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Introduction

IN 1955, as the Cold War reached a new peak, the US Department of State launched the Chile Project. The purpose of this program was to train Chilean economists at the University of Chicago, the bastion of capitalist thought and Milton Friedman's academic home. Once they returned to Chile, the young graduates were supposed to tout the principles of free markets in the increasingly ferocious war of ideas that raged in Latin America. Their adversaries in these intellectual battles were leftist economists who believed that the only way to defeat poverty and backwardation was by increasing the role of the state through nationalization, planning, and socialism. In 1961, after Fidel Castro declared that he was a Marxist-Leninist, the Chile Project became an integral part of the US strategy to contain the spread of communism in Latin America.¹

For more than a decade the Chicago Boys—this was the name the media gave to the young graduates—had very little influence in policy design in Chile. They toiled in academia, trained other economists, wrote newspaper columns and insipid academic papers, and consulted for large banks and firms. But they were not taken seriously. In fact, the establishment looked at them with a combination of derision and amusement.

Things changed dramatically on September 11, 1973, when General Augusto Pinochet led a coup d'état that deposed socialist president Salvador Allende. The military's accession to power gave the Chicago Boys a unique opportunity to apply the theories they had learned from Milton Friedman and his colleagues. For the next seventeen years they had a

free hand with which to experiment on the Chilean economy. They freed prices and interest rates, lowered import tariffs, privatized hundreds of state-owned enterprises, instituted school vouchers, created individual savings pension accounts, deregulated businesses and banks, and furthered markets everywhere. They applied a “shock treatment” to balance the budget and to reduce inflation, reformed labor legislation, contained the power of unions, attracted foreign investors, and strengthened the rule of law.

When democracy was reinstated in 1990, the country looked very different from how it had looked in 1973, when President Allende was overthrown by the military. In less than two decades the Chicago Boys had created a modern capitalist economy that, after some sputtering and a deep currency crisis in 1982, produced an acceleration in efficiency, productivity, and growth. In financial and economic circles there was talk of a budding “Chilean miracle.”²

The miracle, however, had an original sin: it was put in place by a dictatorship, a regime that violated human rights and systematically persecuted, imprisoned, tortured, and assassinated its opponents. It was precisely for this reason that most observers were surprised when after the return to democracy in 1990 the model put together by the Chicago Boys was not scrapped by the country’s new leaders, many of whom had been persecuted by Pinochet. Instead of undoing the free-market policies, successive left-of-center governments deepened the reforms. To be sure, the new democratic administrations expanded social programs, but the main building blocks of the so-called neoliberal model—a small state, very light regulations, full openness to the rest of the world, restrictions on union activities, very low corporate taxes, voucher-based education and health systems, narrowly targeted social programs, a pension system based on individual savings accounts, and the reliance on markets at every level—were expanded. Contrary to what many uninformed critics have proclaimed, the Chicago Boys model was not supported exclusively by the military. It was continued by members of the Partido Demócrata Cristiano (Christian Democratic Party), Partido por la Democracia (Party for Democracy), and Partido Socialista de Chile (Socialist Party of Chile) for over thirty years.³

After more than a century of mediocre performance, in the early 2000s Chile became, by a wide margin, the wealthiest nation in Latin America. Around that time it also attained the best social indicator levels in the region for health, education, and life expectancy. As a result, people living below the poverty line declined from 53 percent of the population in the mid-1980s to merely 6 percent in 2017.⁴ In terms of income and other economic statistics, by 2020 Chile looked more like a southern European country, such as Portugal or Spain, than a Latin American nation. Notably, when Chile's reforms were first launched, most analysts were skeptical. They considered the market policies championed by the Chicago Boys to be extreme and thought that they would not work in a small and poor Latin American nation. On April 16, 1975, two weeks after Milton Friedman met with General Pinochet in Santiago, the *Guardian* reported that the military was considering embracing some "*lunatic schemes* dreamt up by the Chicago economists."⁵

Figures I.1 and I.2 summarize some of the most important economic aspects of Chile's story with neoliberalism. Figure I.1 presents the evolution of gross domestic product per capita, between 1980 and 2019, for a group of Latin American nations. As can be seen, in the first half of the 1980s Chile was at the bottom of the pack, jointly with Colombia, Costa Rica, Ecuador, and Peru. By 2003, and largely as a result of the market reforms initiated by the Chicago Boys and continued by the left-of-center governments, Chile had become the country with the highest income per capita in the region; it maintained the leading position until 2019, when it was surpassed by Panama.⁶ Figure I.2 shows that the poverty head count declined from 53 percent of the population in 1987 to merely 6 percent in 2017, the lowest in Latin America by a significant margin. As a point of comparison, in 2017 the poverty head count in Costa Rica was 22.5 percent and 21.5 percent in Ecuador.⁷

After the return of democracy in 1990 Chile was frequently hailed as an example of how to conduct public policy in an emerging or transitional economy. Analysts from around the world and from every political persuasion used adjectives like *sensational* and *inspiring* to refer to Chile's development experience. Politicians from countries in the former Soviet sphere traveled to Chile to learn firsthand how to put in place a

