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The Political Economy of the Top 1% in an Age of Turbulence: Chile 1913-1973

Documento On Line Nº 41

Setiembre 2015

ISSN: 1688-9037

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Abstract

Until recently, studies on income inequality were very limited in their aim and scope: the period under study was restricted to the recent decades and income inequality was seen as a pure outcome of market forces. Nevertheless, things are changing. This paper is part of the growing literature which aims to study the political economy of income inequality in the long run. Using a new set of estimates on income inequality in Chile, the main task of this paper is to build a historical argumentation which focuses on the vicissitudes of the political economy of the income share of the top 1% between 1913 and 1973, an age of economic and political turbulence.

Keywords: Inequality, Top 1%, Chile, Political Economy, Institutions

Resumen

Hasta hace pocos años, la mayoría de los estudios sobre la desigualdad de ingreso se caracterizaban por una doble limitación: el período de estudio se restringía a las últimas décadas y la desigualdad era vista como el simple resultado agregado de las fuerzas de mercado. Sin embargo, las cosas están cambiando. El presente artículo forma parte de la creciente literatura que tiene por objeto estudiar la economía política de la desigualdad en el largo plazo. A partir de nuevas estimaciones históricas sobre la desigualdad de ingreso en Chile, en el artículo se elabora una argumentación histórica cuyo foco se ubica en los vaivenes del ingreso captado por el 1% de la cúspide entre 1913 y 1973, una era signada por las turbulencias económicas y políticas.

Palabras Clave: Desigualdad, 1%, Chile, Economía Política, Instituciones

JEL: D31, O15, N36

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“Los dueños de Chile somos nosotros, los dueños del capital y del suelo; lo demás es masa influenciabile y vendible; ella no pesa ni como opinión ni como prestigio”

Eduardo Matte Pérez (banker, landowner, politician). *El Pueblo*, March 19, 1892

1- Introduction

Until recently, most studies on income inequality were very limited in their aim and scope: the period under study was restricted to the recent decades and income inequality was seen as a pure outcome of market forces. Nevertheless, things are changing. This paper is part of the growing literature which aims to study the political economy of income inequality in the long run. Using a new set of estimates on income inequality in Chile between 1860 and 1970 (Rodríguez Weber, 2014), this paper focuses on the vicissitudes of the income share of the top 1% in an age of economic and political turbulence.²

On the eve of the First World War, the Chilean political system was seen by an observer as an almost perfect aristocratic regime (Reinsch 1909). The state was under the tight control of the elite, the recently born union movement had been crushed in the *Santa María de Iquique* massacre—in 1907—and the income share of top 1% was about 25% of the national income. Sixty years later, the Chilean countryside was under a radical land reform, the political parties of the elite were in the twilight of their influence, the income share of the top 1% had fallen to 16%, and the Chilean citizens were prepared to elect a revolutionary Marxist—Salvador Allende—for the presidency. In the meantime, Chile had been shocked by two crises—in 1913 and 1930—the export sector had lost their leading role in favor of the import substitution industrialization, and the political regime went through a very difficult process of democratization. However, this process ended in 1973, when the army bombed the Presidential Palace. A few years

² This paper is based on chapters 2, 3 and 8 of my PhD dissertation. I want to thank to Luis Bértola, its supervisor, and those scholars who made insightful comments which helped me throughout the writing process: Alfonso Herranz, Branko Milanovic, Brian Loveman, Carolina Román, César Yáñez, Gabriel Oddone, Henry Willebald, Jeffrey Williamson, José Díaz Bahamonde, José Martínez-Carrión, Jorge Álvarez, Marc Badía, María Camou, Mario Matus, Natalia Pérez Barreda, Paola Azar, Peter Lindert, Reto Bertoni, Rosemary Thorp, Sabrina Siniscalchi, Sebastián Fleitas, Silvana Maubrigades, Tarcísio Botelho, Verónica Amarante, Vicente Neira, y Xavier Taffunel.

later, Chile was widely known for its commitment to neoliberalism, and inequality rocketed. The elite had taken control again and, as a consequence, Chile is nowadays one of the most unequal countries in the world.

The main task of this paper is to build a historical argumentation of this process of elite's power weakening from the perspective of their income share. Beyond this introduction, section 2 defines the research problem analysed in the paper as the political economy of the top 1%, section 3 discusses the methodology followed to estimate top income shares in Chile between 1913 and 1970, and sections 4 to 7 develop the historical argumentation. Section 8 concludes with some reflections on present Chilean inequality and its possible consequences for democracy.

2- The problem: the political economy of the top 1%

Part of the recent literature on income inequality—"Capital in the XXIth Century" by Thomas Piketty (2014) is its most famous example—has three related characteristics that differentiate it from much of what has been written before: it studies the political economy of top incomes in the long run. This focus on the top percentiles has to do with the fact that it is in the top incomes where much of the income inequality dynamics over the last decades have taken place. Furthermore, even a cursory glance over the rise in the income share of the top 1% since 1980 makes it evident that there is much more than mere "market forces" involved. Thus, it is now clear that to understand what and why happened to top incomes shares, it is necessary to focus in its political economy (Piketty, 2015).

What does studying the political economy of the top 1% mean in the long run? Firstly, that inequality cannot be studied as the single outcome of market forces. Supply and demand are—of course—relevant, but no market factor exists without institutions and asymmetric power relations between those who interchange in it. In other words, it is necessary to recognise that beyond the market, there are social and political relations between individuals and groups, as well as a state that can—and usually does—intervene not only in market exchanges, but in what can be called—broadly speaking—the distributive conflict. This is why a "pure" market income distribution does not exist, in the sense of a distribution solely determined by supply and demand forces.

The state can shape market income distribution through different procedures. For example, by regulating rights and obligations of those who interchange, like property

rights, minimum wage, etc. In others cases, it can intervene directly in a distributive conflict –, by sending the police or military forces to dissolve a strike, or by pressuring the entrepreneurs to accept a rise in wages–. In sum, the political side of the economy is always there, especially when we are talking about inequality and elite’s incomes.

This is particularly evident when the focus is on top incomes shares, because in that case the analysis is directed to those who not only have more income than the rest, but also have more social and political power. Nevertheless, the top 1% is not the same as the elite. Firstly, because the former is defined solely by their relative incomes, and the elite, in the sense of “ruling class”, is a broader and much more complex concept. This is exactly what Zeitlin and Ratcliff (1988) showed in their empirical analysis of the ruler class in Chile in the middle of the 1960s. At that time, the core of the elite was a set of families related by marriage and kinship which had control over an important part of the major corporations and land based estates, which gave them a huge influence over the state, a power which they usually exercised directly by its members in Congress and other influential positions. It was, also, a much smaller group than the 1%. But, although the elite is not the same as the top 1%, it seems clear that there is an important overlap between both groups and, in normal circumstances, the overwhelming majority—if not all—of the formers are members of the seconds.³

Given that the privileged situation of elite’s members in terms of income is both a cause and a consequence of being an elite’s member, the historical analysis of the top income share can be seen as a window—or as a key hole at least—through which it is possible to study the historical development of the elite’s power in their relation with other social and political actors. Also, because there is no domination without contention and the elite’s power is not absolute—especially in complex capitalist societies like Chile in the XXth Century—the distributive conflict can be seen as an integral part of the much broader conflict between different actors in order to gain influence over political and social life.

