Business power and the minimal state: the defeat of industrial policy in Chile

Tomás Bril-Mascarenhas & Aldo Madariaga

To cite this article: Tomás Bril-Mascarenhas & Aldo Madariaga (2017): Business power and the minimal state: the defeat of industrial policy in Chile, The Journal of Development Studies, DOI: 10.1080/00220388.2017.1417587

To link to this article: https://doi.org/10.1080/00220388.2017.1417587

Published online: 27 Dec 2017.
Business power and the minimal state: the defeat of industrial policy in Chile

TOMÁS BRIL-MASCARENHAS (* & ALDO MADARIAGA**†

*Escuela de Política y Gobierno, Universidad Nacional de San Martín (UNSAM), San Martín, Argentina, **Instituto de Políticas Públicas, Universidad Diego Portales, Santiago de Chile, Chile, †Centro de Políticas Públicas, Universidad Mayor, Santiago de Chile, Chile

(Original version submitted January 2017; final version accepted November 2017)

ABSTRACT Chile has maintained a limited industrial policy for nearly three decades. Policy resilience during the 2000s and 2010s is especially puzzling given the political and economic context: three Socialist-led administrations; the retreat of the Washington Consensus; resource abundance from the commodity boom; and the decline of the so-called economic ‘miracle’. We present the first comprehensive analysis of industrial policy in post-authoritarian Chile (1990–present) and show the significant political influence of business actors with a preference for limited state intervention in the economy as a mechanism of policy reproduction.

In 2016, after two years of sluggish economic growth endangered a strongly reformist political agenda, the Michelle Bachelet government launched a set of initiatives aimed at increasing productivity and fuelling long-term economic growth in Chile. The measures were presented as part of an agenda labelled ‘2016 The Year of Productivity’ (MEFT, 2016).¹ What the ambitious rhetoric concealed was the severely limited capacity of the Chilean state, after four decades of minimal involvement in industry promotion, to trigger a process of substantive economic transformation. The majority of the ‘22 measures’ focused on removing bureaucratic obstacles and marginally lowering taxation. Only two measures increased state-run schemes of selective credit allocation though available funds made up only 0.27 per cent of GDP.¹

The initiative illustrates the peculiar trajectory of industrial policy in contemporary Chile: this policy approach, espousing minimal state funding and industry-neutral (or ‘horizontal’) measures, has prevailed over a competing ‘vertical’ approach that considers that state intervention should be more fiscally ambitious and select industries or sectors with high-growth potential. While unsurprising in the 1990s amidst the heyday of the Washington Consensus, the continuity of a minimally funded, horizontal or sectorally-neutral industrial policy in Chile through the 2000s and 2010s is puzzling for several reasons. First, while moderate Christian Democratic presidents led the first two post-authoritarian administrations (1990–2000), in 2000–2010, coalition governments were led by Socialist presidents who brought more heterodox cadres into policy-making positions (see Agosín, Larraín, & Grau, 2009). Second, the boom in commodity prices provided the Chilean state with unprecedented revenues from copper exports, therefore substantially easing fiscal constraints on a more ambitious industrial policy.² Indeed, even orthodox Chilean economists warned about the risks of natural resource dependence and the dangerous effects of an incipient ‘Dutch disease’ (for example, Lüders, 2010).³

Third, policy debates shifted after the retreat of the Washington Consensus in the 2000s. The industrial policy discussion made a slow but noticeable comeback into the international policy community (Mazzucato, 2013; Rodrik, 2007; Stiglitz & Lin, 2013), while international institutions
that once praised the Chilean free-market ‘miracle’ have altered their recommendations in favour of a more active industrial policy (notably, Inter-American Development Bank [IADB], 2014). The competitiveness guru Michael Porter put it bluntly during a recent visit: ‘I come back to Chile and I am very worried because I don’t see that Chile has a country strategy. […] Every time I come, there are more FTA’s [free trade agreements] but nothing new to sell’ (Rodríguez & Hirigoyen, 2008).3

Finally, the continuity of the minimal and horizontal industrial policy approach in Chile is puzzling in the 2000s and 2010s, amidst the decline of the so-called Chilean ‘miracle’. We will explore this point at greater length. In the 1980s and 1990s, Chile’s GDP per capita grew consistently over four times more than the Latin American average, while export growth almost doubled relative to the region (Table 1). New export sectors, especially in the forestry and food sectors, spearheaded what was seen as a true competitive advantage revolution. However, enthusiasm for Chile’s ‘miraculous’ model began to wane at the end of the 1990s. The country never returned to the high growth rates of the past and came to perform only slightly better than the rest of Latin America (Table 1). This revealed the difficulty that Chile was experiencing in modernising its economy and increasing productivity and competitiveness.3

Chile’s economy has dramatically de-industrialised. The manufacturing sector has slumped from one quarter of the country’s GDP in the mid-1970s to only 10 per cent in the early 2010s, while low-productivity services have expanded considerably.4 Moreover, the export sector, once the centrepiece of the Chilean miracle, has failed to diversify. While in 1983, 65 per cent of Chilean exports were minerals, that proportion remained close to or above 60 per cent throughout the 2000s and 2010s; the share of raw mineral exports grew steadily vis-à-vis processed ones, especially in the 2000s and 2010s (Figure 1). Unprocessed commodities more broadly rose from about 25 per cent of the export basket in 1983 to roughly 40 per cent in the 2000s and 2010s.5

Chile has been a paragon of market liberalism. The country’s economic performance was considered miraculous, leading to its portrayal as the example for reformers across the developing world seeking to spur growth after the crisis of the inward-oriented economic model. However, Chile has now for long dipped into a low-productivity and low-growth equilibrium. With a strong dependence on copper exports, difficulties spurring growth, and mounting social discontent, Chile is today far from the poster child it once was. Now that Latin America’s left turn seems to have given way to a rightwards shift – prominently illustrated by the rise of Presidents Mauricio Macri in Argentina, Michel Temer in Brazil, and Pedro Pablo Kuczynski in Peru – and that the region’s new leaders are looking to revive market-oriented development strategies, it is particularly timely to reassess Chile’s development experience and policy trajectory.

Much has been written about the retrenchment of the Chilean statist model and the origins of neoliberalism under Augusto Pinochet. However, we know very little about what explains the resilience of such a model in the post-authoritarian period. This article offers two major contributions to understand this puzzling pattern of long-term policy continuity. First, it presents the first comprehensive characterisation of the trajectory of industrial policy in contemporary Chile. In doing this, we assemble quantitative data and academic characterisations of Chilean industrial policy within a single framework and cover the policy trajectory over a long period of time (1990–present). Our efforts in this regard are inspired by and contribute to a growing literature that is sharpening our understanding

| Table 1. Chile’s growth and export performance vis-à-vis Latin America’s |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| GDP per capita (% Growth)       | Exports of goods and services (% Growth) |
| Chile (A) | Latin America (B) | A/B | Chile (C) | Latin America (D) | C/D |
| 1985–1989 | 5.7 | 0.8 | 7.5 | 10.3 | 4.7 | 2.2 |
| 1990–1994 | 5.7 | 1.3 | 4.3 | 10.0 | 7.8 | 1.3 |
| 1995–1999 | 4.0 | 0.8 | 4.8 | 9.3 | 4.6 | 2.0 |
| 2000–2004 | 2.8 | 1.2 | 2.4 | 6.7 | 5.0 | 1.3 |
| 2005–2009 | 2.3 | 2.3 | 1.0 | 3.2 | 1.4 | 2.2 |
| 2010–2014 | 3.5 | 2.2 | 1.5 | 2.5 | 3.8 | 0.7 |

Source: Authors’ elaboration based on data from World Development Indicators (WDI).
of the nature of industrial policy in the era of globalisation (Schrank & Kurtz, 2005; Shadlen, 2005; Hochstetler & Montero, 2013; Schrank, 2016, among others).