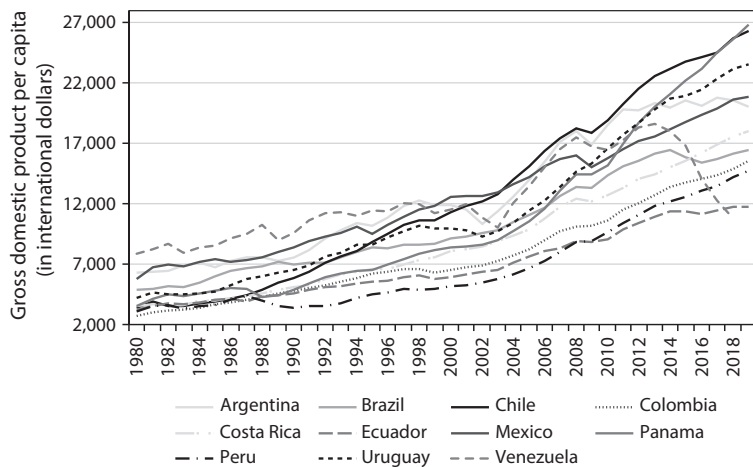


FIGURE I.1. Gross domestic product per capita, 1980–2019, in international dollars (purchasing power parity), selected Latin American countries
Source: International Monetary Fund (n.d.)

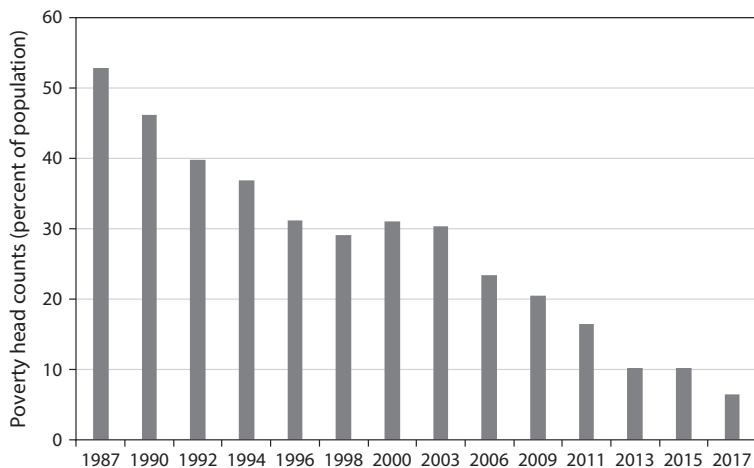


FIGURE I.2. Percentage of the population living below the poverty line in Chile, 1987–2017, measured as anyone living with less than \$5.50 a day (2011 purchasing power parity). Source: World Bank (n.d.)

successful promarket program, how to open the economy, and how to privatize a massive number of state-owned enterprises.

Notwithstanding the rapid rate of growth and the drastic reduction in poverty, inequality remained high throughout the period. In 2022 Chile had the third highest degree of income disparity among the members of the Organisation for Economic Co-operation and Development, a group of high-income countries that Chile joined in 2010. Between 2000 and 2020 progress was made in reducing income differences, but they continued to be very high. Persistent inequality was Chile's Achilles heel, a serious weakness that was mostly ignored by the architects of the model and that would come to haunt them. The struggle for income and wealth distribution is a recurrent theme in the chapters that follow.

From the Chilean "Miracle" to the Popular Revolt of 2019 and the Constitutional Convention

On October 18, 2019, and to the surprise of most observers, massive protests erupted throughout the country. Demonstrations were triggered by a small increase in metro fares—thirty pesos, or the equivalent of four cents of a US dollar. But the rallies were about much more than the fare increase. Hundreds of thousands of people marched in several cities and demonstrated against the elites, corporate abuse, greed, for-profit schools, low pensions, segregation, and the neoliberal model. Demonstrators asked for debt forgiveness for students and free universal health services. Protesters carried Mapuche flags and demanded the return of lands taken from Indigenous peoples in the nineteenth century. Although most of the demonstrations were peaceful, some turned violent. There was arson, destruction of public and private property, and looting; more than twenty metro stations were set on fire during the first few days of the protests. The police responded with unjustified force and were accused of multiple human rights violations.

After weeks of massive demonstrations, rioting, looting, and arson, on November 15, 2019, the leaders of most political parties—with the important exception of the Partido Comunista de Chile (Communist Party of Chile) and the Far-Left Frente Amplio (Broad Front)—concluded that

the only way of controlling violence was by initiating a national conversation on a new “social pact.” A referendum was called to determine if a new constitution was to be written to replace the 1980 charter adopted during the Pinochet regime and amended during different democratic administrations. A year later (the process was delayed because of the COVID-19 pandemic), the option of rewriting the Chilean Constitution won the referendum by a landslide, and in mid-May 2021 a 155-member Constitutional Convention was elected. Seventeen out of the 155 seats were reserved for representatives of the Indigenous peoples. According to the rules, for a norm to be included in the new constitutional text it had to be supported by at least two-thirds of the delegates.

