KELLOGG INSTITUTE
THE HELEN KELLOGG INSTITUTE FOR INTERNATIONAL STUDIES

BUSINESS PERCEPTIONS AND THE TRANSITION TO DEMOCRACY IN CHILE

Ernest Bartell, c.s.c.

Working Paper #184 - December 1992

Rev. Ernest Bartell, c.s.c., is Executive Director of the Helen Kellogg Institute for International Studies and Professor of Economics at the University of Notre Dame. Among his publications are "John Paul II and International Development" in *The Making of an Economic Vision* edited by O. Williams and J. Houck (Washington, DC: University Press of America, 1991) and "Private Goods, Public Goods, and the Common Good: Another Look at Economics and Ethics in Catholic Social Teaching" in *The Challenge of the Common Good to U.S. Capitalism* edited by J. Houck and O. Williams (Washington, DC: University Press of America, 1986). He is currently conducting research on the private sector and democracy in Chile and Brazil.

ABSTRACT

This paper explains and challenges the prevailing view that other Latin American cases should attempt to replicate the successful incorporation of Chilean business elites into a democratic political process and a competitive international economy. He shows that, in contrast to their counterparts in the rest of Latin America, Chilean business elites have successfully competed with foreign and domestic competitors without special privilege and dependence on the government. He also uses his extensive interview material to illustrate that experience under democratic rule has allowed Chilean business elites to overcome certain traditional traits that formerly prevented them from participating in democratic rule, particularly insecurity and defensiveness regarding their social legitimacy and skepticism regarding the prospects for economic expansions under democratic rule. However, he notes that Chilean business elites are likely to thwart any nonmarket motivated attempts at redistributing wealth, thereby limiting the substantive goals of democracy. He further surmises that the Chilean pattern of incorporation into the international economy is unlikely to be successfully replicated in other Latin American cases.

Resumen

El presente trabajo explica y desafía la visión prevaleciente de que otros países latinoamericanos deberían intentar repetir la exitosa incorporación de las élites empresariales chilenas dentro de un proceso político democrático y una economía internacional competitiva. El autor muestra que, en contraste con sus contrapartes en el resto de América Latina, las élites empresariales chilenas han competido exitosamente con los competidores domésticos y extranjeros sin contar con ningún privilegio especial ni dependencia alguna del gobierno. También emplea su extenso material basado en entrevistas para ilustrar que su experiencia bajo un régimen democrático ha permitido a las élites empresariales chilenas superar ciertos rasgos tradicionales que anteriormente les impedían participar en un régimen democrático, especialmente su inseguridad y su actitud defensiva con respecto a su legitimidad social y su escepticismo con respecto a las perspectivas de expansión económica bajo un régimen democrático. Sin embargo, señala que existe la probabilidad de que las élites empresariales chilenas impidan cualquier intento no motivado por el mercado de redistribución de la riqueza, limitando, con ello, las metas substantivas de la democracia. Más adelante conjetura que es improbable que el modelo chileno de incorporación en la economía internacional se repita con éxito en otros países latinoamericanos.

INTRODUCTION

Political transitions to democracy in Latin America in the 1980s and 1990s have been accompanied by economic policies and social expectations that have not always coincided. The conversions to neoliberal economic policies over the past quarter century by many Latin American countries under authoritarian regimes have conferred fresh significance, both political and economic, to the behavior of the private sectors within national economies, and especially to that of entrepreneurship in those sectors upon which the performance of the neoliberal policy agendas depends so heavily. A leading role for the state in economic development was justified on grounds that the private sector was inadequate as the primary engine of development because of the inability of imperfect Latin American markets to elicit adequate and efficient provision of goods and services to meet basic needs and to control undesirable and costly external effects of market-led development, for example, the underprovision of public and social services. It was also held that private enterprise could make only a limited contribution to sustained and equitable economic development because of an inherent scarcity of entrepreneurial spirit[1] in Latin American economies and because of badly skewed patterns of income distribution associated with market-led development. There was also concern about inefficiencies of the monopolies that dominated small markets as a result of indivisibilities in optimal firm size and about the barriers to market entry created by limited access to essential inputs like capital and technology. Markets in the private sector were also deemed inherently inefficient because of inherent market uncertainty, limits on capabilities to acquire and analyze information, including the “imperfect perception of information,”[2] as well as dysfunctional social stratification and cultural and political traditions unfavorable to the pursuit of private profit.[3]

The result was a wide variety of interventionist policies by Latin American governments, both capitalist and socialist, in the ownership and regulation of productive property and in the direct and indirect control of prices, wages, and resource flows, domestic and international, under various ideological banners of socialism, state capitalism, and mixed enterprise. These policies typically found analytic justification in arguments identified with the Economic Commission for Latin America and the Caribbean (ECLAC) which advocated protection of domestic markets and subsidy of domestic production of import substitutes in order to expand national markets and to stimulate domestic savings and investment. The results in rates of economic growth, patterns of income distribution, and the provision of public and social goods and services varied nationally and cyclically and were perceived differently by different sectors of national societies. Governmental institutions that were seen by some as providers necessary to correct the imperfections and redress the deficiencies of markets in the private sector were also perceived by others as economically inefficient bureaucracies that fueled inflation and stifled entrepreneurship and efficiency. Despite high rates of economic growth in many Latin American countries during the early years of import substitution in the 1950s and 1960s, these results and perceptions of them were sufficiently mixed and unstable to forestall the sustained evolution of coherent models of relatively autarchic national development.

Meanwhile, the claims of neoliberal economic ideology that free markets can provide sufficient incentives (though sometimes only with direct and indirect government support) to evoke the entrepreneurship needed to sustain development were buttressed by high and relatively stable market-led economic growth rates in some OECD countries and in the Asian NICs. Among many Latin American authoritarian regimes searching for new and differentiated economic policies in the 1960s and 1970s that adopted neoliberal programs in varying degrees, the Chilean neoliberal experiment came to be viewed as the paradigm for comprehensive restructuring because of the high rates of economic growth, moderate levels of inflation, and relative stability of capital markets and exchange rates achieved in the last three years of the 17-year Pinochet regime. However, the strong and repressive role of government intervention by the Pinochet regime in that restructuring, especially during its earlier years, is not to be forgotten.[4] That intervention was marked, not only by human rights abuses, but by unprecedented numbers of bankruptcies, persistent high unemployment, and increasing inequalities in wealth and income. Nevertheless, the continued political reliance on and economic success of many features of the neoliberal model by the subsequent democratically elected government has strengthened the image of Chile as a paradigm for concurrent successful processes of economic liberalization and political democratization.

Whether the Chilean experience can be a model for a dual track of economic liberalization and political democratization in other countries depends on many variables, not least of which is the political and economic behavior of the business sector, where decisions affecting macroeconomic performance and market development are made, at least in part, on the basis of subjective perceptions of both economic and political characteristics. In a market economy decisions made in the private sector about investment, production levels, and marketing targets obviously have an impact on macroeconomic policy objectives in the areas of employment and wages, capital formation, growth rates, prices and interest rates, allocative efficiency, and market integration, domestic and international. They help to determine the composition of output, rates of technological change, distribution of income and wealth, foreign debt burdens, and balance of payments constraints, and therefore can influence, directly and indirectly, the political determination of national economic policies and the realignment of social stratification.

Business decisions must be made under the constraints of time and resources. Rational market behavior in the real world is based, not on perfect information shared by all, but upon subjective macroeconomic and microeconomic perceptions which must substitute for perfect information in an imperfect world. The inability to achieve the perfect information shared among all actors that is a necessary condition for the efficiency arguments of neoliberal microeconomic analysis implies that business decisions must be made under uncertainty. In addition, it implies that, even when some degree of certainty is in principle achievable, the constraints of time and resources may make the attainment of practical certainty economically infeasible. The fact that economic decisions must be made, whether by individuals or institutional groups, under the constraints of imperfect information and uncertainty undermines the simplistic assumptions that centrally planned economies, whether of the socialist or of the state capitalist variety, are inherently more rational in the achievement of social objectives than market-driven economies. However, it also undermines the arguments for the inherent efficiency of a market model with economic actors whose perceptions are neither equally valid nor mutually consistent.

Therefore, the success of the neoliberal economic model that has accompanied the transition to democracy in Chile does not automatically translate into a paradigm that can be feasibly replicated in other economies, societies, and cultures. The replicability of the model elsewhere depends upon the conditions that elicit a dynamically motivated private sector of society that is capable of productive entrepreneurial behavior and competent both to survive outside the cartorial state and to compete effectively in the international market place. These conditions include not only the perceptions by businesspeople of economic parameters and variables but also their interpretation of social processes as well as political institutions, policies, and programs that influence their understanding of their economic opportunities and risks. Chile is unique in Latin America for its long, relatively uninterrupted tradition of democracy, for having elected a socialist government, whose economic failures helped then to mobilize unusual support for the military coup by General Pinochet, and for the repressive imposition of the neoliberal economic regime that followed. The experiences that conditioned the responses of Chilean business to its subsequent transition to democracy are thus not necessarily those of other Latin American private sectors facing transitions to democracy and the simultaneous emergence of market-driven economies. Consequently, the effects on entrepreneurial behavior cannot be assumed to be the same, and the replicability of Chile’s success with an open, free market economy cannot be taken for granted.

It is beyond the scope of this work to analyze how Chile’s historical experiences conditioned the entire nation to endure 17 years of authoritarian repression, two waves of business bankruptcies, persistently high unemployment, and a greatly worsened distribution of income before its transition to an open, free market economy began to demonstrate sustained growth. This paper proposes to examine through interview data the perceptions by Chilean decisionmakers in the private business sector of the principal economic and political influences on their entrepreneurial behavior. In addition, some inferences from their expressed perceptions will be drawn to address the question of the compatibility of economic expectations and political attitudes of business elites with some of the social goals and participatory processes of democratic society. It is hoped that a look at the range of influences on business behavior in the Chilean context can shed light on the likelihood of replicating Chile' success with a open economy in a newly democratic society. To sharpen the issue of replicability, some comparative observations will be made, based on similar interview data with private sector decisionmakers in Brazil.

Hopefully, a comparison of the perceptions[5] in both cases will shed light on several of the conditions and variables that influence the quality of dynamic business behavior that is essential for the success of the liberal model in an open economy and will suggest possible limitations on the trajectory and replicability of the Chilean success. Perceptions about current economic conditions and expectations of the future are obviously important, since decisionmakers in the private sector face the challenge of subjectively assessing the composite impact of changes at macro- and microeconomic levels upon their preferred and often complex mix of objectives and opportunities, for instance, for operating profits, portfolio returns, stability and growth of sales, domestic market share, international market penetration, maintenance and strengthening of social and political status, and so on. Macroeconomic perceptions include judgments and expectations about inflation, credit conditions, stability of currencies, growth rates, and capital movements. Microeconomic perceptions include opportunities for individual saving and investment behavior, including credit availability and costs, interest rates, subjective risk assessments and evaluations of individual market opportunities in light of competitive conditions in relevant markets that help determine costs, markups, sale prices, and profitability of investments.

Equally important to economic growth led by the private sector are the perceptions by businesspeople of their own competence, especially their competitive capabilities, both domestically and in international markets. The typical neoliberal development strategy stresses production for export, partly to test competitive efficiency and partly to respond to the constraints of relatively small domestic markets. However, indivisibilities in optimal firm size and the possibilities for economies of scale suggest that perceptions by entrepreneurs of the ability and need to compete will be influenced by the relative appeal of domestic and international market opportunities.

It is commonplace to emphasize the importance of political stability to economic risk taking and to the growth of confidence in democratic processes and institutions. Much of the short-term, speculative and nonproductive investment behavior, for example, in capital flight, attributed to typical Latin American investors may be rationally based on their perceptions of the economic effects of a long history of Latin American political instability. The confidence engendered by the perception of political stability is obviously a basic requisite for maintaining the levels of the relatively long-term savings and investment, domestic and foreign, needed for substantial economic growth.

