STUDIES OF THE AMERICAS

Capitalists, Business and State-Building in Chile

Edited by
Manuel Llorca-Jaña · Rory M. Miller
Diego Barría

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Studies of the Americas
ISBN 978-3-030-14151-6 ISBN 978-3-030-14152-3 (eBook)
https://doi.org/10.1007/978-3-030-14152-3

Library of Congress Control Number: 2019932940

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Preface

The purpose of this volume is to present some of the best recent research on the development of business in Chile to an English-language readership, not only of business historians internationally, but also to students of Latin American history whose attention would not always be drawn to the excellence of Chilean scholarship or some of the work undertaken by foreign scholars who have published in Spanish. The history of business in Chile presents a paradox. On the one hand, the field has been very slow to develop in comparison with other major Latin American countries. On the other, many of the issues that have been of interest to political and social historians of Chile—foreign domination of key export sectors and the services associated with them, the persistence of inflation and its impact on society, a largely constitutional tradition but one punctuated by occasional military coups and, in the end, the dictatorship of 1973–1990—cannot be understood without analysing the development and behaviour of the business elite and individual firms and entrepreneurs. For international business historians, Chile provides excellent, well-documented examples of the dynamics and interactions among foreign firms, local business groups and the state, which can enrich understanding of how the 'variety of capitalism' that has characterised Latin American emerging markets developed, and took on particular characteristics in different national contexts. We hope, therefore, that this volume of essays by an international group of scholars—Chilean, British, North American, Colombian and Argentine—will prove of interest to both the community of international business historians and to Latin American specialists.

Santiago, Chile — Manuel Llorca-Jaña
Liverpool, UK — Rory M. Miller
Santiago, Chile — Diego Barría

Acknowledgements

This book has its origins in a conference organised in 2015 by Manuel Llorca-Jaña at the Universidad de Santiago de Chile and the Universidad de Talca, with the support of an international cooperation grant from CONICYT (Comisión Nacional de Investigación Científica y Tecnológica, the Chilean national research council, project REDES 140023). We are extremely grateful for this support. It is clear from the individual chapters that several of the Chilean contributors have also benefited from CONICYT grants for specific projects to undertake the primary research published here. The equivalent Argentine research council, CONICET, has supported the research of some of the other contributors to the volume. The development of business history in Chile has benefited also from the support of an international network of scholars, several of whom attended the 2015 meeting with CONICYT support, and commented on early drafts of several of the papers here: in particular Dr. Rory Miller (University of Liverpool Management School), Professor Bernardo Bátiz-Lazo (University of Bangor North Wales), Professor Carlos Dávila (Facultad de Administración of the Universidad de los Andes in Bogotá), and Professor Geoffrey Jones (Harvard Business School—HBS). Particular thanks are due to HBS for supporting the development of business history in Latin America more generally, through the award of fellowships for visiting scholars, including four of the authors in this volume. The task of editing the English-language versions of the papers was undertaken by Rory Miller (who accepts all responsibility for errors that may have crept in).

Robert Greenhill kindly gave up his time to read through all the chapters after the initial editing. The production of the book would have been impossible, though, without the initial support of Victor Letelier from Editorial Universitaria in Chile, and translators Anya Doherty and Cristina Labarca. To all of them, we are extremely grateful.

Santiago, Chile
Chester, UK
January 2019

Manuel Llorca-Jaña
Rory M. Miller
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CHAPTER 1

Introduction: Business History in Chile in the Twentieth Century

Manuel Llorca-Jaña, Rory M. Miller and Diego Barría

Introduction: The State of Chilean Business History

Despite Chile's long tradition of research in economic history, the country's business history has received little attention until very recently, at least in comparison with some other Latin American countries.[1] This is not to say that there are no business historians in Chile, especially now in Santiago.[2] Indeed, some colleagues have begun to publish in the most important journals of the discipline, such as *Business History Review*, *Business History*, and *Enterprise & Society*.[3] However, for a long time