Most elected members of the new body belonged to the Far Left, and many supported specific causes related to social and reproductive rights and environmental protection; they declared that the convention’s goal was to write an “anti-neoliberal constitution,” one that put an end to the Chicago Boys’ model. They wanted a constitutional charter that granted broad social rights to everyone, recognized and provided compensation to the Indigenous peoples for lands taken during the nineteenth century, and protected sexual minorities and the environment. The conservative forces (the Right and Center Right) elected 27 percent of the convention’s delegates and, thus, could not garner the one-third required to exercise veto power. In a front-page story published on December 29, 2021, the *New York Times* noted, “In Chile . . . a national reinvention is underway. After months of protests over social and environmental grievances, 155 Chileans have been elected to write a new constitution amid what they have declared a ‘climate and ecological emergency.’”⁸

On December 19, 2021, Gabriel Boric, a thirty-five-year-old congressman, former student activist, and member of the coalition Apruebo Dignidad (Approval and Dignity) was elected president by an ample margin. He was supported by the Communist Party and by the Frente Amplio (Broad Front), a coalition of smaller and Far-Left parties and political movements with names such as Comunes (Commons), Convergencia Social (Social Convergence), Fuerza Común (Common Force), and Revolución Democrática (Democratic Revolution). Most of these “collectives,” as they liked to call themselves, were born in the early 2010s during major student demonstrations and protests.

In speech after speech during the campaign, Gabriel Boric called for eradicating “the neoliberal model,” including some of its most distinctive accomplishments, such as the pension system based on private saving accounts.

Three months after Boric was inaugurated as president, the Constitutional Convention finished its work. With great fanfare a draft was presented to the population on July 4, 2022. A referendum to be held on September 4 would determine, by simple majority, whether the new charter was adopted. There would be two months for campaigning for one of two options: *apruebo* (approval) of the future text, or *rechazo* (rejection) of the constitutional draft.

The proposed new constitution went well beyond reforming the neoliberal model that had prevailed for forty years. The text made major changes to the country’s political system. It declared that Chile was a “plurinational” state that consisted of several Indigenous nations. It weakened fiscal responsibility and the protection of property rights, and provided ample territorial autonomy to Indigenous peoples. The proposal eliminated the senate and defined a wide range of social rights (103 in total), including the right of glaciers not to be disturbed. It created several justice systems, one for each of the eleven officially recognized Indigenous peoples and one for the rest of the population. It established that the Indigenous peoples would have reserved seats in Congress and directed the government to focus foreign policy on the Latin American region instead of on the Pacific, as all governments had done since the end of the twentieth century.

As the referendum date approached, several left-of-center politicians, including former presidents Eduardo Frei Ruiz-Tagle and Ricardo Lagos, criticized the proposed text. The issue, they pointed out, was that the draft did not address the real needs and aspirations of the people; it was an overly partisan proposal largely inspired by “identity politics.” The draft did not explain how the provision of social rights would be financed, and there was a danger that the text would become a multitude of unfulfilled promises. A new constitution was needed, they affirmed, but the one drafted by the convention was not adequate. Their position was to reject the proposal and start a new constitutional process all over again.

On September 4, after a fierce and bitter campaign, the *rechazo* option won by a substantial margin: it got 62 percent of the votes, while *apruebo* garnered only 38 percent. The vote was a major blow for President Boric, who had campaigned for approving the new text. According to a *New York Times* article published on September 6, “The transformational vision laid out by a constitutional convention of 154 elected members, many of them political outsiders, proved too drastic an overhaul.”⁹ On September 5, the *Economist* wrote, “Much of the blame for the defeat lies with the convention itself. . . . More than two-thirds of those elected were outside mainstream political parties. They included many political newbies and activists from the hard left. . . . They quickly alienated the average [voter].”¹⁰

At the time of this writing, in late September 2022, politicians of all persuasions are discussing the next steps in Chile’s constitutional saga. Although the timing and details of the new process are not yet known, three things are certain: First, Chile will replace the old constitution with a new one that will enshrine and guarantee many social rights that will be provided for free by the state. It is unlikely that there will be as many as in the rejected draft, but the number will be substantial. Second, the new constitutional text will be written by an elected body, with the assistance of “experts”—constitutional scholars, sociologists, economists, and anthropologists. However, this time the process will be guided by the political parties and will avoid the excesses and bureaucracy of the original convention. And third, the neoliberal era will not be revived; most of the economic system built by the Chicago Boys will be replaced by a social democratic system like the one that prevails in the European and, especially, Nordic nations. Whether this deep change will help move the country toward social harmony, inclusiveness, greater equality, and prosperity is still an open question.

Living the 2019 Revolt

On November 3, 2019, merely two weeks after the explosion of what Chileans call “the revolt,” I traveled to Chile. As soon as I arrived, I sensed a dramatic change relative to the last time I had visited, just three

months earlier. Tension and anxiety were in the air. For ten days I mingled with protesters and marched with them; I listened to their chants and had several one-on-one conversations with demonstrators of all ages. On several occasions I had to run away from the police, who in full antiriot gear charged against the crowds. To minimize the effects of tear gas, I covered my mouth and nose with a wet scarf. I tried to avoid the police water cannons, but I was not successful: one afternoon I was soaked from head to toe, and my (rather) fancy clothes were ruined forever. When the police advanced, most demonstrators retreated as fast as they could. But a handful of members of the so-called front line stood their ground; they protected themselves with homemade shields, hurled Molotov cocktails, and used slings to throw rocks at the militarized police force, the Carabineros. As night fell, they used laser beams to disorient the antiriot cops. Many of these tactics were learned from demonstrators in Hong Kong. I saw young people being arrested and police beating up protesters. I saw looters running away from department stores and other businesses with TV sets, fancy sneakers, and even refrigerators. I saw burned metro stations and destroyed pharmacies and banks. To my surprise, many demonstrators chanted the fight songs of the most popular soccer teams in the country, Colo Colo and La U (Club Universidad de Chile). One night I had trouble finding my hotel. As it turned out, the entrance had been boarded up, and guests, including a group of stunned Chinese tourists, had to come in through a garage at the side.

