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A Review of Chilean Privatization Experience

**Patricio Meller
CIEPLAN, Chile**

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Introduction

Chile has had two reprivatization and one privatization processes; however, prior to both the Chilean economy went through a dramatic questioning and attacking of the basic principle of private property during the 1970–1973 period. This highly conflictive political experience led to the nationalization of industrial firms and banks, foreign investment (mainly in CODELCO), land reform, and other state intervention and expropriation measures (for a review of this period, see Larrain and Meller 1991). During 1973, public enterprises' share of GDP reached 39 percent; public firms' gross output share of mining, financial, and public utilities sectors was greater than 85 percent; it reached 70 percent in the transport and communication sectors; and it was 40 percent in manufacturing (Larroulet 1984).

The military dictatorship, 1973–1990, implied a complete reversal of the ideological conception that prevailed from 1970–1973. Private property and the private sector are the basic pillars of the present Chilean economic development model. Even Chilean socialist leaders do not nowadays question private property, the free-pricing market system, or the private sector as the main agents and engines of the economy. Moreover, the concept of private property is neither mentioned nor is it on the agenda of any Chilean political party (including the Communist party; which received 6.9 percent of the vote in 1992). The current political debate is focused on questioning not privatizing any of the ten or so remaining public firms and includes the rationale for not privatizing CODELCO.

This paper reviews the reprivatization and privatization processes implemented in the Chilean economy during the 1970s and the 1980s. Given the fact that Chilean privatization was carried out in 1986–1987, it is possible to examine some preliminary results achieved by privatized firms with respect to their profitability and employment performance. Finally, a few paragraphs are devoted to regulation, as it is a new problem for which there is not much experience. Recently privatized natural monopolies such as electricity generation have even questioned the concept of

regulation, claiming that the state should abstain from regulating even natural monopolies, because such regulation is equivalent to a rebirth of the old role of state intervention.

The Process of Destatization of the Chilean Economy

The deep political, institutional, economic, and social crisis of 1973 was used as the frame of reference for a complete reversal of the development strategy and the role of the state in the Chilean economy. From 1973 on, the state and the public sector were considered the main generators of most of the problems of the Chilean economy; therefore, the smaller the size of the state and the smaller its degree of intervention, the more improved would be social welfare.

The many stabilization and structural reforms implemented during the military regime—like privatization and reprivatization, state and fiscal reforms, liberalization, deregulation, and the opening of the external sector (table 1)—have had as a goal the reduction, and eventually the elimination, of policies and mechanisms available to the state that might allow it to modify optimal economic growth generated by market forces. This type of environment was to give incentives to the private sector to become the engine of growth. The explicit economic philosophy during the 1973–1990 period was that in a *laissez faire*, free market system, the fundamental role of the state was the maintenance of law and order. This implied, among other things, protection of private property and enforcement of legal contracts.

Other objectives complemented the foregoing: (1) modernization of the state structure, which implied a reduction and simplification of red tape, and elimination of many existing public control measures; moreover, the efficiency of the public sector had to be improved; (2) the maintenance of an equilibrium in the macroeconomic environment, with stable and permanent rules, became the main responsibility of the state; in this way, the private sector would be able to perform a correct microeconomic evaluation of its investment projects; (3) the state should not be involved in the *production* of goods and services (including social goods like housing for the poor, health, and education).

In the implementation of the Chilean *laissez faire*, free market system, it is useful to distinguish state reforms implemented in the 1970s and in the 1980s.

