar processes were underway in the Builders Chamber (CChC) and the National Agriculture Society (SNA) (author interviews with Augusto Bruna, CChC Director of Studies, Santiago, 7 July 1993, and Raúl García, SNA Secretary General, Santiago, 30 June 1993). The National Mining Society (SONAMI), meanwhile, was the institutional base of CPC President Manuel Feliú, who had been one of the earliest business proponents of a business-labour accord.

⁴⁵ For example, Daniel Platovsky, one of the leading moderates, explained how he had strongly resisted reaching an accord throughout the late 1980s, waiting until after the results of the 1988 plebiscite and 1989 elections were known. Moreover, the primary objective in reaching an accord with labour was to obtain its endorsement of the market economy and firm-level bargaining. As he put it, 'all we ever cared about was the market economy and firm-level bargaining. Sure, we would talk about labour training and other matters, but that was just *bullshit*' (author interview, Santiago, 14 April 1993).

position, but it leaned heavily in favour of the latter. Indeed, the profound imbalance of power between business and labour quickly became apparent to everyone involved. Moreover, with the CUT and the CPC unable to reach an agreement, the government presented its own set of legislative proposals, which were a watered down version of its 1989 Programme. As noted earlier, in that Programme, the Concertación had called for ‘profound’ changes in the labour code aimed at restoring workers’ rights and creating equitable labour–capital relations. However, not only were those goals stated vaguely and unaccompanied by specific measures, but since assuming office, the government began to view the Labour Plan more positively and even found that it contained many ‘modern’ elements.⁴⁶

This emphasis on modernity would, in fact, become the leitmotif of both Concertación governments. With respect to labour policy, it meant a labour code that was compatible with participation in a globalised international economy, which in turn meant loosening many of the labour standards that had protected labour during the pre-1973 period in order to enhance labour market flexibility. Indeed, it characterised the pre-1973 labour standards as part of a model of ‘pseudo protection’, which was closely tied to a closed-economy, Keynesian or import-substituting industrialisation development strategy that was no longer viable in the global economy of the 1990s.⁴⁷ The government insisted that its goal was to reconcile flexibility with protection,⁴⁸ but in practice, it gave clear priority to the former. Indeed, it argued incessantly that any reduction in flexibility would threaten the competitiveness of Chile’s export economy.⁴⁹ The subordination of labour policy to the economic model could also be seen in the person of the Labour Minister, René Cortázar, and his relationship to the Finance Minister, Alejandro Foxley. Although Cortázar, a Christian Democratic economist, had developed close ties with

⁴⁶ Author interview with Guillermo Campero, Labour Ministry adviser, Santiago (8 July 1993).

⁴⁷ This is not to suggest that the old labour legislation did not have serious flaws. The most serious of those flaws, however, was that it was designed to control labour even more than to protect it and, by so doing, helped to generate growing tensions between labour and the state. Furthermore, as will be argued below, it is possible to reconcile high labour standards with participation in the international economy. For the economic reasoning behind the government’s approach to labour policy, see Bonifaz and Bravo, ‘Mercado del trabajo e institucionalidad laboral’; René Cortázar, ‘Chile: The Evolution and Reform of the Labor Market’, in Sebastian Edwards and Nora Lustig (eds.), *Labor Markets in Latin America: Combining Social Protection with Market Flexibility* (Washington, DC, 1997); and Cortázar, *Política laboral*.

⁴⁸ Author interview with Joseph Ramos, economic consultant to Labour Ministry, Santiago, 10 July 1993. See also Joseph Ramos, ‘La institucionalidad laboral: ¿Rígidez o bien social’, ms. (1993); and Cortázar, *Política laboral*, pp. 26–8, 61.