However, perceptions of political stability are themselves likely to be influenced by a variety of unique characteristics in each setting. The perception of consistency and continuity in economic policies and strategies is an important component of business confidence. So too are social attitudes towards institutions considered fundamental by adherents of market-led development, for example, private property and market prices allowed to move freely. Social and political attitudes and norms about questions of social equity, such as poverty, distribution of income, and wealth, and access to social services are obviously important determinations of political stability. However, their impact on business confidence will depend upon culturally defined business attitudes towards social responsibilities. Perceptions among Latin America elites about the most effective means of protection against social unrest have historically ranged from support for armed repression to participation in democratic determination of equitable social policies.

Closely related both to perceptions of political stability and of business competence are perceptions by business of the appropriate role of the state in the economy. Although the ideology of the neoliberal paradigm often articulated by business elites may typically imply a minimal role for the state in the economy, for instance, in the protection of property rights, in actual practice businesspeople expect varying degrees of government intervention based on their own experience with government and, at least implicitly, based on their own confidence in their abilities to function effectively in the existent economic environment. Expectations about the possibilities for economic growth will also help determine perceptions about the appropriate role of government, for example, in providing physical and technical infrastructure, in gaining access to credit and to external markets, and in maintaining acceptable levels of inflation and exchange rate variations.

Business tolerance for government intervention in the economy will also be affected by perceptions of the competence of those designing and administering economic policies and strategies. Here too experience with the personnel of government at legislative, executive, and administrative levels is likely to shape attitudes more than abstract ideology. Respect for the professional and ethical competence of public servants is likely to breed respect for government and for the political system that authors it. At the same time, perceptions of competence are likely to be affected by the magnitude and complexity of the responsibilities of public servants. The perception of competent public administration is probably more likely in a relatively simple integrated economy with easily identifiable technological and economic opportunities than in a poorly integrated multisectored economy dependent upon vertically complex, capital intensive, and technologically demanding industrial output.

Businesspeople are also more likely to accept a role for the government in the economy when they perceive themselves capable of exerting influence over the exercise of that role. The application of that influence can be at the level of political action, for example, in the process of choosing public officials and of determining policy. Or it can be at the level of public administration, for example, in securing fair or preferential treatment from public servants. Those who are successful in securing favorable legislation or in manipulating bureaucratic regulation are likely to be more satisfied with current levels of government intervention than those who are not.

The interviews for the case studies, typically of one hour or more, were conducted with a sample of businesspeople in Santiago, Chile in the fall of 1987 and the spring of 1988, just prior to the plebiscite that set the stage for the democratic election in 1989, and again with a cross section of the same respondents in early 1991, approximately one year after the installation of newly elected coalition government. In order to shed comparative light on the feasibility of replication of the Chilean model, similar sets of interviews were carried out in São Paulo, Brazil before the 1989 election that installed its first democratically elected government since the exit of the authoritarian regime, and again as a follow up in early 1991.[6]

The interviews were intended to elicit perceived priorities and relationships assigned by businesspeople to a range of macro- and microeconomic variables, government policies, and social indicators that might affect business decisions, especially about investment. The interviews also sought to ascertain how these perceptions were affected by expectations of changes in government policy, shortly before elections and again after the policies of the new governments had been announced and had begun to be implemented. In turn, the interview responses can suggest ways in which business perceptions can facilitate or thwart the effectiveness of economic policies of liberalization and can suggest some practical limits to the pace and extent of liberalization.

The 1987-88 samples of 41 respondents in Santiago, Chile and 36 in São Paulo, Brazil, as well as the 1991 follow-ups, were not random but were intended to represent decisionmakers, identified by their peers and by academic observers either as successful and representative of significant sectors of the economy or as positive examples of modernizing behavior, that is, members of a new entrepreneurial generation, especially in nontraditional and export sectors. All the Brazilian respondents and all but two in Chile were male. The size of firms represented in the interviews was medium or large relative to the national mix. Traditional small businesses, microenterprises and the nontradeable sectors, for example, transportation and real estate, were not included in the samples of either country. About 10 percent of the interviews were with executives of foreign multinational firms to provide “external” opinions of national entrepreneurship and to learn something of national private sector attitudes towards foreign participation and competition in national economies.

BEFORE THE TRANSITION IN CHILE

By the time of the 1987-88 interviews the members of the business community in Chile were an elite group of survivors and successors of the market liberalization policies of the 1970s and of the economic crises of the mid ’70s and the early ’80s. The annual number of business bankruptcies had risen from 25 in 1973, the year of the Pinochet coup, to 810 in the 1982 recession. Even during the “boom” years of 1978-81 the annual bankruptcy rate in the liberalized Chilean economy was double that of the economically unspectacular years of the Frei administration in the late 1960s.[7] The industrial sectors were especially hard hit by the liberalization policies of the Pinochet regime, by the international oil shocks, and by the international economic slump of the early 1980s. By 1983 average industrial productive capacity in Chile had declined by over 9 percent from 1969 levels (over 19 percent, if the nonferrous metal basic industry sector is excluded). Out of 29 identifiable industrial sector classifications 23 had experienced stagnation or retrenchment during that period.[8]

The agricultural sector experienced some of the same direct pressures of liberalization of markets as the industrial sector, including a realignment of the relationships between prices of products and prices of inputs. As markets were liberalized, agricultural producers complained about drops in market prices of their products while costs of inputs such as fertilizers and pesticides rose.[9] The effects on agricultural producers of the neoliberal macroeconomic restructuring of the Chilean economy, however, may have been relatively more benign than those on industrial elites. Under the policies of industrialization through import substitution pursued by many Latin American as well as other developing countries during the first two decades after World War II, industrial growth was typically favored at the expense of agricultural growth. Some of the discrimination was the result of direct measures, for example, price controls on agricultural products, and some was the result of indirect policies. Indirect policies included macroeconomic measures such as overvalued exchange rates, which raised the cost of agricultural inputs and overvalued agricultural exports in international markets. Similarly, tax and subsidy schemes for industrial import substitutes had the effect of lowering costs to industrial producers. It has been shown that these indirect measures, which in effect taxed agricultural producers relative to their industrial counterparts, often overwhelmed the effects of whatever direct policies may have existed to support or subsidize domestic agricultural production.[10] In a sample of 16 nations exporting agricultural products in Latin America, Africa, and Asia, the combined effects of direct and indirect economic policies favoring domestic production of industrial import substitutes amounted to an average tax of 36-40 percent on agricultural exports during the years 1975-84. Chile, however, was an exception in the group. Because of the abandonment of import substitution policies in the 1970s, exports of fruit during the last five years of the decade according to the above calculation received almost no direct subsidy because of market liberalization but were effectively subsidized by 22 percent as a result of indirect effects of macroeconomic policies. (In the first five years of the 1980s the direct subsidy was zero, but there was a relatively small indirect tax effect of 7 percent as a result of macroeconomic policies, which included substantial overvaluation of the Chilean currency during the first two years of the period.)[11] These atypical macroeconomic effects, along with the effective dismantling of agrarian reform during the 1970s, contributed to the boom in export agriculture and to a reallocation of industrial priorities that has continued through the transition to democracy. The allocative effect was to redirect private investment from traditional import substitute industrial production to agricultural development for export in conformity with Chile's natural resource comparative advantage.

In the process, private investments in the agricultural sector began to rise alongside those in traditional industrial, financial, and nontradeable sectors. With macroeconomic policies less biased in favor of urban industrialization and with restrictions on large landholdings eased with the dismantling of the agrarian reform programs of the Frei and Allende regimes, large corporate firms and groups, domestic and foreign, re-emerged in the agricultural sector of Chile in a wave of speculative accumulation. By 1978 the 46 largest agroenterprises held assets valued at over one billion dollars with the largest enterprise accounting for almost one-half that total.[12] The dominant economic conglomerates of the 1970s, whose growth was characterized in large part by financial transactions and investment in nontradeables, for example, urban and rural real estate, were replaced by conglomerates, like the Angelini and Matte groups, that invested heavily, often through joint ventures with foreign firms, in agricultural and wood products for export, as well as in other natural resource ventures like commercial fishing and methanol, also for export.[13] In some respects there has been a re-emergence of the traditional Chilean class system in which large landowners were numbered within the families of corporate executives and bankers,[14] but with significant differences. Now it is conglomerate corporations, often in joint ventures with foreign capital, that take the place of families (though sometimes with a significant family presence.) And now the agricultural investments are determined on the same criteria of productivity for profit maximization as other ventures in the conglomerates, often as part of a vertically integrated production process. Agricultural production for export has grown even more rapidly than total exports, from 8 percent of the total in 1970 to 28 percent of the total in 1990, and growth rates in commercial agriculture have exceeded substantially the growth rates in peasant agriculture.[15]

The end of land reform and the liberalization of agriculture have, not surprisingly, been accompanied by changes in the markets for land. Land prices, which remained relatively stable between 1917 and 1970, took off with the restructuring of land ownership after the 1973 coup and increased at an average annual rate of over 12 percent during the first five years of the Pinochet regime.[16]

At the same time, the relative absence of economies of scale in the cultivation of export fruit along with the availability in the public domain of nonproprietary modern agricultural technology made it possible for those with medium-size landholdings to benefit along with large landholders. As a result, by 1988 there were approximately 11,000 producers of export fruit and about 100 export firms, the four largest of which exported over 40 percent of total fruit exports by volume.[17] This shift in resource allocation also resulted in increased agricultural employment, at least seasonally,[18] though wages remained low in the absence of effective labor organization and in the persistence of rural unemployment and underemployment.[19]

By 1987 aggregate growth in gross domestic product (GDP) was over 5 percent and growth rates in industry had recovered from their lows of the early 1980s. There were about 270,000 private business firms of all sizes operating in six major sectors: manufacturing, mining, construction, agriculture, transport, and commerce.[20] Sectorial emphasis in the 1987-88 interview sample was placed on firms involved in tradeables, that is, commercial agriculture and fishing, forestry and wood products, copper, finance, and nontraditional activities such as computer software.

It was already evident in the interviews with Chilean businessmen in 1987-88 that the stereotype of the Chilean businessman as a patrimonial, risk-avoiding, rent-seeking, nonmaximizing property owner, fearful of modern competition, with a short time horizon and a low propensity to save and invest[21] was no longer representative and certainly not typical of entrepreneurial activity in the dynamic sectors of the economy. Clearly, a new generation of Chilean entrepreneurs was emerging, competitively professional and self-confident and committed ideologically or pragmatically to a liberal model of market economy.[22] In 1987-88 the new generation of Chilean entrepreneur already saw itself as liberated from what one interviewee called the “paternalistic, *rentista* mentality” of the past, and quite capable of competing successfully with foreign as well as domestic competitors without special privileges and dependence on the government.

Many of the new breed study abroad to the level of graduate or professional degrees and continue to read the same professional literature as their foreign peers. They also identify successful foreign counterparts as their models, utilize international sources of professional advice, and reflect awareness and acceptance of international business standards, methods, and practices in their own business behavior. Although the Chilean economy in 1987 was only beginning to emerge from the recession of the early 1980s, Chilean respondents were generally optimistic about the state of the economy and virtually unanimous in their support for an internationally open economy, expressing little or no fear of foreign competition in domestic markets while at the same time manifesting confidence about their abilities to compete with foreign businesses and investors in domestic and international markets.

