

Deepening economic crisis in Chile fuels Kast's war on the working class

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This is the first of a four-part series.

Chile is sliding into a technical recession, and the government of President José Antonio Kast is using the crisis to launch the most sweeping assault on the democratic and social rights of the working class since the Pinochet dictatorship. What is unfolding is a class offensive in which every measure advanced aims to make working people pay for a crisis they did not create, while the corporate oligarchy and finance capital reap a bonanza.

The Chilean economy has been contracting for five consecutive months. The Central Bank's Monthly Economic Activity Index (Imacec) fell 0.9 percent in May 2026 compared to the same month last year, bringing the cumulative decline since January to 0.7 percent. The seasonally adjusted series contracted by 0.2 percent compared to April. This marks the worst economic performance since June 2023, and economists are now openly warning that the door is opening to a technical recession defined as two consecutive quarters of negative growth.

The Central Bank has been forced to repeatedly revise its growth forecasts downward. Its June Monetary Policy Report now projects GDP growth of between 1 and 1.75 percent for 2026, a reduction from the 1.5 to 2.5 percent range projected just three months earlier. The Santiago Chamber of Commerce's analysis of total payroll, the aggregate labor income received by salaried workers, recorded its lowest growth in five years in April, expanding by just 1.6 percent over twelve months. This slowdown, the Chamber notes, has been observed since September 2024, when payroll growth peaked at 7.4 percent.

The mining sector, traditionally the backbone of Chilean export earnings, has been particularly battered, plunging 11.6 percent year-over-year. Goods production overall fell 4.7 percent, with manufacturing declining 1.7 percent, mainly due to lower production of fishery products. The non-mining sector posted growth of just 0.7 percent year-over-year but fell 0.3 percent on a seasonally adjusted basis. Commerce managed only 0.8 percent growth, while services grew by 1 percent. These are the signs of an economy in critical condition.

Inflation is compounding the misery. The Consumer Price Index has risen to 4.2 percent, driven by international oil prices following the US-instigated war against Iran. The Kast government's first major economic decision was to remove the fuel price stabilization mechanism (MEPCO), allowing gasoline and diesel prices to fully reflect international volatility. Fuel prices experienced the largest single-day increase since 1973, with gasoline surging over 40 percent and diesel increasing by 54 percent. The Basic Food Basket, calculated as an ideal daily intake of 2,000 calories per person per month is currently CLP 90,200 (US\$100), having climbed 28 percent between September 2025 and April 2026, and has more than doubled since October 2019. Wages have not remotely kept pace.

The National Institute of Statistics (INE) reported that unemployment reached 9.4 percent in the March-May 2026 quarter, a 0.5 percentage point increase over twelve months and the highest level since June 2021, when unemployment peaked at 9.5 percent at the height of the pandemic.

This means nearly one million people are actively seeking work and cannot find it. The labor force grew by 1.3 percent, but employment grew by only 0.8 percent. The number of unemployed people rose by 6.9 percent, driven especially by first-time job seekers, whose numbers surged by 16.4 percent.

But the headline unemployment rate only scratches the surface of the labor market catastrophe. The quality of what employment does exist is deteriorating at an alarming rate. According to the Economic Context Observatory at Diego Portales University (OCEC UDP), of the 68,299 new jobs created during the February-April 2026 quarter, the entire net increase came from the informal sector. Informal workers increased by 107,857, while formal jobs decreased by 39,558. In the private wage-earning sector alone, nearly 76,000 informal jobs were created while more than 66,000 formal jobs were lost. Informal employment now stands at 27 percent of the workforce, reaching 28.8 percent for women.

Underemployment is also surging. Over the past twelve months, the number of underemployed workers, those working part-time involuntarily or performing work below their qualification level, increased by 166,531, while 98,232 jobs outside this category were lost. In 14 of Chile's 16 regions, underemployment is growing. In seven regions where the unemployment rate fell, the improvement was driven entirely by precarious, substandard jobs.

The unemployment rate for workers aged 25 to 34 jumped from 10.7 percent to 11.8 percent, its highest level since the pandemic period of March-May 2021. For those with college degrees, the situation is particularly grim with the unemployment rate climbing from 10 percent to 11.7 percent. Among those aged 15 to 24, the unemployment rate stands at a catastrophic 24.6 percent.

