Kast’s National Reconstruction Plan for Chile: Chicago Boys 2.0

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This is the third of a four-part series. Part one was published here and part two here

On June 17, the Chamber of Deputies approved a bill authorizing an additional US$6.2 billion in public borrowing for 2026, with 94 votes in favor, 52 against, and one abstention. The government argued that the 2026 budget had been inadequately funded by the previous administration and that additional borrowing was necessary to meet obligations, including payments to suppliers.

Moody’s noted that “last year’s fiscal deviation was particularly pronounced,” with the deficit exceeding the target by more than two percentage points of GDP. The public debt, while still below the prudential limit of 45 percent of GDP, is projected to breach that ceiling by 2028. Interest payments on the debt are projected to grow from US$5.2 billion in 2026 to over US$8 billion by 2030, money that will flow to bondholders rather than to hospitals, schools and pensions.

Budget Director José Pablo Gómez was candid about the consequences if the debt authorization was rejected: “Everyone’s budgets will have to be adjusted” and “we will not be able to service the debt.” The government essentially blackmailed Congress to approve the borrowing by threatening to make even deeper cuts.

The debt authorization is to facilitate what is the centerpiece of the Kast government’s agenda: the National Reconstruction and Economic and Social Development plan, or, the “mega-reform,” which constitutes the most ambitious restructuring of the Chilean state’s relationship to capital since the Pinochet dictatorship.

The package was originally presented in April as a miscellaneous bill, with the noun “reconstruction” added to misrepresent it as primarily about reconstruction funding for the victims of the catastrophic wildfires in Valparaiso in February 2024 that killed 137 people and left 7,371 families homeless. The Transitory Emergency Fund for Fires (FET-incendios) was officially initiated and signed into law under the administration of President Gabriel Boric, who capped the aid program at US$864 million that was set to expire at the end of this year. However, by the end of his administration barely 452 homes been rebuilt while another 781 were still under construction, leaving 83 percent of the fire victims still homeless. The slow rollout led to intense protests and community criticism.

As an ostensible cornerstone of his National Reconstruction Plan, Kast extended the transitory fund to December 2028 and injected another US$432 million following the devastating wildfires in the Biobío and Ñuble regions last January, which left 20 dead and destroyed more than 4,000 homes. The sums provided by the pseudo-left government and now Kast are a drop in the bucket.

The real content of the bill is a comprehensive program of tax cuts for corporations and the wealthy, deregulation for investors, and austerity for everyone else. The reform rests on five pillars, as President Kast outlined in his April 15 national address: tax competitiveness, strengthening formal employment, regulatory streamlining, legal and regulatory certainty and containment of public spending. These pillars translate into approximately 40 measures spanning tax policy, labor regulation, environmental law, housing and public administration.

The package passed the Chamber of Deputies in May and was approved by the Senate on June 25 with 26 votes in favor, 23 against and one abstention. The bill now proceeds to its detailed debate, where amendments will be considered before final passage.

The core architecture: the Chicago Boys 2.0

A group of US-trained economists known as the “Chicago Boys” imposed economic shock therapy from the moment the US-backed coup had installed General Augusto Pinochet’s military dictatorship. Backed by Washington and spearheaded by Milton Friedman’s University of Chicago disciples, this “shock therapy” consisted of the most radical program of privatization and deregulation seen anywhere in the world. It included abolishing the minimum wage, rescinding trade union rights, privatizing state industries, banks and the pension system, and slashing taxes on incomes and profits. The economic experiment plunged nearly half the population into poverty, drove unemployment into the double digits, and turned Chile into a social laboratory for the free-market counterrevolution that would be unleashed globally under Reagan and Thatcher.

In 1984, the Chicago-trained economists implemented in Chile a radical tax system, known in tax law parlance as “Corporate Tax Integration (or, Imputation System),” which eliminated the double taxation of distributed corporate profits. This allowed business owners to credit 100 percent of the First Category tax, or Corporate Tax, paid by their companies against their personal income taxes.

The Pinochet-era reform was designed around the Taxable Retained Earnings Record (FUT), a mechanism that tracked which corporate profits had already been taxed at the corporate level. Every company maintained a register showing profit earnings, the amount paid in corporate taxes and the credit an owner/shareholder could claim when they eventually withdrew dividends.

The critical feature was deferral: corporate profits sitting in the FUT had paid the corporate tax, but personal income tax was only triggered when the owner actually withdrew the money as a dividend. Owners could leave profits inside the company indefinitely.

In practice this meant that the largest corporations and Chile’s top earners were allowed to keep almost all their profits: the Corporate Tax was set at 10 percent between 1984 and 1988; in 1989, the last year of the regime in power, the rate was set at zero. While the personal income tax of the top earners was set at over 50 percent, they rarely paid it. This is because the wealthiest families in Chile structure their affairs so that most of their economic consumption is funded through the company—cars, travel, offices—rather than personal withdrawals.

