

# **Violence and Institutional Change: Two Opposite Processes in the Contemporary Chilean Experience**

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## **1) Introduction**

We will begin by describing the following: 1) the two clearly defined stages that make up the contemporary Chilean experience: dictatorship (1973-1990) and democracy (1990-2010); 2) the growth process that is leading Chile towards development in the medium term; 3) the continuity of rules of the game or institutions that generate stable and transparent checks and balances over time as a necessary, but not sufficient, condition to achieve development. Then, we will present the following possible hypothesis: 4) dictatorship (1973-1990) and democracy (1990-2010) have not been complementary economic processes, but rather opposites. This hypothesis is too broad and generates the need to narrow it down.

We must introduce theoretical tools in order to strengthen the explanation of a structural or radical change between the two stages. For this, we will turn to the neo-institutional conceptual framework. Specifically, the research program that Douglas North developed as of 1958 will be a main reference for us because it contributes to our purpose in two ways. On the one hand, his book titled “Violence and Social Orders, A Conceptual Framework for Interpreting Recorded Human History” (co-authored by John Wallis and Barry Weingast) will be useful to argue for the existence of two opposite processes. On the other hand, North emphasizes the importance of the role of beliefs when analyzing institutional changes. Especially in his book titled “Understanding the Process of Economic Change,” he stresses that institutional changes are slow and at times, the causes of these changes lie in cultural factors or beliefs. The contemporary Chilean experience includes a traumatic process that has contributed to introduce a change in beliefs: the process of exile, renovation, and return of the Chilean Left has played a leading role in assembling the “Concertacion de Partidos por la Democracia” (Coalition of Parties for Democracy) – a center-left coalition of the Socialist Party (PS) and the Christian Democrat Party (DC), and a leading political actor in the Chilean democratic experience.

Therefore, it is necessary to briefly address this traumatic process’s key role. The process of exile, renovation, and return can be interpreted, using a neo-institutional or Northern lense, as a set of new beliefs brought mainly from Western Europe. These new ideas and beliefs help to understand the radical institutional change

## **2) Two opposite processes in the contemporary Chilean experience**

Our work seeks to compare and contrast the military regime (1973-1990) with the democratic period (1990-2010). The main hypothesis is that between the military dictatorship and the

democratic period headed by the “Concertación de Partidos por la Democracia” (a coalition of 17 parties that has been led mainly by the Christian Democrat and Socialist Parties), not only was there no continuity but in certain crucial aspects there was a rupture. In this rupture can be found the cause of the growth process and in some specific areas, the stage of development that the country has reached.. The 1973-1990 and 1990-2010 periods are not only different processes but also opposites.

There is a vast body of literature on the contemporary Chilean experience following the 1973 coup-d’etat. The main traits that have been studied include the revolutionary vocation of the Unidad Popular government (1970-1973), the reactionary or conservative revolution of the military regime (1973-1990), and the institutional recovery attained by the “Concertación” (1990-2010), which supposedly also represented a continuity of the neoliberal economic model. As regards to this point, the literature has been divided between those who stress the continuity in order to minimize the Concertación’s democratic character and those who have attributed greater importance to the end of the dictatorship so as to play down the continuity of the model.

This work sets out to show that during the 1973-1990 and 1990-2010 periods, Chile experienced two not only different but also opposite models. In addition, it sets out to prove that the positive socioeconomic indicators of the 1990-2010 period are not the result of the continuation of policies implemented in the first period, but of a gradual yet radical change that took place after 1990.

La primera parte del trabajo se centrará en el episodio de política pública principal de la experiencia de la “Concertación” en el poder: la “Regla Fiscal de Superávit estructural” implementada en el año 2000 por la administración socialista de Ricardo Lagos Escobar (2000-2006). La regla ha consistido en el ahorro estructural del 1% del PIB. Recurrimos a la precisa definición de la OCDE:

“...In 2000, the government introduced a new fiscal rule, referred to as the structural budget surplus rule (SB) for the central government. It puts a cap on expenditure with a view to maintain a surplus of the structural budget of 1% of actual GDP. This rule allows the government to pursue some counter-cyclical fiscal policy, as it permits the fiscal balance to be below 1% of GDP in recessions but requires surpluses above 1% to be achieved during upswings. The SB is a notional concept representing the amount of revenues and public spending that would be achieved if the economy operated at potential trend level. The SB aims at correctly identifying the cyclical and structural components of the budget. A Failure to distinguish between the two components creates a risk that policy over- or under-adjusts in reaction to budget developments. The SB overcomes this problem...the government chose SB among a variety of fiscal rules because its methodology is well known and widely applied by the OECD and IMF. The Chilean approach parallels that of Switzerland. Chile’s adjustment for the fluctuations in the price of cooper is rather unique. Instead of a balanced budget, the government targets a surplus of 1% to provide for future social commitments and to address contingent liabilities. The latter include the persistent operating deficit of the Central Bank, and guarantees given to ensure a minimum return for investments in concessions of public works. In the social area, an important item in the foreseeable future is the growing number of people dependent on minimum assistance state pensions which are not funded...” (OCDE, Chile, 2003, 48)

We will resort to two complementary methodological strategies; on one hand, we will argue counterfactually that the “Fiscal Rule” is a public policy designed and carried out in democracy and that it is impossible to implement during a dictatorship. In second place, we will use the “Fiscal Rule” to demonstrate not only the absence of continuity but the opposition (and antagonism) between the military regime and the democratic process and this will suppose a causal generalization. Because even if we could prove the impossibility of implementing the

Rule in a dictatorship, this does not imply the absence of hypothetical continuities in other spheres.

Firstly, how has the Chilean democracy constructed the “Fiscal Rule” and why would this have been impossible in a dictatorship? In the period under study, 1990-2010, our model of the Chilean democracy is divided first in two players: Government and Opposition. We will define the Government as a progressive coalition and the Opposition as a conservative coalition. In turn, the Government coalition can be divided chronologically and party-wise in two: a first stage governed by the Center wing of the Concertación, headed by two Christian Democrat governments (Aylwin, 1990-94, and Frei Ruiz-Tagle, 1994-2000) and a second stage governed by the Socialist wing of the Concertación (Lagos, 2000-2006, and Bachelet, 2006-10). The “Fiscal Rule” reflects an orthodox policy thought up by Mario Marcel, Andrés Velasco, and Nicolás Eyzaguirre during the Christian Democrat’s second government (in 1998, to be precise) and implemented in the first government headed by Socialists (2000-2006).

In this sequence, we see that democracy is a learning process where, in our example, the centrists in a coalition lay down the foundation for a more progressive wing to implement an orthodox tax policy that involves (or even strategically immobilizes) the Conservative opposition. The “Fiscal Rule” in Chile represents the inclusive nature of democracy inasmuch as an orthodox policy implemented by progressives becomes a policy of the center and reflects a consensus (tacit or explicit) of the main political actors. The tacitly inclusive nature of this public policy in Chile is philosophically, ethically, and economically opposed to what the dictatorship carried out.

To a certain extent, the “Fiscal Rule” equals time plus explicit consensus within the Concertación (plus tacit consensus on behalf of the opposing conservatives). The Rule’s construction and stability over time show traits that are diametrically opposed to those boasted by the military regime. From the regime’s logic, “Fiscal Rule” would result in an oxymoron. If the rule has been A+B+C, all the military regime’s public policies supposed the absence of B and C. Following this example, it would not be possible to maintain continuity between one regime and the next.

In second place, if we can prove the impossibility of implementing the Rule during the dictatorship, we should then try to prove that we can generalize this specific experiment with other relevant public policies, sufficient in number to be representative of the process. In other words, we should look for a causal generalization. In the section titled “Experiments and the Generalization of Causal Connections” of their book “Experimental and Quasi-Experimental Designs for Generalized Causal Inference”, Shadish, Cook and Campbell note that

“Most experiments are highly localized and particularistic. They are almost always conducted in a restricted range of settings, often just one, with a particular version of one type of treatment rather than, say, a sample of all possible versions... Yet readers of experimental results are rarely concerned with what happened in that particular, past, local study (*in our case, the “Fiscal Rule”*). Rather, they usually aim to learn either about theoretical constructs of interest or about a larger policy. Theorists often want to connect experimental results to theories with broad conceptual applicability, which requires generalization at the linguistic level of constructs rather than at the level of the operations used to represent these constructs in a given experiment.” (2002, 19).