There were graffiti everywhere:

Neoliberalism was born and will die in Chile!

No more Chicago Boys!

Chile woke up!

It's not thirty pesos [in reference to the metro fare hike], it's thirty years of neoliberalism!

The mood among the young protesters was extremely optimistic. Every demonstrator I talked to was convinced that the revolt would end

the neoliberal model. To them, the future looked bright; life would be much better under a system based on “solidarity” and equal opportunities. The revolt, including its violent manifestations, would result in the end of individualism, greed, and the profit motive. The patriarchal model would be replaced by a feminist perspective, and everyone would be treated with dignity. Neoliberal obsessions such as competition, efficiency, punctuality, and “hyperproductivism” would be replaced by nobler goals, including the pursuit of a “better life.” The rich would pay more taxes, education would be free and of high quality, there would be universal and free health services, everyone would enjoy the culture and the arts, Indigenous peoples would recover their ancestral lands, and the environment would be protected. The idea of a trade-off between economic growth and equality did not cross the protesters’ minds.

I also talked to business leaders and politicians, both conservative and left-of-center. They were stunned. They talked about a great paradox: while every traditional indicator showed that Chile was a major success and was steadily moving toward the ranks of the advanced nations, substantial portions of society were deeply unhappy and demanded major changes. The elites did not comprehend the reasons behind the revolt. Even those who had been critical of the model were surprised by the massiveness and violence of the protests. As it turned out, and as I discuss in chapter 12, there had been plenty of warnings that economic success rested on a social powder keg of sorts. A small number of sociologists and political analysts pointed out in the early 2000s that a growing malaise was spreading through the population. This was referred to as the *malestar* (malaise, discomfort) hypothesis. But those warnings were systematically ignored, and those who made them were treated as lunatics. Many conservatives were convinced that foreign militants were behind the revolt. They assured me that Venezuelan president Nicolás Maduro and the Cuban government had sent thousands of activists to incite local anarchists and antifa gangs. Conservatives could not accept that this was a homegrown protest movement. The fact that billionaire Sebastián Piñera, an economist by training and a strong supporter of the Chicago Boys, had been elected president less than two years

earlier (in December 2017) with 53 percent of the vote added to the elite's incredulity.

The day I left Santiago I almost missed my flight. The main avenues and highways were blocked by protesters, barricades, and debris. The Uber driver tried different routes, only to run into more demonstrations. He was scared. At some point he suggested that I go back to my hotel. "You are witnessing an insurrection," he said. He then added, "The insurrection that will end the neoliberal model." I could not tell if he was against or in favor of the revolt, and I didn't ask. He told me that the car he was driving was his only asset, and he was afraid that it would be damaged by a rock or a Molotov cocktail. After I promised him a substantial tip—one commensurate with a neoliberal regime—he agreed to deliver me to the airport.

That night, as the plane flew north over the Pacific Ocean, I decided to write an essay on the rise and fall of neoliberalism, using Chile's experience as an illustration. While in Santiago I had taken copious notes, and I had written down a tentative outline. Once I was back in Los Angeles, I penned three short articles, which were published in *VoxEU*, *ProMarket*, and the *Milken Review*. Although the pieces were well received, I had mixed feelings about them. They were too short and did not capture all the granularity of the story. They did not explain in sufficient detail how the US State Department's version of Chile was conceived in the 1950s, nor did they delve into how the thinking of specific University of Chicago faculty—Milton Friedman, Gary Becker, Arnold "Al" Harberger, and George Stigler, among others—had influenced the economic revolution put in place by their former students. One of the main points I made in those pieces was that to understand Chile's story—and, thus, the story of the rise and fall of neoliberalism—it was essential to go beyond income distribution and income inequities. It was also necessary, I argued, to focus on "horizontal inequality," or what philosopher Elizabeth Anderson has called "relational inequality."¹¹ It is not only about monetary income but also about social interactions, segregation, racism, and the provision of amenities and public goods; and it is also about the way common people are treated by the elites. As it turned out, Chile did

poorly in most of those areas. Many of the protesters I talked to mentioned achieving “dignity” as a key goal. Plaza Baquedano, the main square in Santiago where protests began every afternoon in the final months of 2019 and occurred every Friday in 2020–21, was unofficially renamed Plaza de la Dignidad (Dignity Square) by the demonstrators.

What Is Neoliberalism?

One of my greatest challenges in writing this book has been dealing with the terms *neoliberal* and *neoliberalism*. It is not because they are particularly difficult philosophical categories, but because with time they have become bastardized terms, derogatory labels tossed around by politicians, pundits of various types, and academics to diminish their adversaries and enemies. Nowadays, most of the media uses *neoliberalism* lightly, without trying to explain what is meant by it. This trend became particularly acute with the eruption of social media. Twitter is replete with short statements blaming neoliberals for almost every social, economic, environmental, and sanitary ill. A reader of the popular press or social media would not be at fault in concluding that almost every Western political leader in the last half century was a “neoliberal” and that most forms of capitalism and market-based economics systems are a manifestation of neoliberalism. Benjamin Wallace-Wells of the *New Yorker* has asserted that Larry Summers is a neoliberal, and according to a June 21, 2021, article by Gary Gerstle in the *Guardian*, “the neoliberal order . . . dominated American politics for 40 years.”¹²