Thus, to study the political economy of top incomes shares is to analyse the social and power relations within a society by focusing on one of its components: the changing capacity of the elite to appropriate a bigger or smaller piece of the income pie. This capacity is the result of the distributive conflict for which both, market forces and

³ This is why in this text both terms are used with a more or less interchangeable meaning.

institutions—and especially their interaction—are relevant. Finally, as the distributive conflict, as well as market forces and institutional change, develops over time, and because the factors at work have different timings—some are long term processes, other are critical conjunctures— the *historische Argumentation* (Kocka, 1984) is a particularly suitable research strategy to deal with it. This is because it allows “to examine in great detail the development experience of individual countries, telling an overall story which incorporates a range of influences [giving] a much better sense of the links between development processes and their distributional consequences” (Kanbur, 2000: 808-810).

3- The data

Most studies of the top income shares rely on fiscal sources, more precisely on income tax data. This has many advantages: it can address the incomes of the top percentiles more accurately than household surveys and it enabled the formulation of comparative studies for many countries for the better part of the XXth century (Atkinson & Piketty, 2007, 2010; Piketty, 2014). Regrettably, income tax data is unavailable in the case of Chile, so I opted to follow the strategy of “dynamic social tables”.

A social table is constructed by ordering people with income in different categories –usually occupational categories. Two kinds of data are needed for each category: how many they are and how much they earn. Sometimes, this methodology is used to estimate income inequality at a specific point in time (Milanovic, 2010). Authors who want to study inequality trends over time usually build more than one social table for different benchmark years (Bértola, Castelnovo, Rodríguez, & Willebald, 2009; Lindert & Williamson, 2013; Londoño, 1995). A “dynamic” social table differs from that strategy in the fact that the number of people and their income for each category are estimated for every year during a period of time.⁴ Therefore, what makes a social table “dynamic” is the fact that it covers a period of time, not just a year or a set of years. Metaphorically speaking, if the use of different social tables enables the derivation of inequality trends from a set of “pictures”, a dynamic social table allows us to “see the whole movie”.⁵

⁴ The term “dynamic” was proposed by Branco Milanovic in a workshop in Montevideo on 2011.

⁵ A similar strategy was carried forward by Lindert and Williamson (2014).

In order to estimate pre-tax top income shares and other related variables—like wages—in Chile, I built two dynamic social tables, one for the 1860 to 1929 period and the other for the 1929 to 1970 period. The first one has 49 categories: 9 in agriculture (7 for landowners, from peasant to big landlords, and 2 for workers) 3 in mining, 10 in industry, 20 for civil servants, 5 in transport and 2 in others (professionals and domestic service). The second one (1929-1970) has 116 categories. The different sectors and branches represented include agriculture, mining (3 branches), industry (23 branches), commerce, transport, public and private services (3 branches), and they were segregated between employers, self-employed, employees (white collar) and workers (blue collar). Sometimes one of these categories was also disaggregated, like employers in the agriculture sector who were divided in 9 categories according to the size and quality of their properties. The main sources of data were population and economic censuses, statistical yearbooks, and a myriad of secondary sources—mainly historical statistics, but also “traditional” history books—. Many assumptions were necessary, and I grounded them on theoretical and historical knowledge—e.g., the composition of peasant incomes, or the share of utilities in the mining sector appropriated by foreign capital—.

It is impossible to describe here the entire methodology applied, but some decisions that were taken are important enough to be presented in some detail.⁶ This is specially the case for the top income earners. In the first table, which covers the years between 1860 and 1929, there are four categories of high income earners. The first one is composed by the elite of civil servants (president, ministers, governors, etc.) so in this case I used their salaries. Regarding the categories of landowners and the category of industrialists, I estimated their income for a base year in which I had a reliable source and then projected it by an index which takes into account of the evolution of prices, productivity and labour costs. Finally, in the case of mining owners, first I estimated the GDP at current prices for the whole period and then calculated the operating surplus which belonged to Chilean capitalists.⁷ The procedure of estimating the operating surplus was also applied in the second table (1929-1970), but in this case I used the series of GDP at current prices estimated by Haindl (2007). The total profits were then distributed between employers through different procedures—for example, in the case of

⁶ The reader will find a full description of the methodology in Rodríguez Weber (2014: chapter 3).

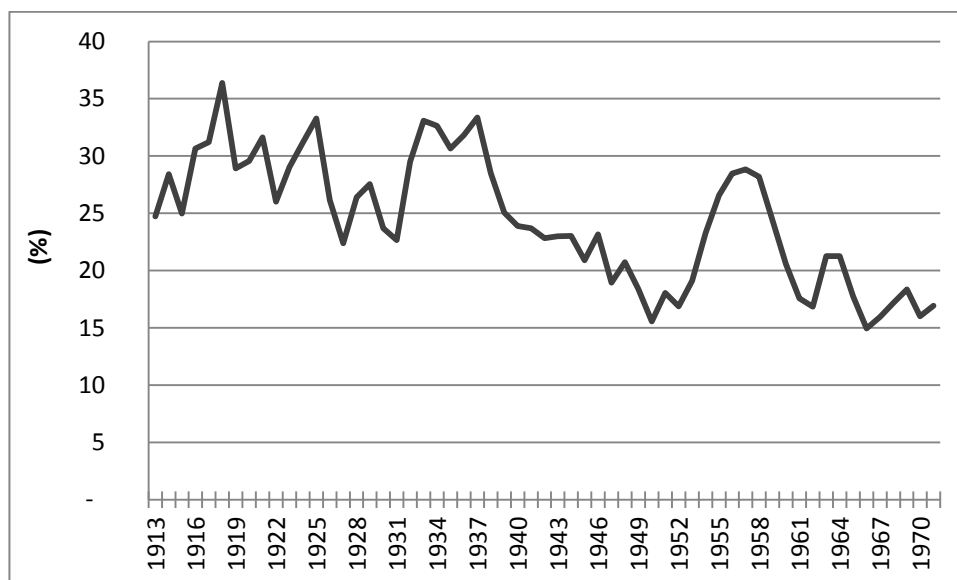
⁷ Foreign capital was very important in the mining sector.

the seven categories of landowners they were assigned to them according to the distribution of property and capital which was estimated from the agricultural censuses.

