THE ROAD FROM MONT PÈLERIN

The Making of the Neoliberal Thought Collective

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The Influence of Neoliberals in Chile before, during, and after Pinochet

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Introduction

The dictatorship of Augusto Pinochet in Chile (1973–1989) has attracted special attention among those seeking to better understand the role of neoliberal ideas in economic and social engineering. But already before Pinochet’s coup d’état, Chile was considered a “laboratory” by Chicago economist Theodore Schultz (Valdés 1995, 125). And Chile served later as a showcase for the alleged merits of neoliberal reform agendas promoted elsewhere.1 Despite the brutal repression of the opposition under the Pinochet dictatorship, neoliberal economists in fact have been widely praised both inside and outside of Chile for their policy advice against protectionist, socialist, and populist tendencies, which were thought to undermine a private property market economy, as well as growth and development prospects. Whether the result of or despite the authoritarian regime, Chile’s post-coup economic development record is widely regarded as relatively better than that of other Latin American countries. But because of the global awareness of the Pinochet regime’s abysmal human rights record, Chile has never enjoyed a “model” status similar to the East Asian “tiger” economies.2

Although a lot of time has passed and Chile has become a stable democracy, considerable disagreement and debate persists regarding Chile’s road to
neoliberalism. In spite of the extensive research that has been done on the "Chicago boys" (see Valdés 1995), the role of neoliberal intellectuals and the significance of the mobilization of a particular set of ideas need to be more fully considered when explaining the development of neoliberalism in Chile.

To improve our understanding of the role of intellectuals and ideas, it is necessary to reexamine the changing roles and social positions of neoliberal intellectuals before, during, and after the Pinochet dictatorship.

Two years after the coup in 1973, an economic team referred to as the "Chicago boys" occupied positions within Chile that permitted them to successfully introduce a new development model into the country. In an effort to redirect the domestic economy toward global competition, the previous import substitution model was replaced by an export orientation. Many tariff and nontariff barriers were abolished in due course, and anti-inflationary strategies were pursued by means of highly restrictive monetary and fiscal policies. The thoroughgoing reorganization of the economy was yoked to equally wide-ranging social changes aimed at no less than a reconfiguration of the relations between capital, the state, and labor—eventually codified in a new constitution. As yet there is no agreement, even among scholars skeptical of the success of the coup, on the key question: how much weight should be given to neoliberal intellectuals and ideas in transforming Chilean society?

The Pinochet regime fostered highly personalized channels of communication with the "economic change team" and allowed it a high degree of autonomy in the pursuit of neoliberal planning activities and structural reforms. This has been confirmed by insiders such as the "godfather" of the Chicago boys, Arnold Harberger: "Given that there was a military government, the idea that they were willing to cede economic authority to a group of technocrats made that transition easier than it would have been in a democratic context of the same time and place" (Harberger 1999). Yet Harberger did not subscribe to the perspective of scholars who argued that a radical break with long-established institutional arrangements and the exaction of high social costs involved in the neoliberal adjustment process necessarily required an authoritarian political system (Foxley 1986; Martínez and Díaz 1996). To counter the position of these scholars, Harberger cited the experience of other countries that had carried out neoliberal reforms: "Then what happened is that one democratic government after another in Latin America adopted virtually identical reforms... So you can't say that these reforms are inevitably shackled to a military government" (Harberger 1999).

As an early proponent of the Chilean economic policy transformation, Harberger can be said to have made an affirmative assessment of the technocratic power of "independent" professional economists. This has been seconded by some of the key Chilean players. In 1971, before the events of the Pinochet coup, one critic of the Chicago boys claimed that "the Chileans who returned from Chicago after 1960 are even more Friedmanite than Friedman himself" (Mario Zañartu, quoted in Valdés 1995, 206). Institutional sociologists have critically examined the highly professional involvement and ideological cohesion apparent in the Chilean project, likewise to emphasize the influence of bureaucratic technocrats empowered to design a new legal and economic framework. By emphasizing professional academic, technocratic, and bureaucratic dimensions, however, scholars who focus on the role of ideas neglect the content of scientific and technocratic knowledge when explaining the rise of neoliberalism in Chile and elsewhere. Scholars who emphasize interest group networking insist that the individuals who succeeded at Chicago sought to introduce their neoliberal vision of social order, rather than simply to apply "science" in some value-free and professional manner. Even before these Chilean scholars served in powerful government and private-sector positions, they—together with high-ranking military officers, representatives of big business, and other right-wing factions—played an important role in obstructing the Allende government (Imbusch 1995; Silva 1996; Fischer 2002). Nevertheless, thus far those scholars have paid scant attention to other important academic and intellectual developments of Chilean (and foreign) neoliberalism.

We can, therefore, still subject to further scrutiny the multifaceted mobilization and transformation of knowledge and ideas involved in Chile's economic and social transformation. Although each of the approaches cited above has greatly enhanced our knowledge of Chile's road to neoliberalism, we cannot adequately explain the power and relative influence of neoliberal intellectual entrepreneurship in Chile through theories that elevate "technocracy" (economic professionalism), "domestic institutions" (the military dictatorship), or "interest groups" (power elite networking) to center stage without considering the transnational evolution of Chilean neoliberalism.

This chapter focuses on the historical trajectories of neoliberal knowledge and ideas in Chile. Starting in the 1950s, I examine more closely the organizational efforts made to introduce neoliberal thinking in Chile, in conjunction with the early careers of economists trained abroad in neoliberalism. I will argue that we need to consider Chile as a crucial site for transnational neoliberal
resistance against the dominant postwar development paradigms of state-driven modernization, import substitution, and social reform. In the next section, I will reexamine the networking and coalition-building activities of the different "counter-revolutionary" political and ideological factions in the 1970s. As we shall see, neoliberal intellectuals were embroiled on multiple fronts in the effort to overthrow the socialist government of Salvador Allende. Only later was a Chilean understanding of a "new liberalism" imposed to crystallize this process. In this regard, it is essential to recognize the role of Chilean legal scholars in addition to the local economists. In the last section of the chapter, I will explain how and why the content of neoliberalism has changed several times in Chile in reaction to important events, above all in reaction to the severe economic crisis in 1982. Here it will be imperative to recognize and explore the role of other foreign sources of neoliberal economics and social philosophy (such as public choice and Austrian economics) in addition to the Chicago School. I will thus argue that neoliberalism in Chile cannot be readily understood on the basis of some clearly defined, prepackaged, one-size-fits-all set of ideas, and then be simply identified with generic antidemocratic authoritarianism. Rather, we need to examine diverse neoliberal intellectuals in terms of their motives, their individual reasoning quirks, and their actions in context; only then can we fully understand how neoliberals and their ideas have been mobilized and adapted so successfully. Both the domestic and international stories can be integrated by always keeping one eye on the international Mont Pèlerin Society, where Chilean and foreign neoliberals worked closely together.

Setting the Stage

Arranging the Transfer of Neoliberal Ideas: The Catholic University–Chicago Connection

In the 1950s, various programs were initiated to introduce and strengthen Western economics in Latin America's academies. Of particular importance in this regard were U.S. efforts to "modernize" the curriculum in economics and to provide training grants to Latin American students to come to the United States. American resources were deployed with the goal of training new economic personnel, thereby providing a bulwark against Marxist positions, which were accorded considerable importance in the new development discourse established after World War II. Although many academics involved in the U.S. Point Four Program supported what later culminated in Walt Rostow's "modernization paradigm," the effort also recruited neoliberal strongholds like the University of Chicago, which was hostile to the strong emphasis on state planning that dominated the developmental mainstream in the West at the time.5

The Point Four efforts to organize a transfer of economic ideas and methods were aimed at Latin American countries. Chile arguably figured more prominently in the "battlefield of ideas" than other countries, if only because the United Nations Economic Commission for Latin America (ECLA) had been established in Santiago in 1948 and had become a bastion of the structuralist approach to the causes of uneven development. Raúl Prebisch, ECLA's general secretary, promoted the import substitution development strategy. Within this framework, a selective retreat from the world market was prescribed to enhance regional economic cooperation and alter the international division of labor to the advantage of the newly industrializing countries (Prebisch 1950, 1961). ECLA therefore contributed to an intellectual climate that attracted critical development theorists from all over the Americas, including the Chicago School heretic Andre Gunder Frank.

Efforts to nurture neoliberal ideas in Chile culminated in 1956 with the agreement that the economics faculty of the Catholic University of Santiago (Universidad Católica, CU) signed with its counterpart at the University of Chicago. The so-called Project Chile was conceived as part of the U.S. Point Four Program of technical assistance and economic aid to underdeveloped countries. It was conducted by the International Cooperation Administration, or ICA (today the Agency for International Development, or AID) (Fontaine 1988, 23). The origins of the agreement can be traced to the conversations of the chair of the Economics Department at Chicago, Theodore Schultz,6 with Albion Patterson, director of the ICA and technical cooperation at the Institute of Inter-American Affairs in Chile. Schultz was particularly concerned with education and human capital as they related to economic growth. He accordingly proposed a project entitled "Technical Assistance to Latin America," and "wanted to use Chile as a laboratory to test his theories."7

An earlier signal event in the formation of a neoliberal thought collective in Chile was a congress of Latin American universities that took place in Santiago in 1953. The Catholic University representatives, President Alfredo Silva and law professor Julio Chaná, successfully thwarted a plan to establish a research
institute on regional economic development under the auspices of their progressive counterpart, the University of Chile. After his successful intervention, Chaná was rewarded with the post of dean of the economic faculty at the Catholic University, and he immediately began to reorganize the faculty. Together with Patricio Ugarte, a commercial engineer trained in the United States and responsible for the Point Four Program in Santiago, Chaná spearheaded the establishment of an institute dedicated to investigating and promoting foreign investment. Their first attempt to institutionalize neoliberal research perspectives was frustrated by strong opposition from nationalist professors and progressive members of the faculty, who argued that a liberal approach imported from the United States was inappropriate for CU (Valdés 1995, 122ff).

