

Putting the Horse Before the Cart: Neoliberalism and Post-Neoliberalism in Chile

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The recent popular uprisings in Chile have been interpreted as part of the broader ascendancy of a post-neoliberal order in the region and beyond. And indeed, the case of Chile is seminal to the potential emergence of a post-neoliberal world because the Pinochet dictatorship is generally regarded as the laboratory of neoliberalism. In order to understand the contours, possibilities, and limitations of any post-neoliberal world, however, we must first clarify what we mean by 'neoliberal'. It be will contended that much of the literature on neoliberalism and post-neoliberalism suffers from a narrow ontology of states-and-markets, whereby economic development is problematized in terms of the appropriate design of and relationship between state and market actors and the history of economic development is reduced to the alternation between models grounded in either states or markets. Yet if we conceptualize neoliberalism not simply as a set of policies to reconfigure the relationship between states and markets but rather as a state-led constructivist project to institutionalize and deepen capitalist hegemony, the dictatorship in Chile appears in a very different light. Far from withdrawing the state from the market, Pinochet government deployed the extraordinary state power at its disposal to reconstruct the social foundations of Chilean society and institutionalize a profound capitalist hegemony. The emergence of a post-neoliberal society, therefore, will require much more than a shift in public policy: it will require a transformation in the processes and institutions of identity formation and collective action that shape and define our politics.

Neoliberalism and Post-Neoliberalism: Beyond States-and-Markets

As a result of their origins in the states-and-markets ontology, much of the debate about neoliberalism has focussed on its role in getting the state out of the market, for better or for worse, and post-neoliberalism as the return of the state to its previous role of social and economic regulator of the market.¹ The objectives of neoliberalism, in this narrative, are “to roll back the state, liberalize and deregulate the economy, and increase the size of the private sector” (Macdonald & Ruckert, 2009, 3), and are realized by means of the familiar policy prescriptions of the ‘Washington Consensus’: fiscal austerity, liberalization and deregulation, and privatization among other measures. Post-neoliberalism, for its part, represents the “rise of an alternative model of development that goes beyond the Washington Consensus” (Rovira Kaltwasser, 2011, 232). Though most analysts concur the turn towards post-neoliberalism remains preliminary and does not entail a clean break from the previous period, with policies of macroeconomic openness and stability broadly maintained, they do claim post-neoliberalism involves the “return of the state” (Grugel & Riggirozzi, 2012, 1), particularly with respect to the “use of state power to stimulate the economy and correct widespread market failures” and “the provision of human and social capital, the subsidization of consumption for the poor, and other social investments” (Macdonald & Ruckert, 2009, 7).

But does the deployment of state power to promote economic growth, correct market failures, and invest in human capital really represent a qualitative shift away from neoliberalism? The short answer is no, but we must deepen and refine our answer at two levels: public policy and state-society relations. At the level of public policy, part of the problem is the tendency among critics of neoliberal reforms to focus exclusively on the negative side of the reform program, i.e., the purging of the previous system of extensive and often times unwieldy economic controls and social expenditures. From its beginnings, however, neoliberalism consisted of not only a ‘negative’ agenda of institutional deconstruction but also a ‘positive’ agenda of institutional reconstruction. The problem was never state ‘intervention’ per se, but particular kinds of intervention. It was not state support for the economy that was objectionable, but rather indiscriminate state support that introduced gross inefficiencies into the functioning of markets. Similarly, social spending and investments were not to be abolished but rather targeted more effectively to benefit the poorest segments of society, rather than the middle and upper-income sectors that had been the primary beneficiaries of public spending in areas like pensions and university education. Indeed, in his seminal elucidation of the “Washington Consensus”, John Williamson observed that “policy reform with regard to public expenditure...consist[s] of switching expenditure from subsidies toward education and health

¹ There are important exceptions such as Peck, Theodore and Brenner (2009) and Taylor (2009).

(especially to benefit the disadvantaged) and infrastructure investment,” while also noting “there are circumstances in which carefully targeted subsidies can be a useful instrument” (1990, 12).

In the Chilean case, perhaps the most orthodox neoliberal experiment ever conducted, the state engaged persistently in policies to stimulate the economy and target social investments towards the poorest. From the beginning, the Chicago Boys consisted of “economic liberals”, represented by Sergio de Castro in the Ministry of Finance, and “social liberals”, represented by Miguel Kast in the National Planning Office (ODEPLAN), but neither were *laissez-faire* liberals.² As we shall see, the military regime showered state support and subsidies upon the new export industries. And while the deficit-reduction program of the 1970s did involve dramatic initial cuts in social programs, these were primarily a response to the more than doubling of social expenditures in the early 1970s. Once real levels of social expenditure were effectively returned to their more sustainable pre-Allende baseline, they began to grow again. The real transformation in social expenditures was not so much their level as their composition: middle and upper-income groups were shifted into private provision so that public funds could be directed towards the most vulnerable populations via investments in primary education and health care and expenditures on new programs like minimum pensions and family allowances (see Illanes & Riesco, 2007).

