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Los “Chicago Boys”: A Powerful Exchange of People and Ideas between Chile and Chicago

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**Los “Chicago Boys”:
A Powerful Exchange of People and Ideas between Chile and Chicago**

An Honors Thesis
Presented to
The Faculty of the Department of History
Bates College

In partial fulfillment of the requirements for the
Degree of Bachelor of Arts

By

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Lewiston, Maine
March 23, 2012

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Abstract

On September 11th, 1973, Chile broke with its strong democratic history when the military bombed the presidential palace and Augusto Ugarte Pinochet began his 17-year dictatorship. On the day of the coup, a team of Chicago-educated Chilean economists presented a document they had been asked to draft by the Chilean Navy. It called for the abolition of the statist economy that characterized Chile at that time and the implementation of a free-market model. The free-market model that emerged under the dictatorship brought Chile to its position as one of the strongest economies in Latin America and its fundamentals are still in place in present-day Chile. The model is glorified by some and criticized by others because of the authoritarian atmosphere in which it was introduced. But the forced exit of Pinochet in 1990 and return to democracy provides an example to other Latin American countries that a free-market can only be sustained alongside a democratic regime. Drawing from personal interviews, archival material, and historical documents, I examine how and why an exchange between Chilean Universities and the University of Chicago began in the mid-1950s and how these ideas have carried through to reshape Chile's economy. I focus on the context in which the exchange emerged and how the Chicago Boys' policies infiltrated Chile. Ultimately, the longevity of the free-market policies demonstrates that they have been effective in bringing Chile to its superior economic position in Latin America today.

Introduction

Chilean army general Augusto Pinochet took power in a coup d' etat from Socialist Salvador Allende in 1973 and ruled the country for seventeen years until he was replaced in a democratic election in 1990. His legacy is colored by extreme violence in the treatment of his political opponents. But Pinochet's long tenure and relatively consistent economic policies allowed for an uninterrupted evolution from "la vía chilena al socialismo" (the Chilean Path to Socialism) to the free-market policies espoused by Milton Friedman and his young Chilean acolytes, the so-called "Chicago Boys." Their economic plan was adopted by Pinochet in 1973 and, with important corrections, has formed the basis for Chile's superior performance on most economic measures as compared with its Latin American peers. This generally accepted view is contested by some of Pinochet's opponents, whose opinions are discussed in this thesis.

Chile is a unique country in Latin America because of its relatively stable political history. Until the military coup of 1973 led by Augusto Pinochet, Chile was an exception to the dictatorial governments that characterized other Latin American countries. Unlike its neighbors, Chile had maintained smooth constitutional power shifts throughout most of its history. When the Chilean military bombed the presidential palace, La Moneda, on September 11, 1973, and Pinochet began his 17-year-long military dictatorship, a 300-page economic plan advocating a free-market economy had been composed and was given to General Officers of the Armed forces the next day.¹ It would soon transform the Chilean economy. The plan, *el ladrillo* ("the brick", named for its size), had been created by "los Chicago Boys", a group of Chilean economists who,

¹ Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile*, (Cambridge: Cambridge University Press, 1995), 252.

with financial support from U.S. government foreign aid programs, had earned their postgraduate degrees at the University of Chicago. *El ladrillo* aimed to combat Chile's increasing inflation, price distortions, and falling production. The creators of this document eventually entered into high-level economic advisory positions in the military government and took control of Chile's economy. Who were these students? Why did they study at the University of Chicago? How did they rise to top economic positions under Pinochet? And what did their economic policies mean for Chile, both in the short and long-term?

Chile was a relatively advanced country and became increasingly important, as a toehold in South America, to the United States after World War II. Chile's leftist economic tendencies worried the U.S., which was trying to stop the spread of communism in Latin America. In an effort to combat leftist leanings in the mid-1950s, the United States had increased its technical assistance to developing countries, including Chile and a number of other Latin American countries. These technical assistance programs, such as the Point Four program established in 1949, emphasized exchanges and interaction between foreign nationals and members of U.S. foreign assistance and technical programs. The U. S. believed that there was a fundamental lag in the education system of developing countries that was at the root of the developing world's inflation problems, unstable economies, and unstable political systems. These problems could be solved partly by improving education. By improving education and providing technical assistance the U. S. felt it could "purchase" democracy and political stability, thereby countering efforts by the Soviet Union to promote the spread of Communism in the region.

This emphasis on improving education through exchanges of and interaction between personnel eventually led to a conversation in the 1950s between the economics departments at the University of Chicago and la Universidad Católica de Chile. The University of Chicago was

an obvious choice as the partner in the exchange because the doctrine of its economics department, led by Milton Friedman and like-minded professors, focused on the efficacy of the free-market, which was the opposite of the left-leaning statist and interventionist development economics that characterized Chile and its neighbors at the time. The University of Chicago viewed Chile, which had a strong University system and a unique democratic history, as an arena in which its free-market ideology could succeed and thus create a model for other Latin American countries. The exchange had been rejected by the Universidad de Chile en Santiago because its economics department feared that Chicago's "neo-liberal" free-market policies were too extreme for the leftist faculty that dominated the department. But the Universidad Católica was seeking to improve its economic department and took advantage of the opportunity to become involved with a prestigious U.S. university. La Universidad Católica enthusiastically committed to the "Chile Project".

The two universities signed the first official contract for the exchange in 1956 and Chilean students began travelling to Chicago to embark on what proved to be more than just an academic journey. At the outset, the students saw their trip to Chicago as an opportunity to gain high-level economics education. While at Chicago, it became increasingly clear that they hoped to change Chile's approach to curing its economic problems upon their return to Chile. Upon their homecoming, many of these students became professors at la Universidad Católica and transformed its economics department, as intended. After the coup in 1973, this group of economists, under Pinochet, extended their influence beyond Católica and began to restructure Chile's economy. It has been noted that the Chicago Boys not only redirected economic policy under Pinochet, but transformed economics thinking across all of Latin America.²

² Jeffrey Puryear, *Thinking Politics: Intellectuals and Democracy in Chile, 1973-1988* (Baltimore: Johns Hopkins University Press, 1994), 16.

The Chicago Boys' impact on Chilean society is fervently debated today. By 1974, just a year after the coup, civilians held all economic policy positions and most of these were "Chicago Boys".³ They undid almost all of Allende's nationalization policies, decreased import duties, freed the exchange rate, and encouraged foreign investment.⁴ Major institutions, such as the World Bank, the IMF, the U.S. government, *The New York Times*, and prominent neo-liberal economists, glorified post- Allende Chile as a miraculous and successful demonstration of free-market policies.⁵ These organizations believed Chile had:

stolen a march on a now universal current of economic liberalization, the privatization of public holdings and reduction of the state's social role as well as the rise in, and plight of, financial capitalism—a current that forced a change in course not just in the most developed nations, such as the United States and Great Britain, but also in the developing regions. In Latin America, Chile anticipated by over ten years the stabilization, adjustment, and liberalization that are now a generalized feature of the continent.⁶

A *New York Times* column, from 1990, read:

After facing critics and doubters for years, the economists and others who made Chile's free-market revolution are now being sought by many countries to share their experiences and advise on topics like privatization, debt management and fighting poverty.⁷

The young economists who led this "march" pride themselves on the economic transformations implemented under their control that saved Chile from the economic ruin that befell most of Latin America in the 1970s.

³ Paul Sigmund, *The United States and Democracy in Chile*, (Baltimore: The Johns Hopkins University Press, 1993) 120.

⁴ Sigmund, *The United States*, 120.

⁵ Joseph Collins and John Lear. *Chile's Free-Market Miracle: A Second Look*. (Oakland: The Institute for Food and Development Policy, 1995) 4.

⁶ Juan Gabriel Valdes, *Pinochet's Economists: The Chicago School in Chile*. (Cambridge: Cambridge University Press, 1995) 2.

⁷ Shirley Christian, "Free market Lessons of Chile's 'Chicago Boys'". *The New York Times*, (1923-Current File), Oct 08, 1990.

This thesis is based on in-person interviews with a few of the first generation of the “Chicago Boy” economists, archival research in Santiago, and on the large volume of published material, pro and con, on the Chilean “miracle.” The main focus of this thesis is on the transfer of ideas and people between two great universities—the University of Chicago and la Universidad Católica in Santiago—that made this unique experiment possible.

Historians, economists, political scientists and other specialists have studied the various facets of this revolution. Some authors have argued that the academic exchange was a purposeful attempt by the U.S. government to influence Chilean economic thinking and ultimately Chilean government decisions. They contend that Friedman and other Chicago professors capitalized on this opportunity in order to conduct an experiment in free-market economics as an alternative to the spread of Keynesianism.⁸ Valdés, a highly regarded political scientist, who was exiled from Chile by Pinochet, contributes to the scholarship on this revolution in his thorough study of the ideological impetus behind this revolution. He contends that a “neo-liberal ideological wave” from the United States infiltrated Chile not only in economic policy, but also as a foundation for the “violent change in the political power structures” that began in 1974.⁹ He, and other scholars argue that the education of Chilean economists was the means by which the U.S. aimed to transform the Chilean economy by indoctrinating its economic leaders with ideologically charged education of economics.

Other critics of the “Chicago Boys” use economic indicators to demonstrate that the numbers show the ineffectiveness of their policies. They believe they were part of a “vengeful ideological elite” that dragged Chile through two depressions in just ten years.¹⁰ Joseph Collins and John Lear, in their co-authored critique, agree that the exchange was very ideological, but

⁸ Valdes, *Pinochet's Economists* 14.

⁹ Valdés, *Pinochet's Economists*, 5.

¹⁰ Collins & Lear, 4.

they focus on the economic indicators that point to economic disaster, instead of salvation. After evaluating the numbers, these critics contend that the “miracle” widened the income gap and decreased the opportunity for education. Furthermore, this economic transformation required an evil authoritarian political strategy which brought with it enormous social costs.¹¹

Others argue that the revolution saved Chile from economic ruin and that the “Chicago School” taught economics based on pure science and logic. This side of the debate contends that Chile’s current strong economy and advanced social programs is due to the reforms carried out in the first part of Pinochet’s regime. The Chicago Boys’ impact, they say, provides an example from which other developing nations can learn. William R. Keech, a PhD in political scientist, argues that the Chile’s “economic success is substantially due to the full implementation of economic reforms that were guided by considerable expertise derived from the University of Chicago’s department of economics.”¹² And indeed, most of the first generation of Chicago Boys contends that their policies have proved beneficial to Chile’s economic and social development.¹³

There is considerable data to support either interpretation during the long journey from the Marxist policies of Allende to the current economic situation. This thesis addresses, but does not revolve around this debate. But there is little argument that Chile has achieved enviable success on most measures of economic and social progress. It was the only South American country invited to join 33 other advanced countries that make up the Organization for Economic Co-operation and Development, in 2010.¹⁴

¹¹ Collins & Lear, 8-9.

¹² William R. Keech, “Democracy, Dictatorship and Economic Performance in Chile,” Presentation to the Public Choice Society, 2004, 3.

¹³ Personal interviews with Alberto Valdés, Sergio Merino, Erik Haindl, Ernesto Fontaine, agree.

¹⁴ Organization for Economic Co-operation and Development, Homepage, accessed 20 March 2012, http://www.oecd.org/pages/0,3417,en_36734052_36761800_1_1_1_1_1,00.html

This thesis focuses on the Chicago-Católica academic exchange. It does so in three parts: 1) the motivations of the United State government and institutions in Chile for the exchange; 2) who the Chicago Boys were as individuals and what they learned at the University of Chicago; and 3) how the Chicago Boys' free-market program affected the Chilean economy.

Chapter One examines the economic and political structures in Chile before the 1973 coup. Chile had a history of democracy and broad political participation. But, economically, Chile had persistent problems with high inflation that, in the 50s, caused Chile to seek economic advice from the United States. Problems persisted and at the time of the 1970 elections, many Chileans wanted to replace the Christian Democrat president, Eduardo Frei.

Many upper income groups and conservative parts of the electorate were alienated by Frei's failed economic and social programs and ran their own conservative candidate, Jorge Alessandri. These political divisions created an extremely narrow victory for the Socialist Salvador Allende, who won with only thirty-six percent of the vote. Within a relatively short period of time, Allende's economic and social reforms contributed to an economic crisis. Inflation reached record highs and public sector debt skyrocketed.

Backed by the U.S. Central Intelligence Agency, which was determined not to let Chile fall into Communist hands, the Chilean military, led by Army General Pinochet, staged a coup that ended Allende's short presidency. Pinochet eventually placed the Chicago-schooled economists at la Universidad Católica into top economic positions, and thus began the transition to Latin America's first free-market economy. This chapter looks at this political and economic history and presents the context in which the Chicago Boys implemented new economic policies and transformed the structure of the Chilean economy. It aims to demonstrate, by highlighting Chile's polemic past, why new economic policies were at the forefront of Pinochet's agenda.

Chapter Two examines the history of 20th century U.S. assistance to Latin America, and particularly Chile, as the setting for the Chicago Exchange. It argues that U.S. government attempts to combat the spread of Communism played a role in initiating the academic exchange. But personal relationships and shared ideas between Chilean and U.S. professors helped set the conditions of the exchange and make it a reality. It introduces and describes the motivations of the influential Americans and Chileans and the universities behind the Chicago exchange. It was agreed, beginning in 1953, amongst most economics faculty at the two major universities in Chile, that the economics program needed to be strengthened. Chile's economy could only be developed by economists with a profound understanding of how to best attack the economic problems specific to Chile. At a conference in 1953 at the University of Chile, a sub-commission of the Union of Latin American Universities set out their goals to strengthen university economics programs:

The adapting of the well-known instruments and techniques of analysis to the peculiar conditions of our economics and, if possible, the finding of others especially suited to their study and the training of economists not only invested with advanced scientific preparation, but also convinced that their primary duty as professionals consists of their contribution to both the elimination of social injustice and the increase of the general well-being, material and cultural progress, and the economic independence of the societies to which they belong.¹⁵

At about the same time in the U.S., Albion Patterson, the director of the International Cooperation Administration, a dominant player in U.S. foreign policy in Chile, and Theodore Schultz, the chairman of the Economics Department at Chicago, initiated the idea of a "Chile Project" in 1953 as a way to improve the system of higher education in Chile. After the University of Chile rejected the idea of establishing a scholarship program with the University of Chicago, Julio Chaná, the newly appointed dean of the faculty of economics at la Universidad Católica, supported the concept and struck an agreement with Chicago. Soon afterwards, in

¹⁵ Valdes, *Pinochet's Economists*, 120.

September 1956, Sergio de Castro, Carlos Massad, and Ernesto Fontaine became the first of many Chileans to study at the University of Chicago.

Chapter Three seeks to understand the transfer of people and of intellectual capital and especially how the Chicago school of thought was relocated to the Southern hemisphere. This chapter introduces the Chicago Boys. Who were they? What economic theories came out of Chicago in the mid-1950s? And how were these theories implemented in Chile? The chapter intends to show that the first rounds of Chilean students went to Chicago for the purpose of improving their education in economics, not for ideological reasons. While at Chicago, the idea of transforming, first la Universidad Católica economics department and later the Chilean economy, became a tangible dream. The Chilean students who studied at Chicago in the 1950s and 1960s found the academic program extremely rigorous and remembered working “night and day, Sundays and holidays.”¹⁶ The students forged close relationships with their professors, sometimes inviting them to their Saturday night parties to enjoy Chilean food, drink, and music.¹⁷ Their beloved professor, Arnold Harberger, was particularly influential to the students. The students learned economic science the Chicago way: focused on “cold logic”, an approach that differed from the historical and more imaginative approach in Chile.¹⁸ At the heart of the Chicago education was a method to find the best and simplest explanation of how society functioned through a combination of theoretical analysis and empirical verification.¹⁹

The original contract between the two schools, signed on March 30th, 1956, was supposed to last three years, but was later extended to 1964. It stipulated that the students study for one year in the economics department at Chicago. After one year, based on the students’ academic

¹⁶ Francisco Rosende, ed., *La Escuela de Chicago*, (Santiago: Ediciones Universidad Católica de Chile, 2007) 15.

¹⁷ Rosende, 15.

¹⁸ Rosende, 39.

¹⁹ Rosende, 37.

performance, they could be invited to stay another year or two at Chicago to receive an academic degree from Chicago. The contracts also mandated that the students return to Chile to work. Upon their return to Chile, many of the students were hired by la Universidad Católica as economics professors, transforming its faculty and economics department. By 1964, of the 13 economics faculty at Católica, 12 were Chicago graduates.²⁰ These professors became the conduit for Chicago theory to infiltrate Chile. Drawing from interviews and records of a few of the first Chileans to go to Chicago, the chapter describes the positive and fulfilling experience that they experienced during their years at Chicago. And it shows how the Chicago Boys became the conduit for the Chicago School in Chile.

Chapter Four explains the implementation of the Chicago School economic policies in Chile using three phases. It argues that the policies implemented by the Chicago Boys were a reversal of the state-interventionist policies that had dominated Chile for the previous 50 years, and that these policies have, in general, brought Chile economic stability and prosperity. The first phase begins in 1973 when Pinochet comes to power. By 1974, the Chicago Boys held most of the economic policy positions in the government. This phase extended into the early 1980s, and included two major economic recessions. During the second phase, from the early 1980s up to 1990, when Pinochet was forced out of power, Chile experienced economic growth which legitimized the continuation of free-market policies. The third phase began in 1990 with the election of President Patricio Aylwin, who followed Pinochet and marked Chile's return to democracy. Milton Friedman asserted that the most striking feature of the Chicago Boys' free-market legacy is that it helped Chile return to a free society. He believed that a market economy

²⁰ Valdes, *Pinochet's Economists*, 144-145.

could only survive in the long run if accompanied by democracy.²¹ The Chicago Boys program has lived on in Chile and is the basis for the economic policies of present-day Chile.

This thesis seeks to provide an understanding of the transfer of people and ideas between the University of Chicago and la Universidad Católica in Chile and of the actors involved in this exchange. It addresses, but does not evaluate, the tensions between a free-market economic program and an authoritarian political program. It seeks to understand the context of the transfer of humans and of ideas from one country to another and the various elements involved in this transfer. It aims to show that the longevity of the policies demonstrates their effectiveness. The origins of this exchange, the exchange itself, and the profound effects that the Chicago Boys had on Chile are a phenomenon worthy of exploration.

²¹“Commanding Heights,” PBS Interview with Milton Friedman, 01 October 2000.

Chapter 1: Politics and Economics in Chile Before Chicago

Until Augusto Pinochet took control of Chile in a coup in 1973, Chile was considered an exception to the authoritarian governments that typified most other countries in Latin America. Unlike most of its neighbors, Chile had maintained smooth constitutional power shifts throughout most of its political history. But it had also a history of high inflation, recessions, and government intervention in the economy. Since its return to democracy after Pinochet in 1990, Chile has been recognized by the world for its continued economic growth and economic transformation that began when Pinochet came to power in 1973, and was led by a group of Chilean economists who had earned their post-graduate degrees at the University of Chicago.²² This chapter briefly summarizes Chile's economics and politics until the 1970s, then focuses on the United States' objective to keep Communism out of Chile. It shows why economic considerations dominated the beginning of Pinochet's regime. This set the stage for the Chicago Boys to enact their Chicago policies.