⁴⁹ Author interviews with labour leaders, Santiago, Oct. 1992–July 1993.

the labour movement over the years, he was more importantly Foxley's longtime associate and a key component of the latter's strategic approach to economic policy.⁵⁰ As we shall see below, within labour circles Cortázar's image quickly deteriorated. He came to be referred to as Foxley's 'right hand.' Moreover, the fact that he was an economist (the second in Chilean history to serve as Labour Minister, and the first under a civilian regime) was not lost on the labour movement. They saw it as going a long way toward explaining what they regarded as the government's overriding concern for maintaining macro-economic stability and labour market flexibility in carrying out labour policy.⁵¹

The government also argued that changes in the labour code were not an effective means of strengthening the labour movement. If the latter sought to improve its bargaining position vis-à-vis business it would have to achieve it by increasing its power as a social force rather than by relying on the state. Labour policy was therefore to be guided by the principles of 'decentralised bargaining' and 'social autonomy'⁵² and 'based on the understanding that in both public and private companies, labour relations should be defined by workers and management, autonomously of the state'.⁵³ Enforcing compliance with the rules of the game, in other words, was to be the sole form of state intervention in labour-capital relations. For many within the labour movement and the business community alike, it was also significant that the government introduced the first three and most important of the four reform projects in the Senate, where the Concertación was in the minority. This effectively limited the range of debate and prevented the more open conflict that would have resulted had they been introduced in the Chamber of Deputies, where the Concertación enjoyed a majority. It also enabled the government to put the blame on the rightist opposition for the significant concessions it was forced to make. While it was certainly true that the rightist majority in the Senate posed a major obstacle that made concessions necessary, many claimed

⁵⁰ In fact, Cortázar's appointment was so important to Foxley that he threatened not to accept the Finance Ministry unless Aylwin dropped his initial choice for the Labour Ministry post. Author interviews with Christian Democratic labour lawyers, Francisco Tapia, Guillermo Videla and Joaquín Nash (Santiago, 3 May, 9 March, and 11 March 1993, respectively).

⁵¹ Author interviews with labour leaders, Santiago, Oct. 1992–July 1993.

⁵² Cortázar, *Política laboral en el Chile democrático*, p. 36.

⁵³ René Cortázar, 'A Labor Policy for a New Reality', in Crisóstomo Pizarro, Dagmar Raczynski and Joaquín Vial (eds.), *Social and Economic Policies in Chile's Transition to Democracy* (Santiago, 1996), p. 120.

that the government welcomed it as a useful means of limiting the reforms without having to assume the responsibility for them.⁵⁴

The Evolving Pattern of State–Business–Labour Relations

For business, labour reform was by far the most contentious issue undertaken by the Aylwin administration. Indeed, the significance that business attached to this issue cannot be overstated, as it touched upon what many regarded as their most fundamental interest, i.e., the power to determine the destiny of their firms. This sentiment was well illustrated by their frequent characterisation of the strike as a profound threat to property rights. The importance of the labour issue could also be seen in the tremendous amount of mobilisational and organisational effort the business associations put into limiting the labour reforms.⁵⁵ At the same time, this issue eventually contributed greatly to business's growing accommodation with and confidence in the Concertación. As noted above, the great majority was strongly opposed to any alteration of the Labour Plan. But as before, moderates, represented by the subordinate branches of the CPC, came to view the reforms, like the Framework Accord, as an acceptable means (and indeed for some, an unprecedented historical opportunity) to consolidate their gains in this area.

For hard-line elements led by the SOFOFA old guard, by contrast, any reforms and even any dialogue with the CUT continued to be seen as the first steps on a slippery slope toward the dismantling of all that had been accomplished by the military regime. In the end, however, the moderates prevailed once again, due in large part to their continued willingness to challenge the traditional hegemony of the SOFOFA. Moreover, after all was said and done, the majority of the business leadership was very pleased with the reforms that emerged. Indeed, in private many candidly acknowledged that no real changes had been made in the labour code and that the flexibility of the labour market had not been reduced. Furthermore, they had only the highest praise for Cortázar, whom they regarded as 'brilliant' for the way in which he guided the reforms through

⁵⁴ This view was expressed in many interviews with labour and business leaders and labour lawyers. According to one inside observer, Alvaro Pizarro, the technical adviser on labour reforms to the largest rightist party (National Renovation, RN), the government worked very closely with RN in defining the reforms' limits and ensuring that the opposition provided the government with the necessary counterbalance to demands for more far-reaching change (author interview, Santiago, 5 May 1993).

