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The Technocratic Barrier to Wage Policy: Theoretical Insights from the Chilean Concertación

Juan A. Bogliaccini
Universidad Católica del Uruguay
juan.bogliaccini@ucu.edu.uy

Av. 8 de Octubre 2738
Edificio Central, Oficina 418
Montevideo, 11300, Uruguay
Phone: +598 97977956

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Abstract

During the Latin American left turn, most governments rapidly understood the importance of committing to macroeconomic equilibriums, successfully managing to combine this goal with a wide array of social policies. Wage policy proved to be a conflictive arena coming from a period of harsh austerity measures. This article provides unique insights, from the Chilean Concertación governments (1990-2010) about the importance intra-left conflicts had in the advancement of labor collective rights. The working hypothesis is that the conflict between party leaders and technocrats alongside a perceived trade-off between growth and distribution is a prime factor for understanding wage reform outcomes. The analysis relies on a mixed-methods approach combining regression analysis and process-tracing. Chile's labor reform attempts during the Concertación governments, with feeble societal linkages, provides relevant theoretical insights for the understanding of how the abovementioned perceived trade-off may have played in other cases, not only in Latin America but also in other regions of the developing world. The analysis is novel in bringing intra-left conflict back in as an important driver for labor relations reforms and improves our understanding of the political economy of intra-left conflicts during the post-neoliberal period.

Keywords

Chile; wage policy; labor; party-labor relations; labor reform

Globalization posed unprecedented challenges for Latin American governments; whether in the need to comply with austerity requirements or in the process of accommodating demands from below. While most governments advanced social reforms, a mixed record is found in terms of wage policy, in particular collective bargaining, mostly because of the profound transformations in labor-capital relations after the transition from inward looking industrialization to the open market economy. Even governments during the left-turn period felt, on occasions, more comfortable combining the necessary commitment to macroeconomic stability with the advancement of social policy than with the centralization of wage bargaining.

Left-wing governments had to confront the decision over the definition of wage bargaining institutions in a much different context from the one Import Substitution Industrialization (ISI) offered in the past and, in many cases, in lieu of their past history of alliances with organized labor. In many cases, past political conflicts during authoritarian governments played a role in bringing into the bargaining table the shadows of past conflicts. Among the left-wing governments designated as “moderate” by the literature, the Chilean Concertación, in government between 1990 and 2010 combined an unparalleled record of welfare expansion (see Garay 2016; Huber and Stephens 2013; Pribble 2014)– with the maintenance of the liberal-like labor relations institutions inherited from the authoritarian period. This article shows how, against the backbone of extant explanations based on the power of employers and a systematic lack of majorities in Congress, intra-party-coalition conflicts became a main driver for the Concertación governments failure in extending labor collective rights, even when explicitly campaigning on labor reforms.

This paper undertakes the quest of understanding the relevance of intra-government conflict for policymaking with a mixed methods approach combining process-tracing of labor reforms with a logit model for the analysis of the nature of the intra-left divide over wage policy. In doing so, it proposes to incorporate an important element to our knowledge of

distributional strategies by bringing back in the issue of intra-party conflicts to Latin American politics, rather understudied regionwide. This is not to disregard other important complementary explanations such as the strength of political opposition or even opposition from other actors, most notably in the Chilean case a well-organized and powerful business sector (see Schneider 2004; Fairfield 2013, 2015; Madariaga 2017; Bogliaccini 2019). Rather, the analysis unveils how center left Concertación governments gradually departed from the goal of using wage policy as a distributive instrument amid intense internal conflicts. Consistent with previous works about these intra-Concertación divide, this work is novel in characterizing the conflict and evaluating the role it had -vis-à-vis- competing hypotheses in deciding labor policy outcomes.

The Concertación stands out as an important case from which to learn about the internal conflicts left-wing governments confronted in dealing with industrial relations policy in contexts of deregulated and decentralized equilibrium outcomes. The Chilean case offers important insights for strengthening the confidence on the importance of these conflicts across the developing world. Bringing intra-left conflict back in contributes to filling an important gap in the literature by unveiling how intra-left conflicts may affect distributive strategies.

The background: wage policy during the left-turn

The Latin American dual transition to democracy and the open market economy triggered qualitative changes in market institutions because of an alteration of political coalitions and their relative power. The so-called neoliberal period called for the abandonment of centralized or mandatory wage bargaining mechanisms, promoting voluntary, firm level, negotiations. Western-wide reforms at the time moved industrial relations systems away from semi-decentralized or centralized wage bargaining institutions (Huber and Stephens 2001; Iversen 2005; Piazza 2001; Soskice 2008).

Works by Murillo (2001), Levitsky (2003), Roberts (2007, 2013a), Etchemendy (2011), Levitsky and Roberts (2011) or Pribble (2014) dealt with the issue of labor mobilization after this dual transition in Latin America. However, none has dealt with the issue of intra-party conflict in deciding over wage policy.

Coalition formation involves conflict while attempting cooperation. These conflicts occur within certain institutional environments and are ultimately motivated by actors' interests over the form these institutions may have. Governments with power to decide over distributive strategies, in democratic environments, are driven by a combination of long-term policy goals and short-term electoral ones (Garrett and Lange 1995; Iversen 1999; H. Kitschelt et al. 2010; H. P. Kitschelt 1994; Przeworski and Sprague 1988; Przeworski and Wallerstein 1982). The literature has recognized as the most important distributional cleavage for industrial democracies the one separating those supporting market allocation of wealth and risk from those favoring government efforts to alter such allocations made by the market (Garrett 1998:7).

