INTRODUCTION

Chile: the outstanding example

Over the past twenty years, Chile has frequently been cited as a political and economic example for developing nations. Following the return to democracy, there has been unanimous approval of, and great regard for, the continued economic growth in Chile. The country has been held up as a model of balance, democratic prudence, and efficient economic management. There was a time, however, when the Chilean “example” attracted sharply divided opinions. Both the “revolution in freedom” of Christian Democrat president, Eduardo Frei (1964–70), and the “legal route to socialism” undertaken by President Salvador Allende (from 1970 to 1973) attracted a great deal of attention, albeit from distinct sets of people, at different times and in separate areas of the world. Both were championed as “models” to be imitated, or to be avoided. After the military takeover, and the abuse of human rights on a massive scale that it engendered, Chile retained the curiosity of diverse political and intellectual circles. The tragic example of a shattered democracy provided the spark for heated discussions and controversies in various countries. Chile’s sudden shifts in orientation yielded a relentless supply of fascinating political and economic phenomena and fueled the wider debate on development, democracy, and social change. Luckily for Chileans, the recuperation of democracy rid the nation of its condition as a permanent laboratory. Henceforth, Chile’s controversial recent history became more the stuff of historians and specialists. Even today, however, some continue to stress the exemplary nature of one particular experiment conducted in Chile’s polemic past, which they see as an ideal model for other developing countries or nations in the process of modernizing their economies: the neo-liberal revolution implemented after General Pinochet seized power.

It will be recalled that, in September 1973, a military junta overthrew the socialist president of Chile, Salvador Allende, thereby provoking a worldwide wave of outrage at the destruction of Chile’s longstanding democracy. General Pinochet and his brutal methods of government inspired near universal rejection. Nevertheless, and almost from the beginning, the economic transformation carried out in Chile acquired enormous prestige
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Pinochet’s economists among international financial institutions, as well as in certain conservative academic circles whose economic (and social) views were, at the time, indistinctly termed “neo-conservative,” “neo-liberal,” or “neo-classical.” From the mid-1970s onwards, the country enjoyed privileged treatment by the International Monetary Fund (IMF) and the commercial banks. Chile was doubtless the country most visited and commented upon by journalists from the international conservative press, as well as by a distinguished list of academics headed by the most prominent members of the Chicago School of Economics, including Milton Friedman himself. The reason for this interest is easy to comprehend: Chile had become the first and most famous example of applying the rules of economic orthodoxy to a developing country. Foreign trade was liberalized, prices were freed, state companies were privatized, the financial sector was deregulated, and state functions were drastically reduced.

Outside interest in Chile was sharpened by another element, which attracted both attention and a degree of professional solidarity. The group of economists appointed by General Pinochet to the main economic posts in his government had been known for some time in academic and business circles as the “Chicago Boys,” since most of them had pursued postgraduate studies at that particular US university. Their status as former Chicago alumni apparently explains not just the audacity of their economic revolution, but also their limitless faith in economic science as the legitimizing basis for their draconian decisions, and in the market’s ability to resolve the bulk of the problems faced by society. It was equally manifest in their complete and utter rejection of an active state role in the development process. The Chilean case thus became a model, a unique phenomenon that did not stem from any historical experience. Rather, it originated directly from what the Chicago Boys termed “economic science”: a science to be found mostly in their textbooks.

These reforms and, to a certain extent, the drastic and radical fashion in which they were applied, continue to be regarded by some observers as the tough, but nonetheless admirable, groundwork underlying current Chilean success. The economic rigor to which Chile was subjected after Allende’s failed experiment is thought to have laid the foundations for the free and balanced economy that, some twenty years later, distinguishes Chile’s fledgling democracy. For several years, the IMF and other bodies closely linked to the financial heart of the industrialized world recommended the Chilean example as a model for the rest of Latin America. From the viewpoint of these organizations, for good or ill, Chile had stolen a march on a now universal current of economic liberalization, the privatization of public holdings and reduction of the state’s social role as well as the rise in, and plight of, financial capitalism – a current that forced a change in course not just in the most developed nations, such as the United States and Great Britain, but also in
the developing regions. In Latin America, Chile anticipated by over ten years the stabilization, adjustment, and liberalization processes that are now a generalized feature of the continent. More remarkable still is that these ultra-liberal economic reforms came before analogous change in the United States and the United Kingdom. With a sense of anticipation that may perplex those who regard the developing world as mechanically dependent on events taking place in the central nations, Chilean economists appeared to foresee the final shift in the Keynesian era, as well as the rise to prominence of monetarist policies aimed at correcting the monetary imbalance fostered by “statism” during the preceding period. Their policies anticipated a fashion – financial abundance, assaults on the state, the denigration of government intervention, the celebration of rapid enrichment, the “yuppie” boom, and complete disregard for social policies – a fad that some neo-liberal intellectuals and especially economists felt would distinguish western “modernity” in the closing years of the century. It should therefore come as no surprise that the Chilean example has been cited as a prototype for the “shock therapies” that are to be used to combat productive chaos in the midst of uncontrolled inflation, such as in Russia or in parts of Eastern Europe. History is indeed capable of the strangest twists. These references to Chile seem to bow to the inevitability that, in such cases, the economic ills are so serious as to demand drastic remedies, even if they require draconian political strategies. As in Chile twenty years ago, some observers may be confusing the inevitable cost of economic normalization with the deliberate pursuit of ideological purification.