At the level of state-society relations, the weaknesses of the states-and-markets ontology become clearer. The first limitation of the states-and-markets framework is that it treats the state as external to the economy, whether as a negative force distorting the efficient allocation of resources or as a positive mechanism to correct market failures. One of the chief lessons of Karl Polanyi, however, is that the state is not external to but rather constitutive of the economy, and as a matter of logic it can neither ‘intervene’ in nor ‘withdraw’ from the economic process. What neoliberalism represents, therefore, is not the withdrawal of the state from the economy, but rather a change in the form of the state presence. This is why former Minister of Finance Hernán Büchi rejected the term deregulation to characterize the policy reforms of the military regime, writing “...the word could not be more unsatisfactory”, because the objective of the military regime was not to deregulate but rather construct new regulations (2008, 63). All ‘deregulation’ is merely a new form of regulation, a new means by which the state constitutes the economic process that bolsters the positions of some while weakening the positions of others. Gramsci recognized as much when he observed, “...*laissez-faire* too is a form of state ‘regulation’, introduced and maintained by legislative and coercive means” (1971, 160), as did Polanyi, who famously quipped, “Laissez-faire was planned” (2001, 141).

The second limitation of the state-and-markets ontology is its assumption of static social actors. If, however, we examine how civil-society actors are formed and transformed, at a deeper level it becomes clear that neoliberalism is much more than a change in the form of the state presence that benefits some over others. Because the process of state formation is inseparable from the process of civil-society formation, neoliberalism is at its core a constructivist project designed to reconstitute not only the state apparatus but also the basic subjectivities of civil society according to what Polanyi identified as the integrative principle and institutional pattern of capitalist society: individual gain and market competition (1957). To treat neoliberalism as merely a set of economic policies is to eschew the constructivist rationality that organizes and informs these policies and transcends the institutional binary of states-and-markets. As Wendy Brown observed: “it [neoliberalism] does not presume the ontological givenness of a thoroughgoing economic rationality for all domains of society but rather takes as its task the development, dissemination, and institutionalization of such a rationality” (2003, 4). As we shall see in the Chilean case, although neoliberal critics openly derided the social and economic engineering of the import-substitution industrialization period, the neoliberal state was every bit as constructivist as its predecessor.

It will be contended here that the ontology of states-and-markets has limited not only our understanding of neoliberalism and the Pinochet dictatorship, but also of what possibilities exist in Chile and Latin America for a post-neoliberal future. I use the term ‘limited’ precisely because the problem with the prevailing understandings of neoliberalism and post-neoliberalism is not that they are wrong, as they indeed capture critical elements of the transformations of the past several decades, but that they conceal as much as they reveal. If we push beyond the level of public policy and institutional configurations to incorporate civil

² Interview with Former Minister of Finance Rolf Lüders, July 19, 2011, Santiago, Chile.

society, it becomes apparent that the conventional understanding of neoliberalism in Chile masks a more fundamental reality: the dictatorship did not free the market from the state but rather deployed the power of the state to reconstitute the class structure and social subjectivities of civil society. If we want to interrogate the possibilities for post-neoliberal societies in Chile and beyond, then, we must first clarify the meaning and practice of neoliberalism.

Pinochet, the 'Chicago Boys', and the Constructivist Project

Upon assuming control over economic and social policy in mid-1974, the Chicago Boys found themselves in a position of extraordinary power vis-à-vis civil society. Not only had the dictatorship suppressed the opposition through fear, violence, and exile, the expropriation during the Allende years of much of the financial, agrarian, mining, and industrial sectors weakened the entrenched capitalist interests opposed to more radical reforms. The historical opportunity, moreover, was not lost on the Chicago Boys, who wrote in their neoliberal blueprint, "The Brick", "It [the Popular Unity government] opens a wide channel for a real and profound correction and creates the necessary conditions for the adoption of political and economic measures that, motivating the work and effort of our human resources, will put us on the true path to social, cultural, and economic progress" (de Castro, 1992, 29). The plan, however, was not to get the state out of the economy but use state power to transform society. In fact, the main critique of prior economic policy was not its reliance upon planning but rather the haphazardness of its plans: "One general argument used in favour of unrestricted state intervention is the necessity of planning the global activities of the country. We concur with this necessity. But it is necessary to clarify that planning should be carried out with clear objectives...In Chile the term planning has lacked content and precision and has been used to establish mechanisms of control whose only objective is control for its own sake..." (de Castro, 1992, 31).

As macroeconomic reforms were supplemented by the infamous seven modernizations, particularly labour, social security, education, and health, it became clear the inspiration for the Chicago Boys was not so much the economic theories of Milton Friedman as the social theory of Friedrich Hayek, who was himself well aware that more than an economic system, the market was a constructivist social order:

The spontaneous order of the market, based on reciprocity or mutual benefits, is commonly described as an economic order; and in the vulgar sense of the term 'economic' the Great Society is indeed held together entirely by what are commonly called economic forces. But it is exceedingly misleading...I have become convinced that this practice so constantly misleads people that it is necessary to invent a new technical term for it. I propose that we call...the market a *catallaxy*...derive[d] from the Ancient Greek verb *katallatein* which, significantly, means not only 'to barter' and 'to exchange' but also 'to admit into the community' and 'to turn from enemy into friend' (1984, 367).