A second attempt, launched in 1955, succeeded in overcoming these obstacles and led to Project Chile. Patterson, Chaná, and Ugarte eventually signed a treaty of cooperation, and members of the Chicago department (T. W. Schultz, Earl J. Hamilton, Simon Rotenberg, and Arnold Haberger) traveled to Santiago to work out the concrete terms of a future training program. Despite continuing opposition from some university council members, an agreement with the Economics Department of the University of Chicago was finally signed in March 1956. As a result, approximately thirty Chilean economists were trained in Chicago between 1956 and 1964. The exchange program also attracted graduates from the University of Chile and succeeded in substantially altering the way economics was taught in the whole Chilean university system.

After the official end of Project Chile in 1964, the recruitment and training of students continued with funds from the Economics Department of the University of Chicago, AID, the Ford and Rockefeller Foundations, the Organization of American States, the Chilean Central Bank, and Chile’s planning office, ODEPLAN (Oficina de Planificación Nacional). In addition, the Ford Foundation donated $750,000 for a ten-year period to the Center for Latin American Economic Research at the University of Chicago. In the course of three decades, more than 150 Chilean students received their training in Chicago (Biglaiser 2002, 27ff.). During the 1960s, Latin American graduate students made up one-third of the total stock of students in Chicago’s Economics Department (Haberger 1999). This long-term investment in the transfer of neoliberal ideas to Chile was especially important because the intellectual climate was steadily trending in the opposite direction, as a result of the widely perceived failure of the policies carried out within the modernization paradigm. Alternative approaches based on the radicalized structuralist paradigms of the world system and dependency theories had increasingly gained currency in ECLA. Latin American development theorists stressed the lopsided integration into the capitalist world market and the exploitative role of foreign capital and multinationals. Influenced by numerous anti-capitalist movements in the Third World, the “dependency approach” became the most important underdevelopment paradigm during the 1960s and 1970s. Policy proposals advocated “(collective) self-reliance” and the severing of ties to the capitalist world economy (“delinking”).

Such countercurrents notwithstanding, the Chile-Chicago exchange program was very successful in realizing its promoters’ expectations. After their return to Chile, the young economists brought their freshly acquired knowledge into the conglomerates or filled academic posts at Catholic University. Economists affiliated with the ruling Christian Democratic Party entered state agencies in the 1960s under President Eduardo Frei. Chicago-trained and other neoliberal economists secured important positions in the Central Bank (e.g., Alvaro Bardón, Carlos Massad, Jorge Cauas), the budget agency, and the supr minimisterial planning office ODEPLAN. Immediately after the coup, ODEPLAN would become the “operational basis” of the economic change team that designed the economic transformation.

**New Projects of the Right: A New Party and the Gremialista Movement**

Throughout the 1960s, the traditional right lost ground in Chile. To prevent the victory of the socialist candidate Salvador Allende, the parties of the right felt compelled to back the moderate Christian Democrat Eduardo Frei in the 1964 presidential elections. In response to electoral defeat—the Liberals fell from twenty-eight seats to six, and the Conservatives from seventeen to three—Liberals, Conservatives, and nationalistic groups founded the National Party in 1966. The new party, exhibiting a style reminiscent of that of conservative governments at the beginning of the nineteenth century, advocated a strong authoritarian nationalism. “ Interest group-led” party politics was to be replaced by a government relying on “neutral” experts, with an emphasis on private property and entrepreneurship. The new right thereby tried to distance itself from the traditional right, which was now disparaged as opportunistic and oligarchic, always seeming to be at the service of vested interests (Vergara 1985, 6ff).

At the same time, another radical right-wing movement emerged at the Catholic University. The so-called gremialista movement (“guildism”) became
a gathering point for teachers and students, who claimed to rescue the university and society as a whole from the “Christian-Marxist clutch” (Arriagada 1998, 76ff). The universities in general and CU in particular served as an important political arena mirroring the social and ideological climate in society: when the Christian Democratic government proposed a far-reaching educational reform that would give poorer segments of the population increased access to Chile’s elitist universities, violent clashes erupted between right-wing and reformist factions (Huneue 1998).

The gremialista movement would ultimately provide an essential recruitment base for the pro-coup coalition. Established by Sergio Guzmán, a law professor at the CU and later one of the intellectual leaders of the military regime, his ideological project was based on corporatist ideas grounded in ultraconservative Catholicism. The gremialists sought to replace party politics with an authoritarian corporatist regime. Business interest groups and professional organizations (gremios) were assigned key roles in a system of functional representation that was to control and moderate the discretionary political power of the state (Teichman 2001, 35; Valdivia and de Zárate 2003, chapter 3). In Guzmán’s words, gremialismo is based on the autonomy of intermediate organizations of society, which all have their very own objectives, without being instrumentalized by “collectivist” ideologies, governments, or political parties. Combined with a strong emphasis on an authoritarian Catholic value code, the gremialismo discourse had a strong impact on those who felt threatened in the face of an “overpoliticized” and increasingly polarized historic situation: primarily middle-class sectors and small entrepreneurs (cf. Cristi 1999, 2000; Montecinos and Markoff 2001).

The battleground at the university brought together the returning Chicago economists, who began to occupy leading positions in student and university bodies at CU, and the gremialistas. Many of the economists who designed the socioeconomic reforms of the post-coup period actively participated in the gremialista movement—the only radical political entity in the fight against what was perceived as a Chilean “road to socialism” inside and outside the campus (Lavin 1986; Huneue 1998).

Building Up Networks: Big Business, Neoliberal Economists, and the Military

In the face of the political shift to the left, with the Frei administration initiating an agrarian reform alongside educational reforms and other redistributive measures, the right-wing forces in Chile began to forge direct contacts and networks within and outside the public sphere. Crucial protagonists in this regard were the representatives of the conglomerates (O’Brien and Rodrick 1983; Silva 1996). Many of the top leaders of the conglomerates either were trained in Chicago (Manuel Cruzat, head of the Cruzat-Larrain group, for example) or collaborated closely with the neoliberal economists from the late 1970s onward. On behalf of these powerful groups, the economists conducted courses at SOFOFA (Sociedad de Fomento Fabril/Federation for the Promotion of Industry), the industrialists’ association, to win private-sector converts for their ideas. Important public channels were opened by media mogul Álvaro Saieh, who also had a Ph.D. from Chicago, and by the publisher of the influential daily newspaper El Mercurio, Agustín Edwards. The Edwards group was one of the conglomerates involved in the printing, paper, and packing industries, as well as in finance, mining, and consumer goods production (Silva 1996; also see Dahse 1979).

Agustín Edwards eventually became a key actor in an informally organized cabal that would play an important role in shaping the prospect of a military coup against the duly elected government of Salvador Allende. Together with Hernán Cubillos, head of the El Mercurio newspaper, and ex-Navy officer Roberto Kelly, he founded the Naval Brotherhood of the South Pacific (Cofradía Náutica del Pacífico Austral) in 1968. The Brotherhood was initially conceived as a leisure club for boat owners. It was quickly turned into a political circle comprised of actors who saw their economic and social interests endangered by the political developments and increasingly felt that they could not maintain their position within the given institutional order. The first plans for a military coup originated in the ranks of this “Brotherhood” (Corvalán Marquíz 2001, 223f).

Agustín Edwards founded Chile’s first neoliberal think tank CESEC (Center for Social and Economic Studies) whose main task was to attack the mixed-economy perspectives still popular in leading business circles. Members of the think tank drew up the economic program of the right-wing candidate Jorge Alessandri in the 1970 presidential elections, the emblematic figurehead of gremialism. Of course, he could count on the active support of Jaime Guzmán, who also contributed to his election manifesto and led his youth organization. Interestingly, at that time the free market ideas of the CESEC economists were to some extent opposed by Alessandri’s political team, which favored the traditional right-wing perspectives of a corporativist closed economy. However, gremialista leader Jaime Guzmán was successfully mediating...
between the market radical and the corporatist factions backing Alessandri and thereby helped to avoid public disagreements with regard to these issues. Although neoliberal economic ideas were not high on Alessandri’s agenda, the campaign was successful in winning important adherents to the Chicago ideas among key businessmen. Moreover, it brought neoliberal economists together with gremialistas in joint concrete action—and forced them to compromise over the common goal (O’Brien and Roddick 1983; Silva 1991, 392).