Chilean respondents were almost unanimous in their support of foreign investment in Chile and expressed little fear of debt equity swaps, which at the time were beginning to be utilized by foreign investors to buy Chilean assets under the relatively liberal terms offered by the Chilean government.[23] The Chilean entrepreneurs did not complain about the windfalls realized by foreign investors able to exchange at near par the Chilean government bonds that could then be purchased at 55-60 percent of face value on international secondary markets. Rather they complained about government restrictions that prevented them from engaging in debt-equity swaps on the same terms. A few also complained about capital restrictions that prevented them from expanding their businesses abroad through direct foreign investment of their own, that is, restrictions that prevented them from becoming multinationals in their own right.

Respondents were virtually unanimous in their support of the competitive market model as the *sine qua non* for economic development in Chile, and all believed that a transition to a liberal economy from the protectionism of the “ECLAC” model of the 1950s and 1960s had been achieved in Chile, although several acknowledged that some sectors were still dominated by oligopoly and monopoly, for example, banking, and were still the beneficiaries of governmental privilege and patronage. Several respondents identified competitive success in export markets as the single most important determinant of Chile’s successful transition to a competitive market-oriented economy. An open economy was seen by many as the most important market force to maintain productive efficiency in monopolistic or oligopolistic domestic firms. Many expressed pride in the conviction that their successes were the products, not of privilege and patronage, but of their own efforts and initiative, assisted by the political freedom to pursue their own initiatives.

Paradoxically, however, Chilean respondents in 1987-88 expressed a decidedly traditional insecurity and defensiveness about the social legitimacy that they and the values they represent, that is, the pursuit of material gain through productive activity, enjoy in Chilean society and culture. Despite its emerging modernization and economic opening to the external world, Chilean society was still described by businesspeople as one that, in the Hispanic tradition, valued intellectual effort, political activity, and public sector administration more highly than the pursuit of profit through business activity, and Chilean society was identified as one that assigns higher ethical value to labor than to management.[24] Self-confident in facing the international economy, Chilean respondents were defensive and unsure of their place in their own culture.

The paradoxical self-evaluation of Chilean businesspeople was reflected in the ambivalence of the respondents in 1987-88 to the political transition to democracy. On one hand almost all the respondents indicated support for a return to democracy and several professed embarrassment over Chile's international reputation for violations of human rights. However, they were almost unanimous in their support of the neoliberal economic policies of the Pinochet regime, the political stability, however repressive, that it had accomplished, and the competence of the economic policymakers and administrators of the regime.

Virtually all were quick to make distinctions between political regime and economic model, and a majority expressed at least some confidence that characteristics of a liberal economic model were sufficiently embedded and accepted in Chilean society for a structurally radical economic change to be considered by many as unlikely after the transition to democracy. When asked to identify the most important characteristics of the liberal capitalist model to be preserved, almost all specifically identified the basic principle of preservation of property rights as the single most important factor in maintaining business confidence and stimulating private investment. The fact that there was so much concern during a period of market-led economic improvement about something as fundamental as property rights is, in retrospect, an indication of the degree of uncertainty with which even the relative optimists in Chile faced the transition to democracy. So strong was this concern that there was virtually unanimous opposition to any policy of redistributive agrarian reform, even among those who acknowledged the need for more equity in the distribution of productive wealth and income.

Tolerance for government regulation of markets varied somewhat, but the free movement of prices without imposition of direct price controls (described by one respondent as "indirect expropriation") was most often cited as an essential requirement for a healthy private sector. The opposition to price controls was typically more pragmatic than ideological. Memories were vivid of price controls during the Allende regime, which were perceived as inconsistent, unworkable, and destructive of normal business operations dependent upon the interaction between the prices of inputs to the prices of final products. Price controls were also remembered and criticized as socially burdensome, because of the costs of administration, for instance, of assigning hundreds of prices to all the labels and vintages of domestic wines, and because of the incentives for corruption and evasion that resulted.

Despite some affirmations of confidence that the basic elements of the market model would be preserved, the majority of respondents expressed uneasiness about the social acceptance and political treatment that private enterprise would receive in a democratic society. Despite a rising tide of reassuring statements by political leaders in the center-left coalition pressing for a plebiscite and a return to democracy, there was widespread suspicion of the attitudes towards business of the political parties and their leaders in the democratic coalition.

Collective memories of agrarian reform policies as well as price controls during the last Christian Democratic regime and especially during the economically “chaotic” years of the Allende regime were much more vivid than those of the economic crises of 1976 and 1982 and were cited frequently. A significant number of respondents, while affirming democratic political values, worried openly about the ability of political leaders to resist sectarian pressures for forms and degrees of government intervention in the economy that would be inimical to the preservation of a strong private sector. The most optimistic respondents, expressing an opinion tinged with hope that fundamental principles of property rights and market signals were firmly enough established to preclude any significant assault by a new government, tended to be executives and owners of the largest firms and business associations rather than representatives of smaller enterprises.

Expressed in various ways, there was, nevertheless, widespread suspicion of political coalitions as the vehicles for coherent and stable economic policy. There was a frequently mentioned fear that the democratic coalition which might well hold together long enough to defeat General Pinochet and to regain political power would later disintegrate over economic policies and strategies. This fear was buttressed by self-appraisals of the Chilean character as predominantly intransigent in matters with ideological content. There was little confidence in the ability of Chilean political parties to compromise, not only because of party rivalries presumed to be strong with the return to democracy, but also because of a perceived propensity of Chileans to attach fundamental ideological significance to positions held on even the most trivial of political issues. For these reasons some respondents worried that even the dominant party in the democratic coalition, the Christian Democrats, would not be able to develop coherent economic policies because of the broad spectrum of passionately held ideological positions within the party itself.

It should be noted that an ideological intransigence equivalent to that assigned by business respondents to the participants in the democratic coalition opposing the Pinochet regime was also assumed by leaders and spokesmen for the opposition to apply to business leaders as well. Interviews with active members of the democratic coalition during this period indicated that a homogeneous, traditional stereotype continued to characterize perceptions of business leaders by much of the opposition. At the same time, however, there were indications in the responses of those interviewed in the private sector that significant political differences were emerging within the private sector, with a movement of the “new generation” towards a progressive side of the center-right Renovación Nacional party. Nevertheless, there was little perceived incentive for dialogue by either side prior to the plebiscite of 1989. One prominent opposition leader responded to an outsider’s suggestion of dialogue with the comment, “Why bother? They [businessmen] will never vote for us anyway.”[25]

A few of the respondents had already concluded that, if the Pinochet regime lost both the plebiscite and the election that would follow such a loss, economists with a Christian Democratic orientation from the Corporación de Investigaciones Económicas Para Latinoamérica (CIEPLAN), an opposition economics research institute well known in the private sector, and especially its president, Alejandro Foxley, would be influential in the determination and administration of economic policy. (Foxley was, in fact, subsequently named finance minister in the new government.) Some had already read Foxley's 1987 book, *Chile y su futuro: Un país posible*,[26] looking for clues about economic policy in a government led by Christian Democrats. While finding the book's content and author tolerable, some respondents were critical of some of the author's associates at CIEPLAN who were judged "leftist" and threatening, especially to the fundamental principles of property rights and market-determined prices that were considered to be essential rules of the game for successful preservation of the liberal economic model.[27]

In light of collective memories and the absence of widespread communication between business leaders and members of the political opposition, it is not surprising that only a slight majority of business respondents were confident that, in the current political climate, property rights would not be jeopardized by a transition to democracy and that regulation of prices for ideological or social objectives would not be a serious issue or threat for efficient business operations in most sectors of the economy following a democratic transition. Respondents whose responsibilities put them in positions to be aware of investment plans across several areas of the private sector were divided in their assessment of the extent to which investment plans were currently affected by the political uncertainties surrounding the transition to democracy. Executives of foreign firms producing for both export and domestic markets, however, were more consistent in expressing confidence as investors in the future of the Chilean economy and in acknowledging continuing commitments to long-term investment strategies.

At the same time, comments by many respondents manifested a clear awareness of the need for the private sector to address the issues of social policy that were related to the greater concentration in the distribution of income, wealth, and social influence that the imposition of the liberal economic model had produced. This awareness appears to contrast with the conventional judgment that the Chilean businessman "has no social conscience."[28] The sensitivity to social issues and policies, however, is consistent with the defensive posture of the Chilean business community in a political and cultural climate perceived by business as hostile to the materialist values of the economic model, and does not necessarily reflect a moral conversion. The concern for social issues and policies was most often articulated in comments about wages and employment. On one hand, virtually all who addressed the issue of wages affirmed the necessity of maintaining wages at competitive levels consistent with productivity. In addition, a substantial minority acknowledged with greater or lesser urgency the need to raise wage levels, mostly as a means to ensure the political and social stability considered essential for uninterrupted economic progress. Similar exhortations were promulgated by some business associations such as the Sociedad Nacional de Agricultura. A few, especially those affiliated with the Unión Social de Empresarios Cristianos (USEC), a business group identified with principles of Christian Democracy, cited moral or ethical foundations for social policy based on Chilean cultural antecedents or drawn from philosophic and religious sources, especially Catholic social teaching. However, only a few respondents, all younger than average, favored direct government intervention in wage determination.

Consistent with reliance on market mechanisms, most cited increased labor productivity as the only sustainable basis for increased wages. There was widespread uneasiness about the effects of relaxing the restriction on the scope of union bargaining authority to the level of the individual plant and of a restoration of centralized union activity at national, regional, or industrywide levels. Many interviewees candidly expressed their fear of politicization of large union organizations in ways that would undo growing public acceptance of market criteria in all phases of economic activity. Some of the respondents were more nuanced in their support of existing union restrictions by arguing that industrywide or regional and national bargaining would penalize the workers in the most productive firms by forcing them to accept an industrywide or regional average wage that would be kept down by lower productivity in firms that have more political influence on bargaining outcomes, for instance, state-owned enterprises. The belief or hope was also expressed that workers were currently more interested in steady work and financial security than in participation in politically motivated union movements.

A majority of those who addressed social questions affirmed the legitimate role of government in providing social services but invariably emphasized those services that represent an investment in human capital, such as health care and education, which would increase productivity as well as respond to social goals. Some explicitly acknowledged the inadequacy of social services in the Pinochet regime. There was varied response to the question of sources of public financing for adequate levels of social services. A few complained that taxes were already too high, using as their reference for comparison the lower marginal income tax rates of the United States. Many felt that more efficient tax administration, that is, reducing tax evasion, would significantly increase tax revenues. Some, however, expressed the belief that marginal tax rates in the higher brackets could be raised without unfavorable effects on savings and investment. Some of the younger respondents also suggested a reduction in defense expenditures as a source of revenue for social expenditures, expressing the opinion that a substantial portion of those expenditures was unnecessary.

One respondent was critical of what he considered the ambiguity and equivocation of his cohorts in their attitudes towards social expenditures—wanting the government to assume the responsibility but seeking to avoid the cost. In the opinion of this respondent, to be consistent with the principles of the neoliberal model its advocates espouse, the private sector itself should assume voluntarily the responsibility of providing social services. So lofty a sentiment might be easily dismissed as interview rhetoric, but it is worth noting that this respondent, without mentioning the fact, had personally provided financing for a Church-sponsored housing development program in a working class *población*.

In light of the mixture of ambivalence and concerned tolerance expressed by respondents about likely relationships between political democracy and economic liberalism, it is not surprising that the more progressive political right wing of the business community in Chile, as represented in the Renovación Nacional party, was willing to join coalition parties in support of democratic constitutional reform but unwilling to back the Christian Democratic presidential candidate supported by the center-left coalition. Instead, the party was joined by other right-wing parties in supporting the candidacy of Hernan Büchi, the last minister of finance in the Pinochet regime. Although some prominent USEC members publicly supported the democratic coalition, several interview respondents agreed that USEC did not represent more than about 10 percent of the business community.