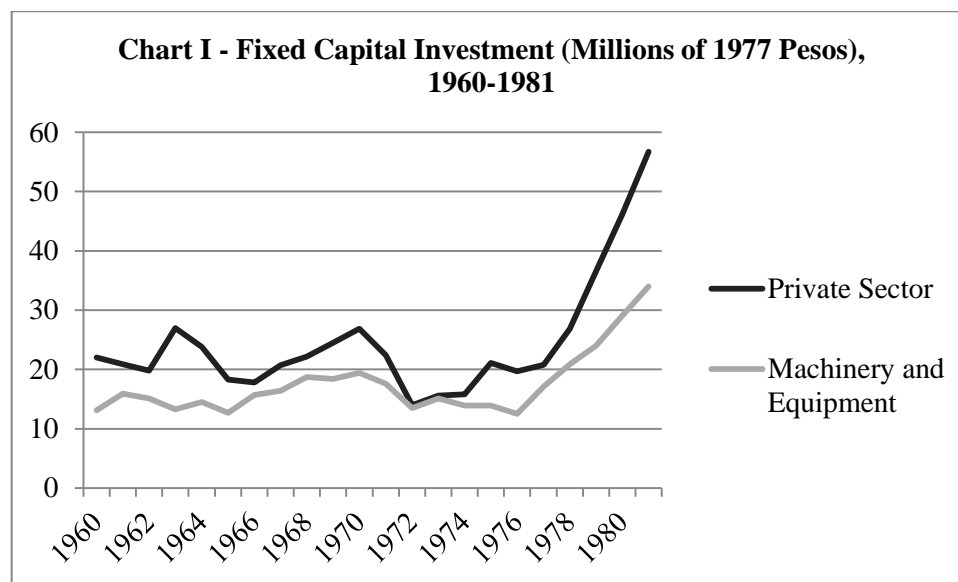
The Chicago Boys did not set out to construct a mere market economy; they set themselves a much more ambitious goal: to construct a market society. The construction of a new society was the job not of counter-revolutionaries but revolutionary forces, as José Piñera, architect of the labour and social security reforms, recognized when he described the military regime as based in a "revolutionary legitimacy...to carry out profound transformations" (Qué Pasa 454, 27 of December 1979), a sentiment echoed by Büchi, who wrote the military regime carried out "an authentic revolution in the productive and social structure, in the orientation of its development, and in the perceptions of the people" (2008, 237).

One of the principal dilemmas facing the Chicago Boys was how to construct a dynamic and internationally-competitive economy in a country where most of the capitalists had developed in the context of a closed economy and ample state protection and support. The answer, as it turns out, was to construct a new capitalist class, and financial reform and privatization became two of the chief mechanisms (Moulian & Vergara, 1981; Rozas, 1984). Rather than privatize the banks with other state-controlled assets, the military regime authorized the creation of new non-bank financial institutions (*financieras*) that could lend money

without any interest rate restrictions and with very low reserve requirements, while subjecting the nationalized banks to more stringent regulation, the effect of which was to transfer resources to the new financial sector (Arellano, 1983, 7; Fortín, 1985, 167-168). Because the Chicago Boys were based not only within the decision-making apparatus of the state, moreover, but also within a handful of emerging firms in the financial sector, particularly the conglomerate BHC, members of the Chicago-Boy linked financial firms were able participated in the deliberations to revamp the financial sector – despite of the objections of other policy makers – and use the insider information to jump the gun on financial reform (Silva, 1996, 107-108).

When the privatization of banks and industrial enterprises began, then, the Chicago Boys in the financial sector took advantage of their favourable liquidity positions, as well as a privatization mechanism that favoured the concentration of industrial assets, to snap up privatized firms. The extraordinary power of the new financial conglomerates – the number of firms controlled by the two Chicago-Boy-linked conglomerates increased from 38 in 1973 to 174 by 1979 – converted them into the driving forces of capitalist restructuring, transforming corporate organization and management to improve organization efficiency, fuelling the burgeoning export sectors such as agro-industry and forestry via their control over the foreign loans that trebled from 1977 to 1980, and leading the ideological transformation of the nation through their privileged places in the media and private think tanks (Dahse, 1979, 140; Díaz, 1995, 13-15; Gálvez & Tybout, 1985; Montero, 1997; Rozas, 1984, 35). More than corrupt rent-seeking or bungled public policy, I would contend financial reform and privatization represented the attempt by the military regime to construct capitalist actors committed to the reform project and willing to lead it from civil society. The concentration of power in the hands of new financial groups exerted a powerful gravitational pull and demonstration effect in turn that facilitated the restructuring of other economic sectors and shifted the balance of the balance-of-power within the capitalist class towards those concentrated in the tradable sector (Silva, 1996, 145) As Schneider observed, without the new entrepreneurial groups the economic transformation enacted by the military regime would likely have proven impossible, as the older, family-oriented groups would not have taken the risks involved in an export-orientation (1984, 215-216).