The term *neoliberal* had its origins in the 1920s and 1930s, and gained some currency after the Colloque Lippmann, a meeting organized by French philosopher Louis Rougier and held in Paris in August 1938 to discuss the policy implications of Walter Lippmann’s book *The Good Society*.¹³ In this work Lippmann argued that in order to preserve democracy and defeat authoritarian and collectivist regimes it was necessary to rescue liberalism from the jaws of laissez-faire economic theory, a system that had created social distress, poverty, and acute inequality. The only way to defeat the likes of Adolf Hitler and Joseph Stalin was by reforming capitalism and by adding social concerns to the

profit motive. He argued that doing this did not constitute a betrayal of classical liberal principles. On the contrary, it meant going back to the views of thinkers such as Adam Smith and Jeremy Bentham.¹⁴ The participants in the colloquium debated on what name to give the new movement, this renewed perspective about liberalism, this approach that incorporated social goals to the market system. After much discussion, during the last day of the meeting it was decided that *neoliberalism* was a succinct term that captured the concerns of the majority (but not all) of the participants. And so, the neoliberal movement was born on a summer day in 1938. (For further details, see the appendix.)

For many years the term *neoliberalism* was confined to academic discussions and writings. In the period immediately following World War II, it was mostly used to refer to German ordoliberalism, or the ideas behind the policies of Konrad Adenauer and Ludwig Erhard, the founders of the Federal Republic of Germany and the men behind its economic “miracle.” In 1951 Milton Friedman wrote a short piece titled “Neo-liberalism and Its Prospects,” but as far as I have been able to ascertain—and I have looked everywhere and talked to most Friedman experts—he did not use the term again in his writings. In it, Friedman argued, along the lines of Walter Lippmann, that there was a need to move away from nineteenth-century laissez-faire economics and to develop institutions to “protect consumers from exploitation [by monopolies].” In addition, the state “would have the function of relieving misery and distress.”¹⁵

It was not until the early 1990s that neoliberalism was used, mostly in the popular press and in nonacademic policy writings, to denote “market fundamentalism,” or a doctrine that puts markets and individuals above everything else and is based on the belief that human behavior and social interactions are guided by greed, profits, and economic considerations. In the late 1990s, and especially in the United Kingdom and United States, the term *neoliberalism* came to be associated with a readiness to rely primarily on markets rather than on the state to achieve certain policy objectives, including improving social conditions. Several catchwords became associated with *neoliberalism*, including *globalization*, *competition*, *balanced budgets*, *low inflation*, *deregulation*, *privatization*, and *Homo æconomicus*.¹⁶

In writing this book I had to decide whether to use the term *neoliberalism* loosely, as it is currently used in the popular media, or to offer a narrow and precise definition, a characterization devoid of value content. Naturally, I opted for the latter.

I define *neoliberalism* as a set of beliefs and policy recommendations that emphasize the use of market mechanisms to solve most of society's problems and needs, including the provision and allocation of social services such as education, old-age pensions, health, support for the arts, and public transportation. Neoliberals believe that a "purer" form of capitalism, where markets are allowed to function in most spheres, is better for society than hybrid versions of capitalism, with regulated markets controlled by government functionaries. Of course, for neoliberals this purer form of capitalism is vastly superior to a system based on planning of any sort, a point emphasized by Friedrich Hayek throughout most of his career.¹⁷ In a neoliberal system everything has a price—either implicitly or explicitly—and those prices are seen as providing useful information to consumers, producers, citizens of all ages, and policy makers.

Philosopher Michael Sandel, a severe critic of the neoliberal view, got it almost right when he related neoliberalism to the "marketization of everything."¹⁸ The reason why he didn't get it completely right is that in his book *What Money Can't Buy* (Sandel, 2012) he painted a caricature that helped him score easy points in his crusade against Gary Becker, the economist that French philosopher Michel Foucault considered to be the key figure of American neoliberalism. A better and more useful definition would be that "neoliberalism is the marketization of *almost* everything." Of course, *almost* is just one word, but it makes a huge difference, as it moves the discussion from an attempt at ridiculing the concept into serious terrain. If one accepts this alternative definition, one immediately must dig into what is meant by *almost*. What type of decisions should be excluded from market solutions? Are there different intensities in the use of markets? What are the moral limits captured by *almost*? As will be seen in this book, in Chile the extent of the market was very large. Market mechanisms and principles were used extensively to allocate social services and to guide day-to-day life. The Chicago Boys

did not use the term *neoliberalism* to describe their own economic model. They preferred the term *subsidiarity*, in the sense that the state should only be involved in those areas where the private sector, broadly defined as including civil society and not-for-profit organizations, could not operate efficiently.

In 2018, Sandel expressed his views on the consequences of neoliberalism, noting that “the neo-liberal [model] . . . benefits those at the top but leaves ordinary citizens feeling disempowered. . . . For those left behind . . . the problem is not only wage stagnation and the loss of jobs; it is also the loss of social esteem. It is not only about unfairness; it is also about *humiliation*.”¹⁹ This emphasis on “humiliation” resonates with the demands of the protesters in Chile—and in other countries, for that matter—for respect and dignity; it resonates with Anderson’s concept of “relational equality,” an area where despite its enormous material progress, and as noted, Chile did particularly poorly, even in the late 2010s (see chapter 13).