The perceptible, though still ambivalent, acquiescence on the part of business leaders to the prospects for joining liberal economic policies to a democratic transition was mirrored in the public statements of leaders in the democratic coalition who began to affirm the “compatibility” of capitalism and democracy and who, in their published economic program, accepted “the idea of an economy open to the outside, with low tariffs, oriented to exports…with stability in the rules of the game, without recourse to political expropriation.”[29] Moreover, regular, informal conversations were begun during the election campaign between Alejandro Foxley, along with others in the democratic coalition, and business leaders in the private sector.

Despite the uncertainties and misgivings associated with the plebiscite and the subsequent electoral campaign leading to the transition to democracy, business confidence in the relatively open Chilean economy remained high in the years just prior to the installation of the new government. The annual growth rate in GDP that had hovered near 5 percent through 1986 and 1987 rose to 7.6 percent in 1988 and then rose again during 1989, the year of the election campaign, to 9.3 percent, by far the highest growth rate of any Latin American country that year.[30] This growth was marked by an exceptionally high domestic savings rate of over 17 percent of GDP, a gross investment rate of 20 percent of GDP, and exports that accounted for about one-third of GDP in 1989 compared with a level of approximately 25 percent during the last boom at the beginning of the decade.[31]

The 1989 miniboom, however, contributed to rising inflation which, after declining to an annual rate of 12.7 percent for consumer prices in 1988, rose to 21.7 percent the following year.

Although urban unemployment continued to fall through the 1987-89 period, growth in real wages slowed to 1.9 percent in 1989 after a record growth of 6.6 percent in 1988, and real wages at the end of the decade were still below 1981 levels.[32] Moreover, social spending, which had been as high as 22.5 percent of GDP early in the decade, had fallen to 17.6 percent by 1988.[33] Thus, the new government faced the challenge of controlling inflation without inducing a recession, all the while trying to respond to the social expectations of an electorate that had experienced high unemployment, falling real wages, and diminishing rates of social spending for most of the past decade.

AFTER THE TRANSITION

By the time the new government was installed and proceeding with legislative initiatives, there was some evidence to suggest that the communications gap between the democratic coalition and the private sector of the economy had been bridged and that the ambivalence on both sides about the prospects for linking the liberal features of the existing economic system with the move to democracy was diminishing. One of the early policy measures of the new government following its installation in March 1990 was tax legislation that raised both the marginal income tax rate as well as the tax rate on value added. The rise in taxes was justified by the new government as necessary for a financially responsible, noninflationary expansion of social services.

One of the very first collective public expressions of support for this legislation came from the Renovación Nacional party, while the Confederación Unitaria de Trabajadores (CUT), the major trade union association, found fault with the legislation, criticizing the increase in the value added tax. Moreover, the Centro de Estudios Públicos, a conservative research and policy center supported by the business community, published a favorable commentary on the tax legislation by one of its members that defended both the levels and progressivity of the tax increases as well as the social expenditures to which the taxes were to be applied.[34]

Nevertheless, during its first year in office the new government faced a series of severe tests of its allegiance to liberal economic policies. The inflation rate in an already overheated economy was further fueled by the rise in oil prices that followed the invasion of Kuwait by Iraq in August, with the result that inflation reached 29.4 percent for the year. Meanwhile, the price of copper, Chile's principal traditional export, which had almost doubled during the final three years of the previous regime producing a windfall of foreign exchange, suddenly dropped by 5.9 percent in 1990. As a result, despite an increase in export volume of 12.4 percent that was the highest in recent years, the value of Chilean exports increased only 4.5 percent during 1990. Restrictive monetary policies[35] and careful management of exchange rates, along with some restrictions in the use of petroleum products, in the context of noninflationary fiscal policies reduced the growth of imports from 27.1 percent in 1989 to 1.3 percent in 1990. Another result, however, was a drop in the rate of growth of GDP to 0.2 percent, its lowest level since 1985. In addition, urban real wages rose by only 1.6 percent, the smallest increase in four years, although urban unemployment continued to fall, averaging 6.6 percent for the year.[36]

Introduction of new labor legislation also tested support for economic policies of the new government from the business community, including employers like many of those interviewed in 1987-88, who valued the existing restrictions on bargaining and strikes and who expressed fear of the political behavior of centralized unions. In order to respond to concerns such as these, before introducing new labor legislation the new administration sought and achieved an accord signed by representatives of business and labor in which each side pledged to respect principles considered essential by the other. Labor thus agreed to the importance of property rights, free markets with flexible prices, and an open economy. In turn, business acknowledged both the need for fair distribution of the income generated by a free market economy as well as the rights of labor to organize effectively in order to create the conditions for equitable negotiations.

The law proposed by the new government permits labor organization at the national level and bargaining at levels higher than the plant level, for example, at sectorial or regional levels. Moreover, the proposed law removes the 60-day limit on strikes which had been abused by some employers who were alleged to have dragged out strikes beyond the 60-day limit in order to avoid having to make retroactive payments of worker benefits, which under the existing law must be paid only if the strike is settled within the legal strike period. The proposed law also allows severance pay to be extended by negotiation beyond the limit of one month of severance pay per year of service up to a maximum of five months pay. This provision has the effect of restricting the market mobility of labor by penalizing moves made by employees with more than five years of service, as well as penalizing early retirees who are covered by the same restriction.

Although this last provision is consistent with the principles of liberal market economics, along with the other provisions mentioned it was formally opposed by the business community and its employer associations in testimony before the legislative branches of government. According to those close to the legislative process, the strongest organized opposition has been directed against abolition of the provisions circumscribing the length and costs of strikes. Along with this organized opposition, however, there was satisfaction expressed with the accord reached by the Ministry of Labor in labor negotiations with the stevedores' union and all the relevant parties. Labor minister René Cortazar was praised inside and outside of government for having organized and directed to a successful consensus a complex set of discussions involving all parties, employers, exporters, brokers, and so on, as well as workers, with the result that a comprehensive voluntary accord was achieved without need for legislative or judicial determination, except for legal ratification.

By March 1991, when the follow-up interviews were conducted, economic indicators were buoyant. Accumulated inflation for the previous four months was estimated at 1 percent and for the month of February had reached a low of 0.1 percent.[37] The exchange rate in the parallel market was virtually identical to the official rate.[38] Unemployment had dropped to 5.6 percent in February, its lowest level in almost two decades. Real wages had, for the first time since the 1973 coup, reached their 1970 peak,[39] partly because of the low unemployment and because of the lagged response of wage adjustments to the fall in inflation rates. Real interest rates had been falling and total investment was running over 20 percent of GDP, with foreign direct investment having set a record of $1.5 billion, excluding bank credits and debt equity swaps, which was equal to about 5 percent of GDP. Chile was no longer on creditor banks' lists of countries in need of restructuring, and Chile's external debt instruments had risen in value on international secondary markets to 80 percent of par value, the highest of any South American country.[40] A survey of 442 investment projects planned by the private sector for the years 1990-95, which does not claim to be exhaustive, reveals a total value of planned projects equal to over 80 percent of the 1989 value of GDP in Chile. Almost 60 percent of the projects in the survey represent production for export, with concentration on mining and industrial production of exportable products and services based on Chilean natural resources, for example, wood, processed agricultural products, and tourism. Consistent with the openness to foreign investment revealed in the 1987-88 interviews, a majority of the export projects surveyed were joint ventures with foreign firms, and 35 percent were totally foreign owned.[41]

Follow-up interviews with business leaders in March 1991 reflect both the buoyancy of the economy and the levels of communication and understanding that had been reached with the new government. Interviews were concentrated among those who had expressed the sharpest doubts about the prospects for liberal economic policy following the transition to a democratic regime. However, in none of the follow-up interviews was there a single expression of disapproval of the economic performance of the new government. The statement by one respondent that "it has been a surprise that has exceeded all my expectations and couldn't be better" was typical of the responses. Concerns about continuity of basic principles of the liberal economic model, especially property rights and free markets with market-determined prices, had simply evaporated. Indeed, one respondent, when asked his opinion about changes in economic policy introduced by the new government, quipped, "What changes?" There was little worry about long-term inflation, even though inflation rates late in the first quarter of 1991 had begun to rise.

Some of the praise for the new government was slightly backhanded. Conservative respondents who, three years earlier, had been clear in crediting General Pinochet for saving the country from socialism, were quick to credit the previous regime for having laid the foundation of the current economic success. They praised the leadership of the present government principally for its honesty in admitting the wisdom of the policies it inherited and for the courage and flexibility to abandon the interventionist and protectionist economic thinking of its past in favor of support for the liberal model introduced by the Pinochet regime.

Still, even this limited praise reflected confidence in the present government and avoided the negativism present in public and published comments by members of the previous government's economic leadership, who were quick to pass judgments like "For Aylwin the economy is a world completely alien, where he is weakest and most insecure" and to criticize the proposed social expenditures, the new tax legislation, and the slower paced privatization policies of the new government.[42] Some of the interview respondents explicitly criticized the similar negativism of the leading newspaper in Chile, the conservative *El Mercurio,* towards the new government, mentioning that more reliable business and economic commentary could be found in an increasingly widely read business trade paper. As respondents discussed prospects for long-term investment opportunities in Chile, enthusiastically projecting as far as 20 years ahead, it was not hard to detect a sense of national identification and pride that contrasted sharply with the sense of alienation from what were perceived to be the traditional dominant mores of Chilean culture that had been expressed three years earlier. Despite the public negativism of some political leaders on the right, interview respondents readily agreed that the center-left democratic coalition of the transition period had in practice been extended to the center-right.[43] The fact that basic elements of a liberal economic model had been validated by a popularly elected government which had also solicited apparently constructive dialogue and participation with the business community seems to have contributed to a currently perceived sense of social acceptance and legitimacy that was previously lacking under the authoritarian government, even one that was overtly supportive of the liberal economic paradigm.

In the 1988 interviews businesspeople had pointed out that economic policy and administration under the Pinochet regime, while favorable to the private sector, was technocratic and objective, not patrimonial and clientelistic in the familiar Latin American tradition. Consequently, although the new government was not perceived as probusiness, its continuation of consistent market-oriented policies and technically competent administration provided the necessary continuity for support.

The result is a growing sense of national pride and loyalty that elicited generous responses to queries about social issues. When asked for criticisms of or objections to the new tax laws, there was not a single affirmative response. Most respondents described the new tax law as "reasonable" or at least politically necessary, and one respondent simply dismissed it (in English) as "window dressing." These responses are consistent with comments made three years earlier by some respondents who, as mentioned earlier, expressed the belief that marginal tax rates on higher incomes could be raised without unfavorable effects on savings and investment. One respondent at that time, while acknowledging that he would not publicly say the same, indicated that the Pinochet tax reform had been an unnecessary windfall for the wealthy and suggested that the only effect on his cohorts of a rise in marginal income tax rates would be a socially desirable reduction in the imports of Mercedes Benz autos.

There was more division of opinion about the proposed new labor legislation, though the fear expressed three years earlier that centralized, politically powerful labor unions might upset the apple cart of free enterprise was not mentioned as often or as vehemently as before. Rather, concerns about the pending labor legislation were directed more to bread and butter issues than to political concerns. There was some concern, for example, that negotiated wage increases not exceed productivity gains to the extent that international competitiveness would be weakened. There was uncertainty about the treatment of special situations, for instance, of part-time agricultural labor, and about prudent administration of the new provisions. In fact, real wage rates levelled off in the first quarter of 1991 and remained stable into the last quarter.[44]

At the same time, some respondents also expressed concern that wages and salaries in some sectors had not kept up with the recent inflation. There was widespread support for the kind of social programs proposed by the new government, stressing education, nutrition, health care, and other expenditures perceived as investments in human capital. Moreover, despite the prevailing climate of social peace, a few respondents volunteered the opinion, widely held among lower income groups, that the implementation of social programs for the poor was too slow. “This government seems to be fascinated with capital,” was the comment of one investor. Again, the fact that such candor could be easily expressed outside the context of a narrower, self-interested preoccupation with the necessity of social stability reflects the confidence of the respondents in the economic leadership and policies of the new government.