Micro, small and medium-sized enterprises, which employ the majority of Chilean workers, are shedding formal jobs at an accelerating rate.

The public sector, traditionally a source of stable employment, is also contracting. Public administration employment has declined in nine of the last twelve months, falling by 6.9 percent. The Kast government has frozen all hiring for permanent positions in the public system, suspended overtime, curtailed temporary staffing, and in some cases, such as Maipú Hospital, laid off contract workers outright.

The sectors most affected by dismissals tell their own story. According to the Labor Directorate, between January and November 2025, administrative and support service activities led with 584,219 dismissal letters (24.35 percent of the total), followed by construction with 446,948 (18.63 percent), and wholesale and retail trade with 216,160 (9.01 percent). Dismissals due to "company needs," the legal grounds for economic layoffs, increased by 5 percent, affecting 453,154 workers. The most common reason for termination, accounting for 43.91 percent of all dismissal letters, was simply the expiration of the contract term, a reflection of the extreme casualization of labor relations in Chile.

The IMF and credit rating agencies demand blood

The international financial institutions and credit rating agencies are monitoring closely to ensure that the working class pays the price demanded by global capital. In its latest consultation on Chile, the IMF slashed the country's growth forecast to 1.8 percent while issuing blunt demands for "additional fiscal efforts," the technocratic euphemism for austerity, to keep public debt below 45 percent of GDP. The IMF further insisted that the government's National Reconstruction Plan be "prioritized and carefully sequenced" and that the "fiscal costs" of tax and other reforms be weighed against "fiscal sustainability," in plain language, no reform may proceed unless it is compatible with the uninterrupted flow of wealth to the financial oligarchy.

Moody's, in its analysis of the government's fiscal decree for 2026-2030, noted that maintaining the "prudent" debt limit of 45 percent of GDP represents "a positive signal of the authorities' commitment," but warned that additional measures may be necessary if there is "a risk of exceeding the limit." The agency noted that the economy remains "heavily concentrated" in copper and other commodities whose prices are determined globally, making GDP and tax revenues "more volatile than in more diversified economies." The implication is that austerity must be deepened to satisfy the bond markets.

Fitch Ratings, which maintains an A rating with a stable outlook for Chile, was more explicit in its demands. The new structural deficit target of 1.5 percent of GDP for 2030, it stated, "highlights the challenges facing the Kast administration's consolidation plans."

The agency warned that "the government's optimistic growth assumptions, combined with execution risks, mean that additional measures may be necessary to achieve the planned adjustment." It noted that the government's popularity has declined since the decision to allow oil price increases to be passed on to consumers, and that "unpopular measures affecting social programs could further erode his political capital." The message to Kast was you must go further, regardless of the political consequences.

These are the demands of finance capital, transmitted through its institutional mouthpieces, that the working class bear the full weight of the crisis. The credit rating agencies are the enforcers of the bond market who are threatening to downgrade Chile's debt, raise borrowing costs and trigger capital flight unless austerity is intensified.

Dismantling labor rights under the pretext of "reactivation"

The Kast government has pounced on the economic crisis and mass unemployment as a pretext for the most comprehensive assault on labor rights in decades. Every measure is presented in the language of flexibility, modernization and job creation, but transfers wealth and power from labor to capital.

The reduction of the work week to 40 hours, the Boric Administration's signature reform, is being systematically undermined by the Kast government before it is even fully enacted. Labor Minister Tomás Rau has proposed extending the reference period for calculating the average work week from the current four weeks to 52 weeks. Combined with the existing absolute cap of 52 hours per week (including overtime), this would allow employers to schedule workers for 52-hour weeks during periods of high demand and then compensate with shorter weeks or days off during slack periods. In practice, this means the effective abolition of the 40-hour week as a meaningful limit on exploitation.

The government is also promoting a bill on hourly contracts, first

introduced in 2018 and now revived. This would allow agreements of up to 30 hours per week or 120 hours per month, with the employer determining the distribution of those hours, a mandatory 12-hour rest period between shifts, and just 24 hours' notice of shifts. Minister Rau presents this as a measure to combat informality, when in fact it institutionalizes precarious, on-call labor, eliminating any predictability of income or working time. Workers would be perpetually available, perpetually uncertain and perpetually disposable.

