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THE AMERICAN PHILOSOPHICAL FOUNDATIONS OF THE CHILEAN FREE MARKET  
REVOLUTION

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## Introduction

This is a study on the philosophical foundations of the Chilean institutional transformation that took place in the 1970s and 1980s and which is commonly referred to as Chile's "free market revolution". Its primary goal is to determine if a comprehensive version of classical liberalism, rooted in the American ideas of liberty, including ideas of political liberty and democracy, was behind the process of economic and institutional change that led Chile to become the most prosperous country in Latin America. Puzzling in Chilean history is the fact that a harsh military regime made economic and political reforms that undermined its own power leading, despite increasing inequalities, to sustained economic growth and also to the reintroduction of a stable democracy. By analyzing the philosophy that inspired the actors in charge of elaborating and implementing these reforms, this work contributes to clarify that puzzle and draw lessons with regard to the relation between beliefs and institutional change as well as the interplay between economic freedom and authoritarianism. A proper understanding of both factors requires taking into account the historical and ideological context in which the Chilean reformers, known as the Chicago Boys, defined and applied their set of beliefs. It also requires considering the influence of liberalism on the institutional and intellectual development prior to the free market revolution. Accordingly, this study integrates institutional history, economic history and political history to the philosophical analysis since all these elements are necessary to explain why the set of beliefs known as "neoliberalism" made so much sense to the Chicago Boys both as a normative vision and as an interpretation of the economic and social reality. The main assumption behind this study is that there is a permanent feedback between beliefs and reality. This means that not only are beliefs a force of institutional change but also that the practical results of those changes have an impact on belief formation. In other words, the beliefs, ideas and actions of the Chicago Boys cannot be understood independently from their historical, political and economic context for it is the feedback offered by reality that largely defines a set of beliefs. The particular theoretical framework used for this analysis will be Douglass North's contribution to understanding economic history as an evolutionary process where ideologies and ideas define the formation and transformation of the economic and political institutions and where in turn feedback from reality modifies these ideas and ideologies.<sup>1</sup> Institutions are in turn essential to explain how a given market works and why some

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<sup>1</sup> The term evolutionary in this context is applied in a cultural sense such as Adam Ferguson and the Scottish Enlightenment thinkers understood it. It means that over time societies select and develop norms, values and systems that prove useful for the wellbeing of their members. Thus the institutions that are responsible for economic

economies perform better than others. Given the focus on beliefs as a force of institutional transformation, this work will use the Northean approach as a helping tool to understand the liberal reforms of the Chicago Boys, their institutional success and their connection with Chile's transition to democracy. It is interesting to note that North himself pointed out that Chile was a case where a set of institutions had been put in place that provided the incentives to generate economic growth<sup>2</sup> which, as will be explained, the same North considers crucial for the existence of a stable democracy. These institutions in turn reflected the beliefs of those who were able to make the rules of the game, that is to say, mostly, but not only, the Chicago Boys.<sup>3</sup>

### *The hypothesis of this study*

There is no doubt that authoritarianism was instrumental to the introduction of the radical free market economic and political reforms that made the so-called "Chilean miracle" possible. As Constable and Valenzuela have pointed out, "in a democracy the Chicago Boys would not have survived public pressure" while under an authoritarian government "they had no need to account for their actions".<sup>4</sup> This does not mean however, that the Chilean military was prone to a free market system. As Milton Friedman observed, Chile was mostly a "political miracle", precisely because a military regime, going against its principles, had supported reforms that reduced "sharply the role of the state and replace control from the top with control from the bottom".<sup>5</sup> What is even more surprising is the fact that the same dictatorship that made a free market revolution created the institutions necessary to reintroduce political liberty and democracy. It is here where historical as well as philosophical elements play a decisive role. It is the hypothesis of this study that the connection between the free market reforms and Chile's movement towards democracy and political freedom finds a substantial part of its explanation in the liberal intellectual tradition applied by the Chicago Boys, which was not reduced to economic liberalism but included ideas of political freedom and democracy. Political freedom in this context is understood in the classical liberal sense, that is to say, as the absence of arbitrary coercion on an individual by the government or by other individuals. In the words of Isaiah Berlin, "political liberty ...is simply the area within which a man can act unobstructed by others."<sup>6</sup> Democracy in turn is understood from a classical

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growth are the result of human action but not of human design, meaning that in general they are not constructed top down.

<sup>2</sup> See: Interview with Peter Robinson, Available at: <http://www.hoover.org/research/few-dollars-more-global-poverty-and-world-bank>. Last accessed: 28/06/2014.

<sup>3</sup> In the first chapter I will provide a deeper explanation of the theoretical framework chosen.

<sup>4</sup> Pamela Constable and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet*, Norton & Company, New York 1993, p. 188.

<sup>5</sup> Milton Friedman, "Free markets and the Generals", *Newsweek*, January 25, 1982.

<sup>6</sup> Isaiah Berlin, "Two Concepts of Liberty", In Isaiah Berlin, *Four Essays on Liberty*, Oxford University Press,

liberal standpoint as a majority rule which is severely restricted by the constitution in its ability to affect economic liberties, fundamental rights and private property. As will be argued, the neoliberal philosophy followed by the Chicago Boys was a direct heir to the classical liberalism of British American origin which reemerged in the 20<sup>th</sup> century mostly through the work of Friedrich von Hayek. Moreover, through institutions such as the Mont Pelerin Society and the Chicago School, Hayek sought to revive the set of beliefs that had served as inspiration to the American Revolution. This revival was largely a response to the overwhelming influence of ideologies like fascism and socialism as well as to interventionist approaches such as New Deal liberalism and different currents of protectionism.

A second and related hypothesis of this work is that the ideas behind the free market revolution, namely British-American liberalism, were not alien to Chile's political and intellectual history as is usually argued. Far from that: classical liberal ideas in the British American tradition had been predominant from the mid -19<sup>th</sup> century to the early 20<sup>th</sup> century in Chile. Their influence came to an end particularly after the Great Depression, which paved the way to the rise of collectivist and statist ideologies that contributed to shape Chile's institutional evolution until the early 1970s. In other words, what the Chicago Boys did after the collapse of the economy and the end of democracy in 1973 was nothing else than to revive the old Chilean British American liberal tradition thus taking advantage of an intellectual heritage that facilitated the implementation of free market reforms.

### *The historical relevance of Chile's free market revolution*

From a historical perspective the topic of the Chilean free market revolution is not only controversial but also highly relevant. As has been extensively argued, the free market revolution played a crucial role in the history of political economy and the Cold War and is still widely considered today as a benchmark for developing countries. In 2006, on the occasion of Augusto Pinochet's death *The New York Times* reminded its readers of the relevance of the Chilean experience arguing that the Chilean general had "won grudging international praise for some of the free-market policies he instituted, transforming a bankrupt economy into the most prosperous in Latin America", adding that "many elements of the so-called Chilean model were widely emulated in the region".<sup>7</sup> In 2007, confirming the influence of Chile as a role model for the developing

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Oxford 1969, p.3. Available at: [https://www.wiso.uni-hamburg.de/fileadmin/wiso\\_vwl/johannes/Ankuendigungen/Berlin\\_twoconceptsofliberty.pdf](https://www.wiso.uni-hamburg.de/fileadmin/wiso_vwl/johannes/Ankuendigungen/Berlin_twoconceptsofliberty.pdf). Last accessed: 28/06/2014.

<sup>7</sup> Jonathan Kandell, "Augusto Pinochet, A Dictator Who Ruled by Terror in Chile, Dies at 91", *The New York Times*

world, *The Economist* explained that poverty had “fallen further, faster, in Chile than anywhere else in Latin America” due to “sustained economic growth and job creation since the mid-1980s”<sup>8</sup>. The article was entitled “Destitute no more: A country that pioneered reform comes close to abolishing poverty” and referred to the second wave of economic reforms made under the military regime of General Pinochet.

The relevance of the Chilean case for political economic history has also been widely acknowledged in the academic and political world. For Harvard historian Niall Ferguson the “backlash against welfare started in Chile”.<sup>9</sup> Moreover, for Ferguson, the Chilean economic reforms such as the privatization of the social security system were “far more radical than anything that has been attempted in the United States, the heartland of free market economics”.<sup>10</sup> Along the same lines William Ratliff and Robert Packenham have pointed out that Chile was the first country in the world to make “that momentous break with the past away from socialism and extreme state capitalism” preceding “Margaret Thatcher’s Britain and Ronald Reagan’s United States”.<sup>11</sup> For Marxist intellectual David Harvey “the first experiment of neoliberal state formation occurred in Chile after Pinochet’s coup” providing “helpful evidence to support the subsequent turn to neoliberalism in both Britain (under Thatcher) and the US (under Reagan).”<sup>12</sup>

As far as the results of the free market revolution are concerned, Nobel laureate economist Gary Becker argued that Chile became “an economic role model for the whole underdeveloped world”.<sup>13</sup> This performance said Becker, “became still more impressive when the government was transformed into a democracy”.<sup>14</sup> Along the same lines but on the Keynesian side, Nobel laureate economist Paul Krugman recalled that the reforms introduced by the Chicago Boys “proved highly successful and were preserved intact when Chile finally returned to democracy in 1989”.<sup>15</sup> A similar view was expressed by President George H.W. Bush, on the first visit of an American President to Chile in decades. On his arrival in Santiago in 1990, Bush declared that “Chile’s peaceful return to the ranks of the world’s democracies” was cause for “pride and celebration”.<sup>16</sup>

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December 11, 2006. Available at: [http://www.nytimes.com/2006/12/11/world/americas/11pinochet.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2006/12/11/world/americas/11pinochet.html?pagewanted=all&_r=0) Last accessed: 28/06/2014.

<sup>8</sup> *The Economist*, “Destitute no more: A country that pioneered reform comes close to abolishing poverty”, August 16, 2007.

<sup>9</sup> Niall Ferguson, *The Ascent of Money*, Penguin, London 2008, p.216.

<sup>10</sup> Idem

<sup>11</sup> William Ratliff and Robert Packenham, *What Pinochet did for Chile*. Available at: <http://www.hoover.org/research/what-pinochet-did-chile> Last accessed: 28/06/2014.

<sup>12</sup> David Harvey, *A Brief History of Neoliberalism*, Oxford University Press, New York, 2005, pp.7-8.

<sup>13</sup> Gary S. Becker, *What Latin America Owes to the "Chicago Boys"*, Hoover Digest, October 30, 1997. Available at: <http://www.hoover.org/research/what-latin-america-owes-chicago-boys> Last accessed: 28/06/2014.

<sup>14</sup> Idem.

<sup>15</sup> Paul Krugman, *The Return of Depression Economics*, Penguin, London, 2008, p. 31.

<sup>16</sup> Speech available at: [http://bushlibrary.tamu.edu/research/public\\_papers.php?id=2531&year=1990&month=12](http://bushlibrary.tamu.edu/research/public_papers.php?id=2531&year=1990&month=12) Last accessed: 28/06/2014.



Bush went on stressing the importance of the free market revolution that had taken place under the military government of General Pinochet: “Chile’s record of economic accomplishment is a lesson for Latin America on the power of the free market. Nowhere among the nations of this continent has the pace of free-market reform gone farther, faster than right here in Chile.”<sup>17</sup> Former British Prime Minister Margaret Thatcher went even further declaring that Pinochet’s regime had turned Chile “from chaotic collectivism into the model economy of Latin America”.<sup>18</sup>

Unsurprisingly, the free market revolution has also been criticized for its economic as well as its social achievements. According to this line of argumentation, by dogmatically following neoliberal recipes the reformers had brought unnecessary suffering to workers and lower income people. As a result, “the neoliberal experiment” had generated a society “with increasing inequality where financial economicism prevailed”.<sup>19</sup> For this position, thanks to the free market revolution “the rich had got richer” leading to a deterioration of the living standards of the middle class.<sup>20</sup> In this context it was argued that privatizations had been made in periods of economic recession and high interest rates, which had made it possible for only a few groups to acquire the public firms, and led to an acute concentration of property.<sup>21</sup> Thus, the critics claimed that the privatization of state enterprises had been extremely advantageous for the new owners, who according to Alejandro Foxley, had enjoyed a subsidy of around 30% of the companies’ net worth.<sup>22</sup>

Overall, despite the critics, it is clear that the free market revolution was an economic success for the country. The data show a dramatic increase in per capita income and an equally dramatic fall of poverty since the 1980s on as well as an unprecedented period of monetary stability.<sup>23</sup> The success of the Chilean free market revolution contributed to explain the consensus that emerged in Chile to keep the reforms after the end of the Cold War and the return to democracy. From 1990 to 2010 a left wing coalition called “Concertación” came to power. Despite having been integrated by opponents to the military dictatorship and by many former members of Salvador Allende’s government, the Concertación left the foundations of the free market system untouched. A pragmatic view prevailed, leading to the recognition and adoption of the economic

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<sup>17</sup> Idem.

<sup>18</sup> See: Margaret Thatcher, Speech on Pinochet at the Conservative Party Conference, October 6, 1999. Available at: <http://www.margaretthatcher.org/document/108383> Last accessed: 28/06/2014.

<sup>19</sup> Ricardo French Davis, *Chile entre el neoliberalismo y el crecimiento con equidad*, JC Sáez, Santiago, 2008, p.115.

<sup>20</sup> Joseph Collins and John Lear, *Chile’s free market miracle: a second look*, Institute for Food and Development Policy, Oakland, 1995p. 243.

<sup>21</sup> French Davis, *Chile entre el neoliberalismo y el crecimiento con equidad*, p.86.

<sup>22</sup> Alejandro Foxley, *Latin American Experiments in Neoconservative Economics*, University of California Press, California, 1983, p.66. See also: Dahse F, *Mapa de la extrema riqueza. Los grupos económicos y el proceso de concentración de capitales*, Aconcagua, Santiago, 1979, and M. Marcel “Privatización y finanzas públicas: el caso de Chile”, 1985-1988, in: *Colección Estudios Cieplan*, 26, June, 1989.

<sup>23</sup> For a detailed account of Chile’s economic evolution see: José De Gregorio, “Economic Growth in Chile: Evidence, Sources and Prospects”, *Central Bank of Chile Working Paper No. 298*, December 2004. Available at: <http://www.bcentral.cl/estudios/documentos-trabajo/pdf/dtbc298.pdf> Last accessed: 28/06/2014.

legacy of the Pinochet years. As the same Foxley explained:

I was minister of finance from 1990 to '94. We always said that the main thing we had to do was to make sure that there was an equilibrium between change and continuity. The mature countries are countries that don't always start from scratch. We had to recognize that in the previous government, the foundations had been established for a more modern market economy, and we would start from there, restoring a balance between economic development and social development. And that's what we did.<sup>24</sup>

Thus, Chile continued along the economic path initiated in the 1970s and 1980s. This path remained unchanged also under the socialist governments of Ricardo Lagos and Michelle Bachelet. Both were former Marxists, convinced of the superiority of the centrally planned economy over the free market system. Lagos had even been appointed ambassador to the Soviet Union by President Salvador Allende. With no alternative model after the end of the Cold War, Lagos, like most Chilean socialists during the 1990s, accepted free market principles. Shortly after being elected president he declared: "A Socialist today understands that the fall of the Berlin Wall means we live in a world in which the market is neither leftist nor rightist. It is simply an instrument to be used".<sup>25</sup> Many critics from the left complained, as historian Alfredo Jocelyn-Holt put it, that Lagos had "unconditionally accepted the Pinochet model", even though he "was a man of the left and struggled for years to overthrow the Pinochet dictatorship".<sup>26</sup>

### *The literature on the ideas behind the free market revolution*

In general, the literature on the Chilean free market revolution rejects the notion that classical liberalism or American liberalism were part of Chile's intellectual and cultural history. Instead, it assumes that Chile was purely a laboratory to test neoliberal economic theories imported from the United States. Likewise, it opposes the view that the ideas of political liberty and democracy were part of the economic and institutional transformation under the Pinochet regime. A total disregard for human rights and collaboration with an authoritarian government accused of

<sup>24</sup> Interview available at: [http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/int\\_alejandrofoxley.html#4](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_alejandrofoxley.html#4)  
Last accessed: 28/06/2014.

<sup>25</sup> Clifford Krauss, "Chile's Leader Remains Socialist but Acts Like Pragmatist", *The New York Times*, December 10, 2001.

<sup>26</sup> Idem.

having destroyed democracy in Chile and engaged in human rights violations is a common criticism of the architects of the Chilean economic model. The common assumption of these works is that “the Chicago Boys theoretical background was liberalism, in a very reduced, economic sense”<sup>27</sup>. This would explain their commitment to authoritarianism and their disregard for political liberty and democracy. Along these lines, Harvey argued that the free market system in Chile was imposed by “brutal means” and was mostly supported by the traditional upper classes which, along with the Chicago Boys, pushed for the “fierce repression of all solidarities created within the labor and urban social movements which had so threatened their power”.<sup>28</sup> In Harvey’s eyes, the reintroduction of democracy and political liberties was not only absent from the free market revolution but contrary to its very nature. Similarly, Carlos Huneeus has argued that the economic reforms were made under a climate “of terror” pervading large sectors of the population.<sup>29</sup> Huneeus does not recognize the origin of the free market revolution in Chile’s intellectual tradition. Neither does he analyze the existence of ideas of political liberty or democracy in the free market revolution. Arturo Valenzuela and Pamela Constable follow the same logic, sustaining that for the Chicago Boys “the only kind of freedom that mattered was economic freedom”, as they seemed “oblivious to the contradiction of relying on a repressive state to enforce the promotion of economic freedom”.<sup>30</sup> Likewise, Andrés Solimano has sustained that the most evident contradiction during the military regime was the dichotomy between economic freedom and the absence of political liberties.<sup>31</sup> Like Huneeus, Valenzuela and Constable, Solimano does not address the role of classical liberalism in Chilean history. In his work on the technocratic elites in Chile, Patricio Silva has argued that the Chicago Boys developed a sophisticated explanation to justify the contradiction between economic liberalism and political authoritarianism without elaborating on what this explanation was.<sup>32</sup> Silva does see the Chicago Boys as part of the technocratic tradition that had prevailed in Chile since the 1920s but he does not see the tradition of classical liberalism playing a role in the free market revolution.

In the most comprehensive book written so far on the subject, Juan Gabriel Valdés also endorsed the laboratory thesis arguing that “the ensemble of neo-liberal ideas that evolved in Chile after 1975 had no antecedent in the nation’s public life”.<sup>33</sup> Valdés added that while the socialist

<sup>27</sup> Michael Rösch, *The meaning of technocratic elites in Chile*, Available at: <http://tiss.zdv.unituebingen.de/webroot/sp/barrios/themeC1f.html> Last accessed: 20/07/2012

<sup>28</sup> See: Harvey, *A Brief History of Neoliberalism*, p. 39.

<sup>29</sup> Carlos Huneeus, “Technocrats and Politicians in an Authoritarian Regime, The ODEPLAN’s Boys and the Gremialists in Pinochet’s Chile”, *Journal of Latin American Studies*, Vol.32, No. 2, May 2000, p.472. Published by Cambridge University Press.

<sup>30</sup> Constable and Valenzuela, *A Nation of Enemies: Chile Under Pinochet*, pp. 187-188.

<sup>31</sup> Andrés Solimano, *Capitalismo a la Chilena*, Catalonia, Santiago, 2012, p.18.

<sup>32</sup> Patricio Silva, *En el nombre de la razón: tecnócratas y política en Chile*, Universidad Diego Portales, Santiago, 2010, p. 171.

<sup>33</sup> Juan Gabriel Valdés, *Pinochet’s economists: the Chicago School in Chile*, Cambridge University Press, Cambridge,

experiment of Allende had been tried in a framework of “total respect for public liberties and democratic rights”, the free market revolution was carried out in a framework “of total deprivation of public liberties and citizen’s rights”.<sup>34</sup> For Valdés, the Chicago Boys reduced their ideology to pure economic liberalism introducing into the public debate “a self-sustaining economic discourse whose variables form part of a theoretical framework that excluded ethical, cultural, political or social considerations”.<sup>35</sup> This mindset would explain their “limitless faith in economic science as the legitimizing basis for their draconian decisions, and in the market’s ability to resolve the bulk of the problems faced by society”.<sup>36</sup>

Joseph Collins and John Lear have gone as far as arguing that a military regime that could repress the population’s resistance to economic reforms had long been desired by the Chicago Boys. In the words of Collins and Lear, the Pinochet regime offered the Chicago Boys “what they always wanted: guaranteed protection from political, institutional and social pressures while they had a real country in which to prove their theories”.<sup>37</sup> Thus, Chile would have been a perfect laboratory in order to test neoliberal theories. For Collins and Lear, ideas of democracy and political liberty were incompatible with the free market revolution. Using a similar tone, in her popular book the *Shock Doctrine*, Canadian intellectual Naomi Klein has argued that the Chilean free market revolution was a case of “disaster capitalism” where free market ideas were imposed by the CIA and the Chicago Boys. According to Klein, the Chicago Boys and their professors at Chicago University had wished for a long time that a dictatorship would come to power in Chile in order to test their theories.<sup>38</sup>

A partial exception to this line of argumentation is Manuel Gárate’s work on Chile’s capitalist revolution. In it, Gárate dedicates some chapters to analyze the roots of classical liberalism in Chilean history, starting in the 19<sup>th</sup> century.<sup>39</sup> The connection between the free market revolution and Chile’s classical liberal intellectual heritage is however absent from the work. In addition, Gárate’s work lacks a theoretical framework such as North’s approach to institutional change to make sense of Chile’s institutional evolution from the mid-19<sup>th</sup> century onwards. More than an institutional history linked to a history of ideas, Gárate writes a chronology. Like the rest of the authors, Gárate also holds the view that the Chicago Boys were basically inspired by mere economic liberalism and that ideas of political liberty and democracy in the tradition of classical liberalism were rather absent from the institutional transformation that took place during the 1970s and 1980s.

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1995, p.13.

<sup>34</sup> Ibid., pp. 10-11.

<sup>35</sup> Ibid., p.6.

<sup>36</sup> Ibid.,p.2.

<sup>37</sup> Joseph Collin and John Lear, *Chile’s free market miracle: a second look*, p. 44.

<sup>38</sup> Naomi Klein, *The Shock Doctrine*, Penguin, London, 2007, p.63.

<sup>39</sup> Manuel Gárate, *La revolución capitalista de Chile*, Ediciones Alberto Hurtado, Santiago, 2012.

In an interesting paper, Verónica Montesinos and John Markoff identified the origin of the Chicago Boys liberal tradition in the mid-19<sup>th</sup> century linking it to the figure of French economist Jean Gustave Courcelle-Seneuil, who served as adviser to the Chilean government.<sup>40</sup> However, this connection is only briefly mentioned when analyzing the inflation that affected Chile at the time. There is no further elaboration on this beyond a couple of sentences. Montesinos and Markoff's work also lacks institutional analysis as well as proper research on the philosophical foundations of the free market revolution.

### *The problems with the laboratory thesis*

The first problem with the standard account of the free market revolution is that it ignores the fact that classical liberalism was rooted in Chile's intellectual history and therefore that neoliberalism was not alien to the nation's culture. This is important because it challenges the idea that Chile was merely a laboratory to test neoliberal economic theories in a deliberately designed operation orchestrated by the American government. Instead it indicates that the neoliberal revolution was to a large extent a phenomenon within the Chilean intellectual tradition and with clear antecedents in Chile's political history. As will be explained, from an institutional perspective this is crucial in order to understand why the free market revolution happened and why it was institutionally successful.

A second and related problem with the standard account of the Chilean free market revolution is that it does not pay proper attention to the intellectual tradition to which the Chicago Boys belonged, namely British American liberalism, which is the forerunner of what is known as neoliberalism. For it is not true that classical liberalism and the later neoliberal tradition do not consider political liberties and democracy as crucial for a free society. Nor is it the case that the Chicago Boys and other reformers just opted to ignore them. On the contrary, classical liberalism and neoliberalism regard them as important values. The difference with other philosophies is that for classical liberals these values cannot exist unless economic freedom is secure. In other words, economic freedom is seen as a necessary but not sufficient condition for political freedom and democracy. For classical liberals, without economic freedom there can be no authentic democracy and no political liberties. Economic freedom is therefore the highest value. Accordingly, democracy must be limited so as not to endanger economic liberty; otherwise the whole project of a free social order can be destroyed. Following these ideas the Chicago Boys devised an institutional project to

<sup>40</sup> Verónica Montesinos, "Economics, the Chilean Story", in: *Economists in the Americas*, Edited by John Markoff and Verónica Montesinos, Edward Elgar Publishing, Cheltenham, 2009.

restore first economic liberty and then political liberties and democracy. There is no doubt that they were willing to tolerate, collaborate and even support an authoritarian government. They did so however, as this work shows, just as long as this regime offered the chance to restore economic freedom and democracy. It can certainly be argued that there was some intellectual incoherence on the part of the Chicago Boys in so far as they did not consistently challenge some of the most brutal measures of the military regime. For even if it is true that some classical liberal thinkers such as John Stuart Mill and F.A Hayek justified a dictatorship in exceptional cases and only for a limited time period, there are no grounds in classical liberalism or its spin-off, neoliberalism, to justify the violation of fundamental rights. Evidently, this problem has also a pragmatic dimension. For the Chicago Boys, it was essential to remain silent with regard to human rights abuses as long as they were in government positions in order to keep their jobs and make the economic and political reforms that were necessary to restore economic freedom and democracy. Niall Ferguson has approached the moral dilemma faced by the Chicago Boys in the following terms:

Was it worth the huge moral gamble that the Chicago and Harvard boys made of getting into bed with a murderous torturing military dictator? The answer depends on whether or not you think these economic reforms helped pave the way back to sustainable democracy in Chile. In 1980, just seven years after the coup, Pinochet conceded a new constitution that prescribed a ten year transition back to democracy. In 1990 having lost a referendum on his leadership he stepped down as president...Democracy was restored and by the time the economic miracle was under way that helped to ensure its survival.<sup>41</sup>

An additional problem with the argument that the Chicago Boys were only interested in economic freedom and had no concern for democracy and political liberties is that it does not take the historical context sufficiently into account. As North explains, the feedback offered by reality is crucial to understand the formation of beliefs and the process of institutional transformation. In the Chilean case a statist evolution that had begun in the early 20<sup>th</sup> century led to increasing government intervention. At the same time Chile showed very low economic growth, hyperinflation and social instability. Finally the economic system collapsed along with the democratic institutions during the socialist experiment of the UP government. The Chicago Boys and other Chilean reformers adopted their intellectual position largely as a response to the results of the socialist and statist ideas that had prevailed in Chile for over fifty years. Neoliberalism came to offer a theory

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<sup>41</sup> Ferguson, *The Ascent of Money*, p. 218.

that made sense of what had happened in Chile as well as a clear plan on how to solve the problems. In their view, economic progress was inseparable from social stability and a well-functioning democracy. The context of the Cold War contributed to enforce these beliefs even more. The clash between the Soviet Union and the United States exacerbated ideological polarization at both ends of the country's political and intellectual spectrum creating what North calls "political disorder".<sup>42</sup> To a large extent, the Chicago Boys were a product of their time, most specifically, of the Cold War. In the literature on the free market revolution it is rarely mentioned that from the 1950s onwards, the Soviet Union had systematically intervened in Chile in order to bring the country under its sphere of influence. Moreover, throughout the 1960s, the Chilean Communist Party received more Soviet funding than any other Communist Party in Latin America.<sup>43</sup> Salvador Allende himself, who in 1970 would become the first Marxist president in the world to be democratically elected, was the most important contact of the Soviet secret service (KGB) in South America.<sup>44</sup> The KGB also supported Allende's campaign financially. As Cold War historian Christopher Andrew put it, the KGB "played a significant part preventing Allende being beaten to second place".<sup>45</sup> The reaction of the American government was equally intense. Henry Kissinger's comment that Allende's election was "one of the most serious challenges ever faced in the hemisphere"<sup>46</sup> reflects with absolute clarity the decisive importance that Chile had for U.S foreign policy during the Cold War.

The fear among the non-Marxist political elites that the Unidad Popular could destroy the constitutional order in Chile led the Christian Democratic Party to demand guarantees before Allende took power. Since Allende had not obtained more than 50 per cent of the votes, Congress would have to decide between the two first majorities. In exchange for their support, the Christian Democratic Party demanded from the UP coalition to agree on several constitutional reforms. The aim was to strengthen the Constitution so as to force the newly elected government to respect human rights and the rule of law. The parties of the UP coalition accepted the terms and Allende became President. Once installed, in an interview with French Marxist intellectual Régis Debray, Allende admitted that the UP coalition had accepted to sign the constitutional compromise called "Estatuto de Garantías Democráticas" only for "tactical reasons", adding that they had no intention of modifying "one comma" of their revolutionary program.<sup>47</sup>

Under the government of the Unidad Popular, the polarization that had been growing within

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<sup>42</sup> A full explanation about what is meant by "political disorder and its emergence in Chile during the Cold War will be offered in the third chapter.

<sup>43</sup> Christopher Andrew and Vasili Mitrokhin, *The World Was Going Our Way*, Basic Books, New York, 2005, p.69.

<sup>44</sup> Idem.

<sup>45</sup> Ibid., p.72.

<sup>46</sup> The White House, SECRET/SENSITIVE Memorandum for the President, "Subject: NSC Meeting, November 6-Chile," November 5, 1970 Available at: <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB110/chile02.pdf> Last accessed: 28/06/2014

<sup>47</sup> See: Régis Debray/Salvador Allende, *Der chilenische Weg*, Luchterhand Verlag, Berlin, 1972, p.130.

Chilean society in the previous decades reached its climax. The country fell into a spiral of violence stimulated by government actions, political fragmentation, foreign intervention and left and right wing extremist organizations such as the terrorist group Movimiento de Izquierda Revolucionaria (MIR) and the paramilitary group Patria y Libertad. The economic policies of the UP government, which sought to achieve massive redistribution of wealth through the nationalization of mining companies and the confiscation of land and industries, were implemented in a context of hyperinflation, economic distress and social upheaval. In addition, the UP government kept systematically violating the Constitution confirming the fears expressed by the Christian Democratic Party in 1970. As a result, the democratic nature of Allende's government was put into question. It was a general belief among the opposition parties that the UP government was trying to establish a Marxist totalitarian state.<sup>48</sup> Eventually, the situation turned unsustainable. Fear of civil war was widespread because there was no clarity with respect to the ideological and political position within the armed forces. It was a known fact that some generals and parts of the military forces supported the UP government and endorsed the Marxist cause. Allende himself, in a desperate attempt to stabilize the political and social situation of the country, had appointed several generals as ministers to his government. That decision stimulated speculations about a left wing military coup that would install a Marxist dictatorship in Chile.<sup>49</sup>

By the time the armed forces intervened in 1973, some of the Chicago Boys had already elaborated an economic program inspired in neoliberal ideas. The document was known as "*El Ladrillo*" ("*The Brick*"), because of its thickness. It was written at the time of the presidential election of 1970 as an economic program for the eventual victory of conservative candidate Jorge Alessandri. The idea was to make profound economic changes to put an end to what the authors viewed as the economic mismanagement that had characterized the Chilean economy since the 1930s. For the authors of "*El Ladrillo*", statism and corporatism were the cause of Chile's economic, cultural and social stagnation.

Under the government of the UP the document was rewritten and updated taking into account the socialist experience. The final version presented in 1973 had the purpose of "defining a set of interrelated and coherent economic policies that would enable to solve the acute economic crisis" in which Chile found itself.<sup>50</sup> The authors declared to have felt an "inescapable responsibility" to offer their "intellectual contribution" to help to "reconstruct the country and liberate it from the chaos" brought about by the "disastrous" Marxist economic policies of the UP

<sup>48</sup> See: Resolution of the Chilean Deputies Chamber, August 22, 1973. Available at: [http://historiapolitica.bcn.cl/obtienearchivo?id=documentos/10221.1/13377/1/mj\\_00061.pdf](http://historiapolitica.bcn.cl/obtienearchivo?id=documentos/10221.1/13377/1/mj_00061.pdf) Last accessed: 28/06/2014.

<sup>49</sup> See, declaration of Patricio Aylwin to Televisión Nacional de Chile, 1973. Available at: <http://www.youtube.com/watch?v=bNfcjL37zE&feature=related> Last accessed: 28/06/2014.