⁵⁵ According to former Chamber of Commerce President Daniel Platovsky, the mobilisation of business against the labour reforms provided clear evidence that only a strong sense of threat can stir business to action in a coordinated manner. On other, less threatening issues, such as tax reform, he complained that it is extremely difficult to mobilise business (author interview, Santiago, 14 April 1993).

the political process. Finally, there was almost universal recognition that the CUT had emerged from the process severely weakened and, indeed, irrelevant, and that the sense of threat it once aroused had diminished significantly.⁵⁶ This attitude no doubt helps to explain business's increasingly uncooperative and intransigent posture toward labour, symbolised by the CPC's decision to withdraw from the annual tripartite negotiations over the minimum wage in 1993, its only remaining instance of dialogue with the CUT.

In stark contrast, the Concertación's labour policies left the labour movement profoundly disillusioned. Indeed, despite the increasingly cautious approach assumed by the centre-left during the 1980s, labour continued to hold out hope for a restoration of many of the historic gains won prior to 1973. Initially, the CUT was cautiously optimistic, referring to newly appointed government officials such as Foxley, Cortázar and others as the 'friends' of labour. Almost immediately, however, the sense of disillusionment began to set in as the negotiations with the CPC stagnated and the government decided to depart from its programme. The CUT strongly denounced the government's failure to fulfil its programme and the 'insensitivity' of the economic team,⁵⁷ and made a series of threats directed at both the government and business.⁵⁸ None of these threats was ever carried out, however, in large part because of the CUT's organisational weakness and its fear of undermining a still fragile process of transition. But this only served to deepen the internal political divisions that had plagued it throughout the 1980s. The pressure on the CUT's Christian Democratic president, Manuel Bustos, was particularly great, given the PDC's dominant role in the government and his close ties to Foxley and Cortázar. In an effort to maintain his credibility within the labour movement without distancing himself from the government,

⁵⁶ Author interviews with business leaders, Oct. 1992–July 1993.

⁵⁷ The CUT's Socialist vice president, Arturo Martínez, was especially critical of Cortázar and Foxley, stating that 'the problem is that we are in the presence of a government of economists, in which everything is done according to technical criteria, and with the goal of pleasing business at the expense of workers' (*Hoy*, 2–8 July 1990). See also the comments of the CUT's Christian Democratic president, Manuel Bustos (*Hoy*, 6–12 Aug. 1990). The government's policies and choice of Labour Minister also provoked an angry response from several prominent Christian Democratic labour lawyers who had worked for many years with the labour movement and the PDC (author interviews with Francisco Tapia, Joaquín Nash, Guillermo Videla and Francisco Walker, Santiago, 3 May, 30 June, 9 March, and 16 March 1993, respectively). CEPAL economist Joseph Ramos, an adviser to the Labour Ministry, described their criticisms as 'violent' (author interview, Santiago, 10 July 1993). See Ramos, 'La institucionalidad laboral' for his attempt to respond to their criticisms.

⁵⁸ For details, see *La Epoca*, 28 and 29 June, 3 and 5 July, and 1 Aug. 1990; *Fortín Mapocho*, 28 June 1990; *La Tercera*, 28 June 1990; *El Mercurio*, 4, 12, 18, and 20 July, 7 Oct., and 1 Nov. 1990; *La Segunda*, 31 July and 9 Aug. 1990.

Bustos adopted the latter's tactic of shifting the blame onto the right. But this did little to stem the growing criticism from union leaders affiliated with the Socialist and Communist parties.⁵⁹

The CUT's internal divisions provided further evidence of the deepening crisis affecting the labour movement. From its point of view, it had little to show for its years of struggle against the military regime, its willingness to exercise restraint, and the historically significant concessions it made to business in the Framework Accord.⁶⁰ Rather than see its organisational and mobilisational capacity increase, the absence of tangible victories made the CUT appear weak and insignificant and were cause for growing distance from its bases. Indeed, first of May celebrations and other mass gatherings in 1992 and 1993 were very poorly attended affairs at which Bustos did all he could to be heard over the insults shouted by ultra-leftists. Moreover, it was clear that the CPC no longer felt compelled to pursue a dialogue with the CUT, a source of frustration that was aggravated by the government's insistence on bipartism. Instead, as noted above, business demonstrated an increasingly anti-union posture, as evidenced by the large number of dismissals that followed wage negotiations and strikes and by its refusal to participate in a tripartite commission to evaluate the labour reforms. Thus, during the final two years of the Aylwin administration, the CUT experienced growing tensions, not only internally, but also in its relations with business, the government and the parties of the Concertación.