Peaceful Transitions of Power

Before Augusto Pinochet took control of Chile in the coup of 1973, the legal transfer of power in Chile had been breached only twice after the Constitution of 1833—once in the 1891 civil war and again in 1925 when Colonel Carlos Ibañez deposed General Luis Altamirano's military junta through a coup. Between the end of Ibañez's presidency in 1932 and the coup of 1973, Chile was the only Latin American country where power was repeatedly handed over peacefully from one political party to another.²³ It was also one of the first Latin American countries to include middle and lower classes in national politics. As early as 1920, Arturo

²² Valdés, *Pinochet's Economists*, 2.

²³ Collins and Lear, 13.

Alessandri, the Liberal Alliance candidate, led a movement towards inclusive politics by winning the election by garnering mass support from broad urban constituencies rather than from the usual powerful and dominant rural estate owners. Five years later, Carlos Ibáñez led a group of officers to convince Alessandri to create and present a new constitution to the public by plebiscite. The Constitution of 1925 called for election of the president by direct popular vote.²⁴ Carlos Ibáñez regained the presidency in 1927 through an election, but he led an authoritarian regime.

Copper and Nitrate

For the next roughly fifty years, to 1973, Chile relied mostly on heavy state intervention in its economy. Chile's economy was based on mining copper and nitrate. The copper mining industry, after a slump in the late 1800s, strengthened after American companies purchased three copper mines and increased Chilean copper production by 300 percent. The nitrate mining industry, the "real motor" of the Chilean economy, continued to boom and was the basis of in the Chilean economy.²⁵ But inflation increased during this period. The government increased the money supply by fifty percent during the 1891 Civil War and continued to increase it through the 1920s.²⁶ World War I placed additional economic burdens on Chile. Chile's dependence on exports caused it to flounder as the war ravaged the global nitrate market. Arturo Alessandri's presidency, 1920-1925, ended amidst economic, political, and social unrest.

His successor, Carlos Ibáñez brought about large social and economic changes, but seemingly strong progress was tempered by the Wall Street Crash of 1929. Between 1928 and 1931, Ibáñez invested 760 million pesos in infrastructure projects, re-established diplomatic relations with Peru, fused local police forces into one national police force (at the time a definite

²⁴ Collins and Lear, 12.

²⁵ Simon Collier and William F. Sater, *A History of Chile*, (Cambridge: Cambridge University Press, 2004), 159-161.

²⁶ Collier and Sater, 170.

stronghold of Ibáñez's regime, and came to be noted as one of the finest and least corrupt in Latin America), and strengthened the Navy and the Chilean Air Force.²⁷ The War of the Pacific (1879 - 1883) had made Chile the principal exporter of nitrate to the world, and the global demand for nitrate spiked in Ibáñez's early presidency. Copper production also increased. Domestic taxes provided the government about thirty percent of its income. There was a trade surplus, bank reserves were above the minimum levels required, and the Chilean peso was stable. This economic prosperity made Ibáñez confident in borrowing from American, British and Swiss banks.²⁸ From 1925 to 1930, Chile's external public debt increased from 18 million dollars to 257 million dollars.²⁹ These political developments and social advances heightened expectations of economic advancement amongst the lower and middle-classes. Unfortunately, economic developments did not keep up with the rapid political developments.³⁰ The U.S. stock market crash had gradual and detrimental effects on Chile's economic progress.

The Great Depression

At the start of the Great Depression, the Chilean economy was one of the strongest in Latin America, both in terms of per capita income and the advanced social transformations that it was undergoing.³¹ But because Chile was heavily dependent on mineral exports and foreign investment, the Great Depression wreaked havoc in Chile. The international economy plummeted and the price of copper and nitrate plunged. The price of copper fell from 17.47 cents per pound in 1929 to 5.6 cents per pound in 1932. Nitrate production halved from 1930-1931.

²⁷ Collier and Sater, 217. The Chilean air force created Chile's first airline, which is known today as Linea Aerea Nacional, LAN-Chile. Some argue that this economic progress was due to earlier praiseworthy economic conditions which Ibáñez inherited.

²⁸ Collier and Sater, 221.

²⁹ Paul Drake, *The Money Doctor in the Andes: The Kemmerer Missions, 1923-1933*, (Durham: Duke University Press, 1989), 107.

³⁰ Ricardo Ffrench-Davis, *Economic Reforms in Chile: From Dictatorship to Democracy*, (Ann Arbor: The University of Michigan Press, 2002), 1.

³¹ Ffrench-Davis, 2.

Employment followed the dismal trend. By 1932, the eleven remaining nitrate mines employed a mere 8,000 workers, down from 60,000 three years earlier.³² By 1933, the total volume of Chile's exports was down sixty-four percent from the production of 1928, and purchasing power declined by eighty-four percent.³³ This rapid economic downturn frustrated the middle and working classes. Students from the University of Chile and from Universidad Católica filled the streets in protest. Professionals, including doctors and lawyers, sided with the students, and in late 1931, Ibáñez fled to Argentina.³⁴

From the 1930s through 1973, Chile's politics became increasingly divided but more inclusive. After Ibáñez's exit from power, Chilean voters in 1932 re-elected the conservative Arturo Alessandri. Alessandri, the first president in more than sixty years to be elected for a second term, focused on righting the disastrous effects the Great Depression had on Chile.

Government Intervention and Broad Political Participation

Alessandri's government undertook many programs to subdue the economic emergency created by the Great Depression. Government intervention in the economy increased in order to foster more widespread economic development, decrease class inequalities, and make Chile less susceptible to changes in the global economy. Alessandri implemented selective trade controls in order to offset the harsh effects of the Depression.³⁵ These protectionist economic policies accompanied major political transformations.

By the 1930s, the political landscape in Chile transformed to incorporate a broader base of political participants. Middle-class, and increasingly working-class, politicians participated

³² Collier and Sater, 221.

³³ Collier and Sater, 222.

³⁴ Collier and Sater, 222.

³⁵ French-Davis, 2.

more.³⁶ Women earned the right to vote in 1931, one of the earliest in South America.³⁷ The Communists and Socialists dominated the left. The Radical party, which would soon become the Christian Democrats, formed the center, and the Liberals and Conservatives led the right until they formed the National Party in 1966.³⁸ The left-wing and Radical parties teamed up and in the mid-1930s and formed the Popular Front. But the Radicals increasingly sided with the left and, in 1934, withdrew from the government. This deepened the divide between the left and the right.³⁹ The Popular Front won the 1938 election with Pedro Aguirre Cerda. Despite a complex and divided political arena, there was a strong political consensus that the state should increase its support of production and business activity.

Trade Protectionism 1938 - 1958

The government invested in infrastructure and public and private institutions in order to direct economic development. It embarked on an “import-substitution” model, based on the idea that small developing countries would only succeed and grow if they expanded and diversified their industrial sector by substituting domestic production for foreign imports.⁴⁰ The government installed protective tariffs and provided government credit for domestic textile and light industries. Copper from United States-owned copper mines still remained Chile’s main export and the main source of government revenue, but the Chilean government founded corporations such as CORFO (Corporación de Fomento) in 1939, to encourage diverse economic development. CORFO created a national steel industry, electrical plants, and transportation and

³⁶ Collier and Sater, 227.

³⁷ Collier and Sater, 228.

³⁸ William R. Keech, “Democracy, Dictatorship, and Economic” (Presentation, Meeting of the Public Choice Society, Baltimore, MD, March 8-11, 2004), 18.

³⁹ Collier and Sater, 228.

⁴⁰ Sebastian Edwards and Alejandra Cox Edwards, *Monetarism and Liberalization*, (Cambridge: Ballinger Publishing Company, 1987), 3.

communication systems.⁴¹ Between 1937 and 1950, the manufacturing sector grew at an average annual rate of about seven percent.⁴² This industrialization required a variety of restrictions, controls, and regulations. Because of these import restrictions, domestic industries survived and grew.

It was noted that Chile had one of most variable and protected economies in the world at this time.⁴³ But because of this highly-protected and extensive domestic industrial sector, many of the businesses were inefficient. Overvalued domestic currency supplemented this import-substitution structure and, while favoring the manufacturing and mining sectors, prohibited the development of the agricultural sector. This import-substitution model discouraged the development of new exports, eventually constricting trade options and made it difficult to manage the balance of payments. Excessive money creation and a lax fiscal policy caused inflation to continue to rise.⁴⁴ The Popular Front lost most of its support. Instead, a center-right coalition rose to power under Carlos Ibañez in 1952 when he served his second presidential term. His electoral platform cut across party lines and gave him a forty-seven percent plurality in a 4-way race.⁴⁵ Subsequent presidents were forced to put Chile's chronic inflation at the heart of their economic programs.

Hyperinflation

Throughout the 1950s and 1960s, three different presidents all attempted to curb inflation with stabilization programs. None were especially successful. From 1952-1955, consumer prices increased from twelve to eighty-six percent. Ibañez lost his popularity and in 1958 Jorge Alessandri, son of Arturo Alessandri, assumed office. Jorge Alessandri decreased the state's role

⁴¹ Ffrench-Davis, 3.

⁴² Edwards and Edwards, 4.

⁴³ Edwards and Edwards, 4.

⁴⁴ Edwards and Edwards, 5.

⁴⁵ Collier and Sater, 253.

to acting primarily through fiscal policy measures, thereby increasing the activity of the private sector. These measures were accompanied by liberalized import restrictions and various export incentives. Although Alessandri made innovative and drastic measures to modernize and liberalize the economy, his approach failed because of a lack of understanding of how short-term stabilization methods would cause long-term repercussions.⁴⁶ Alessandri's economic policies increased unemployment and decreased economic growth and by the end of his term, Chile was in deep debt to international creditors and faced balance-of-payments problems.

By the election of 1964, Chile was facing severe economic decline and hyperinflation, partly due to public spending to fund relief efforts after the disastrous 1960 earthquake. Eduardo Frei ran as the Christian Democrat candidate and Salvador Allende as the Socialist candidate. The traditional parties of the right threw their support to Frei.⁴⁷ Unidad Popular, consisting of the Socialist and Communist parties, supported Allende. All parties felt the Chilean economy was too influenced by outside forces and argued for increased government intervention.⁴⁸ Frei eventually won the elections with fifty-six percent of the vote.⁴⁹

Nationalization of the Copper Mines and Agrarian Reform

Frei vowed to transform Chilean political and economic structures while maintaining a constitutional democracy. Frei's electoral support consisted of many women, students, young professionals, and middle class members. He also gained support from the upper classes and the industrialists, who favored him over Allende.

⁴⁶ Ffrench-Davis, 5.

⁴⁷ Collins and Lear, 15.

⁴⁸ Paul E. Sigmund, *The Overthrow of Allende and the Politics of Chile, 1964- 1976* (Pittsburgh: University of Pittsburgh Press, 1977),19.

⁴⁹ Collins and Lear,16.

Upon claiming office in 1964, Frei “Chileanized” the U.S.-owned copper mines. This Chileanization was a partnership that satisfied both the U.S.-owned copper companies and the Frei administration, whose goal was to share in the ownership and management of the copper mines, in hopes of increasing Chile’s copper mining capacity and national income. By having the government own part of the mines, Frei hoped to quell any nationalist objections.⁵⁰ Kennecott immediately agreed to increase Chile’s ownership to fifty-one percent. The other major copper corporations were more skeptical. Anaconda agreed to relinquish twenty-five percent to the government, and Cerro settled on a thirty percent agreement. In other areas, Frei also increased state spending and purchased ninety percent of the shares of the Chilean Electrical Company from the American and Foreign Power Company. A final agreement gave the government forty-nine percent of the Chilean Telephone Company’s shares.⁵¹

In 1967, Frei attempted to implement agrarian reforms aimed at redistributing land to smaller farmers. Large estates, which made up seven percent of Chilean farms controlled more than eighty percent of agricultural land. Frei’s agrarian reforms limited the size of agricultural holdings and tried to create worker cooperatives on redistributed estate properties. But the reforms failed to fulfill their goals. Although the land reform law permitted the expropriation of all large estates, only eighteen percent were expropriated between 1965 and 1970. The law promised to redistribute land to 100,000 peasant families, increase agricultural production and raise peasant living standards. But only 21,000 of the promised 100,000 peasant families received land. Furthermore, the economic and social relations of the worker cooperatives proved

⁵⁰ Helen Osieja, “Economic Sanctions As an Instrument of U.S. Foreign Policy: The Case of the U.S. Embargo Against Cuba”, (PhD diss., American University in London, 2005), 92.

⁵¹ Osieja, 92.

to be too similar to the large estates dominated by rich land owners.⁵² Impoverished Chileans who had mobilized to claim open land for housing needs or agricultural purposes became angry with the government's failed response to their demands.⁵³ Failed government programs gave the Chilean right little reason to support Frei's Christian Democrats, as it had done in the 1964 elections. Many Chileans hoped the elections of 1970 would bring more efficient and effective government programs.

1970 Election of Allende

Familiar political figures returned to the scene for the 1970 elections. Because political polarization had increased under Frei's administration, the center, left, and right all ran their own candidates, which set the stage for a minority candidate becoming president. Salvador Allende ran again as the leftist Socialist Party candidate as part of Unidad Popular. Radomiro Tomic, the center Christian-Democrat candidate, ran on a platform of reform more similar to Allende's than that of Frei's. The right-wing parties ran their own candidate, Jorge Alessandri, who, had beaten Allende in the 1958 elections and, after sitting out for a term, was eligible to run again. The three-party contest allowed Allende to win the election with thirty-six percent of the vote. Because his victory was not a majority, Chile's Congress was required to decide the election. After it confirmed Allende's victory, the opposition broke into protest. The right believed Alessandri would triumph over Allende, so Allende's slim victory and Congress' confirmation increased political tensions.⁵⁴

Allende's Economic Policies

⁵² Peter Winn and Cristobal Kay, "Agrarian Reform and Rural Revolution in Allende's Chile," *Journal of Latin American Studies*, 6, no. 1 (May, 1974): 137.

⁵³ Collins and Lear, 17.

⁵⁴ Collier and Sater, 328.

Many factors contributed to Allende's downfall and precipitated the 1973 military coup: economic collapse, the loss of support from the business class as he attempted to nationalize industry, and the U.S. government's aggressive program to unseat the leftist leader. Fearing that Chile's economic collapse under Allende would create an opening for Soviet assistance and influence, the U.S., under Nixon, worked closely with the Chilean right to overthrow the Socialists. These elements created the unstable society into which, in 1973, Pinochet and the Chicago Boys entered.

Allende entered office in 1970 with hopes of "revolutionary change" without a revolution—he believed this revolutionary change was rooted in structural change instead of economic change and that it relied on a strong working-class political base. Allende's first Minister of Economics, Pedro Vuskovic, spoke of the importance of structural change: "Revolutionary change is a problem of power, a question between social forces, to which economic policy is to be subordinated, which economic policy must serve as an instrument for strengthening and consolidating the power position of the workers."⁵⁵ This approach seemed favorable, but produced very mixed results.

The beginning of Allende's presidency produced successful social and economic development. His Unidad Popular government continued and increased state intervention in the economy. The government increased state control of domestic industry, including nationalizing the country's main natural resources and biggest industrial companies (the copper mines, coal, nitrate, iron and steel), intensifying the agrarian reform, and putting the state in control of the main wholesale and distribution firms.⁵⁶ Economic indicators pointed to economic prosperity;

⁵⁵ Michael H. Fleet, "Chile's Democratic Road to Socialism," *The Western Political Quarterly* 26, no. 4 (1973), 767.

⁵⁶ Patricio Meller, *The Unidad Popular and the Pinochet Dictatorship: A Political Economy Analysis*, (Houndmills, Basingstoke, Hampshire: Macmillan, 2000), 35.

gross geographic product increased more than eight percent, domestic consumption increased thirteen percent, unemployment decreased more than fifty percent, and inflation fell to twenty-two percent.⁵⁷ Income distribution and government services such as education, public housing and medical care, all improved.⁵⁸ These Unidad Popular structural reforms put means of production into state control so that the state could improve the distribution of economic power amongst workers. Real minimum wages for blue-collar workers rose by thirty-nine percent while those of white-collar workers rose only ten percent, minimizing the gap between the two classes. Most of these changes were due to price controls in the private sector and the freezing of public-sector utility prices.

Political and Social Tensions

But this economic growth did not last, and as early as 1971 economic indicators showed fault-lines in the economy. The government deficit grew from three and a half percent in 1970 to almost ten percent in 1971, and credit to the public sector grew by 124 percent. International reserves fell by fifty-nine percent and the earlier trade surplus of 95 million dollars reverted to a deficit of 90 million dollars due to a fall in the world price of copper.⁵⁹ French-Davis, former Chicago Boy and an international economist, summarizes the economic downfall of Allende's Unidad Popular government:

The full force of the macroeconomic disequilibria made itself felt in the second year of the administration, and from there on the struggle for power absorbed most of the efforts and energies of both rulers and ruled. Economic disequilibria, low governance, and the growing inability to reach political agreements finally gave way to the institutional breakup and the prevalence of the coup supporters.⁶⁰

⁵⁷ *Comentarios sobre la Situación Económica, Primer Semestre, 1972* (Santiago: Facultad de Ciencias Económicas, Universidad de Chile, 1972), 1-13.

⁵⁸ Fleet, 768.

⁵⁹ Meller, *The Unidad Popular*, 35.

⁶⁰ French-Davis, 9.

Allende's Chile was beginning to crumble. The government's methods of nationalization caused anger and confusion among firms. Many times workers, sent by Unidad Popular parties, entered factories and demanded that the government usurp control from the owners. This angered owners and created uneasy feelings amongst firms. Business owners did not know when or who would be nationalized next. This resentment eventually helped to mobilize the business classes against the government in the 1972 strikes.

Moreover, Allende's land reform policies were nebulous and messy. Frei had attempted land reform during his presidency. After the reforms failed, it became unclear what would happen to the redistributed land. Confusion arose concerning, among other things, the recipients of the land, how the collectives would be run, and how the income would be distributed. In response to this confusion, some lower-level government officials, without authorization from Allende, allowed peasants to illegally seize land. The Unidad Popular government, in hopes of compromising with left and center groups, permitted some seizures and stopped others. This inconsistency angered both groups.⁶¹ Increased purchasing power of the workers increased demands for food. Domestic agricultural output was insufficient to fulfill the greater demand and imports skyrocketed. This eventually eliminated foreign currency reserves by the end of 1971. Additionally, the government increased the money supply to finance its nationalization and social welfare programs. This amplified inflation.⁶² Turbulence spread across the country.