<sup>50</sup> See: *El Ladrillo*, Centro de Estudios Públicos, Santiago, 1992, pp.15-16.



government.<sup>51</sup> As the military lacked competence in economic issues and after two years of failed management of the economy, “*El Ladrillo*” became the economic program of the military government and their authors the experts in charge of applying it. It was the beginning of the Chilean free market revolution.

### *The structure of this work*

This work will be structured into five chapters. The first chapter (I) will explain the importance of beliefs in the process of economic change. It will examine some of the different approaches in the science of economics to the relationship between ideas, intellectuals and economic policy. On a more concrete level it will develop the theoretical framework that will serve as analytical tool for the rest of the work. In particular the contributions of Douglass North will be examined. This chapter will also explain what is meant by “neoliberalism” as the set of beliefs behind the free market revolution of the Chicago Boys, its direct connection to classical liberalism and its essential difference with other forms of liberalism like New Deal liberalism and the liberalism of the French rationalist tradition. The chapter argues that neoliberalism and therefore the Chicago Boys belonged to a tradition of liberalism of British-American origin, which understands liberty mostly in a negative sense and views progress as the result of the spontaneous forces that develop in society and the market.

The second chapter (II) will deal with the intellectual heritage behind the free market revolution. Accordingly, it will focus on the presence and impact of an earlier form of neoliberalism showing that, contrary to what is generally believed, the Chicago Boys belonged to a long Chilean tradition of British-American thinking that had been founded in Chile by the famous French laissez faire economist Jean Gustave Courcelle-Seneuil. Courcelle-Seneuil’s impact on Chile’s intellectual and political class will be analyzed in order to explain how classical liberalism managed to become the most influential set of beliefs in Chile for more than half a century. This chapter will also analyze the case of Andrés Bello, who is widely considered as one of Latin America’s most influential and outstanding intellectuals. His major work was made in Chile, where he founded the Universidad de Chile, became a legislator and created the Civil Code that defined Chile’s legal tradition for centuries to come. This chapter will explain that Bello, who was not primarily an economist, was nevertheless a close follower of Adam Smith and other British classical liberal thinkers having a substantial impact on Chile’s institutional and intellectual history.

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<sup>51</sup> Idem.

The third Chapter (III) will deal with the rise of the Chicago Boys. It will explain the historical context, analyzing the demise of early neoliberalism and the rise of antiliberal ideologies. Special emphasis will be given to the influence of the United Nations Commission for Latin America (ECLA)<sup>52</sup>, which had the declared aim of debunking the British-American liberal economic and political philosophy. This analysis will be made taking into account the political and ideological evolution in Chile in the context of the Cold War. Applying North's theoretical framework, this chapter will explain that the Chicago Boys were basically a reaction in the tradition of British-American liberalism to the economic results of the ideologies that had prevailed since the 1930s as well as to the threat of a socialist revolution. It further explains that the revival of classical liberalism in Chile was a process that took place over decades starting in the mid-1950s with the agreement between the Catholic University and Chicago University, the efforts made by the newspaper *El Mercurio* to spread the ideas of classical liberalism and the visit of the Klein & Saks mission to Chile. More importantly, this chapter shows that the beliefs of the Chicago Boys included a concern for political freedom and democracy in the tradition of classical liberalism previously promoted by Courcelle-Seneuil and his followers. Crucial in the analysis is the role played by Milton Friedman's ideas, the intellectual efforts of the think tank Centro de Estudios Públicos, which was created by leading Chicago Boys and presided by Hayek and the presence of the Mont Pelerin Society in Viña del Mar in 1981.

The fourth chapter (IV) will address one of the most important intellectual pillars of the free market revolution, namely Jaime Guzmán. Guzmán was the most influential civil adviser to the military regime. A law professor, he was a close ally of the Chicago Boys and was in charge of creating the 1980 Constitution which, in practice, came to institutionalize the free market revolution and Chile's transition to democracy. Guzmán's ideas are crucial since he was, as North would say, one of the actors in the position of making the rules of the game. As the chapter shows, Guzmán was deeply influenced by the ideas of Friedrich von Hayek, who like Friedman, happened to visit Chile a couple of times while the free market revolution was taking place. Guzmán's Constitution was largely the result of the influence of ideas in the tradition of British-American liberalism, whose most coherent and influential proponent in the 20<sup>th</sup> century was Hayek.

The last chapter (V) will deal in detail with the intellectual contributions of José Piñera. The reason for dedicating a special chapter to Piñera is twofold. On a practical level, Piñera was responsible for the most radical reforms in the Chilean free market revolution.<sup>53</sup> He can therefore be considered one of the most important "Founding Fathers" of the Chilean economic model.<sup>54</sup> On a

<sup>52</sup> In the 1980s ECLA incorporated the Caribbean countries. Since then its official name is United Nations Commission for Latin America and the Caribbean, ECLAC.

<sup>53</sup> Ferguson, *The Ascent of Money*, p.214.

<sup>54</sup> Angel Soto, "The Founding Fathers of Chile's Capitalist Revolution", *Yale Journal of International Affairs*,

philosophical level, Piñera wrote more than any other of the Chicago Boys on the intellectual foundations of the free market revolution. More importantly, Piñera founded a magazine that was extremely influential among the ruling elites, business people and academicians during the 1980s. The aim of the magazine, called *Economía y Sociedad*, was to influence the climate of opinion and support the free market revolution and Chile's transition to democracy. Given his status among the Chicago Boys, his intellectual engagement and his influence in Chile, Piñera's contribution must be considered as one of the main intellectual sources of the free market revolution. Accordingly, this chapter analyzes Piñera's writings and also the diverse publications of his magazine *Economía y Sociedad* from the late 1970s to the 1990s showing that the free market revolution was openly linked by Piñera and *Economía y Sociedad* to ideas of classical liberalism and to the American *Founding Fathers*.

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Spring/Summer 2007, p.126. Soto's claim seems to be accurate with regard to the second generation of reformers but not the first one. It is usually attributed to Sergio de Castro to have been the main architect of the Chilean economic model. De Castro was one of the first Chileans to obtain a PhD in economics from Chicago University and served as finance minister from 1976 to 1982.

## Chapter I: Beliefs and economic change

### *Economists and the importance of ideas*

This is essentially a study about the impact of ideas on Chilean institutional history, especially on the free market revolution of the 1970s and 1980s. In focusing on the role of ideas, this work follows a long tradition in economic thinking that has identified them as a major force of historical change. In other words, ideas are crucial to explain institutional evolution and the process of economic change. A brief examination of what some of the most reputed minds in the history of economic thought had to say about this issue will contribute to have a clear notion about the theoretical premise of this study.

John Stuart Mill was among the first economists to warn about the decisive impact of philosophy and ideas on men's actions and human history. According to Mill, a central lesson "given to mankind by every age, and always disregarded" is that "speculative philosophy, which to the superficial appears a thing so remote from the business of life and the outward interests of men, is in reality the thing on earth which most influences them, and in the long run overbears every other influence save those which it must itself obey".<sup>55</sup> In his *Essays on Politics and Society*, Mill would insist that "opinion is in itself one of the greatest active social forces" in defining government institutions, adding that "one person with a belief is a social power equal to ninety-nine who have only interests".<sup>56</sup> For Mill, "it is what men think that determines how they act".<sup>57</sup> Thus Mill was making the case for the relevance that intellectuals and ideas have in the process of social and economic change. It is interesting to note that Mill not only explained the impact that experts or intellectuals have on political or economic institutions but also on public opinion which, in his view, largely defined what sort of institutions would prevail.<sup>58</sup> As we shall see, in the Chilean case this reflection is important because there was a systematic campaign by the Chicago Boys and by important media to make neoliberalism popular especially among the country's elites. Ideas, however, usually have a less direct way in influencing society. Moreover, for this approach many people who follow a certain set of beliefs are not even aware of the origin of those beliefs. Perhaps

<sup>55</sup> John Stuart Mill, *The Collected Works of John Stuart Mill, Volume X - Essays on Ethics, Religion, and Society*, Edited by John M. Robson, Introduction by F.E.L. Priestley, University of Toronto Press, Toronto, 1985, p.164.

<sup>56</sup> John Stuart Mill, *The Collected Works of John Stuart Mill, Volume X IX- Essays on Politics and Society, Part 2*, Edited by John M. Robson, Introduction by F.E.L. Priestley, University of Toronto Press, Toronto, 1985, p.57.

<sup>57</sup> Idem.

<sup>58</sup> Ibid., p.58.

no one made this point more categorically than Mill's countryman John Maynard Keynes. In the concluding remark of his famous *General Theory of Unemployment, Interest and Money*, Keynes observed:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back....the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas... soon or late, it is ideas, not vested interests, which are dangerous for good or evil.<sup>59</sup>

Keynes' insight that many people in leading positions are often influenced by some thinkers whom they probably have never heard about was especially true in the case of Chile. There is no doubt that the military regime knew next to nothing about economics and that Pinochet had never read Adam Smith. Even so, he eventually became convinced that free market institutions were the solution for many of the country's problems. In so doing the military regime enabled the application of a set of beliefs whose origin was largely unknown to them. Nobel laureate economist Friedrich von Hayek dedicated much effort to explain this phenomenon. Despite his unsolvable differences with Keynes, Hayek held the same view with regard to the role of ideas and intellectuals in defining the social and economic evolution.<sup>60</sup> In his major work *The Constitution of Liberty*, Hayek explained that "the belief that in the long run it is ideas and therefore the men who give currency to new ideas that govern evolution... has long formed a fundamental part of the liberal creed".<sup>61</sup> According to Hayek, a "practical man merely chooses from the possible orders that are offered to him and finally accepts a political doctrine or set of principle elaborated and presented by others".<sup>62</sup> Thus, "people rarely know or care whether the commonplace ideas of their day have come to them from Aristotle or Locke, Rousseau or Marx...most of them have never read the works or even heard the names of the authors whose conceptions and ideas have become part of their thinking".<sup>63</sup>

Accordingly if a certain social order is to prevail, in Hayek's view the most decisive element is to

<sup>59</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money*, Harvest/Harcourt, New York, 1964, pp. 383-384.

<sup>60</sup> In his work "Free Enterprise and Competitive Order", Hayek explicitly declared his agreement with Keynes on this issue. See: Friedrich Hayek, "Free Enterprise and Competitive Order", in: *Individualism and Economic Order*, Chicago University Press, Chicago, 1980, p. 108.

<sup>61</sup> Friedrich Hayek, *The Constitution of Liberty*, Routledge, Abingdon, 2006, p.98.

<sup>62</sup> Ibid., p.99.

<sup>63</sup> Ibid., p.98.

keep vibrant in society the ideas that make that order possible. Accordingly, for Hayek it is “the beliefs which must spread if a free society is to be preserved” and not what is politically possible at a certain moment.<sup>64</sup>

The reason why ideas and ideologies are so influential in human history was explained by Hayek’s professor Ludwig von Mises. A worldview explained Mises, is a theory and interpretation of all things, an opinion about the best means to remove uneasiness. Insofar religion, metaphysics and philosophy provide worldviews they “advise men how to act”.<sup>65</sup> Ideology, said Mises, is a narrower concept that only includes doctrines concerning the individual’s conduct and social relations. Like a worldview, an ideology is not only a descriptive theory but also a doctrine about what ought to be. For Mises, it was the result of the clash between different world views, political philosophies, ideologies and ideas, what defines the type of economic organization and institutions a society has: “The genuine history of mankind is the history of ideas. It is ideas that distinguish man from all other beings. Ideas engender social institutions, political changes, technological methods of production, and all that is called economic conditions.”<sup>66</sup> This is the reason why ideas, economic history and institutional history are not separable and why focusing on ideas is so important to understand the Chilean free market revolution and the role played by the Chicago Boys. The Chicago Boys themselves were firmly convinced that ideas were crucial in order to transform Chile. So was one of their main mentors: Milton Friedman. Like Mises, Friedman believed that the economic organization of a country depended on which ideas about the role of government prevailed in the intellectual battle. In Friedman’s eyes, it was the translation into practice of two sets of ideas and not material factors that had made America a success story. The first set had to do with the free market ideas developed by Adam Smith in *The Wealth of Nations*. The second set of ideas was the individualistic philosophy that was embodied by Thomas Jefferson in the Declaration of Independence.<sup>67</sup> According to Friedman, until the 1930s “the United States remained largely as its founders had envisaged it”, with a federal government that only performed specific functions of providing for national defense, a legal framework and a common commercial policy for the states.<sup>68</sup> Intellectuals came to change the free market institutional framework of the United States during the Great Depression. According to Friedman, Franklin Roosevelt’s brain trust integrated mainly by Columbia graduates, “reflected the change that had occurred earlier in the intellectual atmosphere on the campuses, from the belief in individual responsibility, laissez faire and a decentralized government to belief in social responsibility and a centralized powerful

<sup>64</sup> Hayek, *Individualism and Economic Order*, p. 108.

<sup>65</sup> Ludwig von Mises, *Human Action*, Fox & Wilkes, Fourth Edition, San Francisco, 1996, p.178.

<sup>66</sup> Ludwig von Mises, *Theory and History*, Ludwig von Mises Institute, Auburne Alabama, 2007, p. 187.

<sup>67</sup> See: Milton Friedman and Rose Friedman, *Free to Choose*, Harvestbooks, Orlando, 1990, pp.1-2.

<sup>68</sup> Milton and Rose Friedman, *The Tyranny of the Status Quo*, Pelican, Harmondsworth, 1985 p. 24.

government.”<sup>69</sup> Like Keynes and Hayek, Friedman observed that the relation between ideas and economic change was strong but not instantaneous. Along with his wife Rose he wrote: “After a lag, sometimes of decades, an intellectual tide ‘taken at its flood’ will spread at first gradually, then more rapidly, to the public at large and through the public’s pressure on government will affect the course of economic, social, and political policy”.<sup>70</sup>

Friedman of course, did not disregard material factors such as personal interest as a strong human motivation. In this sense he was close to Max Weber whose work treated ideas and their impact on the process of economic and social change as a major theme without disregarding material interest to explain human behavior.<sup>71</sup> For Weber, ideas “can become effective forces in history”.<sup>72</sup> *Weltbilder*, world images worked as guides for people’s actions while organizations resulted from putting into practice certain ideas.<sup>73</sup> For Weber, nowhere could the power of ideas be seen more clearly than in the history of capitalism. In *The Protestant Ethic and the Spirit of Capitalism*, Weber argued that the ideas of Protestantism had given rise to a new type of institutions and economic organization resulting in modern capitalism.

It is important to stress that the view according to which ideas play a decisive role in institutional, social and economic evolution is far from being undisputed. Marxism for example completely ruled out the possibility of ideas playing a role in defining social and economic history. For orthodox Marxists, only material factors such as class interest and productive forces count in order to explain the process of institutional formation. In other words, the economic structures define everything else, from prevailing ideologies and rules, through laws, art and culture in general. Marxist sociological determinism is compounded by what Karl Popper called “historicism”. Historicism is a doctrine that holds that the course of history is already predetermined by laws which, once discovered, allow to make predictions about the future.<sup>74</sup> For this approach, ideas, beliefs or philosophy, have no impact on human history. Moreover, individuals have no power to alter the course of history at all for it has already been determined by a society’s natural development law. In the preface to the first German edition of his central work *Capital*, Marx made this point very clearly. According to Marx, even when a society “has got upon the right track for the discovery of the natural laws of its movement ...it can neither clear by bold leaps; nor remove by legal enactments the obstacles offered by the successive phases of its normal development.”<sup>75</sup>

Marxism is not the only economic approach that has given little or no importance to the role

<sup>69</sup> Ibid., p.92.

<sup>70</sup> Friedman and Friedman, “The Tide in the Affairs of Men“, *The Freeman*, Vol. 39, April, 1989.

<sup>71</sup> Richard Swedberg, *The Max Weber Dictionary: Key Words and Central Concepts*, Stanford University Press, Stanford, California, 2005, p.121.

<sup>72</sup> Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, George Allen & Unwin Ltd., London, 1950, p. 90.

<sup>73</sup> Swedberg, *The Max Weber Dictionary*, p. 121.

<sup>74</sup> See: Karl Popper, *The Poverty of Historicism*, Routledge, London, 2002, p.3.

<sup>75</sup> Karl Marx, *Capital*, Vol.1, Charles H Kerr & Company, Chicago, 1909, p.15-16.

of ideas in explaining economic phenomena and human history. From a non-deterministic position, neoclassical economists have long ignored the importance of ideas and culture to explain human behavior and the performance of the market. One of the most emblematic cases of the rejection of the role of ideas in the process of economic change was Vilfredo Pareto. In his work *The Mind and Society* Pareto argued that “the proposition so often met with that 'this or that people acts as it does because of a certain belief' is rarely true; in fact, it is almost always erroneous.”<sup>76</sup> Along similar lines Nobel laureate economist George Stigler argued that economic institutions and policies are mostly defined by the interest of the actors in the political process, who pursue a policy of “utility maximization”.<sup>77</sup> According to Stigler, the ideas of economists are not influential enough to make a difference in terms of economic policy.<sup>78</sup> Following a similar approach in their bestseller book on economic development, professors James Robinson and Daron Acemoglu argued that beliefs, values and culture in general are not decisive in the economic evolution of nations and that material factors are more important in defining institutions.<sup>79</sup>

### *North's integral approach*

One of the main critics of the neoclassical approach and its rationalist assumptions has been Nobel laureate economist Douglass North, who has stressed the importance of beliefs and ideologies for understanding the process of economic change. According to North, “economics has little to say about ideology and even less to say about how it affects choices and economic performance.”<sup>80</sup> For North, the neoclassical assumptions are incorrect.<sup>81</sup> Sharing Hayek's viewpoint about the role of ideas, North argued that it is not possible to make sense out of the world with a purely economic approach. It is necessary to integrate social and political theories as well as cognitive science because “we do not live only in an economic world”.<sup>82</sup>

Once the reductionist neoclassical assumptions are put aside, it becomes clear that human interaction is characterized by a set of complex problems that create uncertainty.<sup>83</sup> In this context,

<sup>76</sup> Vilfredo Pareto, *The Mind and Society*, Vol 1. Harcourt Brace, New York, 1935, p. 90.

<sup>77</sup> George Stigler, *The Essence of Stigler*, Edited by Kurt Leube and Thomas Gale More, Hoover Press, Stanford, California, 1986, p. 309.

<sup>78</sup> Idem.

<sup>79</sup> James Robinson and Daron Acemoglu, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, Crown Business, New York, 2012, p.56 ff.

<sup>80</sup> Douglass North, “Ideology and Political/Economic Institutions”, *Cato Journal*, Vol.8, No.1, Spring /Summer 1988, p.15.

<sup>81</sup> The main assumptions of rational choice are: a) individuals always maximize utility with their decisions; b) there are no frictions in the world where individuals make decisions; and c) decisions are made in a world where resources are scarce.

<sup>82</sup> Douglass North, *The Role of Institutions in Economic Development*, Unece Discussion Papers Series, No. 2003.2, October, 2003, p. 1. Available at: [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2003-2.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2003-2.pdf) Last accessed: 30/06/2014.

<sup>83</sup> North uses the term uncertainty as formulated by Frank Knight, who distinguished between uncertainty and risk. For



institutions are those restrictions that provide structure to human interaction in order to reduce uncertainty. In a world without frictions, such as the one assumed by the neoclassical economic models, institutions would not be necessary because there would be no uncertainty. In the real world however, institutions work as mechanisms to reduce the complexity of the problems faced by individuals in their interaction. This means that, contrary to what the rationalist approach assumes, in the real world individuals do not possess complete information or unlimited mental capacity to process the information at their disposal. This fact explains the development of norms and regularities -institutions- so that exchange relations can take place within a structure that lowers transaction costs. In North's words, institutions "can make predictable our dealings with each other every day in all kinds of forms and shapes. They thereby not only reduce uncertainty in the world but allow us to get on with everyday business and solve problems effectively".<sup>84</sup> As a result, institutions provide "incentives and disincentives for people to behave in certain ways".<sup>85</sup> Moreover, without institutions, adds North, "there would be no order, no society, no economy, and no polity".<sup>86</sup> Therefore, the construction of an institutional framework is an "essential building block of civilization".<sup>87</sup>

In this framework, says North, "ideas, ideologies, prejudices, myths and dogmas have importance because they play a key role in decision making".<sup>88</sup> North argued that beliefs and ideologies are the mental models people use to make sense of the world around them in order to make decisions in a context of uncertainty.<sup>89</sup> In North's words:

In order to make uncertain situations "comprehensible" humans will develop explanations. The pervasiveness of myths, taboos and particularly religions throughout history (and prehistory, as well) suggests that humans have always felt a

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Knight, while risk was a situation in which it was possible to calculate a probability distribution of outcomes so that it was possible to insure against such a condition, uncertainty was a situation where no such probability distribution existed. See: Douglass North, *Understanding the Process of Economic Change*, Princeton University Press, New Jersey, 2005, p.13.

<sup>84</sup> North, *The Role of Institutions in Economic Development*, p.1.

<sup>85</sup> Idem.

<sup>86</sup> Douglass North, *Economics and Cognitive Science*, Washington University, St Louis, p.1 Available at: <http://www2.econ.iastate.edu/tesfatsi/north.econcognition.pdf> Last accessed: 28/06/2014.

<sup>87</sup> Idem.

<sup>88</sup> Douglass North, "Que queremos decir cuando hablamos de racionalidad?", *Revista Estudios Públicos*, No. 34, Santiago, 1989. p.3.

<sup>89</sup> According to North, Mantzavinos and Shariq, a belief is a relatively crystallized mental model which has been confirmed by environmental feedback. A belief system is in turn the interconnection of beliefs which can be consistent or inconsistent. Belief systems generate an emotional adaption that will work as a filter to the processing of new stimulus. North, Mantzavinos and Shariq go on to argue that due to natural limitations of the mind, nothing guarantees that "the reception of environmental feedback" would be accurate. This would explain the historical persistence of myths, dogmas, ideologies and superstitions based on flawed belief systems. See: Douglass North, By C. Mantzavinos and Syed Shariq, *Learning, Institutions and Economic Performance*, Max Planck Institute for Research on Collective Goods, Bonn, 2003/13, December 2003, p. 4-5.

need to explain the unexplainable and indeed it is probably an evolutionarily superior trait to have any explanation rather than no explanation.<sup>90</sup>

Ideologies like communism explains North, are “organized belief systems frequently having their origins in religions which make prescriptive demands on human behavior. They both incorporate views about how the ‘world works’ and how it should work. As such they provide a ready guide to making choices”.<sup>91</sup> Thus, ideology refers to the “subjective perceptions that people have about what the world is like and what it ought to be”.<sup>92</sup> Insofar as ideologies entail a prescriptive component they “affect people’s perception about the fairness or justice of the institutions of a political economic system”.<sup>93</sup>

North explains that ideologies are especially important in political markets where the transaction costs are more difficult to measure than in economic markets. Unlike economic markets, where the products exchanged can be directly measured and tested, in political markets votes are exchanged for promises, which makes it almost impossible to demand what has been offered in exchange for the vote. Voters in turn have little incentive to inform themselves because the probability that their vote matters is almost nonexistent. As a result, stereotypes and ideologies become the main decision criteria shaping the performance of the economy.<sup>94</sup> And since the ideologies and beliefs available in a given culture finally define the form of government that determines the formal rules of the game, namely property rights and enforcement characteristics, it is not a surprise, says North, that efficient economic markets are so exceptional.<sup>95</sup> Moreover, North argues that ideologies are a key aspect for understanding the poor economic performance of third world countries for they usually lead to policies that provide institutional constraints that do not encourage productive activity.<sup>96</sup>

A similar argument on the importance of beliefs for institutions and human behavior has been made by Robert Dahl in his work *Polyarchy*. According to Dahl “beliefs guide action not only because they influence or embody one’s more distant goals and values...but because beliefs make up for assumptions about reality, about the character of the past and the present, our expectations about the future, our understanding of the hows and whys of actions: in short our ‘knowledge’”.<sup>97</sup>

<sup>90</sup> North, *Economics and Cognitive Science*, p.4.

<sup>91</sup> Idem.

<sup>92</sup> North, *Ideology and Political/Economic Institutions*, p.15.

<sup>93</sup> Idem.

<sup>94</sup> Douglass North, *Economic Performance through Time*, Lecture to the memory of Alfred Nobel, December 9, 1993. Available at: [http://www.nobelprize.org/nobel\\_prizes/economics/laureates/1993/north-lecture.html](http://www.nobelprize.org/nobel_prizes/economics/laureates/1993/north-lecture.html) Last accessed: 28/06/2014.

<sup>95</sup> Idem.

<sup>96</sup> See: Douglass North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, 1990, pp. 110-111.

<sup>97</sup> Robert Dahl, *Polyarchy*, Yale University Press, New Haven, 1971, p.125. Dahl uses the term knowledge in a broad

Furthermore, like North, Dahl concludes that evidently “individual beliefs influence collective actions and hence the structure and functioning of institutions and systems”.<sup>98</sup>

Institutions in turn, as North explains, are made of formal and informal rules. The former are those created by authorities such as laws and constitutions while the latter refer to ways of doing things in a specific culture. These elements explain the performance of a given economy, but only formal rules can be altered at will. This means that a new government can change the formal rules in order to create incentives that lead to economic growth but it cannot fundamentally change the cultural heritage. The rulers find constraints in path dependence, that is to say, the aggregate of norms, belief systems and rules that have evolved over time and survive. This would explain why it is not possible to introduce formal rules from developed countries into developing countries and expect them to produce the same results. North argues that in the Latin American case, the widely held beliefs embodied in the informal constraints of the European and American societies, which account for the existence of flexible institutions and their success, are not to be found.<sup>99</sup> This point is crucial, for even if it is correct that in general Latin American countries have failed to create similar conditions to the more advanced nations, the Chilean case shows that informal institutions, especially a belief system compatible with free market institutions and the rule of law did in fact exist as part of the cultural heritage. This was a central factor to explain the institutional success of the economic and political reforms made in the 1970s and 1980s and their preservation from the 1990s onwards. Chapter II will deal with the reception and influence of classical liberalism in Chile in the 19<sup>th</sup> century and its lasting impact on institutional evolution and the intellectual climate of opinion.

### *Two revolutions: Chile and the Soviet Union*

North observed that the structure of an economic market reflected “the beliefs of those in a position to make the rules of the games”.<sup>100</sup> In other words, it is the beliefs of those “political and economic entrepreneurs” in a position to make policies that result in an institutional matrix that sets constraints for new actors willing to modify institutions. As a result of this path dependence, gradual change is in general the only possible change. However, as the same North explains, there are occasions where radical changes take place.<sup>101</sup> According to North, the Soviet Union was an excellent example of the process of change as an exercise of the intentionality of the players, where

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sense and not only in a scientific one.

<sup>98</sup> Ibid., p.126.

<sup>99</sup> North, *Understanding the Process of Economic Change*, p. 78.

<sup>100</sup> Ibid, p.50.

<sup>101</sup> Ibid., p.2.

the beliefs of those who are in power positions got implemented via formal rules.<sup>102</sup>

From an institutional perspective, what happened in Chile is comparable to what happened in Russia with the communist revolution. Supported by a military regime, the Chicago Boys also made a radical transformation of the formal rules that had characterized the Chilean economic model since the 1930s. In so doing, the Chicago Boys put into practice their own set of beliefs to transform the Chilean economy in order to achieve economic prosperity and social stability. Thus, like the Soviet Union, the Chilean experiment under the Chicago Boys was not the result of the gradual trial and error process that according to North had resulted in the institutions that gave rise to the Western World. As this work shows, there was in fact a “sequential evolution of beliefs modified by experiences” but it was not the case that they “gradually resulted in the changes producing economic growth”.<sup>103</sup> It is important to note at this point that the radical transformation of formal institutions seems to require an authoritarian political context in order to take place. This was the case both in Russia and Chile. In practice, what the Chicago Boys did was a radical transformation that broke away from decades of path dependence. It is in that sense that this work uses the concept “free market revolution”. It is an analytical concept that helps to understand the radical process of institutional transformation that took place in Chile. The central difference between the Soviet and the Chilean experiment was not so much one of institutional procedure but one of historical context and theoretical content. While socialist theories inspired the Soviet leadership to make their revolution, classical liberal ideas inspired the Chicago Boys to make theirs. There is however another important difference from an ideological and institutional point of view: while socialism had no major antecedent in the Russian institutional and political history, neoliberalism was rooted in the origins of the Chilean republic. In this sense, the Chilean free market revolution was only partially a revolution for it was rooted in an intellectual tradition that had been an essential part of Chilean economic and political history. In addition, for decades before the free market revolution, the Chicago Boys had engaged in the public debate with the aim of changing the intellectual climate of opinion. The intensity and content of this liberal engagement was in turn defined by the perception that previous ideologies had not managed to create the institutions necessary for solving the social and economic problems. This is the reason why the performance of Chile’s economy prior to the free market revolution is relevant from an ideological perspective. As North explains, those sets of beliefs that accord to reality the most, will more likely produce the results intended by those who make policies inspired in them.<sup>104</sup> This means for example that socialism, as followed by the Soviet leadership, simply misunderstood the economic

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<sup>102</sup> Ibid.,p.146.

<sup>103</sup> Idem.

<sup>104</sup> Ibid., p.5.

reality and led to failed economic policies. In North's words, the belief system imposed by the Soviet leaders reflected that the players had a very "primitive understanding of the fundamental structure of an operating economy" and an "even more primitive understanding of the necessary incentive structure to accomplish their objectives".<sup>105</sup> Similarly, in Chile the ideologies prevailing since the 1930s had not led to a relevant increase in the life quality of the people. And while in Russia Michael Gorbachev reversed course initiating a process of political and economic liberalization known respectively as *glasnost* and *perestroika*, in Chile the Chicago Boys reacted embracing a radical classical liberal ideology. Thus, the equation beliefs → policies → reality feedback → modified beliefs → new policies, is crucial to understand the rise and fall of the Soviet Union and also the philosophical foundations behind the free market revolution in Chile. After all, the Chicago Boys sought to correct what they viewed as the economic and political failures of a system which did not enable large spaces of economic and individual freedom. If North is right, then it was neoliberalism that provided the intellectual basis for an institutional structure able to efficiently adapt to the uncertainties of a non-ergodic world.<sup>106</sup> The key concept here is "adaptive efficiency" which entails institutions flexible enough to allow experimenting with various alternatives in order to deal with problems that are emerging all the time.<sup>107</sup> As North explains, adaptive efficiency "encourages the development of decentralized decision-making processes that will allow societies to explore many alternative ways to solve problems".<sup>108</sup> And since it is beliefs that connect reality to institutions, in order to achieve adaptive efficiency a belief structure that encourages experimentation and the elimination of failures is required. In other words, according to North, a set of beliefs favorable to economic freedom is crucial for the creation of adaptive efficiency and efficient markets. In turn, efficient markets require institutions that lower transaction costs, that is to say, the costs involved in protecting property rights, measuring what is being exchanged and enforcing agreements.<sup>109</sup> Neoliberalism was an ideology favorable to economic liberty and thereby to efficient markets. According to North, this enabled the Chicago Boys to create the formal institutions that were vital for generating economic growth in Chile.<sup>110</sup> From a philosophical perspective this is important because the idea of democracy in neoliberalism is inextricably linked to its economic philosophy. The reason why the Chilean reformers sought to

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<sup>105</sup> Ibid., p.149.

<sup>106</sup> Ibid, p.154. By a "non-ergodic" world North refers to a world of continuous and novel change. This means that there is no timeless and constant underlying structure of the economy which allows to make predictions of how the future will look like and which policies will be the right ones. Humans are therefore always forced to adapt to realities that have no historical antecedent. In order to do so, a flexible belief system and institutional structure is necessary.

<sup>107</sup> Douglass North, *Privatizations, Incentives and Economic Performance*, Washington University, St Louis, p.1. Available at: <http://129.3.20.41/eps/eh/papers/9411/9411002.pdf> Last accessed: 28/06/2014.

<sup>108</sup> Idem.

<sup>109</sup> Douglass North, *Institutions, Organizations and Market Competition*, Washington University, St Louis, p. 11. Available at: <http://129.3.20.41/eps/eh/papers/9612/9612005.pdf> Last accessed: 28/06/2014.