Resigned to the fact that the Aylwin administration was not going to depart from the course upon which it had embarked, the CUT began looking forward to a new Concertación government in the hopes that it would be more receptive to its demands. Almost immediately, however, the CUT became disillusioned with the new administration and grew nostalgic for its predecessor. For while it had been extremely disappointed by the Aylwin administration's policies, it had at least enjoyed strong personal ties with many of its policy makers. The same could not be said of the administration of Eduardo Frei (1994–2000), which was perceived as cold and distant and, even more importantly, strongly pro-business. Indeed, several prominent government officials, including Frei himself, as

⁵⁹ Indeed, the tensions came into the open during preparations for the election of a new CUT directorate and national council in October 1991. Most importantly, the CUT's Socialist vice president, Arturo Martínez, decided to run for the presidency, but his reluctance to form an alliance with the Communists prevented him from unseating Bustos. The final vote totals were 43.1% for the PDC, 34% for the PS, 19.7% for the PC and 3% for the Movement for Union Autonomy (*La Epoca*, 31 Oct. 1991).

⁶⁰ Author interviews with labour leaders, Oct. 1992–July 1993. For more on the level of disillusionment within the labour movement, see the results of a survey of 200 labour leaders in Reinaldo Sapag, *Tareas pendientes con el mundo del trabajo* (Santiago, 1993).

well as a growing number of high-ranking Concertación party leaders, were closely tied to business.⁶¹ And although the new labour minister, economist Jorge Arrate, was an important figure in the Socialist Party, he represented its most moderate wing. Moreover, his political power within the new administration was much less than that enjoyed by Cortázar under Aylwin and his ties to the labour movement were considerably weaker. Frei, furthermore, placed even greater emphasis on socio-economic ‘modernisation’ as the defining principle of his administration. Finally, the CUT’s disillusionment was reinforced by the government’s failure to offer a clear response to its proposals for new labour reforms⁶² and business’ increasingly anti-union tactics.

As a result of this turn of events, there was growing pressure within the CUT to distance itself from the government and to abandon its defensive posture in favour of a more aggressive, confrontational one.⁶³ Bustos, who had given in to pressure from the PDC to stay on as president of the CUT in order to prevent it from falling into the hands of the left and pursuing a more confrontational course, reacted by denouncing the government for favouring business over labour.⁶⁴ Moreover, in July 1994, he called for a national march as a demonstration of its ‘repudiation of business’ and a ‘warning to the government’.⁶⁵ The strong turnout seemed to reinvigorate the CUT, as did major strikes among public sector workers in health, education and coal mining, and growing calls for labour reforms by Concertación parliamentarians. Concerned, the government responded by creating the Productive Development Forum (an annual tripartite commission devoted to development issues) and introducing new legislation on labour training. Nevertheless, angered by the government’s continued slow response to its proposals for more far-reaching labour reforms and the deepening perception of its close ties to business, in November the CUT severed relations with the administration, denouncing it for its ‘neoliberal-business profile’.⁶⁶ Seeking to combat its pro-business image, the government finally gave in to the pressure in

⁶¹ Barrett, ‘State-Capital Relations in Chile’.

⁶² For the CUT’s proposals, see Patricio Frías, ‘Sindicatos en la transición: en búsqueda de una nueva identidad’, *Economía y Trabajo en Chile*, Informe Anual, 1993–1994 (Santiago, 1994), pp. 67–8; and ‘Sindicalismo y desarrollo’, p.67. The Concertación’s own 1993 programme contained only a very vague set of statements, and very few concrete proposals, concerning the need for improved labour–capital relations and a more equitable distribution of income. See Concertación de Partidos por la Democracia, *Programa de Gobierno* (Santiago, 1993), pp. 51–6.

⁶³ *Qué Pasa*, 9 July 1994. For an analysis emphasising the defensiveness of the CUT, see Guillermo Campero, ‘Organización sindical y relaciones laborales’, in Toloza and Lahera (eds.), *Chile en los noventa*.

⁶⁴ See, for example, *Hoy*, 10–16 Jan. and 12–18 Dec. 1994.

⁶⁵ *Ercilla*, 15 July 1994. ⁶⁶ *Hoy*, 12–18 Dec. 1994 and 2–8 Jan. 1995.