According to these authors, "... scientists make causal generalizations in their work by using five closely related principles: 1) Surface Similarity; 2) Ruling Out Irrelevancies; 3) Making Discriminations; 4) Interpolation and Extrapolation; 5) Causal Explanation" (2002, 24-25).

The second causal generalization that we will try to develop is more delicate and ambitious and it will try to extrapolate the result beyond the Chilean experience. Even though Przeworski and Alvarez (among others) in their 2000 book titled "Democracy and Development: Political Institutions and Well-Being in the World 1950-1990" have shown that there is no correlation between dictatorship and higher growth, the existing body of literature has not done enough to stress the proof of the incompatibility of dictatorships and development. As mentioned above, at the time, the Chilean experience was perceived as a growth process that started during the military regime or, in the best of cases, as a development process that took place during democracy, with the dictatorship playing an institutional and macroeconomic role that was secondary but relevant. To be able to prove that Chile's development is a result of the quality of the public policies that were implemented during democracy and that its development occurred despite the dictatorship, would aid in establishing a research program that renders the relationship between development and dictatorship an oxymoron.

The current body of literature does not uphold the positive correlation between dictatorship and growth. However, having proven the falsity of this correlation means that the verification of the following hypothesis has been deactivated: the dictatorship (defined as the absence of rule of law) cannot be the starting point of growth process and subsequent development because it is in itself devoid of development.

There have been two moments in Chile's contemporary economic history that implied a rupture with the previous process. While it is clear that 1973 radically changed the ideology of the country's economic philosophy, it contributed to downplay the other rupture or structural change that took place in 1990. We can try to test this hypothesis by highlighting the institutional dimension of the "Fiscal Rule" in Chile, summarizing the issue as follows: if our argument is correct, the "Fiscal Rule" not only could not have existed during the dictatorship, but also it would not have made any sense at all (its existence would be absurd). In other words, there is a "Fiscal Rule" because there are institutions, and if there were a "Rule" without rules or institutions, a "Fiscal Rule" would make no sense because there would be no institutional reference to validate its compliance or infringement. Even if there had been a "Rule" during the dictatorship and it had been formally complied with, that same definition of compliance would make no sense. This is because it would occur in a context without meta-rules or, to be more accurate, in a context without true checks and balances that could come into play when the rule is broken.

So, while institutions exist, the "Rule" may or may not work efficiently, but when there is no institutional framework, the existence or nonexistence of the rule makes no sense because its infringement does not depend on an institution but on the degree of arbitrariness of the regime.

The role of the institutions in long term development has been subject of extensive literature (among others, Acemoglu (2001, 2009, 2012), Przeworski (1985, 1991, 2003)). The institutions are necessary but not sufficient conditions for development. Can a dictatorship lead a country to development? Today, we can firmly state that it is not possible.

As a next step, we can point out a systematic mistake in the literature on development and dictatorship. Following the classic examples of the development processes of the “Asian miracles,” a good deal of this literature concludes that it is possible that a process be started by an authoritarian government and that, in the medium term, the country becomes democratic thereby consolidating its path towards development. Two classic examples are Korea and Taiwan. However, the problem here is reversing the causality: it is not that below a certain economic growth rate do the societies demand a democratic opening (as mistakenly maintained by the modernization theory), but only under a minimum democratic opening can the societies aspire to development.

Therefore, it is clear that for this first hypothesis to take hold, we will have to rigorously state how and why 1990 can be considered a breaking point. For this, we will resort to the New Institutional Economics’ (NIE) historical and conceptual contribution, and more specifically to the vast research program developed by Douglass North. In particular, we will focus on the complex –and at times opaque– synthesis that North presents with John Wallis and Barry Weingast in “Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History.”