In fact, after a “honeymoon” year of labor peace and labor-management consensus, labor conflict began to sharpen in Chile. One of the first major strikes occurred in the state-owned copper industry at CODELCO’s Chuquicamata mine, which was closed for 14 days by the work stoppage. Nevertheless, the subsequent labor agreement has been viewed as a precedent-setting accomplishment for labor management relations because of acceptance by the union and its members of wage increases tied to increases in productivity.[45] The principle of linking wages to productivity is obviously deemed important to the preservation of international competitiveness in a small open economy whose development strategy is based so heavily on exports.

Strong business confidence was further reflected in 1991 responses to direct questions concerning worries or preoccupations about the future. None of the concerns reflected doubts about the economic policies or integrity of the present government. Most had to do with the future, namely, whether the present positive trajectory of economic policy and administration could be sustained, especially through another election. More than one respondent asked in some form, “What will happen when Aylwin and Foxley are no longer in charge?” It was at this point that fears expressed three years ago about the heterogeneous cast of characters in the democratic coalition surfaced again in the worry that populist demagogues might gain the ascendancy once the present administration was off the scene.[46] This time, however, there was a new variation, namely, the fear of right-wing populism of the sort expressed by Francisco Errázuriz, a minority right-wing presidential candidate who fared better than expected in the presidential election and who is apparently disliked intensely by much of the business sector. Some of these fears were supported by polls later in the year that indicated a decline in popular approval of the incumbent administration and growing political apathy among the public.[47] Some political analysts, however, suggest that the triumph of the liberal economic model is resulting in the delinking of an increasingly “technocratic” government from political parties, while interpreting the settlements with the copper miners’ union as indications of the loss of influence of the unions and their leaders within both the government and the political parties.[48]

An equally significant preoccupation in interview responses was the fear that foreign markets, upon which the increasingly export-oriented economy of Chile depends, will be closed or diminished by campaigns of protectionism within major foreign markets in response to domestic effects of foreign competition on incomes and employment. Since the time of the inverviews the Chilean business community has supported efforts of the Aylwin government to secure entry into the North American Free Trade Association as soon as possible after completion of the treaty between the United States, Canada, and Mexico.

Meanwhile, international confidence in the Chilean economy and low interest rates due to countercyclical monetary policies in the United States and other OECD countries resulted in substantial capital inflows to Chile, which along with an increasingly favorable trade balance put pressure on the exchange rate of the Chilean peso throughout 1991 and into 1992. As a result, minimizing the rise in value of the Chilean peso has been an issue for the business community, concerned about foreign competition, and the authorities alike.[49] The central bank continued to increase its reserves of foreign exchange and in January 1992 the peso was revalued by 5 percent against the dollar and was allowed to float in a wider band than previously. Nevertheless, despite upward pressure on the peso and the tax increases begun in 1990, domestic savings and investment continued to increase. As an indication of continued business confidence, private savings alone in 1991 reached over 14 percent of gross domestic product, almost 50 percent higher than the rate of total savings, public and private, throughout the decade of the eighties.[50]

A CONTRASTING CASE

The evolving self-confidence of Chilean business and its confidence in the democratic regime contrasts sharply with the evolution of perceptions among Brazilian business leaders interviewed in 1988 and again in 1991. Interviews in relatively industrialized Brazil were concentrated on the industrial sector, including capital goods producers, as well as on minerals, chemicals, and other primary products, finance, textiles, commerce and commercial services. Although in 1988 Brazilian businesspeople, like their counterparts in Chile, were looking forward to democratic elections, the political and economic climate in which those expectations were formed differed greatly between the two countries.

In Brazil a formal transition to democracy had already occurred in the elections of 1984. However, the president elect died before being inaugurated, and the vice president designate (though not popularly elected,) José Sarney, was inaugurated in early 1985. Although democratic institutions were in place, President Sarney's electoral mandate was less than clear. This ambiguity, coupled with the perceived failure of his economic policies, resulted in a unanimous disapproval of him and his major programs by the businesspeople interviewed in March and April 1988. Nevertheless, there was also universal approval of the transition to democracy itself and frequently expressed optimism for the future, along with a sense of expectation and uncertainty in the face of a new constitution just then being developed and in the face of President Sarney's political maneuvers to extend his term of presidency despite his remarkable lack of popularity among various sectors of society.

The economic policies of the Sarney government in its first year were not marked by significant liberalization of the traditionally cartorial and highly protected economy, despite pressures in that direction by the IMF and by the creditor banks during debt negotiations. The economic issue most commented on by the business respondents interviewed in 1988 was the persistent high inflation of the Brazilian economy, and the government policies most noted were the succession of anti-inflationary programs that began with the Cruzado Plan at the end of February 1986.

At the heart of the Cruzado Plan was an attempt to halt the inertial component of total inflation by a concerted deindexing of the entire economy through a freeze on wages and prices and the elimination of inflationary correction of all major monetary assets except passbook savings accounts. As a result, increases in the consumer price index, which had been rising at an increasing rate for four months averaging between 10 and 15 percent per month, dropped dramatically in the first month of the freeze and remained below 2 percent per month for ten months.[51] At the time, this accomplishment was hailed in some quarters as a victory for the political strategy of concertation among the various segments of the society. However, as the price freeze was phased out and prices of goods and services produced by the public sector readjusted, price levels and real interest rates escalated and the economy once again adjusted to inflation by returning to the fully indexed status that existed prior to the Cruzado Plan.[52] By January 1987 consumer prices were increasing more than 16 percent monthly and more than 23 percent by June. A second stabilization program, the New Cruzado Plan or Bresser Plan, reimposed wage and price controls but with less severity than the first, and attempted to deal with the fiscal deficit, which was perceived by many to be as virulent an inflationary force as indexation, through tax reform, reduction of subsidies, and controls on government spending. The monthly rise in the consumer price index slowed to less than 7 percent under this plan for three months but was again over 15 percent by the beginning of 1988.[53]

The reasons for the failures of these measures are debated and range from microeconomic to macroeconomic, from political to societal to psychological.[54] For the businessmen interviewed in 1988 the experiences of the price and wage freezes were extremely distasteful, even though some admitted to having profited in the short run from the consumer buying boom that accompanied the first Cruzado Plan when wages were raised at the same time that consumer prices were frozen. Like their Chilean counterparts Brazilian businesspeople were quick to point out the microeconomic inconsistencies in a blanket freeze that caught some businesses just before scheduled price increases while others benefited from having raised prices just before the freeze. Some complained that input prices, especially of goods and services provided by the public sector, had been allowed to rise more than output prices. Evasion by those not bound in practice to public accounting of all transactions, for example, small businesses and providers of professional services, was cited by many respondents as another inconsistency. The lessons from these experiences were clear—the prudent businessperson must be prepared in advance to minimize the costs of unannounced freezes, for instance, by always maintaining official price lists that secured margins larger than really needed so as to provide the necessary latitude to ride out a period of price freeze.

More broadly, the freezes, the regulations that accompanied them, and the measures taken to evade them were perceived as inducements by the private sector to divert activity from the formal economy into an underground economy, which was seen to differ from typical definitions of informal sectors by implicating not only microenterprises, marginal producers, and the underemployed but large mainstream enterprises as well. High real interest rates for bank loans that resulted from a failure of nominal bank rates to fall as price levels dropped during the freezes were cited, for example, as inducements for loans between nonfinancial firms, that is, from firms with available retained earnings to those without liquidity.

The failure of the plans to control inflation meant that businesspeople were not only preoccupied by compliance with (or evasion of) the provisions of the anti-inflationary programs but were also compelled by the inflation to devote considerable resources, including their own time, to preventing the erosion in value of their liquid assets. Several executives of industrial firms indicated that their principal operating responsibilities had moved from the primary mission of the enterprise to the financial arena in order to cope with inflationary pressures. Some complained, for example, about the amount of time spent with financial officers planning short-term financial strategies to hedge against the inflation, for example, to identify and place in "overnight" investments all cash balances at the end of each working day. The head of a branch of a large foreign bank indicated that his computer accounting programs for daily detailed management of liquid assets were more sophisticated and detailed than those used by the home office in the United States.

The result was a relatively short time horizon and the crowding out of private borrowers from capital markets as the government kept short-term interest rates high in order to finance its own deficits through short term borrowing, for example, in the overnight market. The combined effect on the private sector was a diversion of effort and resources away from productive activities, such as investment for expansion and technological improvement. There was, however, a paradoxical difference in the responses to this issue by officers of domestic firms in comparison with executives of multinational firms. On the one hand, executives of domestic firms complained much less than expatriate businesspeople about the diversion of their efforts and about the costs of coping with accelerated inflation and of dealing with the bureaucracy to comply with new provisions and regulations. "We are accustomed to these realities and know how to deal with them," was a typical response. On the other hand, it was managers of foreign firms who, while conscious of and frustrated by the diversions, expressed the most optimism about the future of the Brazilian economy and who could point to more concrete plans for relatively long-term productive investment. More than one of these indicated that the current stabilization difficulties were not acting as a deterrent to scheduled investment plans.

Unlike their Chilean counterparts Brazilian businesspeople not only lacked confidence in the new political regime but also lacked confidence in the productive efficiency of the national economy and in their abilities to compete. According to one prominent business leader, "Brazil will always produce goods of mediocre quality at above average costs." With the exception of respondents in export-oriented sectors, Brazilian businesspeople expressed much less economic self-confidence than Chileans in their abilities to compete in open markets, domestic and international, and were supportive of import barriers to protect domestic markets. Among domestic firms there was less than universal enthusiasm for promoting exports and opening the economy to imports. Several respondents described export promotion as a secondary, backup activity for many exporting firms in the sense that export markets were pursued only when necessary to even out fluctuations in domestic markets in order to minimize the costs of cyclical retrenchment and expansion. When the successful example of trade promotion in Chile was cited, the reply by more than one respondent was to contrast the unpleasant necessity of Chile's entry into competitive world markets because of the inefficiently small size of its domestic markets with the security that Brazil's large, protected domestic markets offered to its business community. Since many multinational firms operating in Brazil were there primarily to gain access to this protected market, their presence was not uniformly appreciated by respondents in domestic firms.

Some Brazilian industries are characterized by the presence of internationally competitive Brazilian firms, for instance, auto parts and specialty clothing. An adequate explanation for this internal discrepancy in a protected domestic economy was beyond the scope of the interviews with management of such firms. Such an explanation would have to take into account a variety of historical factors, the nature of linkages with other domestic industries, for example, in the production of autos, direct and indirect state subsidies, peculiarities of specific international markets, possible domestic comparative advantages, and distinctive personal characteristics of successful entrepreneurs in those industries.[55] However, it can be said that interview respondents associated with successful export firms exhibited more competitive self-confidence and less interest in issues related to the traditionally cartorial reputation of the Brazilian economy. One such respondent did complain that the cavalier attitude of many Brazilian firms towards export markets as secondary backup opportunities contributed to a poor external competitive image for Brazilian industry because of the failure of Brazilian exporters to maintain export delivery schedules and to establish reliable continuity of supply among foreign clients.

Although state enterprises were perceived to be frequently inefficient, there was little complaint about their presence. Indeed, respondents in sectors where the presence of state enterprise dictated market share and prices generally expressed contentment with the arrangement. Business associations like the Federação das Indústrias do Estado de São Paulo (FIESP) were perceived as useful for lobbying and negotiating with government offices and agencies. Associations of smaller scope, especially those associated with specific industries or groups of firms, were also seen as sometimes important for regulating behavior within particular sectors of the economy. While such regulation might refer to business standards, it apparently also served to limit competitive behavior among members. At the same time Brazilian respondents, unlike their Chilean counterparts, consistently exhibited social and political self-confidence, confidently affirming the identification of their own materialist values with the dominant cultural values of Brazilian society.