By the end of 1971, Allende's drastic agrarian reform, grandiose nationalization scheme, property confiscation and other programs completely alienated his opposition, the Christian Democrats. And within his own coalition, the Socialists, MAPU (Movimiento de Accion Popular Unitario--a smaller leftist party included in Unidad Popular), and the MIR (Movimiento de

⁶¹Elton Rayack, *Not So Free to Choose: The Political Economy of Milton Friedman and Ronald Reagan*, (New York: Praeger, 1987), 46.

⁶²Rayack, 47.

Izquierda Revolucionaria—actually outside the Unidad Popular), forged their own agendas which forced Allende to agree to conflicting political programs, creating conditions ripe for disaster.

Anti-Nationalization and a Constitutional Crisis

At the same time, the opposition party, Christian Democrats, proposed a constitutional amendment that sought to stop the nationalization of private industries without congressional approval. The amendment would return the nationalized industries to private firms and stop further nationalization of private industries.⁶³ Allende's minority position in Congress created ripe conditions for political peril. His Unidad Popular only held forty percent of the seats in Congress. Despite this standing minority, there existed three executive privileges that granted the president power to intervene in major areas of the economy. There were no effective means by which opposition parties could appeal. This guaranteed that Allende would be able to implement his plan to nationalize the economy. This prompted the National and Christian Democratic parties to propose their anti-nationalization amendment.⁶⁴ After the bill won approval of a majority in both houses of Congress in February 1972, it moved to the president for his approval. Allende had thirty days to veto or rewrite the amendment. He had made it clear that he did not support the amendment. But disagreements concerning the interpretation of the constitution caused a crisis in Congress. The opposition, with a majority in each house but not a full two-thirds majority, argued that they needed only an absolute majority to override the president. The government argued that the Congress needed a two-thirds majority and that if the Congress disagreed, the president would present the amendment to the Constitutional Tribunal, instead of

⁶³ Fleet, 770.

⁶⁴ Fleet, 773-776.

calling a plebiscite. The opposition disagreed, citing that the Tribunal could only make decisions concerning the constitutionality of laws and plebiscites, not the interpretation of the Constitution. Stubborn leaders on both sides were not willing to compromise and the time limit for a Senate vote on Allende's item vetoes expired. By this time, masses had taken to the streets in disgust of the inefficiency of the government.⁶⁵ Any efforts to prevent polarization of political parties had failed and the country was on the brink of a coup. The constitutional crisis must be understood as a microcosm of Chilean political life and as a catalyst for what was to follow.

By late 1972 and early 1973 it was clear that democratic politics and distinct class interests were incompatible. A strike in October 1972 and the chaos of the March 1973 elections demonstrated the erosion of Chile's constitutional tradition. The debate over the constitutional amendment was postponed because more immediate events needed the government's attention: a national anti-government strike in October and November of 1972 that drew the attention of the government, though it lasted only a month and failed in its goal.⁶⁶

The strike was initiated by independent truck owners protesting a government proposal to create a state trucking agency in southern regions. The strike grew to include merchants, professionals, industrialists, white-collar workers, anti-Marxist peasants, and some members of the Christian Democrats.⁶⁷ It is estimated that at its height, one hundred percent of transport workers, ninety-seven percent of commerce workers, eighty percent of the professionals, and eighty-five percent of the peasant cooperatives had joined the strike—totaling just under seven hundred thousand Chileans.⁶⁸ It became increasingly clear that the answer to pacifying the uprisings required the armed forces. Allende was careful in how he used the military because

⁶⁵ Sigmund, *The Overthrow of Allende and the Politics of Chile, 1964- 1976*, 170

⁶⁶ Fleet, 771.

⁶⁷ Fleet, 779.

⁶⁸ Sigmund, *The Overthrow of Allende*, 186.

part of his coalition opposed any military involvement. He began by using military officers to regulate the transportation system and food distribution, but was only able to quell the strikers when he reorganized his cabinet to include representatives of the military. This addition of military officers to the cabinet was a defining moment—it was the beginning of the end of civilian rule in Chile.⁶⁹

U.S. and CIA Involvement

While conditions in Chile were perilous and chaotic, the United States recognized this instability as an opportunity to end Chile's road to Socialism and Communism and worked to crush Allende's presidency. Back in 1963, U.S. involvement in Chile's politics had increased as the threat of a Communist Chile seemed more real. During the 1964 elections, journalist Seymour M. Hersh estimated that the U.S. monetary support to the right, via Frei's campaign, totaled "at least \$20 million...about \$8 per voter."⁷⁰ CIA operations continued through Frei's presidency and on September 15, 1970, nine days before the Chilean Congress would decide who would be president, President Nixon arranged a meeting with CIA Director Richard Helms. Nixon made it clear that Allende was not to become president and that the CIA should help to organize a coup to stop an Allende presidency.⁷¹ Helms' notes from the meeting described his task with "\$10,000,000 available, more if necessary" in order to "make the economy scream."⁷² Although Allende did ascend to the presidency, the U.S. spent about \$7 million from 1970-73 towards covert action in Chile. The CIA provided money to distribute propaganda activities and

⁶⁹ Sigmund, *The Overthrow of Allende*, 186.

⁷⁰ Seymour M. Hersh, *The Price of Power*, (New York: Summit Books, 1983), 260.

⁷¹ Rayack, 48.

⁷² Select Committee to Study Governmental Operations with Respect to Intelligence Activities, *Covert Action in Chile 1963-1973*, 94th Cong., 1st sess., 1975, 17.

to right wing and private sector groups that opposed Allende.⁷³ This “U.S. policy sought to maximize pressure on the Allende government to prevent its consolidation and limit its ability to implement policies contrary to U.S. and hemispheric interests.”⁷⁴ The CIA funneled funds to the private sector groups striking against the government. Observers maintained that the truckers’ strikes “could not have been maintained on the basis of union funds.”⁷⁵ Furthermore, in 1972 the U.S. Export-Import Bank halted all credit to Chile. When Allende assumed the presidency, the U.S. convinced other multilateral banks to shrink credit to Chile.⁷⁶ The U.S. made clear its opposition to a Socialist regime in Chile. The United States’ financial manipulation worked in favor of Pinochet’s coup plans. The 1973 mid-term Congressional elections solidified the ripe conditions for a military overthrow.

The 1973 Coup

The chaotic congressional elections of March 1973 encouraged the opposition to stage a coup. The Christian Democrat opposition was favored to win and its victory was announced before all the ballots had been counted. Enthusiastic opposition supporters, mostly upper class Chileans, filled the streets to celebrate their victory. But when the ballots were finally totaled, it was announced that Allende’s Unidad Popular had won and had, in fact, increased its electoral share to just over forty-three percent in Congress. Violence and chaos ensued.⁷⁷ Although the Unidad Popular won more than forty-three percent of the vote and increased its representation in Congress, it was not enough to gain control of Congress. The united center and right-wing

⁷³ Rayack, 49.

⁷⁴ Select Committee to Study Governmental Operations with Respect to Intelligence Activities, *Covert Action in Chile 1963-1973*, 94th Cong., 1st sess., 1975, 27.

⁷⁵ Select Committee to Study Governmental Operations with Respect to Intelligence Activities, *Covert Action in Chile 1963-1973*, 94th Cong., 1st sess., 1975, 29-31.

⁷⁶ Rayack, 50.

⁷⁷ *La Batalla de Chile*, DVD, directed by Patricio Guzmán (1978; New York, NY: Icarus Films Home Video, 2009).

parties continually denied Allende's attempts to compromise with Unidad Popular. The opposition, using their simple majority, removed two attendants and seven officials of Unidad Popular. Political polarization increased as both sides rejected opportunities for compromise.⁷⁸ The political right and Chilean military gained support from the Christian Democrats and on the morning of September 11, 1973, the military, led by the Commander-in-Chief of the Chilean Army, Augusto Pinochet, bombed the presidential palace. Allende committed suicide a few hours later while defending the constitutional government.⁷⁹

The Chicago Boys

It was this coup that brought the "Chicago Boys" into the government. Because Pinochet was not an economic expert, he looked to foreign-educated economists to bring something new and innovative to restore prosperity to the Chilean economy. As demonstrated in this chapter, Pinochet's predecessors glorified a statist economic approach. But such a model, in conjunction with the polemic internal political events and United States influence, failed to maintain a strong economy. The government knew it needed to alter its approach to economics. The Chicago Boys introduced a free-market economic model that differed from the heavy state intervention of most of Chile's history and restored strength to the Chilean economy. The story of this group of economic students begins generally in the post-war history of US foreign aid and, specifically in 1955 when Theodore Schultz, then Chairman of the Department of Economics at Chicago, discussed economic growth policies with Albion Patterson, head of the International Cooperation Administration (later USAID) in Chile. Patterson believed that education was the base of economic growth and that Chile needed to strengthen its education program for economics. After

⁷⁸ *La Batalla de Chile.*

⁷⁹ Collins and Lear, 21.

initial hesitations, la Universidad Católica agreed to an exchange with the University of Chicago with hopes of improving its own economics department. The next two chapters will expand on this story and will examine how and why an agreement between the University of Chicago and the Universidad Católica transpired.

Chapter Two: The Path to Chicago: The Programs, Contracts, and Discussions between the United States and Chile

The Chicago Exchange had its roots in the long tradition of U. S. foreign aid and technical assistance to underdeveloped countries that began before World War II. This aid took on a new urgency after the war as an antidote to Communism. The Exchange was part of a broader education assistance program that was implemented on the theory that, through education, the political and economic systems of developing countries could be improved.

The outbreak of WWII made the politically divided and unstable regimes in Latin America the target of U.S. foreign aid. After World War II, the U.S. enacted foreign assistance programs in different parts of the world aimed at stopping the spread of Communism. The U.S. programs aimed at Chile were fostered in this general geo-political context and hoped to defeat Communism by spurring economic growth and creating a prosperous middle class and political stability. The purpose of the Chicago Exchange was to educate Chilean economic students in hopes that they would return to Chile and help strengthen the Chilean economy. The Chicago Exchange involved the U.S. government and its foreign aid organizations and programs, the Department of Economics of the University of Chicago, and the Universidad Católica and businessmen who supported free market ideas in Chile in the mid-1950s. All three of these entities shared overlapping concerns and proposed similar solutions. Each sought to develop Chile through technical assistance. Such assistance, they agreed, would strengthen the higher education system in Chile in order to improve agricultural, technological, and management skills. This would, in turn, spur economic growth and create political stability.

After establishing initial ties between the two countries, a group of individuals, including government personnel and faculty at each university, sanctioned the exchange and wrote

contracts between the two universities. The conversations between the Americans: Albion Patterson, the U.S. director of the International Cooperation Administration in Chile, Theodore Schultz, the chairman of the department of Economics at Chicago, and the Chileans: Dean Julio Chana and rector Silva of Universidad Católica were especially important in crafting the exchange. Large government plans and economic theories planted ideas in these individuals, and personal ties and relationships forged these critical discussions. This chapter traces a brief history of U.S. foreign aid to Latin America generally, and, more specifically, to Chile. It also provides insight into the discussions between important individuals on either side of the exchange who ultimately directed the transfer of economic knowledge from one hemisphere to another, changing the Chilean political economy forever. It includes a review of the Klein-Saks Mission, an important stepping-stone to the Chicago exchange. Although some were skeptical about the idea of such an exchange, the leaders of the exchange managed to forge ahead with this transfer of ideas.

Early Foreign Assistance and Policies Towards Latin America

Before World War II, Roosevelt's Good Neighbor Policy, established in 1933, promised a program of non-intervention in Latin America and laid the foundation for improved relations with Latin America. The U.S. hoped a policy of non-interference would be reciprocated by positive relationships with Latin America. As U.S. involvement in the war seemed increasingly probable, it became critical to establish friendly relations with Latin America and respond to its requests for financial and technical aid as the United States wanted to ensure Latin American support before and during war. Roosevelt recognized that intervention had proven to be ineffective but that U.S. could still influence the Southern Hemisphere by applying "economic

leverage” over such countries.⁸⁰ Roosevelt combined this friendly attitude with U.S. self-interest, and pursued policies that exerted U.S. influence through technical and economic assistance. In 1939, Roosevelt’s cabinet established the first two official assistance programs with Latin America: the Interdepartmental Committee on Scientific and Cultural cooperation and the Institute of Inter-American Affairs (IIAA). The former enabled the president to send anyone employed by the United States to provide “advice and assistance on request to the government of any American nation.”⁸¹ This program allowed the United States to spread its technical and industrial knowledge to Latin America. Latin America had previously appealed to the U.S. for economic, technical, and scientific assistance and the U.S. considered the Western Hemisphere as the “neighborhood” of the U.S., an important stronghold for its national interest. As involvement in the war became increasingly probable, the U.S. knew it needed to strengthen its democratic cause around the globe. The program ultimately sought to strengthen friendly relations between the U.S. and Latin America.⁸²

After requests from Latin American countries for assistance from the U.S. increased, the IIAA was created in order to fulfill these requests. President Roosevelt appointed Nelson Rockefeller as the coordinator with the general goal of improving cultural and commercial relations between the U.S. and Latin American nations.⁸³ It used forms of technical co-operation in order to achieve economic growth and development. Two of these programs focused, among

⁸⁰ Peter K. Smith, *Talons of the Eagle: Latin America, the United States, and the World*, (Oxford: Oxford University Press, 2008) 66.

⁸¹ Valdes, *Pinochet’s Economists*, 82.

⁸² Philip Glick, *The Administration of Technical Assistance; Growth in the America* (Chicago: University of Chicago Press, 1957), 6.

⁸³ Glick, 14-15.

other things, on improving education.⁸⁴ It was the first U.S. assistance organization to focus serious efforts in Chile.⁸⁵

Assistance After WW II and the Threat of Communism

The end of WWII and the rise of the USSR made Communism a more tangible threat to the U.S. Because of the fear of Communist expansion, the U.S. wanted to ensure that the economies of Latin America were centered on capitalism and that their structures steered towards democracy instead of socialism.⁸⁶ Thus, U.S. foreign aid policy focused on stopping the spread of Communism by promoting “modernity”. The Marshall Plan and the Truman Doctrine both emphasized destroying Communism by creating strong political systems and economies around the world. The Marshall Plan, carried out from 1948-1950, sought to maintain “moderate democratic governments” in East and Southeast Asia.⁸⁷ The Truman Doctrine, announced in 1947, allocated 400 million dollars to aid Greece and Turkey.⁸⁸ This economic assistance aimed to provide “the necessary support for a democratic Greek government” by building “an economy in which a healthy democracy can flourish.”⁸⁹ In 1949, as a follow-up to the Marshall Plan, President Truman announced his Point 4 program that issued a “bold new program for making the benefits of our scientific advance and industrial progress available for the improvement and growth of underdeveloped areas.”⁹⁰ This government policy embodied the United States’ aim to extend its “modernity” and made it official. The Agency for International Development (AID), which incorporated the Point 4 Program, defined the goal of U.S. foreign policy as one “to aid

⁸⁴ Valdes, *Pinochet's Economists*, 83.

⁸⁵ Glick, 14-15.

⁸⁶ Sigmund, *The Overthrow of Allende*, 84.

⁸⁷ Robert A. Packenham, *Liberal America and the Third World; Political Development ideas in foreign aid and social science* (Princeton: Princeton University Press, 1973), 37-38.

⁸⁸ Packenham, 26.

⁸⁹ Dept. of State, Washington, 24, “The Truman Doctrine” 1946.

⁹⁰ Packenham, 43.

the efforts of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital.”⁹¹ This began inter-American collaboration and exchange; U.S. technicians and teachers traveled to Latin America and professionals and students from Latin America came to higher education institutions in the U.S. The U.S. government carried out assistance to Latin America through a series of agencies established to facilitate foreign assistance. The International Cooperation Administration (ICA) and its Point 4 Program (which would turn into the Agency for International Development, AID) and the personnel involved in each would eventually spearhead the Chicago Exchange. These programs emphasized the importance of education to spur economic growth and create political stability.

One program used projects called *servicios*. These operations relied on interactive relationships between American technicians and Latin American functionaries. Different *servicios* were organized for separate sectors: agriculture, health, and education. The *servicios* were based on the theory that the Latin American countries had the human capacity to create capable technicians, but that they lacked the education and training that was necessary for development. Thus, American administrators would provide the education and training required for modernization. The goal of each *servicio* was to initiate daily interactions between American technicians and Latin American functionaries.⁹²

Chile—Especially Attractive For the United States

Chile was especially attractive to U.S. aid efforts because, as discussed in the previous chapter, of its democratic history. Chile was also more advanced, technically and educationally,

⁹¹ Valdés, *Pinochet's Economists*, 83-84.

⁹² Glick, 17, 68.

than its neighbors. The University of Chile had, by the mid-1950s, a strong academic program in economics—the strongest in Latin America – but it was not aligned ideologically with the United States. The United Nations Economic Commission for Latin America (ECLA) had established the economics program at the University of Santiago.⁹³ But the ECLA supported structuralist leftist economic policies. These policies included heavy state intervention in and control of the economy. The U.S. government sought to challenge the ECLA’s dominant leftist economic theories in Chile. The fear of the spread of Communism made U.S. agencies very sensitive to the leftist ideas that characterized the Chilean economy in the mid-1950s. There was a sense of urgency to counter this ideology. Economics then became of utmost concern to the U.S. government and its foreign assistance organizations. This leftist dominance by Chile’s economic professionals inspired U.S. officials to focus efforts in Chile and ultimately establish an exchange between Chicago and the Universidad Católica.⁹⁴

Emphasis on Education as a Form of Assistance

Before the exchange though, Albion Patterson, the U. S. Director of ICA in Chile, proposed, as a function of the ICA, an Area Development Plan, which used the *servicio* style of assistance. This was one of the early technical assistance plans. Patterson believed that one of Chile’s fundamental problems was the lag in food production. He also observed that Chile had neither the human capital nor the money to solve the problem in all of Chile at the same time. The U.S. could not provide the money for such a project, either. Therefore, Patterson suggested that the U.S. government and Chilean government choose one region that demonstrated this lag in food production. The governments would work together to “make a large-scale demonstration

⁹³ Puryear, 16.