The integrated tax system was never fully replaced. The corporate tax rate increased, from 15 percent and a personal income tax of 45 percent in 1990, the year of the restoration of civilian rule, to 20/40 percent in 2011, the year of the massive student revolt that ushered in a decade of struggles of different sections of the working class in Chile, culminating the social revolt of 2019-2020.

Data from the Center for Social Conflict and Cohesion Studies (COES) demonstrates the sharp rise in protests and labor disputes beginning in 2011. The COES recorded 26,210 protest events for the period 2009–2019.

The administration of Michelle Bachelet (Socialist Party), who entered La Moneda Palace in 2014, was rocked by a sustained growth in the class struggle during her four years in office. Bachelet had run on promises to reform Pinochet's subsidiary state model in education, health, pensions etc. Her reforms were not a repudiation of the market model, but a managed concession designed to defuse deep-seated anger at the for-profit system amid stagnating economic conditions following the 2008 global financial crisis and the end of the resources super-cycle in 2013. To pay for the perfunctory rise in social expenditure, Bachelet reformed the tax system, moderately increasing state revenues.

Bachelet's tax reforms gradually raised the Corporate Tax from 20 percent to 27 percent and introduced a semi-integrated "partially attributed" system that limited the imputation credit to 65 percent. The reform also established that companies had until 2026 to liquidate or convert their historic FUT balances.

Kast's bill restores the fully integrated tax system that existed before the 2014 reform, reaching 100 percent by 2030-2031. The bill also creates a temporary window allowing taxpayers to convert credits currently subject to a 35 percent restitution obligation into fully usable credits at a rate of just 15 percent. In other words, the owners of Chile are paying a discounted final settlement on profits they may never have intended to withdraw. They're buying certainty and full credit restoration at a flat 15 percent.

Corporate tax reduction. The corporate tax will be reduced from 27 percent to 23 percent, phased in over three years: 25.5 percent in 2027, 24 percent in 2028, and 23 percent from 2029 onward. It has been calculated that one percentage point reduction in the corporate rate delivers 40 times more benefit per person to those in the top 0.01 percent than to the median income earner.

For small and medium enterprises, the rate will rise from the temporary 12.5 percent to 15 percent in 2028, meaning that while large corporations receive a tax cut, smaller enterprises face an increase. The fiscal cost of the corporate tax cut alone is estimated at approximately US$1.55 billion annually, or 0.52 percent of GDP. The reintegration of the tax system removes another US$800 million. This is a direct transfer of wealth from the public treasury to the largest corporations and their shareholders.

Tax stability. The bill creates a mechanism modeled directly on Pinochet's Decree Law 600, which was in effect from 1974 until 2016. The original proposal provided a blanket 25-year tax lock-in for investments exceeding US$50 million, covering the corporate tax, additional tax, mining royalties and other levies. Following negotiations, this was modified to a tiered system: 10 years for investments of US$50-100 million, 15 years for US$100-350 million and 20 years for those above US$350 million.

The effective tax burden for foreign investors is capped at 35 percent. Indirect taxes such as VAT are excluded from the lock-in, except for imports of capital goods. A transitional window allows projects initiated between the bill's introduction and its enactment to qualify.

Finance Minister Jorge Quiroz was explicit about the inspiration. Speaking at the International Economic Forum of Latin America and the Caribbean in Panama in January, he declared: "For many years, Chile had what was called DL 600… We are going to try to restore a mechanism similar to that one."

Another contribution by the Chicago Boys, DL 600 was the legal instrument through which the Pinochet dictatorship bound the Chilean state to foreign capital, guaranteeing profit remittances, tax stability and non-discriminatory treatment. The lock-in period is particularly egregious. It means that no future government for up to 20 years could modify the tax treatment of these investments, regardless of the democratic mandate it received. Opposition deputies have announced a constitutional challenge. But the intent is clear: to insulate capital from democratic accountability for a generation.

Capital repatriation amnesty: A 12-month window will allow taxpayers to declare previously hidden offshore assets, extinguishing all prior tax liability at a one-time substitute tax of 10 percent, reduced to 7 percent if the funds are repatriated and invested in Chile for at least eight years. The message to tax evaders is unambiguous: wait long enough, and the state will eventually let you regularize your hidden wealth at a fraction of the statutory rate.

This is the third such mechanism in a decade. It follows Bachelet's 2015 amnesty, which at 8 percent attracted 7,832 taxpayers to declare approximately US$18.8 billion in offshore wealth, yielding US$1.5 billion in revenue. Then in 2024, Boric's amnesty set a 12 percent rate, a one-month window, only 547 taxpayers came forward, generating a paltry US$94 million.