Many assumptions are controversial and other selections could have been made. To evaluate how the decisions that were made could affect the final result, different series were estimated, changing sources or assumptions. Using different sources or assumptions implies different results—sometimes, like in the interwar period, the differences are very important—but this is valid only for each year individually considered: medium term trends are consistent within all estimates.⁸

Nevertheless, as mentioned above, there are assumptions and sources that are, in my opinion, better than others. These lead to what I consider “the best” estimate, considering the limitations imposed by the methodology and sources. Figure 1 presents the “best possible” estimate for the pre-tax income share of the top 1% between 1913 and 1971 and it is the one I will use here. The remainder of the paper is devoted to the elaboration of an *historische Argumentation* (Kocka, 1984) on the political economy of the top 1% in order to analyse the changes observed in Figure 1 as part of the whole historical process.

Figure 1: Income share of the top 1% in Chile, 1913-1971 (%)



⁸ The reader will find a deeper analysis of the reliability of the estimated data in Rodríguez Weber (2014: 110-123).

Source: Own estimate.

4- The decline and fall of the Oligarchic Republic

Historians have a contention about the significance of the project pushed by Chilean President José Manuel Balmaceda at the end of the 1880s, who was defeated in the civil war between him and the members of Parliament in 1891. Some argue that Balmaceda was leading a bourgeoisie revolution. Others disagree, and claim that his project was simply to reinforce the role of the Executive Power in the government of the state (Góngora, 1986; Zeitlin, 1984). However, no one doubts that the parliamentary regime that emerged from the civil war of 1891 was one in which the elite was totally in charge. In the words of the American political scientist and diplomat, Paul Reinsch, the Chilean society was similar to that of XVIIIth century England: in both cases “an aristocracy of birth and wealth”—composed mainly by landowners—had “unquestioned control over the social and political life”. Even more: “this society constitutes at the present time [1909] the only aristocracy in the world which still has full and acknowledged control of the economic, political and social forces of the state in which they live” (Reinsch 1909: 508). It is hardly surprising, therefore, that the income share of the elite—defined as the top 1% of income earners—was extremely high (Table 1).

Table 1				
Income share of the top 1% on the eve of the Great War				
	Chile	France	United States	Germany
Year	1913	1905	1913	1913
Income share of the 1%	25%	19%	18%	18%
Sources: Chile, own estimate. Other countries, The world top income database				

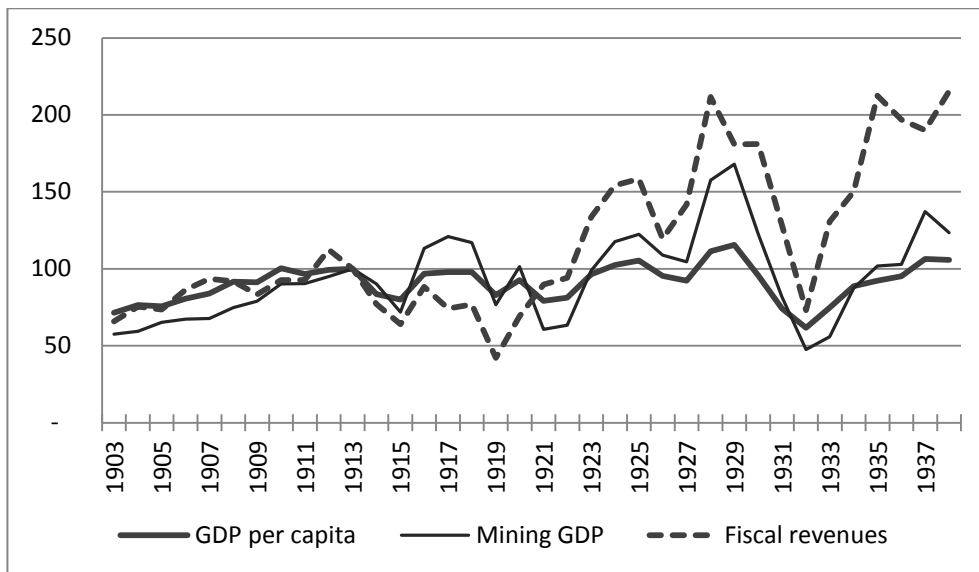
Nevertheless, at the same time that the elite gained total control over the state, a series of economic and social changes started to challenge their power basis. The heart of the economic system of the time was the nitrates fields. In 1910, nitrates counted for 79% of the exports, and contributed with 51% of the fiscal revenues (Cariola & Sunkel, 1982). But the mining sector was much more than a source of foreign exchange and revenues: it was the first capitalist sector of Chile and the cradle of the labour movement. However, with capitalism came capitalist social relations and conflict, and the elite, accustomed to the subordination of the rural workers—a custom that Diego Portales, one of the fathers of the state, called the «night’s burden»—was not prepared to

deal with thousands of workers on strike. When, in 1907, the mining workers went to Iquique to deliver a petition with their complaints because inflation was eroding their real wages—and increasing the elite's income—the army crushed them in what became known as the *Santa María de Iquique* massacre. This was the bloodiest episode of class warfare of the time, but not the only one. Between 1903 and 1907 three thousands workers were murdered, a similar figure of the Chilean casualties in the Pacific War against Bolivia and Peru twenty five years earlier (Pizarro 1986: 20). The short term consequences were the complete defeat of the labour movement, the fall of real wages of unskilled workers and increased inequality. The medium term consequence would be different. Never again would the labour movement—a social actor who would gain importance over time—trust a state controlled by the elite.

The growth of the middle classes, a consequence of urbanisation, the expansion of education, and the growth of the state—three processes fed by nitrates exports—were the other transformations which over time eroded the elite's power. Before the Great War, the members of the middle sectors—composed mainly by military officers, civil servants, teachers, skilled workers and university students—oscillated between the desire to become members of the elite, and their malaise and disagreement caused by the corruption that characterised the oligarchic republic. Before 1913 this unconformity was expressed in a set of pamphlets, magazines and conferences (Gazmuri, 2001; Góngora, 1986). But when the economic and fiscal shock caused by war affected their incomes, they moved from words to action.

Chile was severely affected by the economic turbulences which followed the outbreak of war. Between 1913 and 1938, the economic growth rate was barely above 0%. This was the net result of a spasmodic, booms and busts style of growth, caused by the exhaustion of the nitrate-led growth cycle (Figure 2).