It is precisely such controversial elements, however, that have sustained outside interest in the Chilean case during all these years. This, in fact, allows us to address a series of issues covering a vast area of concerns common to economists, political scientists, sociologists, and others in the social sciences. The economics profession has extracted copious quantities of data from Chile during its research into inflation, adjustment policies, and economic opening in developing nations. Nonetheless, discussion of the relationship between political authoritarianism and the structural economic change championed by neo-Liberals has been equally popular, and may even have eclipsed the strictly economic analysis of Chile. The Chilean case has frequently been cited by sceptics, who doubt that it is truly possible to combine democracy with neo-liberal economic adjustment. Structural reforms prescribed for Latin America by the cluster of public and private institutions that regulate international finance, which one author terms the “Washington consensus for developing countries,” would seem to render impossible the preservation of personal freedoms. Clearly, this whole question has been a principal argument of those opposed to the application of orthodox economic measures in the developing world. Indeed, this rationale is not restricted to these nations: the
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current, grave economic and social situation in Europe and North America has revived criticism of the impact of neo-liberalism on the domestic political and social order.

Something similar has befallen the issue of transforming the state through privatizations and the curtailment of its regulatory and distributive functions. As in all else, Chile in the 1970s seemed to be the most radical case: the state literally dismantled itself. Privatizations and the reduction of the state did not arise, as with later instances in Latin America, from IMF pressure. Nor did this process produce tension between the political sectors and economic specialists within the state. Rather, it served to illustrate the understanding between economists and the military to act together to change the type of state historically present in Chile. State emasculation in the economic and social arenas was conducted by its own institutions, backed by those who ran them.

From this stems, in turn, a further crucial point in the general debate: one stressing the negative impact of cuts in the state on the living conditions of the poorest in society. Chile also constitutes a very interesting case study in trying to assess the likely social costs of orthodox economic reforms in a developing context. Although large sectors were always marginalized from economic development and modernization, by the early 1970s Chilean society had become one of the most egalitarian in Latin America. The introduction of the neo-liberal model caused a significant fall in real wages, a dramatic rise in unemployment, and a decade-long deterioration in social services, particularly health and education. The huge gap driven between rich and poor during this period is today the most onerous legacy for democracy in Chile. That said, however, for many it remains an open question whether the current positive situation of the Chilean economy is really due to the radical reforms carried out in the early years of the Pinochet regime. The question could be posed roughly as follows: do the economic growth and the “liberal consensus” that characterize Chilean society todaystem from the Chicago Boys' audacious and brutal imposition of market policies in the mid-1970s? Or, would it be more accurate to ascribe them to the more regulated and complex evolution of economic policy in the closing years of the dictatorship and during the first three years of democratic government? Some argue that the progressive economic stability and growth enjoyed by Chile could not have taken place without the initial reforms. They believe that these measures should be judged on their own merits and on their long term effects. For them, the Chicago Boys episode remains a positive and praiseworthy “example.” Others, however, stress the catastrophic consequences of these policies and the dogmatic fashion in which the reforms were applied, despite the fact that they could have been accomplished in very different ways, with less costly results for the
majority of the population. From this viewpoint, the Chicago Boys’ measures are exactly the type of economic policy that must be avoided.