Perhaps because of this self-confidence Brazilian businesspeople were much less concerned than their Chilean counterparts with "social questions," including potentially destabilizing issues of poverty, of high concentrations of wealth and income, of wage levels, working conditions and labor unrest. Although there was awareness that these issues affected political stability, they were not generally seen to be the responsibility of the private sector. "The unions work out all that with the government, and we abide by the results" was one typical respondent's answer to a question about labor relations. More than one expatriate head of a foreign firm, while praising the abilities of Brazilian executives, mentioned the latter's typically obsolete personnel management styles and inconsiderate attitudes towards labor as significant management problems.

Despite complaints about the results of the stabilization policies of the Sarney government and universal disapproval of the president, there was general optimism about the future, even among those businesspeople who acknowledged the stagnation of productive investment plans in the current climate of uncertainty. There was a widely perceived belief that, if a reasonable candidate were elected president to succeed Sarney, economic stability would return and Brazilian growth would resume. Although there was some fear that a leftist demagogue might be elected, and Lionel Brizola was the principal named threat, no one indicated interest in a return to an authoritarian government. Instead, there was discussion of the appropriate institutionalization of democracy for Brazil, that is, a parliamentary versus a presidential system. While some thought a parliamentary system was in principle superior to a presidential system, most felt that political parties in Brazil were too weak, opportunistic, and unfocused to maintain an effective parliamentary system. A minority, however, felt that a parliamentary system could help compensate for the weakness of the party system. By 1991 this sentiment had become more widespread with the failure of subsequent stabilization programs under a new constitution and a new president.[56]

Between early 1988 and early 1991 a new president, Fernando Collor de Mello, was elected in Brazil and three more economic stabilization programs were attempted, one by the Sarney government and two by the Collor government. Growth in gross domestic product turned out to have been zero in 1988 but rebounded to 3.6 percent in 1989.[57] However, despite a short-lived stabilization plan, the Summer Plan, that reduced the monthly increase in the consumer price index to less than 10 percent for three months in the summer, consumer prices for the year 1989 rose by 1,764.9 percent and were rising at a monthly rate of 84.3 percent by the time of Collor's inauguration in March 1990.[58]

The economic team of the Collor government immediately implemented a new stabilization program designed to attack sources of inertial inflation, this time relying in part on a controversial freeze of liquid assets, including overnight investments and bank balances above a fixed level, that is estimated to have been equivalent to US $27 billion or 6 percent of GDP.[59] This plan succeeded in reducing the monthly rise in the consumer price index to below 10 percent for two months, but by the end of 1990 consumer prices were estimated to have risen by 2,359.9 percent for the year as a whole, while economic growth was sharply negative with gross domestic product shrinking by 4 percent during 1990.[60] At the time of the 1991 interviews a second Collor Plan had just been introduced that froze prices and wages (after a 25 percent upward readjustment), controlled interest rates (which had failed to fall as rapidly as prices during previous stabilization plans), forbade any further indexing and abolished the indices (BTN) previously used for indexing. The new plan also abolished the existing overnight short-term investment market, proposing to substitute the Fundo de Aplicações Financeiras (FAF or "Fundão"), a government-regulated short-term investment fund designed to channel domestic savings into socially desirable investments such as economic infrastructure and education.

An effort was made to include in the follow-up interviews those who had been most optimistic three years earlier about the prospects for business in Brazil. In fact, there was no discernible difference among respondents, regardless of sector, in their unrelenting pessimism about the Brazilian economy. Even to raise the question of long-term investment in Brazil was perceived by most as irrelevant, if not foolish, when short-term financial survival was the dominant preoccupation. Bankruptcies were increasingly common and the survivors worried about their ability to continue operations under present circumstances for more than a very short time.

Confidence in the government, especially in the economic team, was simply nonexistent and had generally been replaced by frustration and overt antagonism which had built up since the installation of the new government. There was frustration over unproductive communication with government and the lack of influence by the business community on decisions made by the economic team. While the government charged that firms were going bankrupt because of their unwillingness to lower prices to increase sales, interview respondents argued that profit margins were too low for profitability.[61] Only some expatriate managers of foreign firms professed a somewhat sympathetic understanding of the depth of the structural changes they believed the new government was trying to accomplish. Managers of multinational firms were critical of the perceived obstructionist or reactionary behavior of Brazilian industrial associations in the process of structural change. One foreign executive who was a member of the board of FIESP mentioned that he had simply stopped attending its meetings out of frustration. Managers of some medium-sized businesses complained that accords negotiated by trade associations with the new government often served the interests of the largest firms in the association, which were not necessarily those of smaller firms.

However, even managers of multinational firms were almost universally pessimistic about the prospects for a successful restructuring of a highly protected economy dominated by oligopolistic markets with heavy government participation and intervention into an open liberal capitalist system. Moreover, contrary to their relatively bullish behavior in 1988, foreign firms were now reducing or shelving investment plans for expansion in Brazil, and financial losses by subsidiaries of foreign firms in many sectors of the economy were common.[62] One respondent noted that a scheduled multimillion dollar investment project described during the previous interview three years ago had since been cancelled and transferred to the United States.

Domestic entrepreneurs tended to ridicule the neoliberal economic rhetoric of the new government, arguing that government intervention in the Brazilian economy had never been higher and complaining about the impact of the perceived populist politics of a maverick presidential regime that lacked a clear base in the political party system. They criticized the confiscation of their wealth that had resulted from the freeze of liquid assets in the first Collor Plan, were highly critical of the price freeze in the second Collor Plan, and repeatedly complained about the lack of consultation or negotiation by the present government prior to announcing new economic measures. Several expressed exasperation over the confusion generated by successive, often inconsistent, revisions of regulations, for instance, of import quotas and duties, following complaints about earlier versions by affected sectors. There was widespread agreement that stabilization plans with wage and price freezes were increasingly less effective, as indicated by the progressively shorter effective life of each succeeding plan.[63] The general disapproval of the second Collor Plan by the business community contrasts with the high rating the new plan received in an early public opinion poll, in which there was also widespread popular agreement with the government's accusations that businesses were abusing their ability to raise prices.[64] Such sentiments call into question the social self-confidence articulated by interview respondents only a few years before.

There was, in fact, much less concern expressed by interview respondents about the effects on their profits of the current price freeze than had been expressed three years earlier about similar policies of the Sarney regime. "Rational expectations" had obviously influenced the development of protective, anticipatory pricing policies of some firms who had been burnt in the first price freezes. However, there is some independent analysis to suggest that, despite anticipatory price increases, profit margins in industry were indeed squeezed during the first year of the Collor regime because of wage adjustments and changes in relative prices of other inputs, especially goods and services purchased from government enterprises.[65] It was also clear in respondents' comments that no one expected the freezes to last, so there was also visible impunity in the lack of compliance. Expectations of ineffectiveness were becoming self-fulfilling prophecies.

There was at the same time none of the self-confidence in the viability of the Brazilian economic model that had been manifested three years earlier. One respondent described the protectionist, noncompetitive ECLAC model as a "leftist" model that had the perverse effect of favoring the industrial elites of the society. In the 1991 interviews there were more declarations by respondents about the eventual need to become more efficient for international competition, and a wide acknowledgment of, if not enthusiasm for, the need to open the Brazilian economy. One of the successful exporters interviewed in 1988 was still successful and growing. However, he was pessimistic about Brazilian prospects and acknowledged that all his major current investment plans for expansion were outside Brazil, for instance, in the European common market. The operating control of another successful industrial firm in the sample had passed from a father to an American educated son since the last interview, and the son had begun to implement a comprehensive and sophisticated restructuring of the firm, utilizing European and American management consultants. The objective in this case was not so much to enter export markets as to prepare to compete effectively in traditional domestic markets with the foreign competition that he believed would accompany eventual liberalization of the economy. Other respondents spoke simply about the continued perceived rise in capital flight, something that, three years ago, was seen as untypical of Brazilian investment behavior. Part of the blame for the increase in capital flight, however, was placed on the abolition by the new government of anonymous bearer accounts, which previously had provided safe havens in the Brazilian banking system for revenues from activities in the underground economy.

Weakening self-confidence on the part of Brazilian respondents did not, however, translate into a heightened concern for resolving social questions, that is, questions of poverty, unemployment, and unequal income distribution, despite their potentially destabilizing social and political effects and despite the fact that Brazilian unemployment had risen by almost one million people in the month prior to the interviews. There was, instead, criticism of the government's inconsistency in criticizing private sector layoffs while continuing to urge enterprises to become more cost-conscious and efficient.

Lack of confidence in the Brazilian model was also evident in the change of attitudes towards the liberalization of the economy of Chile. Whereas in 1988 the attitude had been patronizing and complacent toward Chilean business, now the attitude was one of admiration. Chile was dismissed by one respondent as having moved beyond the orbit of Brazil and other Southern Cone countries, preferring to pursue free trade with North American countries while eschewing participation in a regional common market.[66] In more than one instance admiration was qualified by the suggestion that the Chilean economy, being smaller and less complex, was more adaptable to change.

Others, however, blamed differences in government policy but did not move to the easy conclusion that Brazilian economic prospects would have benefited from a continuation of the military regime in place of the democratic transition. Rather, the blame for ineffective policies was placed equally on the democratic governments and on the previous military governments, which were criticized for failing to pursue a coherent policy of economic restructuring like that maintained through much of the Pinochet regime in Chile. The Brazilian military regime was accused of having begun properly but of having later sold out to existing economic interests. There was no hint of support for a return of authoritarian government, but neither was there optimism about the emergence of economic leadership and economic viability in the current political climate. There were relatively few proposals of institutional reforms needed for economic improvement in the 1991 interviews, and these were sometimes conflictive with some favoring greater liberalization and others favoring different but still strong government intervention in the economy. There was instead more collective expression of fears that the social values needed to drive the economy effectively were disintegrating. For one respondent the present economic system was running on corruption at all levels of government and in all sectors in the pursuit of vested interests. For most this was at best a risky moment and at worst a dark one.

By late 1991 the original economic team of President Collor had been replaced, but many economic indicators continued to worsen in the manner of a self-fulfilling prophecy of the gloomy expectations of the business community earlier in the regime. Despite a contraction in federal government expenditures of 25 percent in real terms during the first half of the year (due to lower costs of debt servicing and lower government salaries), the federal deficit continued to grow because of a 30 percent decline in the real value of revenues and because of increased deficits in state and municipal budgets and in off budget government programs like Social Security.[67] The new constitution exacerbates the problem of public deficits by increasing the share of tax revenues transferred to states and cities and by mandating a number of specific social benefits, for example, paid maternity leaves, indexing of pensions and pension entitlements unrelated to age.