Second, we move from description to explanation by identifying business power as a causal mechanism in the reproduction of horizontal and minimally-funded industrial policy in Chile. Our causal analysis stems from the conviction that explaining the continuity of policy paths is just as important as accounting for their origins. In focusing on the drivers of policy resilience, we engage with the strong ‘mechanistic turn’ currently underway in political science (see Brady & Collier, 2010; Trampusch & Palier, 2016), especially the insight that mechanisms of reproduction are key to understanding path-dependent institutional evolution (Thelen, 1999, p. 391).

We argue that it is impossible to explain the puzzling continuity of limited industrial policy in post-authoritarian Chile without looking at business’ influence over the policy process. We by no means suggest that this is the only mechanism of reproduction. In fact, one of us conducted an in-depth study on the supply-side of policy continuity (Bril-Mascarenhas, 2016, chapter 4). In this article, we highlight the causal leverage of demand-side drivers because, in light of the factors reviewed above and the sustained pressure of ‘verticalist’ government officials, it is highly unlikely that the centre-left administrations would have maintained the horizontal industrial policy approach in the absence of strong business opposition.

Our findings cast new light on a highly influential body of scholarship that provides coalitional explanations of policy-making in Latin America in general, and Chile in particular (Etchemendy, 2011; Frieden, 1991; Schamis, 2002; Silva, 1996). While these works emphasise business influence on policy-making, we go beyond this scholarship’s focus on the adoption phase of policy to show how business influence can become a policy reproduction mechanism and how business can shape the policy implementation phase.

In tracing the connection between business influence and policy outcomes in our analysis of the trajectory of industrial policy in contemporary Chile we draw theoretically on the literature that in the 2000s revived and profoundly refined the early works on business power (Culpepper, 2011, 2015; Fairfield, 2015a, 2015b; Hacker & Pierson, 2002). We do so by integrating these new analytical
devices on the different sources and mechanisms of business influence with a stronger attention to the issue of business preferences.

We cannot build a strong argument on business power without first having some idea about what business wants (Hacker & Pierson, 2002, p. 283). This is particularly relevant for our case study. Unlike in other Latin American countries, big business in Chile rejects industrial policy – even though this is an area in which state action may generate corporate winners, not just losers. Substantiating big business’s aversion to industrial policy empirically is a necessary prerequisite for drawing convincing causal inferences about the importance of business power in explaining the defeat of more ambitious and/or vertical industrial policy in contemporary Chile.

Our case study on industrial policy also indicates that there are analytical reasons for integrating the study of business preferences more carefully into arguments about business power in policy-making. Up to now, the renewed scholarship on business power has been mostly applied to policy fields in which business preferences are evident and thus justifiably assumed rather than researched empirically, such as corporate governance and taxation (see Culpepper, 2011; Fairfield, 2015a). This leaves a research gap: understanding business power in policy arenas where one may expect the business community to be divided or to want different things in different strategic contexts. As Fairfield acknowledges, ‘[e]conomic elites tend to have strong, well-formed preferences regarding tax policy. Other policy areas like trade liberalization and privatization may have multiple and unpredictable distributional effects that make it difficult for business actors to discern their true interests, in which case their reform preferences may vary widely’ (2015a, p. 27). In fact, Kingstone (2001) and Woll (2008) have shown that trade and deregulation policies can even induce preference change among established economic actors. In this sense, even in cases where business has homogenous policy preferences, certain policies and political contexts may generate new divisions or revive old ones.

Industrial policy is one such domain. Recent scholarship has shown that industrial policy often reshapes the business community, creating new constituencies that can push for policy continuity or expansion. Preference homogeneity can partially erode due to the policy-induced emergence of new business sectors – such as in technology-intensive industries – that favour more active and selective state interventions in the economy. This ‘policy creates politics’ dynamic is of course well-known in policy fields like those of the Welfare State – but we still lack theory for other arenas. In contrast, we are already on firmer theoretical ground to claim that industrial policy can generate divisions within the existing business community – for example, between large and small- and medium-sized enterprises (SMEs) (Shadlen, 2004). Our study of Chile suggests that big business can use instrumental power to render such preference heterogeneity politically ineffective by muting the expression of pro-industrial policy SMEs. Powerful encompassing business associations, dominated by the country’s leading firms, can dissolve ‘in house’ the division that industrial policy generates across firms of different sectors and size.

Hence, our study of industrial policy in Chile applies the new scholarship on business power addressing empirically the issue of business preferences in a domain for which they cannot be assumed theoretically but, rather, need to be treated as part of the research question. Our empirical analysis thus bridges two separate bodies of political economy scholarship – one that persuasively offered a logic for expecting preference heterogeneity within the business community but was weak in tracing how preferences are translated into policy outcomes (prominently, Frieden, 1991; Gourevitch, 1986), and another body of research that succeeded in the latter task, greatly refining previous knowledge on business power, but which did not delve into the complexities of business preferences. In doing so we hope to contribute with on-going reflections on how to make sharper causal inferences about the drivers of policy continuity and change, as well as with efforts under way to develop more sophisticated theories on the sources, mechanisms, and changing strategies of business influence in politics.

The article proceeds as follows. In Section 1 we describe the trajectory of Chile’s industrial policy, showing that after the Pinochet dictatorship and despite democratic government officials’ rhetoric, changes have been minimal. In Section 2 we develop our argument tracing logically and empirically the importance of business power as a mechanism that reproduces a limited industrial policy with a
horizontal (or sectorally-neutral) approach in Chile. The empirical analysis draws on previously un-

systematised datasets, original archival research, and multiple interviews with decision-makers in the
private and public sectors. We conclude by highlighting our main analytical points, namely, the
importance of focusing on policy reproduction rather than just on policy adoption, and the need to
more accurately distinguish between business preferences and business power when we analyse the
causes and effects of business politics.

1. Industrial policy in contemporary Chile

Pinochet’s dictatorship is widely known for having implemented radical market reforms and the principle
that natural comparative advantages – not state intervention – should drive the country’s economic
specialisation. The return to democracy in 1990 offered the possibility of launching a more comprehensive
and ambitious industrial policy. Throughout the four governments of the centre-left Concertación coalition,
there were ideational disputes between ‘horizontalists’ – that is, those who argued that any state inter-
vention should have a strictly neutral character – and ‘verticalists’, who argued that the state should select and
promote sectors with high-growth potential (Bril-Mascarenhas, 2016, chapter 4).

The economically orthodox faction within the Concertación dominated the key economic policy-
making positions in the post-authoritarian period, particularly the powerful Finance Ministry
(Madariaga, 2017; Silva, 1996; Weyland, 1999), which pursued fiscal discipline, free trade, and
rejected state economic intervention. This view resonated with the industrial policy horizontalists,
who occupied less important positions or acted as advisors, and believed freer markets, horizontal
promotion instruments, and clear ‘rules of the game’, would produce industrial upgrading and the
export of higher value-added goods (see Rosales, 1993). In this sense, they favoured state
intervention but only if market failures were identified, and only if this intervention was strictly
neutral and did not jeopardise fiscal austerity. The policy trajectory during the 1990s reflected this
approach. The Concertación administrations focused on eliminating tax exemptions and export
rebates as the World Trade Organization (WTO) came into being in 1995, while tariffs continued
to be lowered as the country rushed to sign Free Trade Agreements (FTA) (Agosín, 2001). In terms
of industry promotion, new strictly horizontal, demand-driven grants were set up to support SMEs,
correcting ‘market failures’ (Muñoz Gomá, 2009; Rivas, 2012; Román, 2003). From the outset, it
was clear that the state would not operate as a direct provider of finance; instead, it would cede the
administration and management of state-financed grants and credit to commercial banks as a way
to support the development of the private banking industry (Bril-Mascarenhas, 2016; Jiménez,
2009).