With the advantage of looking back to the left-turn in Latin America, I argue that a more nuanced differentiation of left-wing distributional strategies is necessary. Two types of strategies should be differentiated within the designated "moderated" brand of left: those whose efforts to alter market outcomes concentrated on the use of social policy as the main policy instrument –usually liberal-left or "third-way" type of coalitions in the European context (see Iversen and Wren 1998)– and those whose efforts to alter market outcomes displayed the use of wage policy alongside social policy –usually along the lines of a more traditional continental and northern European brands of left-wing coalitions–.

The main difference between the two strategies, in the context of the dual transition in Latin America is related to the decision about allowing a highly depressed labor actor to regain capacity for political strategy through centralization of institutions regulating wage formation

mechanisms. Many reforms carried out immediately after democratic transitions, among which stands the Chilean case, were constrained by transitional pacts (see Sehnbruch and Siavelis 2014; Siavelis 2000; Velasco 2019). However, a combination of party-labor collaboration at the domestic front with the activity of international labor rights activists facilitated the adoption of potentially costly union-friendly labor reforms in the 1990s; although mostly relative to previous labor law, not international standards (Murillo and Schrank 2005).

Most of the research on distributive outcomes during the Latin American left-turn engaged with issues related to party character and linkages with their core constituencies refers to the social policy arena (see Castiglioni 2005; Garay 2016; Luna 2014; Pribble 2014 for comprehensive accounts of the Chilean case). Although important characterizations were advanced, none of these works provide a detailed analysis of wage policy.

The center-left Concertación in Chile has been repeatedly characterized as quietly moving to the center and appealing to voters as a center-left electoral option progressively detached from its societal basis (Luna and Altman 2011; Navia 2006; Pribble 2014; Roberts 2013b). This is not an isolated case; as similar trends were observed outside Latin America, most notably in the British Labour Party (McIlroy 1998) or France's Socialist party (Amable 2016) during the period. However, it is important to note the Concertación campaigned on comprehensive labor reforms until its' dissolution in 2013; during three consecutive and successful elections between 1993 and 2006.

Moving to the issue of intra-left conflicts, these has been analyzed by scholars studying welfare capitalism in the developed world (Fleckenstein and Lee 2017; Korpi and Palme 2003; Rueda 2007; Watson 2015). Although this discussion has not been central to the debate in Latin America, Pribble (2014) rises the issue for the analysis of social policy advancement while Luna (2014) puts forward a related discussion around the idea of segmented representation that acknowledges the possibility for intra-party disputes over policy issues.

This paper tackles the puzzle of the role of intra-party conflicts on labor reforms in Latin America by shedding light over the Concertación's failure to advance wage policy reforms. The analysis shows how divisions within the Concertación coalition decisively influenced this outcome. This divisions, the argument goes, occurred mostly among moderates, albeit not being the conflict between Christian Democrats and Socialists the main one as usually argued. The analysis unveils the relevance of a growing conflict between party technocrats and party leaders for understanding policy outcomes.

ISI institutions were displaced abruptly in Chile during a short period of time by means of comprehensive reforms under the Pinochet military regime. Industrial relations were restructured by the 1979 Labor Code, which imposed highly restrictive labor rights. The conflict over labor policy unfolded immediately after democratization over four consecutive Concertación administrations between 1990 and 2010. Organized business stood consistently against any modifications to the Labor Code. In the political arena, the right-of-center Independent Democratic Union Party (UDI-Unión Demócrata Independiente) has been consistently and radically against any reform, while the National Renovation Party (RN – Renovación Nacional) has been more open to dialogue. As a Socialist Member of Parliament (MP) argued during a personal interview held in 2010, “labor relations have been the hardest topic to negotiate with the right during the post-Pinochet period.”

The Aylwin administration (1990–1994) enacted a comprehensive reform, eliminating the most flagrantly authoritarian regulations. Unions were legalized and the requirements to form them were softened (Frank 2002). However, collective labor rights remained restricted. The right to strike continued to be heavily regulated, legal only under certain conditions. The employer retained the right to replace the striking worker for the duration of the strike; or simply to close the firm for 30 days (lockouts), in which case workers were not allowed to benefit from unemployment insurance.

A second attempt to reform the Labor Code was made in 1999, during the last year of Frei's administration. This initiative failed to pass in the Senate because of the votes of two institutional senators. It included the elimination of the 'replacement issue' and the extension of collective bargaining to the industry level (Campero 2007). Although government senators voted in favor of it as a block, there is evidence that the bill provoked internal conflicts among Christian Democrats, who accounted for two-thirds of Concertación's members of parliament between 1997 and 2002 (La Tercera 2000a; La Tercera 2000b). This reform attempt also left a strong mark on right wing parties, as documented by Fairfield (2015) in her analysis of tax reforms.