January 1995, when it submitted a new package of labour reforms to the Congress.⁶⁷

Business was not pleased, to say the least, and hence assumed a far more consistently intransigent position than it had in 1990–1991, arguing that the reforms represented a return to the past and a profound threat to the economic model, and that they violated the property rights protections contained in the Constitution.⁶⁸ For its part, the CUT strongly criticised some features of the government's proposals and the fact that it had not been consulted, but its overall reaction was favourable, leading it to reestablish relations with the government. Nonetheless, the reforms' immediate rejection by the rightist majority in the Senate, business' virulent campaign attacking the CUT, and the government's less than energetic efforts to see the reforms passed, led the CUT to resume its confrontational approach, which eventually included another break with the administration.⁶⁹

At the same time, the rising tensions within the labour movement failed to abate, as evidenced by the holding of separate May 1 celebrations and growing talk of creating a parallel labour central. Moreover, the Communists scored major victories in a series of federation elections, particularly in the public sector. The most dramatic example was the PC's victory in the Teachers Association, the largest of the CUT's federations and a traditional PDC stronghold.⁷⁰ The surge in support for the PC only worsened relations between Concertación trade unionists, on the one hand, and their parties and the government, on the other. It also helped to set the stage for a dramatic CUT election in April 1996, in which the CUT's Socialist vice president, Arturo Martínez, defied his own party by brokering a deal with the PC, helping to elect a fellow Socialist

⁶⁷ Among other things, the proposed reforms sought to strengthen the protections against anti-union tactics by employers, eliminate the employer's right to hire replacement workers during strikes, extend the coverage of collective bargaining with respect to both the substance of bargaining and categories of workers, increase the possibility of bargaining beyond the level of the firm, and create an unemployment insurance programme. For details, see Barrera, 'La negociación colectiva en Chile', pp. 191–2; *Qué Pasa*, 7 Jan. 1995; *Hoy*, 12–15 Jan. 1995; and *Ercilla*, 13 Jan. 1995. For more on the administration's attempts to combat its pro-business image, see *Hoy*, 2–8 Jan. and 29 May–4 June 1995; and *Qué Pasa*, 26 Oct. 1996.

⁶⁸ See *Hoy*, 8–14 May 1995 and Patricio Frías, 'Desarrollo del sindicalismo chileno, 1995–1996', *Economía y Trabajo en Chile*, Informe Anual, 1995–1996 (Santiago, 1996), p. 207.

⁶⁹ *APSI*, 21 Aug.–3 Sept. 1995; Frías, 'Desarrollo del sindicalismo chileno', p. 210, and 'El sindicalismo y su crisis en la perspectiva de la vinculación entre la política y la económica', *Economía y Trabajo en Chile*, Informe Anual, 1997–1998 (Santiago, 1998), pp. 98–102; *Hoy*, 9–15 Jan. 1995.

⁷⁰ For details of the PC's resurgence, which also included victories in health, construction, mining, textile, and forestry federation elections as well as a series of student federation elections, see *Hoy*, 12–18 Aug. 1996 and 9–15 Feb. 1998.

as president and a Communist as vice president and thus signalling the collapse of the Concertación coalition within the labour movement.⁷¹ In the three years that followed, moreover, the turmoil engulfing the CUT only intensified. In an attempt to democratise the organisation, in 1997 new elections were planned in which participation would be extended to the CUT's approximately 10,000 base level leaders. However, shortly before the elections were held in December 1998, citing procedural irregularities, trade unionists linked to Concertación parties decided to withdraw. The elections nonetheless went ahead, with the PC list emerging victorious and second place going to the list headed by the now ex-Socialist Martínez.⁷² After briefly contemplating the formation of a new labour central, most of the Concertación unionists decided to rejoin the CUT, which while clearly in the throes of a deepening crisis, had embarked on its most decidedly confrontational approach to the government and business to date.⁷³