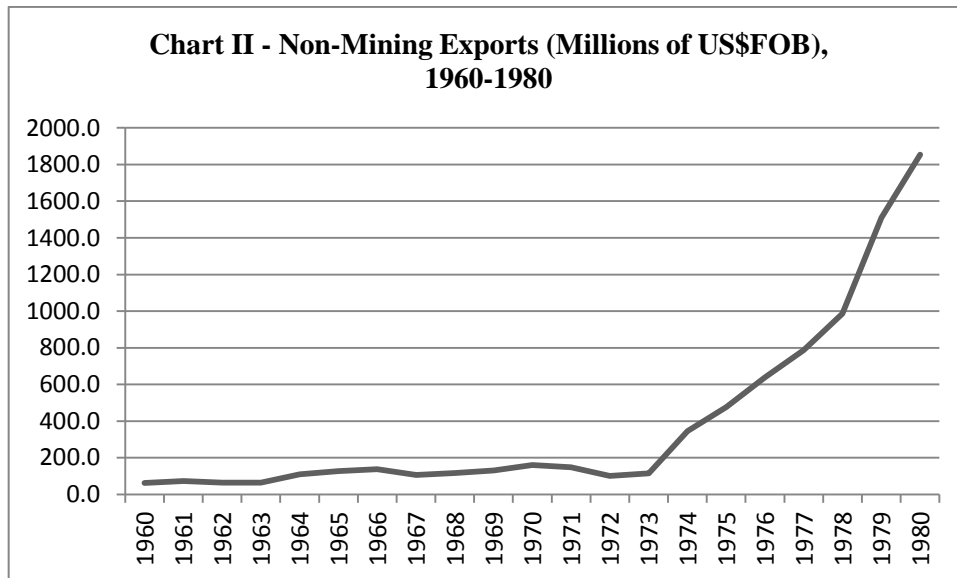
Now it would likely be objected that the new financial conglomerates proved more economic anchor than motor, and indeed the general consensus of the center-left is that the concentration of resources in the hands of unregulated financial conglomerates resulted in the rampant speculation and unsustainable consumption at the expense of the productive investment. This story, however, is only half true.



Source: Zucker (1988).

It is true that speculation and consumption reached excessive levels by the early 1980s and ended in a spectacular financial crisis, but the foundations for the ‘miracle’ of the 1980s and 1990s were laid in the

1970s. As we can see from Chart I the 1970s witnessed an unprecedented increase in private-sector investment in fixed capital, which rose to 76% of total fixed-capital investment by the early 1980s and became the motor of economic development after decades of private-sector stagnation. Moreover, the expansion of fixed capital was led by investment in machinery and equipment, which averaged nearly 50% of fixed-capital investment by the end of the 1970s, well above its 33% average over the 1960s (Zucker, 1988, 45). And contrary to those who claim the export expansion did not really take shape until the re-regulation of the economy from the mid-1980s, the so-called period of “pragmatic neoliberalism” (M. Kurtz, 2001), the boom in non-mining exports clearly began in the mid-1970s, as Chart II demonstrates.



Source: Banco Central de Chile (2001).

Although part of the export success of the 1970s is explained by the investments of previous governments – and particularly the Christian-Democratic government of Eduardo Frei Montalva – in areas like fruit and forestry, the new financial conglomerates played a key role.

In addition to their leading the expansion of new export sectors like agro-industry, where food and beverage exports exploded from US\$54.3 million in 1974 to US\$397.1 million by 1980 and US\$1.25 billion by 1990 (Banco Central de Chile, 2001), the financial groups provided the resources for the new generation of entrepreneurs who emerged from the middle class to take advantage of the macroeconomic promotion of export sectors (Agacino, Rivas, & Román, 1992, 59; Schneider, 1984, 217). As Montero found, many of the new entrepreneurs interviewed had accessed credit by means of personal contacts they had with former classmates working in the financial sector.³ The more anecdotal evidence of Montero, moreover, is supported by the work of Mizala, who found in her study of lending practices that 83% of the firms receiving credit from the new financial conglomerates were small and medium-sized firms, a far more equitable distribution of credit than was the case of firms not connected to the conglomerates (1985, 10). The rise of a new generation of Chilean entrepreneurs transformed the structural and social foundations of the national economy: whereas in 1970 two U.S. copper companies accounted for 70% of export value, by 1990 there were 4,100 firms exporting 2,300 products to 129 countries (Alvarez E. & Crespi T., 2000, 229).