The third reform attempt came six months into Lagos's term, when a new bill was sent to Congress. While the 1999 election did not give the Concertación a majority in the senate because of the institutional senators, the Concertación had an unparalleled window of opportunity as it held a majority in both chambers between August 2000 and January 2002 because of the combined application for the lifting of immunity for opposition Senators Pinochet and Errázuriz. This is important because was a game-changer that revealed the true preferences of the Concertación party officials. This majority was recognized as such by government and opposition parties during the debates (El Mercurio, 2000a; La Tercera, 2000b; El Mercurio, 2001a; History of the Law 19759).

Like previous candidates, President Bachelet campaigned in 2009 on a new labor reform, which did not even find its way into Congress because of internal differences in the Concertación. In a personal interview in 2019, the ex-Labor Secretary made the case for internal coalition divisions around the topic as the main cause for the negative of President Bachelet to send a bill to Congress.

Important advances regarding the three conflictive issues were done during Bachelet's second term, although under a different coalition named 'Nueva Mayoría', which incorporated

the Communist Party in it for the first time since the return to democracy. Incorporating the Communist Party to the left-coalition obliges to analytically separate the Concertación period (1990-2010) from this second Bachelet presidency (2014-2018). However, even this reform was not exempt of relevant intra-government conflicts, which have been unanimously confirmed in interviews with ex-Finance and Labor Ministers during the period. The intra-coalition conflict continued to be characterized from interviews as one between technocrats and other party leaders.

Hypothesis and Method

The working hypothesis is that intra-Concertación conflicts between technocrats and non-technocrat political cadres frustrated reforms that sought the centralization of wage-setting mechanisms. To test this hypothesis requires a two-step analysis. First, it is essential to show a conflict between technocrats and non-technocrats unfolded within the Concertación. Second, it is necessary to show that this conflict was key in affecting policymaking.

With respect to the first proposed step, to be clear, other authors have pointed to intra-Concertación conflicts before (see Fuentes 1999; Montecinos 1998; Navia 2006; Pribble 2014 among others). However, none of them have provided an evidence-based characterization of the main cleavage in the conflict with respect to wage policy.

Beginning in 1998, the Concertación became progressively divided into two groups. This divide was grounded in two manifestos, one written by each group and signed by Concertación members that same year. The ‘self-Complacent’ manifesto was signed in May by 59 party members, entitled “Renewing the Concertación: the strength of our ideas” [*Renovar la Concertación: la fuerza de nuestras ideas*]. The ‘self-flagellants’ manifesto, entitled “People is right: thoughts on the Concertación’s responsibilities during current times” [*La gente tiene razón: Reflexiones sobre las responsabilidades de la Concertación en los tiempos presentes*]

was signed in June by 146 party authorities and relevant figures from academia, unions and culture.

This analysis is innovative in providing a characterization of the intra-coalition conflict based on a characterization of the signatories of the manifestos and backed with personal interviews done in 2010 and 2019. A new database consisting of the characteristics of the 205 signatories of the two manifestos was built in order to perform a logistic analysis to understand the significant cleavages between the two groups.

The second step is served by a process-tracing analysis centered on the debates around the 2001 labor reform carried out during the Lagos administration (Beach and Pedersen 2013). The assumption behind the choice of methodology is that this causal mechanistic approach will improve the explanation of why a party coalition that was decidedly preoccupied with strengthening labor collective rights ended up failing to do so despite multiple reform attempts. This reform is particularly relevant for understanding intra-Concertacion conflicts because is the only one between 1994 and 2010 fulfilling the double condition of being an actual project sent to congress while having a parliamentary majority.

Evidence for the process-tracing is gathered from a battery of sources. These include analysis of secondary sources, mostly historical works; parliamentary documents, including transcripts from committee briefs and other types of documents handed to those committees by interests' groups; and detailed press research from the two main newspapers in Chile: *El Mercurio* and *La Tercera*. Press releases are only used as CPOs when discourses are quoted from the main source. In addition, forty in-depth interviews with employers, labor leaders and politicians were done in order to strengthen the analysis. The appendix 1 details the process tracing in terms of evidence gathered and used, and the tests each piece of evidence passes or fails.

The analysis explores the main reasons the Lagos administration decided to leave out of the bill important provisions for the elimination of inherited anti-unionism measures as well as provisions for the inclusion of mandatory collective bargaining above the firm level. The main conflicts over wage policy during the period are known as the ‘multi-RUT problem’, the ‘replacement issue’ and the ‘collective bargaining’ problem. Firms, mostly big ones, were permitted to have multiple tax identification numbers (RUT in its Spanish acronym). The reader may imagine a sizable department store which is allowed to divide itself for tax and labor relations purposes so that workers bargain independently within their own department. The ‘replacement issue’ was the right of employers to replace a worker during a strike, which severely constrained labor power. Albeit rarely used in practice, its’ deterrence effects have been widely confirmed during interviews with labor leaders, employers and politicians alike. The issue of wage bargaining above the firm level was confirmed from parliamentary debates during the project discussion and with interviews with labor leaders at the three labor centrals that existed during the period.¹

Three main factors are traced in order to explain the final policy outcome. First, Lagos’s decision may have been influenced by intra-coalition conflicts unfolding around these provisions on the grounds of their effects on employment and salaries. Two other factors were related to typical opposition blockade arguments. First, business lobbying based on the labor reform’s effect on employment levels and, more generally, on growth may have determined the government decision. A growing scholarship on elite power resources agrees that Chilean employers are particularly strong and well organized by regional standards (see Bogliaccini 2019; Fairfield 2015; Madariaga 2017; Schneider 2004; Silva 2002). It is reasonable to consider that business lobbying would have been done at two levels: directly with President Lagos and with members of parliament. Second, the decision may have been influenced by the

preferences of opposition right-wing parties. The three hypotheses are formally outlined as follows:

H1: Conflicts within the Concertación, mostly between technocrats and party leaders, over a perceived employment-salaries trade-off frustrated the inclusion of the conflictive issues related to “multi-RUT”, inter-firm collective bargaining provisions and the replacement of a worker during a strike.