### **3) Violence, Institutions, and Limited Access Orders**

North, Wallis, and Weingast set out to develop a general theory for social sciences. In doing so, they offer a historical and conceptual description. They call this a “Double Balance”:

“The incentives embedded in these organizations produce a *double balance*: a correspondence between the distribution and organization of violence potential and political power on the one hand, and the distribution and organization of economic power on the other hand. The idea of the double balance suggests not only that all of the social systems in a society must have an internal balance of interests but also that the political, economic, cultural, social, and military systems must contain compatible systems of incentives across the systems if a society is to remain stable... “We have learned enough about institutions to realize that they are imperfect vehicles to solve problems (Eggertsson, 2005). Human societies never manage to solve the problem of violence completely, although some have developed more effective ways of constraining it than others. The emergence of natural states beginning ten thousand years ago dramatically expanded the range of institutions and organizations that societies could support. The use of rent-creation to constrain the use of violence enabled the creation of much larger societies capable of supporting larger populations, urban agglomerations, and significant technological change.” (2009, 20).

According to the authors, there are three closed orders: fragile, basic, and mature. On the one hand, North, Wallis, and Weingast have highlighted the need to rethink the “rent-seeking society” (Krueger, 1974) as a historical process that does not necessarily reflect an inefficient economic policy. Conversely, that rent-seeking mechanism may have been a process that helped to strengthen an imperfect but better order (more stable and, to a certain extent, more efficient) than an order without privileges. According to North, Wallis, and Weingast’s sequence, the capture of privileges between the (two) dominant groups is a necessary condition for creating an

order that will lead to a stable society. In this way, Limited Access Orders can be successful institutional agreements. The authors state that

"Natural state coalitions face a fundamental trade-off. Expanding the coalition without increasing rent-generating activities adds members and increases the coalition's ability to survive against internal and external threats. However, it also dissipates rents, which both lowers the value of being in the coalition and reduces the ability of members to punish the coalition by withdrawing their support. Because of this rent-dissipation, natural state coalitions are naturally self-limiting in size. Too large a coalition is unstable. The dominant coalition must be constantly aware of the danger that a subset of the existing coalition will attempt to displace the rest and take control of the state" (2009, 39).

We must highlight this particularly "anti-Weberian" meaning of State. To maintain that the State holds the legitimate monopoly of coercion is –according to the authors- a valid definition for contemporary open orders, but it is not useful to understand the special dynamic that created the majority of the current orders, which are limited access orders. Therefore, the approach is rigorous when it introduces the need to stop thinking about the State as merely a Weberian sphere where a monopoly of coercion has already been installed. Conversely, we must first understand the process that leads to the installation of this efficient monopoly of use of force. If not, we would be studying the consequences and not the causes of the problem. According to the authors:

"Approaches to violence that begin with the Weberian assumption that the state is an entity with a monopoly on the legitimate use of violence start in the wrong place. By assuming away the most fundamental problem societies face – managing violence – these approaches misunderstand how most human societies function. In natural states, military assets are dispersed throughout the dominant coalition. To be stable, natural states must give those powerful individuals credible incentives not to use violence but to cooperate. Assuming the state is a single entity eliminates our ability to understand how natural states – and thus most societies in history – contain violence" (2009, 258).

There is a link between politics and economics because the order that is installed to deal with violence becomes stable. The authors can claim they have developed the first general theory that links politics and economics as long as this order proves to be stable. This order is a limited access order that has a distinctive trait: there is a "predominance of social relationships organized along personal lines, including privileges, social hierarchies, laws that are enforced unequally, insecure property rights, and a pervasive sense that not all individuals were created or are equal."

Therefore, if this order has been stable, it is successful; and if it is successful, it is difficult to change. According to North, Wallis, and Weingast, the ability to create a stable order is exactly what justifies the existence of limited access orders. Then, those who want to change the limited access order cannot merely claim that there is a (supposedly) better order elsewhere, but they must also reassure that the existing stability will not be threatened by this change. This is where the leading role of the elites comes into play to create the conditions to transition from a stable limited access order to a stable open order. The distinctive trait of an open order is: the strengthening of "widespread impersonal social relationships, including rule of law, secure property rights, fairness, and equality – all aspects of treating everyone the same."