The reconstructing of the capitalist sectors also took place in the countryside, where state managers likewise opted to reconstruct civil society rather than restoring the status quo. Indeed, the hopes of the landlords for a speedy return to the past were quickly dashed by a senior representative of the junta who declared in a visit to the SNA in early 1974, “We consider the latifundio socially and economically retrograde” (cited in Ortiz de Zárate, Verónica Valdivia, 2003, 47). Rather than reconstitute the old

³ Interview with Cecelia Montero, July 15, 2011, Santiago, Chile.

hacienda structure, the military regime completed the agrarian reform process as conceived by the Christian Democrats in 1964. First, 30% of the expropriated land was returned to former owners in estates of up to 80 hectares (the reserve allowed in the 1967 law), laying the foundations for the medium-sized capitalist producers and exporters, who were in turn further supported by the sale of capital goods from state farms at discount prices (Diaz & Trumper, 1981, 14-15; Montero, 1997, 295-298). In addition, 58.2% of the expropriated land was assigned to peasant families by means of a points system. The ascension of the Chicago Boys, however, pushed policy away from the farmer road and towards the domination of the countryside by large-scale capitalist exporters. In the context of profound trade liberalization, the state eliminated supports for peasant producers and passed Decree Laws 2247 and 2405 in 1978, which legalized the sale of land and the holding of estates over 80 BIH, and allowed for corporate ownership of land (M. J. Kurtz, 2004, 77). The objective of the new policy seems clear: to set up beneficiaries to fail and supply the land to match the demand emanating from the capitalist sectors, and particularly the agro-industrial concerns under the control of the new financial conglomerates.

In addition to the reconstruction of the urban and rural capitalists, the military regime implemented a series of policies designed to support the new industries they controlled. At the horizontal level, the military regime set up Chile Foundation, which developed new technologies for exporters, and ProChile to develop contacts in foreign markets and organize producers to exploit export opportunities. Professional associations have worked closely with ProChile to develop foreign markets and facilitate contact with foreign traders, shape public awareness of Chilean exports, and develop preferences for Chilean products, such as inviting foreign supermarkets and restaurant owners to Chile to visit sites and test products for quality (Achurra, 1997, 66). Microeconomic evidence shows that PROCHILE has had a significant impact on the introduction of new export products, as well as improvements in technology application and organizational management (Alvarez E. & Crespi T., 2000, 239-240). At the horizontal level, the tax code and credit policies were revamped to stimulate export expansion, such as the simplified drawback on the value-added tax for non-traditional exporters and the suspension of tariffs for inputs used by the export sector, in addition to numerous lines of credit aimed at small and medium-sized exporters (Büchi Buc, 1987, 1147-1148; DIPRE, 1978, 240-241; Vera Giusti, 2001, 49-50).

Horizontal interventions also had significant sectoral repercussions. For instance, the commercial fisheries industry (Chile is the second-largest exporter of salmon in the world) owes its existence to Chile Foundation, who in the mid-1970s, after several failed attempts by the private sector, began to experiment with salmon cultivation using technology from Norway, going on the found Antarctic Salmons, which demonstrated the technical and commercial feasibility of large-scale commercial fisheries and paved the way for the mass-production of salmon for export (Achurra, 1997, 53-55; Agosin, 2001, 123-126). Chile Foundation also played a significant role in the modernization of the Chilean wine industry, organizing visits by Chilean businessmen and technicians to major wine producing countries and making key investments to support small and medium-scale producers, which proved critical to demonstrating the viability of the wine industry in the cooler regions to the south of the Central Valley (see Bordeu, 1997). Sectoral subsidy and credit policies were likewise crucial in the development of the new export industries. In addition to the well-known Decree Law 701 of 1974, which provided subsidies for forestation of up to 75% of cost, the military regime used the state bank, the Central Bank, and its industrial and agrarian credit agencies to provide generous support to exporters (DIPRE, 1978, 240-241; ODEPLAN, 1978). In fact, credit provided by INDAP for investment in agricultural exports rose from \$232 million pesos in 1974 to \$2.5 billion pesos by 1981 (Ministerio de Agricultura, 1989, 227-229).

The visible hand of the state was similarly present in the reconstruction of labour. In the first phase, labour leaders and activists suspected of being sympathetic to the Popular Unity government were tortured, executed, and exiled, while at the same time labour rights were suspended and labour organizations dissolved (Campero & Valenzuela, 1984, 118-120). The second stage consisted of the destruction and reorganization of the economic base of labour. Trade liberalization and currency appreciation eviscerated the protected industrial sector where labour organization was strongest, while public-sector employment was slashed. Between 1974 and 1982, bankruptcies rose from 81 to 810 and the share of industry in GDP fell from 25.1% to 15.2% while the labour share of national income fell from 62.1% to 51.7% (Fortín, 1985,