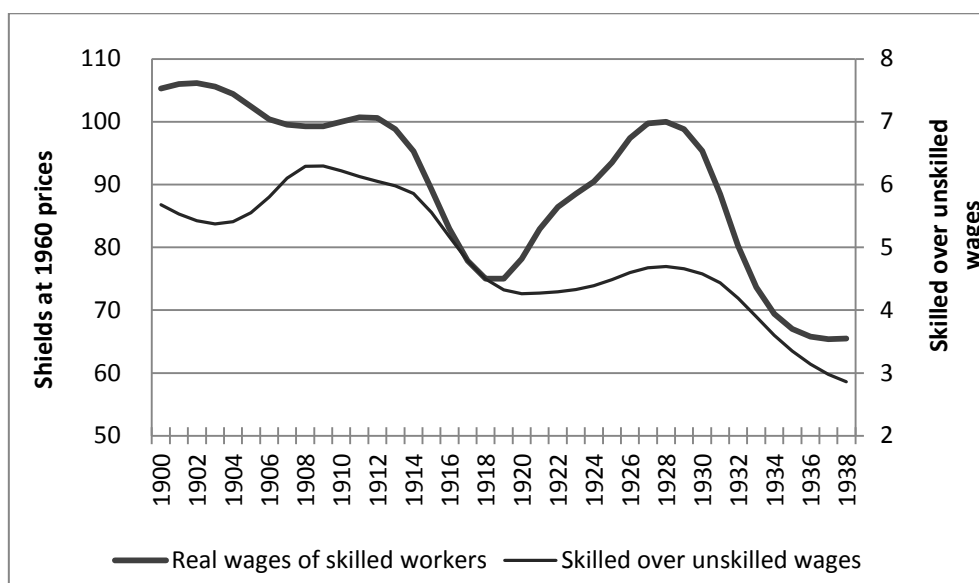
Figure 2: The end of the nitrate cycle. Index 1913=100



Source: Díaz et al. (2010)

This situation of stagnation with volatility harmed the elite's political power. The fiscal crisis provoked by the war and the crash of 1929 affected, first, the middle urban sectors which saw their incomes fall, coming near that of the blue collar workers (Figure 3). This, together with the increase in strikes –by that time the unions had recovered from their defeat of 1907–fed social turmoil and the crisis of the aristocratic regime.

Figure 3: Skilled Real wages and its gap with unskilled wages in the decay of the oligarchic republic



Source: Own estimate

By 1920, the oligarchic republic was in steep decline. From that year on, different presidents acceded to government against the elite’s desires—something unthinkable a few years earlier. In 1938, after two decades of strong turbulence in the political sphere—characterised by several episodes of sabre-rattling, two coup d’états, and a first attempt to set up a socialist republic which lasted one hundred days—the elections were won by the *Frente Popular*, a left-wing alliance formed by social democrats—the Radical Party—socialists and communists. With it, the oligarchic republic finally came to an end. Since then and until 1973, the elite had to share its power (Correa Sutil, 2005; Drake, 1978).

5- Sharing power: structural change and labor institutions under the Radical Party’s cycle

The defeat of the right and the victory of the Popular Front in 1938 was a significant step in the process of the weakening of the elites. On the one hand, it was a consequence of the loss of social power derived from their alienation from the middle classes and skilled workers. But the defeat itself was in the origin of a set of factors and processes that reinforced their weakness. In this sense, the forties were the worst decade for the Chilean’s elite history, because for the first time in history the top 1% had to share the control of the state (Correa Sutil, 2005; Moulian, 2006). Only the sixties and the beginning of the seventies would be worse for them. The fall in their income share was a consequence and a symbol of this decline (Figure 1).

The new authorities in charge were committed to the structural transformation of the economy. Before the triumph of the Popular Front, policy makers were overwhelmed by the difficulties derived from the war and the crisis which followed the crash of 1929. Pressed by the circumstances, they made a lot of decisions just in order to “save the day”, but, as the years passed, the measures taken to deal with balance of payment constraints favoured the local industry. When—after 1939— structural change became an explicit objective of public policies, the “import substitution industrialisation”—mainly a spontaneous process—became a “state led industrialisation” (Bértola & Ocampo, 2012; Thorp, 1998).

The new orientation of the economy had a mixed effect over the elite’s power. On the one hand, it weakened the core of the traditional elite, whose main source of economic and social power was in the countryside and in the agrarian sector. Agricultural productivity had stagnated by 1910, but the frontier expansion allowed some growth. Nevertheless this ended when the latter reached its limits: after 1929 and for half a century, agricultural output grew below population growth. Furthermore, in some periods—like between 1938 and 1947—agricultural output growth was negative.

The mining sector was the other source of the elite’s incomes, especially after 1900, when Chileans gained control over the nitrate industry, earlier in hands of British capitals. But the nitrate industry was in crisis after the First World War because of the competition with synthetic nitrate developed by the German industry. In this context, the shock of 1930, which led to a dramatic fall in prices, marked the end of the industry. The terms of trade remained below its 1929 level for the whole period, and the mining sector did not recover. In any case, it shifted from nitrates to copper, which was—like nitrates before 1910—under foreign capital control. Of course, structural change entailed that opportunities arose in other sectors, mainly industry and services, but the prominent role of the state in the process implied that the elite could not make profits from many of the bigger and most dynamic enterprises of the time—for example in the steel industry, petroleum refining or electric generation—.

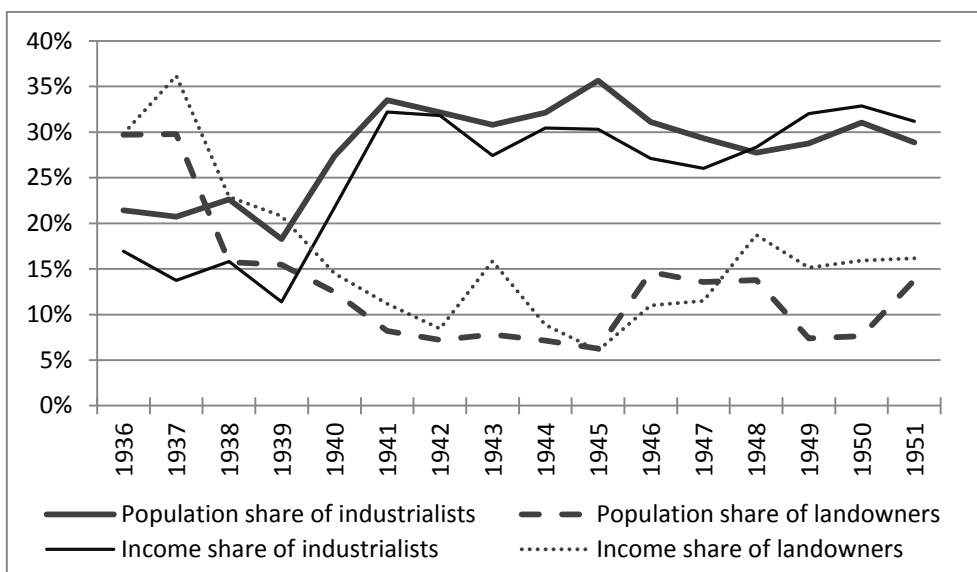
On the other hand, the industrialisation process of the forties ended with the period of economic turbulence and stagnation. Furthermore, the main objective of the economic policies was to increase output. In the words of José Antonio Ríos, the Radical Party member who presided over the country between 1942 and 1946: to govern is to produce (*gobernar es producir*). In order to increase production, the

government appealed to a set of measures, more notably, cheap credits and relative prices in favour of the industrial sector. Also, due to the corporatist view of the government, many members of the elite guided the state enterprises as representatives of their business associations.⁹ Thereby, although the elite remained partially excluded from some of the new sectors led by the state, it was able to make business again in a context of economic growth for the first time in twenty five years. Those are the reasons which explain that the elite members—especially those in dynamic sectors—preferred to adapt to the new political reality than to become hard opponents of the government, an ability of pragmatism that distinguished the Chilean elite from their counterparts of the continent (Correa Sutil, 2005; Pinto, 1959).