From this conceptual framework it is possible to sustain that for North, Wallis and Weingast, the Chilean transition in 1990 between the military regime and Concertación was not a structural change (from violence to absence of violence) but a transition within two limited access orders (being fragile, basics or matures). Since our work will try to use this conceptual framework to show a structural change in 1990, it will be necessary to get additional tools to rethink 1990 as a

breaking point between two models instead of thinking it as a transition between two kinds of limited access orders. Then, we will briefly introduce the radical political role played by the Chilean exile

### **1) Institutions and Beliefs: the role of the Chilean Exile**

From his book “Understanding the Process of Economic Change”, North systematically stress the role culture and beliefs play to think the efficiency both in the institutional change and institutional persistence (Wallis, 2014; Mokyr, 2014). The experience of the contemporary Chilean left is particularly revealing: studying their path, it is possible to start to refute any economic and political continuity between the military regime and the subsequent consecutive democratic governments. This social actor (namely, the exile plus the renovation plus the return plus the exercise of power) has been formed by a group of people strategically positioned as a political and ideological bridge between Socialists and Christian Democrats.

The conceptual framework developed by North is useful to interpret the exile, renovation and return influence of the Chilean left. As we mentioned, the exile was formed by key political actors and these actors were key to understand the agreement between the Socialist Party and Christian Democrats. However, the study of the Chilean’s in exile has other important methodological challenges: in the first place, it is a recent historical event. Secondly, it does not start at a moment that is chronologically univocal. In other words, although the diaspora started with the coup d’etat of September 11 1973, the politically persecuted continued emigrating even at the beginning of the ‘80s. Thirdly, the destination of the exiles was diverse and antagonistic. Though the main destination was Latin America (Argentina, Brazil, Costa Rica and principally, Cuba, Mexico and Venezuela) and Europe, it is possible to find destinations as dissimilar as Australia, Canada, Angola, Mozambique, USA, Senegal, Egypt, among others. Chilean exiles can be found in the five continents.

Rody Oñate and Thomas C. Wright maintain that:

“One of the hallmarks of the Chilean exile experience is the worldwide dissemination of its protagonists. The geography of Chilean exile was such that no single continent, country, or area within a country could be identified as the primary exile destination -- in contrast with the case of Cubans and Miami. It is commonly estimated that Chileans settled in a minimum of 110 countries and possibly in as many as 140 (*Oficina Nacional de Retorno* (ONR), 1993). Regarding the amount of political exiles, the exact number of host countries is impossible to establish. By the end of 1992, the ONR reported having processed nearly 8,700 heads of family from 63 host countries, including Burundi, Cyprus, Indonesia, Kuwait, and Iceland... Exiled Socialist leader Clodomiro Almeyda claimed that Chileans had taken residence in Kenya, Bangladesh, the Cape Verde Islands, and even Greenland. As a result of the diaspora, noted another exile, "There is no important city in the world where you will not find a Chilean, nor a city that is not familiar with empanadas [meat pies] and peñas [informal cafés with folk and protest music]" (Oñate and Wright, 91).

Therefore, today it is impossible to know how many people went into exile. It is difficult to define its magnitude with any exactitude and what was its real role that followed in the renewal of the Chilean Left and their favorite daughter: the Concertation’s highly successful experience during their 20 years in power. Introducing the role of their exile supposes therefore that their

renewal role was so outstanding so as to fully understand the renewal they introduced that it will be difficult to establish its full scope. As Alejandro San Francisco Reyes maintains, quoting the ex-Socialist President Ricardo Lagos Escobar: “Lagos himself, in a long interview, maintained that the years in exile were decisive as were the political meetings in Europe. ‘I remember’ says Lagos ‘that at the beginning of the eighties the first meeting of the socialist renewal was held at Chantilly, a small town close to Paris. It was an notable experience. They were 200 to 300 people coming from all parts of Europe... This is a chapter of the cultural history of our country that has never been written ...” (San Francisco Reyes, 39).