⁹⁴ Glen Biglaiser, “The Internationalization of Chicago’s Economics in Latin America,” *Economic Development and Cultural Change* 50, no. 2 (2002): 273.

of what Chile could do to solve her food problem.”⁹⁵ The plan brought together four Chilean ministries and the Chilean Development Corporation to sign up for the plan. The plan, Plan Chillán, implemented in 1953, was a “technical co-operation” program concentrated in three provinces and sought to improve agriculture, health and sanitation, housing, industrial development, and transportation. The multi-faceted goals of the plan involved multiple ministries of the Chilean government. This technical cooperation program differed from direct financial aid programs that provided direct loans, capital grants, or materials for economic development. Both governments vowed to put forth a strong effort for this technical exchange.⁹⁶ The U.S. government provided a grant of \$273,000 and the Chilean government contributed just under \$240,000.⁹⁷ More than one hundred Chilean technicians worked with about eight U.S. functionaries to establish and carry-out the plan.⁹⁸ Eventually, in 1954, the School of Agronomy was formed in Chillán as part of an agreement between the University of Concepción and the ICA. The success of the Plan made a case for creating relations with universities and enabled Patterson to gain support from the U.S. government for further foreign assistance programs. The plan also allowed Patterson to realize that Chile needed education in the area of economics. Patterson had previously been in Paraguay helping the Paraguayan government increase food production. Patterson recalled when he arrived in Santiago:

In Paraguay, we had nothing but weather records, we had to begin with agricultural experimentation, establishing institutions and the basic stuff. This is a different situation: Chile is a sophisticated country; we do not need to show these

⁹⁵ House of Representatives: *Hearings Before a Subcommittee of the Committee on Government Operations*, 84th Cong., Washington (1956) 283.

⁹⁶ Benjamin Maluenda, “Servicios Informativos del Plan Chillán,” in *Seminario Sudamericano de Informacion de Extension Agricola Y Economia Domestica para los Paises Sudamericanos*, (Lima, 1957): 19-21.

⁹⁷ House of Representatives: *Hearings Before a Subcommittee of the Committee on Government Operations*, 84th Cong., Washington (1956), 286.

⁹⁸ Glick, 140-141.

basic things. What we need to do is to change the formation of the men, to influence the education, which is very bad.⁹⁹ Education, then, was at the forefront of both the U.S. government's foreign assistance plan and that of Patterson, the U.S. figure stationed in Chile.

Also in 1953, the Foreign Operations Administration (FOA) instigated another method to carry out their technical assistance program. These programs also emphasized higher education. Higher education was considered the gateway to imbuing human capital with the knowledge necessary to improve society. Soon after, the ICA absorbed the major functions of the FOA. U.S. Senator, William Benton, reflected on his visit to Chile when he said that there was no better way "to contribute to the well-being of mankind than can match the needed development of Latin America's universities...no single area of action open to the United States...is more promising per dollar than the effort to lift the level of its higher education".¹⁰⁰ These programs, therefore, were perceived as a valuable means of transferring knowledge to Latin American countries. These contracts were, like the *servicio*, another style of project used by the ICA to carry out its technical co-operation program. They were established in the early days of the IIAA under Henry G. Bennett, the first administrator of the Technical Cooperation Administration (TCA). The ICA, in 1953, formed these contracts under the Foreign Assistance Program in order to carry out technical exchanges and cooperation in agricultural education, research and extension. These programs initiated university to university contact between the U.S. and Latin America, contacts that set the stage for the Chicago Exchange.¹⁰¹ Schultz spearheaded a report by the National Public Association Special Policy Committee on Technical Cooperation on the benefits of this type of cooperation. The report noted that the academic environment in the Latin American universities was not sufficient to transfer the knowledge of the American technicians

⁹⁹ Valdes, *Pinochet's Economists*, 113.

¹⁰⁰ Senator William Benton, *The Voice of Latin America*, New York: Encyclopedia Britannica (1961), 169.

¹⁰¹ Glick, 91.

and teach the Latin American specialists.¹⁰² Improving higher education was seen as the first step to an exchange between the U.S. and Chile. In just two years, seventy-eight American universities signed contracts to participate in this Foreign Assistance Program. At the outset, the program did not focus on economics. But, for Chile, it became clear that education in economics needed to be a priority.

Economic Education and Development: a Priority for the U.S. in Chile

American technicians requested that the program in Chile be directed more towards economic development. Economics became a major part of the curriculum because of a growing concern within the U.S. government that the structuralist would develop an economy based on leftist policies.¹⁰³ These leftist economists favored a structuralist policy that supported state intervention in and control of the economy. This had grown out of the economic crisis of 1930, sparked by the Wall Street crash, which had transformed economic thought in Chile. A new era of economics, which amplified the States' role in the economy, had unfolded in Chile. The election of Pedro Aguirre Cerda of the Popular Front in 1938 emphasized this economic model and forged ahead with the State as the promoter and director of industrialization, as a means of spurring development. They believed that structural changes, like the agrarian reform, would modernize and thus industrialize the economy. This was the dominant body of thought in Chile and was favored at the University of Chile and by the ECLA.

Another school of economic theory, the monetarists, or those who supported neoliberalism, supported free trade and development based on comparative advantage to spur economic growth.¹⁰⁴ In 1953, inflation reached 80% because of the expansionary policies of the

¹⁰² Valdes, *Pinochet's Economists*, 88.

¹⁰³ Biglaiser, 273.

¹⁰⁴ Biglaiser, 271.

Ibáñez government. It became clear that Chile needed economic assistance. The dominant structuralists refused to consider or support economic policies that countered their beliefs. Effective economic reform in Chile seemed impossible. Thus, the Chilean government called on outsiders to bring in “neutral” advice.

The Klein-Saks Mission

The gravity of the Chilean economic situation in 1955, when inflation reached record highs, ignited a sense of urgency in Chile. In a series of lectures given at Cornell University, Schultz argued that the “enervating fever of inflation” created an unstable and disorganized economy.¹⁰⁵ He said that the gross national product of Chile is lower than would be expected from a country with abundant resources because of this inflation and bad allocation of resources resulting from the direct controls in Chile.¹⁰⁶ As an immediate and desperate attempt to counter inflation, President Ibáñez commissioned advice from the United States: Dr. Julius Klein, the president of a private United States consulting firm, Klein-Saks, and four of his colleagues formed the Klein-Saks mission. Agustín Edwards Budge, the proprietor of *El Mercurio*, Chile’s most prominent newspaper, had a large influence in convincing the Chilean government to commission the Klein-Saks firm to evaluate and comment upon the Chilean economic situation.¹⁰⁷ Some groups demonstrated support for foreign experts:

The bringing of these foreign experts is not because we do not have true capabilities in financial matters but rather because these experts are backed by an

¹⁰⁵ Schultz, *The Economic Test in Latin America*, 5.

¹⁰⁶ Schultz, *The Economic Test in Latin America*, 26.

¹⁰⁷ Sofia Correa, “Algunos Antecedentes Historicos Del Proyecto Neoliberal en Chile (1955-1958),” *Opciones* 6, Santiago, 1985, 106-146: 125. *El Mercurio* played a large role in supporting the Chicago exchange. It was one of the only Chilean newspapers which consistently supported the Chicago program in Chile. Its role and portrayal of the exchange remain controversial. Correa offers an extensive study of the relationship between *El Mercurio* and the Chicago Exchange.

international reputation that makes their proposals less controvertible. Besides, their recommendations inspire a greater guarantee since they are neutral in an excessively distrustful environment such as ours. This is very important. Frankly, these members of foreign economic missions cannot be attributed with any given political interest and there is a greater possibility that their advice will be heeded.¹⁰⁸

The concept of foreign assistance was born and supported, at least by some, in Chile.

The mission arrived in Santiago to evaluate the economic situation of the country and to recommend anti-inflationary policies. The members of the team supported neoliberal, market-based, ideas. A five-person team arrived in Santiago in September 1955 with plans to stay for six months and educate the Chilean government on measures aimed to improve the economy. The advisors suggested that the government decrease the cost of government, restrict credit, reorganize the exchange controls, and end price subsidies and automatic salary increases. This advice was similar to the advice that had been proposed earlier by the finance ministers and the Central Chilean bank. The attempts at commercial liberalization suggested by the Klein-Saks mission were met with anger from laborers, businesses and even some within the government. The government feared the loss of tax revenue and the return of fiscal deficit and unemployment. And inflation continued to run rampant. There was not sufficient analysis of the costs and benefits of liberalization like this, similar to the lack of empirical analysis of the realities of the Chilean economy. Ibáñez implemented some, not all, of these reforms. The mission stayed for three years and decreased inflation to seventeen percent in 1957. But it did so at a cost to the lower classes.¹⁰⁹

The Klein-Saks mission was criticized by most groups. But *El Mercurio* supported the mission and played an especially large role in moving public opinion favorably towards the propositions of Klein-Saks. The foreign proposals were accredited as more legitimate because

¹⁰⁸ Luis Correa Prieto, *Aspectos Negativos de la Intervención Económica; fracasos de una experiencia*, (Santiago: Empresa Editora Zig-Zag, 1955) 192.

¹⁰⁹ Rosende, 33.

they “will come without prejudices of any kind, to examine objectively the situation and to objectively recommend what is necessary to do to re-organize the country economically, financially, and administratively.”¹¹⁰ The editorials acknowledged the missions’ critics but emphasized that the local structuralist economists were geared towards a sociological task, while what Chile needed was an economic plan carried out by economists. The Association of Commercial Engineers wrote a letter of protest to the Ministry of Economy in which they criticized the importation of foreign ideas in lieu of the strong Faculty of Economics at the University of Chile, which, for twenty years, had been orchestrated and trained heavily.¹¹¹ The Klein-Saks mission laid the foundation for the ICA to suggest bringing a group of American professors to Chile to teach traditional, neoliberal economics. The *Mercurio* group, which supported the monetarist position and denounced the structuralist position, was thrilled by the proposition.¹¹² The concept of foreigners educating Chilean economists had been established.

Evaluations from the US technicians and visiting evaluation teams argued that there were not enough economists in these countries. The need to bolster economic education and the threat of the Cold War were in harmony at the outset of the Chicago exchange. Schultz, after an evaluations tour for the National Public Association (NPA) declared,

The Soviet Union is making a series of new moves to enlarge its role and strengthen its position in poor countries. It is bringing new and important economic measures into play. We, however, have been slow to perceive that these moves are under way... The Soviet Union with its bold new moves has already gained much freedom of action, while we stand by, burdened with inflexibility. The United States must take stock of its economic programs abroad... we want [the poor countries] to work out their economic salvation by relating themselves to us and by using our way of achieving their economic development.¹¹³

¹¹⁰ Correa, 131: “vendran, sin prejuicios de ningun genero, a examiner objetivamente la situacion y a recomendar tambien objetivamente la situacion y a recomendar tambien objetivamente lo que hay que hacer para reorganizer el pais economica, financiara y administrativamente.”

¹¹¹ Correa, 131.

¹¹² Valdes, *Pinochet's Economists*, 108.

¹¹³ T.W. Schultz, *The Economic Test in Latin America*, New York State School of Industrial and Labor Relations, Cornell University, Bulletin 35, August 1956, p.1.

Schultz clearly articulated the motivations behind the technical cooperation programs with Latin America. The United States believed the interests of these countries, indeed their very “economic salvation”, would be best served if they paralleled those of the United States. This was to be the foundation for the Chicago Exchange. The threat from the Soviet Union added urgency and more legitimacy to the assistance program.

The Chicago Exchange: Early Discussions

The Chicago exchange originated when Albion Patterson spoke with Theodore Schultz, Dean of the Economics Department of the University of Chicago in 1953. Patterson had been working in Latin America through the IIAA to foster education in economics with exchange programs between the U.S. government and the Chilean government. Schultz had received \$875,000 in grants from U.S. foreign assistance programs.¹¹⁴ He believed that maximizing the quality of human capital through higher education was the key to economic growth.¹¹⁵ Together, they helped to plant the seed for the Chicago Exchange. Schultz expressed interest in using Chile as an experiment to test his theories on human capital, Patterson proposed an exchange that would come to be known as the “Chile Project.”¹¹⁶ For Milton Friedman, a prominent Chicago professor who would eventually travel to Chile to publicly espouse the free-market policies, this meant a policy that would foster free-market economies in less developed nations, clear any obstacles to private international trade, and create an atmosphere akin to private international investment in order to bring out the best in the “millions of able, active, and vigorous people ...[that]...exist in every underdeveloped country.”¹¹⁷ This approach conflicted

¹¹⁴ Biglaiser, 274.

¹¹⁵ Schultz, 21.

¹¹⁶ Biglaiser, 274.

¹¹⁷ Johan Van Overtveldt, *The Chicago School: How the University of Chicago Assembled the Thinkers who Revolutionized Economics and Business*, (Chicago: Agate, 2007) 346.

with the ECLA's approach to development economics. The ECLA's approach, argued Schultz, did not take into account the concept of human capital. Schultz and Jacob Mincer, a Chicago colleague, had studied the Latin American economic experience in the late 1940s and 1950s. After their studies, they concluded that that investment in human capital was critical to economic development. Patterson worked with Schultz to devise a plan to develop higher education in Latin America in "the strategic fields of economics, agricultural technology, engineering, business administration, industrial engineering, and public administration."¹¹⁸ Patterson wished to develop this under the Point 4 program. Patterson firmly believed that education was the key component to economic growth, and, as discussed above, Cold War fears influenced the plan—they felt it necessary to "right the balance of university economics" away from the popular Marxist, and ECLA economic programs at the leading universities.¹¹⁹ A little while later, a contract between the Universidad Católica and the University of Chicago was in the works.

The Chicago Exchange: Legitimized in U. S. Policy

Before the Chicago Exchange could be carried out however, it needed to be legitimized in government policy. The government reports from the Mutual Security Program, Regional and Country Program Detail for Latin America of the mid-1950s outlined the goals and impetus for a program in Chile. Some reported on the current state of the Chilean economy and the proposed measures to carry out the program. The report noted Chile's present position:

Chile is a democratic country with a long record of friendly cooperation with the US. Inflation is Chile's major economic problem. Although not chronic, inflation has been accelerating rapidly during the past few years and in 1954 the cost of living increased 70 percent over 1953. Despite favorable copper prices, Chile is confronted with a substantial balance of payment problem.¹²⁰

¹¹⁸ Valdes, *Pinochet's Economists*, 114.

¹¹⁹ Valdes, *Pinochet's Economists*, 116.

¹²⁰ Valdes, *Pinochet's Economists*, 90.

The report made an effort to demonstrate both a strong affiliation between Chile and itself and to demonstrate Chile's need for assistance. The next part of the program describes Chile's desire to "establish an institute or permanent group of persons who will concern themselves with an objective analysis of the conditions that have brought about the present economic situation and who will propose suitable measures to surmount the problems involved." The administration's report continues, "This constructive Chilean approach to its problem is encouraging." Next, the administration laid out its goals for the Mutual Security Program for Chile. The 1959 Mutual Security Program defined the purposes of the Program for Chile:

- a) To aid Chile in conquering her longstanding inflation.
- b) To give increasing support from every possible side to the Chilean movement toward free enterprise capitalism.
- c) To develop and improve Chilean educational institutions so that they can provide effective technological, economic, and management training to Chileans.¹²¹

Thus, the agenda of both a university exchange and support in favor of "free enterprise capitalism" had been established in government policy. The Information Service report discussed the University Agreements:

Our efforts are specifically directed toward the discouraging of the Communist and demagogic practices of blaming the United States government and United States companies for Chile's ills; to explaining the benefits of the free enterprise system to any nation and to Chile by implication; and particularly to point out the beneficial role that foreign capital has played in the development of other nations including the United States itself.

Recently, the United States signed a Fulbright agreement with Chile which is the first of this kind in this hemisphere. When the program gets under way, it will assist particularly in our economic objectives through closer relations with the various universities here and will help us get into the important student organizations which have in the past been traditionally infiltrated with communist and pro-communist thinking.¹²²

¹²¹ Valdes, *Pinochet's Economists*, 91.

¹²² *U.S. Technical Assistance and Related Activities In Latin America: Hearings Before the United States House Committee On Government Operations*, 84th Cong., 1st Sess., On Oct. 10, 11, 13, 14, 17, 18, 20, 22, 24, 26, 28, 1955. Washington: U.S. G.P.O., 354-55.

The goal to stop the spread of Communist ideology directly influenced the exchange program with Chile. An appendix to an embassy report focuses on the importance of the Chilean economic ills.

From 1938 until 1952, Chile's government was controlled by the left center Radical party. During that period, it was "fashionable" to be leftist, with the result that a heritage of Marxist-Socialist thinking has accumulated over recent years. In general, this tends to be more evident in the economic than in the political sphere.¹²³

But it is clear that the program was to be mutually beneficial program. The U.S. government could spread its modernity and stop Communism, while Chile would reap an influx of new knowledge and use it to develop its society on all levels. Higher education was considered, by both the U.S. government and the Chilean institutions, the most important stepping-stone for helping Chile and extending U.S. influence.

The Chicago Exchange: La Universidad de Chile, La Universidad Católica and The University of Chicago

The discussions began in 1953. Between November 23rd and December 4th of 1953, the first General Assembly of the Union of Latin American Universities (ULAU) convened. The ULAU aimed to "assist associated universities and develop contacts between them; propose measures to improve and coordinate teaching and organization; promote exchange of faculty and students; urge recognition of and respect for complete autonomy and liberty of Latin American universities."¹²⁴ Simultaneously, and as part of the Assembly, a Conference of the Faculty of Latin American Economic Sciences met and the delegation from the University of Chile

¹²³ *U.S. Technical Assistance and Related Activities In Latin America: Hearings Before the United States House Committee On Government Operations*, 84th Cong., 1st Sess., On Oct. 10, 11, 13, 14, 17, 18, 20, 22, 24, 26, 28, 1955. Washington: U.S. G.P.O., 367.

¹²⁴ UNESCO, Homepage, last modified 2012, accessed March 19, 2012, <http://ngo-db.unesco.org/r/or/en/1100017695>.

proposed a program that would create “model or pilot” schools throughout Latin America. These schools, they imagined, would be primarily for students working to receive their titles as professor or doctor. The economics pilot school would be the University of Chile because of its superior teachings of economics and its association with important organizations, like the ECLA.¹²⁵

The Universidad Católica observed this initiative with great caution. The rector of Universidad Católica, Monsignor Alfredo Silva Santiago, believed this would limit the autonomy on its own school of economics. Moreover, the Católica delegation wanted to maintain the Catholic perspective of economics, which necessitated a separation from a university where “freemason, Marxist, and other materialistic orientations predominated.”¹²⁶ The rector, when interviewed by the Secretary General of the Union of Latin American Universities, made it clear that “the reservations of the Catholic University come from the initiatives of this organization and especially the Pilot School of Economy, which without a doubt threatens our autonomy.”¹²⁷ The Universidad Católica feared that it would soon be directed from abroad by people of “advanced and irreligious ideology.”¹²⁸ The Universidad Católica, unhappy with the proposition, worked to counter what they feared what could be a loss of power.

After this proposition, the rector decided to modernize the University’s economics department in order to strengthen the University’s autonomy. In order to do this, the dean of economics at Católica, Dean Julio Chana, contacted Albion Patterson, the U.S. representative in Chile. Monsignor Alfredo Silva Santiago, the rector of Pontificia Universidad de Católica de Chile had asked Patterson for help in the University’s Agriculture department a few years earlier.

¹²⁵ Valdes, *Pinochet’s Economists*, 120.

¹²⁶ Valdes, *Pinochet’s Economists*, 121.

¹²⁷ Correa, “Algunos Antecedentes,” 114.