H2: Organized business lobby influencing the Concertación frustrated the inclusion of the conflictive issues related to “multi-RUT”, inter-firm collective bargaining provisions and the replacement of a worker during a strike.

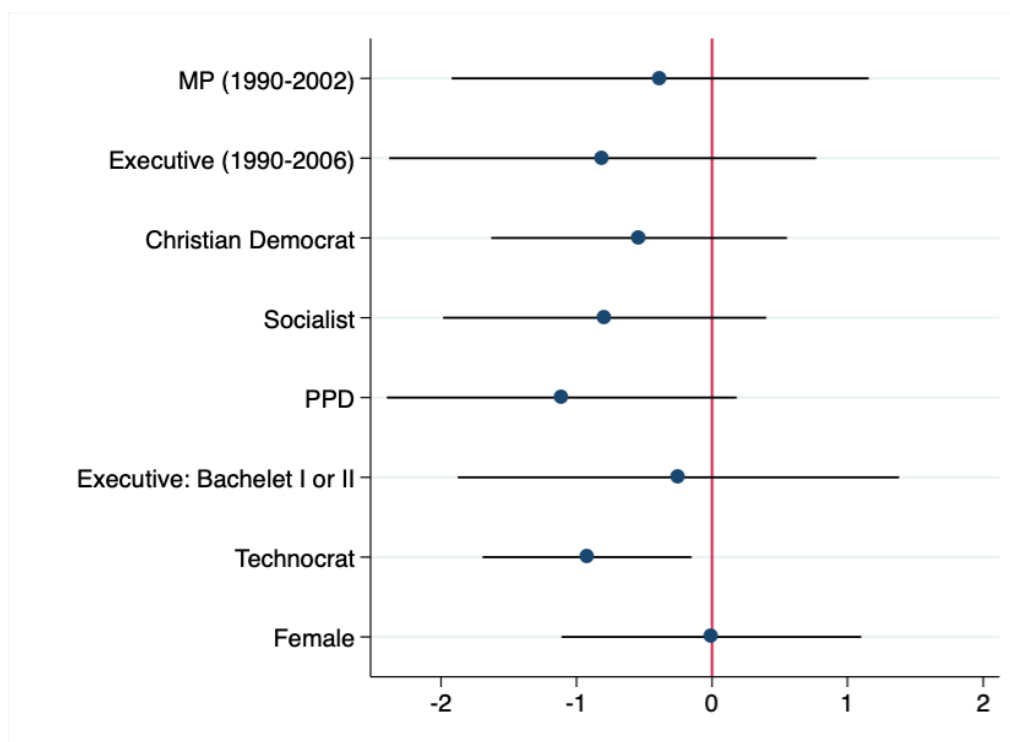
H3: Direct political action from opposition parties frustrated the inclusion of the conflictive issues related to “multi-RUT”, inter-firm collective bargaining provisions and the replacement of a worker during a strike.

Characterization of the intra-left conflict

The two manifestos put in writing a growing internal debate in the Concertación about its’ distributive outcomes so far during the Aylwin and Frei administrations, and over the future distributive strategy. This divide and the debate structuring it gradually became central to Chilean politics, particularly in the center-left coalition (Kaiser 2011; Ominami 2009). This conflict, which divided Socialists, members of the Party for Democracy (PPD) and Christians Democrats alike, unfolded just a year before Frei’s reform proposal of 1999 and was still relevant at the time of the Lagos election. Several interviews have referred to the ‘two souls’ of the Concertación, confirming this has not been a division between parties inside the government coalition, but mostly a divide between technocrats and politicians within the coalition (personal interviews with three ex-Labor and one ex-Finance secretaries during the two Bachelet administrations, held in 2019).

The manifestos give actual and consistent data on party members preferences at the moment they decide to sign them. In order to understand this divide, the characteristics of the signatories were singled out in a database in terms of (i) party membership, (ii) belonging to the technocracy (defined as being an engineer or an economist), (iii) having belonged to the executive branch of government in any of the administrations of Aylwin, Frei or Lagos, (iv) having belonged to the executive branch of government in one of the two Bachelet administrations, (v) gender, and (vi) being a member of parliament at the time of signing the manifestos. Figure 1 presents the coefficients of a logistic regression on being part of one group or the other in order to learn about relevant characteristics of these groups. Because of missing characteristics in some signatories, the final model runs on 169 of 205 signatories. As shown in the figure, the identification of the signatory as a technocrat is the only significant factor for discriminating between the two groups.

Figure 1. Logistic regression on manifesto signatories' main characteristics



Note: MP=Member of Parliament; Executive=Member of the Executive; PPD=Party for Democracy; Technocrat=University degree in economics or engineering. Results from Logistic regression are consistent with results from OLS regression.