<sup>110</sup> See: Footnote No 2.

make a transition to a limited democracy was precisely that in their view a limited democracy was the only one that made possible the preservation of economic freedom, economic growth and a free society at large. In this position they were not far from North's prescription for economic success in the long run. As North and Weingast argued:

The development of free markets must be accompanied by some credible restrictions on the state's ability to manipulate economic rules to the advantage of itself and its constituency. Successful economic performance, therefore, must be accompanied by institutions that limit economic intervention and allow private rights and markets to prevail in large segments of the economy.<sup>111</sup>

According to North and Weingast, a Constitution that creates such a framework in which the government, whether democratic or not, is limited, would enable the conditions for economic growth.<sup>112</sup> As will be explained in the third chapter, this was exactly the aim of the Constitution of 1980. Largely inspired by a classical liberal philosophy, the 1980 Constitution and the economic reforms that were thereby institutionalized sought to correct what was seen as problems created by decades of interventionist policies and especially those created by the socialist revolution of the UP government.

The reforms of the Chicago Boys and the 1980 Constitution also sought to put an end to "political disorder". Political disorder is defined by North, Summerhill and Weingast, as a situation where a large portion of a society fears for its lives, families or sources of livelihood and wealth while political order is defined as exactly the opposite.<sup>113</sup> In a different chapter we will elaborate on this issue.<sup>114</sup> At this stage, it has to be pointed out that political order according to North is essential for achieving long term economic growth and political stability because disorder increases uncertainty, thereby increasing transaction costs. For this reason, focusing exclusively on market reforms and the configuration of democracy is not enough to bring a state in transition into a path of sustainable development.<sup>115</sup> For North order has to exist or otherwise neither the market can work efficiently nor democracy can be sustained. In this context North explains that there are two ways

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<sup>111</sup> Douglass North and Barry Weingast, "Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth -Century England", *The Journal of Economic History*, Vol.49, No. 4, December, 1989, p.808.

<sup>112</sup> Idem.

<sup>113</sup> Douglas North, William Summerhill, and Barry Weingast, *Order, Disorder and Economic Change: Latin America vs North America*, September 1999, p.4. Available at: <http://www.international.ucla.edu/media/files/weinga.pdf> Last accessed: 28/06/2014.

<sup>114</sup> See chapter III.

<sup>115</sup> Douglass North, William Summerhill, and Barry Weingast, *Order, Disorder and Economic Change: Latin America vs North America*, p.1.

in which order can be achieved. One is via a consensus and the other one via an authoritarian regime. The latter does not require the consent of the governed. North himself argues that an ideal type of authoritarian political order exists when the participants find it in their interest to obey the written or unwritten rules given by the ruler.<sup>116</sup> This analysis is relevant for the Chilean case for two reasons: first, political disorder was an important factor in the definition of the Chicago Boys worldview and their willingness to collaborate with a pro market authoritarian regime. Secondly, if North is right, for authoritarianism to work, the existence of a set of informal rules and beliefs compatible with the new formal institutions is essential. In other words, the philosophical or ideological foundations of the free market reforms required some kind of support in Chile's cultural heritage. As North explains, when the formal rules are changed overnight, if the informal rules, namely the traditions, ideas, codes of conduct, norms of behavior and conventions do not conform with the new formal rules, economic growth and institutional success will not be achieved.<sup>117</sup> Insofar as informal rules account for the largest part of the sum of constraints that shape our decisions they are far more important than formal rules for explaining economic performance.<sup>118</sup> In this logic, a strong liberal tradition prior to the free market revolution would be part of those sets of informal institutions which contributed to make sustainable the reforms introduced by the Chicago Boys during and after the military regime. This was exactly the case. The fact that those beliefs lost their influence during the decades that preceded the free market revolution does not mean that they disappeared as part of the knowledge accumulated over time. On the contrary, they were present in the intellectual spheres and through the system of private law, which enabled them to come back and become influential once again. As this work shows, the Chicago Boys were able to work on the foundations of a classical liberal tradition long existent in Chile. Hence their institutional success. This analysis seems even more pertinent when we consider the fact that Chile was an exception in terms of economic performance among the third world countries that went through a similar process. As Huneus observed, Chile was almost "the only environmentalist dictatorship in the Third World that left a good economic legacy".<sup>119</sup> In general, argues Huneus, "public administration of military governments is almost always associated with economic failure".<sup>120</sup> Moreover, many other authoritarian regimes also had competent economic teams and good economic programs but nevertheless failed to generate economic prosperity.<sup>121</sup>

It could of course be argued that the free market revolution itself changed the Chilean

<sup>116</sup> North, *Understanding the Process of Economic Change*, p. 104.

<sup>117</sup> Douglass North, *Institutions Matter*, Washington University, St Louis, p.3. Available at: <http://128.118.178.162/eps/eh/papers/9411/9411004.pdf> Last accessed: 28/06/2014.

<sup>118</sup> Douglass North, *Institutions, Institutional Change and Economic Performance*, p. 36.

<sup>119</sup> Huneus, "Technocrats and Politicians in an Authoritarian Regime, The ODEPLAN's Boys and the Gremialists in Pinochet's Chile", p. 469.

<sup>120</sup> Idem.

<sup>121</sup> Idem

culture overnight in such a dramatic way that it made the new economic model possible to work. This does not seem a plausible explanation for what happened in Chile. Otherwise the informal institutions of a given society would not be an obstacle for achieving economic growth or any kind of institutional transformation. The institutions could be successfully changed at will by the authority if it had enough power to do so. North however, has argued that reality is far more complex and that beliefs and other informal institutions play a decisive role. Applying North's theory to the Chilean free market revolution makes it therefore necessary to explore if there was in Chilean history a belief system related to neoliberalism which formed part of the Chilean cultural heritage, which thereby contributed to the institutional success of the free market economic and political reforms made by the Chicago Boys. Before clarifying to what extent the set of beliefs applied by the Chicago Boys were present in Chile's intellectual heritage it is necessary to establish exactly the content of those set of beliefs and the sort of institutional arrangements they promoted. In other words, it is crucial to define what is to be understood as neoliberalism.

*The beliefs behind the Chilean free market revolution: British-American liberalism*

The set of beliefs imported by the Chicago Boys from the United States is usually referred to as "neoliberalism". This label, as Rachel Turner observed, leads to confusion and has been used with lack of precision in the political debate.<sup>122</sup> Similarly Taylor C. Boas & Jordan Gans-Morse have shown that the term "neoliberalism" is largely undefined in academic discourse and has experienced an evolution that has dramatically altered its connotation since it first appeared in the 1930s.<sup>123</sup> In the context of this work, the term will refer to the different streams of liberalism that were present in the foundation of the Mont Pelerin Society, (MPS) including the Chicago School, the Austrian School, James Buchanan and the Virginia School, Walter Eucken and the Freiburg School, as well as philosophers like Karl Popper, Bertrand de Juvenel and Michael Polanyi. To be sure, there are important differences between the various streams of the so-called neoliberalism and the Chicago Boys were clearly proponents of one of the most radical versions. What in any case seems clear is that neoliberalism is the natural successor of the classical liberalism of British-American origin. This becomes evident when the history of the central force in the development and spread of neoliberal identity, namely the Mont Pelerin Society (MPS), is examined.<sup>124</sup> When this Society was founded in 1947, classical liberalism was at its lowest point in terms of influence

<sup>122</sup> Rachel Turner, *Neo-Liberal Ideology, History, Concepts and Policy*, Edinburgh University Press, Edinburgh, 2008, p.2.

<sup>123</sup> Taylor C. Boas & Jordan Gans-Morse, "Neoliberalism: From a New Liberal Philosophy to Anti -Liberal Slogan", *Studies in Comparative International Development*, Volume 44, Issue 2, (June 2009), Springer, pp. 137-161.

<sup>124</sup> Dieter Plehwe, Introduction to *The Road from Mont Pelerin*, Edited by Phillip Mirowski and Dieter Plehwe, Harvard University Press, Cambridge, Massachusetts, 2009, p. 4.



on intellectuals, politicians and society in general.<sup>125</sup> The Soviet Union had vastly extended its domain over Eastern Europe while Scandinavia, Britain and America were moving towards welfare states and Spain and Portugal had fascist dictatorships. In this context Hayek decided to found a society which would revive classical liberalism in order to preserve what he believed were the intellectual foundations of western civilization. Among the co-founders of the society were figures such as Lionel Robbins, Michael Polanyi, Karl Popper, Ludwig von Mises, Walter Eucken and several Chicago economists such as Milton Friedman, Frank Knight, Aaron Director and George Stigler. In the statement of aims the founders argued that the central values of civilization were in danger and that the position of the individual was “progressively undermined by extensions of arbitrary power”.<sup>126</sup> These threats, declared the founders, were fostered by the growth of a view of history which denied “all absolute moral standards and by the growth of theories which question the desirability of the rule of law”.<sup>127</sup> Most importantly, these ideologies had been also fostered “by a decline of belief in private property and the competitive market” that guaranteed a diffusion of power and initiative without which it was “difficult to imagine a society in which freedom may be effectively preserved.”<sup>128</sup> Thus as R.M Hartwell noted in his *History of the MPS*, the goal of the MPS was to discuss classical liberalism “and its decline, the possibility of a liberal revival, and the desirability of forming an association of people who held certain common convictions about the nature of a free society.”<sup>129</sup> Milton Friedman would later declare that the society sought to “promote a classical, liberal philosophy, that is, a free economy, a free society, socially, civilly and in human rights”.<sup>130</sup> For Turner “The neo-liberal project strove for a new understanding of the state, economy and society within an ideological framework of traditional liberal tenets”.<sup>131</sup> Turner identified four general principles that are key to neoliberalism:<sup>132</sup> a) A belief in the market system as the most efficient way to allocate resources and as a safeguard of personal freedom; b) the commitment to the rule of law which implies limits to the use of arbitrary power by the authorities; c) minimal state intervention which entails the constitutional limitation of the powers of the state; and d) a strong defense of the institution of private property that protects the individual against the collective and allows the decentralization of power as well as the correct functioning of the market. It is not an exaggeration to sustain that from this last principle all the others are derived. As Mises put it “The program of - classical- liberalism, if condensed into a single word, would have to read: property,

<sup>125</sup> Robert Higgs, “Fifty Years of the Mont Pelerin Society”, *The Independent Review*, Spring 1997, p. 623.

<sup>126</sup> See: <https://www.montpelerin.org/montpelerin/mpsGoals.html> Last accessed: 28/06/2014.

<sup>127</sup> Idem.

<sup>128</sup> Idem.

<sup>129</sup> R. M. Hartwell, *A History of the Mont Pelerin Society*, Liberty Fund, Indianapolis, 1995, p. 26.

<sup>130</sup> See: Interview with Milton Friedman, Federal Reserve Bank of Minneapolis, June 1, 1992. Available at: [http://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=3748](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3748) Last accessed: 28/06/2014.

<sup>131</sup> Turner, *Neo-Liberal Ideology, History, Concepts and Policy*, p.4.

<sup>132</sup> Ibid., pp.4-5.

that is, private ownership of the means of production. All the other demands of liberalism result from this fundamental demand.”<sup>133</sup>

The ideas spread and developed by neoliberals had their origin in thinkers such as John Locke, Edmund Burke, Thomas Jefferson, James Madison, Adam Smith and the Scottish Enlightenment philosophers and included later proponents such as Alexis de Tocqueville, Frederic Bastiat, Benjamin Constant, Jean Gustave Courcelle-Seneuil, and Lord Acton among many others. This British- American liberal tradition, as Hayek stressed, was opposed to the French rationalist liberal tradition of Rousseau and the precursors of the French revolution, who believed that institutions could be rationally designed and progress could be achieved by government planning.<sup>134</sup> These differences between both intellectual traditions is crucial in order to understand the nature of the worldwide ideological conflict that took place in the 20<sup>th</sup> century between neoliberalism and socialism, fascism, Keynesianism, structuralism and the progressive ideology of New Dealers. Hayek himself viewed the conflict of the 20<sup>th</sup> century as another chapter in the clash of ideas that had taken place during the 18<sup>th</sup> and 19<sup>th</sup> century between classical liberals in the British tradition and rationalist thinkers in the French tradition. In his best seller *The Road to Serfdom*, published shortly before the foundation of the MPS, Hayek argued that the West was giving up “the freedom in economic affairs without which personal freedom and political freedom has never existed”.<sup>135</sup> He went on to explain that the road to serfdom consisted precisely in abandoning the views of Cobden, Bright, Smith, Hume, Locke and Milton.<sup>136</sup> The Austrian professor identified this philosophy with the old British Whig tradition which in his eyes had had its most important development in the American Revolution.<sup>137</sup> In other words, it was the aim of the MPS and of all of Hayek’s efforts to revive the values and beliefs of the American Revolution. Hayek himself dedicated his work *The Constitution of Liberty*, which he considered as the 21st century equivalent of Adam Smith’s *Wealth of Nations*, to “the unknown civilization that is growing in America”<sup>138</sup>. Henry Hazlitt saw Hayek’s aim to revive the British-American classical liberal tradition more clearly than anyone at the time. In his review of the *Road to Serfdom* for the *New York Times* Hazlitt commented that it was a “strange stroke of irony that the great British liberal tradition, the

<sup>133</sup> Ludwig von Mises, *Liberalism: The Classical Tradition*. Liberty Fund, Indianapolis, 2005, p.2.

<sup>134</sup> See: Friedrich Hayek, “Los errores del constructivismo”, *Revista Estudios Públicos*, No. 29, Santiago, 1988. Friedrich Hayek “El ideal democrático y la contención del poder”, *Revista Estudios Públicos*, Santiago, No.1, 1980, and Friedrich von Hayek, “Individualism: True and False”, in *Individualism and Economic Order*, University of Chicago Press, Chicago, 1958. Along the lines of Hayek, in his recent work on the history of communism, historian David Priestland argues that the French Revolution was the first communist revolution of modern times and that the collectivist ideas of thinkers like Rousseau had important similarities with the communist Utopia. See: David Priestland, *Weltgeschichte des Kommunismus: von der französischen Revolution bis heute*, Siedler, München, 2009.

<sup>135</sup> Friedrich Hayek, *The Road to Serfdom*, Routledge, New York, 2002, p.13.

<sup>136</sup> Idem.

<sup>137</sup> Friedrich Hayek, “The Actonian Revival: On Lord Acton (1834-1902)”, in: *The Fortunes of Liberalism*, Liberty Fund, Indianapolis, 1992, p, 216.

<sup>138</sup> See: Alan .O. Ebenstien, *Friedrich Hayek, A Biography*, University of Chicago Press, Chicago, 2003, p.196.

tradition of Locke and Milton, of Adam Smith and David Hume, of Macaulay and Mill and Morley, of Acton and Dicey, should find in England its ablest contemporary defender not in a native Englishman but in an Austrian exile".<sup>139</sup>

In Hayek's project of reviving the ideas of the American Revolution the Chicago School of Economics also played a crucial role. As Rob van Horn and Phillip Mirowski argued, Hayek was in fact not only the founding father of MPS but also of the Chicago School, which was expected to play a complementary role to the MPS. In the words of Van Horn and Mirowski: "the Chicago School of economics constituted just one component of a much more elaborate transnational project to reinvent liberalism...Hayek provided both the intellectual impetus and the organizational spadework for both the Chicago School and the MPS".<sup>140</sup> For Hayek, the adoption of the ideals of the American Revolution was also the only way in which Latin America could make economic and social progress. In an interview with the Chilean newspaper *El Mercurio* in 1981, Hayek declared that an important reason why Latin America had been economically and politically unsuccessful compared to the United States was that both had different intellectual traditions. In Hayek's words:

The United States takes its tradition from England. In the 18th and 19th centuries especially, this was a tradition of liberty. On the other hand the tradition in South America, for example, is rooted basically in the French Revolution. This tradition lies not in the classical line of liberty, but in maximum government power. I believe that South America has been overly influenced by the totalitarian type of ideologies.... This is obviously very far from the liberal English tradition of the Whigs. So the answer is that the United States remained faithful to the old English tradition even when England partly forsook it. In South America, on the other hand, people sought to imitate the French democratic tradition, that of the French Revolution, which meant giving maximum powers to government.<sup>141</sup>

It is interesting to note that North and Weingast have argued that the spectacular rise of the British Empire was largely due to the liberal tradition promoted by the Old Whigs in the Glorious Revolution of 1688 which in turn has been considered an antecedent of the American Revolution.<sup>142</sup> According to the authors, the commercially minded Whigs fought for limited government and political liberties in order to secure economic liberties, which had been threatened

<sup>139</sup> Henry Hazlitt, *New York Times Book Review*, September 24, 1944.

<sup>140</sup> Rob van Horn and Phillip Mirowski, "The Rise of the Chicago School of Economics and the Birth of Neoliberalism", in: *The Road from Mont Pelerin*, Edited by Phillip Mirowski and Dieter Plehwe, pp.158-159.

<sup>141</sup> Interview with *El Mercurio*, April 12, 1981.

<sup>142</sup> See: Michael Barone, *Our First Revolution: The Remarkable British Upheaval That Inspired America's Founding Fathers*, Random House, New York, 2007.

by the Crown under the Stuarts.<sup>143</sup> The achievement of the Glorious Revolution was a severe limitation to the government's ability to affect personal liberties and economic liberties. This was achieved by destroying the administrative apparatus used by the Crown to alter rights, replacing it with an independent judiciary.<sup>144</sup> North and Weingast explain that the institutional and political changes brought about by the Glorious Revolution put the government on a sound financial basis by regularizing taxation and removing "the random component of expropriation associated with royal attempts to garner revenue".<sup>145</sup> With increased predictability in government actions, capital markets flourished and a financial revolution took place. The capital markets, in turn, resulted crucial for the British economic expansion of the 18<sup>th</sup> century. Contrasting the British experience with other countries such as France, North and Weingast conclude:

It is clear that the institutional changes of the Glorious Revolution permitted the drive toward British hegemony and dominance of the world. England could not have beaten France without its financial revolution...The contrast between the two economies in the mid-century is striking: in 1795 France was on the verge of bankruptcy while England was on the verge of the industrial revolution.<sup>146</sup>

*French versus British- American liberalism: the importance of negative liberty*

This work will use the concepts neoliberalism, British-American liberalism and classical liberalism interchangeably because all refer to the same intellectual tradition. A tradition that many thinkers have identified as opposed to another current of ideas which goes also under name of liberalism and which finds its origin in the French rationalist movement. John Adams for example, one of the most important intellectual forces behind the American Revolution said that the French revolutionaries had "no single principle in common with the Americans".<sup>147</sup> Adams, went as far as arguing that the French revolution had been "all madness" suggesting to the French emperor calling "every constitution of government in France from 1789 to 1799 an Ideocracy."<sup>148</sup> For Adams,

<sup>143</sup> Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth-Century England", *The Journal of Economic History* Vol. 49, No. 4 (Dec., 1989), Cambridge University Press, p.818.

<sup>144</sup> Ibid., pp. 818-819.

<sup>145</sup> Ibid.p., 830.

<sup>146</sup> Idem.

<sup>147</sup> John Emerich Edward Dalberg, Lord Acton, *Lectures on the French Revolution*, Edited by John Neville Figgis and Reginald Vere Laurence, Macmillan, London, 1910, p.29.

<sup>148</sup> John Adams, "Discourses on Davila" *The Works of John Adams, Second President of the United States: with a Life of the Author, Notes and Illustrations, by his Grandson Charles Francis Adams*, Little, Brown and Co, Boston, 1856, Vol. VI., p. 269.

thinkers such as Voltaire, D’Alembert, Buffon, Diderot, Rousseau, La Lande, Frederic and Catherine, “were all totally destitute” of common sense and sought to create a “paradise of pleasure.”<sup>149</sup> Likewise in his study comparing the origins and principles of the French and the American revolutions, German statesman Friedrich von Gentz concluded that every parallel between both revolutions served “much more to display the contrast than the resemblance between them”.<sup>150</sup> In the introduction of the English edition of Gentz work, the sixth President of the United States, John Quincy Adams, praised Gentz for having “rescued” the American Revolution from the “disgraceful imputation of having proceeded from the same principles as that of France”.<sup>151</sup> An even stronger case along the same lines was made by Edmund Burke, who argued that the American Revolution was a quest for true liberty while the French revolution was an attempt that could only lead to violence and tyranny. Burke predicted the terror of 1792-1794 in France because he was convinced that the French Revolution, with its pretension of making a *tabula rasa* of all institutions and traditions in order to create new ones designed by enlightened authorities, could only lead to violence and disaster.<sup>152</sup> Such a brutal event, he believed, could have never happened in England: “We are not the converts of Rousseau; we are not the disciples of Voltaire; Helvetius has made no progress amongst us. Atheists are not our preachers; madmen are not our lawgivers” he said.<sup>153</sup> According to Burke, with their attack on private property, the French revolutionaries had destroyed the foundations of civilized life. Like all classical liberals, Burke believed that property had to be guaranteed by law, or otherwise man would return to barbarism. He argued that “the power of perpetuating our property in our families is one of the most valuable and interesting circumstances belonging to it, and that which tends the most to the perpetuation of society itself.”<sup>154</sup>

Burke noted that unlike the French revolutionaries, the Americans never tried to make a *tabula rasa* to create a completely new social order nor did they try to achieve de facto equality as the Jacobins did. Quite the contrary: in Burke’s eyes the colonists were striving for freedom along the lines of the British tradition. In a famous speech in defense of America, Burke said that the colonists were “not only devoted to liberty, but to liberty according to English ideas, and on English principles” adding that in America, “abstract liberty, like other mere abstractions, is not to be found.”<sup>155</sup>

<sup>149</sup> John Adams, “Letter to Thomas Jefferson”, in *The Works of John Adams, Second President of the United States: with a Life of the Author, Notes and Illustrations, by his Grandson Charles Francis Adams*, Little, Brown and Co., Boston, 1856, Vol. X., p.199.

<sup>150</sup> Friedrich von Gentz, *The Origins and Principles of the American Revolution Compared with the Origins and Principles of the French Revolution*, Liberty Fund, Indianapolis, 2010, p.93.

<sup>151</sup> *Ibid.*, p.3.

<sup>152</sup> See: Edmund Burke, “Reflections on the Revolution in France”, in *Select Works of Edmund Burke*, Liberty Fund, Indianapolis, 1999, Vol. II.

<sup>153</sup> *Ibid.*, p.113.

<sup>154</sup> *Ibid.*, p.93.

<sup>155</sup> *Ibid.*, p. 142.

Burke's reflection brings us back to what should be understood under American liberalism or neoliberalism in the context of this work: a set of beliefs that have their origin in classical liberalism mostly but not only in British thinkers, and which recognizes as its central idea the protection of individual liberty, including civil and economic liberties, and where private property is seen as a guarantee for the decentralization of power and for the possibility of each man providing for himself. In this view, the destruction of private property and thereby of the free market automatically implies the destruction of all liberties and of civilized life. As Adams argued, property "must be secured or liberty cannot exist... the moment the idea is admitted into society, that property is not as sacred as the laws of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence".<sup>156</sup>

For this tradition, liberty is understood in a negative sense. In Milton Friedman's words, "political freedom means the absence of coercion on a man by his fellow men" and is best guaranteed under a system of private property that keeps power decentralized.<sup>157</sup> Accordingly, the function of the law is to protect the individual's fundamental rights against the aggression of others. John Locke's conception of the role of government and his idea of liberty is one of the pillars of American liberalism and neoliberalism. In his *Second Treatise of Government*, which has been considered a theoretical justification of the Glorious Revolution,<sup>158</sup> Locke wrote:

Liberty is to be free from restraint and violence from others; which cannot be where there is not law: but freedom is not, as we are told, "a liberty for every man to do what he lists:" (for who could be free, when every other man's humor might domineer over him?) but a liberty to dispose, and order as he lists, his person, actions, possessions, and his whole property, within the allowance of those laws under which he is, and therein not to be subject to the arbitrary will of another, but freely follow his own.<sup>159</sup>

As Francis Lieber would explain, this British-American idea of liberty, which he called "Anglican liberty", was opposed to the French idea of liberty or "Gallican liberty". For Lieber, while Gallican liberty was sought in the government, leading the French to look for "the highest degree of political civilization in organization, that is, in the highest degree of interference by public power", Anglican liberty distinguishes itself "by a decided tendency to fortify individual independence, and by a feeling of self-reliance" and a "very high degree, in a proper limitation of

<sup>156</sup> Adams, "Discourses on Davila" p.188.

<sup>157</sup> Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago, 2002, p.15.

<sup>158</sup> See: C.B Macpherson, Introduction to John Locke, *Second Treatise of Government*, Hackett Publishing Company, Indianapolis, 1980, pp. ix-x.

<sup>159</sup> John Locke, *Second Treatise of Government*, Hackett Publishing Company, Indianapolis, 1980, p.46.

public power”.<sup>160</sup> In other words, Anglican liberty consists “in a proper restriction of government, on the one hand, and a proper amount of power on the other, sufficient to prevent mutual interference with the personal independence among the people themselves.”<sup>161</sup> According to Lieber, to the English and Americans, “public interference is odious.”<sup>162</sup> Lieber conclude that when the many constitutions the English race has produced are examined, “we almost fancy to read over all of them the motto, ‘Hands off’”.<sup>163</sup>

As can be observed, the central implication of the classical liberal view is that the legal framework of society has to be defined by rules of behavior that allow all individuals to pursue their internally defined aims. Social outcomes such as a certain type of wealth distribution are excluded from this framework precisely because the law is designed to maximize individual preferences. In such a system, only individual purposes are attained: collective purposes never are. As James Buchanan put it, “to lay down a ‘social purpose, even as a target, is to contradict the principle of liberalism itself, the principle that leaves each participant free to pursue whatever it is that remains feasible within the limits of the legal-institutional parameters”.<sup>164</sup> Classical liberalism is thus incompatible with any kind of philosophy that has aims other than the protection of individual freedom. This philosophy of negative liberty that largely inspired the Chicago Boys rests on an epistemological skepticism regarding the power of human reason for planning progress.<sup>165</sup> In that logic the market is conceived of as a spontaneous order that does require a framework of rules, but other than that, as Adam Smith argued, it works best when it is left alone. Government in turn, being necessary to protect the individual’s fundamental rights and providing public goods, is at the same time seen as the main threat to individual liberty and prosperity. Accordingly, classical liberalism and neoliberalism, reject the notion of unlimited democracy because it opens the door to a majority rule that can destroy individual liberty. In other words, liberals believe that individual liberty is a higher value than democracy having a deep mistrust in the power of authorities and rejecting redistributive schemes. They therefore promote constitutional arrangements in order to limit democracy. In the case of the United States, the limitation of democracy and the security of

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<sup>160</sup> Francis Lieber, “Anglican and Gallican Liberty” in *New Individualist Review*, Liberty Fund, Indianapolis, 1981, pp.781-783.

<sup>161</sup> Idem.

<sup>162</sup> Idem.

<sup>163</sup> Idem.

<sup>164</sup> James Buchanan, “The Soul of Classical Liberalism”, *The Independent Review*, Volume 5, No.1, Summer, 2000, p.115.

<sup>165</sup> The Scottish philosopher Adam Ferguson formulated this approach in his work *A History of Civil Society* in the following terms: “Mankind, in following the present sense of their minds, in striving to remove inconveniences, or to gain apparent and contiguous advantages, arrive at ends which even their imagination could not anticipate; and pass on, like other animals, in the tract of their nature, without perceiving its end... Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design”. Adam Ferguson, *An Essay on the History of Civil Society*, 5th ed. T. Cadell, London, 1782, p.57.

private property and economic liberty was the main reason for writing a constitution, an experiment that had never been done before in history. James Madison, the main architect of the constitution and a follower of Adam Ferguson, openly rejected unlimited democracy and the possibility of using democratic majorities for social engineering.<sup>166</sup> Madison's great concern was precisely how to prevent oppression on the public by the government, for which he designed a system of check and balances. He also feared, as is typical in the case of neoliberals, that interest groups or "factions" might capture the government for their own benefit. According to Buchanan, there is evidence that Madison believed that men follow a policy of utility maximization in collective as well as private behavior fearing that different groups could use the democratic process in order to further their own interest.<sup>167</sup> Along these lines Hayek argued that the American Constitution was conceived as a protection of the people against all arbitrary actions of any branch of government.<sup>168</sup>

Several scholars have stressed the dominance of British classical liberalism in the foundation of America. In his classic work *The Liberal Tradition in America*, Harvard professor Louis Hartz argued that the American society had begun with Locke and had stayed with Locke in virtue of an "irrational attachment" which made it become indifferent to the challenge of socialism.<sup>169</sup> For Hartz, the Lockean individualism had defined the Constitution and was the essence of American liberalism which in turn was defined by a fear of democracy and a love to capitalism.<sup>170</sup> Along similar lines, Carl Lotus Becker observed that the Founding Fathers were "directly influenced" by English writers, notably by Locke, whose work had been absorbed by most Americans "as political gospel."<sup>171</sup> This influence according to Becker, explained that the Declaration of Independence, mainly drafted by Jefferson, "in its form, in its phraseology follows closely certain sentences in Locke's *Second Treatise on Government*."<sup>172</sup> Progressive historian Vernon Parrington famously argued that the Framers of the American Constitution, following British thinkers such as Adam Smith, believed in the "social, political and economic sufficiency of laissez faire" which was translated into an attempt to give free play to the economic forces.<sup>173</sup> Furthermore, as George Carey has observed, for Parrington, the Framers' conception of limited government closely resembled the idea of the "night watchman state" of modern libertarians.<sup>174</sup>

<sup>166</sup> See: George W. Carey, *In Defense of the Constitution*, Revised and Expanded Edition, Liberty Fund, Indianapolis, 1995, p.7.

<sup>167</sup> James M. Buchanan, "The Calculus of Consent: Logical Foundations of Constitutional Democracy", in *The Collected Works of James M. Buchanan*, Vol. III., Liberty Fund, Indianapolis, 1999, p. 26.

<sup>168</sup> Hayek, *The Constitution of Liberty*, p. 156

<sup>169</sup> Louis Hartz, *The Liberal Tradition in America*, Harcourt Inc, Second Harvest Edition, New York, 1991, p.6.

<sup>170</sup> *Ibid.*, p.15.

<sup>171</sup> Carl Lotus Becker, *The Declaration of Independence: A Study on the History of Political Ideas*, Harcourt, Brace and Co., New York, 1922, p.16.

<sup>172</sup> *Idem.*

<sup>173</sup> George Carey, "America's Founding and Limited Government", *The Intercollegiate Review*, (Fall 2003/Spring 2004), p.15. Available at: [http://www.mmisi.org/ir/39\\_01\\_2/carey.pdf](http://www.mmisi.org/ir/39_01_2/carey.pdf) Last accessed: 28/06/2014.

<sup>174</sup> *Idem.*



According to Parrington, inspired in classical liberalism the Framers of the Constitution restricted the role of government to providing defense and internal order and solving disputes among different economic interests. A crucial aspect in Parrington's work is the distinction between French egalitarian liberalism and the British tradition. The latter, argued Parrington, had ultimately prevailed in America with enormous consequences in institutional and political terms:

The total influence of old-world liberalism upon the America of post-war days was, therefore, favorable to capitalistic development and hostile to social democracy. Until the early years of the nineties the democratic spirit of French radicalism was little understood in America, and the field remained free to the English middle-class philosophy, which appealed equally to the agrarian and the capitalistic groups.<sup>175</sup>

Along the same lines, libertarian economist and Mont Pelerin Society member Murray Rothbard argued that the program of the dominant republican-libertarian wing of the Founding Fathers was

ultra-minimal government: guarding the rights of private property, free markets and free trade, freedom of speech, press and religion, separation of government from money, banking and the economy, allowing neither public debt nor public works... keeping government revenue and expenditures so low as to be nearly invisible, and generally binding down governmental Power with chains of iron, and watching government like a hawk and with vigilance and deep suspicion.<sup>176</sup>

It must be stressed that the view that British liberalism, especially Locke's philosophy, was the main intellectual driver behind the American Revolution, has been disputed most notably by J.G.A Pocock. According to Pocock, John Locke's philosophy was relatively insignificant among the Founding Fathers, who were much more influenced by republicanism.<sup>177</sup> While this debate about the intellectual influences on the Founding Fathers has continued over time, it seems clear, as many scholars have observed, that the quest for limited government played a crucial role in the founding of America. And there is no doubt that neoliberals worked for a revival of classical liberalism in 20<sup>th</sup> century with the aim of limiting governments in the western world. This modern version of

<sup>175</sup> Vernon Parrington, *Main Currents in American Thought*, Vol I, University of Oklahoma Press, Oklahoma, 1987, p.273.