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M. Llorca-Jaña et al. (eds.), *Capitalists, Business and State-Building in Chile*, Studies of the Americas,
https://doi.org/10.1007/978-3-030-14152-3_1

scholars based overseas produced rather more on Chilean business history, especially on the role of foreign entrepreneurs and companies, than Chileans did themselves.[4] Institutionally, the field remains quite weak. There are still no business history centres in Chile, not even small units within departments of history, economics, or business and management. It is rare to find courses on business history being taught at Chilean universities, except for occasional modules at Universidad de Santiago and Universidad Adolfo Ibáñez. This situation contrasts with the developments that have taken place in larger Latin American countries such as Argentina or Mexico, or even other 'intermediate' economies such as Colombia.[5] However, the fact that academic interest in Chilean business history has grown only recently should not be taken to mean that the subject is not important, whether to historians of Chile, or to historians of business in Latin America or emerging markets more broadly.[6]

Historians of Chile conventionally divide the country's post-independence economic history into four phases: the period leading up to the War of the Pacific with Peru and Bolivia in 1879–1883, which was dominated by the growth of mineral exports (silver and copper), as well as a relatively short boom in wheat and flour shipments stimulated by the Californian Gold Rush and demand from Britain; the nitrate era of 1880–1930 when the country exploited the rich deposits in the Atacama Desert that it captured during the war, giving it a dominant position in the global market for nitrogenous fertilisers until the growth of competition from synthetics after World War I; the period from 1930 until 1973 when exports depended on copper, produced largely by US companies until nationalisation in 1971, while the domestic economy followed strategies of import-substitution industrialisation (ISI); and the period since the military coup of 1973 which saw the introduction of policies designed for export-led growth, a renewed openness to foreign investment and the rollback of state intervention and public-sector firms.

A left-wing (*dependentista*) characterisation of the domestic business elite during these periods would see it as dynamic in the first period, when Chileans and immigrant settlers from Europe dominated the mining economy and agriculture; passive and parasitic during the second and third, when it captured much of the income the state received from export duties; and dynamic and selfish in the final period, when government ceded control of many key sectors of the company to new business groups.[7] For the Right, the role that the state played in the economy in the mid-twentieth century, after the elite lost control of government in the 1930s, appeared to be one that thoroughly distorted the workings of the market, suppressed business initiative, created unsustainable inflation as a result of deficit spending and led to the domination of the economy by inefficient state-owned enterprises (SOEs).[8]

This contrast of views highlights the centrality of the business elite, the state and foreign investors to Chilean economic (and political) history over the last two centuries, an interaction that the essays in this volume collectively address. Some particular features of Chilean history, however, also give it greater importance within Latin American business history more broadly. First, Chile was heavily dependent on exporting minerals to an extent that is true of no other Latin American economy, except for twentieth-century Venezuela with its dependence on oil. However, Chile could hardly be regarded as suffering, over the long term, from the so-called 'Resource Curse', where an abundance of natural resources leads to an overvalued currency, skewed development and economic stagnation, high levels of corruption and extremely poor welfare outcomes. Second, apart from the initial period of Chilean post-independence history, technology and finance came from overseas, at least in the early stages of each mining cycle. This raises important questions about the role that foreign companies played in the economy, and the potential for a nationalist reaction against them, leading to conflicts with the state. Third, as a result of its ability to tax exports due to its leading role in global markets for copper and nitrate, especially—and also to benefit from duties on the imports financed by the foreign exchange that the mineral exports generated—the state possessed much greater resources than governments which did not have the ability to levy export duties in the same way.[9] Fourth, as Patricio Silva (1994) has shown, a strong technocratic element developed within the public sector in the interwar period, leading to the establishment of one of the first national development corporations in Latin America, the Corporación de Fomento de la Producción (CORFO), in 1939 (Ortega 1989; Nazer 2016). Fifth, Chile paved the way in the introduction of neoliberal policies in Latin America in the 1970s, undertaking an extensive process of privatisation and giving rise to new business groups alongside some older ones which had successfully made the transition from the nitrate era through state-led ISI and into a new phase that privileged the private sector (Lefort 2010; Martínez Echezárraga 2015; Salvaj and Couyoumdjian 2016). Finally, some of these groups have successfully invested across frontiers, making the transition to become *multilatinas*

(Latin American multinational firms), as shown in Barbero's chapter in this collection. In the 2016 ranking of Latin American multinationals, Chile was home to 12 of the top 50 firms listed.[10]