Yet the outbreak of the Asian crisis severely affected the prevailing optimism within the Chilean
elite. The drastic reduction of economic growth and the not-so-favourable results of horizontal policies
put industrial policy in focus again. In fact, evaluations of the SME-promotion programmes found that,
despite them, SMEs decreased their participation in sales, employment and credits allocated by the
banking system during the 1990s (Román, 2003, p. 61). Multiple initiatives were set in motion thanks
to the efforts of ‘verticalists’ inside the Concertación. Though these policies were erratic and adopted
inconsistently, they shared a diagnosis that differed from the prevailing views: Chile’s ‘miraculous’
growth had not succeeded in bringing about much-needed industrial upgrading; horizontal industrial
policies would not suffice to push the country towards higher value-added production, hence it was
necessary to adopt a more active approach. A new industrial policy for Chile required the state to play
a larger role and not restrict itself to fixing only market failures that affected the smallest firms in the
country (Agosín et al., 2009; Bril-Mascarenhas, 2016; Muñoz Gomá, 2009). A former top-level
official in the Finance Ministry who opposed the orthodox approach recalled,

the question we asked ourselves in the 1990s was how to convert [the state-owned] CORFO
[Corporation for Promoting Production] from basically being just a support for SMEs into a real
industrial policy agency [...] according to the dominant perspective, CORFO had to limit itself to horizontal policies, it wasn’t allowed to privilege sectors and transform Chile’s productive structure.9

The heterodox officials in the Concertación administrations ‘once and again’ brought up the need to have a strong development agency and more active industry promotion policies, ‘but they always lost’.10 In fact, as we demonstrate below, few of the new policies actually changed the horizontal character of industrial policy.

In Table 2 we identify the major industrial promotion instruments and programmes adopted by each administration in the 1990–2014 period. As Table 2 indicates, very few of the new instruments were actually vertical in nature. One example is the foreign direct investment attraction programme (later known as InvestChile), which promoted the information and telecommunication technologies sectors. This programme was initiated as a response to the failure to attract an Intel semiconductor plant in 1997, allegedly due to the lack of incentive packages that resulted from the pervasiveness of horizontal industrial policies (Agosín et al., 2009, p. 35). The most significant attempt to establish selective industrial policies came along with the creation of the Fund for Innovation and Competitiveness (FIC), the National Council for Innovation and Competitiveness (CNIC), and the National Clusters Policy launched by the CNIC. However, as our in-depth study of the fate of those vertical industrial policy initiatives shows (Section 2.2.3), big business successfully watered them down and blocked their institutionalisation during the governments of socialists Ricardo Lagos and Michelle Bachelet, while the Sebastián Piñera administration (2010–2014) – the first with business as a core constituency since the return of democracy – ultimately dismantled them or undermined their capacities.

Data on public expenditure supports our characterisation of the continuity of minimal state involvement and the horizontal character of industrial policy, despite these initiatives and the associated rhetoric. Table 3 shows that spending on industrial policy – proxied by public expenditure on ‘economic affairs’ – has remained marginal in the context of overall public expenditure; it grew from 11.4 per cent at the beginning of the 1990s to only 12.9 per cent in the 2010s. Moreover, although vertical or industry-specific expenditure has grown vis-à-vis horizontal or industry-neutral expenditure, the bulk of this increase is explained by the growth of subsidies to the privately run public transportation system. In fact, in the 2010–2014 period subsidies to the transport sector amounted to three quarters of all expenditure in economic affairs.

When we look at CORFO-run programmes, the continuity of a minimally funded industrial policy is even more stunning. In 2002–2004, CORFO’s real annual budget averaged about US$2 billion; a decade after, by 2012–2014, it was only US$1.5 billion.11 Moreover, by 2009, even though the FIC/CNIC clusters policy had already been set in motion, CORFO had a loan portfolio of US$605 million, or a mere 0.3 per cent of the Chilean GDP.12 This sum is even smaller than the stock of CORFO credit accumulated by the last year of the dictatorship.13 In fact, CORFO credit represents just 1.1 per cent of the total portfolio of Chile’s financial system, a very small proportion when compared to similar institutions in other Latin American countries that have adopted market-oriented reforms, such as Mexico’s Nafin (9.7%) or Colombia’s Bancóldex (5.3%) (Agosín et al., 2009, pp. 13–14). Although comparable data are scarce, Table 4 below is the first attempt to compare state-provided investment finance in large Latin American economies. The contrast is clear: Chile sits in the lowest end, with Colombia, Mexico, Argentina, and Peru – in that order – in the middle, and Brazil with its giant National Development Bank (BNDES) in the highest.

In sum, industrial policy has had a large degree of continuity in post-authoritarian Chile – even in the 2000s and 2010s, a period marked by the decline of the so-called Chilean miracle, the retreat of the Washington Consensus, resource abundance from the commodity boom, and the coming to power of left-of-centre governments. While more ambitious initiatives were considered, new measures ended up being marginal changes in this overall pattern.

2. Business preferences and power in contemporary Chile

In this section, we trace and illustrate the analytical leverage of business influence as a causal mechanism in the reproduction of horizontal and poorly funded industrial policy in post-authoritarian
Table 2. Chile: main programmes for industrial promotion, 1990–2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizontal</td>
<td>Proyectos de Fomento (PROFO)</td>
<td>Fondo de Garantías Pequeña Empresa (FOGAPE)</td>
<td>InnovaChile Capital Semilla</td>
<td>Incentivo I + D Programa Redes de Inversionistas ángeles</td>
<td>Startup Chile Programa Global Connection</td>
</tr>
<tr>
<td></td>
<td>Fondo de Asistencia Técnica (FAT)</td>
<td>Fondo de Desarrollo Regional (FNDR)</td>
<td>Programa de Desarrollo de Inversiones (PDI)</td>
<td>Programa Chile Emprende Programa Nacional de Incubadoras</td>
<td>Programa capital abeja Programa Red de Centros de Emprendimiento</td>
</tr>
<tr>
<td></td>
<td>FOCAL PDP Programa de Ciencia y Tecnología (PCT)</td>
<td>Programa de Fomento a la Microempresa (PFME)</td>
<td>Programa de Desarrollo de Proveedores (PDP)</td>
<td>Programa de Desarrollo de Proveedores (PDP)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fondos de Desarrollo Tecnológico (FONTEC/FONDEF)</td>
<td>Fondo de Desarrollo e Innovación (FDI)</td>
<td>Programa de Desarrollo de Proveedores (PDP)</td>
<td>Programas Territoriales Integrados (PTI)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>Programa de Innovación Tecnológica (PIT) Fondo de Capital de Riesgo</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

| Vertical       | –                   | – | Programa de Atracción de Inversiones de Alta Tecnología (InvestChile) Programa de Desarrollo e Innovación Tecnológica | – | – |

Source: Authors’ elaboration based on Muñoz Gomá (2009), Agosín et al. (2009), and Rivas (2012).

Notes: Table includes both specific policy instruments and encompassing programmes. They are administered by a variety of public institutions including CORFO, the technical cooperation service (SERCOTEC), the science and technology agency (CONICyT), and the institute for agricultural development (INDAP).
Chile. A vibrant political economy literature explains public policy continuity and change highlighting the interests of powerful actors, the way these interests shape the agenda and the policy space, and these actors’ ability to impose their preferences through specific channels of influence. One key insight that we derive from this literature is that, just as knowing business policy preferences is not enough to explain how business actually influences policy, it is likewise not enough to point to business power and identify relevant channels of influence to explain why certain policy options—such as those associated with minimal state involvement in industrial policy—prevail over others. Both business actors’ policy preferences and power need to be addressed to show how this mechanism shapes policy outcomes.