Logistic regression results are consistent with the discourse of interviewees done in 2010 and 2019. Interviewees with relevant roles in the executive of the Lagos and the two Bachelet administrations identify the relevance of the finance secretary, its inner circle and economists within the coalition in opposing the advancement of collective labor rights during different reform attempts. This is consistent with the argument about the existence of a perceived trade-off between growth and distribution within the government coalition and its' relevance for structuring the debates over labor policy; and with the idea about economic policy being crucially affected through the selection of certain types of economic policy-makers (see Hallerberg and Wehner 2018). Although not arguing the conflict remained static during the two decades between 1997 and 2019, evidence from the manifestos, which are contemporary to the 2001 reform debate, is consistent with the working hypothesis. The process tracing analysis over the debates around the 2001 labor reform unveil how this general divide within the Concertación between technocrats and non-technocrat party leaders' impact in concrete policymaking.

Intra-left conflict over policymaking

The main events related to the debate over labor reform during the first two years of the Lagos administration are listed below. This first account of events will be supplemented with the necessary information and context as the causal mechanisms are evaluated. The detailed tests for each piece of evidence used in the analysis are in the appendix.

Upon taking office, Lagos put together a tripartite Social Dialogue Council with opposition parties, employers and labor in order to agree on a wide array of reform proposals in a context in which the Concertación had a majority in the House but fell just one seat short of a majority in the Senate; among them, the labor reform. However, by the end of August the

government found itself with a majority in the Senate because of the lifting of immunity for Senators Pinochet and Errázuriz. This majority would remain unchanged until the mid-term elections of December 2001, long after the labor bill had become law in September 2001. Not only is important to acknowledge this important change in the conditions under which the reform project was negotiated, but also that the government and the opposition were well aware of this change. Various pieces of evidence from the History of the Law and press releases account for this important issue (Law 19759, History of the law, pages 115, 665, 675, 690; El Mercurio 2001f, 2001h; La Tercera 2000k).

Between the election and the August events granting a majority to the Concertación, Lagos put together a Social Dialogue Council with organized labor and business in order to agree on the terms of the labor reform and other initiatives. As an outcome of this Council, on June 1st the Labor Secretary, Mr. Ricardo Solari announced that the bill would not include provisions for extending collective bargaining (La Tercera, 2000c). By mid-September and after the Concertación secured a majority in the Senate, Mr. Solari announced collective bargaining provisions might be included in the bill (La Tercera, 2000c). Therefore, as it shall be shown, early agreements reached in by Council will prove to be important in settling the intra-coalition conflicts over these issues later on. While the reform was passed, neither of the ‘hard topics’ were included in the bill.

In November 2000, a first draft was submitted to Congress without provisions for either collective bargaining or for softening restrictions on unionism. In December 2000, the Concertación celebrated the ‘Santiago I’ meeting, a gathering of all elected officials in the party. As an outcome of the meeting, the Concertación agreed to include the ‘hard topics’ in the bill.

That December, Mr. Riesco handed over to Mr. Ariztía the presidency of the business confederation (Commerce and Production Confederation – CPC). Business lobbied against any

reform of the 1979 Code, and in particular against reforms concerning wage formation mechanisms, as the new CPC President made clear in a series of interviews that month.

In late March, the government sent modifications to the original bill to congress, without provisions for wage bargaining above the firm level, closing the debate on their inclusion. This occurred after the Lagos administration suspended a scheduled ‘Santiago II’ meeting and resolved the within-Concertación conflict over these issues with an intense agenda of meetings with the different party sectors separately.

The bill was finally approved in September 2001 without important modifications but for the lifting of minor restrictions on unionism. The following sections analyze the merits of each proposed causal mechanism, tested separately.

Intra-coalition conflict mechanism

The Lagos bill and the unforeseen opportunity to use the government’s own majority to pass a reform opened a new scenario for the governing coalition, in which it is possible to observe more accurately the preferences of the coalition members as the majority gave them decision-making power. Although the initial bill was sent to Congress without provisions for collective bargaining above the firm level, the administration left the door open for future modifications to the bill (La Tercera, 2000i; El Mercurio, 2000b). The Labor Undersecretary, Mr. Yerko Ljubetic (Christian Democrat, lawyer) stated that controversial topics would be incorporated into the bill later, upon achieving a consensus. At this point, the administration was not clear about whether the consensus would be needed inside the Concertación or must include opposition parties.

The ‘hard topics’ were finally addressed during the ‘Santiago I’ meeting in early December. There, all groups in the Concertación agreed to include provisions for collective bargaining and the lifting of restrictions on unionism in the bill (La Tercera, 2000j; El Mercurio, 2000c). This decision was put in writing in the meeting’s official document handed

to the press: “We will incorporate collective bargaining provisions and the complete recognition of the right to strike into the reform.” (Transcript from La Tercera, 2000j). This was also confirmed by the Secretary to the Presidency, Mr. Álvaro García (PPD, economist): “We have decided [after the Santiago I meeting] to include collective bargaining provisions in the labor reform.”