To summarise, the experience of Chilean labour during the 1990s can in important measure be understood as a product of the seventeen years of repression and deprivation it suffered at the hands of the military regime. But it was no less a product of the changing strategy and priorities adopted by the centre-left opposition during the transition to civilian rule. Indeed, confronted by the overwhelming strength of the military regime and the opportunity presented by the 1988 plebiscite, over the course of the 1980s, the centre-left gradually abandoned a social mobilisation strategy in favour of an electoral one. This strategy eventually proved successful in bringing the Concertación to power. But it also had the effect of weakening the labour movement further, not only because it marginalised labour politically and aggravated its internal differences, but perhaps more importantly because it was powerless to prevent the regime from consolidating the socio-economic features of its transformative project. As a result, by the time of the Concertación's assumption of power in early 1990, both its capacity and inclination to alter the regime's socio-economic model or to challenge the growing power of business had diminished significantly. It remained committed to lessening the country's

⁷¹ The events leading up to the election were quite complicated. In addition to disillusionment with the government and the growing strength of the PC, they had to do with Bustos' loss of favor in the PDC for having embarked on a more combative posture toward the government and Martínez's growing conflicts with his own party, the PS, which forced him to withdraw his candidacy. For details, see *Qué Pasa*, 29 April 1996; and *Hoy*, 22–28 April and 29 April–5 May 1996.

⁷² Communist Eitel Moraga was named President and Martínez, Secretary General. For coverage of the election, see *La Tercera*, 4–7, 9, and 20–24 Dec. 1998.

⁷³ Indeed, under its new leadership, the CUT committed itself to a mobilisational strategy, as evidenced by its support for a massive port workers strike in Valparaíso and its calls for a day of national protest in mid-1999.

severe social inequalities, which it hoped to accomplish by means of labour and social reforms and the negotiation of a business-labour accord. However, given the functional importance of the military regime's labour and social policies to its economic model, business' determined opposition to strengthening the organisational power and rights of labour, and the Concertación's insistence on minimising its involvement in labour-capital relations, this objective has not been realised. Instead, rather than a class compromise, what has emerged is an accommodation between the Concertación and business, which the labour movement has been too weak to prevent.

III. Implications

What implications does this outcome have for the future of Chile's post-military political and economic order? Clearly, it raises serious questions about the depth and stability of Chile's new democracy. Indeed, as argued in the introduction, historically capitalist democracy has rested on a relative balance of class power between labour and capital. Thus, the greater the imbalance in capital-labour relations, or the less labour is able to counterbalance the power of capital, the greater the likelihood of a limited democracy, in which state institutions and the exercise of formal political power cater primarily to those with greatest income, wealth and privilege. Furthermore, the marginalisation of labour, or its incorporation in a controlled manner from above, proved disastrous for political stability in Latin America during the middle decades of the twentieth century. This was abundantly clear in the case of Chile. Indeed, among the contradictions generated by the socio-political compromise forged in Chile in the 1930s and 1940s, and which later contributed to the collapse of democracy in 1973, was the manner in which it marginalised labour.⁷⁴ The Concertación's calls for additional labour reforms and, more recently, for greater efforts to reduce Chile's severe social inequalities,⁷⁵ would seem to indicate a growing recognition on its part of the negative implications that those inequalities may hold for Chile's political future, as well as its own. Indeed, although the Concertación remains the country's most important political force, there are growing signs that it is

⁷⁴ For a full treatment of the emergence, crisis and collapse of Chile's previous compromise, including the role played by labour and labour policy, see Patrick Barrett, 'Forging Compromise: Business, Parties, and Regime Change in Chile,' unpubl. Ph.D. Dissertation, University of Wisconsin-Madison (1997).

⁷⁵ During the first round of the 1999 presidential elections, a key element of the electoral campaign of the Concertación's candidate, Ricardo Lagos, was to distance himself from his predecessors by proclaiming a greater commitment to reducing Chile's social inequalities. However, when Lagos failed to obtain a majority and was forced to compete in a second round, he downplayed this aspect of his campaign and dismissed the advisers who had proposed it.

progressively losing its popular support.⁷⁶ Nonetheless, without a more thorough reexamination of the fundamental assumptions underpinning its approach to labour–capital relations, this effort to regain its popular support and establish a more solid foundation for a robust and stable democracy will not likely succeed. Instead, it may simply serve to expose, if not aggravate, the basic contradictions inherent in those assumptions.