¹²⁸ Correa, “Algunos Antecedentes,” 114.

Patterson rejected this request but suggested work in economics.¹²⁹ After the rector agreed to focus aid efforts in economics, Dean Chana took up negotiations with Patterson. The two men proposed to create an agreement between the La Universidad Católica and a North American university, to be chosen by the ICA. A letter from Dean Chana to Patterson from January 27th, 1955, described the aims and terms of the contract it wanted to institute through U.S. aid. The letter explained the reasoning and objective of an exchange:

We are convinced that national economic development should be realized essentially through the initiative of private capital. We are not, therefore, in favor of planning policies of the country's economic resources which suppose a unique direction, but of a systematic study of our conditions and resources in order to give efficacy to private capital investment.¹³⁰

And it noted what Chile required:

To get to our objective we are lacking an element which is indispensable: we lack those experts or leaders who can provide the necessary orientation to obtain the maximum promotion of our national economy through the application of private resources.¹³¹

Finally, it explicated the University's goal:

It is our desire to obtain, through the cooperation of your institute, an agreement between our university and a university from the United States – which according to our information could be the University of Chicago or the Massachusetts Institute of Technology (MIT) – for the joint creation of an institute for the study of the economic resources of Chile and the best way to develop them through the application of private technology and capital.¹³²

Preparations in the U.S. were simultaneously coordinated. The University of Chicago was the clear choice of the U.S. institution of higher education responsible for transforming Latin American economics. The Chicago doctrine opposed statist and interventionist development economics. And the University of Chicago was ecstatic to be part of this exchange. It added

¹²⁹ Valdes, *Pinochet's Economists*, 115.

¹³⁰ Valdes, *Pinochet's Economists*, 124.

¹³¹ Valdes, *Pinochet's Economists*, 124.

¹³² Valdes, *Pinochet's Economists*, 124: According to Valdes, the mention of MIT was used only to evaluate Patterson's flexibility on the proposition. It was never discussed after this letter. (information from a personal interview with Patricio Ugarte Hudson in 1985).

prestige to the University, placing it among the ranks of Harvard, Yale, Princeton, etc., and it enabled it to diversify its foreign student body, and to draw government funds that could be used to finance its graduate program.¹³³

Although an agreement had been reached between Patterson (and Schultz) and Dean Chana, there were some opponents to the idea. Monsignor Manuel Larrain, a bishop of the Catholic Church, feared that the agreement would implement conservative economics at the cost of social justice. Other concerns regarding the U.S. government's formal participation in the contracts, were placated by Patterson's assurance of Schultz's ability to lead the exchange and his encouragement of the exchange while noting "the struggle that it would be, but also the great things this program could produce, in a ten-year period, for the future of the country."¹³⁴

Patterson and Schultz eventually convinced the Faculty of Economics and the Universidad Católica signed on to the contract.

The Chicago Exchange: On Its Way

The agreement posed that the North American university would create a pilot project in Chile with full-time professors, research opportunities, libraries, and a flexible curriculum. On April 19th, 1955 the rector of Universidad Católica asked for official approval from the U. S. Embassy to begin an exchange "in order to establish a center of postgraduate economic studies related to the natural and human resources in Chile."¹³⁵ Just seven days later the embassy gave permission for "such a worthy project" and even authorized it "to enter into an agreement in the name of the Institute of Inter-American Affairs with the Catholic University of Chile to initiate

¹³³ Valdes, *Pinochet's Economists* 99.

¹³⁴ Valdes, *Pinochet's Economists*, 125.

¹³⁵ Valdes, *Pinochet's economists*, 126.

such a project in conformance with provisions set forth in the Basic Agreement (for Technical Assistance) of January 16, 1951.”¹³⁶

The Universidad Católica, excited about Patterson’s proposal, signed an agreement with the U.S. Foreign Operations Administration on April 28th, 1955.¹³⁷ The exchange resulted, in part from efforts from each government. But the choice to create an agreement with the University of Chicago stemmed from personal relations. After this initial suggestion, other factors strengthened the choice of the University of Chicago, but Patterson’s close friendship with Schultz encouraged the exchange. Some of the goals of the agreement stated:

- 1) Agree to establish in the Catholic University of Chile an Institute of Investigations of Economic resources, dedicated especially to the formation of post-graduates in any university.¹³⁸
- 2) The principal work of the institute will be the investigation of the role that corresponds to the private enterprise and the development of the national economy.¹³⁹
- 3) The Catholic University will establish an Advisory Council of the Institute mainly composed of prominent personalities in the producing activities of the country.¹⁴⁰

Apart from educating students on economic experience, the program also hoped to prepare young economists for the enterprises in Chile.

A few months later, a group of professors from the University of Chicago arrived in Chile to evaluate the circumstances in Chile and decide whether they wanted to

¹³⁶ Valdes, Pinochet’s Economists, 126.

¹³⁷ Correa, “Algunos antecedentes”, 116.

¹³⁸ “Se acuerda establecer en la Universidad Católica de Chile un Instituto de Investigación de los Recursos Economicos, dedicado especialmente a la formación de post-graduados de cualquier universidad” in Correa, “Algunos antecedentes,” 116.

¹³⁹ “Labor Principal del Instituto sera la investigación del rol que le corresponde a la empresa privada en el desarrollo de la economía nacional” in Correa, “Algunos antecedentes,” 116.

¹⁴⁰ “La Universidad Católica establecerá un Consejo Consultivo del Instituto integrado principalmente por personalidades destacadas en las actividades productoras del país.” From Actas del Consejo Superior de la Universidad Católica, in Correa, “Algunos antecedentes,” 116.

participate in the exchange.¹⁴¹ In March 1956, the two universities signed an agreement, stipulating an exchange program set to last three years. In September 1956, the first group of Católica students, the first “Chicago Boys”, arrived in Chicago, and, prior to that, in March 1956, a group of Chicago professors arrived in Chile and formed the Center for Economic Investigations. These professors began research projects and invited economic students in their last year at the University to work with them on these projects. These professors also began to host forums and publish pamphlets for the public—focusing on the national debate about inflation and the political discussion on the stabilization measures suggested by the Klein-Saks mission.¹⁴²

The U.S. foreign assistance programs to Latin America that had begun before WWII finally arrived at the Universidad Católica. The ICA and its programs, especially the Klein-Saks mission, carved a path for the Chicago exchange. In September 1956, three Chilean students arrived at the University of Chicago. Sergio de Castro, Carlos Massad, and Ernesto Fontaine were the first of several generations of Chilean economic students who would study at Chicago.¹⁴³

The next chapter examines the experiences of the Chilean students at Chicago. It traces their arrival at Chicago and their return to Chile. Once back in Chile, these economic students reintegrated into their universities as professors, eventually transforming the economics department of the Universidad Católica.

¹⁴¹ Correa, “Algunos antecedentes,” 116.

¹⁴² Correa, “Algunos antecedentes,” 118.

¹⁴³ Van Overtveldt, 349.

Chapter 3: From Chicago to Santiago: People and Ideas in Transit

The first wave of Chilean students arrived in Chicago between September and December of 1956. These students would soon be exposed to a different approach to education in economics. Unlike their Chilean experiences which emphasized history and imagination, a major aspect of the Chicago school was the emphasis on science and logic.¹⁴⁴ The recollections from a few of the first Chicago Boys of their time at Chicago demonstrate the implications of this transfer on a personal and on a national level. The Chilean students look back on their time at Chicago as a rewarding and transformative experience. Their memories of Chicago are of a rigorous academic environment alongside a fulfilling social experience. They forged strong relationships with their professors, especially Arnold Harberger. Many were asked, after receiving their Masters, to stay for a third year and earn their PhD, but most returned to Chile to work at la Universidad Católica in Santiago and only later returned to Chicago to complete their PhDs. At la Católica, they transformed the Economics department to be more like that at Chicago. They changed both the content and the structure of the courses.

The contract created between the University of Chicago and la Universidad Católica, originally supposed to last for three years, was amended and continued for a total of eight years, expiring in 1964.¹⁴⁵ After this, other organizations, like the Rockefeller Foundation, financed scholarships for Chilean students for years to come. This chapter looks at, specifically, how the Católica and Chicago professors chose which students to study at Chicago, the students' academic and social experiences at Chicago, and their return to Chile. It draws on the

¹⁴⁴ Dominique Hachette, "La Genesis de la 'Escuela de Chicago': Fines de los cincuenta de los sesenta," in *La Escuela de Chicago*, . Francisco Rosende (Santiago: Ediciones Universidad Católica de Chile, 2007) 39.

¹⁴⁵ Valdés, *Pinochet's Economists*, 127.

recollections from some of the first “round” of Chicago Boys—Sergio de Castro, Ernesto Fontaine, Alberto Valdés and Ricardo Ffrench-Davis. By 1964, these Chicago Boys, and their peers, dominated the Economics faculty at la Universidad Católica.¹⁴⁶ They returned to Chile with a newborn fervor to transform the Economics department at la Universidad Católica and with hopes of curing Chile’s economic ills. The students had not left for Chicago with the intention of transforming Chile’s economy, but at Chicago they realized the possibility of doing so. Although they maintained that the Chicago method of teaching was politically neutral and based purely on economic science, their conflicts, both inside and outside la Católica, when they got back demonstrates how these men became political actors on the stage of the upper ranks of Chile’s political world.

The “Chicago School”

The general economic theories upon which the “Chicago School” relied are important to understand because they became the basis for the economic policies implemented in Chile after the coup in the later 1970s. Although there is debate over whether a distinctive “Chicago School” existed, and what characteristics defined that school, certain aspects were consistently taught at Chicago.¹⁴⁷ The program at Chicago stemmed from the “Chicago Tradition”. Johan Van Overtveldt¹⁴⁸, an economist and scholar on the Chicago School of Economics, identifies five characteristics of the “Chicago Tradition”: “a fanatical work attitude, the firm belief in economics as a true science of the highest relevance for daily life, the emphasis on scholastic and academic achievement, the preparedness to put everything continuously into question, and the

¹⁴⁶ Valdés, *Pinochet’s Economists*, 164-165.

¹⁴⁷ The advent of the “Chicago School” has shifted over time. It School gained its distinctive character in the late 1930s, but the term gained popularity in the 1950s. In 1962, an article published by a Chicago economist identified five distinct characteristics of a Chicago economist. To read further, see Van Overtveldt, 2-11.

¹⁴⁸ Johan Van Overtveldt is the General Director of a Belgium-based economics think-tank, VKW Metena. His book, *The Chicago School: How the University of Chicago Assembled the Thinkers who Revolutionized Economics and Business* was the first to provide a complete history of the Chicago School of Economics. Alberto Valdés, a Chicago Boy, named it the best scholarship on the Chicago School.

apparently inspiring isolation of the University of Chicago.”¹⁴⁹ The teachings at the Chicago School centered on a distinction between economic science and economic policy. Good economic science fostered effective economic policy. Milton Friedman, one of the “presiding spirits” of the Chicago School, made the distinction clear in his description of the basic characteristics of the Chicago School in 1974¹⁵⁰:

In discussions of economic science, ‘Chicago’ stands for an approach that takes seriously the use of economic theory as a tool for analyzing a startlingly wide range of concrete problems, rather than as an abstract mathematical structure of great beauty but little power; for an approach that insists on the empirical testing of theoretical generalizations and that rejects alike facts without theory and theory without facts. In discussions of economic policy, ‘Chicago’ stands for belief in efficacy of the free market as a means of organizing resources, for skepticism about government intervention into economic affairs, and for emphasis on the quantity theory of money as a key factor in producing inflation.¹⁵¹

As the experiences of the students will relate, the courses offered at Chicago centered on applying economic theory to practical situations. Moreover, the Chilean students who left Chicago remembered that, among the most general and prominent aspects of the program, were:

- 1) the realism of the cycles of the markets surpass the realism of the structuralist explanation;
- and 2) that there is nothing sacred in a fixed exchange rate if one does not provide other conditions of macro-stability.¹⁵²

The Chicago professors had two important convictions: 1) that markets operate efficiently on their own and 2) that these free and efficient markets are the best form of organizing the distribution of productive resources in countries. The role of the economist is therefore to understand how the economy functions in order to describe and mediate the effects that produce the politics and distortions introduced by governments and the internal and external shocks that hit them. In other words, economists should clarify the effects a policy

¹⁴⁹ Van Overtveldt, 20.

¹⁵⁰ Van Overtveldt, 11.

¹⁵¹ Van Overtveldt, 6.

¹⁵² Rosende, 35.

will have, in order to influence efficient politics that will bring a country to its maximum productivity. Good economists lay out the economic facts so that the best political policies and measures can be taken.¹⁵³ The students chosen to go to the University of Chicago on scholarships implemented these principles beginning in the 1970s.

Choosing Students

The Faculty of Economics of the Universidad Católica and the University of Chicago Professors who visited Chile worked together to choose specific and capable recent graduates from the Economics and Agronomy Faculties at the Universidad Católica. The Chicago professors only offered entrance exams to Chilean students at the top of their class. Participation in the program was not open to all students—only those who demonstrated a “capacity for rational intelligence, quality of prior training in economics, and command of English.”¹⁵⁴ Sergio de Castro, one of the first students to receive a scholarship to study at Chicago, had attended high school at The Grange School, a bilingual school in Santiago which emphasized and required spoken English. According to De Castro, the school’s emphasis on rigorous academics and on sports instilled a competitive spirit in him: “I am convinced that sports teach us a lot. It is self-demanding, obliges one to strive, and to overcome and cooperate with others in search of a goal.”¹⁵⁵ This theme would carry into De Castro’s professional life after Chicago. After developing a strong fluency in English during high school, he attended the University of British Columbia for two years. It was there that de Castro realized he did not enjoy his courses in the humanities, but preferred courses that used numbers to solve practical problems.¹⁵⁶ When he

¹⁵³ Rosende, 14.

¹⁵⁴ Valdés, *Pinochet’s Economists*, 136.

¹⁵⁵ Patricia Clavel and Francisco Paez, *Sergio De Castro: El Arquitecto del Modelo Economico Chileno* (Santiago: Editorial Biblioteca Americana, 2007) 34. “Soy un convencido que el deporte ensena mucho. Es autoexigente, oblige a esforzarse, superarese y a cooperar con otros en busca de una meta”

¹⁵⁶ Clavel and Paez, 42.

returned to Chile and enrolled in the University of Chile Commercial Engineering department, he found the classroom and curriculum to be disorganized. De Castro later said that he wanted a more rigid classroom environment. During the summer of 1952, he transferred to the Faculty of Business and Economic Science at the Universidad Católica.¹⁵⁷ He was at the top of his class at Católica. When the team of Chicago professors arrived in Chile, de Castro and his friend, Ernesto Fontaine, who both had strong commands in English, were sent by Dean Chana, to retrieve and welcome the professors.¹⁵⁸ Fontaine and De Castro sat in on the meeting with Dean Chana and Rector Alfredo Silva Santiago and translated the negotiations.¹⁵⁹ The students and professors later recalled having received good impressions from this first interaction.

At the outset, the Chilean students saw the offer of a scholarship to go to Chicago as an opportunity to upgrade and enhance their studies in economics. Sergio de Castro recalled that “one day, they asked me if I wanted a scholarship, and I, without thinking twice, said right then yes.”¹⁶⁰ De Castro went to Chicago in the fall of 1956. Ernesto Fontaine remembered that upon seeing the North American professors and hearing that some students would be able to study at Chicago, “we were all enthusiastic. But I did not receive a scholarship in the first round because I did not have as good grades as el Tejo (Sergio de Castro), who was the first in the class.”¹⁶¹ But soon after, in the winter of 1957, Fontaine joined the students in Chicago. Alberto Valdés was in his final year of pre-graduate schooling to earn an Agricultural Engineering degree. The Center for Economic Research at La Católica offered Valdés the position of a research assistant in order to prepare for his Agricultural Engineering thesis. He worked as an assistant and translator for

¹⁵⁷ Clavel and Paez, 49.

¹⁵⁸ Clavel and Paez, 62.

¹⁵⁹ Ernesto Fontaine, “Chicago School of Thought in Chile”, (speech, Chicago University, Chicago, IL, April 18, 2009)

¹⁶⁰ Clavel and Paez, 62. “... Y un dia, me dijeron si queria una beca, y yo, sin pensarlo dos veces, dije altiro que si.”

¹⁶¹ Clavel and Paez, 61. “Todos estabamos muy entusiasmados, Pero yo no fui becado en la primera ronda porque no tenia tan buenas notas como el Tejo, que era el primero del curso.”

James Bray, an American who was part of the team of Professors sent by the University of Chicago to host forums and conduct research projects with the Chilean students. After completing his thesis, the Chicago professors offered him a scholarship to go to Chicago. The Chilean students viewed the scholarship for Chicago as an honor and were eager to continue their studies at Chicago.

The contracts stipulated that the students return to Católica to teach after earning their degrees at Chicago. De Castro sensed that his decision to attend Chicago would change the path of his professional life. If he had followed his path to become a Commercial Engineer, he would have been guaranteed work in a public or private company. Instead his decision implied that he opted for a different life—that of an academic—now that he was contracted to return and teach what he had learned.¹⁶² He knew what he wanted to do: “I took part in Chicago with the commitment to return and dedicate myself to teaching . . . I liked and knew that from here onwards the center of my activity was going to be, precisely, to educate people in the university.”¹⁶³ The Chicago professors who came to speak at La Católica about the program gave speeches to the students that glorified the opportunities the Chicago-trained students would have in their careers. De Castro remembered one specific speech from Peter Bauer, who told the students they could “eventually change the destiny of the country.” Sergio and his peers “died laughing, because in reality, [they] were not even capable of changing the course of a *manicero* ship [a peanut vendor’s cart].”¹⁶⁴ The Chilean students, then, did not foresee the impact they would have on Chile.

At the initial stages, the exchange was, for the students, an opportunity to travel outside Chile and finish their economics degrees at a prestigious university known for its economics

¹⁶² Clavel and Paez, 62.

¹⁶³ Clavel and Paez, 86.

¹⁶⁴ Clavel and Paez, 61.

department. Ricardo Ffrench-Davis, by virtue of being a top student, took the exam given by the Chicago professors. His impressive grade led the Chicago professors to offer a scholarship to Chicago. He gratefully accepted, but “was conscious of the political bias.”¹⁶⁵ Other students, like Alberto Valdés, only really became aware after they left Chicago that “the Chicago School” might have a political charge.¹⁶⁶

Critics have asserted that this exchange of economists was tainted because Chicago sought to indoctrinate its Chilean students with an ideological approach to economics. Although, the exchange was criticized for being ideological, the selection process focused only on knowledge of economics. Students were not chosen based on their political or ideological leanings. Ideological tendencies may have been reinforced by the fact that those Chileans at the University of Chicago would recommend potential candidates to come to Chicago. But the selections were not purposefully aimed towards more conservative economic students. Despite criticisms that the Chicago school sought to influence the politics of Chile, the Chicago School did not seek to influence its Chilean students in an ideological manner. John Panzer, another Chilean graduate of University of Chicago agreed that Chicago taught their students to think analytically in all aspects of economics, “to think about what made sense . . . so it was not ideological, in fact.”¹⁶⁷ Another Chilean Chicago graduate asserted that there are not economists of the left or right, just good or bad economists. The students saw the opportunity as an honorable academic accomplishment and did not intend to implement transformations in Chilean society and even remained wary of any political motives behind the exchange.¹⁶⁸

¹⁶⁵ Ricardo Ffrench-Davis, personal email, 4 March 2012.