The Late Development of Chilean Business History

If Chile presents such interesting characteristics, both within Latin American business history and more broadly in a global context, why was the subject so late to develop? The first scholar who probably tried to answer this question was Luis Ortega (1999) in a contribution to an early collection of essays surveying the field. According to Ortega, business history was, by then, quite new within Chilean academia, and it was, therefore, institutionally weak.[11] This weakness has persisted into the twenty-first century, but some improvements are worth noting. In 2014 the Universidad de Santiago created a specialist research centre (Centro Internacional de Historia Económica, Empresarial y de la Administración Pública [CIHEAP]) to promote both economic and business history, as well as the history of public administration. Several of its members have published work in business history.[12] A major grant that the centre won shortly after its foundation allowed it to organise a conference in July 2015 entitled 'Business History in Chile and Latin America' in order to promote the subject, with the support of Professor Geoffrey Jones and the Harvard Business School (HBS).[13] Some papers from the conference were subsequently published in a special issue of a Chilean journal, *Contribuciones*, while the more empirical studies appear in this volume.[14]

A second explanation Ortega offers for the lack of development of business history in Chile was that between the late 1920s and the mid-1970s, the state was the main economic actor within the Chilean economy. Only after 1974 did the private sector begin to regain a more dominant role. The importance of the state meant that before 1974 historians had little interest in the structure, organisation and management of firms in the private sector, although this does not explain why they paid so little attention to state-owned enterprises (SOEs), especially as so many in Chile were successful and sizeable, particularly during the ISI period between 1930 and 1973 (Ortega 1999: 60).

Beyond these plausible explanations, one might add that given the turbulent political history of Chile, including the Pinochet dictatorship (1973–1990), both political and social history attracted much greater interest among Chilean historians than any other field. It is noticeable that much of the early work in business history came from Chilean historians in exile in Britain after 1973, where any primary research they undertook had to depend on the diplomatic and very rich business archives available in London. This lack of alternatives also encouraged them to overcome the prejudices that continue to exist within Chilean academia regarding entrepreneurs and firms. Many historians and social scientists still believe that studying companies is the same as studying entrepreneurs, and that both firms and entrepreneurs are 'villains' within Chilean society. For most of the contributors to this volume, with a grounding in the modern business history literature, the aim is not to extol the role of entrepreneurs or firms, as some might think, but rather to try to understand how and why they make the strategic, organisational and operational decisions that they do and the impact that these choices have both on the economic system, and on society and politics.

A fourth reason for the lack of development of business history in Chile was, undoubtedly, the lack of bibliography in Spanish, textbooks in particular, in a country where not that many scholars and students are fluent in English (including potential university lecturers). Indeed, it was only in 2007 that the first business history textbook in Spanish was published anywhere (Valdaliso and López 2007). Before that, many Chilean colleagues found it hard to obtain a grasp of the main theories and current trends in business history. Likewise, it was difficult for potential lecturers in, say, international business history to teach a course for undergraduates, or even postgraduates, since most of the bibliography would have to be in English. There is almost certainly no textbook on Chilean business history, although it would not be too difficult to prepare a set of basic recommended readings in Spanish. However, despite the lack of standard textbooks, a decent range of good-quality work on Chilean business history does now exist, including the essays in this volume.[15]

This is despite one other obstacle that deserves mention. Unfortunately, Chilean firms (even public institutions) do not keep many archives, and even if they preserve some information, they do not usually allow scholars to access their records, a problem that also occurs in the rest of Latin America, many Asian countries and Africa (Austin et al. 2017). Even where they do provide access, they often impose some tight restrictions on the use of their papers, something which is understandable given the secrecy which inevitably surrounds business decisions, especially in more recent periods. Linked to this, Chilean firms do not normally donate archival material to either public archives or universities, in contrast to procedures in many developed countries, such as Britain, Germany and the United States. Instead, Chilean companies tend either to destroy their records or keep them for themselves (Ortega 1999: 81). Moreover, unlike some of their counterparts in the developed world, Chilean entrepreneurs are not particularly keen on knowing more about the history of their firms. This presents a great challenge for business historians based in Chile, who must attempt to create strategies to convince companies to preserve their archives and to give free access to scholars. That said, it is also true that, with respect to SOEs, the Archivo Nacional de la Administración, located in the Chilean national archive, contains some very rich information, but this material remains underused by researchers.[16]