After Allende’s election victory in 1970 and in the face of the nationalization and collectivization of enterprises, SOFOFA, headed by representatives of the conglomerates, stepped up its counteractivities. Moving well beyond mere propaganda work, the supply of daily consumer goods was interrupted in an attempt to provoke backlash. Along these lines, SOFOFA organized entrepreneurial boycotts and a collapse of private transportation. In 1971, the association explicitly dedicated itself to an overthrow of the government; the Chicago-trained economist Sergio Undurraga was charged with coordinating the SOFOFA task groups security, propaganda, and economic policy (Delano and Tralviña 1989, 23f.; Corvalán Marqués 2001, 225).

The informal “Monday Club” (see Table 9.1) activities of the CESEC staff and members of the Naval Brotherhood were pivotal in mobilizing the economic group and in drawing up an economic counterprogram. Starting in 1971, they began to meet regularly in the El Mercurio office of Hernán Cubillos. Contacts were developed with “disappointed Freistas,” Christian Democrat-affiliated economists who were willing to join the insurgency. Naval officer Roberto Kelly was especially important in the effort to broaden the coalition.

Table 9.1 Key actors in Chile’s radical market reform I
(Names of MPS members in italics)

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
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<tbody>
<tr>
<td>José Toribio Merino</td>
<td>Naval Brotherhood, military junta, responsible for economic matters; with formal position in the government</td>
</tr>
<tr>
<td>Agustín Edwards</td>
<td>Naval Brotherhood Club, head of Edwards group, CESEC, research group</td>
</tr>
<tr>
<td>Javier Vial</td>
<td>Monday Club, head of BHC group, Chicago economist</td>
</tr>
<tr>
<td>Sergio de Castro</td>
<td>Chicago economist, director of the Faculty of Economics (CU), Edwards group, “El Ladrillo” team, co-founder of think tank CEP (1980), with formal position in the military government</td>
</tr>
<tr>
<td>Juan Carlos Méndez</td>
<td>Monday Club, Chicago economist, ODEPLAN, with formal position in the military government (budget director at the Finance Ministry)</td>
</tr>
<tr>
<td>Sergio Undurraga</td>
<td>National Party, Chicago economist, “El Ladrillo” team</td>
</tr>
<tr>
<td>Ernesto Silva</td>
<td>Monday Club, Chicago economist, “El Ladrillo” team</td>
</tr>
<tr>
<td>Juan Villarán</td>
<td>Originally Christian Democrat-affiliated economist, Monday Club, Chicago economist, budget director after the coup</td>
</tr>
<tr>
<td>Jorge Cañas</td>
<td>Originally Christian Democrat-affiliated economist, MBA Columbia University, director of the Faculty of Economics (CU), “El Ladrillo” team, co-founder of CEP; with formal position in the military government</td>
</tr>
<tr>
<td>Carlos Massad</td>
<td>Originally Christian Democrat-affiliated economist, Chicago economist, president of the Central Bank</td>
</tr>
<tr>
<td>Alvaro Bardún</td>
<td>Originally Christian Democrat-affiliated economist, Monday Club, Chicago economist</td>
</tr>
<tr>
<td>Andrés Sanfuentes</td>
<td>Originally Christian Democrat-affiliated economist, Chicago economist, “El Ladrillo” team, with formal position in the military government</td>
</tr>
</tbody>
</table>

Source: Silva (1991); Mönckeberg (2001); de Castro (2002); Teichman (2001); additional research by the author.
He acted as liaison to Pinochet and Admiral Merino, who was responsible for economic affairs under the military regime. Kelly became minister of planning at ODEPLAN immediately after the coup. It has been reported that it was Kelly who recommended the neoliberal shock program to Pinochet in 1973 (Fontaine 1988; Arriagada 1998). The Monday Club developed an economic reform program, which eventually gained fame as “El ladrillo,” or “the brick” (CEP 1992). It was implemented after 1975 when the radical market faction within the Pinochet junta achieved control over economic policy making.

The network activities encompassed neoliberal economists, representatives of big business, the navy (which was in charge of constitutional matters, economics, finance, and mining after the coup), and the gremialistas movement. With regard to intellectual resources, they could rely on academics poised and able to conceptualize a radical counterprogram of political economy. The academics in question did not restrict themselves to the academic sphere. Quite a number of key neoliberal economists were ready and willing to help create political circumstances favorable to testing their ideas in the “real world,” rather than to simply wait for an occasion to do so. Intellectual projects, in their turn, were dependent on crucial external partners in order to succeed. Big business, always an important political actor in Chilean history, provided critical funding and media channels indispensable to influence public opinion and to destabilize the existing system. Last but not least, the military provided the necessary force to overthrow the duly elected Allende government when the right-wing opposition forces lost all hopes of achieving their ends through electoral change. Examining the question of intellectual leadership within this coalition, it is important to further discuss the role of neoliberalists vis-à-vis the gremialistas in particular.

It is often said that the neoliberal economists and the gremialistas came from totally different intellectual backgrounds, the neoliberal economists being “scientific” free market apologists and the gremialistas being corporatists with Hispanic authoritarian values (see, for example, Silva 1991, 393). Distinguishing the intellectual perspectives of neoliberalists and gremialistas is not easily done, however. Many of the economists who reentered the Catholic University upon their return from Chicago in fact actively participated in the gremialista movement. Among the economists who represented the gremialistas in university bodies or participated actively in the movement were Juan Carlos Méndez, Miguel Kast, Pablo Baraona, and the MPS-members Arturo Fontaine Talavera and Cristián Larroulet. The dean of the economic faculty, Sergio de Castro, was on the list of gremialista candidates; the director of the
economic faculty and later finance minister, Jorge Cañas, was also close to the movement (Lavín 1986; Fontaine 1988, 31; Huneeus 1998).

Apart from overlapping membership, the ideology of leading gremialistas can neither be simply juxtaposed to neoliberal worldviews nor be understood in a categorical manner. The leading figure of the movement, Jaime Guzmán, defended the capitalist economy in his writings, which was rather atypical for adherents to corporatism. His explicit defense of capitalism was coupled with a strong antistatism rooted in a traditional Catholicism: in the social doctrine formulated by Pope John XXIII, Guzmán perceived private property rights and private enterprise as timeless and permanent values. He strongly invoked the principle of subsidiarity that is held to protect society against the state. Guzmán’s corporativist capitalism perspective thus shared the antistatism and references to self-organization with neoliberal perspectives. Furthermore, Guzmán’s intellectual development from the 1960s to the 1980s reveals a diminished reference to encyclical and corporatist principles (Vergara 1985; Cristi 2000). This shift may be due to Guzmán’s intensified cooperation with the economic change team. He first encountered neoliberal thinking during the Alessandri election campaign in 1970 when he mediated between the neoliberal economists and Alessandri’s corporatism-minded supporters. In 1971 he joined the Monday Club and the CESEC think tank (Fontaine 1991, 252).

Radical Market Reform under Military Rule

After the military coup in September 1973, it took about two years before the neoliberal faction ascended to positions of authority, which enabled technocrats to advance their far-reaching reorganization program. Some analysts have proposed that the insurrection against Allende was motivated by a prior decision to establish a new type of institutional order in the country. That is far from true. The military coup was based on a coalition of forces, aligned against the Popular Unity government (Martínez and Díaz 1996). Initially, the insurrection only determined that the future of the country would be decided by some combination of different forces represented in the junta.

With regard to a new neoliberal design of the institutional order, signals were mixed during the first two years of the new regime. The economic policy agenda was still dominated by a gradualist strategy advocating a modern “mixed” economy. Internal conflicts within the junta concerning the appropriate response to the economic situation were particularly visible between the navy and the air force, with the air force taking charge of labor and social
Mobilization for Action

affairs. The navy had the closest contact with neoliberal cadres, whereas air force commander Gustavo Leigh, Pinochet's principal rival for control of the junta, was the most prominent supporter of corporatist policies and sometimes was even called a Keynesian (Valenzuela 1993; Kurtz 1995, 409). Leigh was eventually expelled from the junta in 1978. Because of the internal differences, in the early years the regime apparently feared that a radical neoliberal shock program would harm important pro-coup social actors and hence threaten the long-term viability of political restructuring (Valdivia and de Zárate 2003, chapter 3).

Though falling short of fundamental institutional reforms, the initiatives launched immediately after the coup already advanced the neoliberal agenda by reversing major economic reforms of previous governments. The junta returned nationalized enterprises to their former owners (approximately 260 domestic firms) and compensated U.S. multinationals affected by expropriation measures. Price controls were eliminated and interest rates were freed. Beyond these privatization and deregulation efforts, the regime sought to stabilize macroeconomic variables in a more traditional fashion. Certain pre-coup contracts were to come into their own with regard to medium- and long-term planning: The junta commissioned the gremialista leader Jaime Guzmán to prepare a new political constitution in its first meeting in the morning of September 13. Guzmán was also responsible for the most important political document of the first phase, the Declaration of Principles launched in March 1974. This document went far in proclaiming the need for a sharp break with the past and in announcing a "new institutional order," although the precise character of the new order still sparked internal debate. However, inroads within the junta allowed key neoliberals to advance within the state agencies.