The new balance of power can be illustrated by several traces. For the elite, the combination of industrialisation with agricultural stagnation resulted in a shift in the relative importance between landlords and industrialist within it (Figure 4). Although this process would be partially reversed in the fifties, when industrialization came to an impasse and agricultural prices grew faster than in the previous decade, it continued in the sixties with the agrarian reform.

⁹ In fact, entrepreneurs had much more representation in state enterprises than union representatives.

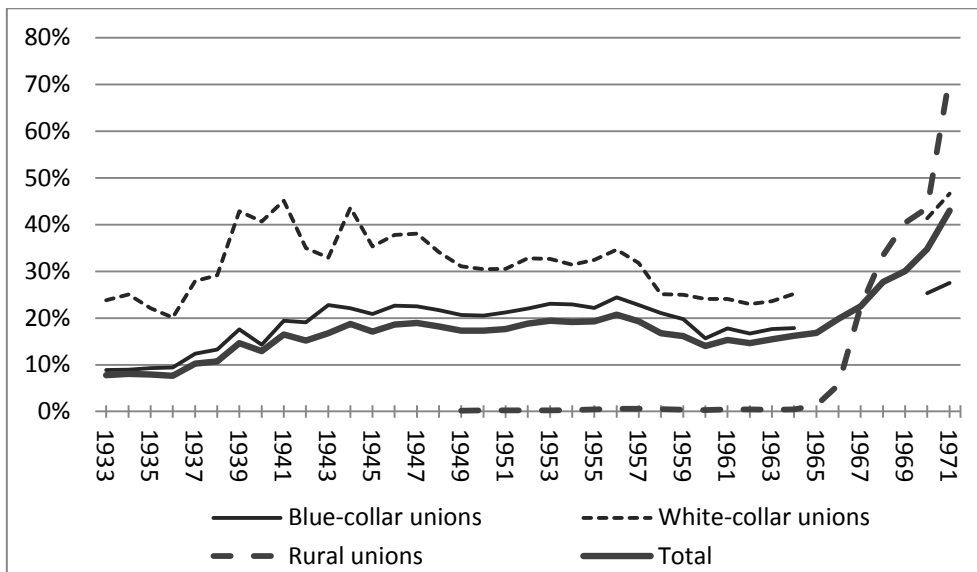
Figure 4: Population and income share of landowners and industrialists within the top 1% of income earners



Source: Own estimate

But the agrarian reform would come in the future. During the forties, the successive defeats of the right in the polls were significant, which led to fourteen years of government led by different alliances always headed by the Radical Party, and usually with at least one Marxist party –communists or socialists–in it. This came jointly—and it is not a coincidence—with the growth of unions in the cities (Figure 5). Both tendencies were behind the rise in strikes during the period, another hint of the new political scenario. In the cities, the number of workers under strikes went from 6.898 per year between 1935 and 1938, to 16.827 in 1939-1943 and 59.994 in 1944 to 1948 (Díaz et al., 2010). Thereby, although rural unions remained banned, the number of strikes in the countryside—which had been almost zero until then—grew to an average of 149 per year between 1938 and 1947 (Santana Ulloa, 2006: 138).

Figure 5: Unionised workers as a percentage of the labour force, 1933-1971



Source: own estimate

While the traditional elite weakened and labour organizations gained influence, the state assumed an increasingly prominent role in setting wages. During the forties, the main mechanism was the minimum wage. The impact of the minimum wage in the real income of workers depends mainly on two factors. On the one hand, like any regulation, compliance must be enforced to be effective. Second, the amount should be such that it has a real impact. If its value is less than the lowest market-determined wage it becomes irrelevant. In this sense, the available evidence shows that the minimum wage for employees played an effective role at least until the early fifties. Between 1940 and 1952, under the governments headed by Presidents of the Radical Party—which had its main source of support in the white collar workers—and although theoretically the minimum wage should have grown in pace with the cost of living, it was systematically increased above the previous year’s inflation rate. As a consequence, between 1938 and 1952, while the real mean income grew at 1.8% per year, the minimum wage for employees increased in real terms at a rate of 3.9% annually. In terms of its value, during that period it remained above or barely below the 50% of the mean wage of employees (Rodríguez Weber, 2014). Even in the countryside, where minimum wage was still inexistent and the unions remained banned, the new political context initiated a process of change in the informal labour institutions which ruled the relations between landowners and rural workers. Before 1938, it was almost impossible for a labour inspector to come into a *hacienda*. In that time, the law enforcement depended on the landowner’s permission. He was the master and the lord of the place. But, with the new

government, this—at least— changed. The landowners were now obliged to accept the “intrusion” of the Labour Department’s officers and, as a consequence, the petitions presented to them by the rural workers multiplied by tenfold. From 2 in 1937 and 1938, to 26 and 18 in 1939 and 1940 (Loveman 1976: 130).

Jointly with the change in institutions, the increasing importance of the urban economy also contributed to the rise in wages and the empowerment of workers. The process of structural change implied that many workers migrated from the agriculture sector to industry and services, a shift with many important consequences. On the one hand, this led to a fall in the number of workers employed in the agricultural sector, which, was characterised by stagnation and low productivity in this period. On the other hand, there was an increase in the weight of more dynamic sectors. Moreover, together with the structural change between sectors, there was a structural change between categories of workers within each sector in which employees gained importance to blue collar workers. This structural change not only contributed by itself to the rise of wages but had another consequence. As the sectors which were gaining importance were more influenced by formal institutions, the structural change reinforced the effectiveness of the new rules in the labour market.

So, at the beginning of the fifties, many things had changed or, at least, had started to change. The structure of the economy shifted in favour of industry and services, and the state had a preeminent role in both sectors. Wages increased, and labour was empowered both because of the structural and institutional change. In the meantime the elite saw its power eroded. The Radical Party’s cycle not only reduced the income share of the top 1%, but also its mean income. (Table 2). Nevertheless, this fall was largely due to a change in the top 1% composition. The fall in landowner’s income implied that few of them could remain within the top 1%. In the other hand, industrialists not only grew in importance within the top 1%, at the same time their mean income raised by 27% between 1938 and 1952. By the early fifties, only the top landowners—those who were part of the coalesced upper class studied by Zeitlin and Ratcliff (1988)—remained in the top 1%. In other words, although the victory of the popular front obliged the elite as a whole to share its power, some of its members lost more than others.