The definition of *neoliberalism* used in this book overlaps, in some respects, with definitions offered by other academics who have resisted the temptation of expanding the meaning of the term until it becomes useless. In his 2005 book *A Brief History of Neoliberalism*, David Harvey, an often-cited Marxist, defines neoliberalism as “a theory of political economic practices that proposes that *human well-being can best be advanced by liberating individual entrepreneurial freedoms* and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.”²⁰ My definition is also consistent with that of Geoffrey Gertz and Homi Kharas, who emphasize that neoliberals use “the logic of market competition to allocate resources wherever possible, including in areas such as education and health policy.”²¹

Certainly the fact that neoliberals believe that the market provides the most efficient way of delivering social services does not mean that they ignore social conditions or the plight of the poor. On the contrary; as I have noted, it was precisely the concern for the social consequences of the free market and *laissez-faire* that prompted Walter Lippmann to write his book and that convinced Louis Rougier to assemble the Colloque Lippmann in 1938. What is true, however, is that for neoliberals

the main goal of social policies is reducing (eliminating) poverty through targeted programs rather than reducing inequality. Income distribution—either vertical or horizontal—is not a priority. George Stigler, the University of Chicago professor who won the Nobel Prize in Economics in 1982, made this point succinctly when he wrote in his famous textbook *The Theory of Price* that “good income distribution” was an absurd policy goal in a complex modern economy.²²

After considering my definition of neoliberalism, some readers may think that the adjective *purser*—as in “a purer form of capitalism”—is too weak and may prefer to characterize neoliberalism as an *extreme, fundamentalist*, or *radical* form of capitalism. Although in the book I try not to use those terms, any of them is fine with me. To repeat, what I strongly reject is fishing in the ocean of ideas with a very wide net that will label as *neoliberal* most any variant of capitalism, without distinguishing different shades of gray. In the appendix, I discuss, in some details, the historical origins of neoliberalism and the evolution of the term through the years—from the Colloque Lippmann in 1938 to the present.

The War of Ideas

This, of course, is not the first work that tackles Chicago economics, neoliberalism, and Chile. There have been many articles, essays, and books on the subject. Yet many of them have taken what I consider to be an overly partisan perspective, either praising or criticizing the reforms from a rather ideologized perspective. This is true of works both in English and Spanish.

The most important work on neoliberalism and Chile is Juan Gabriel Valdés’s *Pinochet’s Economists*, a book that analyzes several archives to trace how, starting in the 1950s, Chicago economics gained a foothold among Latin American economists. Valdés’s book is a very fine piece of work, but by now it is somewhat dated. Its original version, in Spanish, is from 1989, before Chile returned to democratic rule, before the incoming democratic government of President Patricio Aylwin adopted (most of) the Chicago Boys’ policies, and before Chile’s success transformed the country into an example for other emerging and transitional

nations trying to modernize their economies. In addition, since 1989 significant material has been added to different archives—including Milton Friedman’s archive at the Hoover Institution, the archives at the Pontificia Universidad Católica de Chile (Pontifical Catholic University of Chile), and the Universidad Finis Terrae’s oral history on economic policy in Chile. Moreover, since 1989 many of the original Chicago Boys have published memoirs, Al Harberger’s oral history became available in 2016, and Milton and Rose Friedman’s own memoirs, which include abundant material on Chile, were published.²³ Additionally, after all these years, many of the actors of this story are willing to talk more openly about how they lived the events that transpired during that time. For this book I interviewed many of them. Most of the interviews were on the record; in a few cases, the individuals in question preferred to keep their remarks off the record. (See the acknowledgments at the end of this book.)

For Valdés the Chile Project was a deliberate effort by the United States to *impose a foreign ideology* on a poor developing country. According to Valdés, the ideas and policies advocated by the Chicago Boys were not only foreign to Chile’s reality and culture but also didn’t work. They generated increased poverty and destitution, and it was only possible to implement them because of the Pinochet dictatorship. In 1989—and in 1995, when the English translation of the book was released—Valdés intimated that once Chile returned to democratic rule, the Chicago Boys’ policies would be abandoned rapidly, and a more appropriate model, one that made sense for a country like Chile, would be put in place by successive democratic governments.²⁴ This more appropriate model would rely on structuralist views and would implement protectionist policies, controls, and regulations. The new model would be based on a strong role for the state and aggressive distributive policies. Of course, and as is narrated in detail in this book, none of this occurred.

My own view differs from Valdés’s. I believe that the best way to understand what happened in Chile is within the context of the competition for ideas on economic policy and the effort by thinkers with different views of the world to persuade policy makers that their perspective

was superior and more adequate than the alternatives. In some of my previous work I have argued that in the four decades spanning from 1950 to 1990 the two main camps in the global “war of ideas” were those advocating a planning approach and those advocating a market perspective. This war was fought all over the world. In Africa, it was Julius Nyerere’s African Socialism versus the World Bank’s and Elliot Berg’s market incentives approach; in Asia, it was P. C. Mahalanobis’s plan versus Jagdish Bhagwati’s liberal model; in Latin America, it was the structuralist school versus the market perspective of the Chicago Boys. To be sure, there were peculiarities in each region, and variants and gradations within each of these views, and in many cases policies combined elements of planning with those of markets. But from a “big picture” perspective, those were the two camps.