The Labor Directorate under its new director, David Oddó, has issued rulings that effectively gut the protections of the 40-hour work-week law for a broad swath of workers. Under the previous doctrine, the pervasive use of GPS tracking, mandatory reporting systems, access controls and other forms of technological monitoring was recognized as a form of supervision.

Oddó's new interpretation exempts a worker whose employer does not exercise authority directly, through in-person, minute-by-minute oversight. An employer can track a worker's every movement by GPS, demand real-time digital reports, monitor their output through software and still claim that the worker is not under "immediate superior supervision" and therefore has no legal limit on their working hours. The ruling is an open invitation to employers to reclassify workers as exempt from the workday, forcing them to work unlimited hours without overtime pay. He has also suspended this year's labor survey to assess working conditions, labor relations and forms of employment, conducted regularly since 1998—ostensibly to review the methodology. This is a transparent attempt to suppress inconvenient data at a moment when the labor market is in freefall.

Entrenching poverty wages and eliminating severance pay

The minimum wage adjustment that the Kast government is proposing amounts to a calculated provocation. The increase of 2.7 percent, from 539,000 Chilean pesos-CLP (US\$585) to CLP 553,553 (US\$600), represents a rise of just US\$15 per month amid rising costs of living.

As the social research institution Fundación Sol documented at the beginning of May, a sizable proportion of the private sector workforce (830,716 workers) earn the minimum wage or less; over half of whom are employed in agriculture, manufacturing, transport, communications, retail, hotels and restaurants; and 43 percent are employed in medium sized and large companies.

In fact, 70 percent of private sector workers earn a monthly income of less than CLP 800,000 net (US\$868), and when all occupational categories are considered, only one in three workers in Chile earns more than CLP 750,000 net (US\$814) per month. Low wages are not an edge phenomenon in Chile and South America; they describe the modal condition of the working class for over a century.

Perhaps the most far-reaching attack is the proposal to eliminate severance pay based on years of service and replace it with an individual savings mechanism. Under the current system, a worker with ten years of service earning one million pesos per month would receive approximately ten million pesos in severance pay if dismissed due to company needs. Under the proposed 1.8 percent monthly contribution system, that same worker would accumulate just 2,160,000 pesos over a decade, a loss of nearly 80 percent.

The measure would allow for unrestricted dismissals. Severance pay, based on years of service, is one of the few mechanisms that compel employers to legally justify terminations and that imposes a material cost for arbitrary dismissals. Its elimination would remove the primary constraint on employers' power within the workplace. As one labor

lawyer noted, the proposal to explicitly define “company needs” as grounds for termination—including changes in both internal and external organization, plant closures, sustained declines in sales or production—combined with the elimination of severance pay, would make dismissal a virtual management prerogative.

The consequences are devastating. The trade unions long ago ceased to function as organs of working class struggle. In Chile the Pinochet dictatorship completed the destruction of independent working class organization that had been underway under the reformist betrayals of the Popular Unity period, and the union apparatus that emerged from the transition to civilian rule was integrated into the capitalist state as an instrument of labor discipline.

The 1979 Labor Plan, imposed by the dictatorship and never repealed, confined collective bargaining to the individual company level, banned industry-wide negotiations and replaced the right to strike with a bureaucratic procedure designed to suppress militancy. The union federations, including the CUT, have collaborated with successive governments in enforcing wage restraint and suppressing rank-and-file resistance for decades. Yet even this corporatized, emasculated form of unionism is now in the crosshairs. By eliminating severance pay, one of the last mechanisms that imposes even a minimal cost on arbitrary dismissal, the Kast government is removing the final material constraint on employers’ power to retaliate against workers who attempt to organize.

The Labor Directorate’s recent ruling that workers who switch unions cannot participate in collective bargaining until their previous union’s agreement expires, combined with the requirement that they continue paying dues to the union they left, is explicitly designed to prevent workers from breaking free from company-dominated organizations. What is being dismantled is even the last narrow, legally circumscribed space for workers to defend their interests. The aim is a labor market in which all collective resistance to the dictates of capital is foreclosed.

To be continued



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