First, the Concertación remains committed to an economic model that places a high priority on the maintenance of labour market flexibility as a key component of the economy's international competitiveness. That commitment is highly questionable, not only because it is incompatible with a commitment to equity and a well organised and protected labour force,⁷⁷ but also because there is little justification for such a model in today's international economy. Indeed, labour market flexibility is an insufficient basis for competitiveness and economic growth and may well be counterproductive, since enabling capital to place nearly the entire burden of adjustment on labour can, on the demand side, limit the growth of the domestic market and, on the supply side, inhibit the switch to more productivity-enhancing business strategies. The validity of this assertion, furthermore, is not weakened by the shift to an export-oriented economy. To be sure, the more reliant a country is on trade, the weaker the link between consumption and production and the more wages tend to be seen as a cost of production rather than a source of demand. But for most countries, even those heavily reliant on trade like Chile, the domestic market remains dominant. More importantly perhaps, one of the major consequences of the changing structure of international trade in the late twentieth century (specifically, the growing trade in high value-added or 'elaborately transformed' manufactures) is that it has increasingly eroded comparative advantages based on cheap labour, while significantly enhancing the importance of technology acquisition and development, product specialisation, and human capital formation.

⁷⁶ In addition to its declining fortunes in the labour movement, a further indication of the public's growing disillusionment with the Concertación has been its string of losses in student federation elections and, even more significantly, its poor showing in the 1997 Congressional elections. While the Concertación lost only one Senate seat and maintained its share of seats in the Chamber of Deputies, it saw its total votes fall by over 1 million and its share of the vote fall to 50%. More alarming still was the number of voters who turned in blank or defaced ballots (over 1.23 million or nearly 1 out of 5) and the similar number of people who failed to register to vote. See Barrett, 'The Transformation of the Chilean Party System'.

⁷⁷ As the experience of several European countries in the post-WWII era demonstrates, it is possible to achieve labour market flexibility via a strongly organised labour movement and active labour market policies. However, such a labour movement would pose a major obstacle to the kind of flexible labour market that prevails today in Chile, where workers are largely at the mercy of their employers.

In today's international economy, therefore, the neo-liberal emphasis on labour market flexibility is likely to result not only in lower job quality and lower and more unequal incomes, but perhaps also eventually in slower economic growth. By contrast, raising labour standards and incomes can enhance productivity and efficiency by inducing firms to compete on the basis of industrial upgrading and investment in worker skills.⁷⁸ There is, of course, no guarantee that raising labour standards and incomes will lead capital to behave in this way. Any effort to foster economic growth in a manner compatible with distributive equity will also require a significant shift in development strategy toward one in which the state assumes a much more active role in channelling investment into higher value-added activities and fostering the development of human capital. Such a shift is called for in any case in Chile, given the growing structural difficulties experienced by its maturing export-led economy. These include: the low and declining share of industry in overall production; the continued heavy reliance on natural resource-intensive exports; the increasing concentration of foreign investment in mining and services; the primary reliance on Latin American markets for industrial exports; the limited advances in technology acquisition and development; the stagnant growth of domestic savings; sustained exchange rate appreciation; increasingly severe environmental degradation; and the growing scarcity of skilled labour. These trends suggest that without a much more active state role in fostering the economy's productive transformation, the dynamism exhibited by the Chilean economy through 1997 may well prove unsustainable.⁷⁹ If this should occur, the modest advances experienced by Chilean labour during these years (a period, it should be emphasised, of historically unprecedented growth) will likely be eroded further.

Second, the Concertación also remains extremely reluctant to challenge the power of business. Indeed, the Concertación's concern for gaining and

⁷⁸ Werner Sengenberger and Frank Wilkinson, 'Globalisation and Labour Standards', in Jonathan Mitchie and John Grieve Smith (eds.), *Managing the Global Economy* (Oxford, 1995); and Wolfgang Streeck, 'On the Institutional Conditions of Diversified Quality Production', in Egon Mazner and Wolfgang Streeck (eds.), *Beyond Keynesianism: The Socio-Economics of Production and Employment* (London, 1991). See also Louise Haagh, 'Training Policy and the Property Rights of Labour in Chile (1990–1997): Social Citizenship in the Atomised Market Regime', *JLAS*, vol. 31, issue 2, May 1999, pp. 429–72.