¹⁶⁶ Alberto Valdes, personal email, 1 March 2012.

¹⁶⁷ John Panzer, Personal Interview, 22 December 2011.

¹⁶⁸ For more discussion, See Valdés, *Pinochet's Economists*, 138 and Rosende, *La Escuela de Chicago*, 52.

The Chilean students maintained that their economics education was politically neutral and purely scientific. Professor Harberger spoke of the “Chicago School” as a neutral entity: Chicago is “studying facts, measuring things, palpate the reality with figures” and with this methodology it is possible to elaborate “a robust, simple, strong, theory...”¹⁶⁹ The students used this neutral education as the basis for their economic policies.

Life At Chicago

The Chilean students praised the Chicago professors, the course material, and the rigorous and unique experience afforded to them. After two years at Chicago, the Chilean students became more eager to return to Chile as the idea of transforming the Economics department at la Católica and “changing the destiny” of Chile became more tangible.

The social and academic atmosphere at Chicago was distinct from what the Chileans had experienced at la Católica. The competitive and intense atmosphere surprised the Chilean students. The Chileans felt different from the other students when they helped one another with their studies. The “gringo” students, De Castro remembers, were skeptical of helping one another for fear of giving an advantage to one student. When De Castro and a friend brought a sick “gringo” student some food and the class notes from the classes he had missed, the confused student offered to pay them and became puzzled when the Chileans declined the payment and continued to bring him more food and notes the next day.¹⁷⁰ Their courses included theoretical analysis of: general economics, monetary economics, price theory, statistics, historical economics, income and employment. And their coursework involved applying learned theories to practical problems—something they did not practice in Chile. The academic year was divided into trimesters and students took three or four courses per semester. The final exams were graded

¹⁶⁹ Clavel and Paez, 65.

¹⁷⁰ Clavel & Paez, 75.

on a curve and the quizzes used “true or false” questions, something familiar to them in Chile. But the quizzes required justification for either true or false answer—something which was not demanded of them in Chile.¹⁷¹

The Chilean students wrote theses to earn their Master’s degrees and those who returned to complete their PhD wrote dissertations. Ricardo Ffrench-Davis wrote his dissertation, “wisely guided by Harberger”.¹⁷² Ffrench-Davis enjoyed writing his thesis between February and June 6, 1971—it was a “fruitful” time for him. Although the thesis was written in English, he only published the book in Spanish. He regretted not publishing it abroad in English, but was “caught by severe events then going on in Chile.”¹⁷³ The students became increasingly aware and concerned with the future of their homeland.

The students forged strong relationships with their professors, especially Milton Friedman, Arnold Harberger, Gregg Lewis, Theodore Schultz, and George Stigler and said that these encouraging relationships made them more excited about their academics. These encouraging relationships made the students more excited about their academics. De Castro remembered one “extraordinary” price theory course with Friedman.¹⁷⁴ And Arnold Harberger (whom they called Alito) was a favorite among the Chilean students and influential to their experience at Chicago and after Chicago. Harberger received his master’s degree from the University of Chicago in 1947, and a PhD in economics in 1950. He described himself as a “representative of the neoclassical tradition of economic science” and became known for the “Harberger triangles”: economic losses caused by a departure from the competitive

¹⁷¹ Clavel & Paez, 66.

¹⁷² Ffrench-Davis’ thesis eventually became his book, *Políticas Económicas en Chile: 1952-70*.

¹⁷³ Ffrench-Davis, personal email, 4 March 2012.

¹⁷⁴ Clavel & Paez, 68.

equilibrium.¹⁷⁵ Although his contributions to economics are extensive, Harberger felt equal admiration for his Chilean students: "...a great piece of my life is involved with these *Latinamericanos*...[and] ... I feel prouder about my students than of anything I have written."¹⁷⁶ In December 2011, at the funeral of Harberger's wife, Anita, Fontaine referred to Harberger as the "the protector and the shoulder on which the Chicago Boys could mourn their sorrows."¹⁷⁷ The Chilean students had introduced Alito to Anita at one of their weekly Saturday night parties, where students and professors came to enjoy Chilean food and drink.¹⁷⁸ Alberto Valdés remembered Harberger's "price theory" course to be his most challenging but one of his favorites. He noted that having Harberger as a professor was "a great privilege. He got us enthusiastic about the logic and intuition behind micro economic theory." Valdés remarked that "[his] greatest intellectual debt as an economist is with Arnold Harberger, with whom [he has] kept in touch until now (2012)."¹⁷⁹ Alito was their counselor and "older brother" who would come to their rooms around midnight during stressful weeks and take them to Jimmy's, a bar on campus. From there, Alito invited them to his apartment where they would talk until dawn. These students gained the valuable experience of learning from and befriending a figure that would influence and inspire them for the rest of their lives.

On one of these "Jimmy's" nights, Harberger told them that they would leave a legacy as "the tigers of Chicago" and would change Chile.¹⁸⁰ The euphoria of that night led the group to make an agreement:

¹⁷⁵ Van Overtveldt, 352.

¹⁷⁶ Valdés, *Pinochet's Economists*, 156.

¹⁷⁷ Ernesto Fontaine, "Misa en Memoria de Ana. B. Harberger (Speech at Ana B. Harberger's funeral, December 28, 2011).

¹⁷⁸ Fontaine, "Chicago School of Thought in Chile", speech.

¹⁷⁹ Alberto Valdés, personal email, 13 March 2012.

¹⁸⁰ Ernesto Fontaine, *Mi Visión: Sobre la Influencia del Convenio U. Católica – U. de Chicago en el Progreso Económico y Social de Chile* (Instituto Democracia y Mercado / Facultad de Gobierno, 2009) 43-44.

We made a type of pact of honor in which we committed to return to University Católica to first, transform [its] school of Economy to the best of Chile, and afterwards, of Latin America; to reform the University; to reform the political economy of the country first, and afterwards of the region, and to transform the way of operating the public and private enterprises of the country. What an audacious dream!¹⁸¹

This informal, but exuberant, pact demonstrates the evolving intention of the Chicago graduates: to change the way of thinking about economics and the political economy in Chile. In the midst of their eagerness to return to Chile and embark on this dream, the students declined generous offers to continue past their Masters degrees and complete their Doctorate. In 1958, after his second year at Chicago, De Castro completed his Master's degree and two of the three exams at the doctorate level. The Chicago Economics department offered to have him stay and complete his doctorate, but De Castro said that he felt emotionally and intellectually drained and returned to Chile. De Castro later explained that there were not enough distractions at Chicago—during his two years at Chicago, he had only gone on two short trips, to New York and Boston, during vacation periods. He also believed that a degree from La Universidad Católica mattered more than one from Chicago.¹⁸² Although De Castro would return to Chicago in 1962 to finish his doctorate, he first returned to Católica and aided in the drastic transformation of the Economics department.

The Chicago Faculty also extended this offer to stay on for a doctorate to Ricardo Ffrench-Davis, who also did not accept because he wanted to return to “Chile to teach, learn about Chile, and Latin America and adapt the theories I had studied in Chicago to the social and economic structures of where I wanted to work and to serve with my knowledge; I thought it

¹⁸¹ Clavel & Paez, 74 “Hicimos una especial de pacto de honor mediante el cual nos comprometimos a volver a la Católica para transformar a nuestra Escuela de Economía en, primero, la mejor de Chile y, después de Latinoamérica; a reformar la Universidad; a reformar la política económica del país, primero, y de la región, después, y transformar la manera de manejar las empresas públicas y privadas del país. Que sueño tan audaz! Que satisfacción nos da y como agradezco a Dios poder comprobar en vida que gran parte de ese sueño se ha hecho realidad!”

¹⁸² Clavel and Paez, 82.

convenient to replenish progressive forces.”¹⁸³ Their time at Chicago had inspired a goal among the students, to return to Chile and use their new education to change Chile forever. They would soon use their “purely scientific” Chicago education to influence first, la Universidad Católica, and later, the Chilean economic model.

Return to Chile

Like Ffrench-Davis and De Castro, most of the first generation of Chicago Boys returned to the Universidad Católica and taught full-time in the Economics department, with larger goals of transforming Chile. The Economics department at Católica had grown and changed its composition since the first Chilean students left in 1956. Its name changed to “The Faculty of Economic and Social Sciences” because a Belgian Jesuit priest, Roger Vekemans, added, in 1958, a Sociology department to the School of Economics and Administration.¹⁸⁴ His inclusion into the Economics School would soon become a source of conflict. The rigid teachings of the re-born Católica Economics department clashed with this Sociology department.

The Chicago Boys began returning to Chile towards the end of the 1950s. Sergio de Castro returned to Chile in 1958, Ernesto Fontaine followed in 1959 and Ricardo Ffrench-Davis in 1962. They began reforming the economics curriculum at Católica in 1959. By January of 1959, when four Chicago graduates returned to Católica they “revolutionized the teaching of Economics in our School.”¹⁸⁵ Dean Julio Chaná and Alberto Neumann, director of the school, gave the group a “carta blanca” to renovate the department.¹⁸⁶ The transformation included revamping the content and structure of the curriculum to be similar to that of Chicago, so that the

¹⁸³ Ricardo Ffrench-Davis, personal interview, 5 January 2012. He planned to return in a few years to finish his PhD, which he did in 1971, completing a dissertation with Harberger, titled “Políticas Económicas en Chile: 1952-70.”

¹⁸⁴ Clavel and Paez, 85.

¹⁸⁵ Fontaine, “Chicago School of Thought in Chile”, speech.

¹⁸⁶ Clavel and Paez, 86.

core teachings focused on the “truly important” study of economic science.¹⁸⁷ The group decreased the number of required courses to sixteen, but increased the demands of each courses: strict records of attendance, mandatory readings, and numerous written evaluations. They increased the number of faculty so that by 1961, Católica had thirteen full time professors, “something unheard of in any school of that nature in Chile.”¹⁸⁸ But these thirteen full-time professors, and the changes they introduced, were not welcomed without resentment. What began as a renovation of the Economics department by Chicago graduates soon began to be noticed and critiqued by strong forces inside and outside the La Universidad Católica.

Tensions Within La Universidad Católica

Tensions increased inside the Economics department between De Castro and Vekemans. The two departments clashed because they focused they approached teaching in very distinct ways. The Economics department relied on professional and intellectual tools that were “scientific, rational, pragmatic and neutral: never coupled with, though not contrary to, morality and politics.” The full-time Chicago-educated professors “had learned and taught economic science, dry economics...a rational thought whose methodology was characterized by constantly validating theory with empirical experience.”¹⁸⁹ De Castro believed that Vekemans’ approach was “tainted” by the political urgency of carrying out social changes. Vekemans, according to De Castro, was a believer in the efficiency of global planning carried out under the tutelage of the State, and feared the possibility of returning to classic liberalism that enabled economic freedom. De Castro viewed Vekemans as intelligent, but “one of the coldest people he had ever met.”¹⁹⁰

¹⁸⁷ Clavel and Paez, 87.

¹⁸⁸ Fontaine, “Chicago School of Thought in Chile”, speech.

¹⁸⁹ Clavel & Paez, 90. “Eran científicas, razonadas, pragmáticas y neutras: ajenas, aunque no contrarias, a la moral y a la política...economía a secas, es decir, un conocimiento racional cuya metodología se caracteriza por validar constantemente la teoría con la experiencia empírica.”

¹⁹⁰ Clavel & Paez, 90. “Vekemans era muy inteligente pero el tipo más frío que he conocido en mi vida.”

De Castro remembered a conversation they had when they were friends, “He told me: ‘I have few years and seeing that I want to influence Chilean society, I have to find a mechanism to do it through the Catholic University and the Christian Democrat Party.’ So, coldly calculated...he thought exclusively in the importance of his objective, which was to make an important change in Chilean society and for that, he needed to influence.”¹⁹¹ The Chicago graduates held firm to their belief that their approach to teaching was not politically charged. But this conflict demonstrated that the Chicago Boys were, in fact, becoming political actors as they became involved in conflicts between groups separated by political beliefs.

Vekemans rejected the Chicago predominance imposed on the Economics school. He offered to bring the students and faculty together through open forums and discussions which ended in arguments between two distinct groups: the Christian Democrats who defended the doctrine of the church and the new liberals, educated or influenced by the Chicago School, who defended their economic science.¹⁹² Vekeman’s frustration led him to assign himself the role of “intervener” of the School and side with a group of students in a strike against the Economics School. In 1959, a student strike began to protest the expulsion of seven students who cut the hair of four classmates. These four classmates had taken an exam that the rest of the class, without the Professor’s consent, had voted to postpone. The seven students left for the University of Chile, arguing that they wanted to learn economics that was applicable to Chile’s development. Vekeman’s supported these students in their complaints of the “abstract character” of the “new economics”.¹⁹³ But the opposing group of students, who felt an urgency to modernize the

¹⁹¹ Clavel & Paez, 90-91. “‘Tengo pocos años y como quiero influir en la sociedad chilena, tengo que buscar el mecanismo para hacerlo a través de la Universidad Católica y el Partido Demócrata Cristiano’. Así, fríamente calculado...pensaba exclusivamente en la importancia de su objetivo, cual era hacer un cambio importante en la sociedad chilena y para eso necesitaba influir.”

¹⁹² Valdés, *Pinochet’s Economists*, 173.

¹⁹³ Valdés, *Pinochet’s Economists*, 176. The strike emerged amongst a group of students who were dissatisfied with their Economics course, arguing that they did not understand its relevance to Chile’s development.

economics department, ultimately prevailed, creating strong relationships with De Castro, Fontaine, Luders, and the other Chicago-educated professors. The strong links between the students and professors, like those experienced by the Chicago Boys during their time at Chicago, helped to support the cause that led to Dean Chaná's resignation in 1964.

Chicago Thought Moves Outside La Universidad Católica

While the returning Chicago Boys dedicated themselves to their academic activity and creating an economics department similar to that in Chicago, they began to spread economic thought outside the University. They voiced their opinions through op-ed pieces written for magazines and newspaper publications. They supported ideas connected to the conservative side of the political debate, addressed in Chapter 1, and denounced those which were in tune with the leftist leaning debate. They also began to be called upon for real advice.

In 1959, the IANSA (Industria Azucarera Nacional—National Sugar-Refinery Industry) asked Ernesto Fontaine to do an evaluation of Chile's national sugar beet industry, a study that eventually became his doctoral thesis, and began his career as a project evaluator. After studying the specifics of this industry, Fontaine, in 1969 became disenchanted with the Frei administration's decision to expand the beet industry, an industry that Fontaine found to be socially and economically inefficient for the country. He proposed that, since these inefficient plants were already constructed, Chile should keep two of the three plants. When, in 1969, the Frei administration proposed to construct another plant and commissioned IANSA's general manager to write an article in a magazine, "the sweet sugar example" (el dulce ejemplo azucarero), Fontaine responded with an op-ed, "the sour sugar problem" (el agrio problema azucarero).¹⁹⁴ Fontaine's piece infuriated the manager. After Fontaine issued a cost-benefit analysis that showed that the cost of building another plant would be greater than the accrued

¹⁹⁴ Fontaine, *Mi Vision*, 70.

benefits, Frei, in 1969—the last year of his presidential term—nevertheless ordered the construction of another plant. Fontaine saw this as a move to garner farmers' votes and became infuriated at the disregard for economic science in favor of political issues. This tension caused Frei to identify Fontaine as an enemy of all public enterprise.¹⁹⁵ This created sour relations between the Chicago department and the government.

Aside from doing research projects, the returning students also wrote for many magazines and other economic publications. De Castro wrote for a magazine of the CIEUC (Center of Investigation at la Universidad Católica) called *Cuadernos de Economía*. And in 1962, with the help of one of his students, Fernando Rodríguez, he developed a series of surveys of 12 industrial groups that analyzed the causes of the existing differences in the levels of wages of the manufacturing workers in Santiago. The study was published ten years later. De Castro enjoyed such projects: “Now installed in the Chilean reality, I started to write some papers in which I suggested what appeared convenient to confront economic problems, but always from an academic perspective. This was my strength and I was not about to abandon it.”¹⁹⁶

When the CIEUC asked the professors at Católica to write for the magazine, De Castro wrote an article that spelled out the ways in which Chile should sustain its political economy in order to promote development. Rolf Luders, another graduate of Chicago, sent De Castro's article to the magazine, *Ercilla*, which published it under the title “The [Universidad Católica] Mediates the Controversy of the Dollar”.¹⁹⁷ De Castro's economic prescription for Chile was released for the public to read. The topic was contentious because Alessandri had just devalued the peso against the dollar. This devaluation had a strong negative effect on the industrial sector

¹⁹⁵ Fontaine, *Mi Vision*, 68.

¹⁹⁶ Clavel & Paez, 94. “Ya instalado en la realidad Chilena, comence a escribir algunos papers en los que sugería lo que me parecía conveniente para hacer frente a tal o cual problema económico, pero siempre desde una perspectiva académica. Esa era mi Fortaleza y no estaba dispuesta a abandonarla.”

¹⁹⁷ Clavel & Paez, 94. “La UC tercia en polemica del dolar.”

that imported large amounts of foreign material, now made more expensive with a weaker peso. But De Castro believed that the devaluation was insufficient and that the country relied too heavily on its protectionist policies such as high tariffs, import bans, and quotas.¹⁹⁸ He wrote that the only way to protect the national industry was to implement a normal exchange rate and a reasonable tariff (about 15%). Only those industries whose social benefits surpass the private benefits could demand higher protection.¹⁹⁹ The proposals laid out in this article became the strategies implemented later by De Castro, when he was Finance Minister under Pinochet.

Such rationale ruptured the import-substitution model that dominated Chile, and ignited a fierce controversy between the industrialists and the defenders of economic protectionism. Anibal Pinto, an economist who supported the import-substitution model, wrote a fierce counter-attack to De Castro's article. De Castro was, for some weeks afterwards, "in the eye of the hurricane."²⁰⁰ The article also infuriated the government. Jorge Alessandri, feeling personally attacked by the article, called Dean Chana, who summoned De Castro to his office and required that all material that was to be published by the CIEUC be approved by him before publication. At the beginning of the 1960s, a crisis emerged among the Economics faculty. The authorities of the faculty wanted to censor the faculty's publications. Soon after, in August, 1962, Ricardo Ffrench-Davis submitted a paper, "Balanza Comercial, Tarifas y Terminos de Intercambio [Balance of Payments, Tariffs and Exchange Rates]" that strengthened the case for the devaluation of the peso and the liberalization of trade.²⁰¹ It predicted that the peso fixed at 1.05 dollars, established by Alessandri, was not sustainable, and that the government would have to devalue it soon. This infuriated Chana because, as the Minister of Mining under Alessandri, he

¹⁹⁸ Clavel & Paez, 94.