Figure 2 presents our argument on how business preferences and power shaped industrial policy in Chile (1990–2017). Business preference for limited state involvement in the economy reduced the demand for industrial policy. As a consequence, unlike in other Latin American countries, in contemporary Chile attempts to establish an ambitious industrial policy only came (when they did) from the supply side—that is, from government leaders and officials. During the 1990s strong business structural power constrained the policy agenda, leaving more ambitious industrial policy out of the feasible set of policy options. In fact, officials interested in pursuing a more robust industrial policy perceived that business disinvestment threats against any form of larger state involvement in the economy were credible. In the late 2000s, as business disinvestment threats became less credible, the issue of a more ambitious industrial policy did enter the policy agenda. Yet strong instrumental power allowed big Chilean business to reshape the late Lagos and Bachelet administration’s industrial policy plans, significantly moderating their original ambitiousness and ultimately eliminating their vertical approach.

Table 3. Chile: public spending on industrial policy, 1990–2014 (expenditure in ‘economic affairs’ as a % of total public expenditure)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>11.4</td>
<td>13.7</td>
<td>11.7</td>
<td>13.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Horizontal a</td>
<td>4.4</td>
<td>3.8</td>
<td>2.5</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Vertical b</td>
<td>7.0</td>
<td>9.9</td>
<td>9.2</td>
<td>11.4</td>
<td>10.8</td>
</tr>
<tr>
<td>Of which Transportation</td>
<td>5.3</td>
<td>7.4</td>
<td>6.9</td>
<td>8.9</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Source: Authors’ elaboration based on data from DIPRES, Chile.
Notes: (a) includes: economic, commercial, and labour affairs in general, research and development related with economic affairs, and economic affairs n.e.p., while (b) includes: agriculture and fishing, energy and fuels, mining, manufacturing and construction, transportation, communication, and other industries.

Table 4. Latin America: credit for firms provided by main public institution fulfilling development bank functions as a proportion of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Credit as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>5.4%</td>
</tr>
<tr>
<td>Peru</td>
<td>0.96%</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.65%</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.56%</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.5%</td>
</tr>
<tr>
<td>Chile</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data from: Goldstein (2012, p. 8); Central Bank of Brazil; Muñoz Gomá (2009, p. 12); and BANCOLODEX, NAFIN, and COFIDE reports.
Notes: Main public institutions fulfilling development bank functions: Banco Nación (Argentina), BNDES (Brazil), CORFO (Chile), BANCOLODEX (Colombia), NAFIN (Mexico), COFIDE (Peru).
2.1. Business preferences

In the post-authoritarian period, Chile’s business community strongly and cohesively embraced a small-state ideology that emphasised free markets and fiscal restraint, and opposed a more active industrial policy (Silva, 1996; Fairfield, 2015a). This has been widely documented. For example, Fairfield (2015a, pp. 74–75) cites a former president of the encompassing business association Confederation of Production and Commerce (CPC) who claims that ‘business’s principle is that we do not want the state to grow’. This is true even for industrialists, a business sector that could be more favourable to industrial policy in a late-industrialising country like Chile: a former president of the association Society for Manufacturing Promotion (SOFOFA) explained that they were against the ‘increase in state participation in the economy [. . . because] the state invests badly, spends badly, and it is inefficient’ (Fairfield, 2015a, p. 75). This policy preference contrasts with that of the business community in other Latin American countries, where such an anti-state creed is endorsed less intensely and only by some business sectors. We argue that, in Chile, business preference for a small state and limited industrial policy is rooted in three factors: (1) sectoral characteristics; (2) firm size and internationalisation; and (3) ideological commitments.

The origins of sector-rooted preferences for small-state policies can be traced back to the inception of the market-oriented model during the Pinochet regime. We argue, following Kurtz (1999, pp. 421–422), that the neoliberal project in Chile generated a strong business constituency: while the retrenchment of the state and outward-oriented policies increased the weight of the export sector in the economy – more than doubling its share of GDP in 15 years – the new firms and business groups that thrived with these policies strongly supported a small-state approach, reinforcing the policy path set in motion by the authoritarian government. By the end of the 1982–1983 crisis, business groups in the natural resource export sector had come to dominate the Chilean economy.

Cross-sector diversification and the types of industries in which these grupos entered shaped their growth trajectories and, ultimately, reinforced their preference against state-led agendas of industrial upgrading. The new Chilean business groups were not just favoured by Pinochet’s temporary export-promotion policies – they also benefitted from preferential access to privatisations that allowed them to either reinforce or supplement their main export activities (Silva, 1996, p. 195; Schamis, 2002; Lefort, 2010, pp. 412–413), surging as prototypical cases of Latin America’s large, diversified, family-owned grupos (Schneider, 2008, p. 392). Importantly, such diversification took place toward sectors where Chile has comparative advantages and/or toward public utilities, but not toward sectors that require
industrial upgrading or high R&D intensity; therefore, this trajectory was critical in reducing grupos’ demand for industrial policy.\textsuperscript{15}

The size and internationalisation of these grupos has allowed them to rely on private sources of long-term finance – both domestic and foreign – further determining their lack of interest in industrial policy. By 2007 the consolidated assets of the three largest grupos – Angelini, Matte, and Luksic – equalled 15 per cent of the Chilean GDP.\textsuperscript{16} This large market power has made them the most credit-worthy ‘guys in town’, absorbing the vast majority of long-term credit provided by domestic private banks (Silva, 1996, p. 195; Lefort & Walker, 2000, pp. 22–23; Lefort, 2010, pp. 388, 391, 412–413, 420).\textsuperscript{17} In addition, the grupos’ export-oriented business strategy enables them to tap foreign flows of investment finance with ease, partly because having a good share of their profits in foreign currency reduces both the cost and the risk of being indebted abroad. Not dependent on the availability of state-sponsored credit, Chilean groups have been either indifferent or expressed outright opposition to any potential expansion of state involvement in credit markets, which would benefit smaller competitors and require the expansion of government revenues, likely through higher corporate taxes.

Finally, big business in Chile has a strong ideological commitment to market liberalism. Paraphrasing the scholarship on the role of ideas in politics,\textsuperscript{18} in the case of Chile these causal beliefs have been a ‘glue’ that increased the cohesiveness of the business community at large. A former top official at the Finance Ministry, with decades of experience dealing with business demands, put it bluntly:

The Chilean business is very old fashioned, very influenced by the Chicago School, by the idea that the state has to perform only minimal functions, ‘and the rest leave it to us [business people,] that we can do it ourselves.’ […] There’s a big ideological prejudice in the business community against an industrial policy agenda.\textsuperscript{19}

The main sources of these causal beliefs are the fear of another socialist experience, the strong influence of Chicago economics ideas, and the institutionalisation of ‘cultural circuits’ that disseminate those ideas. First, Salvador Allende’s socialist project in the early 1970s infused strong anti-statist values in the business community (Campero, 1993; Frieden, 1991). In contrast to other Latin American countries where Chicago School ideas have been confined to academic circles, in Chile business and Chicago economics go hand in hand. For instance, the heads of the financial conglomerates BHC and Larrain-Vial, core supporters of the most orthodox phase of market reforms under Pinochet, were all graduates of the University of Chicago. The same is true for Eliodoro Matte Larraín, the leader of the influential Matte group for over 40 years, and financier of the right-wing think tank Centre for Public Studies (CEP). Moreover, the business community has developed a strong network of institutionalised channels to disseminate the principles of orthodox economics among old and new business leaders. Undurraga (2014, pp. 253–268) identifies these circuits: the regular publication of Chicago-inspired commentaries in the major newspapers, the foundation of private universities where the Chilean elites are educated, and a network of influential think tanks – notably, CEP and Liberty and Development (LyD) – and advocacy institutes such as the Chilean Institute of Rational Business Management (ICARE).