⁷⁹ These difficulties had already begun to appear before the onset of the Asian financial crisis, which produced negative growth in 1999. Although the effects of the crisis are expected to be temporary, it has nonetheless served to expose the vulnerability of the Chilean economy. For a more in-depth discussion of the limitations of the Chilean economic model, see Patrick Barrett, 'Redemocratisation and the Limitations of the Chilean Economic Model', ms. (2000).

retaining the confidence of business has been a defining feature of the Chilean transition and of Chile's new socio-political compromise more generally. This is not at all surprising, given the degree of structural power that Chilean capital has come to enjoy and its central role in an accumulation model that the Concertación has come to view as both successful and irreversible. The Concertación has paid an enormous price, however, for winning the confidence of business, as it has obtained very few concessions in exchange for the enormous benefits that the latter has derived. As we have seen, a major internal battle was needed to get Chilean business to accept the very modest labour reforms passed by the Aylwin administration, reforms whose primary effect in any case was to consolidate the imbalance in capital–labour relations. Since then, moreover, business has presented a uniformly intransigent posture toward additional efforts aimed at strengthening the rights, organisational power and income share of labour. The move to introduce new labour reforms and the calls for greater efforts to reduce social inequalities signal an attempt on the part of the Concertación to correct the pro-business image it has earned. But until the Concertación is willing and able to assume a far more assertive posture toward business, with respect to both labour and development policies, any hopes of fostering growth with equity are unlikely to be realised.

Ironically, the very socio-political force that might provide the basis for such an effort is the labour movement. But rather than strengthening and building ties with labour, the Concertación has done the opposite, not only through its labour and development policies, but also through its deliberate efforts to keep the labour movement at a distance. In fact, to the limited degree that it has been engaged with the labour movement, its primary effect has been to aggravate the latter's internal divisions and undermine the position of trade unionists affiliated with the Concertación. The result is that the Concertación is confronted with a labour movement that is not only weak, but also increasingly hostile. This only lessens the likelihood that a third Concertación government will make progress in correcting the country's severe social inequalities, both because it lacks ties to a strong social movement and because it is even less likely to obtain a congressional majority. Indeed, in the 1999 presidential elections Ricardo Lagos failed to obtain a majority and required a second ballot to defeat his rightist opponent.⁸⁰

Of course, even if the Concertación were to succeed in strengthening and rebuilding its ties with the labour movement, this would very likely

⁸⁰ The government's performance in the municipal elections also slipped to its lowest level since the return to civilian rule. In October 2000 it received 52.1% of the vote, while the right recorded by far its best showing to date with 40.1%.

mean confronting serious opposition from business.⁸¹ The latter's memory of the decades preceding military rule remains a traumatic one and any effort to strengthen labour, especially in combination with a move to strengthen the state's role in the economy, will have a potentially negative effect on business confidence.⁸² Indeed, it was knowledge of this fact that played a major role in leading the Concertación to pursue the path of privileging business interests. By holding to this path, however, the Concertación may find that it is able to attain neither growth nor equity, and may even find itself out of power. It would therefore appear that the Concertación will soon be facing a crucial turning point. The path it chooses will have a major bearing on both the depth and stability of Chile's new democracy.

⁸¹ The Lagos administration has already succumbed to business pressure by gutting the labour reform bill it proposed shortly after coming to power. See 'Gobierno retira temas complejas a reforma laboral', *La Tercera*, September 9, 2000.

⁸² Even without such a historical legacy, this constitutes a major task, given that where capital has tolerated direct state intervention in its investment decisions, it has most often been in the absence of a strong labour movement. See Jonas Pontusson, 'Labor, Corporatism, and Industrial Policy: The Swedish Case in Comparative Perspective', *Comparative Politics*, 23, 2 (1991); Michael Landesmann, 'Industrial Policies and Social Corporatism', in Jukka Pekkarinen, Matti Pohjola and Bob Rowthorn (eds.), *Social Corporatism: A Superior Economic System?* (Oxford, 1992); and T.J. Pempel, 'The Developmental Regime in a Changing World Economy', in Meredith Woo-Cumings (ed.), *The Developmental State* (Ithaca, 1999). However, that it is not impossible to combine successful state-led industrialisation with the presence of a strong labour movement is illustrated by the case of Finland. See Juhana Vartiainen, 'The Economics of Successful State Intervention in Industrial Transformation', in Woo-Cumings (ed.), *The Developmental State*.