<sup>176</sup> Murray Rothbard, "Bureaucracy and the Civil Service in the United States", *Journal of Libertarian Studies*, Vol. XI, No. 2, Summer, 1995, p. 18.

<sup>177</sup> See: J. G. A. Pocock, *The Machiavellian Moment: Florentine Political Thought and the Atlantic Republican Tradition* New Jersey, Princeton University Press, Princeton, 2003.

classical liberalism was opposed to socialism, fascism, protectionism, structuralism, Keynesianism and especially, as Daniel Stedman Jones noted, New Deal liberalism.<sup>178</sup> All of them were ideologies prone to government intervention in the economy and endorsed an idea of liberty that implied the redistribution of wealth. Perhaps no one formulated the redistributive nature of the progressive idea of liberty more clearly than progressive philosopher John Dewey, who argued that the “demand for liberty is a demand for power, either for possession of powers not already possessed or for retention and expansion of powers that already possessed”.<sup>179</sup> In this view, to be free required access to material goods and therefore the government had to redistribute wealth affecting private property and restricting economic freedom. This idea was clearly opposed to the idea of freedom in classical liberalism and neoliberalism which saw economic freedom as the base for all other freedoms. As Frank Knight, one of the founders of the Chicago School would argue, economic freedom was a necessary condition for the existence of all other freedoms such as religious freedom, political and intellectual freedom.<sup>180</sup>

Neoliberals saw progressivism as an ideology opposed to the American intellectual tradition which had serious institutional consequences. As legal scholar Richard Epstein has pointed out, progressivism emerged as a reaction against classical liberalism. Before the progressive set of beliefs became hegemonic, the dominant legal tradition in America had been classical liberalism which stressed the dominance of private property, individual liberty and limited government.<sup>181</sup> According to Epstein, the progressive movement achieved the most profound domestic change in the United States from the early 20<sup>th</sup> century onwards defining the American institutional evolution towards a major expansion of government.<sup>182</sup> Along the same lines professor Randall Holcombe argued that from the beginning of the 20<sup>th</sup> century the idea that the government had to further the economic wellbeing of the people became dominant in politics while new interpretations of the Constitution gave credit to the notion that the government had to become a material gratifier.<sup>183</sup> As a consequence, the democratic principle overran the liberty principle that the founders sought to secure. In this context, Holcombe defines liberty as the private ownership of resources and the individual deciding what to do with them, and democracy as a system which implies a collective approach to resources and the majority deciding upon their use.<sup>184</sup> According to

<sup>178</sup> According to Daniel Stedman Jones “above all, neoliberals hated Franklin Roosevelt’s New Deal”. Daniel Stedman Jones, *Masters of the Universe*, Princeton University Press, Princeton, New Jersey, 2012, p.11.

<sup>179</sup> See: John Dewey, “Liberty and Social Control”, in: *The Later Works of John Dewey*, Volume 11, 1925 – 1953: Essays, Reviews, Trotsky Inquiry, Miscellany, and Liberalism and Social Action, Southern Illinois University Press, Illinois, 2008, p.360.

<sup>180</sup> Johan Van Overtveldt, *The Chicago School*, Agate, 2007, p.61.

<sup>181</sup> Richard Epstein, *Design for Liberty*, Harvard University Press, Cambridge, Massachusetts, 2011, p.1.

<sup>182</sup> Idem.

<sup>183</sup> Randall G. Holcombe, *From Liberty to Democracy: The Transformation of American Government*, The University of Michigan Press, Michigan, 2002, p.1.

<sup>184</sup> Ibid.,p.18.

Professor Lawrence White, the new ideas prone to government intervention, particularly in the field of economics, had been largely imported from Europe by scholars that had studied in Germany and came back to the United States with the goal of challenging the prevailing free market classical economics.<sup>185</sup> Eventually they became extremely influential and a cornerstone of the Progressive Era and New Deal liberalism, which turned into the natural enemy of neoliberalism.

Neoliberals in Chile were nothing but part of the worldwide conflict between the heirs of classical liberalism of British-American origin and the diverse forms of collectivist and welfare state theories. By adopting the economic and philosophical views that had inspired the creation of the MPS, namely British-American liberalism, the Chicago Boys reacted against socialism and the philosophy of government interventionism as a whole. They viewed the expansion of the welfare state as the ultimate cause of Chile's economic and democratic failure and the restoration of economic freedom as the only way to return to economic health and a free and democratic society. What is more interesting, the Chicago Boys worked on the foundations of a classical liberal tradition that had been extremely influential in Chile from the mid 19<sup>th</sup> century until the great depression of the 1930s.

### *Conclusions to Chapter I*

In order to better understand the theoretical framework of this work, this chapter has shown that there is a long tradition in economic thinking which sees beliefs as a major force of institutional change. Specifically, Douglass North institutional analysis allows to understand how the interplay between reality and beliefs works and what consequences it has on the institutional evolution. In the Chilean case, this is crucial because it was a coherent set of beliefs applied under a dictatorship that was largely responsible for the institutional evolution that took place in the 1970s and 1980s. As the third chapter will explain, these beliefs were in turn largely the result of the feedback offered by reality, that is to say, the previous results of alternative ideologies. More importantly, this chapter has explained, following Douglass North, that for a radical transformation of formal institutions to work, it must find some kind of support in the belief system or cultural heritage of the society where the change has been made. If North is right, than this means that the Chilean free market revolution was successful in institutional terms because there was in Chile an intellectual and institutional tradition compatible with the new formal institutions created by the Chicago Boys. In order to determine if such a tradition existed in Chile it is first necessary to clarify what exactly was the intellectual tradition applied by the Chicago Boys. As this chapter argues, such tradition was

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<sup>185</sup> Lawrence White, *The Clash of Economic Ideas*, Cambridge University Press, New York, 2012, pp.19-20.

“neoliberalism”, which is a modern version of the classical liberalism of British-American origin. As explained in the previous pages, the whole neoliberal project, which had in Friedrich Hayek its main driving force, was about to revive the ideas of thinkers such as Adam Smith, John Bright, John Locke, Scottish Enlightenment philosophers and many others. Hayek thought that the ideas promoted by these thinkers had found their most relevant political expression in the American Revolution—a conclusion shared by many of the scholars cited in this chapter. This means that the aim of the creation of the Mont Pelerin Society and also of the Chicago School was the revival of the main intellectual tradition behind the American Revolution. The Chicago Boys were thus followers of an old American tradition of liberty that had been largely imported from the United Kingdom. As this chapter shows, this tradition viewed economic freedom as a necessary condition for other freedoms, while making a strong defense of political freedom and democracy. In short, ideas of political freedom and democracy were an essential part of neoliberalism. It is crucial to note that for this tradition freedom in general is understood in negative terms leading to the limitation of government activities. Democracy on the other hand is considered as a means to enlarge freedom and not as an end in itself. As a result the classical liberal tradition and neoliberalism were essentially opposed to diverse ideologies and doctrines including socialism, fascism, protectionism and New Deal liberalism. The third chapter will deal with the extent to which the Chicago Boys did indeed have a concern for political freedom and democracy in the classical liberal tradition. So far, this work has established that ideas have an impact on institutional change, explained why a transformation of formal institutions requires the support of belief systems and informal institutions in order to be successful, and defined what is to be understood under “neoliberalism”. The next chapter will establish if there was a neoliberal or classical liberal tradition in Chile prior to the Chicago Boys’ free market revolution, which fits the description of neoliberalism and classical liberalism presented in this chapter and, if that was the case, what impact did that tradition have on Chile’s intellectual spheres and institutional evolution in the light of North’s theoretical framework.

## Chapter II: The intellectual antecedents of neoliberalism in Chile

### *The emergence and impact of British-American liberalism in Chile's early republic*

In Chile the classical liberal ideas of limited government that according to many scholars inspired the American Revolution achieved considerable influence in the second half of the 19<sup>th</sup> century. This was the period of time during which the formal economic institutions and the intellectual base for the economic policy of the newly created Chilean republic were being defined. In the 1850s and 1860s economics became a professional study at Chile's most influential educational institutions. Of particular importance, if North is right, is the fact that it was a free market classical liberal set of ideas of the same kind that would be later applied by the Chicago Boys that set the foundations both for the professionalization of economics and the economic institutional framework of Chile. This has long been ignored by the literature on the subject of the Chicago Boys, which holds the view that the Chicago Boys introduced ideas and concepts that had "no antecedent in Chilean political culture".<sup>186</sup> In Valdés words the Chicago Boys "introduced ideas into Chilean society that were completely new, concepts entirely absent from the 'market of ideas' prior to the military coup".<sup>187</sup> Evidence, however, shows that the opposite is true. Classical liberalism or neoliberalism was not a set of beliefs completely alien to Chile's political and intellectual tradition. Far from that. British-American liberalism was the most influential economic philosophy in Chile for over half a century and had a lasting impact both in intellectual and institutional terms. This is relevant from an institutional perspective because it shows that there was a precedent in the Chilean institutional and intellectual history for the free market economic and political reforms made by the Chicago Boys. A brief look at Chile's economic history suffices to understand the enormous importance of classical liberalism for the country's institutional and intellectual history.

Ever since its independence from the Spanish Crown in 1818 until the early 1850s, the Chilean economy had been run in a very intuitive way. The political elite lacked the necessary competence to develop a modern economic policy. Works of classical economists such as Adam

<sup>186</sup> Valdés, *Pinochet Economists*, p. 12.

<sup>187</sup> *Ibid.*, p.6.

Smith and Jean Baptist Say, that had been of gigantic influence in Europe and the United States, were known but had no major influence among the Chilean policy makers. The prevailing idea was that free trade and liberalism were good for countries that had already progressed, but not for Chile.<sup>188</sup> This attitude was best expressed by finance minister José Rodríguez who, arguing against free trade in 1822, declared: “We are all liberals in all that does not tend to ruin us”.<sup>189</sup> These beliefs had their roots in the colonial era, where neo-mercantilism, as promoted by Spanish thinkers such as Campomanes, Ward, and Campillo y Cossio was the dominant ideology. As Robert Will has pointed out, these theorists were by far the most influential economic thinkers of Hispanic America.<sup>190</sup> According to Professor Guillermo Subercaseaux, a promoter of protectionism, the main ideas of this mercantilist approach were government intervention in the economy, accumulation of gold and silver, positive trade balance, government support of industries and hostility towards foreigners.<sup>191</sup>

Interestingly, despite the dominance of protectionist ideas in the Spanish speaking world, the economy was also in many respects more free in Chile than in many developed countries.<sup>192</sup> Moreover, classical liberalism, even if it had not been the most prevailing worldview, had already started to gain influence in Chile’s political and intellectual spheres already in 1819. That year, Jean Baptist Say’s work *Traité d’économie politique*, a cornerstone of economic liberalism and Thomas Jefferson’s favorite book on the subject of economics, became the basis of a course on political economy at the emblematic Instituto Nacional, being also compulsory for all law students.<sup>193</sup>

In the early 1850s, liberal theories developed in the industrialized world had gained a major influence in Chile. Eventually, the set of beliefs that conformed the ideological base of classical

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<sup>188</sup> Alberto Benegas Lynch (h), *Jean Gustave Courcelle-Seneuil, Democracia y Mercado*-Universidad del Desarrollo, Santiago, 2010, p.157.

<sup>189</sup> Robert Will, “The Introduction of Classical Economics into Chile”, *The Hispanic American Historical Review*, Vol. 44, No. 1 (Feb., 1964), Duke University Press, p. 7. Available at: <http://www.jstor.org/stable/2511121> Last accessed: 28/06/2014. Particularly from 1831 to 1841, under the government of José Joaquín Prieto, an increasing number of protectionist laws was passed. In 1851 the first step towards a more liberal approach was adopted with a new customs law which simplified procedures to enable the payment of tariffs and reduced the goods subject to taxes. In 1865 a new law that opened local trade to all ships regardless of their nationality was passed making a substantial step towards a free trade regime. See: Eduardo Cavieres Figueroa, *Comercio chileno y comerciantes ingleses 1820-1880:(un ciclo de historia económica)*, Universidad Católica de Valparaíso, Instituto de Historia, Valparaíso, 1988, pp.106-107.

<sup>190</sup> *Ibid.*, p. 2.

<sup>191</sup> Guillermo Subercaseaux, *Historia de las doctrinas económicas en América Latina y en especial en Chile*, Universo, Santiago, 1924, pp.6-22.

<sup>192</sup> The French economist Jean Gustave Courcelle-Seneuil in his comparative study on the trade regimes of France, England, Chile and the United States in 1856 concluded that Chile’s trade legislation was “superior with respect to the general tariff system and with respect to the higher degree of liberty it allows to trade”. For the French professor the Chilean tariff was “without dispute the one with less elements of the so called protectionist system”. See: Jean Gustave Courcelle-Seneuil, *Examen comparativo de la tarifa y legislación aduanera de Chile con las de Francia, Gran Bretaña y Estados Unidos*, Imprenta Nacional, Santiago, 1856, p.44.

<sup>193</sup> Will, “The Introduction of Classical Economics into Chile,” p.4.

liberalism became extremely influential even among the political actors. During this time, formal institutions were changed from a model based on protectionism into a model based on the free market. One of the most outspoken critics of economic liberalism of the first half of the 20<sup>th</sup> century, Leonardo Fuentealba, complained that due to the influence of this new laissez-faire approach, “the solution to any kind of economic problem was left to private hands” so that “the government should under no circumstances have to hinder the free play of individual interest” limiting its role “to secure personal safety and property rights”.<sup>194</sup> Moreover, the Chilean state, according to Fuentealba, became a “night watchman state”.<sup>195</sup>

Essential to the radical liberalization of Chilean economic policy and the intellectual shift from protectionism to classical liberalism was the role played by French economist Jean Gustave Courcelle-Seneuil. Born in 1813, Courcelle-Seneuil would dedicate his life to defend republican ideas and economic freedom. Due to financial problems, for a time Courcelle-Seneuil worked as manager for a metallurgic company in the city of Limoges. However, he never abandoned the intellectual work. A prolific writer, Courcelle-Seneuil would become one of the most distinguished proponents of French classical liberalism, which was opposed to the liberal rationalist tradition. He became the editor of the influential *Journal des économistes* and a member of the prestigious French Academy for Moral and Political Sciences. Charles Gide described Courcelle-Seneuil’s liberal engagement in the following terms: “He was virtually the *pontifex maximum* of the classical school; the holy doctrines were entrusted to him and it was his vocation to denounce and exterminate the heretics. During many years he fulfilled his mission through book reviews in the *Journal des économistes* with priestly dignity. Argus-eyed, he knew how to detect the slightest deviation from the liberal school”.<sup>196</sup> Cited by Karl Marx in his work *Capital*, Courcelle-Seneuil would be praised by Joseph Schumpeter as someone who had “that clear grasp of economic affairs that comes from firsthand experience” which was rather absent in modern literature.<sup>197</sup>

Courcelle-Seneuil was hired by the Chilean government under the presidency of Manuel Montt in 1855. Courcelle-Seneuil became, as North would say, one of the actors able to “make the rules of the game”. His task consisted in creating and teaching the subject of political economy at the Universidad de Chile and the Instituto Nacional as well as serving as an adviser to the minister of finance. From those positions, Courcelle-Seneuil, who was a follower and translator of the works of Adam Smith, William Graham Sumner and John Stuart Mill, engaged in the teaching and

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<sup>194</sup> Leonardo Fuentealba, *Courcelle-Seneuil en Chile. Errores del liberalismo económico*, Universidad de Chile, Santiago, 1946, p.10.

<sup>195</sup> Idem.

<sup>196</sup> Quoted in: Albert O. Hirschman, *Rival Views of Market Society*, Harvard University Press, Cambridge, Massachusetts, 1992, p. 184.

<sup>197</sup> Joseph Schumpeter, *A History of Economic Analysis*, Routledge, Taylor & Francis e-Library, 2006, p. 473. Available at: <http://digamo.free.fr/schumphea.pdf> Last accessed: 28/06/2014.

application of free market economics and classical liberal philosophy. As an adviser to the Chilean government, he participated in the making of several laws that liberalized the economy. Among his most emblematic reforms were the privatization of nitrate mines, the promotion of free trade and the establishment of a free banking system. All of them were free market reforms that reflected a deep mistrust in government. The free banking legislation was particularly radical. For libertarian economist Murray Rothbard, “the law of 1860 created a free bankers’ paradise in Chile. Any one or any group could set up a bank and issue notes. There were no reserve requirements, no limits on loans to directors, and no inspection by government agencies.”<sup>198</sup>

That the Chilean political class would approve a system like this, with almost no government control over an issue as crucial for the economy as banking and money, shows how influential were the early neoliberal ideas in the Chilean political culture. As Jere Behrman observed, the free banking legislation devised by Courcelle-Seneuil was “an important symbol of the acceptance of laissez faire by the Chilean body politic”.<sup>199</sup> Along the same lines, Subercaseaux argued that as a result of the influence of Courcelle-Seneuil, the liberal ideas had achieved a “complete triumph” in Chile, leading to the adoption of the principle of liberty “without any restrictions” particularly with regard to banking. Moreover, according to Subercaseaux, the current of liberal ideas were so “powerful” that the finance commission of the Chamber of Deputies, even complained that there were not enough liberties in the banking law.<sup>200</sup>

Courcelle-Seneuil’s substantial influence over policy making in Chile went hand in hand with an overall influence on the intellectual climate of opinion and the academy.<sup>201</sup> As Professor Juan Pablo Couyoumdjian has observed, “Courcelle-Seneuil’s mentoring implied the creation of a unique liberal tradition in the Chilean academy” underscoring “a period of liberal dominance in public policy”.<sup>202</sup> Indeed, as the first professional professor of political economy he could spread classical liberalism more than anyone before him. He was nothing less than the founding father of the discipline of economics in Chile. Before the arrival of Courcelle-Seneuil, political economy was reduced to a few empiric axioms without any coherence or relation. As a result, the students did not understand the relation between the different economic propositions they had learned even if they had passed the exams.<sup>203</sup> Courcelle-Seneuil came to make a radical change in the way economics

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<sup>198</sup> Murray Rothbard, “The Other Side of the Coin: Free Banking in Chile”, *Austrian Economics Newsletter*, Vol. 10, No. 2, 1989.

<sup>199</sup> Jere H. Behrman, *Foreign Trade Regimes and Economic Development: Chile*, National Bureau of Economic Research, 1976, p.8. Available at: <http://www.nber.org/chapters/c4023> Last accessed: 20/6/2014.

<sup>200</sup> Subercaseaux, *Historia de las doctrinas económicas en América Latina y en especial en Chile*, p.43.

<sup>201</sup> Elisabeth Glaser, “Chile’s Monetarists Money Doctors, 1850-1988”, in: *Money Doctors, Experience of International Financial Advising 1850-2000* edited by Marc Flandreau, Routledge, 2003, London, p.168.

<sup>202</sup> Juan Pablo Couyoumdjian, “Hiring a Foreign Expert”, in *The Street Porter and the Philosopher: Conversations on Analytical Egalitarianism*, Edited by S.J. Peart and D.M. Levy, University of Michigan Press, 2008, p. 294.

<sup>203</sup> Diego Barros Arana, *Necrología de Jean Gustavo Courcelle-Seneuil*, Imprenta Cervantes, Santiago, 1892, p.7.



was taught and understood, anticipating the revolution that the Chicago Boys would make in the Chilean academy a century later. In the words of Diego Barros Arana, one of the most renowned historians of the time: “Mister Courcelle-Seneuil taught economics as an exact science, as a positive science in its foundations, a positive science in the manifestation of economic phenomena, and in the consequences they originated”.<sup>204</sup> And he did this in a way that “awoke young people’s love for study” leaving “permanent pleasant memories in those who were lucky enough to become his disciples”.<sup>205</sup> A charismatic professor, in the words of Albert Hirschman, Courcelle-Seneuil managed to instill “apostolic zeal in his students” who, in many respects, were seen as even more radical in their liberalism than Courcelle-Seneuil himself.<sup>206</sup>

As Barros Arana noted, for Courcelle-Seneuil economics was a science of universal validity that sought to understand the spontaneous forces of the market in order to increase the wealth of nations. He rejected the German historical school which advocated protectionism, government intervention and the idea that there were no universal economic laws. Thus, Courcelle-Seneuil would make the same case of Austrian economist Carl Menger, one of the founders of the neoliberal Austrian School of Economics, who in the second half of the 19<sup>th</sup> century attacked thinkers like Gustav von Schmoller and other proponents of the German historical school for their advocacy of government intervention and their rejection of economic theories of universal validity.<sup>207</sup> With this notion of economics as a universal science, from their positions in government and the academy, Courcelle-Seneuil’s disciples continued the teaching and application of the British-American classical liberal worldview. One of his followers, Miguel Cruchaga, a radical laissez-faire economist, wrote a treatise on economics that would become the basic text book of all students of political economy in the Universidad de Chile for decades to come.<sup>208</sup> Another of the most influential of Courcelle-Seneuil’s disciples was Zorobabel Rodriguez, who between 1884 and 1891 would become the main promoter of the classical liberalism of Adam Smith and Frederic Bastiat in Chile.<sup>209</sup> According to Zorobabel Rodriguez, who like Cruchaga would become professor at the Universidad de Chile, the ideal form of government was that of laissez -faire and consisted in the following:

Laissez -faire means governments that are strictly limited to guarantee that no one

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<sup>204</sup> Ibid., p.8.

<sup>205</sup> Ibid., p.4.

<sup>206</sup> Albert O. Hirschman, *Journeys Towards Progress, Studies of Economic Policy Making in Latin America*, Norton & Company, New York, 1973, p.165.

<sup>207</sup> As will be explained in the next chapter, the same debate took place between the Chicago Boys and the Latin American proponents of structuralism and dependency theory.

<sup>208</sup> Oscar Mac-Clure, “El economista Courcelle-Seneuil en el período fundacional de la economía como disciplina en Chile”, *Revista Universum*, N° 26 , Vol. 1, 2011, Universidad de Talca. p. 103

<sup>209</sup> Sofia Correa, “Zorobabel Rodriguez, Católico Liberal”, *Revista Estudios Públicos*, No. 66, Santiago, 1997, 391.

affects someone else's right, to maintain peace, security and order in the inland and frontiers, to manage the goods of the nation and collect the taxes in order to perform those very important tasks. It means let doing...that men who are grownups and are in their right minds work or rest, save or waste, make brilliant business or ruinous ones, speak or write, move or isolate, associate, dispose of their own person and properties as they wish. As long as there is no violence or fraud the best governments can do, what they must do in order to stay within the sphere of their competence, is to go to the balcony and let pass.<sup>210</sup>

Complaining about the hegemony of liberalism in the country, in 1911 conservative historian Francisco Encina, an ardent supporter of protectionism and nationalism, complained that Courcelle-Seneuil's ideas taught by his disciples at the Universidad de Chile constituted "the almost exclusive fountain from which politicians, journalists, and the rest of the elements that defined public opinion have drunk economic ideas for almost fifty years".<sup>211</sup> Coinciding with Encina, Oscar Mac-Clure has pointed out that the University of Chile was the main center of the ideological absorption of Courcelle-Seneuil classical liberalism.<sup>212</sup>

#### *Courcelle-Seneuil's classical liberal economic and political philosophy*

An analysis of Courcelle-Seneuil's political and economic philosophy shows beyond any doubt that he promoted essentially the same set of beliefs that would in later years be defended by the Chicago Boys and neoliberals at large. Courcelle-Seneuil's defense of the banking law provides a useful approach to his overall libertarian economic and political philosophy. According to the French professor, "freedom has its problems but it has action and provides useful lessons. It causes some disasters but they can be foreseen and are to be expected."<sup>213</sup> This means that "if one opts for freedom one should not build up false hopes."<sup>214</sup> This notwithstanding, continued Courcelle-Seneuil, "the regime of liberty is the best and most normal one" because it corrects itself, while privileges "can stop the first blows but they can also jeopardize the future".<sup>215</sup> The regime of liberty

<sup>210</sup> Quoted in: Correa, "Zorobabel Rodríguez, Católico Liberal", p. 409.

<sup>211</sup> Francisco Encina, *Nuestra inferioridad económica*, Editorial Universitaria, Santiago, 1981, p.217. It should be borne in mind that the Universidad de Chile is until this very day the most emblematic higher education institution in Chile and that for a long time it was one of the few universities in the country. The Chilean political and social elites were traditionally educated in this institution.

<sup>212</sup> Oscar Mac-Clure, "El economista Courcelle-Seneuil en el período fundacional de la economía como disciplina en Chile", p.104.

<sup>213</sup> Jean Gustave Courcelle-Seneuil, *La Ley de Bancos*, quoted in: Cristián Garay, *Jean Gustave Courcelle-Seneuil*, Fundación para el Progreso, Santiago, 2013, p. 47.

<sup>214</sup> Idem.

<sup>215</sup> Idem.

was inseparable from private property, which for Courcelle-Seneuil was an expression of human nature that could “not be affected without harming others”.<sup>216</sup> Moreover, Courcelle-Seneuil argued that “of all the institutions established for public utility - private property- is the most useful and it constitutes, in a way, the base of the whole social edifice: it is the most energetic instrument of civilization”.<sup>217</sup> As we saw in the previous chapter the preservation of property as a guarantee for liberty was the cornerstone of the classical liberal and neoliberal project. John Locke first formulated this idea when he wrote that “the great and chief end...of men’s uniting into commonwealths...is the preservation of their property”.<sup>218</sup>

Given the utility of liberty, which Courcelle-Seneuil understood entirely in a negative sense, all interference with it had to be prevented. The same as in the case of property, for him an attack on one individual’s liberty did not only affect the individual that had been attacked but the whole of society.<sup>219</sup> Accordingly, by “securing personal liberty and the liberty to work of every human being, society obtains more wealth and power in all branches of human activity than by making the individual’s activity dependent on the impulse or authorization of its coercive agents”.<sup>220</sup> The same case for liberty had been made by Adam Smith in his *Wealth of Nations* where the Scottish philosopher argued that as every individual “endeavors as much as he can both to employ his capital in the support of domestic industry...every individual necessarily labors to render the annual revenue of the society as great as he can.”<sup>221</sup> Like Courcelle-Seneuil, Smith had argued against government intervention in the economy:

A statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would ... assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.<sup>222</sup>

Evidently Courcelle-Seneuil shared Smith’s idea that the system of natural liberty led by the invisible hand of the market was best to achieve social progress. Although far from perfect, it

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<sup>216</sup> Jean Gustave Courcelle-Seneuil, *Estudio de los principios del derecho o preparación para el estudio del derecho*, Imprenta Gutemberg, Santiago de Chile, 1887, pp. 309-310.

<sup>217</sup> Ibid., p. 300.

<sup>218</sup> Locke, *Second Treatise on Government*, p. 66. It is important to note that Locke’s concept of property includes a person’s estate, liberty and life.

<sup>219</sup> Ibid., p.402.

<sup>220</sup> Ibid., pp.401-402.

<sup>221</sup> Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Vol. I ed. R. H. Campbell and A. S. Skinner, Liberty Fund, Indianapolis, 1981, p. 356.

<sup>222</sup> Idem.

created the incentives to adapt to new situations and prepare for future crises. Government intervention in turn, even if it could prevent some evils in the short run, would do so at the cost of hindering progress in the long run. For the classical liberal worldview, social and political progress were inseparable from the operation of the free market. The French professor argued that it had been industry that had founded and consolidated human societies. Moreover, industry and commerce had made the cities and brought about political deliberation: “the agora and the forum were not more than markets, and in the markets our grandparents came together to deliberate and made collective decisions...In all times and places, commercial centers have been the source of civilization”.<sup>223</sup>

As was the case with most neoliberals, Courcelle-Seneuil’s political and social philosophy derived from his economic theory. In the words of Barros Arana, Courcelle-Seneuil was “fundamentally liberal in politics but even more so in economics.”<sup>224</sup> Accordingly, he fought against state interventionism “in all the manifestations that could affect political, social or economic liberty”.<sup>225</sup> For Courcelle-Seneuil, the main enemies of a free society were socialism and protectionism.<sup>226</sup> In his view, both ideologies sought to exploit the hatred of the people towards others, based on attractive rhetoric and flawed economic theories. Contrary to the egalitarian claims of socialists, Courcelle-Seneuil believed that a free economic system based on equality before the law was the only one compatible with liberty and a classless society where individuals could move up and down the social ladder without legal impediments. In such a society there were no casts or privileges established by law. In Courcelle-Seneuil’s view, the demand for social equality was therefore incompatible with liberty and with the very idea of equality before the law. Men were made unequal by nature and material inequality was nothing but the result of natural inequalities. Therefore, material inequality was nor immoral not even inconvenient for society. Moreover, in Courcelle-Seneuil words, inequality was “a cause of imitation and progress” because the poor, “stimulated by necessity, make efforts to achieve comfort and then to become wealthy”.<sup>227</sup> Consequently, inequality “far from being an evil, has been a primary cause of progress and the central factor of civilization”.<sup>228</sup>

Courcelle-Seneuil concluded his reflection on social inequalities with the following statement:

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<sup>223</sup> Ibid., pp. 386-387.

<sup>224</sup> Diego Barros Arana, *Necrología de Jean Gustavo Courcelle-Seneuil*, Imprenta Cervantes, Santiago, 1892, p.7.

<sup>225</sup> Idem.

<sup>226</sup> Idem.

<sup>227</sup> Jean Gustave Courcelle-Seneuil, *Estudio de los principios del derecho o preparación para el estudio del derecho*, p.174.

<sup>228</sup> Ibid., p.175.

Let us abandon the belief that men are naturally equal and that inequality in conditions, which is not more than the result of natural inequalities, is an evil that has to be fought. Let us repeat with all strength that inequality has to be respected because it is useful and because no attempt can be made to fight it without doing injustice and without introducing artificial inequalities much more shocking than those that originate in human nature.<sup>229</sup>

Friedrich Hayek would make the same case for inequality in the following terms:

From the fact that people are very different it follows that, if we treat them equally, the result must be inequality in their actual position...Equality before the law and material equality are therefore not only different but are in conflict with each other; and we can achieve either the one or the other, but not both at the same time. The equality before the law which freedom requires leads to material inequality.<sup>230</sup>

For Courcelle-Seneuil, the system of liberty not only had positive economic consequences but also deep ethical implications. In his view, a free individual was also by definition responsible for his own life. Therefore, he was not entitled to demand from government any kind of social assistance. In a radical defense of private property and individual freedom, Courcelle-Seneuil argued that he who wants to be free has to “provide for himself and for his children” adding that a free person has “no rights on the fruits of the neighbors’ labor, because if he had such a right the neighbor would not enjoy complete liberty”.<sup>231</sup>

Philosophically, Courcelle-Seneuil also rejected the use of abstractions such as “State”, arguing that they were instruments to make absurd ideas defensible. Likewise, entities such as “society” and “republic” did not exist; they were abstractions and could therefore not be entitled to any kind of rights or have any duties.<sup>232</sup> This meant that individuals could not demand from the “society” or the “republic” benefits of any sort. Thus, Courcelle-Seneuil not only rejected socialism and protectionism but anything similar to a welfare state. In his view, government had a few concrete functions: to protect individual rights, to provide for internal and external security and to collect taxes in order to finance those functions.<sup>233</sup> For Courcelle-Seneuil, a government that does more than that and seeks to benefit certain groups becomes corrupt and creates the incentives for

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<sup>229</sup> Ibid., p.177.

<sup>230</sup> Friedrich Hayek, *The Constitution of Liberty*, p.77.

<sup>231</sup> Courcelle-Seneuil, *Estudio de los principios del derecho o preparación para el estudio del derecho*, p.402.

<sup>232</sup> Ibid., p.244.