DC president, Ricardo Hormazábal (lawyer), signed the compromise and publicly supported the inclusion of the ‘hard topics’ in the bill, as did the Socialist President, Mr. Nuñez (sociologist). However, dissident voices were raised immediately inside the DC (La Tercera, 2000c). Senators Sabag (engineer), Boeninger (economist) and Foxley (economist), argued for the need of a wider consensus with opposition parties. Simultaneously, Finance Secretary Eyzaguirre (economist) and Labor Secretary Solari (economist) argued that including the ‘hard topics’ would violate the previous accord with employers reached in the Social Dialogue Council (La Tercera, 2000c; El Mercurio, 2000d).

A DC advisor to President Lagos, an engineer and economist, had the following view, exemplifying the extent of the conflict: “The correct way of negotiating collectively is about redistributing productivity. This is why wage bargaining should be done at the firm level. You gain nothing with centralized collective bargaining except for price distortions.” (Personal interview, 2010).

Overall, political debates over labor issues after democratization were heavily grounded in an employment–salaries trade-off, which was also at the core of the intra-coalition conflict (La Tercera, 2000d and 2001a).

The Lagos administration’s reaction came immediately. The President himself, before departing for the 19th MERCOSUR meeting in Brazil, made a clear statement about the conditions under which the ‘hard topics’ should be included in the bill. With respect to the need to include the opposition parties in a wider agreement, Lagos was clear: “If there is consensus,

splendid, if there is not ... this is the reason we have majorities and minorities. That is democracy.” (La Tercera, 2000k, 30). A presidential advisor also declared that Lagos’s take on the issues was simple: “If the Concertación parliamentarians agree on both indications, we include them. Otherwise, they are removed.” (La Tercera, 2000k, 30).

Evidence makes clear that there was an internal conflict in the Concertación over the ‘hard topics’ and that, far from being between hard-liners and moderates, the conflict unfolded within the most centrist groups in the coalition, along the lines of ‘self-flagellant’ and ‘self-complacent’ groups. Part of the debate focused on the employment–salaries trade-off. Senator Foxley (DC) declared:

It seems to me that these issues [collective bargaining and replacement of workers on strike] should not have been raised at that time [Santiago I meeting], because I do not think that when a government has sent a project two weeks ago, why open the discussion again? The issue today is unemployment. (...) Therefore, the only central issue in this country in the next year is employment (La Tercera, 2001).

Senator Boeninger (DC) declared in a long interview conducted by *El Mercurio* in late February: “In labor reforms, I think the spirit of reaching agreement is gaining strength. They are necessary and we must reconcile the flexibility required by the competitiveness, with workers’ protection. [...] I hope we reach an agreement, but businessmen have known for long there will be no rigid reforms.” (El Mercurio, 2001b).

Intense negotiations within the Concertación were carried out during January and February. The ‘Santiago II’ meeting was cancelled and instead President Lagos and other high-ranking officials carried out a series of meetings with Concertación parliamentarians. Finally, a consensus was not reached. After a meeting between Lagos, his economic team and Concertación senators in *Cerro Castillo* (presidential vacations residence), a modified project

was sent to Congress on March 20th (History of Law, 19579; La Tercera, 2001e). The fact that the executive changed its' strategy by suspending the 'Santiago II' meeting in favor of more individualized negotiations as a reaction of the conflict within the government coalition strengthens the internal conflict hypothesis.

The project resolved the 'hard topics' in the following way: inter-firm collective bargaining was allowed but requires the two parties to do it voluntarily; workers could still be replaced during strikes but must receive a 'compensation bond'. No relevant advances were made on the 'Multi-RUT' issue. DC Senators Ruiz De Giorgio (no tertiary studies, ex-labor leader), Carmen Frei (teacher), Pizarro (political scientist), Ruiz-Esquide (physician), Lavandero (lawyer) and Matta (lawyer) remained unsatisfied with the moderation of the 'hard-topics' in the bill. Mr. Ruiz Di Giorgio stated: "it seems that employers' pressures have weighed more than concerns for workers" (La Tercera, 2001e).

In sum, there is ample evidence of that an intra-coalition conflict unfolded around the 'hard topics'. There is also clear evidence that technocrats from the Concertación opposed or expressed doubts about the inclusion of the 'hard topics' in the bill, which confirms that the mechanism is in place (Hoop Test). There is also evidence that this conflict was the one to which the Lagos administration reacted publicly, conditioning the inclusion of the 'hard topics' in the bill to an intra-coalition agreement.

Business lobby mechanism

Organized business in Chile has consistently lobbied against any attempt to reform the 1979 Labor Code. The following extract from a press interview with former CPC President Mr. Riesco in December 2000 is a clear illustration of this point: "logically businessmen have a sense of loyalty [towards Pinochet] and great respect for the person who was President of the Republic and that led the country not only to restore normalcy, but also gave it a new road of development through a true economic revolution." (La Tercera, 2000a, 23).

Evidence suggests that Frei's attempt to reform the Labor Code in 1999 had an important and lasting impact on organized business, as is acknowledged by Mr. Riesco during the same press interview: "The labor reform had been under way since President Frei took office, it slept in parliament and we saw it as disastrous for the country and the workers. The fact that it was voted a few days from the presidential election was a perverse maneuver" (La Tercera, 2000a, 22).