Only one large group within the business community, namely SMEs, has a preference for more ambitious industrial policy. In contrast to the larger grupos, SMEs cannot access foreign credit markets or issue equity or bonds in domestic capital markets (Jiménez, 2009, p. 75), while risk-averse banks are reluctant to allocate long-term credit to SMEs.\textsuperscript{20} However, SMEs constitute a group characterised by its large numbers but limited resources vis-à-vis big business. While this asymmetry of power is present virtually everywhere, it is especially acute in Chile, due to the impressive concentration of wealth in a small number of grupos. SMEs’ preference for more active state involvement in credit markets does not influence policy decisions because these firms lack the necessary political leverage. In the next section, we turn to a specific discussion of business power.
2.2. Business power

2.2.1. Structural power constrains the industrial policy agenda, 1990s. During the 1990s structural power enabled big Chilean business to constrain the policy agenda, rendering an active industrial policy out of the feasible set of policies. Structural power was particularly strong when the centre-left Concertación coalition took office after 17 years of dictatorship. Although during the 1980s many Concertación economists advocated a stronger industrial policy approach, the coalition’s government programme was significantly moderated in order to ease business mistrust (Campero, 1993; Silva, 1996; Weyland, 1999). The belligerent attitude of the business community served as a crucial constraint on policy-makers. According to Edgardo Boeninger, Secretary of Government during the Aylwin administration,

> Convincing the business community of the centre-left’s ability to govern was very important. Hence, a main economic goal of the transition was to build the trust of the business community. [...] This led to a higher degree of controls in economic policy; more prudent policy aimed at assuaging the business and investment community. (Kaplan, 2013, p. 65)

Our field research indicates that during the 1990s, business’ structural power exerted particularly strong influence in the arena of industrial policy. A former top policy-maker at the Economy Ministry referred to the narrowing of the policy space: ‘they suspected we were going to do all sorts of nonsense, so back then it was completely impossible for us to say: “look, we will privilege this sector, or that” – there was no possibility whatsoever to do that. ‘21 Another informant pointed out that ‘industrial policy was a taboo concept.’22 Similarly, a Concertación economist who participated in the elaboration of government programmes argued that

> [there were] things that we wanted to do but we couldn’t do: industrial development policies. It was vetoed. If we talked about that, we had everybody upon us, all the press and the neoliberal extremists, the UDI [Independent Democratic Union Party]. . .23

2.2.2. Instrumental power ensures business influence over industrial policy design and implementation, 2000s–2010s. Business structural power declined in Chile after the 1990s, allowing the late Concertación administrations to introduce proposals for a more active industrial policy in the agenda.24 Yet during this period, strong instrumental power granted business the capacity to make its preferences bear in the design and implementation phases of the policy process. In this section we substantiate our claim that big Chilean business had strong instrumental power during this period and in the next section we illustrate how this was used to block the late Lagos and Bachelet administrations’ attempts to adopt and implement a more ambitious and vertically oriented industrial policy.

We contend instrumental power had three crucial dimensions: business cohesion, partisan linkages, and technical capacity.25 Fairfield (2015a, p. 38) has argued that cohesion is a key resource of instrumental power: it strengthens business’s bargaining position by increasing the cost of government leaders’ divide-and-conquer strategies, thus enhancing the effectiveness of the business lobby. In the case of Chile, business cohesion comes not only from a common ideological framework, but also from strong organisational resources (see Fairfield, 2015a; Silva, 1996, 2002). Chile stands out in Latin America for the strength of its multi-sectoral business association CPC, which organises and pushes for the interests of very broad segments of the private sector (Schneider, 2004, pp. 6–7, 152). When government policy proposals cut across economic sectors, the CPC represents the interests of big business (Silva, 2002, pp. 341–342). Meanwhile, associations such as SOFOFA (industry) and the National Mining Society (SONAMI), also dominated by big capital, gained importance since the late 1990s in legislative discussions concerning specific economic sectors (Schneider, 2004, pp. 168–169).

The organisational capacity of big business through the encompassing CPC and sectoral associations is so strong that it has overshadowed efforts of SMEs to act collectively to get their preferences reflected in policy. In practice, it has been up to the CPC and sectoral associations such as SOFOFA and SONAMI to represent the interests of small businesses, which further decreased the strength of
their demands. Instead of pushing an agenda of their own, SMEs usually side with big business on multiple issues ranging from support of labour market flexibility to the reduction of regulatory red tape (Campero, 1993, p. 284; Silva, 2002, pp. 351–352).

A second crucial source of business’s instrumental power is partisan linkages. After democratisation, the right-wing Independent Democratic Union (UDI) and National Renovation (RN) parties – with business as a core constituency (Luna, 2010) – became the official defenders of Pinochet’s economic policy legacy, first in Congress and later on in the Executive during the Piñera administration (2010–2014). These partisan linkages are particularly strong in the case of business groups that benefitted from Pinochet’s privatisations, whose executives became active members of right-wing parties, especially UDI (Etchemendy, 2011; Schamis, 2002). Campaign donations played an important role in solidifying business ties with political parties, even beyond the right. The discovery of campaign finance scandals in recent years has shown that cross-party campaign donations are common, particularly in the case of the mining sector. In fact, mining-related business groups such as Luksic (copper) and SQM (nitrates) have provided hefty contributions not only to the right but also to Socialist and Christian-Democratic legislators from the northern mining regions (see Matamala, 2016; Monckeberg, 2015).

The last source of instrumental power relevant for the industrial policy process has been business’s technical capacity. Silva (1996, p. 205) showed that an important consequence of the reconfiguration of the private sector during the 1980s in Chile was the improvement of its technical bodies to provide policy evaluation and assistance. Furthermore, business representatives have exerted direct influence over the agendas of powerful think tanks that produce technical arguments in favour of market liberalism (Matamala, 2016). The heftiness of financial contributions to such think tanks is hard to overstate. As an illustration, in direct response to large social mobilisations and Bachelet liberalism (Matamala, 2016), the right-wing Independent Democratic Union (UDI) and National Renovation (RN) parties – with business as a core constituency (Luna, 2010) – became the official defenders of Pinochet’s economic policy legacy, first in Congress and later on in the Executive during the Piñera administration (2010–2014). These partisan linkages are particularly strong in the case of business groups that benefitted from Pinochet’s privatisations, whose executives became active members of right-wing parties, especially UDI (Etchemendy, 2011; Schamis, 2002). Campaign donations played an important role in solidifying business ties with political parties, even beyond the right. The discovery of campaign finance scandals in recent years has shown that cross-party campaign donations are common, particularly in the case of the mining sector. In fact, mining-related business groups such as Luksic (copper) and SQM (nitrates) have provided hefty contributions not only to the right but also to Socialist and Christian-Democratic legislators from the northern mining regions (see Matamala, 2016; Monckeberg, 2015).

The last source of instrumental power relevant for the industrial policy process has been business’s technical capacity. Silva (1996, p. 205) showed that an important consequence of the reconfiguration of the private sector during the 1980s in Chile was the improvement of its technical bodies to provide policy evaluation and assistance. Furthermore, business representatives have exerted direct influence over the agendas of powerful think tanks that produce technical arguments in favour of market liberalism (Matamala, 2016). The heftiness of financial contributions to such think tanks is hard to overstate. As an illustration, in direct response to large social mobilisations and Bachelet liberalism (Matamala, 2016), the right-wing Independent Democratic Union (UDI) and National Renovation (RN) parties – with business as a core constituency (Luna, 2010) – became the official defenders of Pinochet’s economic policy legacy, first in Congress and later on in the Executive during the Piñera administration (2010–2014). These partisan linkages are particularly strong in the case of business groups that benefitted from Pinochet’s privatisations, whose executives became active members of right-wing parties, especially UDI (Etchemendy, 2011; Schamis, 2002). Campaign donations played an important role in solidifying business ties with political parties, even beyond the right. The discovery of campaign finance scandals in recent years has shown that cross-party campaign donations are common, particularly in the case of the mining sector. In fact, mining-related business groups such as Luksic (copper) and SQM (nitrates) have provided hefty contributions not only to the right but also to Socialist and Christian-Democratic legislators from the northern mining regions (see Matamala, 2016; Monckeberg, 2015).