Table 2				
The fall of the elite and the rise of labour. Real incomes and income share in 1938 and 1952				
		1938	1952	Variation
Top 1%	Income share	28%	17%	-11%
	Annual income	\$29.578 (*)	\$22.727(*)	-23%
Profit share		57%	37%	-20%
Annual Wages	Unskilled	\$357 (*)	\$461 (*)	29%
	Skilled	\$1.149 (*)	\$2.183 (*)	90%
	Total	\$467 (*)	\$891 (*)	91%
(*) Constant shields of 1960				
Source: own estimate				

6- An opportunity to regain control

To say that the elite had to share its power implies that it retained at least part of it. In fact, it retained a lot of it. During the forties, the political and social right faced the challenges posed by the new political scenario with a combination of adaptation and opposition, what Moulian (2006) called a “defensive contention strategy”. But, when time passed, the elite’s representatives raised their voices louder against the redistributive project pushed by the different governments leaded by de Radical Party. That was the case of landowners, who warned about the perils of allowing unionisation in the countryside.¹⁰

The right obtained an important victory in 1947, under the presidency of Gabriel González Videla. Before his election, González Videla was a member of the left-wing of the Radical Party, and was elected for president thanks—in part—to their alliance with the Communist Party. Nevertheless, once in office and as a response to the pressure made by the communists for a radicalization of the reforms,¹¹ the President broke his alliance and illegalised the Communist Party.¹² This opened a new political phase, called “coactive contention” by Tomás Moulián (2006). The intent to reverse—at least in part—the redistributive process of the earlier period was one of its characteristics.

¹⁰ And they were successful because—contrary to what the Popular Front had compromised before the election—rural unionisation remained banned. On the contrary, they had to accept some increase in the control over working conditions made by de Labour Department (Loveman, 1976).

¹¹ For example, they organised trade unions between rural workers, although they were forbidden.

¹² This, in turn, forced the poet Pablo Neruda into exile, as it is shown in the film *Il Postino*.

The man in charge to achieve this was Jorge Alessandri Rodríguez, son of previous president Arturo Alessandri, and former president of the Chamber of Commerce and Production—the guild which represented the greatest entrepreneurs and corporations—who assumed as secretary of Finance in 1947. In his opinion—as he expressed in 1955—wages had grown above the possibilities of the economy, and that was the main cause of inflation.¹³ More dangerous was, in his view, that the new labour institutions had undermined the authority of the entrepreneur over its workers (cited by Correa Sutil, 2005: 231).

From the Treasury, Alessandri attempted a new wage policy, promoting wage increases below the inflation rate of the previous year. The fierce opposition of employees soared, as they were the most affected by Alessandri's measures and the main support of the Radical Party. Worried by the political consequences, González Videla removed Alessandri from office (Angell, 1972; Correa Sutil, 2005; Hirschman, 1963). The new Minister, Carlos Vial, adopted the opposite policy. Wages rose as never before: between 1949 and 1952 the minimum wage grew 24% in real terms, while the average salary of employees did by 58%, achieving the highest level ever recorded (Rodríguez Weber, 2014). Nevertheless, this could not prevent the defeat of the Radical Party in the presidential elections of 1952 by the former dictator—between 1927 and 1931—Coronel Carlos Ibáñez del Campo, a populist leader without any clear political project.

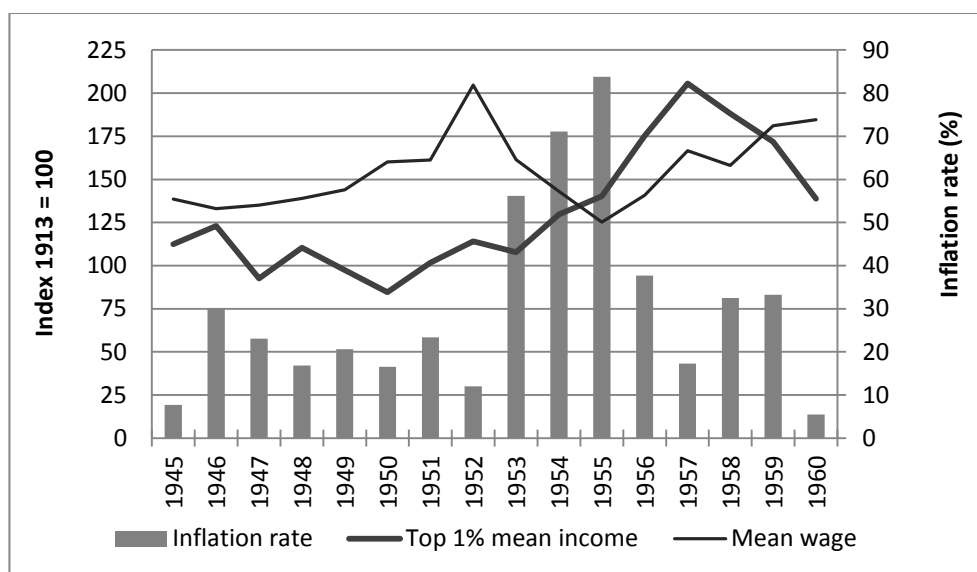
In any case, the rhythm of wage increase of the 1949-1952 period was certainly unsustainable. Since 1953 consumer prices rocketed, reaching an increase of 84% in 1955. As a consequence, inflation became the main concern not only to authorities but also to the citizens. In order to reduce real wages losses, trade unions had to be in a permanent state of mobilisation, which caused a myriad of problems to daily life.

The inflation of 1953-1955 was part of a critical juncture. It signalled the limits of the project of industrialization and redistribution pushed by the political cycle initiated with the victory of the Popular Front in 1938. Although monetarists and structuralist economists disagreed about the remedy for inflation—the formers favoured tight monetary policy, the latter pushed for a deepening in the structural reforms, especially in the agrarian sector—both agreed that the distributive conflict was one of its

¹³ Between 1939 and 1947 the Consumer Price Index grew, on average, 17% per year.

main causes (Hirschman, 1963; Mamalakis, 1965; Sunkel, 1958). Inflation had to be controlled; the only question was who would pay the bill. During the years of inflationary acceleration, it seemed clear that those would be the wage earners. Given that the inflation rate between 1953 and 1955 rose above what it had been the previous year, real wages lingered. On the other hand, higher consumer prices implied higher incomes for those who produced goods and services. Figure 6 shows how the income of the 1% started to grow with the inflationary acceleration while real wages dropped. Unsurprisingly, the top 1% income share also increased from 1953 on (Figure 1).

Figure 6: Top 1% real income, real wages and inflation rate en Chile, 1945-1960



Source: Top 1% mean income and mean wage, own estimate. Inflation rate, Díaz et al. (2010)

From the elite’s point of view, the inflationary acceleration was seen both as a confirmation of its diagnosis that earlier governments had increased living standards above of what was possible, and an opportunity to make up lost ground. In this context, the conservative newspaper *El Mercurio*—the main interpreter of the elite’s desires both then and now—started a campaign in favour of hiring foreign advisors in order to deal with inflation. The government headed by Ibáñez del Campo followed their advice. The diagnosis made by the Klein-Sacks Mission—as it was known—suggested that inflation had monetary causes, mainly the expansive wage policy followed by earlier governments and budget deficits—in part its consequence—. Like Jorge Alessandri some years earlier, they recommended reducing public spending and wage increases well below the inflation rate of the previous year. This would reduce inflation, but it would

also freeze the real wages losses of the period 1953-1955, and that was the way many people saw the proposal (Figure 7).