In this scenario, business lobbying against the new reform proposal during Lagos' campaign was threefold. It included strong lobbying of individuals at the top of the new administration, sharp public rhetoric against the reform and institutionalized lobbying through the tripartite Social Dialogue Committee. Business lobbying strategies against the bill could have been done privately, without press. For this reason, evidence found on the three abovementioned lobby strategies is important for reinforcing the likelihood of the mechanism ("Straw in the Wind" test), but the absence of evidence would not disconfirm the mechanism because employers do not need to lobby publicly.

A first meeting between businessmen and the president-elect took place at the Center for Public Studies (CEP) on March 7th, 2000. The CPC board also met privately with Lagos twice that year, once at La Moneda Palace -May 26th- and once at Mr. Lagos's residence - October 12th-, only a few days after the labor bill was sent to Congress. Labor reform was one of the salient issues discussed in the three meetings (La Tercera, 2000e). After Mr. Ariztía succeeded Mr. Riesco at the CPC Presidency in December 2000, he and Mr. Lagos met several times while the labor bill was still in Congress. On May 21st and May 25th, Ariztía met with high ranking officials and Lagos. Lagos and Ariztía met again in Madrid on June 6th. Labor reform was discussed in all these meetings (La Tercera, 2001b and 2001c), although these occurred after the Lagos administration decided to leave the 'hard topics' out of the bill -on March 20th (History of the Law, 19759).

A second strategy on the part of business was to publicly campaign against the reform. In November 2000, business organized the “National Business Forum 2000” (ENADE), a traditional gathering among Chilean employers. In preparing this meeting, business decided its slogan would be “Confidence”, alluding to the necessity of recovering confidence in government (La Tercera, 2000e). During the gathering, business leaders spoke harshly about the government and in particular about President Lagos. For example, Pedro Ibáñez, President of Corpora SA, stated that “Lagos must choose between the distributive illusion and the telluric power of growth, (...) between commanding a government which either slows down the private sector or strategically allies with business.” (La Tercera, 2000f). On March 28th, even after the Lagos administration decided not to include the ‘hard topics’ in the second message to congress, Mr. Arztiá, declared at a meeting that “this [labor] reform the government is proposing is obsolete and has been removed in different countries. This reform is copied from European countries that have high levels of unemployment and many labor subsidies. It would be much better to apply a modern labor reform, like the United States one, which has low levels of unemployment and important growth levels each year.” (La Tercera, 2001d).

At the core of the conflict around the ‘hard topics’, between the ‘Santiago I’ meeting in December 2000 and the second message to Congress in March 2001, business publicly and continuously pointed out to the internal divisions inside the Concertación (La Tercera, 2000a and 2000e). This reinforces the intra-coalition conflict mechanism as a causal explanation.

Business also participated in the Social Dialogue Committee during the first part of 2000, alongside representatives of the main labor central (CUT), opposition parties and government officials, among which the Finance Secretary, Mr. Eyzaguirre (DC), and Labor Secretary, Mr. Solari (Socialist), would be the most influential. While the Committee agreed on leaving ‘hard topics’ out of the bill by June, the change in parliamentary majorities which occurred in August prompted Mr. Solari to declare in September that the Concertación ‘might’

include the ‘hard topics’ in the bill (La Tercera, 2000b). This idea would be substantiated during the ‘Santiago I’ meeting, where the Concertación agreed on including provisions for wage bargaining above the firm level in the bill (La Tercera, 2000c).

Although there is no evidence to support the hypothesis about business leaders directly lobbying Concertación parliamentarians, there is indirect evidence in that both members of parliament and members of the executive had in mind business preferences and referred to them publicly, either directly—i.e. Mr. Boeninger and Mr. Ruiz De Giorgio—or indirectly through the employment–salaries trade-off —i.e. Mr. Foxley. Evidence of the Finance and Labor secretaries objecting to the inclusion of ‘hard topics’ in the second message points to the weight previous agreements, in the context of the Social Dialogue Council, may have had on their policy preferences. In a personal interview with Mr. Solari in 2010, arguments about the effect of the Asian crisis were made. The Secretary, nevertheless, recognized the importance of institutions in the industrial relations system for labor’s strategic capacity. With respect to the Social Dialogue Council, he stated that employers and unions had not been able to agree on the ‘hard topics’: “it did not work because of the business leadership and organized workers”.

Overall, evidence is consistent with the idea that business leaders lobbied directly with top administration officials, also engaging in a public campaign against the reform. However, I was not able to find evidence of direct business pressure on legislators from the left, neither from personal interviews nor from the press. Nevertheless, evidence in favor of business pressure on the Lagos administration is sufficient for acknowledging that the first part of the mechanism is in place. Evidence of public campaigning against the reform is also useful for strengthening the hypothesis.

In spite of strong and continued lobbying against the reform on the part of business, evidence suggests that the Concertación’s attitude toward the ‘hard topics’ changed with the

modification of parliamentary majorities. Moreover, previously presented evidence of business leaders' recognition of internal Concertación divisions over these issues between December 2000 and March 2001 would serve as reinforcing evidence in favor—albeit not decisively—of the intra-coalition conflict mechanism.