¹⁹⁹ Clavel & Paez, 96.

²⁰⁰ Clavel & Paez, 96.

²⁰¹ Valdés, 172.

had worked closely with Alessandri and been a part of the economic decisions made in his administration. Furthermore, Chana, received “a slap on the wrist” from Alessandri for the publication of his “boys”.²⁰²

The Chicago Boys Disperse and Regroup

De Castro and his colleagues saw this demand for censorship as an attack on academic freedom and decided to leave Católica and return only when the faculty was headed by someone influenced less by politics. Rolf Luders went to the United States and Ernesto Fontaine to Argentina. De Castro returned to Chicago for the last quarter of 1962 to receive his PhD. The Rockefeller Foundation financed his return to Chicago.²⁰³ De Castro’s absence, because he was a leader of the Chicago Boys and, especially, of their transformation of the Economics department, at La Católica was definitely noted by the faculty and students. His departure was seen as a form of protest to the censorship imposed by Chana. The power of the “Chicago School” in Chile may have appeared to be losing power in numbers, but it was, in fact, gaining a more distinct group of followers who would prove to be instrumental later in the complete takeover of the economics department at Católica by the Chicago Boys. The students who linked themselves closely with the young faculty agreed to meet with Dean Chaná and express their support for the Chicago Boys. This pressure, in conjunction with demands and complaints over low salaries (the professors were not satisfied with their salary levels and complained that they did not even equal the real incomes as those of 1962)²⁰⁴ led Chaná to resign. The staff members eventually submitted a list of the demands, signed by all members of the Economics department. Greg Lewis and Arnold Harberger remarked, on their visit to La Católica in the summer of 1964,

²⁰² Fontaine, *Mi Vision*, 72.

²⁰³ Clavel & Paez, 97. The Rockefeller and Ford Foundations financed scholarships to Chicago after the end of the original program (Fontaine’s speech).

²⁰⁴ Valdés, *Pinochet’s Economists*, 177.

the morale of the Faculty generally was very low... The adjustment in their salaries that had been tentatively proposed by their Dean they felt were inadequate in the light of the inflation during the preceding year and alternative salaries outside of the University. Much more important, however, was their great uncertainty about their futures, individually and collectively, in the University. In part this uncertainty stemmed from lack of communication between the Dean and the faculty members. Before the end of January the issue was brought to a climax by a letter to the Dean, signed by all of the full-time members of the economics faculty, presenting their grievances. Dean Chaná promptly resigned.²⁰⁵

The resignation of Dean Chaná signaled a decisive moment for the Chicago Boys. De Castro and Luders both returned from their leave in Columbia and Washington DC, respectively.²⁰⁶ By 1965, the power of the Economics department lay in the hands of De Castro, then Dean of the economics department, and Pablo Baraona director of the School of economics.²⁰⁷ That same year, Rolf Luders was appointed the Director of Planning at Católica. —“from that point, we had the hope in beginning to reform the faculty of economics.”²⁰⁸ The reform included transformations within the department as well as the export of the Chicago tradition.

In 1966, the economics department at Católica experienced another major event. It expanded its space and bought the seminary of Saint George in Los Dominicos. They used this space to create a program based on a system of credits which would give more flexibility to the curriculum of the students.²⁰⁹ In 1968, the school created the “Programa Especial de Economía para Alumnos Latinoamericanos”, PREL for Latin American students outside of Chile. These students received their Commercial Engineering title, but specialized in economics. After studying for two years in their country of origin, students would spend three years studying with PREL. Many went on to receive their post-graduate titles at Chicago and gained posts as the

²⁰⁵ Valdés, *Pinochet's Economists*, 177.

²⁰⁶ Valdés, *Pinochet's Economists*, 178.

²⁰⁷ Clavel & Paez, 105.

²⁰⁸ Fontaine, *Mi Vision*, 72-73.

²⁰⁹ Fontaine, *Mi Vision*, 83.

World Bank, in government, or at their Universities. This was the first institution in Latin American that was approved to receive students on scholarship from AID, “using American taxpayers money.”²¹⁰ This program helped to extend the Chicago influence across Latin America.

Conservative Writings

By 1970, this group of Chicago Boys, led by Sergio de Castro, began writing for the economics section of the conservative Chilean newspaper, *El Mercurio*, and for a news magazine, *Que Pasa*. The magazine was founded by Hernan Cubillos, Agustín Edwards, Roberto Kelly, and Jose Toribio Merino, most of whom had served, or were serving, in the navy. The Chicago Boys made sure to voice their opinions at this critical moment in Chilean society, as described in Chapter One. The relationship of the Chicago Boys with *El Mercurio*, and Agustín Edwards, its owner, is of special importance in the change of *El Mercurio* from a newspaper exhibiting “objective journalism” to one which sought to educate the public in the importance of economic science and the superiority of economic science to social and political obstacles.²¹¹ In 1966, Pablo Baraona, a fellow Chicago Boy, had asked Adelio Pipino, a Chicago-educated economist and member of the Center for Social and Economic Studies (CESEC), to write economic analysis articles for *El Mercurio*. When Pipino left Chile from 1967-1969 to work for the International Monetary Fund, his Chicago classmates wrote for the economics section. These articles, for the most part, remained free of any ideological considerations and debates outside the economic sphere. But, they certainly denounced Chile’s economic approach and model under the Christian Democrat government. Even Pipino noted “the articles had tinges of opposition to the Frei administration.”²¹² But as Valdés astutely notes, the significance of the Chicago Boys’ involvement with *El Mercurio* was that it was an effort to “educate the Chilean ruling class

²¹⁰ Fontaine, *Mi Vision*, 86.

²¹¹ Valdés, *Pinochet’s Economists*, 234.

²¹² Valdés, *Pinochet’s Economists*, 232.

regarding the social prevalence of so-called economic science, which should not only regulate entrepreneurial activity, but should also subordinate political principles regarding the state's organization and the country's social structure."²¹³ The Chicago Boys' use of the mass media aimed at highlighting the advantages of economic science, and eventually helped them to spread their "Chicago ideas" after 1974 when Pinochet was in control. Their devotion to economic science made them attractive candidates for drawing up a new economic plan for Chile.

El Ladrillo

Leading up to the coup of 1973, the military felt confident in its ability to succeed with a political overthrow of the government, but felt less confident in its ability to rescue the economy. The naval sources expressed concern about the trajectory of Chile's economic woes: "it is very easy to overthrow Allende. The important thing is what to do with the government: how to solve the economic problems."²¹⁴ In 1972, the navy called on Roberto Kelly, a former navy man and friend of *El Mercurio's* Agustín Edwards and José Toribio Merino, who became the navy representative to the junta in 1973, to gather a group of economists to formulate a plan to combat Chile's increasing inflation, price distortions, and falling production. These economists met in Viña del Mar and, using their class notes from Chicago, created their economic treatise, *el ladrillo*, so called because it was as thick as a brick. The document explicated how to apply the free-market model to all areas of the economy. They presented the economic plan to Pinochet soon after the military coup.²¹⁵ After the coup, Pinochet placed the navy, led by Admiral Merino, in charge of the economy and asked Kelly to take charge of ODEPLAN (the planning office). At this time, Chicago Boys filled most positions at ODEPLAN. The Chicago Boys eventually persuaded the military that Chile's economic problems could be solved only through a

²¹³ Valdés, *Pinochet's Economists*, 234.

²¹⁴ Valdés, *Pinochet's Economists*, 252.

²¹⁵ Paul Sigmund, 91.

transformation to a free-market model, leaving Allende's statist approach behind. The Chicago approach was put into practice in Chile.

The Chicago Boys had come a long way since 1955, when, as young students, they had eagerly shipped off to Chicago to earn their Masters degrees from the University of Chicago.. They entered into a foreign environment with new peers, a new language, in a new city, and learned new material from new professors who used a new approach. Although the students were contracted to return to Chile and teach at la Universidad Católica, they did not go to Chicago with the intention of returning and creating a commotion at the Universidad Católica or in Chile. While at Chicago, the students were immersed into a rigorous academic environment in which, they forged valuable relationships with each other, professors, and other American students. This positive experience made the students excited to return to Chile and teach others what they had learned. They used new teaching styles and new economic models and theory. Those that enjoyed and accepted the new theories became adamant followers and helped to create a sound base for the "Chicago School" in Chile. And indeed, by 1970 the Chicago Boys had driven the Dean of la Católica from his position and filled most administrative positions with Chicago graduates. And because of their new approach to economics, the Chicago students became the minds to which Pinochet and his cabinet looked for economic advice.

Chapter Four: The Chicago Boys In Action

Pinochet assumed power in the midst of political and economic chaos. Allende, refusing to submit to Pinochet's coup, committed suicide in the Presidential Palace. In a radio announcement on September 11, 1973, Pinochet told the people of Chile "This is...a military movement" aimed at "salvaging the country."²¹⁶ The early months of military government were intended to "save Chile from Communism."²¹⁷ In order to save the country, Pinochet needed to stabilize the economy. The difference between the official exchange rate and the black market exchange rate was enormous. One Chilean remembers "[he] could take [his] girlfriend to the best restaurant for one dollar each."²¹⁸ But without a strong education in economics, Pinochet placed the economy in the hands of the Chicago Boys and "bought that vision of what the country could be."²¹⁹ When the Navy officials, appointed to economic advisory positions directly after the coup, replaced themselves with Chicago Boys, they were able to take control of and realize their goals, which had been laid out earlier in *el ladrillo*: a complete reversal of the state-interventionist economic policies that had dominated Chile since the 1920's.

The legacy of the Chicago Boys can be divided into three phases, two of which fell under Pinochet and one that continues today. The first phase, from 1973 until the early 1980s, included major economic transformation but inconsistent economic success: the government was able to get rid of price controls, largely liberalize trade, encourage exports, and unify the outlandish exchange rate. But inflation persisted at high rates.²²⁰ The second phase, from the early 1980s through 1990, was marked by sustained economic growth, still within an authoritarian regime.

²¹⁶ Smith, 196.

²¹⁷ Smith, 196.

²¹⁸ Sergio Merino, Personal Interview, 4 January 2012.

²¹⁹ John Panzer, Personal Interview, 22 December 2011.

²²⁰ "Commanding Heights," PBS interview with Arnold Harberger, 03 October 2000.

And the last phase endures from 1990 until present-day. It demonstrates the longevity of the free-market model. As Chile returned to democracy and maintained its free-market economics, it became an economic and political model for nations around the world.

Although the Chicago Boys' reforms slowly helped to strengthen Chile's economy from the outset, their policies demonstrated their true worth when they appeared to continue under a free political context in 1990 when Chile returned to a democracy. The Chicago model was effective at improving the economic state of Chile from 1973 and at enabling social reforms that still exist today in Chile.

Phase One: 1973 – 1982 (the 'naïve' phase)

During the first phase of the Chicago influence in Chile, from 1973 until the mid-1980s, the government focused on undoing Allende's statist economy and drastically restructuring the Chilean economy. It was marked by fluctuating political support and patchy economic success. After the coup the Chicago boys were not immediately appointed to top economic positions. Rather, Pinochet looked to his military officers and placed the navy (headed by Admiral Merino) in charge of the economy. On the September 14, 1973, three days after Pinochet assumed power, the army asked Almirante Merino to be the advisor to General Gonzalez, the minister of finance.²²¹ Sergio De Castro, Pablo Baraona, Alvaro Bardón, Juan Braun, and Tomas Lackington, all held lower-level advisory positions within the Ministry of Economy.²²² After Merino was made advisor to the minister of finance, he named Roberto Kelly the Minister Director of ODEPLAN, *La Oficina de Planificación Nacional*, (The Office for National Planning). Kelly then organized a lunch with the "young economists" at the Hotel Crillón. It was at this meeting

²²¹ Aldunate, Arturo Fontaine. *Los Economistas y El Presidente Pinochet*. (Santiago: Empresa Editora Zig-Zag., 1988) 40.

²²² Valdés, *Pinochet's Economists*, 19.

that the navy assigned these young economists to their positions. Emilio Sanfuentes, a business man, was named the advisor to Kelly and was allowed open entry into the junta. De Castro was named advisor of the economy, while General Gonzalez was named minister of the economy.²²³ At this point, the Chicago Boys held only advisory positions and had limited direct influence on the economy.

This team of economists focused mainly on dampening the rampant inflation created during Allende's presidency and placing the state in a subsidiary role in the economy by privatizing many companies which had been nationalized by Allende's Unidad Popular government. To reduce inflation, the Chicago Boys advised that the government balance the budget and eliminate price controls. But inflation only fell from 376 percent to 340 percent during the first year of the military government. Privatization came in two rounds. The first began immediately after the coup and the second followed during the 1980s. In 1973, at the time of the coup, the state owned 596 companies. In 1974, CORFO (the State Corporation for the Promotion of Production) returned 325 of these companies to their original owners.²²⁴ By the end of 1973 the government allowed private financing companies other than banks to operate, and eventually returned banks nationalized by the Unidad Popular government to the private sector. These reforms made some impact on the economy, but more drastic changes of economic measures were to come after 1975. It was not until 1975 that the Chicago Boys began to dominate economic decisions and implement more drastic structural economic changes.²²⁵

The gradual stabilization program initially implemented by the military government in 1973 had not proved entirely successful in reducing inflation. The program deliberately followed a gradual anti-inflationary approach, "instead of one of violent containment" because "to detain

²²³ Fontaine, *Los Economistas*, 43.

²²⁴ Huneeus, *The Pinochet Regime*, 165.

²²⁵ Valdés, *Pinochet's Economists*, 21.

inflation suddenly would imply the immediate elimination of the fiscal deficit, and the reduction of credit to the private sector.”²²⁶ This gradual process, the government hoped, would reduce the social costs that an abrupt policy would bring. The Minister of Finance reported that “the social cost, in terms of loss of production, employment and income from an [abrupt anti-inflationary] economic policy... would be very high and we are sure the majority of Chilean[s] would not accept it.”²²⁷ Although this gradualist approach helped to decrease the fiscal deficit, it did not contain inflation.²²⁸ This program made little progress in reducing inflation. A global increase in the price of oil, caused by the Arab-Israeli War in 1973, and sharp fall in the price of copper intensified the economic situation in Chile. By 1975 the military government knew it needed a different approach, reorganized its economic cabinet, and asked for a new economic plan. And at the same time Milton Friedman, the father of the Chicago School, came to visit.

De Castro was appointed the Minister of the Economy in April 1975 and held this position until December 1976. In 1976, he became the Minister of Finance until 1982. Pablo Baraona was Minister of the Economy from December 1976 to December 1978. Rolf Luders became Minister of the Economy in 1982. Other, less well-known, Chicago-trained students had positions at the Central Bank, the Budget Office, and in planning divisions within the government.²²⁹ Table 1 shows the structural changes implemented during the first phase of the Chicago Boys.

Milton Friedman’s Visit To Chile

In 1975, Milton Friedman was asked by the School of Management and Economics at the University Técnica del Estado in Santiago to visit Chile to give a series of lectures on the

²²⁶ Edwards & Edwards, 28.

²²⁷ Edwards & Edwards, 29.

²²⁸ See table from p. 28 in Edwards

²²⁹ Valdés, *Pinochet’s Economists*, 19.

problem of inflation and how to proceed to solve this economic problem. His lecture in Santiago on March 26, 1975, took place at the military junta's headquarters. It marked a turning point for Chile's economic future because he played the role of an advisor in a very public fashion.²³⁰ Critics condemned the visit as an attempt to foster "good public relations for the drastic steps they were about to take".²³¹ On a political level, Friedman was criticized for being connected to Pinochet and his authoritarian regime. Critics specifically condemned Friedman's visit for bypassing the social costs that went along with such economic reforms and saw it as a sign of support for the Pinochet regime. This criticism followed him, a year later, to Sweden. A large number of protesters demonstrated against Friedman when he accepted the Nobel Prize in economics in Stockholm in 1976.²³² But Friedman defended himself, when, in an interview years later, he said that in fact, in his speech at the Universidad Católica in 1975, "The Fragility of Freedom", he assured that free markets functioned best alongside political freedom, and that free markets could bring about political freedom.²³³ Thus, "it was essentially an anti-totalitarian talk."²³⁴ In another speech at that time, Friedman stated that Chile had two basic problems: containing inflation, and establishing a social economy with a vicious market that allows the country to take-off from a sustained economic growth, whose benefits are shared by all citizens. He emphasized that inflation is neither a capitalist nor a communist phenomenon. Rather, it is a problem of "the printing press"—and occurs when there is an increase in the quantity of money greater than that of production.²³⁵ Friedman warned that with such high inflation levels, a gradual treatment, with patience, would hurt the country before the treatment took effect. He

²³⁰ Luis E Cárcamo-Huechante, "Milton Friedman: Knowledge, Public Culture, and Market Economy in the Chile of Pinochet." *Public Culture* 18, No. 2, (2006) :414.

²³¹ Collins and Lear, 28.

²³² "Commanding Heights," PBS Interview with Milton Friedman, 01 October 2000.

²³³ Milton Friedman, "The Fragility of Freedom," (Speech at La Universidad Católica, March 1975).

²³⁴ "Commanding Heights," PBS interview with Friedman 01 October 2000.

²³⁵ Milton Friedman, *Milton Friedman en Chile*, (Santiago: Fundación de Estudios Económicos, 1975).

supported a “shock”, and cited examples from successful shock treatments in Germany and Japan after WWII. Friedman prescribed decreases in government spending by twenty to twenty-five percent. He admitted that this would cause unemployment for some of those who worked for the government. It is essential, Friedman said, to have a “package” of measures that will eliminate the obstacles that exist to assure the effective operation of the private market in Chile, in order to absorb those who lose their jobs. Friedman’s visit reinforced and praised the policies of the Chicago Boys, enhancing their reputation with the Chilean public.²³⁶ His agenda in Santiago included a face-to-face meeting with Pinochet, and convinced the General to adopt a structural adjustment to the economy.²³⁷

After the visit, Pinochet asked Jorge Cauas, a former Christian Democrat who had converted to Chicago doctrine, and was now Minister of Finance, to implement a plan that would combat inflation. Cauas had received his masters in economics at Columbia. By this time, Chilean students were studying at U.S. universities other than Chicago, including MIT, Harvard and Columbia. Cauas mentioned that “all of them were speaking the same language”. He said “the decisions that had to be made were mainly influenced and backed by the ideas of” all these universities. But these men were all grouped together as “Chicago Boys” because they all believed in the tenets of the economics school at Chicago.²³⁸

1975 Economic Crisis and “Chicago Boy” Plan

The critical economic situation of 1975, caused by higher oil prices and lower copper prices, required urgent measures and Pinochet asked this group of Chicago Boy economists to co-ordinate a plan for the economy. Cauas, as the Minister of Finance, was to be in charge of the

²³⁶ During my visit to Chile this past January, an employee at a café, when I mentioned I was investigating “los Chicago Boys”, became disgusted and immediately criticized Milton Friedman for “ruining Chile.”