The last source of instrumental power relevant for the industrial policy process has been business’s technical capacity. Silva (1996, p. 205) showed that an important consequence of the reconfiguration of the private sector during the 1980s in Chile was the improvement of its technical bodies to provide policy evaluation and assistance. Furthermore, business representatives have exerted direct influence over the agendas of powerful think tanks that produce technical arguments in favour of market liberalism (Matamala, 2016). The heftiness of financial contributions to such think tanks is hard to overstate. As an illustration, in direct response to large social mobilisations and Bachelet liberalism (Matamala, 2016), the right-wing Independent Democratic Union (UDI) and National Renovation (RN) parties – with business as a core constituency (Luna, 2010) – became the official defenders of Pinochet’s economic policy legacy, first in Congress and later on in the Executive during the Piñera administration (2010–2014). These partisan linkages are particularly strong in the case of business groups that benefitted from Pinochet’s privatisations, whose executives became active members of right-wing parties, especially UDI (Etchemendy, 2011; Schamis, 2002). Campaign donations played an important role in solidifying business ties with political parties, even beyond the right. The discovery of campaign finance scandals in recent years has shown that cross-party campaign donations are common, particularly in the case of the mining sector. In fact, mining-related business groups such as Luksic (copper) and SQM (nitrates) have provided hefty contributions not only to the right but also to Socialist and Christian-Democratic legislators from the northern mining regions (see Matamala, 2016; Monckeberg, 2015).

The last source of instrumental power relevant for the industrial policy process has been business’s technical capacity. Silva (1996, p. 205) showed that an important consequence of the reconfiguration of the private sector during the 1980s in Chile was the improvement of its technical bodies to provide policy evaluation and assistance. Furthermore, business representatives have exerted direct influence over the agendas of powerful think tanks that produce technical arguments in favour of market liberalism (Matamala, 2016). The heftiness of financial contributions to such think tanks is hard to overstate. As an illustration, in direct response to large social mobilisations and Bachelet liberalism (Matamala, 2016), the right-wing Independent Democratic Union (UDI) and National Renovation (RN) parties – with business as a core constituency (Luna, 2010) – became the official defenders of Pinochet’s economic policy legacy, first in Congress and later on in the Executive during the Piñera administration (2010–2014). These partisan linkages are particularly strong in the case of business groups that benefitted from Pinochet’s privatisations, whose executives became active members of right-wing parties, especially UDI (Etchemendy, 2011; Schamis, 2002). Campaign donations played an important role in solidifying business ties with political parties, even beyond the right. The discovery of campaign finance scandals in recent years has shown that cross-party campaign donations are common, particularly in the case of the mining sector. In fact, mining-related business groups such as Luksic (copper) and SQM (nitrates) have provided hefty contributions not only to the right but also to Socialist and Christian-Democratic legislators from the northern mining regions (see Matamala, 2016; Monckeberg, 2015).

2.2.3. Business instrumental power in action: the case of the CNIC and the clusters policy. In this section we show that business instrumental power was a key mechanism explaining the defeat of more ambitious industrial policy in Chile. We trace the process by which business influenced the design and implementation of the most significant attempts at establishing a vertical industrial policy in contemporary Chile, namely, the Fund for Innovation and Competitiveness (FIC), the associated National Council for Innovation and Competitiveness (CNIC) and the CNIC’s Clusters Policy aimed at channelling public investment to selected sectors. Business instrumental power was first key in Congress (2000s–2010), then in the executive branch (2010–2014). Business-backed legislators successfully: (1) cut down the resources allocated to FIC; (2) watered down its vertical component; and (3) blocked the institutionalisation of the CNIC and the clusters policy. Finally, from 2010 to 2014, the first government in 20 years with business as a core constituency and led by a major business figure eliminated the clusters policy and virtually dismantled the CNIC. Next we show the efforts of the late Lagos and Bachelet administrations to push vertical industrial policies and how business instrumental power blocked them.

Industrial policy ‘verticalists’ (verticalistas) came to occupy relevant policy-making positions during the Lagos government, most notably at the Economy Ministry and CORFO (Agosín et al., 2009). Once in office, verticalists articulated a new diagnosis that connected, on the one hand, the growing concerns with Chilean economy’s stagnation and continued lack of sectoral diversification, and, on the other hand, the remarkable under-taxation of the mining sector. Based on this diagnosis, Concertación leaders proposed a new tax on the mining sector that would be used to finance a whole new set of state programmes and institutions to promote innovation and competitiveness. The text of the 2005 bill that the late Lagos administration sent to Congress inextricably linked the proposed mining tax with the expansion of the state’s developmental role: citing Finland and South Korea as
examples, the executive’s bill argued that it was necessary to develop an ‘explicit strategy that orients the policy priorities in innovation and competitiveness’ (República de Chile, 2005a, p. 3). In fact, President Lagos himself ‘firmly believed’ that, following the Nordic approach, new copper revenue should finance a new developmental agenda (Fairfield, 2015a, p. 118). For the first time during the democratic period, the Concertación’s Finance Ministers – first Nicolás Eyzaguirre, then Andrés Velasco – were receptive, and even became advocates, of setting up an industrial policy package that would depart from the neutral interventions recommended by the up to then dominant ‘horizontalists’ (horizontalistas).

This shift towards a vertical industrial policy approach triggered three major policy initiatives, all of which – as we will show below – generated business opposition and were eventually watered down or dismantled. First, the establishment of FIC, a fund that would collect the revenue from the new mining tax. Second, in 2005 President Lagos decreed the creation of the CNIC with the mandate of governing the allocation of FIC resources. According to verticalists within the Concertación, the creation of the CNIC was ‘the most important institutional innovation in 30 years’ (Zahler, Bravo, Goya, & Benavente, 2014, p. 4). The executive branch’s original proposal devised an eight-year plan for the operation of the CNIC, with a proposed budget that would increase over time. The Bachelet administration sought to institutionalise the CNIC as a long-term body that, emulating the experiences of Israel and Finland, would coordinate the new industrial policy.

Third, the CNIC launched the National Clusters Policy so as to deploy FIC funds to promote the development of priority economic sectors. The selected clusters comprised some already established and dynamic sectors – such as mining, aquaculture, food processing, and tourism – as well as other promising areas such as offshoring and global services. According to the CNIC, higher R&D and public-private cooperation would lead to upgrading and higher-value added production and exports. In so doing, the clusters policy engendered a fundamental shift in Chile’s industrial policy trajectory. As a high official at CORFO told us, these initiatives ‘signalled that the concept of industrial policy had ceased to be a taboo.’

Business actors – both at the sectoral and the cross-sectoral levels – used their instrumental power to block the new industrial policy. First, they decreased the scope of the state effort devoted to industrial policy by successfully vetoing the executive’s first mining tax bill (‘royalty minero’) in 2004, while in 2005 – despite high issue salience and strong popular support for higher mining taxes as the presidential elections approached (Napoli & Navia, 2012) – they profoundly modified the bill that eventually passed. Importantly, the executive branch’s decision to draft this latter, more favourable tax bill relaxed business opposition to mining taxes and focused the legislative debate around the industrial policy proposals that would be set in motion with the new fiscal revenue (Napoli & Navia, 2012; Fairfield, 2015a, pp. 118–120). While the 2005 mining tax was quickly approved in Congress, the industrial policy proposals went through a tough legislative process. As Lagos’s finance minister recalls, the new tax and the industrial policy proposals were tied in the executive’s original bill but pressure from opposition congress members split the two issues apart (Aninat et al., 2010, pp. 60–61).