Navy and army officers rather than air force leaders were assigned leading economic policy positions, and both neoliberal and gremialista academics were called into key advisory positions (see Cañas Kirby 1997, 61f). The more technical aspects of the ministry's tasks were designed and carried out by civilian undersecretaries. Pinochet himself made such staffing decisions, and thus the leading civilian positions involved a dual allegiance: to the minister in charge (typically a military man) and directly to Pinochet. This configuration is important in understanding the long-term trajectory of the reform policies instituted under the military regime: Although there were frequent changes at the minister level, the reform team worked continuously in loyalty to Pinochet.14

Neoliberals in Chile

Undersecretaries were often recruited from ODEPLAN, the most pro-market reform institution within the government until the early 1980s. From early on, the planning ministry was accorded a high degree of autonomy within the administration. It thereby assumed the functions of a government laboratory or think tank in charge of researching and coordinating various reform projects in separate policy areas. The guiding force behind ODEPLAN was the gremialista and Chicago economist Miguel Kast. As subdirector (1975) and director (1978), he recruited like-minded economists and other professionals (agrarian engineers, for example) and thereby turned ODEPLAN into an ideologically cohesive think tank with a reliable network of experts who were closely linked to all the important institutions and agencies of the government.15

The Neoliberals' Ascent (1975–1978)

The post-coup stabilization strategy to control principal macroeconomic variables failed. Although prices were liberalized, inflation remained on a relatively high level, decreasing somewhat only from 308 percent in 1973 to 376 percent the year after. The continuously high level of inflation undermined aspirations to significantly increase the influx of foreign investment. Prices fell mainly because of declining internal demand, which resulted from the reduction of public expenditures and wages. The country's trade deficit increased because the price for Chile's copper, the principal export commodity, fell considerably in 1974. The rapid rise of oil prices after the formation of OPEC further depressed the country's fledgling manufacturing activities (Olave Castillo 1997; French-Davis 2003).

When it became evident that the economy was in a recession in 1975, a window of opportunity for a radical neoliberal transformation opened. First, decision-making powers were further concentrated in Pinochet's hands. He had disempowered the air force and continued purging civil and military officials who were opposed to a radical "shock treatment" approach. The analytical and educational work of the neoliberal economists around Pinochet had apparently borne fruit: Pinochet became convinced that only a radical shock treatment could effectively counter the ongoing crisis. Several sources point to a significant role of MPS members, and Milton Friedman in particular, in providing legitimacy for a radical program of neoliberal shock therapy. Friedman met Pinochet during his first visit to Chile at the end of 1974, and the personal meeting was followed up by an exchange of letters. Friedman recommended
a radical program centered on severe budget cuts, monetary reform, and free trade. Pinochet pointed out that much of what Friedman had recommended was part of the national recovery plan proposed by his treasury secretary, Jorge Carasas, who was to become "super minister" in charge of the stability program (Friedman and Friedman 1998, 594). Friedman’s trip was funded by Javier Vial, the head of the BHC (Banco Hipotecario de Chile) group, which was close to the Chicago economists (Delano and Trasvina 1989, 39; Gonzalez-Rossetti, Chuaqui, and Espinosa 2000, 37).

Just as important for this watershed appears to be the curious fact that Pinochet and his closest advisers distrusted the politicians of the right, whom they considered a serious potential threat to their own position of power. Therefore, they disapproved of demands for a restoration of "oligarchic" order and land tenure (Martínez and Díaz 1996). Neoliberal free market ideas thus meshed nicely with junta calculations of preservation of a monopoly of political power. The Chicago-gremialist coalition of economists also had a competitive advantage owing to its previous work on a coherent economic recovery plan ("El ladrillo"). Apart from these internal factors, a number of external conditions argued for shock therapy. As a result of the ongoing economic crisis, Chile had to rely heavily on the external inflow of capital. Multinational lenders like the Paris Club were reluctant to lend to Chile, however, mainly because of the regime's human rights abuses. The appointment of the economic reform team mitigated this consideration: through their university background, they had personal and professional ties to officials from international organizations, which increased the credibility of Chile's government with lenders. Pinochet's leading academics thus served as "intellectual brokers" between the government on the one side and the International Monetary Fund (IMF) staff and international capital on the other (Teichman 2001). Chile had entered into a standby arrangement with the IMF as early as 1974, but few of the Fund's conditions had been met. Disappointed with Chile's performance, the Fund dictated a much harsher set of measures to defeat inflation and restore price stability and external balance in 1975. Pinochet's decision in favor of shock treatment and monetarism helped to facilitate better relations with the IMF (Fourcade-Gourinchas and Babb 2002, 548) and diminished the need for external funding from other sources, which would have required significant improvement in his regime's human rights record.

With Pinochet's decision to adopt a radical shock treatment, the neoliberal economists led by Kelly and Kast at ODEPLAN and by de Castro at the Faculty of Economics occupied the most significant positions of economic responsibility in 1975 (see Table 9.2). The new finance minister, Jorge Carasas, was given additional power over every agency related to the Ministry of Finance as well as over ten other ministries, giving him effective control over economic decision making. The "Pinochet of the economy," Sergio de Castro, was placed at the helm of the Ministry of Economics. Miguel Kast was named deputy director of ODEPLAN, and his staff supervised implementation of ministerial tasks (Fontaine 1988).

The monetarist shock treatment, along with the establishment of a free trade regime, deregulation of finance sector activities, and a second wave of privatizations of traditional (and profitable) state-owned companies, were the primary components of the first neoliberal package (Tironi 1982; Olave Castillo 1997, 33–105). Profound restructuring was further enabled by access to foreign credit, which helped to control the adverse effects of the shock treatment—namely, soaring imports due to overvaluation of the peso, deindustrialization due to import competition, and rapidly rising unemployment.

Beginning in 1976, the economy slowly recovered. At the time, neoliberals claimed credit for the economic recovery, although they would later blame the crisis of the 1980s on the military government’s reluctance to heed their advice. Implicitly recognizing that monetarist policies alone could not halt inflation, revaluations of the exchange rate were introduced that successfully forced down inflation under 100 percent. Rising world market prices for copper and a stronger growth of exports improved the country’s balance-of-payments position. The new development strategy still included some incentives for nontraditional exports, but the focus was on export sectors with solid comparative advantages. Earlier strategies of import substitution designed to broaden the country’s industrial base were rescinded. Chile affirmed its commitment to free trade and financial liberalization by its resignation from the Andean Pact in January 1977 and the removal of obstacles to foreign financial investment (French-Davis 2003). The traditional import substitution regime was effectively abolished.

**Public Choice Theory in Practice: Seven Modernizations (1979–1981)**

In 1978 Pinochet declared that the process of basic economic reconstruction was complete. At the same time, he introduced a new reform agenda, which
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<th>Education and civil society activities</th>
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<tr>
<td>Andrés Sanfuentes</td>
<td>Chicago economist, “El Ladrillo” team</td>
<td>Adviser to Central Bank, adviser to Budget Bureau</td>
</tr>
<tr>
<td>Sergio Undurraga</td>
<td>Chicago economist, “El Ladrillo” team, courses at SOFOFA</td>
<td></td>
</tr>
<tr>
<td>Jorge Casas*</td>
<td>Director of the Faculty of Economics (CU), close to the <em>gremialistas</em>, “El Ladrillo” technical team, founder of CEP; MBA Columbia University</td>
<td>Vice governor of Central Bank (1974), minister of finance (1974–1976)</td>
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* Did not study in Chicago but actively participated in the economic team. Büchi’s MPS membership is uncertain. |
aimed at extending a market approach to many spheres of society. The new program became known as the seven modernizations and included a new constitution with institutional reforms in labor, education, health, regional decentralization, agriculture, and justice policies. The “whole social structure of the country [was] opened up as a potential field for experimentation, based upon the pure truth of rational choice and the calculus of marginal utility” (Martínez and Díaz 1996, 92). Pinochet’s announcement of the seven modernizations clearly bore Guzmán’s trademark and provides further evidence of the cooperation of neoliberal economists and gremialists.\^18

Whereas the Chicago School’s monetary, regulation, and competition theories served as calismas with regard to Chile’s monetary and fiscal policies, the Virginia School’s public choice theory pioneered by MPS members Buchanan and Tullock (Amadae 2003; Pitt, Salehi, and Eckel 2004) is important in better comprehending Chile’s reform agenda for labor relations and the privatization of the country’s social security and education systems (Stepan 1985). Partly as a result of the “Chicago” focus characterizing Chile’s road to neoliberalism, the Virginia School’s influence has been underemphasized and conflated with that of the Chicago School.\^19 Public choice theory focuses on an economic theory of government and thus directly addresses the domain of political science. The Virginia School’s Gordon Tullock (1972) was the first to proudly describe the new theoretical and methodological efforts as “economic imperialism.”

Buchanan and Tullock (1962) identified the state as a central problem of neoclassical economic theory. Whereas traditional neoclassical analysis had little to say about the state, neoclassical welfare economics assumed the existence of a benevolent and efficient state capable of correcting market failures. Buchanan and Tullock then expanded on the Chicago School interest group and state agency models confined to regulatory politics (e.g., regulatory capture theories developed by MPS members Stigler and Posner) by developing a universal economic theory of politics. All policies, including those carried out in the name of the public, are explained by economic interests represented by conspiring coalitions of voters and by the capacity of politicians to shape such coalitions based on their interest in maintaining their positions of power. Inefficient consequences in the political marketplace were solely blamed on the fallacies of political decision making: “We can summarize public choice as a theory of governmental failure” (Buchanan 1979, 178).