As a result the government proposed a number of structural changes, including constitutional changes to limit retirement benefits, to create mechanisms for financing state and municipality deficits, and to permit the dismissal of public officials. Plans for privatization of state enterprises, including telecommunications and the USIMINAS steel company, were announced.[68] However, the pace of privatization in Brazil has been slower than in Mexico and Argentina. By November 1991, only four state companies had been sold, and many of the shares in them were sold to other state companies and to state pension funds.[69] However, political and economic time lags in the realization of tangible effects of these measures left the economy subject to continuing inflationary pressures, and by July the annual rate of consumer price inflation was once again in the triple digit range and indexing mechanisms were once again introduced.[70] On the other hand, it appeared that the gradual return to circulation of the liquid balances that had been frozen under the first Collor Plan, beginning with a two billion dollar release in August, was not being channelled to circulation but was being used largely to finance the public sector under new instrumentalities created to replace the earlier “overnights.”[71] There is survey evidence that the vast majority of previously blocked balances are likely to be maintained in financial instruments following release.[72]

At the same time, there was some evidence of recovery in economic growth and capital formation following large declines in the first quarter of the year. Nevertheless, with the gradual release of a total of 24 billion dollars of blocked balances, it would be unlikely that the Brazilian government could continue to finance its deficits at the relatively low real interest rates paid on the blocked balances (6 percent) or on the new short-term instruments (8.5 percent) without severe anti-inflationary measures.[73] In fact, the restrictive monetary and fiscal policies of the new economics minister, known as the “liberal shock,” which began in August 1991, did achieve some moderate success in reducing inflation but at the cost of a 6.5 percent drop in per capita national income for the year.[74] Meanwhile, highly publicized charges of government corruption and widespread disapproval of the president persisted into 1992, when on March 30 about half the cabinet resigned following various accusations of corruption.

The familiar recurring pattern of countervailing financial maneuvers by government and the private sector in a climate of mutual mistrust reinforces the disintegration of conventional financial intermediation assumed in normal explanations of growth led by private sector investment and focuses preoccupation of entrepreneurs and administrators upon short-term financial behavior linked to protective reaction against inflation. Moreover, the prolonged repetition of inflationary cycles dominated by governmental borrowing needs sharpens the development of defensive instrumentalities and skills in the private sector for responding self-protectively against the threats of new macroeconomic stabilization policy “surprises,” conventional or heterodox.

CONCLUSION: SOME COMPARATIVE REFLECTIONS

The contrasts in self-perceptions of businesspeople against the background of transitions to democracy in Chile and Brazil, already sharp in the interviews conducted in 1988, had achieved almost the clarity of caricature by 1991. If perceptions are self-fulfilling, it can be argued at the personal level that the self-confidence of the Chilean business leaders interviewed in 1988 has contributed to the subsequent economic growth, which in turn has reinforced the sense of stability and continuity that justifies further optimism. And it can be argued that the self-perceived lack of competitiveness of the Brazilian private sector has contributed to its lack of entrepreneurship, investment, and growth since then. However, it is also true that the uncertainty generated by the poorly understood and fluctuating actions taken by the new government contribute to the pessimism and stagnation that characterize the private sector in Brazil. There is an axiom in economics, usually attributed to Keynes, that in circumstances of complete uncertainty, the typical response is to expect the present situation to continue. When the present situation is one of crisis, the result will, at best, be more of the same. And so it would be inaccurate to conclude that Brazil lacks the entrepreneurial capability of Chile.

The reality, of course, is a historical, interactive mix of individual and social behavior with institutional and structural characteristics that makes facile comparisons precarious. At the level of personal differences it may well be that complaints about government behavior in Brazil are, at least in part, the expressions of pain that accompany a competitive shakeout in a liberalizing economy. Interview respondents in Chile, on the other hand, were the survivors and successors of a generation in the private sector that was exposed to relatively unrestricted foreign competition and then devastated by the economic crises of 1976 and 1982, which wiped out a manufacturing sector and bankrupted large numbers of firms across all sectors of the economy. The fact that the survivors are successful performers in the neoliberal model that was maintained throughout both crises may be a tribute not so much to ideological or structural transformation as to a Darwinian principle of survival of the fittest. The losers, if interviewed, may well have sounded as pessimistic as those currently threatened by market changes in Brazil.

The business community as a whole in Chile had been a dominant social force in the civil resistance to the Allende regime.[75] So, it is understandable that the survivors of the economic shakeouts that followed should be loyal political supporters of the neoliberal economic model that they had mastered and supporters of the political regime that had imposed and sustained it.

At the same time, the economic significance of consistency and continuity of economic policies in creating a perception of stability in order to maintain risk-oriented business behavior, for example, in productive investment, is clear in respondents' comments in both countries. The rapid acceptance by business leaders of economic policies in the new government in Chile and the criticisms of the economic policies under the military regimes in Brazil by Brazilian respondents mean that the perception of stability is not inherently dependent upon the nature of the regime as authoritarian or democratic but on the perception that the rules of the game are clear, consistent, and continuing.

Similarly, the persistent complaints by Brazilian respondents that the new government failed to consult or negotiate with the affected parties before imposing new policies and regulations, which contrasts with the new Chilean government's excellent reputation for consultation with the private sector, may not simply be a function of the quantity of contacts and consultations. Rather, the complaints may actually refer to the fact that communication and consultation are not occurring according to traditional corporatist rules and channels, thereby creating a threatening sense of discontinuity and uncertainty. Interviews with two members of the economic team in the Collor government elicited expressions of fatigue from the time and energy spent in communication with groups of economic actors rather than in the policy design they saw as their principal responsibility. Some of these enervating discussions may qualify as the cost of damage control after the fact, rather than the cost of prior consultation, and the remarks by members of the economic team may also reveal an implicit model of policy determination that is hierarchical and authoritarian.

Nevertheless, other hypotheses can be suggested to account for the differences in perceptions by the business communities in the two countries of their relations with the new democratic governments. One has to do with the simple fact of size—the size of the country, the size of the economy and the size of the political task.

The scale of communication required in Brazil to allow all interests to be represented in a much larger and more complex economy than that of Chile is simply much greater, and the problems of effective political communication of policies in a democratic system to effect radical structural changes for a larger, heterogeneous society may increase geometrically rather than linearly. Even with the mediation of intermediary associations the corporatist Brazilian economy may simply be too large for feasible and comprehensive consultation, or even for creating the perception of effective participation, in a process of fundamental structural reform. The minister of finance in a country of 13 million people, if he is so inclined, can most likely communicate directly with a larger percentage of private sector leadership about relatively incremental changes than can his counterpart trying to effect a fundamental restructuring of economic and political relationships in a country of 150 million people.

However, the diverging reactions of the business communities in the two countries may also be a function of differences in political organization and style. Chile began its transition with a coalition of major political parties that created a broad base of representation, which in turn was exploited by the new administration even before the election to negotiate various forms of social pacts, both within the coalition and with groups outside the coalition, including the business community and the center-right political party that represented it. Astute negotiating under such circumstances may not only have tapped a growing reserve of national pride and loyalty that has accompanied a transition perceived as successful, but may also have resulted in the perception of a positive sum game by a majority of participants in the process. In Brazil, on the other hand, a president described by interview respondents of the same socioeconomic level as a “maverick” without a strong organized political base in a nation of weakly identified political parties simply failed to establish a process of cohesive social negotiation capable of creating even the perception of a positive sum game in the “top down” process of introducing fundamental structural reforms.[76]

Finally, it can also be postulated that liberalization of the Chilean economy, despite the high social costs it incurred in terms of bankruptcies, recession, poverty, unemployment, and political repression in the 1970s, may have been a structurally simpler economic task than the liberalization of the Brazilian economy today. As Chile reallocated resources from inefficient protected industries in the 1970s, the industries that were adversely affected by liberalization were largely consumer goods and soft goods industries which were most likely less capital intensive and less technologically retarded than the capital goods industries and consumer durable goods industries that could be threatened by liberalization in Brazil today. A study recently released by the Secretary for Science, Technology, and Economic Development for the State of São Paulo suggests that the technological gap between Brazilian industry as a whole and the rest of the world widened more during the 1980s than during previous decades.[77]

Moreover, Chile was able to identify production possibilities, some of which could be called nontraditional, in which it had a natural comparative market advantage and for which international markets were relatively open and growing, for instance, temperate zone fruit, wood products, fish products, and natural energy sources (methanol). Fortunately for Chile the technology necessary for effective international competition in temperate zone agricultural products is in large part nonproprietary and, because of its applicability to farms of varying size, is not conducive to oligopolistic control of national production. Climatic conditions in Chile, especially in the central valley, are similar to those in central California where much of the most sophisticated agricultural technology has been developed in nonprofit research universities, for example, the University of California at Davis. Well educated Chileans pursue advanced studies at such institutions and can thereby establish the necessary contacts for relatively free future access to university generated technical information that makes the transfer of the latest technology inexpensive when compared to the costs of such transfers in manufacturing sectors where technology is developed under private contracts and is protected by proprietary patents. It is not clear that similar opportunities are available to Brazil in sufficient quantity to offset the potential damage of complete liberalization to its relatively capital intensive, import substituting, industrial sectors. Furthermore, it is not clear whether multinational firms that were originally lured to Brazil by the potential size of its domestic market would continue to produce locally for local consumption if liberalized imports proved to be more cost effective.

Investment decisions in productive capital by business enterprises are a function of many variables, including interest rates, projected profitability, risk, uncertainty, liquidity, credit rationing, opportunity costs, and so on, and economic theories differ in the emphasis placed on determinants of capital supply and determinants of capital demand and the specific variables in both. Interview responses suggest that business investors also place different weights on different variables. Before the transition to democracy in Chile some respondents in growth sectors, such as export agriculture, complained about credit rationing by banks on the supply side and declining profitability due to rising land costs on the demand side. During the growth period after the transition, the same respondents spoke mostly of demand side variables, for example, profitability concerns based on international market prospects, but there was satisfaction with availability of credit, partly because of renewed availability of foreign loans.

In Brazil, on the other hand, supply side considerations like high interest rates due to inflation, uncertainty, and crowding out by government borrowing, were dominant concerns in 1988 for domestic firms, while foreign firms relied upon retained earnings and access to credit through parent companies abroad. By 1991, reduced profit margins in both domestic and foreign firms, cash flow crises, and lack of confidence in government and its policies simply overwhelmed normal investment expectations and raised the perceived real cost of interest rates relative to profitability as discounted for perceived risk and uncertainty.[78]

So, it is possible that the fears and defensive behavior of Brazilian businesspeople are, at least in part, rational responses, not only individually but socially, to a program of liberalization, and to the uncertainty and alienation that accompany administrative imposition of new economic rules within an economic and political system grounded in individualistic behavior. On the other hand, the cumulative success of entrepreneurial initiative, consistent economic policies, and political negotiation and coalition building that has accompanied the transition to democracy in Chile has yet to be tested for endurance, either by the need to move to more complex forms of industrial modernization, management, and labor relations or by sustained external economic shocks to which small economies are often especially vulnerable. Moreover, Chile's return to democracy has been party led, with social movements, labor unions, business associations, and other organizations playing a much less significant role in the political process than political parties. Consequently, the current declining influence of political parties of the right in Chile could potentially constrain the incorporation of business elites into the democratic process.

The continued dynamism of Chile's export economy may also be problematic. A high proportion of the value of Chile's exports, even its manufactured products, is still based upon primary products, and it is already evident in the 1991 interviews that the period of rapid growth in export commercial agriculture is ending at the same time that copper prices are weakening. Market-driven elaboration of primary products to increase the Chilean value added of exports is continuing, for example, in food processing and wood products. This may well be enough to sustain economic growth for a nation of only 13 million people. But if growth ultimately requires more complex organization of production, mobilization and training of labor, technology development and transfer, and aggressive marketing, Chilean business will be tested like its larger and more industrialized neighbors.

Another, perhaps more likely, test of the relatively open Chilean economy will be the next external economic shock from an increasingly integrated world economy, for instance, an international financial crisis or recession, or a wave of protectionism in its major foreign markets which are the same handful of countries facing import pressures from liberalizing developing countries around the world. According to interview respondents in the private sector of Chile, the test of Chile's political resilience will be a smooth transition of the public sector through the next democratic election. So too, the test of economic resilience in the modernized private sector of Chile may well be its ability to effect a smooth transition through the next international recession.