The Sources for Chilean Business History

What sources, then, are available to business historians of Chile, which might help to circumvent the relative lack of accessible corporate archives in the country? Standard sources used elsewhere in Latin America have included notarial archives, the published reports of government ministries and agencies (for example, the bodies that regulated private-sector companies such as railways or banks), the publications and papers of trade and sectoral associations, the reports of professional associations such as mining engineers, and the specialist business press. In the Peruvian case, for example, the notarial archives of Lima contain rich information on property transactions and contracts in the nineteenth century, allowing us to see, for example, how small immigrant traders built up businesses using credit. For the twentieth century, the annual reports of the Peruvian Dirección de Obras Públicas provide substantial information on the operation of the railways, and the *Boletines* of the Cuerpo de Ingenieros de Minas and the Sociedad Nacional Agraria on individual mining and agricultural properties, while weeklies like the *West Coast Leader* and the *Peruvian Times* reported extensively on foreign business activities in the country. Chile possesses many parallel resources, which until now historians have scarcely used, with the additional advantage, compared with Peru, that many are available online. These online sources include several digitised collections, especially prints and photographs, from the Archivo Nacional and the Biblioteca Nacional, the *Anales del Instituto de Ingenieros de Chile*, Congressional debates, and *El Mercurio*. Other important press sources such as *Revista Comercial*, published in Valparaíso during the first thirty years of the twentieth century, are available in print in the *hemeroteca* of the Biblioteca Nacional. In addition, scholars have begun to pioneer the use of oral sources for more contemporary studies, including the development of a growing archive of interviews that HBS has organised with leading Latin American business people.[17]

For the history of foreign firms operating in Chile, scholars can find a range of sources overseas. Both Chilean and British scholars have made extensive use of the rich holdings of the London Metropolitan Archives (some of them formerly stored in the Guildhall Library), including the large collection of papers of Antony Gibbs and Sons, one of the most prominent trading firms operating in Chile from the time of independence until the mid-twentieth century. However, there are other important business archives in London relating to Chile, such as those of investment banks, like Rothschild and Schroder, two of the principal banks that operated in the country, the Anglo South American Bank and the Bank of London and South America, and another important merchant house with extensive interests in Chile, Balfour Williamson. The London archives of Antofagasta Holdings, though still in private hands, have also been made available to historians in the past.[18] In addition, historians can find considerable amounts of material on businesses operating in Chile in the contemporary press, especially *The Times*, the *Financial Times* and *The Economist*, all of which are easily searchable on-line. In the United States, the papers of W. R. Grace & Co., which had major interests in Chile in nitrate, shipping, and commerce from the time of the Pacific War onwards, have hardly been used by business historians, although Laurence Clayton's company history has a chapter on the firm's response to the 1891 civil war (Clayton 1985; see also Rice 2012). US newspapers such as the *New York Times* also provide a valuable on-line resource, for example on the Guggenheims' investments in nitrate. Other sources in the United States include not only government papers, including information on US companies' involvement in plotting against the Unidad Popular regime (1970–1973) and the US boycott of Chilean copper after nationalisation in 1971, but also the archives of the International Monetary Fund and World Bank, which contain material on foreign banks' lending to Chilean administrations after the Second World War. Without doubt, French and German public and private archives must also contain a good deal of material unknown until now. The annual reports of the Deutsche Überseeische Bank (Banco Alemán Transatlántico), for example, which normally include a section on its operations in Chile, are even available on-line.[19]

Chilean Business History in an International Context

Business history, as a recognisable sub-discipline, commenced in HBS in the 1920s, as Geoffrey Jones argued in his presentation to a Santiago workshop in 2015 (Jones 2015: 8). The *Bulletin of the Business Historical Society*, founded in the same decade, eventually turned into what became the leading journal in the field, *Business History Review*, in 1954, just four years before a group of historians in the United Kingdom and Liverpool University Press launched *Business History*, its British counterpart. In both countries, scholarly interest concentrated on national business histories, and under the influence of Alfred Chandler, Professor of Business History at HBS from 1970, frequently on the largest firms where management and organisational changes were most advanced (Chandler 1962, 1977). Chandler did eventually diversify into comparative business history, contrasting the evolution of capitalism in the United States with its development in Britain and Germany in one of his best-known books, *Scale and Scope: The Dynamics of Industrial Capitalism* (1990). Despite his interest in large multinational corporations, however, Chandler paid little attention to the development and management of their international operations. The pioneer here was Mira Wilkins, with two books on the overseas expansion of US companies (Wilkins 1970, 1974). Chile figures significantly in both these volumes, primarily because of US investment in copper mining from early in the twentieth century. However, for the most part Latin America in general, and Chile, in particular, have remained marginal to the interests of mainstream business historians in the developed world. The *Oxford Handbook of Business History*, published in 2008, contains just one reference to Chile in its index, and two for Argentina, while Brazil and Mexico scarcely reach double figures between them (Jones and Zeitlin 2008).