There are (at least) two ways to determine which viewpoint triumphed in this competition of ideas. The simplest one is to compare the performance of (similar) economies that have followed different economic models. For instance, one could compare Chile, Costa Rica, and Ecuador, three countries that had an almost identical income per capita in the late 1980s but followed very different policy paths. Chile followed the Chicago Boys’ model, Costa Rica chose a traditional middle-of-the-road Latin American regime that combined elements of control with market incentives, and Ecuador followed a populist model under the leadership of several politicians, including President Rafael Correa. In that comparison, Chile comes up on top by a very wide margin. In 2022 its income per capita was 50 percent higher than Costa Rica’s and 100 percent higher than Ecuador’s. If instead of income per capita one were to use the United Nation’s Human Development Index, the results would be very similar, with Chile progressing much faster than Costa Rica and Ecuador.

But comparing numbers and indexes is not the only way of judging the success of economic ideas. An alternative—or maybe I should say *complementary*—approach is to analyze whether representatives of one school are able to persuade their adversaries about the merits of their ideas. This is the “persuasion approach” to determining who won in the

ideas' tournament. And when that method is used, and in contrast to what Valdés intimated in 1989, the Chicago Boys did very well in Chile. As I have noted, and as I explain in greater detail in the rest of this book, the bases of the model they built were maintained, improved, and deepened by precisely those who for many years had lambasted and ridiculed their views and policy proposals.

If the market perspective won the war of ideas in Chile, and the policies it inspired produced so much fruit, how can one explain the October 2019 revolt and the election of a Far-Left president (Gabriel Boric) who promised to end neoliberalism? How can we explain that, even after the new constitution was rejected in September 2022, there was generalized talk about ending the policies that catapulted Chile to the first position in the region? How can we account for this paradox? This is, precisely, the main question addressed in this book: an inquiry that will take the reader from the mid-1950s to the current time, from policy to policy, from grievance to grievance, from mistakes to policy blunders.

This book also contributes to the vast—and, I must say, uneven—literature on “Chicago economics.”²⁵ Many of these works have focused on the thoughts developed by people such as Gary Becker, Milton Friedman, Frank Knight, Henry Simons, George Stigler, and Jacob Viner. Yet there is almost no work on how prominent Chicago economists affected policy and thinking in the developing and emerging markets. Moreover, there has been no effort to distinguish between two strands within the second Chicago school: the “purer neoliberals” (Gary Becker, Milton Friedman, and George Stigler, to mention just a few) and the “pragmatist neoliberals” (Al Harberger, Harry Johnson, and Ted Schultz), and how their views and advice often differed and, on occasion, even clashed. In this book, I make a distinction between different strands within the Chicago school. Milton Friedman was, of course, the best-known member of the faculty, but he was not the most influential in Chile or in the rest of Latin America. The most salient and persuasive figure in those countries—and in other developing nations, for that matter—was Al Harberger, a more pragmatic and more flexible thinker than Friedman (see chapter 9).

Chile as a Neoliberal Laboratory

Not a single Chicago Boy that I interviewed for this book acknowledged that the edifice they built was based on a neoliberal model. Every time I brought up the subject, I got the same reaction: “We, neoliberals? Of course not. Those who say it are trying to ruin our reputation; we favored a social market economic system, like the one put together by Ludwig Erhard in West Germany after World War II.” This reaction is, to some extent, understandable given the bad reputation currently associated with the term *neoliberal*. Yet in order to analyze seriously and in detail the evolution of economic thinking and policy making, it is fundamental to go beyond labels and examine carefully the nature of the economic models implemented. It is also necessary to explore the doctrines behind those policies and the results they produced. That is what I do in this book.

Juan Andrés Fontaine, a second-generation Chicago Boy and a member of the cabinet in both post-1990 conservative administrations, told me that throughout this period Chile had a number of state-owned companies—including Codelco, the largest copper company in the world—contradicting the notion of extreme capitalism. He noted that for many years the government controlled cross-border capital mobility, and that many sectors (including banking) were firmly regulated. All of this, he declared, showed that the regime was far from fundamentalist and that, despite the vast literature that claimed that Chile was the poster child for neoliberalism, this was not true. Other Chicago Boys, including Rolf Lüders and Sergio Undurraga, two important figures who helped shape policy during the Pinochet years, made similar points when I talked to them about Chile and neoliberalism. In a January 2022 interview, Lüders denied that Chile ever implemented neoliberal policies, stating that “the idea of a neoliberal model is a slogan, both in Chile and in the rest of the world.”²⁶ Economists associated with the postdictatorship left-of-center governments were even more adamant in rejecting any relation between the policies they put in place and neoliberalism. For them those statements were, simply, slander.

Certainly the model was not static. Like the characters in a good novel, it greatly evolved through time. Emphases changed and priorities shifted as different issues became pressing and new individuals took over the most important cabinet positions. Indeed, it is possible to differentiate among three distinct phases in Chile's neoliberal experience: Between 1973 and 1982, we can talk about *incipient neoliberalism*. During these years the original Chicago Boys were in charge. Prices were freed, the economy was opened to the rest of the world, a "shock treatment" policy was implemented to defeat a stubborn three-digit inflation, there was massive deregulation, and many state-owned enterprises were privatized. In 1979, Pinochet decided to expand the model to social services such as education, health, and pensions. His goal was to transform institutions that had existed since the early years of the republic and to change Chile's culture. He presumptuously called this program the *Siete Modernizaciones* (Seven Modernizations). This period ended with a major and very costly currency and banking crisis in June 1982. As I point out in chapter 10, economic performance during this period was poor; income barely grew, inequality was very high, and inflation was stubborn. These years (1973–82) are covered in chapters 4–8.

