Advocates of labor market reforms argue that East Asian economic success has largely resulted from a significant degree of labor market flexibility. This compares to the experience of many Latin American nations, which continue to rely on fairly protective labor market regulations.\(^1\) If ratification of International Labor Organization (ILO) conventions is one measure of a government’s willingness to regulate labor markets, we would have to conclude that South Korea, having ratified only twenty conventions, has a much more flexible labor market than Chile, which has ratified fifty-nine.\(^2\) Yet when compared to Chile, involuntary labor mobility in Korea has been quite low, around 9 percent throughout the 1990s. Chile, on the other hand, is characterized by a high degree of employment and wage flexibility, as demonstrated by its extraordinary level of involuntary labor mobility.

Chile’s democratic government has been praised for its efforts to correct the country’s severe social inequalities, strengthen social welfare, and maintain a stable macroeconomic environment. Per capita income has increased at an annual rate of 4.1 percent since 1990—the first year of democratic politics—compared with just 1.1 percent a year in Latin America. Nevertheless, after more than a decade of strong economic recovery, Chilean labor has grown increasingly hostile toward both the *Concertación*-led government and business.

To understand this paradox, we need to examine the roots of the “Chilean economic miracle” and the vicious “bourgeois counterrevolution” that produced this miracle (Pollack 1999: 53). As such, neoliberal democracy in Chile came at the expense of labor’s economic and political standing and resulted in a legacy of profound

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**Chapter 6**

Protest and Social Dialogue in Democratic Chile, 1988–2006

J. A. Alemán, *Labor Relations in New Democracies*

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socioeconomic disparities. An average executive salary runs at 160 times the monthly minimum wage, earning Chile the distinction of being one of the seven countries with the most unequal distribution in the world. \(^3\) Even with GDP growth of 6 percent in 2005, about 30 percent of Chile’s workers are in the informal sector (ILO 2004: 141).

This chapter provides then a second critical test of my theory relating political inclusion and labor market regulation to the quality of industrial relations. It does so in a country governed by a supposedly labor-friendly center-left government. My analysis begins with the neoliberal reforms instituted by the military regime, which produced a highly flexible labor market in the period before democratization. The chapter then explores labor relations in the context of reforms to the labor code in the early 1990s, the politics of social concertation during the 1990s, and another round of reforms in 2001. The 2003 general strike illustrates the challenges facing the social partners in Chile as they struggle to find a middle ground between flexibility and protection.

The Military’s “Seven Modernizations”

How Chile became one of the most flexible economies in the world is directly linked to the policies pursued by the military regime of Augusto Pinochet (1973–1990). In the arena of industrial relations, the military’s fundamental goal was the commodification and depoliticization of labor after a period of extensive state intervention in the economy, class polarization, and rampant inflation.

The team of technocrats and administrators installed by the military junta and known as Chicago-Boys believed that statist clientelism had plunged the country into political and economic chaos during Salvador Allende’s socialist government (1970–1973). Initially, the military outlawed the main labor federation Central Unitaria de Trabajadores (CUT); voided all existing contracts; eliminated minimum wage regulations; suspended all agreements regarding salaries, benefits, and other forms of remuneration, as well as automatic adjustments to pensions to compensate for inflation; and suspended all collective bargaining and conciliation mechanisms. Finally, it abolished industrial courts and labor judges \(^4\) and gave itself special powers of intervention and designation with regard to union leadership (Buchanan and Nicholls 2003).