Overall, although the first part of the mechanism is in place and there is ample indirect evidence that the Concertación would have factored in business preferences when deciding over the 'hard topics', there is no evidence of this mechanism being a deciding factor independent of the intra-coalition conflict in the Concertación. While evidence suggests business preferences and power most clearly should have influenced the debate, evidence about the executive suspending 'Santiago II' meeting in reaction to the internal conflict in the government coalition about these issues and the presented pieces of evidence about Lagos' public declaration (La Tercera 2000k) support the argument about the internal conflict being the deciding driver of the reform, in spite of the importance of employers' strong lobby against the 'hard topic'.

Opposition parties' core-constituency appealing mechanism

The right-of-center coalition, the Alianza—formed by the National Renovation (RN) party and the Independent Democratic Union (UDI) party—stood historically against any reform of the 1979 Labor Code, with the caveat that the RN has usually been more prone to negotiate consensual bills than the UDI, which did not vote for any of the bills considered between 1990 and 2010. As an example, Aylwin labor reform was possible because of the RN vote, after intense negotiations and a softening of the initial proposal. In the case of Frei's bill, the Alianza actively campaigned and voted against it (Fairfield 2013). A Christian Democrat MP and advisor to President Lagos remember the Alianza strategy during that vote: "We worked for 6 months on the reform text. The Concertación agreed, and even Frei agreed. The vote was favorable in the House, but in the Senate the Alianza filibustered until the next day. During the

night, Alianza Senators visited the two institutional senators from the right that were voting for the initiative (Police Force and Air Force) and convinced them not to vote. That was the closest we were from approving a substantive reform.” (Personal interview, 2010).

Consistent with this historic strategy, right-wing parties refused to vote for, and publicly campaigned against, the Lagos reform, appealing to their core constituencies (La Tercera, 2000f and 2000g). Continuous references to electoral strategies regarding the vote for this reform and the upcoming mid-term election can be found in the press. Even more, Alianza senators openly claimed that the Concertación, having a majority by itself, should pay the costs of the proposed reforms and that voting against the bill, even with a minority, was the correct strategy (El Mercurio, 2001b). During parliamentary debates, two UDI parliamentarians - Paya and Dittborn- explicitly mentioned the importance of the government majority in congress for the future of the labor bill (History of the Law, pages 660, 675 and 690). This speaks directly to the political importance the Concertación majority had during the debates.

However, because of electoral incentives, the RN also offered to vote for the bill provided that the ‘hard topics’ were left out of it. This strategy came as a response to the plea made by dissident Christian Democrat and technocrat senators asking for a consensus with right wing parties as a condition to include them in the bill (La Tercera, 2000c and 2000h).

Overall, there is enough evidence to indicate that UDI and RN public lobby is present and appeals to their constituencies. Therefore, the condition part of the mechanism is confirmed. However, since the government got a majority in congress from august 2000 on, in logical terms, the Alianza failed to maintain the decisive vote in Congress. There is also evidence against the opposition parties’ lobby hypothesis. Lagos’s statement on the 14th of December, before leaving for the MERCOSUR meeting, is key evidence in favor of the intra-Concertación conflict argument. This is important because Lagos’ statement came in response

to Concertación party members asking directly to condition the inclusion of the ‘hard topics’ in the bill to having the Alianza allegiance. This hypothesis is, therefore, not confirmed.

Conclusions

The analysis characterizes the intra-coalition conflict and confirms its’ importance as a main driver for the mild blockage of collective rights advancement during the 2001 labor reform; showing this conflict was part of a long-lasting divide between technocrats and other party leaders around a perceived trade-off between growth and distribution. Several implications can be drawn from the preceding analysis for the improvement of our understanding of wage policy and more broadly about the importance of intra-coalition conflicts. First, it calls for a deepening of the study of intra-coalition conflicts as an important factor for understanding the evolution of industrial relations in developing countries under the open market economy. Second, it suggests how ideas, in this case a strong rhetoric addressing growth and distribution, employment and salaries, flexibility and rigidity in the labor market, permeate employers, right wing politicians and even left-wing politicians in industrial relations debates.

Third, the analysis is not intended to negate business lobbying against labor reforms or opposition parties’ policy preferences as important contextual factors for shaping industrial relations debates. With respect to business lobbying, evidence shows that employers stood consistently against the proposed labor reforms and considered labor issues one of the most salient in terms of their preferences. It also shows that preferences with respect to the 2001 reform are consistent with their historic standing on this issue. Regarding opposition parties’ preferences, evidence shows that these parties behaved consistently with their expected long-term preferences. Evidence also helped unveiling the differences between the preferences and strategies of the two main right-wing parties at the time -RN and UDI- to this respect.

Fourth, the analysis strengthens a growing cross-regional literature about how internal party conflicts shape industrial relations. Read from a broader perspective, this conflict on

grounds of the trade-off between growth and distribution is consistent with the “new social liberalism” perspective on labor issues and reveals an understudied dimension of center-left governments during the left-turn in Latin America, even and mostly in those countries in which these parties –or movements or coalitions- were not at the forefront of liberalization reforms.

Lastly, the findings also shed light on an underappreciated dimension of post-ISI political conflict in Latin America which is central to the quest for sustainable development, and in particular a source of conflict for center-left parties: that of the trade-off between growth and distribution and the different forms the solution to this conflict may have taken across the region.

Endnotes

¹ See the History of the Law, pages 115, 665, 675 and 690 for up front mentions to these issues during the project debate. See Drake 2003 for in depth analysis of these conflictive issues during the period.

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