Buchanan (1982) delivered a highly abstract paper titled “Limited or Unlimited Democracy” to the Mont Pèlerin Society meeting in Viña del Mar in Chile in 1981, which some construed as a critique of the host country’s recent history. Buchanan stated that if limited democracy was a policy predisposed to disable a political market that would otherwise promote the most efficient allocation of scarce resources, the only meaningful task of the government would be to deprive the polity of its ability to do so. Public choice theory thus sought to limit democracy and to depoliticize the state in order to enable unconstrained market forces to guide human interaction. Since the Pinochet regime was committed to using its governmental powers in precisely this manner, Buchanan’s paper provided theoretical support for the regime, even if it did not openly endorse authoritarian rule. Other MPS members, such as the Chilean government official Carlos Cáceres (1982), made a more straightforward case for authoritarian rule at the Viña del Mar meeting.

Both Buchanan and Tullock were frequent guests in Chile (Stepan 1985, 341). In the course of the seven modernizations transformation process, the Center for Public Studies (Centro de Estudios Públicos / CEP) and the Foundation of the BHC conglomerate sponsored Buchanan and Tullock (as well as Hayek and Friedman) to hold seminars. Arguably the most important Chilean intellectual inspired by the Virginia School was José Piñera,\^20 the minister in charge of labor reform and privatization of the social security system. He claimed that the reforms created “the basis of a new political, economic, and social reality” (Qué Pasa, December 27, 1980). Piñera stressed the importance of propaganda work for the military, the staff of advisory bodies, and public servants in general, who needed to be cajoled to implement the reforms. He envisioned the transformation of the entire government into a huge university, featuring continuous conferences, educational meetings, and lectures for the military academies, all generating a high volume of papers (Piñera 1990, 1992; see also González-Rossetti et al. 2000). The neoliberal utopia of a society self-regulated by the market seemed to be just within reach, fostered of course by a military regime with absolute political power.

The labor reform agenda as laid out in the 1979 Plan Laboral exemplified the ways in which public choice theory was applied in Chile. Existing trade unions were made illegal, and workers were denied the right of collectively bargaining over wages and working conditions. The new law allowed only weak trade unions and forced them to compete with each other rather than to unite in order to improve the competitive position of labor vis-à-vis owners and management. Collective bargaining rights were hampered in several ways. Basic wage increases offsetting inflation were mandated by law, and individuals were granted the right to bargain for wages and conditions regardless of “collective” agreements, although employees in both the public and service
sectors were exempted from this rule. The declared goal of the Plan Laboral was to "create rewards and structures that depoliticize automatically by the systematic insistence on market and individual-choice principles" (Stepan 1985, 323 quoting Chilean representatives). As Foxley (1986, 105) concludes, "free markets, decentralization, and political immobilization and control were all achieved at once."

Much has been written about Chile’s social security reforms, which were also designed to replace collective and state-controlled instruments by "individualized" market contracting. The whole pension system was turned over to private enterprises, although members of the armed forces continued to receive comprehensive state guarantees. Legally mandated security for the investment of individuals provided for a minimal pension only. The government thereby opened up a vast new market. Capital collected on the basis of individual insurance contracts with workers and employees eventually amounted to approximately 20 percent of Chile's gross domestic product (GDP) after ten years. While the private schemes were presented to the public as a liberating device for the individual, two of the Chilean conglomerates (BHC and Cruzat-Larrain) quickly gobbled up no less than two-thirds of the market (O’Brian and Roddick 1983; Mönckeberg 2001, 209–230).

Space limitations prohibit detailed attention here to the wide range of reform efforts linked to the seven modernizations program. Intellectual doctrines formulated in Chicago were not marginalized during this second phase of neoliberal mobilization of knowledge. With reference to Farberger's ground rent theory, land use and housing in Santiago were relieved of all regulation and subjected to the market mechanism, for example (Oppenheim 1999, 152ff.; Sabatini 2000). As a consequence, the Chilean welfare state was weakened, but the authoritarian state was not. The new social security market was controlled by the conglomerates with the closest connections to Pinochet. The regime was thus able to fortify its power base. However, the poor performance of the conglomerates during the 1980s gave even the newly empowered customers the feeling that neither neoliberalism nor the junta could keep the original promises that had been made.

"Authoritarian Freedom": A Hayekian Constitution for Chile

The discussions at the 1981 MPS meeting in Pinochet's Chile kept returning to the concept of freedom. Nevertheless, a critique of the lack of political freedom and democracy in Chile was notably absent from the contributions of MPS members Friedman, Tullock, Watrin, Frickhöfer, Hartwell, Irvine, and Shenfield, all of whom complimented Buchanan and Cáceres on the list of speakers (see CEP 1982). Frickhöfer (1982) affirmatively likened Pinochet's efforts to the post–World War II German efforts to secure a social market economy under Ludwig Erhard. Milton Friedman recommended that other developing countries follow the Chilean example of economic reorganization without mentioning the touchy subject of authoritarian rule.

Hayek did not participate in the meeting, but Estudios Públicos published a paper he had originally given at the MPS regional conference held in Tokyo in 1966 on the topic of "Principles of a Liberal Social Order" (Hayek 1982). This paper is important to consider in relation to the arguably most consequential effort of the military regime: to institutionalize neoliberalism by designing and implementing a new constitution. In none of his public statements did Hayek intimate that he was overly troubled by the lack of democracy in Chile. In a letter to the editors of Frankfurter Allgemeine Zeitung, he suggested that each Pole would be happy if he/she were fortunate enough to escape to Chile (Hennecke 2000, 349). On another occasion, in 1981, when a journalist from Venezuela's Daily Journal asked him about totalitarian governments in Latin America, Hayek answered: "Don't confuse totalitarianism with authoritarianism. I don't know of any totalitarian governments in Latin America. The only one was Chile under (former Marxist president Salvador) Allende. Chile is now a great success. The world shall come to regard the recovery of Chile as one of the great economic miracles of our time" (quoted in Ebenstein 2001, 300). Buchanan joined Friedman in avoiding specification of the concrete "limitations" of democracy, while Cáceres openly justified the Chilean military rule as a defensive measure.

One year before MPS leaders decided to choose Chile (of all places) for their regional gathering, the military regime enacted a new constitution in September 1980, which was slated to become effective in March 1981. The constitution was drafted by gremialista leader Jaime Guzmán, who from the beginning served as the architect of the legal and constitutional framework of the military government. The constitution was not only named after Hayek's book The Constitution of Liberty, but also incorporated significant elements of Hayek's thinking. Above all else, the constitution placed a strong emphasis on a neoliberal understanding of freedom. Guzmán's version of freedom is intrinsically connected to private property, free enterprise, and individual rights.
Individual freedom in his interpretation can only evolve in a radical market order. The constitution was dedicated to guarantee such an order without constraining any economic activities. In order to protect free market conditions and individual freedom against “totalitarian attacks” or “democratic intervention,” the constitution stipulated the necessity of a strong central state authority to guarantee the established rule of law, and thus above all is hampered in the application of discretionary governmental power. Exempted were measures to uphold the status quo inasmuch as Guzmán aggressively supported the continuing state of emergency, which legalized the use of whatever discretionary powers were deemed necessary to quell oppositional forces. Human rights typically guaranteed by constitutions were not considered absolute in the Chilean version and were to be severely restricted “when a society undergoes turmoil or heavy challenges.”

Guzmán clearly drew on Hayek in distinguishing between authoritarianism and totalitarianism in order to justify a state’s use of repressive measures when they are required, and deployed tools to shield a free market order against perceived totalitarian (= socialist) tendencies. During his second visit in Chile, Hayek had clarified his understanding of (neoliberalism) in this regard in an interview for El Mercurio: “A dictatorship can restrict itself and a dictatorship which deliberatively is restricting itself can be more liberal in its policies than a democratic assembly which has no limits” (Hayek 1981). Not surprisingly, Hayek went to some lengths to bestow legitimacy on the new Chilean constitution, since he had been personally consulted by the Chilean government in the process leading up to the final draft. During his first visit to Chile in 1978, Pinochet had invited him to a personal meeting. Hayek’s influence extended beyond the merely personal, however. One member of the commission in charge of drafting the constitution, Carlos Cáceres, was a close follower of Hayek and eventually joined the MPS in 1980 (Walpen and Plehwe 2001).

Vergara (1985, 106–133) has carefully reconstructed the internal discussions and negotiations that led to the final document. Interestingly, nationalists, neoliberals, and the gremialistas agreed on certain key elements—notably, the “necessity” to redefine and limit democracy to a “restricted” or “protected” sphere. While many elements of Hayekian neoliberalism provided the backdrop for understanding the Chilean constitution, they were recombined with traditional patriarchal and authoritarian concepts of the state. The adoption of neoliberal principles in flexible and pragmatic ways within the constitution proved can be further illustrated by turning to the next stage of developments. When the economy experienced a severe crisis in 1982, Pinochet was forced to recalibrate the economic policy orientation and to modify his regime’s internal power structure.