Figure 7: “The Klein Sacks mission imposes an adjustment plan of high social cost”



Source: *Topaze Magazine*, 15 nov. 1957, from www.memoriachilena.cl

However, to implement a monetary adjustment of this characteristics was impossible under the political circumstances of the time, characterized by a weakening elite and middle sector empowerment. Beyond the elite's desires and although the Klein-Sacks proposals were partly implemented, they were progressively abandoned as the election year of 1958 approached. As time passed, real wages increased again, and the top 1% income share started to drop up to a value similar to what it was at the end of the forties. After a few years, inequality had returned to what seems to have been the equilibrium imposed by the political economy of the time (Figure 1).

The 1958 election's results symbolises the typical contradictions of an age of turbulence like this. At first sight, it must be interpreted as a victory of the right and a new step in the elite's intent to reverse their loss of power. In fact, the elections marked the return of the first candidate from the right to the presidential palace of *La Moneda* in twenty years: Jorge Alessandri, the former Minister of Finance and president of the

Chamber of Production and Commerce. But, although the polls took Alessandri into office, it was a Pyrrhic victory. Firstly, Alessandri barely surpassed by two percent of the votes the candidate which finished in second place: the socialist Salvador Allende. Furthermore, the sum of votes obtained by candidates who proposed a radicalization in the process of reforms initiated in the forties—for example through agrarian reform—was above 50%. So, although the polls gave the victory to the right it also signalled that Chilean citizens were becoming leftists.

Still more important was the fact that the 1958 election inaugurated a new set of electoral rules—approved at the end of the previous legislature—which marked not only the return of the Communist Party to legality, but also the end of different informal institutions—like bribery¹⁴ and coercion—that had helped the elite’s members to control subaltern groups like rural labour (Baland & Robinson, 2008; Cavarozzi, forthcoming). As part of the democratisation process favoured by the reform of 1958, between that year and 1973 the number of citizens registered to vote went from 20% to 44% of the population (Cruz-Coke, 1984: cuadro 3.2). This process of citizenship expansion was so important that authors like Marcelo Cavarozzi (forthcoming) argues that only after 1958 Chile became a democracy. Undoubtedly, this was an important step in the process of power loss by the elite.

Counting with the support of a tiny minority in the Congress, and knowing from own experience that favouring capital accumulation through real wage reduction was politically unsustainable, Jorge Alessandri gambled for foreign investment as a way to finance the capitalist modernisation he wanted for Chile. At the beginning, he was successful, but after two years, balance of payment constraints forced him to devalue Chilean currency. Foreign aid was his only option, and he turned to the Alliance for Progress, the aid programme launched by John F. Kennedy in 1961. Unfortunately, the clerks in charge of the programme conditioned the funding for Chilean government to a set of reforms, most notably to the approval of an agrarian reform law. To make things worse, the parliamentary election of 1961—where rightist parties suffered an important defeat—forced Alessandri to an alliance with the Radical Party, which also conditioned its support to an agrarian reform. Thus, it was under the first rightist government in

¹⁴ According to an elite’s member, a professor of constitutional law at the *Universidad de Chile*, the practice of vote buying was a “corrective for the pernicious system of universal suffrage” (Correa Sutil, 2005: 89, own translation).

twenty years—and the last one (democratically elected) of the century—that an agrarian reform law was approved (Correa Sutil, 2005; Loveman, 1976). In the end, the 1964 presidential election, where the centre-leftist Christian Democratic Party obtained a landslide victory, sunk the elite’s intent to reverse the tendency towards its weakness which had started almost fifty years before. The next attempt would not respect democratic rules, and that time it would be successful.

7- Radicalization: land reform, the Chilean road to socialism and its tragedy

The 1964-1973 period was one of rapid political radicalization and social polarization, when the word “revolution” was not only in the lips of Marxist parties but also in the title of the programme of the Christian Democratic Party (PDC) for the 1964’s election (PDC, 1963). This period saw the reduction to the point of insignificance of the traditional parties of the right—the Conservative and the Liberal Party, now unified in the National Party—who resigned to present its own candidate to avoid the triumph of Salvador Allende. They supported the Christian democrat candidate Frei Montalva, who became president with 56% of the votes.

The Christian Democratic Party proposed a “Revolution in Liberty” in opposition to the socialist revolution favoured by the Marxists parties joined in the *Frente de Acción Popular* (FRAP). According to the leftist orientation of the government, the “Revolution in Liberty” restored the central role of the state in the promotion of economic development and as an arbitrator of the social relations, while favoured wealth and income distribution from the elite to the working and middle classes.

The hacienda system, a mix of economic and social institutions which ruled the lives of hundreds of thousands of Chilean citizens who worked in the rural sector, represented all that the new government wanted to change (Bauer, 1975; Kay, 1992). In their view, the hacienda was at the core of the “integral crisis” that afflicted the country (Ahumada, 1958, 1966). The structure of land property, characterized by what was called “*el complejo larifundio-minifundio*”, that is, the combination of large estates with smallholdings, was seen as the main cause of agriculture stagnation—from which derived recurrent balance of payment constraints—as well as for peasant’s misery. The hacienda was considered the main power’s source for the traditional elite, seen as ballast for

modernisation, a peril for democracy, and the yoke that crushed thousands of peasants and rural workers who were exploited by their landlords.

Under the new government, the process of the agrarian reform—barely initiated under Alessandri’s presidency—was fuelled. While the Congress was debating a new agrarian reform law, Frei’s government used Alessandri’s law to increase the expropriation’s rhythm. Thus, the number of landholdings expropriated went from 99 in 1965 to 265 the following year, and then it stabilised at around 250 expropriations per year. In the 47% of the cases, the cause for expropriation was that landholdings were abandoned or underproductive (CORA, 1970: 36-8).

During Frei’s presidency, the mean rural wage increased by 86%, furthermore, the growth was higher for day labourers: 103% (Rodríguez Weber 2013). This was a consequence of both the increase of rural minimum wage, which was equated to that of the industrial sector, and social mobilisation—also favoured by the government—. Figure 5 shows that the number of rural labourers affiliated to trade unions rocketed during the period. Under the new rural unionization law, approved in 1967—the same year that the new agrarian reform law was approved—landlords were obliged not only to accept the unionisation of their labour force, they had also to contribute to union leader’s training by funding the “Education for Unionisation Fund” (*Fondo de Educación y Extensión Sindical*) created by the Labour Department.

The picture was not nicer in the cities, where unions were also gaining power, although not in the explosive way they did in the countryside. This, combined with the increase in labour demand due to the reinvigoration of the structural change process, pushed wages up and profit share down. Nevertheless, Table 3 shows that things, although bad, were not terrible for the elite members’ incomes. In fact, pro-growth policies developed by Frei’s government allowed them to increase it, although at a slower pace than that of their workers.