<sup>233</sup> Ibid., p.194.

people not to engage in productive activities but to look for benefits from the government. Such a process, argued Courcelle-Seneuil, makes government become sclerotic with too many bureaucrats who live at the expense of the rest and who favor their friends at the expense of the public. In this way, government ends up serving mostly private interest thereby undermining the whole economic and republican system paving the way for a revolution.<sup>234</sup>

Thus Courcelle-Seneuil saw an intrusive state as a direct threat to democracy, which he viewed as the best system of government. He argued that “the republican constitution is more rational than any other and more appropriate to ensure social peace because it leaves open all the changes that could be required.”<sup>235</sup> However, for Courcelle-Seneuil democracy was not an end in itself. It was rather a mechanism to guarantee social peace and individual liberty. He argued that periodic elections could only perform this sanitary role if a free press and a strong civil society were watching over political power and the democratic process. In order to secure the republican constitution and the civilized order, Courcelle-Seneuil went as far as promoting an incipient form of what in modern constitutional theory is called a “protected democracy”. In his opinion, “liberty does not consist in the absence of all discipline. Newspapers and orators that rise against the bases of civilization, that preach robbery, homicide, burning down things and civil war could be repressed by the laws and the judicial power”.<sup>236</sup> Thus Courcelle-Seneuil was making the case for limiting liberty and thereby democracy in order to prevent its own destruction.

These reflections of Courcelle-Seneuil are interesting because the same analysis of the dangers of the expansion of government would be made by Friedman, Hayek and other neoliberals. In particular the idea of a rent-seeking society where government serves interest groups rather than the public would be crucial in the Chicago Boys’ explanation of failure of the Chilean democracy and economy in 1973. The fear that what James Madison called factions could capture the state had been a central concern for classical liberal thinkers since Adam Smith. Following this tradition, Courcelle-Seneuil attacked Rousseau’s idea that society was the product of a social contract, defending instead an evolutionary approach to social institutions. Almost in the same logic of North, he said that “the essence of a constitution is always to be found in the customs and ideas of the citizens,”<sup>237</sup> and that no constitution could be sustained if it did not reflect the prevailing culture of the country.<sup>238</sup> Moreover, Courcelle-Seneuil also rejected the rationalistic idea that laws could make individuals better in a moral sense. Writing against sumptuary laws, he argued that “when public opinion is so corrupt as to honor theft and despise labor, when all religion is destroyed, when

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<sup>234</sup> Ibid., p.196.

<sup>235</sup> Ibid., p.277.

<sup>236</sup> Ibid., p.278.

<sup>237</sup> Ibid., p.279.

<sup>238</sup> Idem.

it is honorable among the great to eat and drink immoderately and to vomit in order to eat again, laws can have no efficacy”.<sup>239</sup>

Courcelle-Seneuil’s republican and evolutionary approach was largely the result of his main intellectual influences, namely Adam Smith, John Stuart Mill, and most importantly Benjamin Constant and Alexis de Tocqueville. This last one was particularly influential on Courcelle-Seneuil.<sup>240</sup> Tocqueville was also one of the main intellectual influences on Hayek’s thinking. In Hayek’s view, Tocqueville was so connected to the British-American tradition of liberalism that he originally proposed to name the Mont Pelerin Society the “Acton-Tocqueville Society” in honor of both Lord Acton and Tocqueville.<sup>241</sup> As Alan Rayn has argued, the classical liberal tradition of Hayek was the same of John Locke, Adam Smith and Tocqueville.<sup>242</sup> This sort of liberalism, as Rayn himself explained, is hostile to the welfare state, promoting limited government, the rule of law, the avoidance of arbitrary and discretionary power, “the sanctity of private property”, freedom of contract and the individual’s responsibility for his own life.<sup>243</sup> In addition, this liberal tradition, does not necessarily entail a democratic doctrine because it does not unconditionally support the majority rule.<sup>244</sup> It was this set of beliefs spread by Courcelle-Seneuil and his followers and later on by the Chicago Boys that achieved enormous influence on Chile’s institutional development.

#### *Andrés Bello’s British -American liberal legacy*

Courcelle-Seneuil’s arrival in Chile was to a large extent the result of the influence of Andrés Bello, the founder and president of the Universidad de Chile.<sup>245</sup> Born in Venezuela, Bello is considered one of the most outstanding and influential intellectuals in Latin American history.<sup>246</sup> His contributions cut across many disciplines including law, philosophy, grammar and poetry. Bello had the greatest influence in Chile, where he spent several decades of his life serving not only as president and founder of the Universidad de Chile but also as senator, legislator, public intellectual and newspaper editor. His most relevant work was the Civil Code, which is the most important legal document ever created in the history of Chile. Since its publication in 1855 it has remained

<sup>239</sup> Jean Gustave Courcelle-Seneuil, “Sumptuary Laws”, *Encyclopedia of Political Science, Political Economy and of Political History of the United States*, edited by John Lalor, Vol.II, Maynard Merrill & Co, New York, 1899, p.750.

<sup>240</sup> Cristina Hurtado, “La recepción de Courcelle-Seneuil, seguidor de Tocqueville en Chile”, *Polis*, 17, 2007. Available at: <http://polis.revues.org/4452> Last accessed: 28/06/2014.

<sup>241</sup> Henry Hazlitt, “The Mont Pelerin Society, How Hayek Formed a Group of 36 Political Scientists, Journalists, and Observers”, *The Free Man*, November 1, 2004. Available at: [http://www.fee.org/the\\_freeman/detail/the-mont-pelerin-society#axzz2dAbqJqG](http://www.fee.org/the_freeman/detail/the-mont-pelerin-society#axzz2dAbqJqG) Last accessed: 28/06/2014.

<sup>242</sup> Alan Ryan, *The Making of Modern Liberalism*, Princeton University Press, Princeton, New Jersey, 2012 p, 24.

<sup>243</sup> Idem.

<sup>244</sup> Idem.

<sup>245</sup> Juan Pablo Couyoumdjian, “Hiring a Foreign Expert”, p. 299.

<sup>246</sup> Janet Burke and Ted Humphrey, *Nineteenth-century Nation Building and the Latin American Intellectual*, edited by Janet Burke and Ted Humphrey, Hackett Publishing, Indianapolis, 2007, p. 51.

fundamentally unchanged being the milestone of the Chilean legal tradition. Bello also decisively contributed to create the conditions for Chile's political stability, an achievement that was soon admired in the rest of the region. Referring to Chile's political exceptionalism, in 1852 at a banquet in the port of Valparaiso, Argentinian intellectual Juan Bautista Alberdi proposed a toast to the "honorable exception in South America".<sup>247</sup> Alberdi was not exaggerating. It took Chilean leaders fifteen years to construct a constitutional government that in terms of stability and durability was exceptional in the region.<sup>248</sup> Moreover, as Phillip Oxhorn put it, Chile's political development was an "anomaly" in Latin America, showing levels of political stability that were extraordinary even by European standards.<sup>249</sup> Along the same lines, North, Summerhill and Weingast, argued that unlike the rest of the region, Chile and Brazil successfully created institutions that promoted political stability.<sup>250</sup> A crucial institution in this respect was the 1833 Constitution, enacted after a period of political chaos. Seeking to solve the lack of order, the 1833 Constitution had authoritarian features and was openly supported and even probably partly drafted by Bello.<sup>251</sup>

Philosophically, Bello was deeply influenced by the liberalism of British origin. According to Professor Agustin Squall, despite its focus on order, Bello's concern for liberty has similarities to the concern that John Stuart Mill showed in his famous work *On Liberty*.<sup>252</sup> Overall, Bello's aim was to limit the power of government in order to increase individual liberty but without going so far as to opening the way to political chaos.<sup>253</sup> His reception of British ideas was encouraged by the years he spent in England. There Bello was a regular attendant of the *Edinburgh Review*, a group that had been founded by utilitarian thinkers in 1802 and in which Bello had the chance to meet the father of John Stuart Mill, James Mill, as well as Jeremy Bentham.<sup>254</sup> More importantly, Bello widely read British authors such as John Locke and especially the proponents of the Scottish Enlightenment, who had an important influence on his thinking.<sup>255</sup> This aspect is crucial since the Scottish Enlightenment tradition was one of the main intellectual sources behind the American Revolution and a forerunner of neoliberal philosophy. Particularly James Madison, the architect of the American Constitution was a close follower of the Scottish tradition.<sup>256</sup> In a controversial work,

<sup>247</sup> Leslie Bethell editor, *The Cambridge History of Latin America*, Vol.3, Cambridge University Press, New York, 2002, p.583.

<sup>248</sup> Idem.

<sup>249</sup> Phillip Oxhorn, *Organizing Civil Society: The Popular Sectors and the Struggle for Democracy in Chile*, Pennsylvania State University Press, Pennsylvania, 1995, p.39.

<sup>250</sup> North, Summerhill, and Weingast, *Order, Disorder and Economic Change: Latin America vs North America*, p. 30.

<sup>251</sup> Andrés Bello, *Selected Writings of Andres Bello*, Oxford University Press, Oxford, 1998, p. xlviii.

<sup>252</sup> Agustín Squella, "Andrés Bello, ideas sobre el orden y la libertad", *Revista Estudios Públicos*, No. 11, Santiago, p.229.

<sup>253</sup> Idem.

<sup>254</sup> Sol Serrano, *Universidad y nación: Chile en el siglo XIX*, Editorial Universitaria, Santiago, 1994, p. 75.

<sup>255</sup> Ivan Jaksic, *Andrés Bello: la pasión por el orden*, Editorial Universitaria, Santiago, 2001, p. 160.

<sup>256</sup> On the influence of the Scottish Enlightenment on James Madison see: Roy Branson, "James Madison and the Scottish Enlightenment", *Journal of the History of Ideas* Vol. 40, No. 2 (Apr. - Jun., 1979), University of Pennsylvania Press. For a more general analysis of the impact of Scottish philosophy on the American Revolution



Garry Wills has even argued that Jefferson's Declaration of Independence reflected the ideas of the Scottish Enlightenment more than any other philosophical school.<sup>257</sup> This tradition included authors like Adam Smith, Adam Ferguson, David Hume, Francis Hutcheson and Thomas Reid, among others. Overall, Bello saw the intellectual basis to build Hispanic America in the British enlightenment tradition rather than in the French enlightenment tradition.<sup>258</sup> Moreover, probably influenced by the skepticism and moderation of Scottish thinkers, Bello rejected the excesses of the French revolution and strongly opposed the Jacobin worldview. As Professor Alfredo Jocelyn Holt has argued, Bello's liberalism belongs to the tradition of thinkers like Tocqueville and Constant,<sup>259</sup> both of them classical liberals along the lines of the British tradition just like Courcelle-Seneuil. Bello himself made a clear indication of the relevance of British thinkers when he was asked to design the curricula for the University of Caracas in the early 1820s. His aim was not only to provide valuable material to the students of the university but also to spread an anti-Jacobin worldview.<sup>260</sup> It is interesting to note that among the 78 books recommended by Bello, among the set of books for teaching social sciences, philosophy and humanities, Bello gave special importance to authors such as William Paley, John Locke, Thomas Reid, Dugald Stewart and George Campbell.<sup>261</sup> More interesting is Bello's selection for the subject of political economy, where he chose essentially classical liberal economists, including Adam Smith, Jean Baptist Say and David Ricardo.<sup>262</sup> This was no surprise. In the sphere of economy, Bello had been a proponent of liberal doctrines, particularly free trade, which was the main issue debated during his time. In the words of historian Jaime Eyzaguirre, Bello "loved political and economic liberty".<sup>263</sup> Moreover, Bello had read Adam Smith's *Wealth of Nations* with great care, which had been written by the Scottish philosopher precisely with the aim of demolishing protectionist doctrines.<sup>264</sup> Following Smith's doctrine, Bello himself would ferociously attack protectionist attempts in Chile. A famous case occurred in 1831, when the province of Santiago came up with a plan to restrict foreign imports invoking the standard argument about the need to protect local jobs and local industries. Bello reacted with an article in which he declared that the old "prohibitionist system" was "absurd" and

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and the American Founding Fathers see: Arthur Herman, *The Scottish Enlightenment*, Harper Perennial, London, 2006.

<sup>257</sup> Garry Wills, *Inventing America, Jefferson's Declaration of Independence*, Houghton Mifflin Harcourt, New York, 2002.

<sup>258</sup> Anthony Cussen, "Bello y la ilustración inglesa", *Revista Estudios Públicos*, No. 8, Santiago, p. 1.

<sup>259</sup> Alfredo Jocelyn Holt, "El liberalismo moderado chileno, siglo XIX", *Revista Estudios Públicos*, No. 69, Santiago, pp.141-142.

<sup>260</sup> Ivan Jaksic, *Andrés Bello: la pasión por el orden*, Editorial Universitaria, Santiago, 2001, p. 101.

<sup>261</sup> *Idem.*

<sup>262</sup> *Idem.*

<sup>263</sup> Jaime Eyzaguirre, *Fisonomía histórica de Chile*, Editorial Universitaria, Santiago, 1973, p. 152.

<sup>264</sup> Arturo Fontaine Aldunate, "Andrés Bello, formador de opinión pública", in: *Homenaje a don Andrés Bello con motivo de la conmemoración del Bicentenario*, Instituto de Chile, Santiago, 1982, p.35.

contrary to sound economic principles.<sup>265</sup> In order to refute the protectionists, Bello argued with concrete examples showing how free trade had made the people wealthier, especially the poor people. According to Bello, the new protectionist measures would only have the effect of enriching a few industrialists while impoverishing the mass of consumers. Bello went on sustaining that liberty had brought the Chilean public a comfort unknown to them before.<sup>266</sup> Bello concluded with a devastating attack on protectionists:

If our industries had declined with the introduction of foreign manufactures, if we had closed our factories, if we had had to abandon our own production to use the foreign one, if we saw at least one sign of backwardness in our craftsmen, then we could adopt such an insidious and damaging system to our mechanical arts; a system that has made of politicians the destroyers of order and in which governments become *primi ocupantis*. But everywhere we see progress; factories are created, improvements are invented and manufacture is multiplied.<sup>267</sup>

Bello's predilection for economic liberty was also crystallized in his Civil Code. The Civil Code is of interest from an institutional and ideological perspective because it provided the framework for all interactions involving private people in Chile until today. It also became the benchmark for legal philosophy in private law and has left an imprint on generations of scholars, lawyers and judges defining Chile's legal culture and private law institutions which are crucial for the functioning of the market order. One of the most revolutionary aspects of the Civil Code was its new property regime. Before the Civil Code, property was regulated and conceived of from a more collectivist perspective, which had been inherited from medieval Europe. As Felipe Westermeyer has pointed out, the strong liberal economic influence of the Civil Code opened a previously closed space to the individual.<sup>268</sup> Among the central principles inspiring Bello's regulation of property were the free circulation of wealth, the almost absolute right of the individual over his own property, freedom of contract and equality before the law. These were the fundamental elements through which the Civil Code exalted individualism in private market interactions.<sup>269</sup> As Mauricio

<sup>265</sup> Andrés Bello, "Sistema Prohibitivo", in: Andrés Bello, *Obras completas*, Dirección del Consejo de Instrucción Pública, Santiago, 1893, p.68.

<sup>266</sup> *Ibid.*, p.69.

<sup>267</sup> *Ibid.*, p.70.

<sup>268</sup> See: Felipe Westermeyer, "La desamortización de los bienes de regulares en Chile: la primera discusión jurídica en el derecho patrio sobre la naturaleza y alcance del dominio", *Revista Chilena de Historia del Derecho*, Universidad de Chile, No.22, 2010, p. 1105. Available at: <http://www.historiadelderecho.uchile.cl/index.php/RCHD/article/viewFile/22155/23472> Last accessed: 28/06/2014.

<sup>269</sup> Mauricio Tapia, "Commemoracion del sesquicentenario del Código Civil de Andrés Bello: un análisis de las razones de su celebridad", *Revista Chilena de Historia del Derecho*, No. 20, 2008, p.240. Available at: <http://www.historiadelderecho.uchile.cl/index.php/RCHD/article/viewArticle/5137> Last accessed: 28/06/2014.

Tapia has pointed out, liberty was the main philosophical inspiration of the Civil Code.<sup>270</sup> There is almost absolute freedom of contract and no differences made between persons. There are no slaves in a disadvantageous position or aristocrats who enjoy special privileges. In Bello's code all men and women are equal with only a few exceptions pertaining to family law. As was explained in the first chapter, this idea of absolute equality before the law is a cornerstone of classical liberalism. It is not only an ethical imperative but also, as North explains, a necessary condition for the proper functioning of the market which requires the protection of property and the freedom of contract of all its participants without distinction. For Bello, free will, that is to say, the idea that all people are capable of making free decisions, was the cornerstone of private contractual law. Equally important is the idea that every person is responsible for his actions and is always obliged to repair the damage caused to another person.<sup>271</sup> Liberty, responsibility and property are all inseparable pillars of Bello's system. Based on them, Bello's established a completely capitalist system of private law. Furthermore, in the words of Professor Luis Diaz Müller, in Bello's Code private property is "absolute, intangible and sacred".<sup>272</sup> Philosophically, Bello's Code crystallized the idea that property is the extension of an individual's personality. This idea, formulated by Locke with more emphasis than any other thinker, had gigantic consequences for Chile: it ended the barriers of the feudal system paving the way for the free circulation of wealth, free trade and the private enterprise.<sup>273</sup>

Along with his good friend Courcelle-Seneuil, without any doubt Bello made one of the greatest contributions to the promotion of liberalism in Chile. From an economic perspective, his philosophy was clearly classical liberal along the lines of Adam Smith's. But given the fact that Bello was not an economist and that his main legacy was in the legal field and the humanities, he never became the target of protectionists and other scholars and politicians seeking to debunk liberalism. That target was Courcelle-Seneuil. This does not mean however, that Bello did not make his own intellectual and institutional contribution to spread British-American liberalism. As we have seen, Bello's Civil Code was largely inspired by the same classical liberal philosophy followed by Courcelle-Seneuil. It is hard to exaggerate the relevance of Bello's Civil Code in shaping Chile's legal culture and the impact of that culture on the way the Chilean society approached institutions like private property, freedom of contract and others. If North is right about the importance of beliefs and the cultural heritage for a country's institutional evolution, than there is little doubt that early neoliberalism survived not only in the intellectual influence that people like Bello and Courcelle-Seneuil achieved on their Chilean followers, but also through the institutions

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<sup>270</sup> Idem.

<sup>271</sup> Ibid., p.241.

<sup>272</sup> Luis Diaz Müller, *La propiedad en la ley de reforma agraria*, Editorial Andrés Bello, Santiago, 1972, p.18.

<sup>273</sup> Idem.

created by the Civil Code and its capitalist approach. This tradition continued to exist despite the apparent extinction that liberal ideas underwent particularly from the 1930s onwards. The fact that liberalism was dormant and not dead explains the liberal reaction and, eventually, the rebirth of neoliberalism through the Chicago Boys who, with their free market revolution, reinstated institutions of the type Courcelle-Seneuil had advocated, including a Constitution that incorporated the protection of private property and freedom of enterprise along the lines of Bello's Civil Code.

### *Conclusions to Chapter II*

This chapter has shown that there was indeed a classical liberal tradition in Chile prior to the free market revolution of the Chicago Boys—a tradition that was extremely influential both in economic and institutional terms. This is important because according to North's theoretical framework, the existence of this tradition could be seen as an important element for the institutional success of the reforms made by the Chicago Boys. The chapter has focused mainly on the legacy of two emblematic figures of Chile's intellectual history, namely Jean Gustave Courcelle-Seneuil and Andrés Bello. As the prior analysis shows, both were followers of the British-American tradition of liberalism and created formal rules as well as an intellectual climate with the aim of limiting the power of government especially in economic affairs. In particular Courcelle-Seneuil was a direct heir of thinkers such as Adam Smith, John Stuart Mill and Benjamin Constant rejecting the French rationalist liberal tradition. As this chapter shows, his ideas on democracy, freedom, the role of government and equality, among others, perfectly fit the description of neoliberalism and classical liberalism developed in the previous chapter. This French professor was thus responsible for developing an early form of neoliberalism in Chile which despite its later decline, remained present in the intellectual spheres for decades to come. The fact that the intellectual rivals of Courcelle-Seneuil were many of the same that neoliberals would confront a century later, namely, socialism, protectionism and statist ideas such as the ones promoted by the German historical school, confirms the ideological identity of Courcelle-Seneuil and his followers and later neoliberals. As for Bello, his legacy is crucial from the perspective of North. With his capitalist-liberal revolution in the system of private law, Bello changed the most important rules of the game in the direction of free markets, private property and personal responsibility. In addition, he contributed to the intellectual classical liberal legacy especially through his contributions in the field of legal theory, but also through the many disciples that he left in the country.

In short, the British-American tradition of liberty existed in Chile long before the Chicago Boys made their free market revolution. What is more, this tradition was the most influential in terms of institutional and intellectual development for more than half a century. Therefore, the standard argument that the Chicago Boys introduced ideas that were alien to Chile's political culture and intellectual history is not true. The next chapter, applying North's theory of institutional change, will analyze the decline and reemergence of this British-American liberal tradition through the work of the Chicago Boys and will explain to what extent, if at all, ideas of political liberty and democracy were part of the institutional project.

### Chapter III: The rise of the Chicago Boys

#### *The ideological reaction against Chile's early neoliberalism*

The influence of liberal thinkers like Bello and Courcelle-Seneuil on Chile's intellectual and institutional evolution cannot be understated. Historian Gonzalo Vial has pointed out that until the end of the 19<sup>th</sup> century classical liberalism was indeed the official doctrine of Chile's governing elite and intellectual class.<sup>274</sup> But it is also true that throughout the 19<sup>th</sup> century there was an ardent defense of protectionism by different intellectuals and interest groups. In particular, the economic elites advocated protectionism when it served their interest.<sup>275</sup> The shift in market opportunities played a crucial role in the rise of agricultural protectionism for example.<sup>276</sup> A grater factor in the demise of early neoliberalism was the crisis of the free banking system that had been introduced in 1860. As Rothbard observed, this episode was used to discredit other of Courcelle-Seneuil's liberal ideas and reforms such as free trade and privatizations.<sup>277</sup> Moreover, according to Hirschman, Courcelle-Seneuil became the scapegoat of all Chilean economic problems.<sup>278</sup> As North explained reality-feedback can lead to false conclusions and thereby to mistaken ideas. The failure of the banking system helped paved the way for the return of the protectionist and nationalist ideas imported from Europe that would eventually become hegemonic. Mostly developed by the German historical school of economics, the new economic nationalism sought to debunk classical liberalism and its individualistic approach.<sup>279</sup> John Maynard Keynes referred to this new world trend in his

<sup>274</sup> Gonzalo Vial, *Una trascendente experiencia académica*, Facultad de Ciencias Económicas y Administrativas, Pontificia Universidad Católica de Chile, Santiago, 1999, p.22.

<sup>275</sup> Oscar Godoy, "Funciones de integración del Estado", *Revista de Ciencia Política*, Vol. 22, No. 2, 2002, Instituto de Ciencia Política, Pontificia Universidad Católica de Chile, p.113.

<sup>276</sup> Thomas C. Wright, "Agriculture and Protectionism in Chile, 1880-1930", *Journal of Latin American Studies*, Vol. 7, No. 1 (May, 1975), Cambridge University Press, p.46. Available at: <http://www.jstor.org/stable/156258> Last accessed: 28/06/2014.

<sup>277</sup> Rothbard, "The Other Side of the Coin: Free Banking in Chile", 1989.

<sup>278</sup> Hirschman, *Journeys Towards Progress*, p. 166. From an economic point of view however, it is not at all clear that the banking crisis was due to a failure of the system itself. As Lüders and Jeftanovic have explained, the system worked very well bringing price stability to Chile until the government intervned in order to finance its wars first against Spain and next, against Perú and Bolivia. Indeed, shortly after the war against Peru and Bolivia broke out in 1879, the Chilean government changed the rules enabling the emission of money by the government in order to finance the war through inflation. Along with the elimination of convertibility in 1878, the result of this reform was inflationary periods followed by economic contractions. After a brief return to the gold standard from 1895 to 1898, convertibility and the free banking system definitely came to an end in 1898 and the age of inflation started in Chile. See: Rolf Lüders and Pedro Jeftanovic, *La banca libre en Chile*, Santiago, May 2006. Available at: [http://www.bcentral.cl/conferencias-seminarios/seminarios/pdf/luders\\_jeftanovic.pdf](http://www.bcentral.cl/conferencias-seminarios/seminarios/pdf/luders_jeftanovic.pdf) Last accessed: 28/06/2014.

<sup>279</sup> Some of the first works critical of Courcelle-Seneuil and classical liberalism in Chile were: Daniel Martner, *Estudio*

1926 work *The end of laissez-faire*, observing that in Europe there was “a latent reaction, somewhat widespread, against basing society to the extent that we do upon fostering, encouraging, and protecting the money-motive of individuals”.<sup>280</sup>

In Chile, Subercaseaux, who would become Chile’s finance minister in 1907, observed that due to these new anti-laissez-faire ideas, political economy no longer considered protectionism as “contrary to the natural laws of economic order”.<sup>281</sup> For Subercaseaux, who defined himself as a nationalist reacting against the liberal-individualist school,<sup>282</sup> the impact of this new intellectual development had contributed to debunk what he called “liberal absolutism”, clearing the way for “the evolution of the economic policy of the American republics towards nationalism and protectionism”.<sup>283</sup> Taking the ideas of Friedrich List, Gustav von Schmoller and other thinkers, this new doctrine criticized free trade arguing that it had prevented the inward development of the country.<sup>284</sup> For Fuentealba, classical liberals did not understand that free trade was “necessary and convenient for industrialized nations”, but could only produce “fatal consequences” in a country like Chile.<sup>285</sup> In the view of the critics of liberalism, economic laws had a national component and were not universally applicable. Accordingly, if free trade was good for developed nations, protectionism was the best way to foster the domestic industry and to promote the Chilean economic development. Along those lines Subercaseaux argued that one of the central principles for organizing the republic was a “determined protection of the national industry and the promotion of all productive sources by the most effective means at the disposal of the state”.<sup>286</sup> For this view, in order to be able to compete with those industries of more advanced nations, infant industries had to achieve a critical size. As List put it when refuting Adam Smith and Jean Baptist Say “a new unprotected manufacturing power cannot possibly be raised up under free competition with a power which has long since grown in strength and is protected in its own territory”.<sup>287</sup> Interestingly enough, after the period of liberal dominance, these new nationalist and protectionist views became more influential in Chile than in any other country in Latin America.<sup>288</sup>

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*de política comercial chilena e historia económica nacional*, Santiago, Imprenta Universitaria, Santiago, 1923. Guillermo Subercaseaux, *Historia de las doctrinas económicas en América y en especial en Chile*, Universo, Santiago, 1924. Leonardo Fuentealba, *Courcelle-Seneuil en Chile. Errores del liberalismo económico*, Prensas de la Universidad de Chile, Santiago, 1945.

<sup>280</sup> John Maynard Keynes, *The end of laissez-faire*, Available at: <http://www.panarchy.org/keynes/laissezfaire.1926.html> Last accessed: 28/06/2014.

<sup>281</sup> Guillermo Subercaseaux, *Historia de las doctrinas económicas en América y en especial en Chile*, Universo, Santiago, 1924, p.73.

<sup>282</sup> Ibid., p.61.

<sup>283</sup> Idem.

<sup>284</sup> Carmen Carolina Sutter and Osvaldo Sunkel, *La historia económica de Chile: 1830-1930*, Instituto de Cooperación Iberoamericana, Madrid, 1982, p.19.

<sup>285</sup> Fuentealba, *Courcelle-Seneuil en Chile*, p.106.

<sup>286</sup> Guillermo Subercaseaux, *Los ideales nacionalistas*, Imprenta Universitaria, Santiago, 1918, p.22.

<sup>287</sup> Friedrich List, *National System of Political Economy*, Vol. 2, Cosimo, New York, 2006, p.35.

<sup>288</sup> Joseph Love, “Economic Ideas and Ideologies in Latin America Since 1930”, in *The Cambridge History of Latin*

Economic nationalism went hand in hand with the emergence of collectivist ideas. One of the main influences in this respect was German historian and philosopher Oswald Spengler, who became the most influential thinker on Chilean conservative intellectuals and politicians for much of the 20<sup>th</sup> century.<sup>289</sup> As Juan Enrique Uribe observed in 1934, Spengler was by far “one of the German intellectuals who awakes more interest in the Spanish speaking world.”<sup>290</sup> At the same time, new movements such as Communism and Social Christianity contributed to undermine the period of classical liberal dominance. The Communist Party, founded in the early 20<sup>th</sup> century sought to “put an end to slavery and exploitation by international capitalism and the domestic oligarchy” in accordance to “the principles of scientific socialism formulated by Marx, and Engels and applied by Lenin and Stalin and defended by the Communist International”.<sup>291</sup> Social Christianity was in turn a form of populism that was not that different from European fascist-populist movements.<sup>292</sup> It provided the intellectual basis for the creation of a new political movement that would define Chilean politics: the *falangistas*. The name was taken from the fascist *Falange* which was the nationalist party that had been founded by José Antonio Primo de Rivera in Spain a few years earlier.<sup>293</sup> The political philosophy of *falangistas* was defined by a rejection of individualism and capitalism. Following a collectivist approach, they conceived of society as an organic whole that was linked by Christian solidarity.<sup>294</sup> Their aim was to “redeem the proletarians”, who were the social segment that suffered “the conditions created by capitalism”.<sup>295</sup> Their most important leader and later president of Chile, Eduardo Frei Montalva, also a follower of Spengler, would go as far as to declare that “the progressive liquidation of the capitalist system of production and the rise of a new historical age” were an “indisputable reality”.<sup>296</sup>

These new ideologies played an important role in the institutional shift from the free market approach to state interventionism which had started in 1916 and 1921 with protectionist laws promoted by conservative President Juan Luis Sanfuentes.<sup>297</sup> This was also the time in which the welfare state in Chile started to emerge. According to United Nations data if in 1905 the Chilean

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*America*, Volume VI, Part I, edited by Leslie Bethell, Cambridge University Press, New York, 1994 p. 396.

<sup>289</sup> See: Cristián Gazmuri, “Historiografía conservadora chilena: el impacto de Oswal Spengler”, *El Mercurio*, November 12, 2000.

<sup>290</sup> Juan Enrique Uribe Echeverría, *Política y filósofos*, Atenea / Universidad de Concepción, Concepción, 1924- v., No. 107, May 1934, p. 353.

<sup>291</sup> Estatutos Partido Comunista de Chile, Imprenta Antares, Santiago, 1922, p.3.

<sup>292</sup> See: Victor Fariás, *La muerte del camaleón*, Maye, Santiago, 2008.

<sup>293</sup> Pablo Artaza Barrio, *A 90 Años de Los Sucesos de la Escuela Santa María de Iquique*, Lom, Santiago, 1998, p.88.

<sup>294</sup> Julio Faúndez, *Marxism and Democracy in Chile: From 1932 to the Fall of Allende*, Yale University Press, 1988, p.134.

<sup>295</sup> Falange Nacional, *Principios para una política social cristiana: comentarios a la declaración de principios de la Falange Nacional*, No.5, 1953. Available at: <http://www.bcn.cl/obtienearchivo?id=documentos/10221.1/12576/1/195117.pdf> Last accessed: 28/06/2014.

<sup>296</sup> Eduardo Frei, *La política y el espíritu*, Ediciones Ercilla, Santiago, 1940, p. 12.

<sup>297</sup> Felipe Larraín, “Proteccionismo y desarrollo económico”, *Revista Estudios Públicos*, No. 7, Santiago 1982, p.66.



government spent only 1.1% of GDP on welfare programs, by 1930 it had more than doubled.<sup>298</sup> As a share of total government spending, welfare spending increased from 6.6% in 1920 to 18.1% in 1930 and over 40% in the 1960s.<sup>299</sup> The maximum was reached during the government of the UP in 1972, when 53% of all government spending was destined to finance welfare programs.<sup>300</sup> As North has explained, a key factor in defining institutional evolution is the “sense of fairness” with regard to the economic system. In Chile, according to progressive economist Jose Pablo Arellano, the rise of the welfare state was largely the result of a change in the climate of opinion which did not see social problems as a private charity issue anymore but as a problem of justice.<sup>301</sup> In other words, if Arellano is right, the sense of fairness among political actors, opinion leaders and the population changed in favor of more government, thus departing from the previous classical liberal views.