The Chilean exile can be divided between those in Europe and those in Latin America. The European exile was massive and organic, principally regarding the *heads* of the parties and the organizations that had participated in the Unidad Popular experience (here on UP). On the other hand, the Latin American exiles were mainly integrated by young leaders and militants who carried less weight. This made it more inorganic and irrelevant when it came to establishing the political and ideological process. Nevertheless, it is necessary to highlight the role of the Chilean diaspora in Venezuela and México. Many important Socialist renewal theoreticians took up residence there, as, for example, Sergio Bitar (Venezuela) and Luis Maira (México). More so, Mexico was witness to one of the most articulated publications of the Chilean exiles: the magazine “Convergencia”. If the gauge of the capacity of a place (physical and political) to influence in the renewal were the systematic publication of relevant articles, Mexico City could well compete on equal terms with Rome, Rotterdam and Paris. However, the opacity of Mexico’s own political experience (influenced by the practically inexistent analytical richness that PRI’s hegemony contributed) made Mexico DF a crucial point of reference.<sup>1</sup>

The European exiles had two principal currents, that at the same time had sub-currents. The two principal currents are: 1) Western Europe and 2) the socialist world or Eastern Europe. Western Europe can be divided in Continental Europe, Scandinavia and the British Isles. The

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<sup>1</sup> The same logic serves to understand the declining influence of East Berlin and Moscow as analytical and political references of the renovation: while the political and ideological debate consisted in how to renew the UP so as to take over the Chilean government, the socialist countries were important environments of theoretical development, but when the debate started to evolve around the need to articulate a renewal of the socialism, those backing the renewal had to emigrate once again, this time to Western Europe. Obviously Cuba was one of the main detinations for the Chilean exiles. The Cuban was very sympathetic with the Cuban revolution had been a relevant example during the years of Salvador Allende’s presidency. Fidel Castro was particularly sympathetic with the MIR (Leftist Revolutionary Movement) and its legendary leader, Miguel Enriquez, charismatic and brilliant youngster graduated from the militant Concepcion University. That was why the leading members of the MIR installed themselves in La Habana. The ambiguous role played by Castro and the Cuban revolution in the unpublished Chilean Revolutionary Project is described by the the journalist and diplomat Jose Sanchez Elizondo in “Crisis and renewal of the lefts: from the Cuban Revolution to Chiapas, via the “Chilean case”” (Editorial Andres Bello. Santiago de Chile.1995). The Chilean diáspora in Cuba not only could not but did not want to articulate a criticism of the UP experience, but neither did they try to innovate regarding the Castrista official version of the UP failure explaining the impossibility of a peaceful path to socialism. The writer Roberto Ampuero lived through that era and has described it masterfully in his classic novel: “Nuestros años verde olivo” (Editorial Planeta. Santiago de Chile. 2004)



Scandinavian exiles are made up mainly by the massive emigration to Sweden<sup>2</sup>. Oñate and Wright maintain that:

“...While exile dispersed Chileans around the globe, between a third and a half of all Chileans forced out of their country spent most or all of their exile in Western Europe. Some of the Western European countries had been very supportive of the defeated side from the moment of the coup; the Italian, Swedish, and French governments opened their embassies for asylum and with others, including Belgium, Germany, and Holland, were especially generous in accepting refugees and providing moral and material aid. These countries commonly offered a range of programs and facilities to equip the exile for subsistence and employment: language courses, free or subsidized apartments, job training and placement, and sometimes counseling. These incentives, combined with Chileans' admiration of European culture and institutions and the clear advantages of settling in developed countries, made Western Europe a major exile destination”<sup>3</sup>.

Secondly, exile in socialist countries was massive and crucial during the first years following the coup. The Chilean exiles who found refuge behind the Iron Curtain would require investigating because of its relevance and the inexistence of an impartial study as to what happened. Moscow & East Berlin were the main centers. The heads of the Communist Party (PC) settled in Moscow and in East Berlin the heads of the Socialist Party (PS). The smaller organizations, such as (Movimiento de Acción Política Unitario) and MIR had offices in both cities though with far reduced budgets. For example, the MAPU in Moscow worked with a small budget financed by PCUS, which however, allowed the influential Enrique Correa to articulate links and agreements with different opposition schools of thought within and outside Chile.

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<sup>2</sup> The number of Chilean exiles in Sweden was the largest, 30,000 settled there, the main reason being the Swedish generous immigration policy. See “Tan lejos y tan cerca, historia del exilio chileno en Suecia”. Another classic that studies the life of the Chileans in exile occurs in Edimburgh, Scotland. Kay, Diana (1997): “Chileans in Exiles: Private struggles, Public lives”.

<sup>3</sup> Rody Oñate y Thomas C. Wright, study quoted. Chapter 5: “The Diaspora. Exile on Four Continents”. Pagina 122.

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