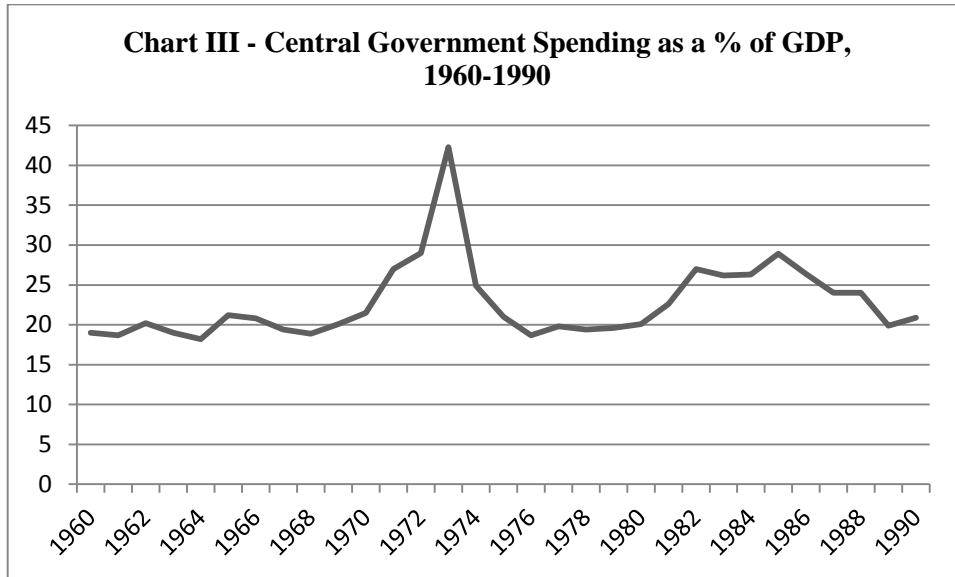
168; Meller, 1992, 45-50). At the same time, new industries began to flourish on the basis of the geographical dispersal and casualization of work achieved via subcontracting and temporary labour, with employers taking advantage of the repressive environment to implement Taylorist organizational principles in the industrial workplace (Díaz, 1995, 15-16; Gómez & Echeñique, 1986, 59-62).

The third stage was re-institutionalization of organized labour in the 1979 Labour Plan. While the plan reinstated collective bargaining and indexed wages to inflation (which would be suspended in 1982), the labour reform sought fundamentally to lock-in the vulnerable position of workers in the 1970s and prevent labour from achieving the kind of collective economic and political power of the 1960s and early 1970s. First, the new law restricted collective bargaining to the plant level and prohibited strikes by public sector employees and workers in other areas deemed 'basic necessities' in order to limit the capacity of labour to shut down the economy and essential services. Then, the plan moved to weaken unions at the plant level, by authorizing more than one union per firm, limiting strikes to sixty days while allowing the usage of replacement workers, and permitting the dismissal of workers for 'business purposes' (Barrera & Valenzuela, 1986; Hurtado-Beca, 1981). Again, here we can see the limitations of conceptualizing neoliberalism as getting the state out of the economy. The 'liberalization' of labour laws involved not a withdrawal of the state but rather its active reconstitution of labour relations and organization.

Labour was not only reconstructed in the negative sense, but also in the positive sense of the paths of social promotion and reproduction, which were increasingly realized through the individual and private sphere of market-based employment, credit, and consumption (see Martínez Bengoa & Tironi, 1986). The middle class in Chile had traditionally comprised a "state class" that depended heavily upon the public sector and political participation for employment and advancement. However, the privatization of state services and the decline of industry drove the middle class into the private sector, partly as new entrepreneurs and exporters and partly as subcontractors and managers in the rapidly growing export and service sectors (Meller, 1994, 124; Montero, 1990). The working class, moreover, was reintegrated following the crisis of the early 1980s, after which informal work was replaced by salaried and precarious forms of waged employment concentrated in the small and medium-sized businesses that flourished with the processes of externalization and subcontracting (Martínez Bengoa & Díaz, 1996, 126). Rural workers were similarly subjected to a geographical dispersal and precariousness. Not surprisingly, the rate of unionization and the coverage of collective bargaining collapsed and have yet to recover, complemented in the countryside by the atrophy of collective organization and action (M. J. Kurtz, 2004, 121).

The individualization and privatization of social advancement was reinforced by education and health care reforms, which transformed the public sector into provider of last resort for the poorest segments of society, and devaluing public provision from citizenship right to social stigma. In addition, public social security was replaced by a system of compulsory individual capitalization, among whose primary objectives was the linkage of the material gains of labour to stock-market performance and the individualization of rewards. As one of the principal architects of the reforms observed: "...the day will arrive when individual responsibility is so rooted in the population that compulsory contributions, as the Russian economist thought, will no longer make sense" (Büchi Buc, 2008, 117). Likewise, consumer credit exploded and levels of household credit, as a percentage of national income, are now double the nearest Latin American country and nearly triple the regional average (see IMF, 2006). Credit and the consumer culture it reinforces serve further to discipline and individualize workers by reorienting the means of social advancement and status towards private consumption. As Moulian poignantly noted, "Credit is a formidable disciplinary factor, efficient because its mechanism is not extra-economic but completely commodified...Credit, much more than trade unions, appears as the instrument of progress" (1997, 105).

Finally, the transformation of the developmentalist state into a "subsidiary state" in Chile has generated important misunderstandings. By 'subsidiary' the civilian planners did not mean the withdrawal of the state from the economy. Indeed, as we can see from Chart III government spending as a percentage of GDP resembled closely its historical averages throughout the dictatorship, and in fact the average from 1974 to 1990 was slightly higher (22.9% to 22.5%) than the average from 1960 to 1973.



Source: Banco Central de Chile (2001).

What changed under the dictatorship was not level of state spending but rather its composition: on the one hand, state investment, expenditure, and employment fell rapidly as the public services and companies were privatized (the value added of public companies as a percentage of GDP fell from 39% in 1973 to 13% by 1989) and the public bureaucracy trimmed from 13% of total employment to under 6% by the 1990s; and on the other hand, expenditures were increasingly directed towards the costs of constructing the new capitalist sectors, primarily the assumption by the state of private-sector debt after the 1982 and the financing for those, including the armed forces, who elected to stay in the pre-1981 pension system.