Table 3							
Real incomes and income share in 1958, 1964 and 1970							
		Year			Variation		
		1958	1964	1970	1958-64	1964- 70	1958- 70
Top 1%	Income share	28%	21%	16%	-7%	-5%	-12%
	Annual income	\$ 37.488*	\$ 29.944*	\$ 39.606*	-20%	32%	6%
Profit share		51%	33%	27%	-18%	-6%	-24%
Annual Wages	Unskilled	\$ 404*	\$ 634*	\$ 1.018*	57%	61%	152%
	Skilled	\$ 1.515*	\$ 1.762*	\$ 3.075*	16%	75%	103%
	Total	\$ 688*	\$ 865*	\$ 1.674*	26%	94%	143%
(*) Constant shields of 1960							
Source: own estimate							

But their incomes were not the only thing that mattered to the elite. More important was their power, that is, the privilege to rule over their country and its inhabitants. And it was precisely that power which was affected by Frei's government. This was especially evident in the countryside, where the reforms pushed by the Christian democrats were eroding the keystone of the elite's domination system: the *hacienda*. The importance of the *hacienda* was that it provided control over land and men, and both had been—until then—the base for the political power of the elite. But now, the agrarian reform was altering their control over land while unionisation and political participation was increasing the empowerment of their one day obedient labourers and peasants. In other words, the bonds of domination that had guaranteed their supremacy were dissolving before their eyes.

Nevertheless, things still could go worse for the elites, and they did, when a majority of Chileans voted for Salvador Allende in the presidential election of 1970. Although Allende barely surpassed the right's candidate—its hero Jorge Alessandri—the results must be interpreted as another step in the citizen's radicalization process towards the left. The Christian Democratic candidate, Rodomiro Tomic, who obtained 28% of the votes, was seen as too much of a radical for the right to support him as they did with Frei Montalva in 1964. As a consequence, in 1970 the elite's worst nightmare became true: there would be a Marxist in *La Moneda*.

The two and a half years that Allende was in office were a time of extreme radicalization, a state of affairs which caused such economic chaos, that it is extremely difficult to know what happened with some key economic variables, like real wages or income distribution. The explosive increase of prices—the official inflation rate rose

from 28% in 1971 to 251% in 1972 and 606% in 1973—jointly with price controls and black market, make it impossible to evaluate incomes and their distribution rigorously.¹⁵ What we know is that Allende attempted to make a radical redistribution of wealth and income. The government pushed for a “Chilean road to socialism” by increasing wages and taking control over large enterprises. And when, in the opinion of unions, or even the guerrilla, it did not pushed hardly enough, it was forced by the latters to act. As a consequence, the velocity in which Chile was crossing the road towards socialism was higher than that the government desired.

The situation of uncertainty and fear about the future caused by the political struggle led to an extreme polarization under which not only the elite, but also an important part of the middle classes, approved the overthrow of the democratic government by the Armed Forces in September 11th of 1973 (Meller, 1996). Nevertheless, we do not know is if these middle sectors would have favoured the coup if they could have foresought the crimes that would be made by the regime of terror which began that day.

The military coup of 1973 not only ended with Chilean democracy, it also finished the process of the elite’s weakening that had started half a century before. Under the military regime, those who were “the owners of Chile” regained control. The high level of inequality that Chile faces today arose during this time under a highly repressive political context, characterized by the prohibition of political parties and the repression of the trade unions and any kind of opposition. Thus, the dictatorship was successful where Allende was not: they headed an authentic revolution that lead to a radical redistribution of income and wealth. The only difference is, of course, that this was a “capitalist revolution” (Gárate Chateau, 2012).

8- The past, the present and the future of Chilean inequality: some reflections

The increasing interest in the political economy of top incomes has changed the center of gravity for income inequality analysis: from studies mainly concerned with labour earnings distribution, to capital return, power asymmetries and distributive

¹⁵ As an example, according to Jadresic (1990), real wages could rise or drop in 1972, depending on whether black market prices are included or not in the estimation of the Consumer Price Index.

struggles. To those worried about income inequality in Chile and Latin America this is an enlightening change of focus. If Chile is nowadays one of the most unequal countries of the world, it is because its elite are extremely rich (Solimano, 2012).

One of the main arguments of this paper is that to achieve a better understanding of the relationship between inequality and development, it is necessary to acknowledge the fact that we are dealing with a historical problem. This implies that the forces which drive inequality and shape its tendencies develop in a changing context. Nevertheless, to say that history matters, implies not only that things change over time but also that they persist, a fact whose importance over the present and future of Chilean inequality is difficult to overestimate. The elite's control over the state has been a long term trend which allowed it to shape the economic and political institutions in its favour. This paper analyses the only period in the history of Chile in which that control was challenged.

The weakening of elite's power, part of which was the fall of their income share, was the result of a number of causes. Some of them had its origins in the international economy. The shocks of 1914 and 1930 seriously affected the middle sectors and they made them more prone to confront the elite and give their support to the Popular Front, a centre-left alliance who won the presidential election in 1938. These shocks also favoured a process of structural change which, jointly with the new set of labour market institutions, empowered both white and blue collar workers. Even in the countryside, where unions remained forbidden—undoubtedly a victory for the elite—peasant submission was reaching its end. However, the political economy of inequality always develops as a complex and contradictory process, and during the fifties the elite had an opportunity to regain control. Nevertheless, the social and political scenario had changed in a way that even the success of their candidate in the polls in 1958, it was no more than a Pyrrhic victory. Furthermore, the new electoral law, approved before that year's election, was another step in the process of their political weakening, especially in the countryside. And it was precisely there where, in the years afterwards, the agrarian reform, peasant organisation, and daily labourers' unionisation, ended with the hacienda system, the keystone of their power.

However, although weaker when compared to their grandfathers, the elite's members of the early 1970s were powerful enough to overthrow—in alliance with other actors—the democratically elected government. At the end of the day, the long term

ability of the elite to shape the social and political life remained fundamentally unchanged. And this is the reason why, in order to achieve a better understanding of Chilean inequality today, but especially to forecast what might happen with it in the future, it is essential to analyse how the actual economic and political power of the current elite evolves. A power that, since it is a dictatorship's legacy, is nowadays rooted in the high concentration of wealth and the oligopolistic market structure—especially in the export sector and the privatised areas—which gave them great influence over political parties and state agencies¹⁶. This is a state of affairs which not only promotes high inequality of wealth and income, but also undermines the quality of Chilean democracy.

¹⁶ The scandals which exploded at the beginning of 2015 over the role of the PENTA Group—a holding which has its origins in the privatizations made under Pinochet- in political financing, tax evasion and bribery, is the most recent—and evident- example of this “incestuous relationship between money and politics” as Marta Lagos called it. See “Executives Are Jailed in Chile Finance Scandal”, the *New York Times*, March 8, 2015, page A9.

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