Crisis and Restructuring of the Neoliberal Project (1982–1989)

Chile’s economic crisis in 1982 was caused by a combination of external and internal factors. Among the external factors, the steep fall of the price for copper due to the global crisis was devastating, given the preponderance of copper in Chile’s total exports. The uncontrolled financial liberalization, in combination with heavy borrowing of the Chilean conglomerates, were large factors in the country’s economic recession. Credit had been incurred overwhelmingly for consumption purposes and for the takeover of enterprises, instead of investment in productive capacity. Rapidly declining growth, a growing balance-of-payments deficit, skyrocketing interest rates, and the insolvency of hundreds of firms in the manufacturing sector ensued. Sixteen private financial institutions (out of fifty) went bankrupt. Some of the most highly indebted conglomerates that were at the center of the neoliberal coalition disappeared from the Chilean economic map (Rozas and Martín 1988, 1989).

The sharp rise in the price of the dollar forced the government to intervene in the private administration of pension funds and the banking system. The two largest banks, BHC of Vial and Banco de Santiago of Cruzat-Larrain, came under state control. At the beginning of 1983, three financial institutions were liquidated, another five were taken over by the state, and two banks were subjected to a special regime of state oversight. The Central Bank then assumed responsibility for their external debt. Huge amounts of private debt were thus transferred to the state. The state—otherwise considered the biggest threat to humankind in neoliberal and conservative critiques of the welfare state—bailed out the private capitalist class at home and abroad. In the face of looming economic collapse, the regime was forced to redirect economic policy. Nonetheless, the basic features of the neoliberal development model either remained in place or were resurrected after the crisis. What explains the resilience of the neoliberal economic framework and the maintenance of the neoliberal economic cadre?

The discussion concerning the appropriate reaction to the country’s economic crisis exposed a rift within Pinochet’s economic team. Minister of Finance Sergio de Castro stubbornly supported the regime of fixed exchange
rates and "automatic adjustment," which had been introduced in 1979 during his tenure, and opposed the devaluation of the peso. Confronted with the growing fears of business leaders suffering from high interest rates and alarmed by the growing number of bankruptcies, he nevertheless stood by his understanding of neoliberalism, declaring that only the strongest and most competitive should survive. De Castro was left high and dry by the majority of his "El ladrillo" comrades who opted for devaluation—a decision that Pinochet himself soon seconded (Fontaine 1988, 154ff.).

De Castro was forced to resign from office at the beginning of 1982, as were also the minister of the interior, Sergio Fernández, and the mining minister, José Piñera. They were all replaced by military officers, corporate officers, and neoliberalists who had proven more willing and flexible with regard to neoliberal principles in the short run. The regime devalued the currency and introduced various measures to protect domestic business. The new superminister of finance and economics was another MPS member, the Chicago-trained economist Rolf Lüders, who had been vice president of the BHC group before being called to office. Lüders decided to direct government support to indebted enterprises and to save the private banking system by way of state intervention, or, in his own words, "to rescue the financial system but not their owners" (Lüders 1993, 165). He subsequently appointed MPS member Cáceres president of the Central Bank and initiated negotiations with the IMF.

In order to destroy the opposition movement and to quell the mounting social protest, the regime proclaimed another state of siege, invoking traumatic memories of 1973. Fear of a return to the "chaos" of the Popular Unity era, with the military standing at the ready, stymied the protesters and the middle classes (Silva 1996, 2001). Another crucial task for the regime was to secure the confidence of the private sector through recruitment of wider entrepreneurial interests. Apart from the conglomerates, small and medium-sized enterprises (gremios) were co-opted. While the export-oriented development model was not in principle open to negotiation, it was modified to more strongly align international and domestic industrial and financial interests on the one hand and export-oriented agricultural interests on the other in support of the government. Minimum prices for key crops like wheat were established, and the government subsidized farm credits and renegotiated debt on highly favorable terms to promote the production of export crops. A temporary increase in import tariffs on agricultural produce and redirected export subsidies, combined with a drastic reduction in the cost of labor, was instituted to provide a favor-

able climate for a competitive agrobusiness industry. By way of developing a strategy of separate negotiations and "segmented responses" to "specific demands," the regime managed to split the business gremios (Campero 1993).

Arguably the most crucial factor in quickly resuming the neoliberal course was the materialization of foreign private capital and multilateral loans. Chile started negotiations with the International Monetary Fund in 1982 and international creditors in 1983. The country's recent expansionist policies threatened to be undermined by financial restrictions imposed by the IMF, which exercised strong pressure on the regime to return to a stricter fiscal policy. In addition, the World Bank and the Bank for International Development demanded immediate "normalization" of ownership of affected banks and firms, and the privatization of public enterprises (Silva 1991, 397). Accordingly, no agreement was achieved in the first round of negotiations, but informal discussions continued. These negotiations reinforced the position of the radical policy network of neoliberal economists inside and outside the state, and promoted the formation of a cohesive and effective international policy network involving World Bank and IMF officials (Teichman 2001, 78f.).

The key figure in the negotiations that would return the country from "crisis management" to a pronounced neoliberal policy was Hernán Büchi, who served as superintendent of the banking sector. He had been close to the Chicago team since 1975 and held important posts in the government (see Table 9.2). In 1985 he was appointed finance minister by Pinochet, and thus the second generation of economists was promoted. Apart from Büchi, some members of the old policy network were integrated into negotiations, especially the former finance minister de Castro. IMF officials briefed de Castro, who in turn kept Pinochet informed at regular meetings. Apparently, not all members of the old economic cadre believed in the new orientation. An interviewee told me that some continued to strictly oppose the state management of private debt, in the sense that the Central Bank bought the overdue debt of private banks and conglomerates, and was consequently forced to resolve the burgeoning public-sector deficit. This recollection supports the findings of Montecinos (1998, 84, 89). She quotes the "Chicago boys," who denied that they had acted in favor of the private-sector conglomerates, and insisted on the "patriotic" character of their mission.

According to the interviewee, it was Chile that helped pave the way for the technocratic management of the debt crisis in favor of the interests of international lenders, which subsequently put pressure on the other highly indebted
countries in Latin America and Eastern Europe to pursue a similar path. The “plan chileno” followed the principle of “negotiations instead of confrontation” and introduced new programs such as the structural adjustment loans and debt swaps that were later employed in Mexico, Venezuela, Argentina, and Brazil. In affirmation, Hernán Somerville, chief foreign debt negotiator from 1983 to 1988 and a high banking official after the Pinochet regime, confirms that the “plan chileno” had been the blueprint for the Brady Plan (Somerville 1992, 114).

Finance Minister Hernán Büchi (1985–1989) continued to implement neoliberal reforms in a relatively short horizon and thereby succeeded in restoring the confidence of the international financial agencies (Silva 1991, 398). On the basis of Büchi’s economic program, Chile negotiated three structural adjustment loans in 1985, 1986, and 1987. Uncontested measures of the adjustment program consisted of tariff reductions and privatizations. The reluctance of some members of the World Bank’s executive board to lend to Chile because of continuing human rights abuses strengthened the bank’s and the IMF’s ability to ensure orthodoxy: senior officials were willing to risk the disgrace and trouble of being involved in Chilean affairs only if the agreement was “flawless” on economic policy grounds (Teichman 2001, 53, 80). In sum, the role of the multinationals was crucial: they were intimately involved in the development of a new economic program that returned Chile to the path of market reform, and helped to reinstall its strongest supporters in the state such as Pablo Barona (minister of the economy 1987, mining minister 1988) and Fernández, who returned as interior minister.

Büchi not only handled the renegotiation and payment of the external debt, but also designed a coherent response to the crisis in the national financial system and restored the credibility and legitimacy of the overall economic model (Martínez and Díaz 1996, 97). The regime established interest rate controls and adopted a new banking law in 1986, which imposed depositary requirements and strict bank supervision. The principal export model was consolidated after the crisis, though nontraditional exports (mainly agricultural and related products such as wine and fruit, forest products such as pulp, and food products such as fish meal) were now promoted with substantial state incentives, such as special credit lines, and export promotion agencies. The new growth strategy consisted of a deflationary adjustment and restriction on internal demand in order to create favorable terms for export.

When economic indicators finally showed signs of recovery in 1985, a new round of privatizations were imposed. The privatization process included firms that were nationalized during the crisis and some of the strategic sectors that had been still excluded in the 1970s. State enterprises in the steel, sugar, and chemical industries, in aviation, energy, and telecommunications, as well as some copper mines, were turned over to the private sector. Everything was sold except for the remaining state copper firm and the state petroleum company. Most of the enterprises had been highly efficient and had so far generated surpluses for the state. Although small investors and employees were invited to purchase shares of the newly privatized enterprises—the regime promoted a propaganda discourse of “popular capitalism”—the process of concentration and centralization of capital resumed. The participation of foreign capital was mostly organized through joint ventures. Debt-for-equity swaps were so popular that, by 1988, nearly $1 billion of hard currency had entered the economy, leading to an intricate intertwining of foreign investors and domestic capitalists through the joint purchase of privatized firms. Members of the economic team participated in the newly formed directorates, thus reflecting the revival of many old coalitions. 25

Altogether the measures taken to overcome the crisis were conceived as state interventionism designed to rescue the neoliberal model. Pinochet himself (quoted in Martínez and Díaz 1996, 98) considered the period “a case of sidestepping to recover strength.” The measures taken consolidated and deepened the social relations in support of the previously established and promoted export-oriented mode of production.