Rather than representing the state ‘withdrawal’ from the economy, then, public expenditure data provide the quantitative evidence of the continuing state participation in the economy and civil society. When the Chicago Boys said ‘subsidiary’ state they really meant a ‘capitalist’ state, whereby the apparatus of the state is structurally and institutionally subordinated to capitalist investors and subsumed by the disciplines and requirements of capital accumulation. As Sergio de Castro, Minister of Finance and intellectual leader of the Chicago Boys, recognized, the subsidiary state therefore required the prior constructing of dynamic capitalist actors and the internalization of capitalist values throughout the population, because “...in this way, and only in this way, can we guarantee that the state will become truly subsidiary” (DIPRE, 1978, 382). The construction of a capitalist state was thus inseparable from the construction of capitalist subjectivities in civil society. Indeed, the neoliberal technocrats favoured a gradual transition to democracy precisely “...so that these [social modernizations] sink deep roots in the social body that will facilitate their survival after the military government” (cited in Vergara, 1985, 224).

Upon the fundamental pillar of the new capitalist civil society and its individualization and privatization of social identities and advancement was erected the political institutionality of the Constitution of 1981, which sought to lock-in the neoliberal state and its social subjectivities. As Pablo Baraona, former Minister of the Economy under Pinochet, observed: “The new democracy...should be authoritarian in the sense that the basic norms that are essential to the stability of the system are not subject to the political process” (DIPRE, 1978, 305). The “Constitution of Liberty”, approved ironically under a state of emergency, and its subsequent “organic laws” institutionalized the new individualized social order, restricting the entrepreneurial activity of the state, enshrining Central Bank independence (after the regime had deployed the Central Bank to advance its political objectives for nearly two decades), and constitutionalizing the social modernizations. The subsidiary state was protected by the military, a binomial electoral system that when combined with rural overrepresentation marginalized the radical left and buttressed the right, and a constitutional amendment procedure that made it practically impossible to reform the constitution without the consent of the Right (M. J. Kurtz, 2004, 147-148).

Conclusion: Contradictions of Neoliberalism and the Possibilities for a Post-Neoliberal Society

So what can the neoliberal experience in Chile teach us about the possibilities for a post-neoliberal world? Before engaging that point, it would be helpful to note that although the dictatorship established a deep-seated capitalist hegemony in Chile, which manifests in the general acceptance of the private sector as the driver of national development and the market as the principal means of individual identity and social advancement, the manner in which capitalist hegemony was instituted created several significant fault lines that will have to be addressed in order to deepen and reproduce the new neoliberal order. The first is the inequality in the distribution of assets and income. The notorious inequality in Chile, among the highest in the Americas, has several important ramifications, of which I will mention two: first, the inequality in the distribution of capital, particularly in a country like Chile where there are few institutional mechanisms to connect the large economic groups that have consolidated their control over the economy from the mid-1980s and the new generation of more entrepreneurial-minded youth, can stifle the development of small and medium-sized business and new lines of economic activity; and second, the maldistribution of income, in the absence of strong public provision in areas like education, can generate a permanent and dangerous marginalization that is not only socially and politically unstable but also represents a significant waste of potential human capital that could drive economic advance.

The second fault line is the limited capacity of the Chilean state to address the origins and effects of inequality, of which the present public debate over education is exemplary. Education represents one of the most powerful mechanisms available to government to redress the unjust and corrosive effects of income inequality. And yet despite significant increases in the public resources devoted to education since 1990, the education system continues to reproduce inequalities and provide generally inadequate levels of educational quality, in no small part because the influx of finances has not been accompanied by a change in the institutionality of education that impoverishes public schools (see Torche, 2005). Another important area is related to industrial and innovation policy. Industrial and innovation policy represent critical tools with which governments in the developing world can move beyond the exploitation of natural resources and up value-added chains. In Chile, however, private investment in research and development is extremely low, and while state support has increased over the past years, a more coherent and overarching industrial and innovation policy has yet to transcend the level of government-by-government initiatives to become embedded within the state as an organizing principal and plan to guide public policy across numerous areas (see OECD, 2010).

The third fault line relates to the constitutional order and party system that emerged from the dictatorship. The constitutionalization of the new social order, including the electoral system, while providing the benefit of stability has at the same time limited the ability to make the kinds of institutional reforms to address the deficiencies in the first two areas. Reform has tended, therefore, to be done piecemeal and largely around the edges of the boundaries identified by the extant political and economic order. The political parties and party system, moreover, have largely shut citizens out from meaningful participation, serving more as buffers than means for political integration. The danger of this exclusionary party system – or *partidocracia* – is that it reduces the responsiveness of the political system to the demands of the citizenry, on the one hand, and undermines popular support for democracy, on the other. In Chile, therefore, despite the evidence of significant elite-mass congruence at the level of policy preferences, there is an unhealthy level of dissatisfaction with the functioning of the democratic system (see Siavelis, 2009). Insofar as the political system proves incapable of addressing the need for more substantial reforms, the pressures to renegotiate the terms of capitalist hegemony in order to improve not only levels of national income but more importantly the distribution of opportunities for full participation in the private economy will likely continue to mount.