ENDNOTES

1 Entrepreneurial spirit is subject to culturally relative definitions but is used here in a classical liberal sense, e.g., as the "drive for material progress through profit-minded, competitive, innovating, risk-taking enterprise" along with the requisite managerial, marketing, and technical expertise, as used by Albert Lauerbach, "Management, Entrepreneurship, and Development Needs," in *Workers and Managers in Latin America*, ed. Stanley M. Davis and Louis Wolf Goodman (Lexington: D. C. Heath and Company, 1972), 174.

2 See Hugh H. Schwartz, "The Potential Role of Behavioral Analysis in the Promotion of Private Enterprise in Developing Countries," *The Columbia Journal of World Business* (Spring 1988), 53-56.

3 These elements, of course, need not be independent of one another. Market uncertainty, cultural bias against profit seeking, and lack of access to long-term capital may rationalize the alleged preference of Latin American businesspeople for short-term trading profits rather than long-term productive investment, which is cited as evidence of the scarcity of classical entrepreneurial spirit.

4 See Alejandro Foxley, *Latin American Experiments in Neo-conservative Economics* (Berkeley: University of California Press, 1983).

5 Perceptions are here understood as "the process by which economic agents confronted with technological, market and public policy data 'read' those data, assigning quantitative or qualitative values to them." See Hugh H. Schwartz, "Perception, Judgement, and Motivation in Manufacturing Enterprises: Findings and Preliminary Hypotheses from In-depth Interviews," *Journal of Economic Behavior & Organization* 8, no. 4 (December 1987): 544.

6 Although the election of Fernando Collor de Mello in Brazil was not Brazil's first presidential election following the transition from an authoritarian regime, it was the first in which the elected candidate assumed office, since Collor's predecessor, José Sarney, assumed office as the result of the untimely death of Tancredo Neves following his election and prior to his inauguration.

7 Jaime Gatica Barros, *Deindustrialization in Chile* (Boulder: Westview Press, 1989), 38-39.

8 Ibid., 32-36.

9 José Franco Mesa, "Agricultura: El dificil año 75," *Mensaje* (March-April 1976): 105-9.

10 Anne O. Krueger, Maurice Schiff, and Alberto Valdés, "Agricultural Incentives in Developing Countries: Measuring the Effect of Sectoral and Economywide Policies," *The World Bank Economic Review* 2, no. 3: 255-71.

11 Ibid.

12 Jorge Echenique, "Las políticas agrícolas en el marco del ajuste" (FAO, Santiago, 1991, unpublished), 12-13.

13 See "La hora de Angelini y Matte," *Hoy*, no. 464, 15 June 1986, 29-30; and Rodolfo Contreras M., *Más allá del bosque: La explotación forestal en Chile* (Santiago: Amerinda, 1989), chapter 4.

[14] See Maurice Zeitlin and Richard Earl Ratcliff, *Landlords and Capitalists: The Dominant Class of Chile* (Princeton: Princeton University Press, 1988), esp. chapter 4.

[15] Echenique, “Las políticas agrícolas,” 24-28.

[16] Alexander Schejtman, “La transformación productiva del sector agrícola: El caso chilena” (CEPAL, Santiago, unpublished), 16.

[17] Ibid., 49.

[18] By some estimates employment in agriculture has increased more rapidly than in other sectors during the past decade. See Echenique, “Las políticas agrícolas,” 21.

[19] Ibid., 20.

[20] Guillermo Campero, “Los empresarios ante la alternativa democrática: El caso de Chile,” in *Empresarios y estado en América Latina*, ed. Celso Garrido N. (Mexico: CLACSO, 1988), 248-49.

[21] Oscar Muñoz, “El papel de los empresarios en el desarrollo: Enfoques, problemas y experiencias,” *Collección Estudios CIEPLAN* 20 (Santiago: CIEPLAN, 1986), 95-120; and O. Muñoz, “El estado y los empresarios: Experiencias comparadas y sus implicancias para Chile,” *Collección Estudios CIEPLAN* 25 (Santiago: CIEPLAN, 1988), 5-53.

[22] For a sociological analysis of the emergence of the new generation of Chilean entrepreneurs, see Cecilia Montero, “La evolución del empresariado chileno: ¿Surge un nuevo actor?” *Collección Estudios CIEPLAN* 30 (Santiago: CIEPLAN, 1990): 91-120, esp. section 4, 102-7.

[23] The supportive attitude of the Chilean private sector towards foreign investment is mirrored in Ricardo Zabala, “Inversión extranjera en Chile,” *Estudios Públicos* 28 (Spring 1987): 219-77.

[24] See Campero, “Los empresarios ante la alternativa democrática,” 262; and cf. Montero, “La evolución del empresariado chileno,” 94-97.

[25] The United States ambassador to Chile at the time, Harry Barnes, recognized this communication problem and initiated unpublicized and unrecorded private discussion among prominent invitees from the private sector and from the democratic coalition prior to the plebiscite.

[26] Santiago: CIEPLAN, 1967.

[27] It is interesting to note that the two names mentioned as hostile to the private sector were not among the 17 members of CIEPLAN who subsequently were appointed to positions in the new democratically elected government.

[28] Campero, “Los empresarios ante la alternativa democrática,” 262.

[29] Alejandro Foxley, “Entre la estabilidad y el cambio,” interview in *El Mercurio*, 6 July 1989, 6.

[30] Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economy of Latin America and the Caribbean 1990* LC/G.1646 (Santiago, Chile, 1990), Table 2, 25.

[31] Inter-American Development Bank (IDB), *Economic and Social Progress in Latin America, 1990 Report* (Washington: IDB, 1990), 74-78.

[32] ECLAC, *Preliminary Overview 1990*, Tables 4 and 6, 26, 27.

[33] IDB, *Economic and Social Progress Report 1990*, 76.

[34] Cristián Eyzaguirre J., “Comentarios en torno a la reforma tributaria,” Puntos de Referencia, Centro de Estudios Públicos, no. 47 (April 1990).

[35] For movements in money supply and exchange rates, see ECLAC, *Economic Panorama of Latin America 1990*, LC/G.1638 (Santiago, Chile, 1990), Tables 9 and 14; 45, 48.

[36] Data in this paragraph from ECLAC, *Preliminary Overview 1990*, Tables 2, 4, 5, 6, 8, 9, and 12, 25-30.

[37] *El Mercurio*, 28 February 1991, B1, and 6 March 1991, B1.

[38] *Set de Estadísticas Económicas*, no. 78 (Santiago: CIEPLAN, March 1991).

[39] Ibid.

[40] *El Mercurio*, 6 March 1991, B1.

[41] Eduardo Aninat Ureta, “Investment Opportunities in Chile: Results from a Survey of Projects 1990-95” (Santiago, 1990, unpublished).

[42] Pablo Baraona, former minister of the economy, in a published interview in *Hoy*, no. 691, 15-21 October 1990, 11.

[43] Respondents criticized, for example, negative comments about the present government allegedly attributed to the former finance minister and presidential candidate of the parties on the right, Hernan Büchi.

[44] *Set de Estadísticas Económicas*, no. 87 (Santiago: CIEPLAN, December 1991).

[45] CIEPLAN, “Chile: Situación económica,” *Situacíon Latinoamericana*, Año 1 - no. 5 (Madrid: CEDEAL, October 1991): 97-99.

[46] Terrorist assassinations of several prominent conservatives in early 1991, including Senator Jaime Guzman, a leader of the far right Independent Democratic Union party, reignited business fears of political instability as well. See “Terrorism Jolts a Prospering Chile,” *New York Times*, 9 April 1991, C1.

[47] Rodrigo Baño, “Chile: Situación política y social,” *Situacíon Latinoamericana*, Año 1 - no. 5 (Madrid: CEDEAL, October 1991): 111.

[48] Ibid., 110-16.

[49] CIEPLAN, Carmen Celedón, “Chile: Situación económica,” *Situación Latinoamericana*, Año 2 - no. 8 (Madrid: CEDEAL, April 1992): 84-90.

[50] Ibid., 91.

[51] ECLAC, *Economic Panorama of Latin America 1987* LC/G.1481 (Santiago, Chile: 1987), Table 4, 25.

[52] IDB, *Economic and Social Progress in Latin America,1988 Report* (Washington: IDB, 1988), 361.

[53] ECLAC, *Economic Panorama of Latin America 1988*, LC/G.1531, (Santiago, Chile, 1988), Table 4, 28.

[54] See, for example, Dionisio Dias Carneiro Netto, “The Cruzado Experience: An Untimely Evaluation after Ten Months,” *Texto para discussão* no. 152 (Universidade Católica do Rio de Janeiro, Departamento do Economia, 1987); Eduardo Marco Modiano, “The Cruzado Plan: Theoretical Foundations and Practical Limitations,” *Texto para discussão* no. 154 (Universidade Católica do Rio de Janeiro, Departamento do Economia, 1987); Werner Baer and Paul

Beckerman, “The Decline and Fall of Brazil’s Cruzado,” *Latin American Research Review* 24, no. 1 (1989): 35-64; Antônio Kandir, *Dynamics of Inflation* (Notre Dame: University of Notre Dame Press, 1991).

[55] For an extended analysis of varying degrees of competitiveness in the Brazilian auto parts industry, see Caren Addis, “The Revanche,” chapter 4 of “Tactics and Hybrids: The Peaceful Coexistence of Mass and Flexible Production in the Brazilian Motor Industry” (Ph.D. diss., Massachusetts Institute of Technology, forthcoming 1992).

[56] See “A Survey of Brazil,” *Economist*, 321, no. 7736, 7 December 1991,18.

[57] ECLAC, *Preliminary Overview 1990*, Table 2, 25.

[58] ECLAC, *Economic Panorama 1990*, Table 4, 28.

[59] ECLAC, *Economic Panorama of Latin America 1991* LC/G.1680 (Santiago: United Nations, 1991), 25. Other estimates place the value of the frozen private savings as high as US $110 billion. See “A Survey of Brazil” (*Economist*), 9.

[60] ECLAC, *Preliminary Overview 1990*, Table 2, 25.

[61] See “Baixar o preço para evitar a concordata,” a report of a harsh message from the minister of the economy, Zélia Cardoso de Mello, to FIESP in *Gazeta Mercantil*, 25 October 1990, 1.

[62] See *Folha de São Paulo*, 25 February 1991, cad. 3, 1.

[63] See “O desgaste do tempo,” *Veja*, 6 February 1991, 35.

[64] *O Estado de São Paulo*, 23 February 1991, cad. “Economia,” 1.

[65] Edward J. Amadeo and Gustavo H. B. Franco, “Inflação e preços relativos no plano Collor: Avaliação e perspectivas,” *Texto para discussão* no. 250 (Universidade Católica do Rio de Janeiro, Departamento do Economia, 1990).

[66] The presidents of Argentina, Brazil, Paraguay, and Uruguay had just signed the Treaty for the Creation of the Southern Cone Common Market. See *O Estado de São Paulo*, 23 February 1991, cad. “Economia,” 5.

[67] ECLAC, *Economic Panorama 1991*, 25.

[68] Ibid.

[69] “A Survey of Brazil” (*Economist*), 9.

[70] Ibid., Table 5, 25.

[71] Ibid., 25.

[72] Luis G. Belluzo and J. Gómez de Almeida, “Brasil: Situación económica y situación política y social,” *Situacíon Latinoamericana* Año 2 - no. 8, April 1992, 43-44.

[73] Ibid., 42.

[74] Ibid., 33-40.

[75] See Guillermo Campero, *Los gremios empresariales en el período 70-83* (Santiago: ILET).

[76] Cf. Adam Przeworski’s critique of neoliberal stabilization policies in “Notes after the Budapest Meeting” (Chicago, 1991, unpublished), 13.

[77] *Folha de São Paulo*, 23 February 1991, cad. 3, 1.

[78] For a similar, more focused analysis see Luis Carlos Bresser Pereira, “Investment Decision and the Interest Rate in Normal and Exceptional Times” (February 1991, unpublished).