Second, business managed to water down the vertical component of the new industrial policy. Instrumentally powerful due to partisan linkages and cohesive sectoral and cross-sectoral associations, big business – though avoiding outright opposition – was able to gradually reshape this policy in its implementation phase. During this phase, former mining sector executives took key positions in national associations. For example, Alfredo Ovalle, former leader of the mining association SONAMI, served as president of the peak association CPC in 2006–2008.

Two related steps were key in this process of diluting the vertical elements in the Concertación’s new industrial policy: business secured direct influence over the CNIC and successfully pushed for a larger share of FIC funds to be earmarked to mining regions, arguably raising mining corporations’ capacity to influence the allocation of these resources.

Because business was preoccupied with how CNIC resources would be spent, it pushed to increase its presence in the CNIC board and to insulate CNIC from the government. Business was successful in achieving both goals. The executive’s original proposal stipulated that there would be only one business representative in the CNIC board, who should be a former beneficiary of CORFO’s programmes.
(República de Chile, 2005a), and it established the CNIC as an advisory body to the President. In legislative hearings and through the press, business peak and sectoral associations demanded higher presence of the private sector in general, and of business associations in particular (Minería Chilena, 2006; República de Chile, 2005c). CPC President Ovalle argued that the CNIC should be like the Central Bank – an agency with high autonomy and a technical profile (Minería Chilena, 2007). At the same time, right-wing congress members questioned the excessive involvement of the executive in CNIC decisions. One UDI senator argued, for instance, that, as it was proposed, the CNIC represented ‘an excess of centralist presidentialism, an unnecessary Caesarism.’

As a result of business pressure, the president’s bill never succeeded in Congress – forcing Lagos and Bachelet to issue decrees to sustain the CNIC – and the CNIC boards during the Concertación administrations included several large-firm executives and business association leaders. The presence of business representatives at the council was an insurance against a deepening of the vertical approach. Moreover, in an attempt to ease business distrust of excessive presidential involvement, the Finance Ministry contracted the Boston Consulting Group to prepare the document that laid down the basis of the clusters policy (personal communication, former CNIC member, 2017). Later on, a series of CNIC white papers, inspired by the BCG report, proposed an institutional structure for the CNIC that resembled that of the Central Bank (Agosín et al., 2009, pp. 16–17). These concessions were not sufficient to buy big business support for vertical industrial policy. The mining sector successfully pressured legislators from mining regions to ensure that a significant amount of the new revenue was allocated to these regions, thereby constraining the government’s manoeuvring room in the allocation of funds for industrial policy. Business-supported legislators reframed the industrial policy debate activating a centre-periphery cleavage. As a senator from the right-wing RN representing a mining region posed: ‘Of course, nobody can be against the objective of increasing investment on technological innovation. But, why do mining regions have to bare the cost? […]his project […] constitutes a new attempt at hoaxing mining regions.’ He even advanced the possibility that mining companies could directly spend in the areas of their preference, and that this amount could be deducted from the funds they had to contribute to the FIC.

Business associations from the regions of Tarapacá, Antofagasta and Atacama – which comprise about two-thirds of mining GDP in Chile – exerted direct pressure, while SONAMI and the CPC also participated in the legislative debate. In a 2008 joint declaration, mining associations stated: ‘We publicly reject the distribution criteria contained in this draft bill […] these resources should go to those regions that extract minerals […]. We support the legislators that are defending this position, which is unanimous in mining regions’ (Minería Chilena, 2008).

Simultaneously, big business-financed think tank LyD vociferously expressed in the press its rejection of vertical industrial policy:

[…] It is paradoxical that the South American Jaguar trusts that the state – and not private initiative – […] will be able to determine the [economic] activities in which the country should concentrate. Comparative advantages ‘are there’, and it is entrepreneurs and innovators who discover and materialise them. (Buchheister, 2007)

The mining sector’s strong instrumental power is also critical to explain why the CNIC never became institutionalised. In a co-authored paper, former Finance Minister and CNIC President Eyzaguirre argued that the pressure from legislators from mining regions was the key factor impeding the approval of a law that would institutionalise the CNIC (Aninat et al., 2010, p. 65). As a result of this successful blockade, the Concertación governments were left with an alternative that was institutionally much more precarious: sustaining the CNIC through presidential decrees.

The peril of weak institutionalisation became evident in 2010, with the election to Chile’s top public office of billionaire Piñera, leading the first government since the return to democracy whose core constituency was big business. During Piñera’s presidency (2010–2014) vertical industrial policy was watered down and the CNIC was de facto depleted of its original purpose. Upon taking office, the
Piñera administration suspended the still infant National Cluster Policy (Zahler et al., 2014). A member of the CNIC during the Piñera government recalls:

> Many of us who were in that council [. . .] believed that the clusters policy was not a good idea. [. . .] Two months after the new council started, we closed the door to all initiatives [the CNIC had championed under Bachelet], without much analysis. And during the period [2010–2014] the topic of the clusters policy was never discussed again.35

When asked whether business representatives defended or opposed the cluster policy, our informant clarified: ‘Nobody from the private sector was in favour of the clusters policy’.

Furthermore, Piñera replaced Eduardo Bitrán, widely considered as the champion of vertical industrial policy under Bachelet,36 with Fernando Flores as the head of the CNIC board. Multiple sources indicate that this change in leadership reduced CNIC’s prior effectiveness (Andrade, 2012; Ramirez & Bezema, 2014).37 A former CNIC member told us that Flores’s designation was mainly a political favour, suggesting that the CNIC was not a priority for President Piñera. Flores imprinted a new mission to the CNIC: fostering a ‘culture of innovation’ among individual entrepreneurs rather than strengthening the policy and institutional environment for firms to upgrade their productive capacities. A former member of the CNIC, who served during Piñera’s term and was critical of the clusters approach, said:

> We made no concrete proposals. That is the reality. [. . . The CNIC became] almost a meeting of intellectuals [. . .] there were interesting talks and we had a good time, but I don’t think the council really made significant proposals [. . .]. The CNIC, I believe, diluted over time because of its low effectiveness.38

In 2013, as he entered his final year in office, President Piñera reduced 80 per cent of CNIC’s budget and 50 per cent of its staff (Ramirez & Bezema, 2014). The institutional dismantling was so harsh that the CNIC members, though appointed by the President, released a public document complaining about the financial cuts (CNIC, 2013).39 When President Bachelet started her new term in 2014, the CNIC’s mission had been watered down, its cluster policy dismantled, and its budget drastically reduced, to the point which the agency had to move to much smaller offices for its now much smaller staff (Alonso Bertaggia, 2014).

3. Concluding remarks

In the current post-commodity-boom period, Latin America is entering a dual transition – from the left turn to a rightwards shift and from good to hard economic times. In this context, when new right-wing political leaders are seeking to revive a market-oriented development model, it is timely to reassess the fate of what was once considered the region’s poster child.

This article makes two main contributions. First, we have provided evidence of the remarkable continuity of Chile’s industrial policy. By systematising a wide range of quantitative data and original qualitative evidence, we showed that – despite growing domestic and foreign consensus in favour of more ambitious state involvement, availability of financial resources, and the end of the so-called economic miracle – a hands-off, small-state approach to economic development has proven resilient throughout the 1990–2017 period. Second, we argued that the roots of this policy outcome are deeply political. In line with the mechanistic turn and the shift towards within-case process-tracing analysis in political science, we zeroed in on one important causal mechanism in the reproduction of a minimally funded and sectorally-neutral industrial policy: the influence of business actors – led by a few impressively large, internationalised, and cross-sector diversified business groups with a strong preference for limited state intervention in the economy – on the policy process. This article indicates that we cannot understand why executive-branch leaders in post-authoritarian Chile were not able to deviate from a policy path originated in the mid-1970s without considering how big business used its
leverage to circumscribe the set of ‘viable’ industrial policy alternatives (structural power) and bias policymaking toward its preferred small-state policies (instrumental power).