Obviously, then, there are no easy answers to the issues raised by the Chilean case. Such issues require a comparative approach and, more often than not, lead reflection down new paths and raise further questions. This is particularly true given that the issues of neo-liberalism and a market-regulated society are today matters of universal concern. Interest in the Chilean case no longer derives from its peculiarity, but because it contained elements of neo-liberal logic at its most extreme and paradigmatic. Many of the matters originally present in the Chilean process have reappeared in each of the subsequent neo-liberal experiences. For this reason, discussion of the Chilean case actually alludes in great measure to universal problems and ideological currents. These factors reflect a fresh mode of understanding society and economic development that rose to prominence in the 1980s and that is now present – in mild form – in many of the reasoning and decision-making processes in both developed and industrialized nations. It is not possible to refer here to each and every one of these factors, yet it is necessary for them to “filter through” as the central concern of this book unfolds. Let us now introduce the subject for the first time.

The most prominent aspect of the phenomenon that concerns us here was the neo-liberal ideological wave that inundated the United States, following the election of Ronald Reagan, and Great Britain, under the Thatcher government. It began in Chile in 1974 not simply as a set of economic measures, but rather as a broad, revolutionary ideology. In Chile, neo-liberal economic thought became an all-pervading framework of ideas. In a context of violent change in the political power structures, it was used by the new military rulers as the requisite substance for a radical transformation of the state. Those that proclaimed these ideas argued, persuasively, that the establishment of a free market necessitated an authoritarian regime. A “free society,” regulated by the market, had to be forcefully imposed. The reasons were very simple: Chilean society had been molded over the previous half century by a powerful and interventionist state. Indeed this had been characteristic of Chile since its origins as an independent nation. Moreover, for fifty years, influential organizations – including political parties on the left and center as well as the Catholic church – promoted a political process and social climate marked by a pronounced egalitarian bent towards “social justice,” the fight against social marginalization and support for national integration. The political democracy that formed part of Chile’s very identity this century, moreover, seemed to have been built largely on the capacity of the state to distribute and to mediate between antagonistic social groups. It should not seem strange, then, that those who advocated a society regulated fundamentally, if not exclusively, by the market should decide that the only
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way to achieve this was by force, and in the briefest time period possible. This fateful decision, and the lucid blueprint adopted to carry it out, lead us to focus our analysis on the “revolutionary” elite – the group of economists – behind this experience.

They introduced into Chilean society ideas that were completely new, concepts entirely absent from the “ideas market” prior to the military coup. This elite posited, first and foremost, the concept of economic science – equivalent to the exact sciences – as the motor behind the organization of society. The Chicago Boys immediately converted a set of economic objectives into the sole determinant of all that was socially desirable. Economic analysis was subsequently extended to other areas of social activity, including a proposed ideal “modern individual”: competitive and acquisitive, he was supposed to spawn a culture in tune with his own reproduction and the creation of a “nation of owners.” The Chicago Boys introduced the concept of a minimal state, concerned solely with public order: in other words, a state limited to repressive duties and dealing with extreme poverty. Above all, they introduced into the “public debate” (which during the years of dictatorship became a mere monologue) a self-sustaining economic discourse, whose variables formed part of a theoretical framework that excluded ethical, cultural, political, or social considerations. Indeed, it did not even acknowledge the presence of such considerations. On the contrary, those who dared to criticize this logic once it was made public found themselves dismissed as persons ignorant of economic science and who, therefore, were incapable of understanding what was suitable for Chilean society.

Where did these ideas come from? To find out, we need to look at the economic training of the Chicago Boys, to explore the creation of this elite, the origin of their attitudes, and the way they defined their role as economists. This book deals with the story of an economic elite that attempted to utilize a military coup, and the extended period of political repression that accompanied the takeover, to carry out a neo-liberal revolution. In the remainder of this introduction, we will attempt to gain a better understanding of the truly revolutionary impact that these ideas had on Chilean society, and of the technical and political guidance exercised by this elite. It is useful, in so doing, to compare, albeit summarily, the revolutionary events of the Unidad Popular period under Salvador Allende with what followed, which we have termed the “neo-liberal revolution.”