A critical problem, especially during the new welfare era, was inflation. This would become one of the main preoccupations of the Chicago Boys who saw Chile experiencing higher inflation levels than the international average for almost a century with serious social and political consequences.<sup>302</sup> Indeed, rising prices in the 1920s not only posed a problem to investment but also to social stability. According to the Universidad Católica economists Carlos Clavel and Pedro Jeftanovic, between 1914 and 1920 the average cost of living in Santiago increased by 56%.<sup>303</sup> By 1924 it had increased 72% and by 1929, 87%.<sup>304</sup> With declining purchasing power, the Chilean workers and their families intensified protests and strikes. In response the Chilean government looked for technical advice abroad. This time, the authority invited was Princeton Professor Edwin Walter Kemmerer, an American classical liberal economist who later on opposed New Deal fiscal policies. Kemmerer, who was known as the “money doctor”, believed that a strong gold standard was essential to limit the government powers to confiscate the wealth of the people through inflation. In his classic work on the history of the gold standard Kemmerer argued that the framers of the American Constitution had followed Adam Smith’s advice regarding the need to limit the power of government to debase the currency.<sup>305</sup>

Although the means to achieve a stable currency strongly differ, the philosophy of hard money and its need in order to prevent the over expansion of government was shared by Courcelle-

<sup>298</sup> Iván Lavados, *Evolución de las políticas sociales en Chile: 1964-1980*, United Nations, UNICEF, Santiago, 1983, p. 30.

<sup>299</sup> Idem.

<sup>300</sup> Ibid., p.33.

<sup>301</sup> José Pablo Arellano, *Políticas sociales y desarrollo en Chile: 1924-1984*, Second Edition, CIEPLAN, Alfabet, Santiago, p.29.

<sup>302</sup> Carlos Clavel and Pedro Jeftanovic, “Causas de la emisión en Chile: 1878-1919”, *Revista de Economía*, No. 10, 5 v.,1983, Facultad de Ciencias Económicas y Administrativas Universidad de Chile, p.26. The comparison is made with the variation of prices in industrialized countries.

<sup>303</sup> Paul Drake, *La misión Kemmerer a Chile: consejeros norteamericanos, estabilización y endeudamiento, 1925-1932*, Cuadernos de Historia No. 4, Departamento de Ciencias Historicas, Universidad de Chile, Julio, 1984 , p. 34.

<sup>304</sup> Idem.

<sup>305</sup> Edwin Walter Kemmerer, *Gold and The Gold Standard*, McGraw-Hill, New York, 1944, p.61.

Seneuil, the later Klein & Saks mission, the Chicago Boys and had been long a concern of classical liberals in general. Perhaps Ludwig von Mises put the need for hard money more clearly than any other neoliberal when he argued that “the gold standard was the world standard of the age of capitalism, increasing welfare, liberty, and democracy, both political and economic.”<sup>306</sup> For Mises, “the classical or orthodox gold standard alone is a truly effective check on the power of the government to inflate the currency. Without such a check all other constitutional safeguards can be rendered vain”.<sup>307</sup>

Armed with these ideas, Kemmerer arrived in Chile in 1925 enjoying wide support from the Chilean labor organizations, government officials and business class.<sup>308</sup> Despite the initial success of the establishment of a gold standard, the fiscal irresponsibility of the Chilean political class led the country to abandon once again the road to sound money, putting an end to Kemmerer's reforms and opening a new era of inflation and social instability.<sup>309</sup> But the liberal institutions were far more undermined by the onset of the Great Depression, which caused the value of Chilean exports to plummet almost 90% from its 1929 levels.<sup>310</sup> The reaction of the Chilean government, along with a substantial increase in spending, was a radicalization of protectionism and government intervention.<sup>311</sup> Chile was thus no exception to the wave of protectionism and nationalism that shook the world during the 1930s.<sup>312</sup> With the passing of time, and unlike other countries, these protectionist policies were not reversed. Instead, the Chilean trade system became increasingly complex and inefficient, a situation that lasted until the breakdown of the economic system in 1973.<sup>313</sup>

During the depression Chile also experienced severe political turmoil leading to the creation of the “Socialist Republic of Chile” in 1932. The Socialist Republic was a short episode in a country submerged in economic and social chaos. Its self-declared aim was to “overthrow a reactionary oligarchic government” that had only served the “interest of foreign capitalists”.<sup>314</sup> The revolutionaries also declared to seek the “economic liberation of the country and the triumph of

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<sup>306</sup> Ludwig von Mises, *Human Action*, Ludwig von Mises Institute, Auburn Alabama, 1998, pp. 469-470.

<sup>307</sup> Ludwig von Mises, *The Theory of Money and Credit*, Yale University Press, New Haven, 1953, p.452.

<sup>308</sup> Elisabeth Glaser, *Chile's Monetarist Money Doctor's, 1850-1988*, p.170.

<sup>309</sup> *Ibid*, pp. 176-177.

<sup>310</sup> Tse Chun Chang, *Critical Movements in the Balance of Payments*, Cambridge University Press, New York, 1951, p.194.

<sup>311</sup> Larraín, “Proteccionismo y desarrollo económico”, p.66.

<sup>312</sup> President Herbert Hoover was one of main initiators of the trade wars and the rise of economic nationalism. Convinced that depression had to be fought by government intervention, he signed into law the Smoot-Hawley Tariff Act of 1930 which massively raised tariffs on imported goods. In response to the Smoot Hawley Act, many countries worldwide retaliated applying similar measures resulting in a fall of 66% in international trade in three years. See: Hans F. Sennholz, “The Great Depression”, *The Freeman*, October 1969, p.589.

<sup>313</sup> Larraín, “Proteccionismo y desarrollo económico”, p. 67.

<sup>314</sup> Manifiesto de los revolucionarios, June, 5, 1932, in: Eduardo Devés and Carlos Díaz, *El pensamiento socialista en Chile, Antología 1893-1933*, América Latina Libros/Nuestra América Ediciones, 1987, p.189.

social justice” through the control of the economy.<sup>315</sup> This could only be achieved by liberating Chile from “international capitalism”.<sup>316</sup>

Despite its short life, the Socialist Republic was important from an intellectual and institutional perspective. As Drake noted, from 1932 onwards, socialism in a populist version became increasingly attractive for the masses, changing the electoral spectrum for decades to come.<sup>317</sup> Moreover, according to Drake the Socialist Republic itself reflected the dramatic shift in the climate of opinion towards socialism, which became a new fashion.<sup>318</sup> More importantly, this shift towards socialism during the 1930s, not only implied a radicalization of leftwing political and intellectual movements but also moved the traditional right wing parties to definitely abandon the classical liberal philosophy they had previously endorsed in order to promote a paternalist and corporatist political project that could offer an alternative to populist socialism.<sup>319</sup>

As a result of all these economic and intellectual changes, after the Depression, neoliberalism was marginalized and protectionism, welfare state liberalism and Keynesianism became the new dominant ideas.<sup>320</sup> These ideas achieved a strong influence through the work of Keynes’ most influential Latin American follower, Raul Prebisch who was known as the “Latin American Keynes”.<sup>321</sup> Keynes had been a promoter of protectionism, economic nationalism and large scale government intervention giving credence to the old doctrines developed by nationalist economists<sup>322</sup>. In an article defending economic nationalism Keynes illustrated his critical position towards the free market and classical liberal theories in the following terms: “The decadent international but individualistic capitalism, in the hands of which we found ourselves after the War, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous —and it doesn't deliver the goods”.<sup>323</sup> The alternative, for the British economist, had to be a government-directed economy which included protectionism, inflationary policies, strong regulation of capital markets and massive government spending. It is telling of the anti-liberal bias of these ideas that the same Keynes in the prologue to the German edition of his famous *General Theory of Interest, Money and Unemployment*, published in 1936, argued that his theory was “much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given

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<sup>315</sup> Idem.

<sup>316</sup> Eduardo Devés and Carlos Díaz, *El pensamiento socialista en Chile, Antología 1893-1933*, América Latina Libros/Nuestra América Ediciones, 1987, pp. 189-190.

<sup>317</sup> Paul Drake, *Socialismo y populismo. Chile: 1936-1973*, Instituto de Historia Universidad Católica de Valparaíso, Valparaíso, 1992, p.55.

<sup>318</sup> Ibid., p. 53.

<sup>319</sup> Ibid., p.103.

<sup>320</sup> Charles A. Frankenhoff, “The Prebisch Thesis: A Theory of Industrialism for Latin America”, *Journal of Inter-American Studies*, Vol. 4, No. 2 (Apr., 1962), p.191.

<sup>321</sup> *The Economist*, “Raul Prebisch: Latin America’s Keynes”, March 5<sup>th</sup>, 2009.

<sup>322</sup> See: Juan Ramon Rallo, *Los errores de la vieja economía*, Unión Editorial, Madrid, 2011.

<sup>323</sup> John Maynard Keynes, “National Self-Sufficiency,” *The Yale Review*, Vol. 22, No. 4 (June 1933), pp. 755-769.

output produced under conditions of free competition and a large measure of *laissez-faire*.<sup>324</sup>

If North is right about the interplay between ideas and institutions, then the new wave of ideas have to be taken into account in order to understand what happened later with the Chicago Boys. Prebisch, who assumed the direction of the United Nations Economic Commission for Latin America (ECLA) in 1950, followed Keynes in his critique of free market capitalism. But unlike Keynes, Prebisch believed that economic laws were not universal. This would become a central factor in the clash of ideas that had been going on since the mid-19<sup>th</sup> century between the liberals in the classical tradition and protectionists. If Courcelle-Seneuil, anticipating the Chicago Boys, had argued that political economy could not have a national character because sciences “could not have another fatherland but the truth”, as it was absurd to conceive of a “national mathematics or a national physics”,<sup>325</sup> Prebisch argued that “one of the central flaws of general economic theory” in developed nations was “its false sense of universality”.<sup>326</sup> Following this approach, Prebisch developed the theory of “structuralism”. Structuralism argued that industrialized nations with their exports of technology were to blame for the underdevelopment of Latin American countries which exported raw materials of less value.<sup>327</sup> Economic development, Prebisch believed, was the result of technological advance and industrialization. The structural problem arose because the periphery exported cheap raw materials while the industrialized countries exported more sophisticated goods of higher value. And since demand was more elastic for primary goods than it was for more advanced goods, the result were permanent trade imbalances. This, according to Prebisch, led to a sustained drain of resources from the periphery to the industrialized countries perpetuating economic under- performance in Latin America. In this logic he argued, it was clear that while the centre had fully retained the benefits of its technical progress the countries, the periphery had transferred the benefits of its own technical progress.<sup>328</sup> The solution to the structural problem, according to Prebisch, was large-scale government intervention in the economy and what became known as import substitution (ISI). ISI implied the restriction of free trade as well as an active engagement of the government in business activities in order to foment the inward industrial development of Latin American countries. The rationale was very similar to the one applied by the German historical school of Von Schmoller and List, namely, that by fostering the industrial development of the country through subsidies, government-owned enterprises and import restrictions, Latin American countries would develop enough to be competitive with developed

<sup>324</sup> John Maynard Keynes, Preface to the German edition of *The General Theory of Interest, Money and Unemployment*, 1936. Available at: <http://gutenberg.net.au/ebooks03/0300071h/gerpref.html> Last accessed: 28/06/2014.

<sup>325</sup> Jean Gustave Courcelle-Seneuil, *La economia politica*, in Bengéas Lynch, *Jean Gustave Courcelle-Seneuil*, p. 282.

<sup>326</sup> Raúl Prebisch, *El desarrollo económico de la América Latina y sus principales problemas*, ECLA, May 14<sup>th</sup>, 1949, p.13.

<sup>327</sup> *Ibid.*, p.19.

<sup>328</sup> *Ibid.*, p.19.

countries. As had been the case in the past between classical liberals and the German historical school, the Prebisch doctrine clashed with the free trade and non-interventionist philosophy defended by neoliberals. According to Celso Furtado, Prebisch contributions always implied a criticism to laissez-faire.<sup>329</sup> Prebisch himself would declare that after the Great Depression he had abandoned the belief in free trade “as well as in the positive results of the international division of labor” so much advocated by Adam Smith.<sup>330</sup> Some authors have observed that Prebisch completely rejected economic liberalism and firmly embraced government intervention.<sup>331</sup>

In general, ECLA promoted Prebisch’s interventionist philosophy with the explicit aim of debunking classical liberalism. As Luis Ortega has explained, ECLA was strongly influenced by ideologies critical to liberalism that had emerged in the early 20<sup>th</sup> century, and formulated “a relentless critique of the orthodox liberalism of the 19<sup>th</sup> century, in particular of its assumption regarding the external sector and the role of the state”.<sup>332</sup> Confirming this view, in an interview given in 2000, Professor Osvaldo Sunkel, a former leading member of ECLA, described the group of people related to ECLA as a “group of center-leftwing intellectuals and social scientists” who believed that “the government was the solution to every problem”.<sup>333</sup> It is important to stress at this point, that ECLA was not a group of unorganized unprofessional leftwing intellectuals experimenting with the economy. Far from that: among its members ECLA had highly trained economists and social scientists who had a coherent and fully developed vision of society and a clear idea of how economic policy should be designed. It was therefore as serious an intellectual project as the classical liberal one, only on the opposite side of the ideological spectrum.

In Chile the attack on British-American liberalism was led by one of the most emblematic members of ECLA's brain trust: Professor Anibal Pinto Santa Cruz who in 1959 wrote an influential book explicitly attacking Courcelle-Seneuil and economic liberalism.<sup>334</sup> Pinto argued that the French professor had formed the first generation of Chilean economists who had ruled “almost without resistance” defining “the central criteria for public decisions”.<sup>335</sup> According to Pinto, the

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<sup>329</sup> John Toye and Richard Toye, “Raul Prebisch and the Limits of Industrialization”, in: *Raul Prebisch, Power, Principle and the Ethics of Development*, Inter American Development Bank, Buenos Aires, 2006, p.22.

<sup>330</sup> Quoted in James H. Street, “Raúl Prebisch, 1901-1986: An Appreciation”, *Journal of Economic Issues*, Vol. 21, No. 2 (Jun., 1987), Association for Evolutionary Economics, p.650.

<sup>331</sup> John Toye and Richard Toye, *The UN and Global Political Economy*, Indiana University Press, Bloomington, 2004, p.59.

<sup>332</sup> Luis Ortega, “Business History in Chile, 1850-1945”, in *Business History in Latin America*, edited by Carlos Dávila and Rory Miller, Liverpool University Press, Liverpool, 1999, p. 62.

<sup>333</sup> Interview available at: [http://www.pbs.org/wgbh/commandingheights/shared/pdf/ufd\\_dependencia\\_full.pdf](http://www.pbs.org/wgbh/commandingheights/shared/pdf/ufd_dependencia_full.pdf) Last accessed: 28/06/2014.

<sup>334</sup> Pinto's book is almost entirely based on Encina’s nationalist historical approach. This is reflected not only in the content of the book but in the permanent references to Encina’s work. For a more comprehensive analysis of Encina’s influence on Pinto see: Javier Pinedo, “El pensamiento de los ensayistas y científicos sociales en los largos años 60 en Chile, (1958-1973). Los herederos de Francisco A . Encina”, in: *Atenea*, No. 491, Universidad de Concepción, Chile, 2005.

<sup>335</sup> Anibal Pinto, *Chile: un caso de desarrollo frustrado*, Editorial Universitaria, Santiago, 1959, p.35.

fundamental thesis of this economic liberalism was an “absolute absence of government and of all official regulations in the free play of natural laws”.<sup>336</sup> Jorge Ahumada, one of the first Chileans in getting a degree from Harvard University and main economic adviser to Frei’s government, made the same case against liberalism in 1958, arguing that the solution to the economic and social problems of Chile consisted in more government intervention.<sup>337</sup>

If ideas as North explains, have an impact on the institutional evolution then the ideas promoted by ECLA certainly had a substantial impact on the whole of Latin America. Several scholars have accounted for this influence. For Emanuel Adler, ECLA “influenced the Latin American intellectuals, who later influenced politicians and also influenced politicians directly”.<sup>338</sup> Along the same lines, Joseph Love observed that in the 1980s, the Prebisch thesis was probably “the most influential idea of economy and society ever to come out of Latin America”<sup>339</sup>. For Silva, ECLA achieved a “clear intellectual hegemony in the early sixties among economists, many of whom occupied government positions”.<sup>340</sup> ECLA's influence would become so overwhelming that Willard Beaulac, former US ambassador to several Latin American countries, warned in 1980 that ECLA had become “the most powerful single voice in the economic field” in Latin America adding that “its influence among those who wield political power has been great”.<sup>341</sup> According to Professor Vittorio Corbo, of all Latin American countries Chile was the one where ECLA's ideas had the greatest impact.<sup>342</sup> Moreover, as Verónica Montesinos observed, between the 1950s and 1970s, Santiago became a vibrant intellectual centre for antiliberal ideas.<sup>343</sup>

### *The Cold War, political disorder and the ultimate attack on British-American liberalism*

The new protectionist, socialist and nationalist ideas rose in the extremely polarized political and ideological context of the Cold War. From a philosophical and institutional perspective this is important because, as Jussi Hanhimäki and Odd Arne Westad explained, far

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<sup>336</sup> Idem.

<sup>337</sup> Jorge Ahumada, *En vez de la miseria*, Editorial del Pacífico, Santiago, 1958.

<sup>338</sup> Emanuel Adler, *The Power of Ideology: The Quest for Technological Autonomy in Argentina and Brazil*, California University Press, Los Angeles, California, 1987, p.95.

<sup>339</sup> Joseph L. Love, “Raul Prebisch and the Origins of the Doctrine of Unequal Exchange”, *Latin American Research Review*, Vol. 15, No. 3, 1980, p. 46. The Latin American Studies Association. Available at: <http://www.jstor.org/stable/2502991> Last accessed: 28/06/2014.

<sup>340</sup> Patricio Silva, “Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks”, *Journal of Latin American Studies*, Vol. 23, No. 2, May, 1991, Cambridge University Press, p. 389-390. Available at: <http://www.jstor.org/stable/157030> Last accessed: 28/06/2014.

<sup>341</sup> Willard Beaulac, *The Fractured Continent, Latin America in Close-Up*, Hoover Institution Press, Stanford, California, 1980, p.108.

<sup>342</sup> Vittorio Corbo, “Problemas, teoría del desarrollo y estrategias en América Latina”, *Revista Estudios Públicos*, No. 32, Santiago, 1988, p.18.

<sup>343</sup> Verónica Montesinos, “Economists in Political and Policy Elites in Latin America”, in *The Post-1945 Internationalization of Economics*, edited by Alfred William Coats, Duke University Press, 1997, p.289.

from being a mask of real interest, in the Cold War ideology was in itself a crucial interest.<sup>344</sup> Moreover, according to Hanhimäki and Westad, it is precisely because the Cold War was fundamentally a confrontation of “ideas, values and belief systems”, that it was unique among conflicts.<sup>345</sup> This conflict between belief systems and ideas took place in Chile with particular intensity. A clear case that illustrates the radicalization of ideological positions due to the influence of the Cold War is the way in which structuralism, developed by ECLA in the late 1940s and the 1950s, was used as the base for a Marxist theory of development called “dependency theory.”<sup>346</sup> By adding Lenin’s approach to the relation between poor and developed countries to structuralism, dependency theorists basically argued that poverty in the third world was caused by the exploitation of core countries through international capitalism and imperialism.<sup>347</sup> According to the founder of dependency theory, André Gunder Frank—a German American Marxist economist with a PhD from Chicago University who became professor at the Universidad de Chile and adviser to Salvador Allende—underdevelopment in Latin America was “generated by the very same process that generated economic development: the development of capitalism itself”.<sup>348</sup> Consequentially, Latin America was poor because “of centuries long participation in the process of world capitalist development”.<sup>349</sup> Particularly Chile, according to Frank, had been incorporated “fully into the expansion and development of the world mercantile and later industrial capitalist system”.<sup>350</sup> For Frank, the only way to brake Latin American dependency and misery was by making an armed socialist revolution.<sup>351</sup>

The idea of dependency had long been present in ECLA’s analysis of the dichotomy between periphery and center.<sup>352</sup> Among the main proponents of dependency theory were Osvaldo Sunkel and Celso Furtado, both ECLA members who, observing economic stagnation despite of the implementation of ECLA’s policies, became even more radical in their positions.<sup>353</sup> Unsurprisingly the new Marxist interpretation of underdevelopment and its large impact on the

<sup>344</sup> Jussi Hanhimäki and Odd Arne Westad, *The Cold War*, Oxford University Press, Oxford, 2003, p. xii.

<sup>345</sup> Idem.

<sup>346</sup> Anil Hira, *Ideas and Economic Policy in Latin America: Regional, National, and Organizational Case Studies* Greenwood Publishing Group, Westport, 1998, p.42.

<sup>347</sup> James Petras, “Dependency and World System Theory: A critique and New Directions”, *Latin American Perspectives*, Vol. 8, No. 3-4, Dependency and Marxism, Late Summer-Autumn, 1981, p.149. Available at: <http://www.yorku.ca/khoosh/POLS%203270/Articles/Petras-dependency%20and%20world%20system%20theory.pdf> Last accessed: 28/06/2014.

<sup>348</sup> Andre Gunder Frank, “The development of underdevelopment”, in: *Imperialism and underdevelopment*, Robert Rhodes (ed.), Monthly Review Press, New York, 1970, p.9.

<sup>349</sup> Idem

<sup>350</sup> Ibid, p.8.

<sup>351</sup> Frank fully developed this aspect of his theory in his work, *Latin America: Underdevelopment or Revolution*, Monthly Review Press, New York, 1970.

<sup>352</sup> See: Ricardo Bielschowsky, *Evolución de las ideas de la CEPAL*, Available at: <http://www.cepal.org/publicaciones/xml/3/19373/bielchow.htm> Last accessed: 28/06/2014.

<sup>353</sup> Peter Dorner, *Latin American Land Reforms in Theory and Practice: a Retrospective Analysis*, University of Wisconsin Press, Wisconsin, 1992, p.16.

political and intellectual Latin American world posed a direct threat to American ideology and interests. According to Hal Brands “dependency theory allowed Latin American politicians to blame underdevelopment and poverty on external factors rather than acknowledging their own failures or confronting regressive economic structures”.<sup>354</sup> These external factors were mainly American capitalism.

Under such a climate of opinion, the growing threat of revolutionary movements in Latin America led the US government to develop a counter revolutionary strategy in order to prevent other Latin American countries from following Cuba’s path.<sup>355</sup> At the time when *dependencia* started to become fashionable among Latin American intellectuals and politicians, President Kennedy launched his famous *Alliance for Progress*. Kennedy defined the program as “a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health and schools”.<sup>356</sup> The rationale behind it was that only if material misery had been eliminated could political freedom and a stable democracy emerge, thereby minimizing the threats of Marxist revolutionary movements. According to Kennedy, the poor nations in Latin America and other regions of the world were “without exception under Communist pressure”.<sup>357</sup> In that context, the fundamental task of programs like the *Alliance for Progress* was to make “a historical demonstration that ...economic growth and political democracy can develop hand in hand.”<sup>358</sup> In practice, the *Alliance for Progress* was a sort of Marshall Plan for Latin America. It destined 20 billion dollars in grants and loans over a period of ten years. In exchange, Latin American countries had to commit themselves to make reforms in order to redistribute fairly the wealth created by economic growth. These reforms included an improvement of the use of land, the reduction of corruption and an increase in economic collaboration.<sup>359</sup>

Philosophically however, the Alliance for Progress promoted the same antiliberal ideology of ECLA. This was due to the fact that the intellectual godfather of the Alliance program was not Kennedy or any of his advisers but Raul Prebisch.<sup>360</sup> Prebisch would recall decades later that Kennedy himself had admitted that the intellectual basis for the Alliance for Progress were the ideas

<sup>354</sup> Hal Brands, *Latin America’s Cold War*, Harvard University Press, Cambridge, Massachusetts, 2010, p.93.

<sup>355</sup> Tony Smith, *America’s Mission: The United States and the World Wide Struggle for Democracy*, Princeton University Press, Princeton, New Jersey, 2012, p.215.

<sup>356</sup> Address by President Kennedy at a White House Reception for Latin American Diplomats and Members of Congress, March 13, 1961. Available at: <http://web.archive.org/web/20060903200646/http://www.fordham.edu/halsall/mod/1961kennedy-afp1.html> Last accessed: 28/06/2014.

<sup>357</sup> Idem.

<sup>358</sup> Idem

<sup>359</sup> John Ashley and Soames Greville, *The Major International Treaties, 1914-1973*, Taylor & Francis, London, 1974, p.318.

<sup>360</sup> Edgar J. Dosman, *The Life and Times of Raúl Prebisch, 1901-1986*, McGill Queen University Press, Quebec, 2008, p.358.



of ECLA.<sup>361</sup> Prebisch's influence was so decisive that he managed to get the charter to incorporate the complete ECLA program, including many proposals that had been strongly opposed by Washington. Among them were land and tax reform, social change and long term economic planning within mixed economies.<sup>362</sup> In Chile the program was massively implemented by Eduardo Frei's government after he became president in 1964. By then Frei was a member of the Christian Democratic Party, which had been founded in 1958 after a fusion between the Social Christian Conservative party, the National Christian party and the Falange Nacional. Like the *falangistas*, the political philosophy of some of the most important Christian Democratic leaders was deeply anti-American and anti-capitalist. As Federico Gil put it, the political philosophy of some of the leaders of the Christian-Democrats "was not so far from Marxism...they agreed with Marx that private capital is the root of most evils and therefore support the abolition of private property".<sup>363</sup> A proof of this intellectual anti liberal bias is that, although less radical, Frei's program for the presidential election of 1964 was very similar to the platform of the Marxist coalition FRAP (Popular Action Front) led by candidate Salvador Allende.<sup>364</sup> At the time the view prevailed that Chile could become a Soviet satellite if the FRAP won the election of 1964. As Thomas Wright has pointed out, given the FRAP's alignment with Cuba and the Soviet Union, the 1964 election was indeed a referendum on the Cuban revolution.<sup>365</sup> Consequently, Frei had the full support of the United States government.<sup>366</sup> Frei, called his government program a "revolution in liberty" which he believed could be carried out within the framework of constitutional democracy.<sup>367</sup> One of the crucial parts of Frei's revolution was the radicalization of the agrarian reform initiated by his predecessor Alessandri. Inspired by ECLA, Frei argued that the government had to control individual interest in "order to benefit the collective".<sup>368</sup> This led to massive confiscations of land and large scale government intervention. Observing Chile's evolution at the time, Brazilian author Fabio V. Xavier Da Silveira warned in 1967 that the Christian Democrats promoted "class warfare" and the transformation of social structures.<sup>369</sup> He added that Frei's revolution was socialist in nature but not radical enough to satisfy the genuine socialist.<sup>370</sup> Therefore, according to Da Silveira,

<sup>361</sup> See: Interview to Raul Prebisch, CEPAL Review, No. 75, December 2001, p. 18. Available at: <http://www.eclac.org/publicaciones/xml/5/19315/pollock.pdf> Last accessed: 28/06/2014.

<sup>362</sup> Ibid, p.362.

<sup>363</sup> Federico Gil, *El sistema político de Chile*, Andrés Bello, Santiago, 1969, p. 289.

<sup>364</sup> See: Thomas Wright, *Latin America in the Era of the Cuban Revolution*, Greenwood Publishing Group, Westport, 2001, p. 132.

<sup>365</sup> Idem

<sup>366</sup> Arturo Valenzuela, *El quiebre de la democracia en Chile*, Universidad Diego Portales, Santiago, 2003, p. 187.

<sup>367</sup> Paul Sigmund, *The Overthrow of Allende and the Politics of Chile, 1964-1976*, University of Pittsburgh Press, Pittsburgh, 1977, p.23.

<sup>368</sup> Frei, *La política y el espíritu*, p. 150.

<sup>369</sup> Fabio V. Xavier Da Silveira, *Frei el Kerensky Chileno*, Comité de Jóvenes Ecuatorianos por la Civilización Cristiana, Guayaquil, p. 13.

<sup>370</sup> Ibid.,p. 129.

Frei's successor would be someone more extreme, a real Marxist that would in fact deliver what was demanded from the left and the radical Christian democratic world.<sup>371</sup> Salvador Allende would indeed succeed Frei as President of the Republic.

As for the economy, neither Frei nor the Alliance for Progress managed to be successful. Frei's government was characterized by low economic growth, high inflation and persistent unemployment.<sup>372</sup> Meanwhile, ideological polarization increased creating what North, Summerhill and Weingast called "political disorder". This is a situation in which a large portion of a society fears for its lives, families, properties or sources of livelihood and wealth.<sup>373</sup> In such a context, transactions costs rise making it impossible for the market to work properly. Political order is thus, in the words of North, Summerhill and Weingast "a necessary condition for political and economic development."<sup>374</sup> According to North, political order is also necessary for "the establishment and maintenance of the variety of conditions underlying freedom of person and property we associate with a consensual democratic order".<sup>375</sup> Thus, according to North, democracy cannot be sustained without political order.

During the UP government, political disorder increased dramatically disrupting existing relationships in political and economic markets. In a survey conducted by *Ercilla*, a conservative magazine, in August 1972, 83% of the people said the country was experiencing a climate of violence.<sup>376</sup> This perception was shared across the social spectrum with 98% of the high income people and 75% of the low income people saying Chile was under a climate of violence.<sup>377</sup> Moreover, according to the same survey 60% of the Chilean population perceived the project of the UP government as a threat.<sup>378</sup> As noted by Georgetown professor and former Barak Obama's adviser Arturo Valenzuela, the authority of the UP government was severely undermined because it was seen by the population as incapable of containing the escalating violence and, more importantly, it was held responsible by a substantial part of the population for feeding the climate of violence.<sup>379</sup>

The political disorder of the early 1970s is crucial to understand the institutional project of the Chicago Boys, the design of the 1980 Constitution and the authoritarian regime of general Pinochet. As North, Wallis and Weingast observed, human beings pay considerable attention to the threats of violent physical action and use their beliefs to evaluate if those threats of violence are

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<sup>371</sup> Ibid., p. 130.

<sup>372</sup> Oxhorn, *Organizing Civil Society: The Popular Sectors and the Struggle for Democracy in Chile*, p. 64.

<sup>373</sup> North, Summerhill, and Weingast, *Order, Disorder and Economic Change: Latin America vs. North America*, p.4.

<sup>374</sup> Ibid., p.1.

<sup>375</sup> North, *Understanding the Process of Economic Change*, p. 104.

<sup>376</sup> Valenzuela, *El quiebre de la democracia en Chile*, p. 124.

<sup>377</sup> Idem.

<sup>378</sup> Ibid., p.108.

<sup>379</sup> Idem.

credible or not.<sup>380</sup> This means that violence and the perception of violence has a direct influence on the way people understand the social order around them. In the case of the Chicago Boys, there is no doubt that they were deeply influenced by the perception that the country was on the verge of a violent revolution, a civil war or a socialist dictatorship. Many Chileans at the time saw Pinochet's military regime as the lesser evil. In the words of former senator Francisco Bulnes: "We had no choice. We were heading into either a military or Marxist dictatorship. At that moment a military dictatorship seemed the lesser evil".<sup>381</sup> Even the Catholic Church, which throughout the 1960s had promoted ideologies prone to socialism and would remain a strong opponent to the military government during the 1970s and 1980s, welcomed the coup declaring that it had liberated Chile "from a Marxist dictatorship that seemed inevitable and irreversible".<sup>382</sup>

Polarization was fed by the rhetoric of right wing and left wing political parties and actors, which became increasingly radical from the late 1960s onwards. This aspect is crucial because as North, Wallis and Weingast explain, revolutions are one of the main sources of political disorder. Typically, revolutionary movements involve a group of political entrepreneurs who develop a new belief system which is in fundamental contradiction with the existing order.<sup>383</sup> Once these new beliefs are accepted by key decision makers, the ground is ready for radical action.<sup>384</sup> This was the case of Chile where socialist revolutionary movements sought to end what they viewed as the capitalistic-democratic society. An essential document with this regard was the Socialist Party's national convention program of 1967 in which the party declared its intention to create a "revolutionary state" by violent means.<sup>385</sup> Similar statements about the necessity of creating a Cuban style regime and annihilating the class enemy in Chile were made consistently by UP leaders before and after the presidential election of 1971.<sup>386</sup> Leftwing and rightwing paramilitary groups and terrorist organizations also increased political disorder. The largest and most active terrorist group was the Movimiento de Izquierda Revolucionaria (MIR). Shortly after its foundation in Concepcion in 1965, with the aim of destroying what they viewed as the Chilean capitalist system, the MIR engaged in violent actions such as kidnappings and torture, target assassination, detonation of explosives in public places, bank robberies and attacks on private firms, all of which resulted in

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<sup>380</sup> Douglass C. North, John Joseph Wallis, Barry R. Weingast, *Violence and Social Orders*, Cambridge University Press, New York, 2009, p.13.