As a result of the political constraints and impasse, the past several years have witnessed a significant uptick in popular mobilization and protests across a variety of areas, ranging from education and subcontracting in the mining industry to environmental protection and Lesbian, Gay, Bisexual, and Transgender (LGBT) rights. But do these social movements and mobilizations signify the rise of a post-neoliberal order in Chile? If neoliberalism is conceptualized as a set of policies to get the state out of the

market, then the answer would appear to be a tentative yes, as there has undoubtedly been a greater public demand for and willingness on the part of governments to expand the scope of state regulation and social provision. I would suggest, however, that such a definition of neoliberalism can leave one tilting at windmills. Economic intervention and social provision were never anathema to neoliberalism; new measures to promote economic growth or an expansion of social service provision are therefore not *prima facie* repudiations of neoliberalism. The question to be asking is not whether the state ‘intervenes’ or to what degree, but rather the logic and purpose of its interventions.

How we analyze the claims generated by social movements and the responses of governments in Chile and elsewhere therefore ought to be framed not simply in terms of more-state-versus-less-state. Neoliberalism in Chile did not involve less state but rather a different kind of state, and even more crucially a different kind of civil society, the corollary of which is that calls for more state involvement are not by themselves evidence of a turn towards post-neoliberalism. In the case of the student movement in Chile, I think there are two key questions that should be asked. The first is whether the student movement and the reforms it is able to extract represent a repudiation of the basic individualistic social ontology of neoliberalism or whether they represent the incorporation of previously marginalized members more fully into the neoliberal order. For instance, the call for free public education for all as a right of citizenship does challenge the social ontology of neoliberalism because it is informed and organized by a sense of collective identity and the demand for collective rights. However, the basic issue of improving the quality of public education as a means towards the equality of individual opportunity is not at all incompatible with the neoliberal ontology of individual identity formation and social advancement.

The second question is whether the student movement is or can become part of the construction of a broader post-neoliberal order, and I think there are two reasons to be skeptical of a definitive turn towards post-neoliberalism, at least thus far. The first reason relates to the individualization of social identities that characterized the military regime in Chile. Prior to the military coup, a very significant part of the process of identity formation was channeled through and informed by participation in collective organizations such as trade unions and political parties. The way participants in these organizations perceived themselves, their place within the broader society, and the articulation and pursuit of their interests were thus shaped by a sense of collective identity and collective goals. One of the primary objectives of the military regime, however, was to transform this very process of identity formation, as discussed above. It is perhaps no surprise that those developing countries where neoliberalism has come under greatest fire – such as Venezuela – are precisely those in which the neoliberal project failed to institutionalize itself and transform the ‘social body’. The reconstitution of collective identities, therefore, represents one of the primary obstacles to the emergence of a coherent post-neoliberal alternative.

The reconstitution of collective identities brings us to the second and interrelated obstacle: the construction of collective institutions capable not only of generating popular mobilizations but sustaining and transforming them into political movements at the level of party and state. In Chile prior to 1973, as in many other countries, it was the labour movement that provided the institutional basis for the socialist and social-democratic parties that transformed collective identities into alternative political proposals that sought to challenge the primacy of market imperatives. The military regime, however, not only dismantled the labour movement. Rather, it developed a parallel institutionality that sought to reintegrate workers into society as individualized subjectivities forged and reproduced through market-based or market-shaped channels, a fact that has no doubt contributed to the levels of disinterest and disengagement with formal politics, which more and more fails to relate to people at the level of identity formation or social advancement. At the same time, this new institutionality was constitutionally protected, not only at the national level in the form of the Constitution of 1981 but also at the international level in the form of the “new constitutionalism” (Gill, 1995), and political parties resurfaced not as popular mobilizers but as elitist protectors of the new order. The currents of popular dissatisfaction with neoliberalism are evident; what is not evident is from where the institutional capacity required to construct a post-neoliberal order will emerge.

None of the above, of course, should be taken to mean that a turn towards post-neoliberalism is impossible. Quite to the contrary, the discussion of the fault lines that plague Chile and many other nations suggest the pressures for reform will continue to mount, particularly if the European crisis deepens and the

Chinese economy continues its slowdown. The principal contention here is not that post-neoliberalism is impossible, but rather that we must be clear as to not only the meaning of neoliberalism but its social, economic, and political effects if we are to begin to theorize and organize around the construction of an alternative to it. In Chile, neoliberalism involved not the withdrawal of the state from the market but the radical deployment of state power to reconstruct the foundations of civil society and the state and the formation of new social subjectivities. As one of the principal architects of neoliberalism in Chile commented, “Apart from reforming norms and mechanisms, we also had to reform mentalities” (Büchi Buc, 2008, 65). The construction of a post-neoliberal world, therefore, will I suspect prove a far greater task than the mere pressuring for this or that shift of policy; it will likely require a more substantial and permanent transformation in the processes and institutions of identity formation and collective action that shape and drive our political system.

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