The two revolutions

In the course of a few brief and violent years, Chilean society was subjected to two completely contradictory projects. From 1970 to 1973, the Allende government implemented its “anti-imperialist, anti-oligarchical and anti-
monopolistic” program, deciding to nationalize the financial and productive sectors of Chile, to expropriate large chunks of rural property, and to replace the market with far-reaching price controls. From 1974 to 1978, the military regime of General Pinochet developed a radical economic liberalization program based on the indiscriminate use of market mechanisms, the dismantling and reduction of the state, deregulation of the financial sector, and a discourse that ascribed to market forces the ability to solve practically any problem in society. One extreme of radical ideology was immediately followed by its very opposite. Chilean society was twice called upon to begin its history from scratch. A brief comparison between these projects, as well as the attitudes of those that directed them, might prove useful as a more precise introduction to the objectives of this study. Let us now highlight the similarities and contrasts between the changes carried out and the elite that imposed them.

The first important affinity is that both projects intended to bring about radical reform. Socialists and neo-Liberals alike claimed that their principal aim was structural change, although in one case this referred to redistribution and economic reactivation and, in the other, to the battle against inflation. In the language of the Allende period, both wished to bring about “irreversible reforms.” Hence, if we include a reference to the anti-inflation goal in the quote below, then the conclusion reached by Larrain and Meller on the intentions of the Unidad Popular appears equally valid for the neo-liberal experiment: “there is no doubt,” they say, “that the fundamental goal [of the Unidad Popular] was radical change and not simply better income distribution and higher economic growth.” For this very reason, both the Socialists and the neo-Liberals were prepared to carry through their reforms at any price and as rapidly as possible. One year after taking office, the Unidad Popular Treasury Minister could proudly announce: “the nationalization of the banking system is practically complete. The state now controls . . . 90 percent of all credit.” Four years after the military coup, Pinochet’s Treasury Minister was able to solemnly declare that the “new economic order” based on the trilogy of economic opening, financial liberalization, and state privatization had been completed. His report on the state of public finances began: “virtually all fundamental measures in this respect have already been adopted.”

Secondly, for this same reason both experiments were comparable with respect to the magnitude of the change that they contemplated. Their discourse went far beyond normal measures, or the strictly economic. Rather, they posited an inclusive ideology that sought to modify the way that Chilean society was organized and functioned. The goal was nothing less than the transformation of the state, of customs, and of culture. In this sense, the “construction of socialism” and the military junta’s proposed Declaration of
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Principles – to bring about a “prolonged and profound operation to change Chilean mentality” – derive from an identical revolutionary purpose. Consequently, socialist and neo-liberal intellectuals proclaimed to their most receptive constituencies — workers for one, a new technocratic and business class for the other — two behavior “models” to be imitated: the “new man” popularized by “Ché Guevara” and the *homo economicus* present in the classical writings on economics. The former represented the ideals of solidarity and generosity, the fight for justice and equality; the latter stood for the cult of rationality and individual liberty, the quest for equal opportunities to compete in a free market.  

Thirdly, both groups of “revolutionaries” were thus equally critical of Chile’s past. Their diagnoses categorically condemned the type of state historically present, which historians have labeled the “mediatory state.” This point requires a brief explanation. Since the great depression of 1929, Chilean development had revolved around expanding the state’s role in the economy. The state carried out functions as the promoter of business activity in the private sector, as a major propellant of the industrialization process, and as an important economic agent in its own right. By the early 1960s, state intervention in, and management of, the economy had become traditional and was accepted to a greater or lesser degree by all economic actors, including private entrepreneurs. Business organizations participated in negotiating the complex web of regulations laid down by the administration to govern economic activity, competing to obtain the choicest share of state largess. The state’s role arose, however, from factors that were not strictly or exclusively economic. As with the welfare state developed in Europe under the influence of Keynesian theory, the “mediatory state” arose from the need to reformulate the dominant coalitions as a result of the process of incorporating the organized popular sectors, who acquired an important degree of influence in the political system through the political parties on the left. These groups, and those that represented the interests of the middle and upper segments of society, competed for shares in the power that the state was able to administer and distribute. Consequently, the state’s role in the economy was a consubstantial element of the historic, if rather fragile, democratic political system that distinguished Chile from other countries in the region.

The “mediatory state” model and its economic policies, however, declined into severe crisis at the end of the 1960s. The international crisis of those years imposed restrictions beyond the reach of national authorities. Moreover, Chile’s import substitution policies tended to provoke severe distributive conflicts that, in turn, degenerated into recurrent inflationary crises, balance of payments difficulties, and intra-sectoral disputes. Towards the end of the Christian Democrat government of President Frei some economists warned
that the cycle of industrial expansion through import substitution was exhausted, calling for a radical shift towards a strategy based on exports. By then, however, certain political problems were present. These would end by upsetting the balance of mutual confidence upon which the mediatory state had been established.