Previous scholarship has shown instances in which business power worked as a mechanism to keep decisions that would impose costs on economic elites off of the policy agenda – such as higher corporate taxes or pro-labour regulation. Here we have gone one step further: our evidence suggests that, in contemporary Chile, the grupo-led business community has used multiple sources of power to constrain the policy space in the arena of industrial policy, despite the fact that this is an arena of state intervention that generates corporate winners, not just losers. Our in-depth case study on the attempts of the late centre-left Concertación administrations to adopt a more ambitious and sectorally selective industrial policy examined business instrumental power in action. While this previously foreclosed industrial policy approach did finally enter the agenda, business influence during the design and implementation phases severely reduced the Chilean state’s actual capacity to play a relevant developmental role.

Our bridging of the now vibrant literature on business politics with the study of industrial policy in post-authoritarian Chile, as well as our effort to analytically and empirically disentangle business power and business preferences, contributes to new research that is revamping Latin American political economy (see Luna, Murillo, & Schrank, 2014). Yet this article also has substantive implications for development practitioners. At a time that seems to be increasingly shaped by global trends towards reversing globalisation, national growth strategies will likely differ and matter more. If this were to be the case – and since, as Schrank (2016, p. 14) put it, ‘industrial policy of some sort is all but inevitable’ in late developing countries – policy-makers in and beyond Latin America might learn from the Chilean case in order to craft the necessary political arrangements to put industrial policy to work in their quests for generating economic growth and creating more and better jobs.

Acknowledgements

We thank Chris Chambers-Ju, Tasha Fairfield, Marcelo Leiras, Antoine Maillet, Alison Post, Ben Ross Schneider, Ken Shadlen, participants at presentations in REPAL, LASA, INAP-Universidad de Chile, and EPyG-UNSAM, and the anonymous reviewers for helpful feedback on previous drafts.

Disclosure statement

No potential conflict of interest was reported by the author.

Funding

This work was supported by the Centre for Social Conflict and Cohesion Studies (COES) [CONICYT/FONDAP/15130009].

Notes

1. Our calculations.
2. It is worth stressing that while the commodity boom may provide the means to introduce more active industrial policy, it may also dampen or diminish motives to do so. In Section 2 we explain why this was not the case.
3. For a comparative account of Chile’s productivity growth and the effect of market-oriented policies, see Paus (2004).
4. Although value added in higher productivity services (transport and communication, finance) has been growing rapidly, low-productivity services (commerce, personal and community services, public administration) still accounted for over 55 per cent of services GDP in 2010–2014 (Our calculations based on data from the Chilean Central Bank). More tellingly, low-productivity employment rose from 58 to 59 per cent of the workforce in 1990–2014 (data from ECLAC).
5. Authors’ calculations based on data from COMTRADE Database, UNCTAD. Data processed under the ISIC Rev.2 classification, current USS. Natural resources = Agriculture and forestry, Fishing, Mining (codes 11, 12, 13).
6. See the case of Nokia and other companies in traditional sectors demanding higher R&D spending to enter new innovative industries in Finland (Ornston, 2012, pp. 60–66) or the case of infant-industry policies and later demands for continued state support in the wind and solar energy sectors in Germany (Jacobsson & Lauber, 2006).
7. Although Kurtz (2001) has highlighted the emergence of more interventionist policies promoting export diversification following the 1982–1983 crisis, these were scaled back once the country came out of the crisis (Campero, 1993; Madariaga, 2017; Silva, 1996).

8. The actual end date following a phasing out period was 2003 (Agosín et al., 2009, p. 8).


10. Interview with top-level Finance Ministry official #2 (1990s), Santiago, 2014.

11. Figures have been converted from constant Chilean pesos to US dollars using the average exchange rate in 2015 (World Bank). Rivas’s (2012, p. 48) account of CORFO’s rapid budget growth in 2006–2010 hides the fact that 2006 and 2010 were, respectively, the years of CORFO’s lowest and highest budget during the decade. CORFO’s real budget has decreased on average about 15 per cent annually in 2010–2015 (Our calculations based on yearly budget data, DIPRES, Chile).


13. Adjusting for inflation, the volume of CORFO loans in 1989 was equivalent to US$1.1 billion (our calculations based on data from Foxley, 1998, p. 11).


15. Interview with top-level Finance Ministry official #3 (1990s and 2000s), Santiago, 2014.

16. Our calculations based on data from Lefort (2010, p. 393) and the World Bank.

17. Silva Interview with senior executive with over three decades of experience in the Chilean banking industry, Santiago, 2014; Interview with top-level Central Bank official #1, Santiago, 2014.

18. For an updated review, see Blyth, Oddny, and Kring (2016).


20. The available data to assess SME access to long-term bank credit is very poor. This notwithstanding, one of the foremost experts on Chilean SMEs explained that ‘the general perception among those of us who have worked for a long time on these issues is that the Chilean banks in practice do not finance long-term investment projects presented by SMEs’ [Interview with top-level CORFO official #1 (1990s and 2000s), Santiago, 2014]. Similarly, Agosín et al. (2009) assessed that SMEs ‘face difficulties in their access to investment resources (…) [n]ot only are interest rates high, but longer-term credit tends to be unavailable’ (p. 20).


22. Interview with top-level Finance Ministry official #1 (1990s), Santiago, 2014.

23. Interview with top-level Central Bank official #2 (1990s), Santiago, 2013.

24. For stating this, we rely on Fairfield’s account of the weakening of business structural power during the 2000s in Chile (Fairfield, 2015a, pp. 71–73; 2015b, p. 429). According to the author, business structural power declined because policy-makers could disregard disinvestment threats due to learning from past unrealised disinvestment threats and accelerating economic growth during the decade despite the continued presence of these threats. Although the author makes the point specifically for the case of taxation, we believe that if policy-makers did not consider business threats as credible in a topic section, they reinforce business instrumental power. In Chile, business’s strong linkage with the partisan right permitted the direct election of a major businessman, Sebastián Piñera, to the presidency. As we show in Section 2.2.3, the Piñera administration played a major role in the defeat of industrial policy.

25. Partisan linkages and the direct election of businesspeople to public office obviously do not exclude each other – when combined, they reinforce business instrumental power. In Chile, business’s strong linkage with the partisan right permitted the direct election of a major businessman, Sebastián Piñera, to the presidency. As we show in Section 2.2.3, the Piñera administration played a major role in the defeat of industrial policy.


27. Multiple interviews, Santiago, 2014.

28. Multiple interviews with former top officials at the Finance Ministry, the Economy Ministry, and CORFO. Also see: Alonso Bertaggia (2014).

29. Disposiciones Transitorias, Artículo 3ro in República de Chile (2005a).

30. Interview with top-level Finance Ministry official #3 (1990s and 2000s), Santiago, 2014.

31. Interview with top-level CORFO official #2 (1990s and 2000s), Santiago, 2014.


34. Baldo Prokurica, RN Senator, in República de Chile (2005b, p. 119).

35. Interview with former CNIC member, 2017.

36. Multiple interviews with former top officials at the Finance Ministry, Economy Ministry, and CORFO, Santiago, 2014.

37. Interview with former CNIC member, 2017.

38. Interview with former CNIC member, 2017.

39. Interview with former CNIC member, 2017.
Rethinking social inquiry: Diverse tools, shared standards

Reformas a la institucionalidad del crédito y el financiamiento a empresas de menor tamaño: la experiencia de Chile

Politics in hard times: Comparative responses to international economic crises

Declaración del Consejo Nacional de Innovación para la Competitividad

Rethinking productive development: Sound policies and institutions for economic growth and social equity

The political economy of productivity and growth

Debt, development, and democracy: Modern political economy and Latin America, 1965–1990

Explaining the German diffusion of renewable energy technology

Globalization and austerity politics in Latin America

References