Continuity of the Neoliberal Project after the Transition to Democracy

In October 1988 Pinochet lost the plebiscite, which had been required by the constitution. 26 A union of the center-left parties—the Concertación—won the first elections that took place a year later. The regime’s candidate, Hernán Büchi, was defeated by Patricio Aylwin, a Christian Democrat. The members of the neoliberal team were now barred from high positions in government. Despite the new coalition government and the postdictatorship opportunities, practically all observers concur that the neoliberal model of economic policy by and large remained in place. Why was this the case?

A crucial factor ensuring continuity had been the “pacted transition” between the party leaders of the Concertación and the representatives of the regime. Not only was the legal framework kept in place—the transition took
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<th>Name</th>
<th>Entrepreneurial activities</th>
<th>Civil society activities</th>
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<tbody>
<tr>
<td>Pablo Baraona</td>
<td>Director of subsidiaries of SQM (chemical industry)</td>
<td>Rector of the private university, Universidad Finis Terrae; council member of CEP</td>
</tr>
<tr>
<td>Álvaro Bardón</td>
<td></td>
<td>Director of the Institute of Public Policies (Instituto de Políticas Públicas) of Finis Terrae University, dean of the Universidad Finis Terrae</td>
</tr>
<tr>
<td>Hernán Búchi*</td>
<td>President and vice president of various companies (insurance, chemical and metal-processing industry, food production; publishing house Copesa); member of the directorate of one of Chile’s largest business conglomerates (Quiñenco, Luksic group)</td>
<td>Columnist, co-founder of Instituto Libertad y Desarrollo, current president of its International Economy Center; president of the Universidad del Desarrollo; founder and director of the Fundación Internacional para la Libertad (FIL); university professor; candidate for the presidency in 1989</td>
</tr>
<tr>
<td>Carlos Cáceres</td>
<td>Entrepreneur, director and president of various companies and joint-stock companies (tobacco, wholesale, food production, electricity); director of Fundación Chile (created in 1976 by the government and U.S. ITT Corporation to develop innovations and human capital)</td>
<td>Co-founder of the Instituto Libertad y Desarrollo in 1990, current president of the board and president of its entrepreneurial council; rector and vice president of the Universidad Adolfo Ibáñez (1990-2000); leading figure in Agustin Edwards Foundation, Paz Ciudadana (Citizens Peace); vice president of Mont Pelerin Society; members of Legionarios de Cristo; consultative board of Fundación Friedrich A. Hayek (Buenos Aires); university professor</td>
</tr>
<tr>
<td>Jorge Cañas</td>
<td>Director of BCI (bank) and Cruz Blanco Seguros (insurance company of Manuel Cruzat group)</td>
<td>Director of the Institute of Engineering (University of Chile); council member of CEP and its Commission on State Reform</td>
</tr>
<tr>
<td>Sergio de Castro</td>
<td>Director of SQM (chemical industry) in 1988, real estate activities, stockholder of various joint-stock companies; partner of Saieh’s media empire Copesa</td>
<td>Founder and council member of CEP; council member of Universidad Finis Terrae</td>
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<tr>
<td>Cristián Larroulet</td>
<td></td>
<td>Columnist; co-founder and executive director of the Instituto Libertad y Desarrollo; professor and dean of the economic faculty of the Universidad del Desarrollo, director of the Universidad del Desarrollo, head of the economic team of UDI’s frontman Lavín</td>
</tr>
<tr>
<td>Rolf Lüders</td>
<td></td>
<td>Professor of economics (Catholic University) and editor of the journal Cuadernos de Economía; consultant to the World Bank, United Nations, and Agency for International Development of the United States, among other institutions</td>
</tr>
<tr>
<td>José Piñera</td>
<td>Entrepreneur; international adviser for pension reform</td>
<td>Founder and president of the International Center for Pension Reform (Santiago); founder and president of the think tank Proyecto Chile 2010; chairman of the Cato Institute and co-chairman of its Project on Social Security</td>
</tr>
<tr>
<td>Andrés Sanfuentes</td>
<td>President of the national bank</td>
<td>Co-founder of the Instituto Libertad y Desarrollo</td>
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</table>

Source: Monckeberg (2001); additional research by the author. Búchi’s MPS membership is uncertain.
place within the confines of the 1980 constitution—but also the structure of the state in terms of socioeconomic organization remained intact: “What continuismo provided for the democratic administrations was stability. It led to business support for democracy, it brought renovated socialists and Christian Democrats together around an economic strategy, and it provided a set of macroeconomic indicators that were perceived as desirable for further liberalization” (Barton 2002, 363). Moreover Chile’s social structure had been substantially transformed in ways that seem to confirm the argument of neoliberals that only a profound change in the culture and value system (rather than more ephemeral institutions) would be able to protect the neoliberal trajectory. The final triumph of the neoliberal thought collective was that former opponents eventually came to embrace it, thereby endowing it with new legitimacy. Although the foundations of the neoliberal model survived the return to parliamentary democracy, Chile’s neoliberals did not leave the future to chance.

The members of the neoliberal team had to vacate most of their posts at the center of power,77 but they carried on their economic careers, filling important positions in corporations and civil society (see Table 9.3). They developed major activities in the academic world, the media, and international advisory services. Especially important was the establishment of private universities and think tanks. Three weeks after the installation of the first democratic government and his electoral defeat, Hernán Búchti, together with his MPS colleagues Cristián Larroulet and Carlos Cáceres, founded the Instituto Libertad y Desarrollo (ILD). The new partisan think tank soon became the “flagship in the battle of ideas.” It covered a wide spectrum of activities ranging from opinion polls, academic publications, and commentaries in the media to conferences and seminars, all designed to influence public opinion in lasting ways. Although the directorate was split between the two right-wing parties (the National Party and the Independent Democratic Union (UDI)), the ILD was responsible for the government program of the serial UDI presidential candidate Joaquín Lavín. Chile’s most internationally oriented right-wing think tank today participates in the International Foundation for Liberty (headed by Mario Vargas Llosa) and cultivates relations all over the world, though special attention is paid to Latin America, Eastern Europe, and the Far East. In 2000, the ILD hosted the biannual reunion of the Mont Pèlerin Society (Libertad y Desarrollo 2005).

Apart from the ILD, the already mentioned Centro de Estudios Públicos (CEP) plays an important role in maintaining the neoliberal spirit. Its leading figures are Jorge Cauas, Pablo Baraona, and MPS members Sergio de Castro and Arturo Fontaine. The CEP enjoys strong backing from the Chilean conglomerates; it functions both as a neoliberal bridgehead in politics and as a meeting place for entrepreneurs and government officials. Among its fields of activities are sponsorship of debates on long-term neoliberal ideas. CEP publishes the Revista de Estudios Públicos and provides training for foreign (primarily Latin American and Eastern European) economists. Through its well-organized and well-financed activities, the central figures of the original neoliberal team continue to maintain a high profile in Chile.

Conclusion: The More Things Change, the More They Stay the Same

Chilean history provides us with a rich case study of the multifaceted mobilization and transformation of knowledge, and the effective political strategies of organized neoliberals. What conclusions might be drawn from our account? First, contrary to much of the secondary literature, neoliberalism in action has been more than a rote application of Chicago economic orthodoxy. The Chilean economic transformation was also guided—at different moments—by Virginia School and Austrian approaches. Furthermore, neoliberal scholars have shown considerable flexibility with regard to the “local” adaptation of theoretical approaches as well as political strategy.

The Chilean path to neoliberalism reveals different stages of development consisting of different tasks, theoretical positions, and modes of political rationality. To simplify, the first stage, proto-neoliberalism, covers the period from the mid-1950s to the end of the 1960s. The organized neoliberals focused primarily on projects outside the state. Think tanks, university institutes, and the media served as key institutions to build up cadres and a coherent counter to the dominant Zeitgeist in order to gain influence in the public sphere. The primary task was conceived as an ideological critique of the socialist/substitution tendencies. The second stage, rollback, was put into effect between 1973 and 1975. The military regime destroyed the fundamentals of the import substitution model and its social relations through repression, the return of the expropriated enterprises, and the abolition of price supports. The next phase, rollaus, started in 1975. The vanguard theorists widely entered in state positions, becoming organized state cadres, and implemented the monetary, regulation, and competition theories of the Chicago School. The ultraorthodox measures realized in the period 1975–1978 were aimed at the core of the economy and included the
introduction of a free trade regime and the deregulation of the domestic and financial markets accompanied by further privatizations. After the economic reconstruction, the extension and, thus, deepening of neoliberalism as a program were effected between 1978 and 1981. The key reference was to the Virginia School public choice theory, wherein the market approach was extended to other spheres of society (viz., seven modernizations). The crisis of 1982–1983 provided the occasion for a substantiation phase of the neoliberal project under new conditions, requiring a greater amount of concerted state intervention to safeguard neoliberalism. The adjustment to external power relations and the socialization of debt demanded a reshuffling of the economic team, but ensured the continuity of the neoliberal model. The period 1983–1989 can be characterized as the revival phase of neoliberalism. Under Bütchi, a state-led structural adjustment of the export-oriented economy was engineered. The path from an administration of the crisis to pronounced neoliberal policies mirrored the explicit demands of the international finance organizations.