²³⁷ Huechante, 415.

²³⁸ Jorge Cauas, Personal interview, 7 January 2012.

proposal. The “shock treatment” called for contracting the money supply and decreased government spending through the reduction of state employment and the elimination of agricultural subsidies.²³⁹ Adjusting the money supply was, of course, a main tool in the Chicago School economic arsenal.

When Cauas presented the proposal to the junta in April 1975, Raul Saéz, the Minister of Economic Coordination and opponent of free-market economics, warned that the proposed measures would worsen the crisis. Saéz maintained that the government should have the primary role of directing resources for economic development. He warned that the proposed measures would worsen the crisis. Cauas acknowledged that there would be costs and that no one was completely content with the proposal, but that no one had a better economic plan.

Pinochet approved the plan, which liberalized the price systems and the markets, opened the economy to foreign trade and external financing operations, and drastically decreased government involvement in the economy – all measures that drew directly from the free-market economics they had learned at the University of Chicago. The results were indeed severe: GDP decreased by thirteen percent and unemployment increased to almost twenty percent.²⁴⁰ Inflation was stubborn and, in 1975, dropped only to 343 percent from 369 percent. The Chilean public did not react favorably to such measures and many did not understand the reasons for such drastic measures. Even the newspaper, *El Mercurio*, one of the Chicago Boys’ biggest supporters, described the Chicago Boys as “a small and select team that seldom explains its reasons and...does not communicate its decisions in advance.”²⁴¹ But after the 1975 “shock treatment”, the economy slowly bounced back. In 1973, public businesses had a negative savings rate and a deficit of eight percent and just over ten percent, respectively. By 1976, they had a positive

²³⁹ Valdés, *Pinochet’s Economists*, 20.

²⁴⁰ Collins and Lear, 29.

²⁴¹ Valdés, *Pinochet’s Economists*, 21.

savings rate of 1.6 percent and a deficit of .1 percent.²⁴² By 1976, Cauas felt that the needed approach was taken and left his post as Minister of Finance. Sergio De Castro, an original Chicago Boy, became the Minister of Finance in December 1976.

De Castro as Minister of Finance

Sergio de Castro's "economic miracle" made some economic advances.²⁴³ The "miracle" that lasted from 1979-1982 resulted in some economic growth, export growth, reduced inflation and "the seven modernizations", a set of major social reforms, but was quickly undone by a severe recession in 1982. De Castro reduced import tariffs and, in 1979, fixed the peso at 39 to the dollar. This stabilized the price of imports and resulted in large influxes of imported goods. This also forced domestic firms to compete at these same prices.²⁴⁴ Chileans were able to buy certain foreign goods for the first time in their lives.²⁴⁵ This fixed exchange rate was a critical component of the Chicago Boys' approach. Meller describes it: "this fixed nominal exchange rate was not regarded as an instrument, but rather as an economic goal; it was the nominal anchor of the entire economic system and the symbol of success, confidence in, and continuity of the model."²⁴⁶

This fixed rate would soon suffer when external crises created a domestic recession in 1982. Large inflows of foreign capital at the end of the 1970s led to increased growth rates in GDP. Annual GDP growth reached 8 percent in 1977 and 1979. There was a fiscal surplus and a positive balance in the non-financial public sector. Aside from the fixed exchange rate, the commitment to decreased state intervention was another staple in the economic reforms. In 1975,

²⁴² Meller, *Un Siglo de Economía*, 188.

²⁴³ Sigmund, *The United States and Democracy*, 103.

²⁴⁴ Valdés, *Pinochet's Economists*, 27.

²⁴⁵ Collins and Lear, 31.

²⁴⁶ Valdés, *Pinochet's Economists*, 24.

CORFO shifted more than 110 firms and eighty-six percent of its bank holdings to private firms. By 1981, of the nineteen banks in which the government held the majority of stock in 1973, CORFO only held two.²⁴⁷ But the dedication to drastic reduction in government spending left salary levels in 1980, almost seventeen percent below those of 1970. The policies regarding the state and its reduction had the greatest consequences for Chile. As the 1982 recession would illustrate, the policies of the Chicago Boys had not convinced the world that their approach was the answer to Chile's economic struggles.

Also during this period, the economists extended their reach into many aspects of society. In 1979, "seven modernizations" were applied to seven sectors of society: labor policy, social security, education, health, regional decentralization, agriculture, and justice. Because the economic reforms sought to guarantee "freedom of choice to individuals concerning the provisions and access to basic social services" and to make workers feel that the new economic model would benefit them, as well, these social reforms attempted to reincorporate workers as active participants in society.²⁴⁸ These social reforms were criticized because the middle and upper classes, who could pay more for their education, health, and save more for their retirement, benefitted most. But defenders of the social programs argued that the social reforms were successful at producing more efficiency and competition in "what had been notoriously inefficient and bureaucratic public services."²⁴⁹ Many of these social reforms are still in place in Chile today.

The economy, in fact, was on the verge of crisis. By 1980, public spending on health had fallen 17.6 percent as compared to levels in 1970 and public spending on education decreased

²⁴⁷ Valdés, *Pinochet's Economists*, 23.

²⁴⁸ Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley: University of California Press, 1983), 1.

²⁴⁹ Sigmund, *The United States and Democracy*, 123.

11.3 percent during this same period.²⁵⁰ Chile had built up an enormous foreign debt from 1977-1981. Most borrowing was between private Chilean firms and foreign banks, and was not guaranteed by the Chilean government. Until the end of 1981, net inflows surpassed the absorptive capacity of the domestic economy. Imports increased and exceeded the growth of exports, creating a large trade deficit. The consequence of such measures, in combination with excessive and deregulated external loans, was a severe decrease in national savings. Chile's total foreign debt climbed from 8,790 U.S. dollars in 1979 to 17,263 U.S. dollars in 1982.²⁵¹ The increased capital flows caused the largest of the three external shocks that hit Chile in the 1980s. The second external shock was an increase in interest payments and an increase in the financial cost of foreign debt beginning in 1979. The third was the deterioration of the terms of trade by thirteen percent in 1982 (terms of trade refers to the amount of imports that can be purchased at a fixed sale of exports), a result of the fall of the price of copper.

These three external shocks caused severe reserve losses and, in combination with the contraction in the foreign currency supply ("automatic adjustment" program), generated a severe domestic recession. GDP per capita decreased 17.2 percent from 1982-1983.²⁵² This economic crisis threatened both the economic structural reforms implemented by the Chicago Boys as well as the reputation of the economic team. De Castro resigned in April 1982, ending what some have hailed as the Chicago Boys' "naïve" phase in power.²⁵³

Phase Two: 1982 – 1990

The next phase of Chicago's legacy resulted in impressive economic improvements that legitimized the continuation of Chicago policy. While free market principles were largely

²⁵⁰ Valdés, *Pinochet's Economists*, 26.

²⁵¹ Ffrench-Davis, 130-131.

²⁵² Ffrench-Davis, 133.

²⁵³ Valdés, *Pinochet's Economists*, 28.

ineffective during the 1982 recession, the policies of Hernan Buchi, Pinochet's Minister of Finance from 1985-1989, regained support for the free-market model as he successfully privatized traditional state industries including steel, coal, sugar, telephone, electricity, and airlines. Buchi had not studied at Chicago, he had earned a degree at Columbia University. His leadership demonstrated more "analytical flexibility and greater political pragmatism" than that of De Castro's.²⁵⁴ He adhered to the free-market model, but was not as rigid with its policies as De Castro had been.²⁵⁵ He raised some protective tariffs and introduced a system of agricultural "price bands" for crops grown for domestic consumption. The monetarists of the 1970s would have staunchly opposed such measures. But, more in line with strict free-market principles, Buchi devalued the peso, resulting in increased exports. A large portion of the newly privatized companies' shares was sold to the employees themselves.²⁵⁶ Although foreign debt reached an all-time high in 1985 at 21 billion U.S. dollars, the IMF and World Bank stepped in to help Chile pay the interest on its debt and oversaw the financial reforms.²⁵⁷ External events, such as the fall in the price of oil, rise in the price of copper, and decreased shipping costs for Chilean exports all aided recovery after 1985.²⁵⁸ This growth lasted throughout the end of the 1980s. It reinforced the potential and power of the free-market model implemented by Chicago a decade and a half earlier.

In the 1988 plebiscite, a mix of center-left Christian Democrat and Socialist forces defeated Pinochet and forced him to call for free elections the next year. In 1990, Pinochet handed power over to the democratically elected President Patricio Aylwin of the *Concertación*

²⁵⁴ Huneus, *The Pinochet Regime*, 278.

²⁵⁵ Huneus, *The Pinochet Regime*, 278.

²⁵⁶ Meller, *Un Siglo de Economía Política*, 268.

²⁵⁷ Because Reagan in the U.S. and Thatcher in Britain supported the free-market model, they helped Chile get this support.

²⁵⁸ Collins & Lear, 34.

de los Partidos por la Democracia (CPD). Chile had the strongest economy in Latin America at the time.

Phase Three: 1990 – present

The final phase of the Chicago Boys began with Aylwin's presidency. Aylwin's government maintained the fundamental free-market structures that have been carried through in Chile today. Finance Minister Alejandro Foxley expressed interest in entering a free-trade agreement with the United States and plans were drawn up for future economic relations in October 1990. Foxley referred to himself and his policy as "fiscally conservative" and ensured not to engage in large deficit spending.²⁵⁹ Chile no longer needed strong outside aid programs for its development because inflation was at a fifteen percent low, and unemployment dropped to four-and-a-half percent by 1992.²⁶⁰ Milton Friedman asserted at a conference in Viña del Mar in the 1980s "the social market economy must be accompanied by democracy because this is the only way that it will survive in the long-term."²⁶¹ It seems that the most striking feature of the Chicago Boys' legacy is that the implementation of the free-market model helped to bring about a free society, and that a free society has, in turn, nurtured and encouraged a healthy capitalism.

Certainly Chile has flourished under a return to democracy, but it is apparent that the Chicago program needs updating to function efficiently, to address the inequitable income distribution, and to encourage health and education reforms. Aylwin ran on a campaign that promised to repay the "social debt" to the poor in spending for health, education and housing.²⁶² French-Davis asserts that the growth, diversification of exports, achievement of a more efficient

²⁵⁹ Sigmund, *The United States and Democracy*, 193.

²⁶⁰ Sigmund, *The United States and Democracy*, 193.

²⁶¹ "Milton Friedman (1912-2006): El "Chicago" que Inspiro la Transformacion Mas Profunda de La Economia Chilena," *El Mercurio*, November 17, 2006.

²⁶² Sigmund, *The United States and Democracy*, 186.

fiscal budgeting process, and development of a new generation of entrepreneurs that are more “dynamic and modern” than the traditional business class, during the 1980s aided to the “outstanding performance” of the 1990s. And although some structural reforms during the 80s failed, the 1990s experienced “reforms to the reforms” of the previous decade. Chile experienced extraordinarily high productivity and significant advancements on its fight against poverty.²⁶³ According to the Bureau for Latin America and the Caribbean of the U.S. Agency for International Development Databook, Chile has the highest life expectancy at birth in Latin America and the highest mean years of schooling.²⁶⁴ These are not direct economic indicators, but both this data demonstrates that Chile’s exceptional position in Latin America, today. As Valdés, points out “renewed democracy has allowed a social pact between the government, business sectors, and workers, the tackling of the serious social effects arising from over a decade of neo-liberal policies and, above all, has given domestic and international legitimacy to a now clearly capitalist-oriented economy.”²⁶⁵

²⁶³ French-Davis, 242.

²⁶⁴ LAC Databook, U.S. Agency for International Development, 2011.

²⁶⁵ Valdés, *Pinochet’s Economists*, 254.

Conclusion

The Chicago Boys were the product of post-war American foreign aid and anti-Communist sentiment. They were part of a unique exchange of free-market economic ideas between the United States and Chile. They were the authors of the economic transformation of Chile, beginning with their own university and then, in 1973, under Pinochet's military dictatorship. Their role was small at the beginning of Pinochet's regime, but became increasingly more important. The Chicago model was not entirely or immediately economically successful and did not gain substantial political support until the latter half of the 1980s, when the model proved to be the basis of the economic recovery after the recession of 1982. The ultimate success of the liberalized, free-market economy is demonstrated in its continuation during Chile's return to democracy and Chile's continued growth and strong economic stance in Latin America.

The transfer of ideas and people between the University of Chicago and la Universidad Católica in Santiago was the beginning of the transformation of Chile from a country with a strong tradition of government intervention in its economy to one formed around the free-market policies taught at the University of Chicago. This unique exchange had implications and effects that extended beyond the academic spheres of the two universities. The ideas seeped into the Chilean political arena and eventually infiltrated and transformed Chilean society. In 1973 Chile broke with its democratic past when Pinochet took power in a coup d'état from Salvador Allende. He instantly began to transform the Chilean state. He acknowledged the economic expertise of these "Chicago Boys" and gave them a powerful role in his government. This group of economists, eager to implement what they had learned while earning their Master's and Doctorate

degrees at the University of Chicago, began the transformation that would land Chile as the most prosperous country in Latin America. Foreign assistance programs between the United States and Latin America existed before WWII. Roosevelt's Good Neighbor Policy demonstrated the U.S.'s eager attitude to become involved in helping to shape the political and economic systems in Latin America. After WWII, the rise of the USSR made the United States hyper-sensitive to the threat of the expansion of Communism around the globe. The Marshall Plan and the Truman Doctrine demonstrated the effort of the U.S. to spread its "modernity" through technical assistance. Among the countries in Latin America, Chile stood out because of its democratic history. The U.S. wanted to maintain and strengthen Chile's anti-communist policy—this eventually led to the embrace of dictators from the U.S. because dictatorships "would be more predictable and effectively anticommunist than other types of governance, including democratic systems."²⁶⁶ Although dictatorship did not unfold in Chile until 1973 when Pinochet came to power, it was within this context that the exchange between the University of Chicago and la Universidad Católica originated.

The transfer between the two universities was part of a broader education assistance program that was implemented on the basis that, through education, political and economic systems in developing countries could be improved and stabilized. The United States took special note of the economics education programs in Chile because the leading economics program, at the University of Chile in Santiago, focused on leftist tendencies brought by Raul Prebisch. The ECLA headquarters were located in Santiago, and the Prebisch doctrine advocated that the State be the dominant force in economic

²⁶⁶ Smith, *Talons of the Eagle*, 125.

development. This economic model grew out of and appealed to the political left, and the U.S., fearing Communism, made Chile a target for U.S. assistance and influence.

But the specific conjoining of the University of Chicago and la Universidad Católica began because of conversations and connections between U.S. government officials in Chile and administrators at la Universidad Católica. After many discussions and meetings, administrators from both Universities signed contracts that established an exchange program, financed by the U. S. International Cooperation Administration (ICA), to bring top Chilean economic students from the Universidad Católica to the University of Chicago to pursue their post-graduate degrees in economics.

The experiences of these Chilean students at Chicago proved to be memorable and fulfilling. The students went to Chicago in order to fulfill their passion for economics. The students would become professors at the Universidad Católica after their time at Chicago, in hopes of improving the economics faculty at the University, which was weak at the time. While at Chicago, they began to imagine how their education could influence the trajectory of their country. The students enjoyed the practical style of education at Chicago and hoped to mimic it upon their return to Chile. The first group of Chileans spent two years at Chicago, then returned to Chile to infiltrate first the academic sphere at Católica. After taking over the Economics faculty at Católica, the Chicago Boys began to publish their economic theories and prescriptions for economic development in Chilean magazines and newspapers. Their radical economic ideas attracted critics and supporters but, most importantly, garnered the attention of the Navy, which Pinochet placed as the head of the economy.

Chile's economy was in crisis at the time of the coup, with record-high inflation rates. The Chicago Boys helped to fulfill Pinochet's goal of economic reform. After the Cold War, Latin American leaders hoped to form strong commercial and financial ties with "major power centers", like the United States. Latin American leaders, like Pinochet, "placed economics over politics, opportunity over principle, pragmatism over ideology. Their major concern was to avoid isolation and abandonment. As they focused on strategies for economic cooperation, free trade became the watchword of the day."²⁶⁷ The Chicago Boys economic paper, *El ladrillo*, certainly set out radical economic prescriptions that emphasized this commercial liberalization. By 1974, the Chicago Boys held positions in the Ministry of Economy and set in motion the "free-market revolution" that allowed Chile to rise to its superior economic position in Latin America.

The Chicago-Católica transfer was born in a context into which United States' interest and influence coincided with Chilean hopes to improve education in economics as a means of building a strong base of economists for Chile's future. Socialist Allende's 1970 electoral victory created a more urgent situation for the United States, which worked quickly to push Allende out of power. Washington feared that this *via Chilena* would lead to the rise of socialism and ultimately Communism through fair and free elections. A combination of political and social conflict in Chile and U.S. efforts to undermine Allende's regime led to a coup on September 11th, 1973.

The policies and influence of the Chicago Boys that have been laid out in this thesis, demonstrate the transition from Chile's protectionist economic model to its current free-market model. The example of Chile has proved successful and has become a

²⁶⁷ Smith, *Talons of the Eagle*, 278.

“poster child for free-market doctrine and the Washington consensus.”²⁶⁸ Chile’s public support for the advantages of a free-trade model provided it with, once more, a leadership position in Latin America. Moreover, Chile’s return to democracy has garnered more support for the free-trade model. Looking back at Chile’s path to free trade and its current economic position, a well-informed analysis declared “free trade has been widely accepted as an integral part of Chile’s development model, and there is consensus that a return to protectionism is not a reasonable option.”²⁶⁹ And so, the unique experiment between Chicago and Santiago began with an impetus from Chile for a stronger university economics department and an attempt by the United States to re-direct the left-leaning economics department and combat the increasingly possible *via chilena al socialismo*. As the Chicago Boys’ favorite professor, Arnold Harberger, summed it up, “In telling the story of Chile, people should pay more attention both to its successful transition from authoritarian rule to democracy, and to the virtually seamless continuity and continuing evolution of its economic policies in the process.”²⁷⁰ The legacy of this exchange, if not directly, has made Chile a political and economic model for nations around the globe.

²⁶⁸ Smith, *Talons of the Eagle*, 280.

²⁶⁹ Smith, *Talons of the Eagle*, 279.

²⁷⁰ Harberger, Arnold. “Arnold Harberger on the Chicago Boys,” The Beacon Independent Institute. Accessed 22 March 2012, <http://blog.independent.org/2010/12/04/arnold-harberger-on-the-chicago-boys/>.

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