This was the state that both experiments tried to destroy, for reasons that were not wholly different. Some (the Unidad Popular) sought to do so because “the state role had always been to favor the basic interests of monopoly capitalism.” Others (the neo-Liberals) believed that the state was, by definition, inefficient, favored monopolistic groups and, worst of all, hindered market freedoms. It was thus a major obstacle to the formation of a “free society.” In the preceding decades, there had been increasingly frequent attacks on the state, its inefficiency and its penchant for interventionist and protectionist policies. Such assaults were launched from all ideological sectors, including the “structuralists” and the “monetarists,” the two traditionally opposing economic groups. Yet, this current of criticism had never before reached the crescendo of the neo-Liberals and Socialists. For the first time, these groups considered the radical and definitive cancellation of the state in all its facets, including the political democracy that was an inseparable part of it. In effect, those responsible for these policies, both the Socialists and neo-Liberals, adopted a similar attitude of discredit and disdain towards what had hitherto constituted the country’s democratic history. The democratic tradition that had distinguished Chile in Latin America was never deemed worthy of contributing to reform. Quite the contrary, it was rejected as a distorting element; an allegedly corrupt farce concealing either class domination or a political caste’s use of the state for personal gain. In this manner, the intellectual authors of change were determined to reduce or simply to destroy the institutions they took to symbolize either “bourgeois democracy” or “statist political dabbling,” as the case may be.

For a time, however, both sides were determined to exploit these same institutions. The ideologists of the Unidad Popular thought that the “bourgeois state” could be dismantled from within: its institutions would serve to foster greatly expanded democratic participation, to the point of altering the very nature of the institutional system and transforming bourgeois dominance into a true, popular democracy. The neo-Liberals employed the power of the state to cut it to a minimum. They believed, until the financial crisis of 1982, that the process was “irreversible”; that the state would never again interfere in the economy, and would restrict itself to enforcing the rules of the game and to caring for the most impoverished in society.

There was, however, a significant difference in the conduct of both groups when in control of state institutions, and this needs to be stressed. The attempt to construct a socialist economy was carried out in a framework of
total respect for public liberties and democratic rights. Although, as stated above, most of the socialist ideologues cared very little for “bourgeois democracy,” the fact is that the freedom of the press as well as the rights to assembly and expression (including the right to attack the government with practically any means at one’s disposal) were more than meticulously preserved. The “end” objective for the Socialists of combining populist and socialist measures, which Allende referred to as “red wine and pies,” was, despite the chaotic expropriation and nationalization policies, more present in the voluntarist ideological discourse of some of its architects and intellectuals than in reality. Socialism committed errors. It faced the opposition of business elements as well as of conservative political sectors, enjoying strong support outside Chile. The construction of socialism finally turned into a pitched battle. A politically exhausted government completely lost control over the economy and found itself devoured by the chaos that it had helped to create.

The neo-liberal revolution that followed was carried out quite differently. It went through two phases, clearly differentiated by the crisis and economic depression of 1982. The first period can be termed, in the words of one author, the “naive phase” of Chilean neo-liberalism. This was undoubtedly the most radical. The reforms faced neither criticism nor opposition since they were carried out in a framework of total deprivation of public liberties and citizen’s rights. A military dictator set the context in which economic policy could advance regardless of the social costs incurred, or retrace its steps to correct apparent errors before resuming its path. The neo-liberal revolution was, in this sense, a true revolution. This elite conducted, organized, and exercised state power with great resolve: the group of “Chicago Boys” gradually occupied all the main state economic posts; it exercised increasing control over the intellectual reproduction process of its own theories, dispatching disciples to the various institutions of higher education for economics, thus imposing its particular view of “economic science” and marginalizing all others. The group built a system of links and personnel transfers between the public sector and Chile’s main centers of financial and industrial power. It participated in an active press and television campaign to spread its own message on economic science and to reject views that had influenced the discussion on economic development in previous decades, including a radical critique of Chilean democratic traditions and the proposal for a “new, modern, authoritarian and technified” democracy.

A second phase followed the failure of economic adjustment in 1982, and the consequent departure of the most famous Chicago Boys from office. This period was distinguished by the “on the job training” of a second generation of Chicago-educated economists. They found themselves forced to conduct a