Although the regime’s proxy candidate for the presidency, Hernán Bütchi, lost in the reinstated democratic elections, the institutional framework secured cultural hegemony and the persistence of the neoliberal model. Neoliberalism in Chile (and elsewhere) cannot be equated with authoritarianism and military dictatorship, ignoring continuities during and after the transition to democracy. It is precisely the mutability of neoliberal knowledge and its flexible relationship with power that sustained essential components of the neoliberal model and the neoliberal path in Chile.

Whereas from a purely Chilean point of view, the modification of the internal power structure and the abandonment of some orthodox elements of the neoliberal program in the course of the 1982–1983 crisis might be interpreted as ending a “radical neoliberalism” and opening up a “pragmatic phase” (Silva 1991, 2001), from a global standpoint it was exactly the fine-tuned adjustment to external and internal requirements that ensured the continuity of the neoliberal project. The partly reconstituted economic team made a pact with the global centers of power, the financial institutions, thus securing the neoliberal path. Chile not only figured as a role model in the “solution” of the international debt crisis, but also embarked on a coherent export-oriented development strategy. Under Bütchi’s aegis, a new regime of state-led export-oriented industrialization was set in motion, without altering the social relations around the development strategy (the seven modernizations) that had been previously implemented. Bütchi and his alliance appeared as managers of a new industrial policy that included a commitment to increase exports and to preserve the domestic base at the same time. The state provided the old and new incentives in order to achieve competitiveness in the new nontraditional export sectors and to increase internal savings and investment. Simultaneously, it created favorable conditions on a macroeconomic level through devaluation, temporary tariff protection, regulation of the financial system, and a strict policy of wage controls.

Sergio de Castro was made the scapegoat and his public reputation suffered, but that was not allowed to interfere with the commitment to the overall economic model and to the dominance of the community of neoliberal economists. He took part in the selection of his successors and shortly thereafter again played an important role in debt negotiations and policy formulation. His staying power is further revealed by the fact that Sergio de Castro, the intellectual leader of the 1970s, and Rolf Lütters, the manager of the crisis, shared a common ideological home: they both joined the Mont Pélerin Society in 1982. When ousted from their state positions, the neoliberal protagonists continued their work from within civil society: provided with channels of communication, think tanks, and public reputation, they continue to influence the transformation of contemporary Chile.

Notes

1. This notion was promoted in the PBS television series The Commanding Heights, broadcast January 10, 2000. There Milton Friedman is quoted as saying, “the really important thing about the Chilean business is that free markets did work their way in bringing about a free society.”

2. The editors of Frankfurter Allgemeine Zeitung. Germany’s neoliberal flagship among the nationwide print media, refused to print an article by Friedrich August von Hayek titled “True Reports on Chile” (Wahrheitsgetreue Berichte über Chile), for example. The daily paper did not even offer space to Hayek in its letters to the editors’ section. Hayek eventually published his efforts in defense of economic and social policies under Pinochet in a small booklet published by Hanns-Seidel-Stiftung affiliated with Bavaria’s Christian Social Union Party (see Walpen and Plehwe 2001, 67–69 for details).


4. Hence, one cannot take at face value some of the writings of Milton Friedman, for instance, on the boundaries between “positive” and “normative” economics. For more on this issue, see Van Haren and Mirowski, Chapter 4 in this volume.

5. Consult Biglais (2000) with regard to Packenham (1973); see Plehwe, Chapter 7 in this volume.
6. For the relationship of Schultz to the neoliberal ascendancy at Chicago, see Van Horn and Mirowski, Chapter 4 in this volume.


8. Among the first grant holders who went to Chicago were later economics minister (1975–1976) and finance minister (1976–1982) Sergio de Castro, who joined the MPS in 1982, and Ernesto Fontaine and Carlos Massad from the University of Chile. Among the first to achieve the Ph.D. were Rolf Luiders (member of the Legislative Commission 1974–1981, bi-minister of finance and the economy 1982–1983 and MPS member since 1982), Sergio de Castro, Ernesto Fontaine, and media mogul Álvaro Saieh (Delano and Trasalvía 1980, 13–16). They were trained by MPS members Becker, Friedman, Sugler, and Harberger (though Harberger joined MPS later in 1994).

9. See, for example, Frank (1967); Caputo and Pizzaro (1970); Amin (1973).

10. Bardon was a Chicago economist who participated in the conspiratorial pro-coup coalition. Causas received his MBA at Columbia University, but he was a personal friend of Harberger. At the time of his appointment, Causas was working for the World Bank; he later gave up his political affiliation with the Christian Democrats and was eventually appointed finance minister after the military coup in 1974. Arnold Harberger served as an adviser for both Massad and Causas (see Harberger 1999).

11. ODEPLAN was created in 1967 during the presidency of the Christian Democrat Eduardo Frei. The office was in charge of coordinating projects across ministries. Among the young economists working at ODEPLAN were Álvaro Donoso, Ernesto Silva, Ernesto Fontaine, Sergio de la Cuadra, and Juan Carlos Méndez (Fontaine 1988, 46; see Tables 1 and 2). See Vergara (1984); Fontaine (1988); Silva (1991, 1996); Huneuca (1998).

12. Following Valdés (1995, 257), CESEC was established in 1963; other sources date it at 1968 (see Silva 1991; Soto 2005).

13. The prominent entrepreneur Jorge Alessandri had been president from 1952 to 1964. His politics of “technocratic liberalism” (inflationary measures, liberalization of trade, devaluation) was frustrated by the traditional right and the “rentier protectionism” of the entrepreneurial class. Under the military government, he became a member of the state council (Moulian 2006).


15. ODEPLAN created numerous cooperation treaties with the Catholic University (thus shifting considerable funds to the Economics Department) and granted scholarships to study abroad. These activities played a decisive part in the building and maintenance of a skilled reform team throughout the military government, and in assuring the allegiance of its members to the regime.

16. For the long run, Friedman recommended a social market economy along the lines his fellow MPS members had developed for Germany immediately after the war (see Peck, Chapter 3 in this volume).

17. The privatization process (of 907 public firms in 1973, 70 remained in 1976) certainly strengthened the private sector and led to a rapid increase in concentration of private property in the Chilean economy: a handful of conglomerates acquired the offered enterprises at relatively low prices, including financial institutions. However, the transfer of state property to the private sector remained incomplete. At the beginning of the 1980s, the state still owned six of the country’s top ten enterprises, all of them in strategic sectors (copper, electricity, oil, and transport; see Rozas and Marín 1988, 1989).


20. Piñera was a UC economist who did his postgraduate work at Harvard University before serving under Pinochet. After his political career ended, he took an active role in the Chilean business sector and developed numerous think tank activities. He works as an adviser for pension reforms (e.g., in Eastern Europe). He attended the MPS regional meeting in Concepción (1996) where he gave a lecture on the Chilean pension system (see Piñera undated).

21. Guzmán, cited in Huneuca (1998, 24); see also Moulian (1997, 240–52); Cristi (2000, Chapters 1 and 3). The first amendments to the constitution of 1980 were made in November 2005; the 2006 elected government of Michelle Bachelet promised to change a key restrictive element for civil authority, the electoral law (“sistema binominal”).

22. Spanish original: “Una dictadura se puede autolimitar y una dictadura que deliberadamente se autolimita puede ser más liberal en sus políticas que una asamblea democrática que no tiene límites” (Interview with I. A. Hayek, El Mercurio, April 19, 1981).

23. Vergara leaves no doubt which group adapted more during the process of constitutional debate, observing the “neoliberalization of the gremialistas” (Vergara 1985, 168).

24. When the nationalized banks were rapidly privatized after economic recovery, the government did not require a repayment of taxpayers’ expenditures (Martínez and Díaz 1996, 59).

25. See Martínez and Díaz (1996, 55f.); Fazio (1997); and Kurtz (1999, 42f). A telling example is the directorate of SQM, the flagship of the chemical industry that was fully privatized in 1988. Members of the directorate included the former ministers Carlos Cáceres, Sergio de Castro, and Enrique Valenzuela; Sergio de la Cuadra, Pablo Baraona, and Hernán Büchi were appointed in the 1990s (Mönckeberg 2001, own investigations). Compare Rozas and Marín (1989, 56) on the recomposition of the directorate of Banco de Chile.

26. Although 54.7 percent eventually succeeded in ousting Pinochet from office by choosing the No option, one should not forget that 43 percent of the population still supported Pinochet at this juncture. As stipulated in the 1980 constitution, Pinochet also remained commander-in-chief until 1998. Subsequently, his position as “Lifelong Senator” protected him from trial until the judicial process was initiated in 2001.
27. The exclusion from higher ranks was not complete. A consensual formula between the Pinochet and the incoming governments designated the composition of the board of the Central Bank, for example. Both administrations nominated two members; an economist who gave guarantees to both parties was made president. According to the new finance minister, Alejandro Foxley, this solution "was a way of showing the country, the private sector, and the international financial community that the Concertación is committed to the economic stability of the country." (El Mercurio, December 7-13, 1989, quoted in Montecinos 1993, 35).

28. The key figure, Hernán Büchi, is also rumored to be a MPS member, but we were unable to verify his membership.

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