The scale of Chilean capital parked offshore is staggering and reflects two distinct waves. The first followed Pinochet's 1973 coup, when the dictatorship's free-market restructuring, built through the violent suppression of the working class, enabled the bourgeoisie to accumulate vast fortunes and systematically shelter them in Panama, the British Virgin Islands, Uruguay and the United States.

The second, far larger, wave was triggered by the 2019 social uprising. SII data shows Chilean investors' international operations surged from approximately US$87 billion in 2017 to more than US$155 billion (equivalent to 45 percent of GDP) by 2023. French-American political scientist Rachel Théodore documents how the 2019 social uprising produced a structural break, an "unlinking" of Chilean business elites from the nation-state itself. Her interviews with entrepreneurs, tax lawyers and finance ministry officials reveal that the uprising was experienced by the ruling class as "a real trauma," driven by "a strong anti-communist component" and "intergenerational and class memory."

The ruling elite made a strategic decision to transnationalize their patrimony and reduce exposure to Chile as a project, a decision that, as Q1 2026 data confirms (US$2.2 billion fled the country, a 155 percent increase year-on-year), Kast's election has not reversed.

None of this wealth, not a single dollar of the tens of billions parked in Montevideo, Miami or the Cayman Islands, was created by the Chilean bourgeoisie. It is congealed surplus value extracted from the labor of Chilean miners, factory workers, agricultural laborers, transport workers and service employees. The amnesty is a mechanism by which the capitalist state legalizes at a discount the hidden wealth squeezed out of the working class in the production process.

Elimination of capital gains tax on stock market transactions: Profits from the sale of publicly traded shares will be taxed at 0 percent, while labor continues to pay up to 40 percent. This is class legislation in its purest form: the unearned income of the rentier is privileged over the wages paid to workers.

Employment tax credit: The bill creates a tax credit for employers equal to up to 15 percent of wages for workers earning approximately 545,000 to 838,000 pesos per month. The annual fiscal cost is estimated at US$1.4 billion. This is a subsidy to business, not to workers. It reduces the cost of labor for employers without increasing the take-home pay of employees by a single peso.

Property tax exemption for wealthy seniors: Homeowners over 65 will be exempted from property tax on their primary residence, regardless of the value of the property or their income. This is a regressive measure that primarily benefits wealthy senior property owners while stripping municipalities of approximately US$200 million in revenue. The government has promised to compensate municipalities through the Municipal Common Fund, but this merely shifts the burden. Currently, only 5 percent of the population over 65 pay property taxes; the rest already have total or partial exemptions. The National Libertarian Party, led by Johannes Kaiser, has gone further, demanding the complete elimination of all property taxes. Kast has indicated openness to this proposal.

Value Added Tax Exemption on new homes: For 12 months, the sale of new homes that have received final occupancy permits will be exempt from the 19 percent Value Added Tax. This is a direct bailout for the construction companies sitting on an inventory of 100,000 unsold units. The government estimates it will cost approximately US$300 million in forgone revenue.

Environmental deregulation and investor protection: The bill contains provisions that fundamentally alter the relationship between investors and the state. Most egregiously, if an Environmental Qualification Resolution (RCA) is granted and subsequently annulled by the courts, the state must reimburse the investor for direct expenses incurred. This turns the environmental assessment system on its head: the state, having approved a project, becomes the insurer against judicial review. Communities and citizens who challenge environmentally destructive projects in court will be told that their victory will cost the public treasury millions. The chilling effect on legitimate environmental litigation is precisely the point.

Quiroz has explicitly cited the Brazilian model, where “when a company obtains an RCA, it is authorized to begin its investment, and if anyone files a claim, it is the state that litigates.” The government has also proposed “positive administrative silence,” a mechanism whereby projects not resolved within a certain time frame are deemed approved. This is an open invitation to under-resource the agencies responsible for environmental review, allowing projects to pass by default.

Land liberalization and the Mapuche: The bill includes provisions to reform the Indigenous Act, eliminating restrictions on land use that currently prevent members of indigenous communities from leasing or mortgaging their lands. At his State of the Nation address Kast asked, with feigned innocence: “Why should there be a difference between Chileans? Why can’t someone who owns land use it? Why can’t they farm it?” The answer is that collective land tenure was established precisely to prevent what this reform is designed to accomplish: the piecemeal transfer of Mapuche ancestral lands into the hands of forestry companies, agribusiness and real estate speculators. This is the economic complement to the military occupation of the Araucanía. The political resistance of the Mapuche having been crushed or driven underground, the economic dispossession can now proceed through legal channels.

To be continued