In 1984, after the military briefly flirted with a nationalistic and protectionist approach, a new team made up of second-generation Chicago Boys took over the key cabinet posts. Their trademark was *pragmatic neoliberalism*. The main goal of this era was to further liberalization, introduce market mechanisms at most levels in society, expand the privatization process, attract foreign investment, and maintain competitiveness in the export sector. In contrast with the first generation of Chicago Boys, eliminating inflation was not the main objective of this younger team; they were willing to live with an inflation in the order of 20 percent per annum that declined gradually. This period lasted until the return to democracy in March 1990. Developments during this phase are covered in chapters 8 and 9, where I discuss the relationship between the Chicago economists and the military and ask whether the Chicago Boys knew about the systematic violation of human rights during the dictatorship.

The third phase, which I call *inclusive neoliberalism*, was inaugurated with the return to democracy and the accession to power of the Center Left with President Patricio Aylwin in 1990. He was followed in the presidency by Eduardo Frei Ruiz-Tagle, Ricardo Lagos, and Michelle Bachelet, all Center-Left leaders; Frei was a Christian Democrat and the son of iconic president Eduardo Frei Montalva (1964–70), and Lagos and Bachelet were members of the Socialist Party, the party of Salvador Allende.

Throughout these administrations social programs were expanded, but they continued to be delivered through market mechanisms, as was the case during the dictatorship. The economy was further opened to international trade, a market-determined exchange rate regime was adopted, international capital flows were freed, competition laws were passed, a loan system for college education was put in place, a fiscal rule that kept public expenditures under tight control was adopted, and more state-owned firms were privatized. At the same time, social expenditures increased, and several programs aimed at reducing poverty and increasing access to education and health were implemented. Most of the admired “Chilean miracle” took place during the early years of this time. These were also the years when the malaise grew and generalized. The reference to “thirty years of neoliberalism” repeatedly made by the demonstrators in 2019, and by supporters of Gabriel Boric during the 2021 presidential campaign, correspond to this period. Different aspects of this phase, including the dynamics of the social movement, are analyzed in chapters 10 through 15.

I premise my discussion with a word or two on methodology. Throughout the book I rely on the “analytical narrative” approach that I used in some of my previous works on Africa, Latin America, and the Great Depression in the United States. That is, I combine information from archives, data analysis, graphs, and statistical inquiry. I have tried to keep the main text free of jargon. Figures and tables are used to summarize ideas and to provide information in a succinct way.

At times—and if I think that it helps the story—I interject my personal experiences into the narrative. After all, I was born in Chile—although I emigrated to the United States when I was very young, more than forty years ago—and I have done extensive research on its economy. I was trained at the University of Chicago, and I am a colleague, coauthor, and close friend of Al Harberger, who is the intellectual father of the Chicago Boys. In many ways I became an accidental and atypical Chicago graduate, one who opposed the dictatorship and fled the country in 1977 because of it. For this, and for other reasons, I was never considered a member of the Chicago Boys' tribe.

Before plunging into the story of the rise and fall of neoliberalism, the Chile Project, and the Chicago Boys, a word about Pinochet's human rights record is merited.²⁷ After the military takeover, thousands of people were put in prison and tortured, vast numbers were executed, and some opponents were assassinated by agents of the junta on foreign soil. In 1990, the Comisión Nacional de Verdad y Reconciliación (National Truth and Reconciliation Commission) determined that during the almost seventeen-year dictatorship, 2,279 people were murdered by the military, with many of them "disappearing" from the face of the earth. Years later it was determined that many of the "disappeared" were killed while in custody and their bodies tossed into the Pacific Ocean from helicopters.²⁸ In 2011 a new inquiry commission concluded that the total number of victims of the dictatorship—including those executed, tortured, kidnapped, harassed, and fired from their jobs—surpassed forty thousand people. In addition, almost a quarter of a million people, out of a population of eleven million, were forced into exile.²⁹ An important question, and one that has haunted many scholars who have analyzed the Chilean experiment with markets is whether the reforms that generated the so-called Chilean model and its miracle would have been possible under democratic rule. I address this issue throughout the book, and I conclude that, given the timeframe and the historical moment—a decade and a half before the fall of the Berlin Wall—a neoliberal economic revolution of this magnitude could not have been possible under a democratic regime. This makes the adoption of the reforms by the post-1990 democratic governments even more extraordinary.

Joseph Brodsky, the Russian poet and winner of the 1987 Nobel Prize in Literature, has said that what makes a narrative good is not the story line itself, but the order in which the story is told, “what follows what.” In deciding how to tell the story of the Chile Project, neoliberalism, Chicago economics, and the Chicago Boys, I faced two alternatives: to tell it thematically, covering one topic at the time—say, shock treatment, privatization, trade openness, pensions, and so on—or to tell the story chronologically, advancing through time, one year at the time. After much thought and consultation with several colleagues, and after trying my hand at a thematically organized narrative, I decided to tackle the story from a chronological perspective. In some sense this is a less exciting approach, but I think that it is a cleaner strategy, one that allows the reader to keep closer track of a complex and often surprising story that covers several decades, and has many characters—including, of course, Milton Friedman and the other notable Chicago economists who dazzled the world by winning one Nobel Prize after another.

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