<sup>381</sup> Constable and Valenzuela, *A Nation of Enemies*, p. 29.

<sup>382</sup> *Evangelio y Paz*, September 5, 1975. Available at:

[http://www.iglesia.cl/breves\\_new/archivos/documentos\\_sini/165.pdf](http://www.iglesia.cl/breves_new/archivos/documentos_sini/165.pdf) Last accessed: 28/06/2014.

<sup>383</sup> North, Summerhill, and Weingast, *Order, Disorder and Economic Change: Latin America vs. North America*, p.16.

<sup>384</sup> Idem.

<sup>385</sup> See: Partido Socialista de Chile, Congreso de Chillán, 1967. Available at: <http://lacomunidad.elpais.com/partido-socialista-de-chile/category/1967> Last accessed: 28/06/2014. These conclusions were confirmed by the Socialist Party at the convention of La Serena, in 1969.

<sup>386</sup> Professor Victor Farías has collected numerous documents of the Chilean left in his monumental work *La izquierda Chilena*, Centro de Estudios Públicos, Santiago, 2000.

the death and injury of civilians and members of the police forces.<sup>387</sup> The MIR had ties with other similar Latin American organizations serving as an instrument for *Castrismo* in Chile. According to former Allende's ambassador to Cuba Jorge Edwards, it is likely that one of the greatest moments of *Castrista* interventionism in South America occurred in Chile under the UP government through the MIR.<sup>388</sup>

Illustrative regarding the credibility of the socialist revolutionary threat, is a report written by US ambassador to Chile Edward Korry in August 1970 before Allende became president of the republic. In the report entitled "Fidelism without Fidel", Korry informed Washington that the Unidad Popular was the same kind of "uneasy alliance between revolutionary nationalists and orthodox Communists that Castro has established in Cuba".<sup>389</sup> Korry went on arguing that "with the same basic forces and the same ideological commitments at work, we foresee a repetition of the Cuban experience, at least in programmatic terms if not in the element of revolutionary style."<sup>390</sup> Kissinger shared Korry's assessment.<sup>391</sup> Meanwhile, the Soviet Union provided massive support to the Chilean left.<sup>392</sup> As former sub director of the KGB General Nikolai Leonov explained, "Russia did the most it could" to help the UP government.<sup>393</sup> This included not only "political and moral support" but credits for over 100 million dollars that were never repaid and a "loan" to deliver Soviet armament that according to Leonov, "no one ever imagined" calling in.<sup>394</sup> KGB files also show that President Allende's campaign received substantial financial support from the Soviet Union and that Allende himself received personal payments from the KGB in exchange for information. According to KGB files, Allende "stated his willingness to co-operate on a confidential basis and provide necessary assistance because he considered himself a friend of the Soviet Union".<sup>395</sup>

It was in this polarized ideological and political context, that the UP government started its socialist economic revolution. A revolution that did not achieve the desired results. According to Chicago Boys critic Ricardo French Davis it is "beyond dispute that in 1973 substantial macroeconomic imbalances prevailed, that had to be corrected" and that the economy was "over

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<sup>387</sup> A comprehensive account of the terrorist activities can be found in: *La verdad olvidada del terrorismo en Chile*, Edited by Arturo Castillo Vicencio, Maye, Santiago, 2007.

<sup>388</sup> Jorge Edwards, "Cuba: cuarenta años después", *Revista Estudios Públicos*, No.76, Santiago, 1999, p.61.

<sup>389</sup> See: "Chile in the Archives of the USA (1970), Documents from the Archives of former US Ambassador to Chile Edward M Korry, (1967-1971)", *Revista Estudios Públicos*, No. 72, Santiago, 1998. p.10.

<sup>390</sup> Idem.

<sup>391</sup> Nikolai Leonov, "Soviet Intelligence in Latin America during the Cold War", *Revista Estudios Públicos*, No. 73, Santiago, 1999, p.24.

<sup>392</sup> Idem. One of the goals of Soviet intervention was to break the Latin American bloc which, in Leonov's words, was a "voting machine" for the United States in the United Nations.

<sup>393</sup> Nikolai Leonov, "Soviet Intelligence in Latin America during the Cold War", p.24.

<sup>394</sup> Idem.

<sup>395</sup> Andrew and Mitrokhin, *The World Was Going Our Way*, p.69.

intervened with excessive microeconomics controls over private business”.<sup>396</sup> Along the same lines, in his classic work on the UP government Princeton professor Paul Sigmund explained that the UP economic policies that boosted economic growth during the first year were fundamentally wrong and carried the seeds of its own destruction.<sup>397</sup> Eventually, the expansion of the money supply, wages increases that were far greater than productivity increases, massive redistribution of income, limitless subsidies, prices fixation and industries and land take overs, among other interventionist measures, led to a complete economic and social crisis.<sup>398</sup> Moreover, according to Sigmund there is little doubt that the economic policy makers of the left had given “no serious thought” to problems such as controlling inflation, correcting balance of payment imbalances and the excessive size of government.<sup>399</sup> Sigmund even concluded that the economic policies of the UP government were largely responsible for the breakdown of the democratic order in Chile because “no democratic system, no matter how stable initially, could have withstood the pressure of runaway inflation, a very widespread black market, deepening shortages of essential commodities, and continually declining productivity”.<sup>400</sup> Similarly, Dieter Nohlen in his study on the Chilean socialist revolution argued that even if it is true that opposition groups tried to sabotage the UP government, the economic policies of Allende’s government were largely to be blamed for the collapse of the economy. In the words of Nohlen, Allende’s policy was “too contradictory to have been successful in the long run”.<sup>401</sup> Particularly destructive according to Nohlen, was the government’s price fixing policy which imposed “unrealistically low prices” on producers thereby affecting production and encouraging black markets while the artificial policy of salary increases led to more inflation and excessive domestic demand that could not be satisfied by internal production.<sup>402</sup>

In the Chicago Boys’ view, the failure of Allende’s project was due to the “irrational faith with which socialism emerged in Chile”, whose proponents believed that society could be changed overnight and that they could even turn “white what until then had been black”.<sup>403</sup> Following a more evolutionary or Hayekian approach to institutions, the Chicago Boys rejected the idea of an order designed from the top like the one attempted by socialists. In their view, there were economic and institutional realities like private property that could not be changed at will without devastating consequences. Already in 1972, Chicago Boys Álvaro Bardón, Jorge Cauas, Andrés Sanfuentes and José Luis Zabala along with Sergio Molina had written a book alerting of the voluntaristic nature of

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<sup>396</sup> French Davis, *Chile entre el neoliberalismo y el crecimiento con equidad*, p. 82.

<sup>397</sup> Sigmund, *The Overthrow of Allende and the Politics of Chile, 1964-1976*, p. 279.

<sup>398</sup> Idem.

<sup>399</sup> Ibid.,p. 283.

<sup>400</sup> Ibid.,p.282.

<sup>401</sup> Dieter Nohlen, *Feuer unter der Asche: Chile’s gescheiterte Revolution*, Signal-Verlag, Baden-Baden, 1974, p.164.

<sup>402</sup> Ibid.,p103.

<sup>403</sup> Hernán Büchi, *La transformación económica de Chile*, El Mercurio Aguilar, Santiago, 2008, p.33.

the economic program of the UP. In the book, the authors argued that the authorities of the UP government were making economic policy with “little consideration to the knowledge provided by economic science” warning that the policies of the government, inspired in the wrong theories, were causing serious economic problems.<sup>404</sup> Coinciding with this analysis, Sigmund observed that in the case of the UP, ideology had a distorting effect.<sup>405</sup> Balance of payments and inflationary problems, it was believed, were concerns of “bourgeois” economists.<sup>406</sup> From an ideological and institutional economics perspective these remarks are relevant because, as North explains, those ideologies that have a more accurate understanding of how economic reality works have higher chances of creating economic growth and achieving the results sought by those who implement reforms. At the same time, says North, a functioning economy with a relevant degree of economic liberty is essential for sustaining a democratic order. Bad outcomes in those terms lead to ideological reactions and alternative mental explanations.

*The failed free market revolution of the Klein & Saks mission and the rebirth of neoliberalism*

North has argued that the intellectual climate of opinion of a given society is more likely to change when a set of beliefs that has been applied over a certain period of time in the form of economic and social policies has shown poor results. In Chile, the once dominant classical liberal ideas re-emerged largely as a reaction against the poor economic performance since the 1930s and the perceived threat of Chile becoming a socialist country. The Chicago Boys saw themselves not only as a reaction in the American-liberalism versus Soviet-socialism Cold War dichotomy, but also as part of the reaction against the philosophy of government interventionism at large. In the eyes of the Chicago Boys it was the statist philosophy that had essentially led to the stagnation of the Chilean economy, to widespread political disorder and eventually to the breakdown of democracy. British-American liberalism or neoliberalism offered a logical explanation of why the economy was performing so poorly and what was to be done if prosperity and democratic stability were to be secured. It also offered them a political philosophy which considered economic freedom as the essential value. This point is crucial. In the view of the Chicago Boys it had been the progressive destruction of economic freedom that had led to increasing populism, to the socialist regime of Salvador Allende and finally to the collapse of Chile’s economic and democratic order.

As Chicago Boy Hernán Büchi observed, the government of Salvador Allende was not entirely

<sup>404</sup> Álvaro Bardón, Jorge Cauas, Andrés Sanfuentes, *Itinerario de una crisis: política económica y transición al socialismo*, Editorial del Pacífico-Instituto de Estudios Políticos, Santiago, 1972, pp.5-6.

<sup>405</sup> Sigmund, *The Overthrow of Allende and the Politics of Chile*, 1964-1976, p.282.

<sup>406</sup> Idem.

different from its predecessors. It was more radical, but it followed the same path.<sup>407</sup> Data compiled by Chicago Boy Rolf Lüders shows that the economic performance of Chile had been better under the period dominated by liberal ideas and institutions, a conclusion also consistent with North's theory of economic development. Specifically, until the early 20th century, Chile had experienced a process of convergence with the per capita income of developed countries becoming the 16<sup>th</sup> nation with the highest per capita income in the world.<sup>408</sup> From the early 20<sup>th</sup> century until the 1970s however, Chile stagnated showing substantially lower economic growth than Europe, the United States, Asia, and even Latin America.<sup>409</sup> Many economists, both sympathetic and critical of neoliberalism, have attributed the poor economic performance of Chile to wrong economic policies inspired by a set of beliefs that misunderstood economic reality. Universidad de Chile Professor Felipe Morandé, for example, has argued that “a context of widespread regulation and intervention in markets, together with macroeconomic endemic instability unsurprisingly ended in disappointing growth throughout much of the century”.<sup>410</sup> Along the same lines former World Bank economist Klaus Schmidt-Hebbel argued that from the 1930s until the 1970s, the Chilean governments increased redistributive policies and interventionism in the markets, expanded social policies and engaged in destabilizing macroeconomic policies.<sup>411</sup> As a result, says Schmidt-Hebbel, after a short period of high growth in the post-Depression 1930s, average per capita growth reached only 1.4% between 1938 and 1973.<sup>412</sup>

Economists have also observed that from the 1930s onwards Chile failed to create the institutions necessary for solving problems such as inflation, unemployment, low economic growth, income inequality and poverty. According to several scholars, in particular the ISI model promoted by ECLA proved highly inconvenient for creating employment. As Meller and Corbo argued, Chile's unemployment problem from the 1950s onwards was the “failure of employment opportunities to grow”.<sup>413</sup> For both economists, this was in turn the result of the ISI model which had created very inefficient domestic industries that were capital- intensive instead of labor-intensive. Moreover, since the model itself was not financially self-sustaining, it led to greater

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<sup>407</sup> Hernán Büchi, *La transformación económica de Chile*, p.36.

<sup>408</sup> Rolf Lüders, “La misión Klein-Saks, los Chicago Boys, y la política económica”, in: *Reformas económicas e instituciones políticas: la experiencia de la misión Klein- Saks en Chile*, Edited by Juan Pablo Couyoumdjian, Universidad del Desarrollo, Santiago, 2011, p. 209.

<sup>409</sup> Idem.

<sup>410</sup> Felipe Morandé, “A Decade of Inflation Targeting in Chile: Main Developments and Lessons”, Presentation at the Conference “Monetary Policy and Inflation Targeting in Emerging Economies”, organized by the Bank Indonesia and the IMF, Jakarta, July 13 and 14, 2000. Available at: <http://www.bcentral.cl/eng/policies/presentations/executives/pdf/2000/morandejulio132002.pdf> Last accessed: 28/06/2014.

<sup>411</sup> Klaus Schmidt-Hebbel, “Chile's Economic Growth”, *Cuadernos de Economía*, Vol. 43, May 2006, p.9.

<sup>412</sup> Idem.

<sup>413</sup> Vitorio Corbo and Patricio Meller, “Alternative Trade Strategies and Employment Implications: Chile”, in: *Trade and Employment in Developing Countries*, University of Chicago Press, Chicago, 1980, p.98.

consumption of resources than the savings the economy managed to generate. As a response, the governments financed themselves by exchange rate manipulations, borrowing and money printing.<sup>414</sup> Meller, a strong critic of the Chicago Boys and neoliberalism, has explained that under the ISI system all over Latin America the industrial sector was highly inefficient generating few jobs and failing to produce sufficient basic goods at affordable prices to satisfy the needs of the population.<sup>415</sup> According to Meller, protectionism resulted in higher prices for consumers for lower quality products. In addition, the industrial sector turned out to be “excessively diversified and inefficient” with underutilized industrial plants, which could only stay survive through subsidies and a system of monopoly pricing created by import restrictions.<sup>416</sup>

As has been mentioned, in Chile inflation was a crucial issue for classical liberals. It had also been a central problem the ISI model and the structuralist approach had promised to solve without success. Rising prices had been a major burden for the Chilean economy since the end of convertibility in 1878. But it really became critical after the 1930s, coinciding with the increase of government intervention in the economy. Data compiled by University of Chicago professor Arnold Harberger shows that while in the 1930s the price level doubled, between 1939 and 1958 the wholesale price index and the cost of living index increased by a factor of 80.<sup>417</sup> On average, during the 1950s and the 1960s inflation reached 31% per year.<sup>418</sup> The central reason for the inflationary spiral according to UCLA professor Sebastián Edwards, was an excessive expansion of the money supply to finance government expenditure.<sup>419</sup>

For Chilean neoliberals, the necessity of solving the problem of inflation both for economic and philosophical reasons cannot be minimized. In 1960, Harvard professor and classical liberal economist Gottfried Haberler explained the effects of chronic inflation in the following terms: “The modern form of repressed inflation and semi-repressed inflation causes or implies a proliferation of controls and interventions, price control, import controls, exchange control, rationing, allocation, etc. This overtaxes and corrupts the administrative apparatus and diverts government energies and know-how from more important functions.”<sup>420</sup> According to Haberler, this was a major problem for any country, but especially for underdeveloped countries, which were “poorly endowed with the

<sup>414</sup> Peter Kingstone, *The Political Economy of Latin America*, Routledge, New York, 2011, p.20.

<sup>415</sup> Patricio Meller, *Trade and Development in Latin America*, Universidad de Chile, Santiago, pp.362-363. Available at: [http://jica-ri.jica.go.jp/IFIC\\_and\\_JBICI-Studies/jica-ri/publication/archives/jbic/report/paper/pdf/rp16\\_e10.pdf](http://jica-ri.jica.go.jp/IFIC_and_JBICI-Studies/jica-ri/publication/archives/jbic/report/paper/pdf/rp16_e10.pdf) Last accessed: 28/06/2014.

<sup>416</sup> Idem

<sup>417</sup> Arnold Harberger, “The Dynmaxis of Inflation in Chile”, in: *Measurement in Economics: Studies in Mathematical Economics and Econometrics*, Stanford University Press, Stanford, California, 1963, p. 219.

<sup>418</sup> Sebastián Edwards and Alejandra Cox Edwards, *Monetarismo y liberalización: el experimento chileno*, Fondo de Cultura Económica, México, 1992, p.21.

<sup>419</sup> Sebastián Edwards, “El monetarismo en Chile: algunos enigmas de la economía”, in: *Crecimiento, reforma, y ajuste: las políticas comerciales y macroeconómicas de América Latina en los decenios 1970 y 1980*, Compiled by Sebatsián Edwards and Simón Teitel, Fondo de Cultura Económica, Buenos Aires, 1991, p.158.

<sup>420</sup> Gottfried Haberler, *Inflation: its Causes and Cure*, American Enterprise Association, Washington, 1960, p. 49.



precious resource of governmental know-how, administrative efficiency, and political honesty”.<sup>421</sup> In those countries, inflation led to a “great waste of scarce manpower and brainpower” that they could not afford. Of all this malaise, wrote Haberler coinciding with the Chicago Boys, Chile presented “an extreme case”.<sup>422</sup>

As a result of the inflationary spiral, in 1955 another group of American classical liberal economists known as the Klein & Saks mission came to Chile with the intention of preventing the collapse of the economic and democratic system. It was the third group of foreign experts to come to Chile in one century with the aim of restoring economic soundness. Like the previous ones, the Klein Saks mission promoted a classical liberal economic philosophy. Moreover, it anticipated much of what would be done by the Chicago Boys two decades later in terms of economic reforms.<sup>423</sup> This time the group was hired by President Carlos Ibáñez del Campo, a protectionist and a nationalist former military man who in 1931 had to flee from Chile during his first presidency as a result of a complete economic and political crisis. Even though Ibáñez del Campo had inherited a critical macroeconomic situation from the so-called radical governments of the 1940s, it was only after two years in office that he decided to do something about inflation. His predecessor, Gabriel Gonzalez Videla, a statist politician who was the last president of the radical era (1938-1952), had recognized the gravity of the situation of Chile in the president’s annual state-of-the-nation address to Congress in May 1950: “The country continues in the clutches of an inflationary process which for many years has threatened to destroy the foundations of economic life and social tranquility”.<sup>424</sup> For the structuralist theorists, inflation was not the result of an expansion of the money supply caused by excessive government spending but mainly the consequence of a deficient socio economic structure. Therefore, the problem could only be solved by political action and comprehensive socio economic reform.<sup>425</sup> Many scholars have argued that, contrary to what Gonzalez Videla and the structuralist theorists of ECLA believed, the connection between high inflation and the ISI model of development was straightforward. As Ardanaz, Scartascini and Tommasi explained, since the 1930s exchange rate appreciation and expansive fiscal and monetary policies in countries like Chile, Peru, Brazil and Argentina, had been systematically used in order “to shift income to popular groups” and to the ISI sectors of the economy.<sup>426</sup> In order to deal with

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<sup>421</sup> Idem.

<sup>422</sup> Idem.

<sup>423</sup> Rolf Lüders, “La misión Klein Saks, los Chicago Boys, y la política económica”, p.210.

<sup>424</sup> Gabriel Gonzalez Videla, Message to the Chilean Congress, May 21, 1950. Available at: <http://www.memoriachilena.cl/602/w3-article-8777.html> Last accessed: 28/06/2014.

<sup>425</sup> Albert O. Hirschman, “Reflexions on the Latin American Experience”, in: *The Politics of Inflation and Economic Stagnation*, edited by Leon N. Lindberg and Charles S. Maier, Brookings Institute, Washington, 1985, p.56.

<sup>426</sup> Martín Ardanaz, Carlos Scartascini and Mariano Tommasi, “Political Institutions, Policy Making and Economic Policy in Latin America”, in: *The Oxford Handbook of Latin American Economics*, Oxford University Press, Oxford, 2011, p.53.

inflation and keep ISI industries afloat these countries also introduced price controls and foreign exchange rationing.<sup>427</sup> Ardanaz, Scartascini and Tommasi argued that eventually the depletion of foreign exchange reserves and the increase in fiscal pressures derived from these policies led to inflationary disaster and economic collapse in all these countries.<sup>428</sup> If this theory is correct, it could contribute to explain Chile's persistent inflationary problem and the inability of the ISI system to solve it. Whereas inflation had reached an average of 18% a year in the 1940s in 1953, one year after del Campo's election, it reached 56% and 71% in 1954.<sup>429</sup> In 1955 inflation even exceeded 80%.<sup>430</sup> Facing social upheaval and the possible breakdown of the economic and social system, Ibáñez del Campo decided to invite the Klein & Saks firm to advise the government on how to prevent an imminent social catastrophe. From 1955 to 1958 the Klein-Saks Mission would do a complete study of the Chilean economy in order to come up with a set of recommendations. According to the report of the mission, inflation had established itself as an "institution" that had caused a true "economic civil war" between the different groups and classes of the country.<sup>431</sup> The mission pointed out that workers sought to protect themselves by demanding automatic readjustments of their salaries, merchants fought for credit access under favorable conditions, exporters wanted quotas and special exchange rates and farmers demanded the liberty of raising prices more than other groups. The mission went on arguing that the government also took part in this war by financing its spending with money emissions. As a result, concluded the Klein & Saks report, inflation was threatening to destroy the "whole democratic structure of the country".<sup>432</sup> This last remark is crucial. Like Courcelle-Seneuil and the Kemmerer Mission had done before them and the Chicago Boys would do after them, the Klein & Saks report warned that an economy with the distortions of the Chilean economy was incompatible with a stable democracy. As was explained earlier the connection between economic development and a functioning democracy is also part of North's economic and institutional analysis. In the Chilean case, a concern for democracy was inextricably linked to a concern for a well-functioning economy. Accordingly, the mission proposed a sort of shock therapy that dramatically reduced government intervention in the economy. Among the reforms suggested was the liberalization of international trade, the elimination of price fixation, the privatization of public firms, the reduction of government

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<sup>427</sup> Idem.

<sup>428</sup> Idem.

<sup>429</sup> Adolfo Ibáñez, "La inflación en Chile: desarrollo y características entre 1939 y 1955", in: *Reformas económicas e instituciones políticas: la experiencia de la misión Klein Saks en Chile*, Edited by Juan Pablo Couyoumdjian, Universidad del Desarrollo, Santiago, 2011, p.16.

<sup>430</sup> Sebastián Edwards, "Estableciendo credibilidad: El rol de los consultores extranjeros en el Programa de estabilización 1955-1958, en Chile", in: *Reformas económicas e instituciones políticas: la experiencia de la misión Klein Saks en Chile*, Edited by Juan Pablo Couyoumdjian, Universidad del Desarrollo, Santiago, 2011, p.109.

<sup>431</sup> *El programa de estabilización de la economía chilena y el trabajo de la misión Klein & Saks*, Santiago, May 1958, p.3.

<sup>432</sup> Idem.

spending, the increase of interest rates and a complete overhaul of the social security system. Facing economic disaster, Ibáñez del Campo accepted to introduce the economic reforms putting the mission to work on their implementation. For a short time, the mission seemed successful bringing inflation down from 38% in 1956 to 17% in 1957.<sup>433</sup> The success however, did not last: in 1958 inflation was back above 30%.<sup>434</sup>

In a sense, the Klein & Saks mission was doomed to fail from the start. Even though it had technical credibility and political independence, it went completely against the prevailing ideas of the time. In the words of historian Cristián Garay, “there was no consensus in favor of liberal economic policies, for even the conservatives resisted the (liberal) model, promoting a Christian economy instead”.<sup>435</sup> Moreover, the reforms proposed by the Klein & Saks mission not only meant a radical break away from more than twenty years of statist path dependence but also the elimination of massive benefits for interest groups. This last aspect proved to be crucial in the failure of the mission. After decades of government expansion to all spheres of society Chile was transformed into the rent-seeking society so feared by classical liberals from Adam Smith and Courcelle-Seneuil to James Madison and the 20<sup>th</sup> century neoliberals. As Anne Krueger explained, rent-seeking societies arise when in market oriented economies, governments create restrictions upon economic activity that give rise to rents for which people compete.<sup>436</sup> The result of this process is bad economic performance. North, Wallis, Webb and Weingast have defined such a situation as “Limited Access Order” (LAO). A LAO creates limits on political and economic access in order to generate rents.<sup>437</sup> In such a society, reforms usually fail because they threatened privileges and rent creation which leads elites and non-elite groups to resist the reforms.<sup>438</sup> LAO are a central reason for explaining the failure of development policies favoring “Open Access Order” (OAO). This last situation is one in which there is open competition in markets as well as in the political sphere all of which is based on the rule of law.<sup>439</sup> According to this approach, the failure of Third World countries to develop is their inability to sufficiently overcome the rent-seeking problem by making reforms to make the transition from LAO to OAO possible. In North’s words:

<sup>433</sup> Edwards, *Estableciendo credibilidad: El rol de los consultores extranjeros en el programa de estabilización 1955-1958, en Chile*, p.105.

<sup>434</sup> Idem.

<sup>435</sup> Cristián Garay, “La larga marcha del estatismo, La Resistencia a la misión Klein-Saks”, in: *Reformas económicas e instituciones políticas: la experiencia de la misión Klein-Saks en Chile*, Edited by Juan Pablo Couyoumdjian, Universidad del Desarrollo, Santiago, 2011, p.199.

<sup>436</sup> Anne Krueger, “The Political Economy of the Rent Seeking Society”, *The American Economic Review*, Vol. 64, No. 3. June., 1974, p. 291.

<sup>437</sup> Douglass North, John Joseph Wallis, Steven B. Webb, Barry R. Weingast, “Limited Access Orders in the Developing World: A New Approach to the Problems of Development”, Policy Research Working Paper 4359, The World Bank Independent Evaluation Group Country Relations Division, September 2007, p.3. Available at: [http://econweb.umd.edu/~wallis/MyPapers/Limited\\_Access\\_Orders\\_in\\_the\\_Developing\\_WorldWPS4359.pdf](http://econweb.umd.edu/~wallis/MyPapers/Limited_Access_Orders_in_the_Developing_WorldWPS4359.pdf) Last accessed: 28/06/2014.

<sup>438</sup> Ibid., p.5.

<sup>439</sup> Ibid. p.4.

“Third World countries are poor because the institutional constraints define a set of payoffs to political/economic activity that do not encourage productive activity”.<sup>440</sup> Chile, prior to 1973 fits the description of a rent-seeking society or a LAO. Some scholars have observed that even though the “redistributive state” did enjoy the support of a wide ideological consensus during the 1940s and 1950s, it did not necessarily benefit the poor. It rather granted privileges, rents and benefits to the most influential interest groups.<sup>441</sup> Meller has pointed out that this problem was also a common feature of other Latin American countries that had followed protectionism and intrusive governments. According to Meller, trade restrictions in Latin America had created a “burgeoning bureaucracy which led to a complex network of regulations, extreme instability in government decisions, arbitrary action and incentives for corruption”.<sup>442</sup> As a result, under the ISI model success was not achieved by productive activity but by having the right connections.<sup>443</sup> If Meller and North are right, then the Klein & Saks mission did partly fail due to the opposition of interest groups which had been formed as a result of an institutional evolution that limited the access of competitors to the market. Ideologically of course it was not the intention of those who conceived the ISI system to favor interest groups but to develop the country. Their ideas however, had an impact on institutions creating unintended consequences. At any rate, the fact that the Klein & Saks mission failed to make the reforms is further indication that a free market revolution would have not been possible in Chile at the time under a democratic regime. Massive strikes and lobbying plus intensive political and intellectual resistance from all sides of the spectrum made it impossible for the government to sustain the liberalization course proposed by the American economists. As professor Garay observed, due to the immense public pressure and the ideological reaction against the reforms practically no politician defended the reforms with determination.<sup>444</sup> Furthermore, the set of reforms proposed by the Klein & Saks mission was only partially approved. According to Garay, the mission basically failed for political reasons and the lack of a favorable climate of intellectual opinion, which was still on the side of protectionism and government intervention.<sup>445</sup>

In spite of its failure, from a classical liberal perspective the mission accomplished something relevant. It contributed to start the shift from interventionist to classical liberal ideas, thereby paving the way for the Chicago Boys’ intellectual work. Few at the time understood the nature of the intellectual process that was taking place in Chile like ECLA economist Anibal Pinto. Pinto not only warned about the shift in the climate of opinion towards American liberalism. He

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<sup>440</sup> North, *Institutions, Institutional Change and Economic Performance*, p.110.

<sup>441</sup> Juan Andrés Fontaine, “Transición económica y política en Chile: 1970-1990”, *Revista Estudios Públicos*, No. 50, Santiago, 1993, p. 231.

<sup>442</sup> Meller, *Trade and Development in Latin America*, p. 363.

<sup>443</sup> Garay, *La larga marcha del estatismo*, p.198.

<sup>444</sup> Idem.

<sup>445</sup> Idem.

also noted that what many at the time considered to be new economic ideas were nothing more than a rebirth of a classical liberal tradition long present in Chilean history. Determined to alert opinion leaders and policy makers on the danger posed by the rebirth of classical liberalism, in 1957 Pinto wrote an article with the telling title ¿De vuelta a Courcelle-Seneuil? (Back to Courcelle-Seneuil?).<sup>446</sup> In the piece, Pinto stressed the role of intellectuals and ideas in defining economic and social evolution. According to Pinto, the “intellectual compass” was again moving towards a different north that could be defined as “liberal” in the classical sense.<sup>447</sup> This new orientation, said Pinto, sought to achieve less government intervention, more competition, less protectionism as well as the promotion of foreign investment. For Pinto, these ideas were a “copy” of similar ideas of other episodes of Chilean history. Thus, Pinto saw the Chilean liberal tradition reemerging once again through the hand of a foreign influence. This is a distinctive characteristic of the Chilean liberal tradition. Even if it remained present in Chile’s intellectual spheres and some institutional arrangements such as the Civil Code, it always took the input of foreign experts for this tradition to become an effective force of institutional transformation. Such was the case with Courcelle-Seneuil, with the Kemmerer mission, with the Klein & Saks mission and with the Chicago Boys. In turn, it is precisely because classical liberalism was present in Chile’s cultural heritage that the governments sought advice from foreign experts always chose classical liberal economists.

Commenting Chile’s classical liberal tradition, Pinto argued that the shift that Chile’s economic policy had experienced in the second half of the 19<sup>th</sup> century, from protectionism and state intervention to a free market model, had been the result of a “current of foreign ideas” that had penetrated “the country’s conscience” and which saw in Courcelle-Seneuil a “brilliant and persuasive prophet”.<sup>448</sup> This prophet, insisted Pinto, had formed legions of disciples who had promoted the free market doctrine as “indisputable dogma”. In Pinto’s eyes, Chile was now experiencing a similar process with the rebirth of what he called “Courcelle-Seneuilism”.<sup>449</sup> He disqualified this set of ideas as a free market “magical therapy” that included free prices, freedom of international trade, free exchange rates, and free flow of foreign investment. For Pinto there were two reasons for the rebirth of Courcelle-Seneuilism. The first reason was excessive and inefficient government control and government intervention in the economy, which he admitted had not worked as it was supposed to work. Like North, Pinto believed that the change in the intellectual climate of opinion was taking place as a consequence of the reality feedback, specifically of the poor results of the ISI model. The second and most important reason for the change in the climate of opinion, said Pinto, was the “powerful ventilator of ideas which has its irradiation center in the

<sup>446</sup> Anibal Pinto, ¿De vuelta a Courcelle-Seneuil?, *Panorama Económico*, No. 174, Santiago, August 30, 1957.

<sup>447</sup> Idem.

<sup>448</sup> Idem.

<sup>449</sup> Idem.

United States” and which reached an “overwhelming influence” in Chile.<sup>450</sup> It is interesting to note here that Europe provided classical liberal ideas through Courcelle-Seneuil as well as critical views of liberalism such as the German historical school of economics, Keynesianism and others that had considerable influence on Chilean scholars and politicians. The United States, on the other hand, provided Chile almost exclusively with classical liberal ideas. The exception was the Alliance for Progress but, as has been explained, the Alliance was in actual fact a product of ECLA. Thus it could be argued that after Courcelle-Seneuil, who was anyway a proponent of the British-American liberal tradition, the United States became the sole pole of classical liberal influence in Chile. A clear indication of this is the fact that the foreign experts hired by Chilean governments throughout the 20<sup>th</sup> century were all American. In the case of the Chicago Boys it is true that they were Chilean but they had been educated in the United States and enjoyed the support of their professors at the University of Chicago as well as the neoliberal circles worldwide. Therefore, it could be argued that more than an exception to the tradition of hiring American classical liberal experts, the Chicago Boys were the ultimate stage of a history of increasing American influence on Chile’s institutional evolution.