Even before he died in 2007, a reaction against Chandler's emphasis on large firms and his generally positive and teleological views on US business and management had commenced. With his emphasis on organisational change, Chandler had largely ignored the economic and social context within which business had operated, as well as downplaying the role of individuals and their decision-making (Klein 2001). At much the same time a group of leading US economic historians, in the light of the problems faced by large Chandlerian vertically integrated firms in the 1970s and 1980s, questioned his assumption that the historical processes involved would lead naturally to the dominance of large technologically advanced corporations. Instead they emphasised the importance of variations among different business sectors, technological change, which might increase or reduce information asymmetries and transaction costs, and contingency, in the form of decision-making by individual firms and entrepreneurs as well as governments (Lamoreaux et al. 2003). All these points reflect the way in which, in the developed world, the influence of Chandler has waned since his death, and they have an obvious relevance to the history of business in a country like Chile where differences among business sectors, information asymmetries, high transaction costs and decision-making by state and private actors have all had a significant influence on the evolution of business organisations.

For business historians of Latin America, struggling to overcome the descriptive and narrative tone that marked much of the work published in the 1980s and 1990s, the Chandlerian paradigm had little relevance, even for those who knew about it. Chandler said virtually nothing about the impact of multinational firms on host economies, while the organisation of much Latin American enterprise in family business groups, as well as the importance of studying their behaviour in the economic, social and political context of individual countries, meant that his focus on single-industry firms did not help analysis.[20] Leaving aside Marxist and other radical writers, the North American scholars whose writings had more relevance to Latin American business historians were historians like Mira Wilkins (1970, 1974, 1988, 1994), economists such as Raymond Vernon (1971) or Richard Newfarmer (1984), or sociologists like Peter Evans (1979) or Gary Gereffi (1983). However, their work was concerned much more with the interaction of foreign firms, the state and local business elites than the endogenous growth of business in individual Latin American countries. In her contribution to a conference panel organised by Chandler in 1994, María Inés Barbero (1997) clearly struggled to fit the Argentine case into a Chandlerian framework, emphasising instead the coexistence of several different types of public and private enterprise, the diversification that characterised large economic groups, and the ebb and flow of business concentration rather than a linear growth towards large integrated firms that Chandler had emphasised in the United States. In a later article surveying the development of the field (2008), she noted that, except for a small number of scholars in Brazil, most business historians in Latin America had eschewed Chandlerian ideas.

For Barbero (2008), the key themes which Latin American business history should address centred on the role of family firms (which Chandler, in his comparative business history, had tended to disparage, especially in the case of the United Kingdom); the growth of diversified business groups; the relationship between business and the state; the role played by immigrants; and the question of management skills and the efficiency of firms, especially in the light of high transaction costs and state regulation in Latin America. Only the last of these topics really falls into a Chandlerian vision of business history. Research concentrating on these themes, Carlos Dávila argued in another survey article in 2013, would mean that 'Latin America business history has something to say to the international business history community' (Dávila 2013: 110). In a later article, written with Gareth Austin, an African specialist at Cambridge (UK), and Geoffrey Jones at HBS, Dávila argued strongly for a reorientation of business history to take account of emerging markets and the different structures of business there (Austin et al. 2017). Taking a step back from both the tradition of business history in the developed world and the regional historiography that has developed in Latin America, they argued that the institutional context of emerging markets was essential to understanding the evolution of business in these countries in five ways: the fact that they were 'on the wrong side of the Great Divergence' (Austin et al. 2017: 539), with rapidly developing inequalities between their economies and the developed world, and between advanced cities and poor rural environments within each country; the colonial legacy (in the Chilean case, that of Spain); the role played by the state (in the Latin American case, a legacy from the colonial period); 'institutional voids' in capital and labour markets; and a turbulent political environment. The entrepreneurial and organisational response of business to these different environmental conditions would clearly be quite distinct from that of the United States or western Europe.

The Contribution of This Book

In this context of a growing appreciation of the importance of understanding the different organisational and institutional features of business development in emerging markets, Chile clearly has much to offer. It shared many characteristics with other Latin American economies: the importance of immigrant entrepreneurs at particular stages of the country's history in the nineteenth and twentieth centuries (as seen