*Promoting British- American liberalism: the Point Four program and the University of Chicago-Universidad Católica agreement*

For Americans, Chile was of particular importance in the clash of ideas because Santiago was a powerful center for the irradiation of statist economic policy through the work of the ECLA.<sup>451</sup> In order to fight back the influence of these ideas, about the same time the Klein & Saks mission was trying to reform the Chilean economy, the Catholic University and the University of Chicago signed an agreement that would make it possible for Chilean students to complete postgraduate studies at Faculty of Economics at Chicago University. The Chile Project, as the agreement between both universities was called, was financed by the State Department and must also be understood in the context of the Cold War because it arose as part of the Point Four program developed by President Harry Truman in his Inaugural Address in 1949 with the aim of containing communism. Recognizing the philosophical dimension of the Cold War, Truman claimed that the United States found itself “directly opposed by a regime with contrary aims and a totally different concept of life”.<sup>452</sup> A regime, said Truman, that “adhered to a false philosophy which purports to

<sup>450</sup> Idem.

<sup>451</sup> Karin Fischer, “The Influence of Neoliberals in Chile before, during, and after Pinochet”, in: *The Road from Mont Pèlerin*, Edited by Philip Mirowski and Dieter Plehwe, p. 309.

<sup>452</sup> Harry Truman, *Second Inaugural Address*. Available at: <http://www.trumanlibrary.org/calendar/viewpapers.php?>

offer freedom, security, and greater opportunity to mankind” misleading many peoples who had “sacrificed their liberties only to learn to their sorrow that deceit and mockery, poverty and tyranny, are their reward. That false philosophy —concluded Truman— is communism”.<sup>453</sup> Truman depicted communism as a totalitarian ideology that was completely opposed to democracy and American values of individual freedom. In his eyes, these values had been responsible for America’s success and were a constructive force for all mankind. The differences between communism and democracy, said Truman “do not concern the United States alone. People everywhere are coming to realize that what is involved is material well-being, human dignity, and the right to believe in and worship God... the actions resulting from the Communist philosophy are a threat to the efforts of free nations to bring about world recovery and lasting peace”.<sup>454</sup>

In order to fight back communism and continue America’s “great constructive effort to restore peace, stability, and freedom to the world” Truman argued that the United States had to take four courses of action: to strengthen the United Nations, to continue programs of economic recovery around the world, to strengthen ally nations against the dangers of aggression and to make the benefits of American “scientific advances and industrial progress available for the improvement and growth of underdeveloped areas”.<sup>455</sup> Thus, the aim of the Point Four program was to bring underdeveloped nations to the path of American-style capitalist democratic development. It is in this context that the Chile project has to be understood. It sought the same anti-communist aim of Kennedy’s Alliance for Progress, only in this case the people in charge of the project were Chicago University professors inspired by a liberal philosophy. The materialization of the Chile Project corresponded to the Agency for International Development (A.I.D.), which had been created by the Kennedy administration in order to replace the International Cooperation Direction (I.C.D). The ICD had been responsible for administering foreign aid in compliance with Truman’s Point Four program.

The story of how the agreement between the Catholic University and Chicago University came to existence has been examined in detail elsewhere.<sup>456</sup> It is important however to remember some facts in order to understand the real nature of the agreement. The first thing that has to be stressed is that the University of Chile had been originally selected for the project with the University of Chicago, an option that was rejected by the university authorities. According to Vial, this fact suffices to discredit Valdés’ suggestion that the Chile Project was the result of a “conspiracy” to use Chile as a laboratory to introduce and test the Chicago model.<sup>457</sup> The Chicago

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<sup>453</sup> Idem.

<sup>454</sup> Idem.

<sup>455</sup> Idem

<sup>456</sup> See: Valdés, 1995, Vial, 1999.

<sup>457</sup> Vial, *Una trascendente experiencia académica*, p.76.

professors were well aware of the fact that the prevailing ideology of the University of Chile was ECLA's statism and knew that it was the worst possible place to introduce the Chicago model.<sup>458</sup> Moreover, four of the first seven people sent to Chicago were students of the Universidad de Chile, who never accepted neoliberalism.<sup>459</sup>

With a clear notion of the importance of ideas, the goal of the Chicago-Catholic University agreement was to influence on an ideological level in order to change the course of economic and social evolution in Chile and the countries under the ISI model. And education offered the perfect place to start. As North, Wallis and Weingast explained, along with experience education is one of the main sources of belief formation.<sup>460</sup> In the Chilean case, it was the belief that economic education was crucial for the wellbeing of the country that led to the Chicago University-Catholic University agreement. A crucial antecedent in this respect was the meeting between human capital expert Theodore Schultz, Dean of the Faculty of Economics of Chicago University and Albion Patterson. Patterson had served as director of the Point Four program in Paraguay and had assumed the same role in Chile in 1953. The meeting took place on the occasion of a visit Schultz made to Chile as a guest of the Ford Foundation in 1953. It was Schultz who convinced Patterson of the importance of economic education and a modern economy for the development of a nation. Patterson came to believe that Chilean economists lacked the knowledge that was necessary to improve the study of economics on a graduate and postgraduate level because they had been trained in the sort of economic theories promoted by ECLA, which in his view were wrong.<sup>461</sup> But Patterson was also ideologically motivated. As Ernesto Fontaine recalls, Patterson was very critical of ECLA's economic views and saw the agreement between Chicago University and the Catholic University as an effective way to change the climate of opinion in Chile and Latin America by debunking ECLAC's influence.<sup>462</sup>

Patricio Ugarte, a Chilean employee of the Point Four program and professor at the Catholic University also played a crucial role in the materialization of the agreement between both universities. His reasons however were more practical than ideological. Contrary to the prevailing climate of opinion at the time, Ugarte was convinced that Chile needed foreign investment in order to jumpstart its economy. He talked to Patterson about the idea of creating an ad hoc research institute in the Catholic University to attract foreign capital. Not without difficulty, Ugarte, who had attended MIT for post graduate studies, convinced Dean Julio Chaná to meet Patterson. Chaná was aware of the weak stand of the discipline of economics at the Catholic University and had long

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<sup>458</sup> Idem.

<sup>459</sup> Vial, *Una trascendente experiencia académica*, pp. 66-67.

<sup>460</sup> North, Wallis and Weingast, *Violence and Social Orders*, p. 28.

<sup>461</sup> Vial, *Una trascendente experiencia académica*, p. 76.

<sup>462</sup> Ernesto Fontaine, *Mi Visión*, Democracia y Mercado-Universidad del Desarrollo, Santiago, 2009, p.26.



evaluated cooperation with international counterparts so as to improve it. Unsurprisingly, when the idea of creating an institute for the promotion of foreign investment with assistance of the United States was presented by Chaná, numerous professors rejected it for ideological reasons. Embedded in nationalistic and corporatist ideas, conservative professors at the Catholic University claimed that foreign investment was a sell-out of the country, while the influence of the social doctrine of the Catholic Church led many to reject American liberalism.<sup>463</sup> After several meetings between Patterson and Chaná, and with the support of Ugarte and other professors of the University, the decision to accept US aid was finally made. A visit of a delegation headed by Schultz came to Santiago to prepare the way to the agreement, which was finally approved in Chicago in March 1956. The contract which had originally been signed for three years was prolonged on two occasions and lasted until June 1964. During that time, twenty six Chilean students pursued studies at Chicago, many of whom returned to the Catholic University, where they carried out a complete reform of the department of economics.<sup>464</sup> In other words, they changed the curriculum of the teaching of economics, which was essentially replaced by free market Chicago economics.

Thus, the task of changing the prevailing ideas in Chilean political and intellectual elites was immediately assumed by the first graduates from Chicago that returned to the country. There were basically two pillars of the strategy in order to win the battle of ideas for the side of the neoliberal economists. One consisted in revolutionizing the teaching of economics at university level with the aim of making of classical liberalism the predominant economic theory once again. The other strategy aimed at delivering a systematic educational campaign in the press to make classical liberal ideas popular, thereby changing the worldview of the country's elites. In this the Chicago Boys closely followed Hayek's thesis that it was only through influencing the ideas that prevail among intellectual and elite circles that institutions can be changed. As Emilio Sanfuentes, one of the Chicago Boys declared in 1980: "We set out to win elite opinion over to our position and to do this we concentrated on the quality media".<sup>465</sup> This "quality media" were mainly *Qué Pasa* magazine and *El Mercurio*. The latter was the most important agent in spreading classical liberal ideas in the country. And it did so with success. According to historian Joaquín Fernandois, *El Mercurio* has been the most effective communication medium "in generating ideas and sentiments throughout Chilean republican history".<sup>466</sup>

In 1967, the newspaper created a special section called "La Página Económica" – The Economic Page. Its long term aim, as Fernandois explained, was to "reform from the base the

<sup>463</sup> Valdés, *Pinochet Economists*, p. 123.

<sup>464</sup> Ibid., p.126.

<sup>465</sup> Hira, *Ideas and Economic Policy in Latin America*, p. 91.

<sup>466</sup> Joaquín Fernandois, Introduction to Angel Soto, *El Mercurio y la difusión del pensamiento político económico liberal: 1955-1970*, Centro Estudios Bicentenario, Santiago, 2003, p.12.

intellectual categories by which reality was defined and to teach economics to the Chilean political class”.<sup>467</sup> In other terms, the newspaper owned by Agustín Edwards, head of one of Chile’s most powerful economic groups at the time, sought to change the prevailing worldview among decision makers.

But *El Mercurio*’s promotion of liberalism had started long before the creation of the *Página Económica*. Already in 1947 the newspaper had begun publishing editorials criticizing the excessive interventionism of the government in the economy and citing the economy of the United States as an example to follow.<sup>468</sup> This campaign in favor of classical liberalism became really systematic in 1955, with the arrival of the Klein & Sacks mission.<sup>469</sup> It is crucial to note that Agustín Edwards had personally played a decisive role in convincing the government to hire the Klein & Sacks firm. Julius Klein himself had already been in Chile some years earlier where he had been honored by the local business community for having introduced a successful plan of monetary stabilization in Peru. The Peruvian plan included a freeze on salaries, elimination of government controls and of several food subsidies. Once the government decided to hire the Klein & Sacks Mission, Edwards was personally assigned the task of going to the United States to settle the deal. According to Sofía Correa, this marked the end of the populist phase of Ibañez’ government.<sup>470</sup>

The essence of the message that *El Mercurio* and the Chicago Boys wanted to make hegemonic in the Chilean climate of opinion was made clear by the definition of economic liberalism made by the same newspaper in 1962. According to *El Mercurio*, economic liberalism was a “social-economic doctrine which sought to solve social economic problems based on four central principles: private ownership of capital..., legitimate profit, the recognition that personal interest was the irreplaceable engine of economic activity and a preference for freedom as a general rule over government intervention”.<sup>471</sup>

In addition to the systematic ideological work through *El Mercurio*, *Qué Pasa* and the Catholic University, in 1963 some Chicago Boys, with the financial support of Agustín Edwards created the first classical liberal think tank in Chilean history. It was called Centro de Estudios Socioeconómicos (CESEC). The most important activity of the CESEC was the preparation of an economic program for an eventual victory of Jorge Alessandri in the election of 1970. That was the origin of *El Ladrillo* (a document known as “*The Brick*”) that started being prepared in 1969 and was updated during the government of the Unidad Popular. The first contributors were Emilio Sanfuentes Vergara, Sergio de Castro, Pablo Barahona, Sergio de la Cuadra, Adelio Pipino, Juan

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<sup>467</sup> Ibid., p13.

<sup>468</sup> Sofía Correa, *Con las riendas del poder, la derecha chilena en el siglo XX*, DeBolsillo, Santiago, 2011, p. 216.

<sup>469</sup> Soto, *El Mercurio y la difusión del pensamiento político económico liberal: 1955-1970*, p.26.

<sup>470</sup> Correa, *Con las riendas del poder, la derecha chilena en el siglo XX*, p. 199.

<sup>471</sup> Soto, *El Mercurio y la difusión del pensamiento político económico liberal: 1955-1970*, p.29.

Carlos Méndez, José Garrido and Armando Dussalliant. After Allende's victory, a group of new people including Juan Brown, Rodrigo Mujica, Álvaro Bardón, Juan Villarzú, José Luis Zavala, Andrés Sanfuentes, José Luis Federico, Ernesto Silva, Enrique Tassara and Julio Vildósola joined the list of contributors. All of them were specialists in economics and some of them were Christian Democrats who opposed Allende's government.

*Heirs of classical liberalism: the Courcelle-Seneuil–Smith–Chicago connection*

“*The Brick*” was the founding document of the Chilean free market revolution. It was a manifesto of the Chicago Boys that crystallized their economic thinking, their view on Chile's recent history and their social and political philosophy. An analysis of “*The Brick*” allows to establish a striking similarity between the belief systems of Courcelle-Seneuil and classical liberalism in general and those of the Chicago Boys. The diagnosis of the problems faced by the Chilean economy made by the Chicago Boys in “*The Brick*” did not differ in some respects that much from what classical liberals were arguing was needed in Chile from the second half of the 19th century onwards. Since the time of Adam Smith, classical liberals had essentially argued for an end of protectionism. In the words of Smith:

Were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different provinces of a great empire. As among the different provinces of a great empire the freedom of the inland trade appears, both from reason and experience, not only the best palliative of a dearth, but the most effectual preventative of a famine; so would the freedom of the exportation and importation trade be among the different states into which a great continent was divided.<sup>472</sup>

“*The Brick*” also put a substantial part of its focus on protectionism attributing several problems to the ISI system. The worst problems, according to this document, were a low economic growth rate, excessive government intervention, scarcity of productive jobs, inflation, agricultural backwardness and the existence of extreme poverty in large sectors of the population. The effects of these problems said “*The Brick*”, were a deficient allocation of productive resources, a limited development of the external sector, low growth of productive resources, harmful actions of

<sup>472</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol. 2, Edited by Edwin Cannan, Methuen, London, 1904, p.35.

powerful groups, constant shift in economic policy, bad use of political power and a deficit in food supply.<sup>473</sup> According to the neoliberals, the solution for Chile's economic and social problems consisted in a program based on a set of beliefs that view the market as a sort of natural force. Economics in turn, was seen as the science that sought to understand that force. In the words of Arnold Harberger:

The forces of the market are just that: They are forces; they are like the wind and the tides; they are things that if you want to try to ignore them, you ignore them at your peril, and if you understand that they are there, working their way, if you find a way of ordering your life that is compatible with these forces, indeed which harnesses these forces to the benefit of your society, that's the way to go.<sup>474</sup>

Chicago Boy Pablo Barahona would recall that at Chicago “there was a science so understandable and important as physics or biology” and that this science could be used to design economic policies that “tell people what is good and what is bad” from an economic point of view.<sup>475</sup> From the view that economics was a science, there followed an economic approach that Milton Friedman would explain in the following terms: “in the discussion of economic policy Chicago stands for the belief in the efficacy of the free market as a means of organizing resources, for skepticism about government intervention into economic affairs, and for emphasis on the quality of money as a key factor in producing inflation.”<sup>476</sup> Based on this approach the authors of “*The Brick*” advocated free trade, anti-monopolistic policies, prices liberalizations, tax reform, a new pension system, normalization of agricultural activity, creation of capital markets and protection of property rights in order to solve the Chilean economic and social crisis. The central belief behind those policies was that the key to social prosperity was individual effort and not government redistributive policies. In the words of “*The Brick*”: “The worker who thinks that because his poverty is unfair it has to be solved by a government policy of income redistribution and not, at least to an important extent, by his own effort and persistence, will be someone who reduces the creative potential of the country”.<sup>477</sup> Accordingly, despite the introduction of some social policies, the government “always has to demand the maximum productive effort of all citizens”.<sup>478</sup>

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<sup>473</sup> *El Ladrillo*, pp.27-28.

<sup>474</sup> Commanding Heights, Arnold Harberger, October 3, 2000. Interview available at:

[http://www.pbs.org/wgbh/commandingheights/shared/miniextlo/int\\_alharberger.html](http://www.pbs.org/wgbh/commandingheights/shared/miniextlo/int_alharberger.html) Last accessed: 28/06/2014.

<sup>475</sup> Interview to Pablo Barahona, CIDOC, Universidad Finis Terrae, Reference code CL-CIDOC-8-H.7-122377/1901-Box FGVC-2.

<sup>476</sup> Milton Friedman, “Schools at Chicago”, *The University of Chicago Magazine*, August 1974, pp. 11-16.

<sup>477</sup> *Ibid.*, pp.35-36.

<sup>478</sup> *Ibid.*, p.36.

The free market solution postulated in “*The Brick*” sought to compete on an ideological level with the alternative doctrines. In order to achieve that, the Chicago Boys believed that it was essential to confront these worldviews, especially the Marxist worldview, with a libertarian worldview.<sup>479</sup> The Chicago Boys thus fully believed that ideas were crucial to alter the course of social-economic evolution. As Sergio de Castro wrote decades later: “the purpose of making the document publicly known is to indicate that ideas have power; that these ideas have to be discussed and convincing at the highest level and that it is the power of these ideas what impulses the development of the country”.<sup>480</sup> For De Castro, it was the genuine commitment to the “libertarian ideals” of “*The Brick*” that allowed to achieve real progress.<sup>481</sup> According to Meller, the authors of “*The Brick*” basically replicated the elemental model of Adam Smith.<sup>482</sup> Along the same lines, French-Davis argued that the economic model of “*The Brick*” applied by the Pinochet regime was a model “free from public interventions in the markets” with a “blind faith [in the idea] that the market knows everything”.<sup>483</sup>

This critique is no surprise. Like Courcelle-Seneuil, the Chicago School was indeed a direct heir of Adam Smith’s classical liberalism. Friedman would recognize this fact arguing that the Chicago model applied by Chile in the 1970s had been the same model Great Britain and the United States had applied during the hegemony of classical liberalism in the 19<sup>th</sup> century.<sup>484</sup> In the 20<sup>th</sup> century, the Chicago School did in fact become the main intellectual center for reviving Adam Smith’s tradition. As Steven Medema observed, no other group in the 20<sup>th</sup> century has been more fertile in expanding and developing Smith’s ideas than the Chicago School and no other group has its name as strongly associated to Smith as the Chicago School.<sup>485</sup>

In his essay *Adam Smith relevance for 1976* Milton Friedman noted how present Smith’s philosophy was among Chicago economists and what the nature of that vision was:

<sup>479</sup> Joaquin Fernandois, “Modernización, desarrollo, dictadura: el papel de Sergio de Castro”, *Revista Estudios Públicos*, No. 108, Santiago, 2007, p. 293.

<sup>480</sup> *El Ladrillo*, p.8.

<sup>481</sup> *Idem*.

<sup>482</sup> See: Vanessa Kaiser, *En vez de una sola mirada*, CAIP-RIL ediciones, Santiago, 2011, p. 58. According to Rolf Lüders the economic model in “*The Brick*” “is not Adam Smith”, being closer to a social market economy. ( Kaiser, *En vez de una sola mirada*, p. 81). Lüders has certainly a point for “*The Brick*” contemplated government measures and redistribution in order to guarantee “equality of opportunities” and reduce poverty. However, French Davis and Meller’s argument about the confidence of the authors of “*The Brick*” in the free market or the Smithian model as the best allocator and creator of resources is completely supported by a reading of the document. In short, the model described in “*The Brick*” could be depicted as a classical liberal o libertarian economic model, with important elements of a social market economy.

<sup>483</sup> *Ibid.*, p. 94.

<sup>484</sup> See interview at: [http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/int\\_miltonfriedman.html#10](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_miltonfriedman.html#10) Last accessed: 28/06/2014.

<sup>485</sup> Steven Medema, “Adam Smith and the Chicago School”, in: *The Elgar Companion to the Chicago School of Economics*, Edited by Ross B Emmet, Edward Elgar Publishing, Massachusetts, 2010, p.40.

the market, with each individual going his own way, with no central authority setting social priorities, avoiding duplication, and coordinating activities, looks like chaos to the naked eye. Yet through Smith's eyes we see that it is a finely ordered and delicately tuned system, one which arises out of man's actions, yet is not deliberately created by man. It is a system which enables the dispersed knowledge and skill of millions of people to be coordinated for a common purpose.<sup>486</sup>

The same approach had been promoted by Courcelle-Seneuil. The French professor had translated Smith's *Wealth of Nations* into French and had been commissioned by Gallium Library to write a study on the Scottish economist.<sup>487</sup> For him, Smith had rectified the ideas about wealth demonstrating "with great superiority the division of labor and its power".<sup>488</sup> In addition Courcelle-Seneuil argued that Smith had refuted "a number of mistakes" offering a much more superior theory on money and banking.<sup>489</sup> More important however, was the identification between both Chicago and Courcelle-Seneuil's methodological perspective especially because of their radical opposition to the methodology defended by the German historical school and the promoters of structuralism and protectionism in Chile. If the Chicago tradition understood the market as a sort of natural phenomenon that had to be observed in order to draw conclusions about the right economic policies, in the eyes of the French professor the functioning of the market and the role of economics as a science was almost the same. In his article *Political Economy*, Courcelle-Seneuil argued that economics was a positive science that investigated the causes of the wealth of nations and should never indicate what "ought to be" in a moral sense.<sup>490</sup> Likewise, in his *Essays in Positive Economics*, which was mandatory for students at the Catholic University and a central pillar of the education at Chicago, Friedman stated that "positive economics is in principle independent of any particular ethical position or normative judgments...it deals with 'what is,' not with 'what ought to be.'<sup>491</sup> Moreover, while Friedman argued that positive economics is, or can be, "an 'objective science', in precisely the same sense as any of the physical sciences",<sup>492</sup> Courcelle-Seneuil sustained that the economist "like the physicist proceeds by induction: he observes the facts and concludes more or less general laws".<sup>493</sup>

<sup>486</sup> Milton Friedman, "Adam Smith Relevance for 1976", *Selected Papers No. 50*, Graduate School of Business, The University, of Chicago, pp. 16-17. Available at: <http://www.chicagobooth.edu/faculty/selectedpapers/sp50b.pdf> Last accessed: 28/06/2014.

<sup>487</sup> Fuentealba, *Courcelle-Seneuil en Chile. Errores del liberalismo económico*, p. 16.

<sup>488</sup> Courcelle-Seneuil, *La economía política*, pp. 274-275.

<sup>489</sup> Idem.

<sup>490</sup> Ibid., p.281.

<sup>491</sup> Milton Friedman, "The Methodology of Positive Economics" in: *Essays on Positive Economics*, University of Chicago Press, Chicago, 1966,p.4.

<sup>492</sup> Idem.

<sup>493</sup> Courcelle-Seneuil, *La economía política*, p. 281.

The remarkable similarity between Courcelle-Seneuil's and Friedman's methodological approach goes even further. Both economists made the distinction between economics as a science and economics as an art. According to Courcelle-Seneuil, considered as an art, economics seeks to prescribe the mechanisms that enable to increase the wealth of nations.<sup>494</sup> For that, it has to draw on the conclusions obtained from economics as a science. It is the latter that "shows the way" but never imposes it on anyone.<sup>495</sup> In turn, Friedman argued that "normative economics and the art of economics cannot be independent of positive economics. Any policy conclusion necessarily rests on a prediction about the consequences of doing one thing rather than another, a prediction that must be based –implicitly or explicitly– on positive economics."<sup>496</sup> Here positive economics is the descriptive analysis of how an economy works using the tools of economic sciences while normative economics consists in the recommendations that are elaborated based on those descriptions. Thus for example, if the science of economics determines that an increase in the money supply without an increase in productivity leads to higher prices and that is considered undesirable because it affects the wellbeing of the people, than normative economics will answer the question of what is to be done in order to control inflation. A standard Chicago recommendation in this case would be to stop money creation by the central bank and cut government spending. In short, Chicago economists first seek to understand how the economy works, which enables to make predictions about what would happen under certain circumstances, and then they prepare policy recommendations based on what is considered desirable. Friedman's view that the methodology for economics was basically the same that should be applied to natural sciences had been strongly influenced by Karl Popper's work *The Logic of Scientific Discovery*, where Popper developed his *falsifiability* criterion. Moreover, Friedman personally discussed with Popper his views on methodology when they met at the Mont Pelerin Society in 1947. The conversation according to the Chicago professor, had "a good deal of influence" in the final version of his *Essay on Positive Economics*.<sup>497</sup> For Popper, sciences elaborate hypothesis that are then tested against empirical evidence. If only one test proves the hypothesis wrong then no scientific law can be sustained. In Popper's words: "I shall not require that a scientific system shall be capable of being singled out, once and for all, in a positive sense; but I shall require that its logical form shall be such that it can be singled out, by means of empirical tests, in a negative sense: *it must be possible for an empirical scientific system to be refuted by experience*."<sup>498</sup> It was the logic of seeing economics as a sort of natural science that led Chicago Boy and Catholic University professor Ernesto Fontaine to argue

<sup>494</sup> Ibid., p.277.

<sup>495</sup> Ibid., p.281.

<sup>496</sup> Friedman, "The Methodology of Positive Economics", p.5.

<sup>497</sup> Milton and Rose Friedman, *Two Lucky People*, University of Chicago Press, Chicago, 1998, p.215.

<sup>498</sup> Karl Popper, *The Logic of Scientific Discovery*, Routledge, Taylor & Francis e-Library, 2005, p.18. Available at: <http://strangebeautiful.com/other-texts/popper-logic-scientific-discovery.pdf> Last accessed: 28/06/2014.

that the economic achievements of Chile were due to “the triumph of economics as a science and of the economist as a professional”.<sup>499</sup>

The empirical approach led both the Chicago Boys and Courcelle-Seneuil to believe that the market improved the situation of society best when it was free from government intervention and that government far from serving the general interest, usually tended to benefit interest groups and restrict personal freedom. This line of argumentation is to be found in “*The Brick*” as well as in Courcelle-Seneuil’s writings and is a central theme in classical liberal thinking. “*The Brick*” for example argued that one of Chile’s central problems was that government intervention and protectionism had resulted in the formation of powerful interest groups “whose action was in conflict with the general interest”.<sup>500</sup> As a result, economic success depended more on “political patronage” than on “technical and entrepreneurial capacity”.<sup>501</sup> According to Friedman, this happened because “the self interest of people in government leads them to behave in a way that is against the self interest of the rest of us”.<sup>502</sup> Thus, if in the market there is an invisible hand that leads people who are seeking their benefit to serve the interest of the public, in government “people who intend to serve only the public interest are led by an invisible hand to serve private interest which was no part of their intention”.<sup>503</sup> In his article *Protectionism and Free Trade*, Courcelle-Seneuil made exactly the same case in a metaphorical way. Simulating a dialogue between a merchant and a congressman on the subject of protectionism, the merchant schools the deputy on what protectionism means in the following terms:

You are in charge of representing the interest of the French people: do not forget them in order to favor private interests...I deeply lament that men like you, to whom we have entrusted the defense of our interest, use the power that has been vested on you to ask the ministers and the President of the Republic and your colleagues in both chambers the faculty of giving to others part of our income.<sup>504</sup>

The merchant then added that there were two kinds of industries: the ones which survive without asking anything from anyone and the ones which are incapable of sustaining themselves

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<sup>499</sup> Ernesto Fontaine, “El convenio U Católica U Chicago y sus repercusiones”, Conference given at the Students Residence “La Cañada”, April 3, 1997. CIDOC, Universidad Finis Terrae, Reference code CL-CIDOC-14-L.5-15025/1997-

<sup>500</sup> *El Ladrillo*, p.47.

<sup>501</sup> *Ibid.* p.32.

<sup>502</sup> Milton Friedman, *Why Government is the Problem*, Hoover Institution Press, Stanford, California, 1993, p.11.

<sup>503</sup> *Idem.*

<sup>504</sup> Jean Gustave Courcelle-Seneuil, *Protección y libre intercambio*, in: Benegas Lynch (h), *Jean Gustave Courcelle-Seneuil*, p. 256.



and demand from the legislator to take away part of other people's income in their benefit.<sup>505</sup> The merchant concluded with a statement that sums up perfectly the view of "*The Brick*", Smith and the Chicago School: "we ask to be protected from protectionists, we ask justice and equality for all. We ask the gradual abolition of unjust privileges."<sup>506</sup>

What both Courcelle-Seneuil and Friedman were defending with these reflections was the so called "invisible hand" of Adam Smith. In other words, the idea that people by pursuing their own interest in the market produce results that benefit society at large because the market is a process of exchanges in which everyone who takes part in it benefits. The reason why they benefit is that only those who create something of value for others can find someone else willing to exchange that with them. Ludwig von Mises summarized this view in the following terms:

The profit system makes those men prosper who have succeeded in filling the wants of the people in the best possible and cheapest way. Wealth can be acquired only by serving the consumers. The capitalists lose their funds as soon as they fail to invest them in those lines in which they satisfy best the demands of the public. In a daily repeated plebiscite in which every penny gives a right to vote the consumers determine who should own and run the plants, shops and farms. The control of the material means of production is a social function, subject to the confirmation or revocation by the sovereign consumers.<sup>507</sup>

In this perspective, interest groups are those who seek to extract rents through the coercive powers of the state. Thus they do not have to engage in productive activities in order to satisfy the needs and wants from others. They just have to lobby politicians and decision makers who have the power of granting them privileges such as subsidies, market quotas, import quotas and regulations that hinder the entrance of new competitors among others. Warning about this danger Smith wrote that "the interest of the dealers . . . in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public."<sup>508</sup> For Smith, "to widen the market and to narrow the competition, is always the interest of the dealers" and while widening the market "may frequently be agreeable enough to the interest of the public" narrowing the competition "must always be against it" because, it can serve "only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon

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<sup>505</sup> Ibid., p.268.

<sup>506</sup> Ibid., p.270.

<sup>507</sup> Ludwig von Mises, *The Anticapitalist Mentality*, Libertarian Press, Grove City, 1994, p.2.

<sup>508</sup> Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Vol. I, p. 233.

the rest of their fellow-citizens”.<sup>509</sup> Therefore, continued Smith, the proposal of any new law or regulation of commerce which comes from the order of those who live by profit, “ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention.”<sup>510</sup>

### *Milton Friedman and the fragility of Chilean freedom*

The first chapter has already explained what is to be understood by “neoliberalism”. However, it may be useful to narrow down the explanation to understand better the Chicago Boys’ political philosophy and its connection to economic liberty. For this purpose it is necessary to analyze the social thinking of the Chicago economist that most influenced the Chicago Boys as far as economic and political philosophy is concerned: Milton Friedman. According to Manuel Delano and Hugo Traslaviña, if Harberger was a mentor for the Chicago Boys, Friedman was their “spiritual leader: a charismatic figure that knew how to connect theoretical issues with real life and the most effective promoter of neoliberalism in the 1970s”.<sup>511</sup> For professor and Chicago Boys’ critic Patricio Silva, Friedman’s best seller *Capitalism and Freedom* became the “manual” for his Chilean followers.<sup>512</sup> Along the same lines, Chicago Boy Dominique Hachette argued that Friedman’s greatest influence was probably due to his non-academic works such as *Free to choose*. In this book, said Hachette, Friedman explained his social and political vision making compatible the relation between positivism, liberalism and democracy.<sup>513</sup>

Philosophically, Friedman’s view was not much different from Smith, Courcelle-Seneuil’s and the general classical liberal approach. Economic freedom, thought Friedman, was part of integral freedom so that any system which claims to protect freedom must per definition protect economic freedom.<sup>514</sup> This is the freedom to exchange, to create business, to work, to dispose of our income and so on. Friedman firmly believed that capitalism, understood as the private ownership of the means of production and a competitive free market was a necessary but not sufficient condition

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<sup>509</sup> Idem.

<sup>510</sup> Idem.

<sup>511</sup> Manuel Delano and Hugo Traslaviña, *La herencia de los Chicago Boys*, Ediciones del Ornitorrinco, Santiago, 1989, p.15.

<sup>512</sup> Patricio Silva, *En el nombre de la razón*, Universidad Diego Portales, Santiago, 2010, p. 166.

<sup>513</sup> Dominique Hachette, “La génesis de la Escuela de Chicago, fines de los cincuenta y de los sesenta”, in: *La Escuela de Chicago*, Edited by Francisco Rosende, Universidad Católica de Chile, Santiago, 2007, p. 39. Hachett’s observation that Friedman was more influential through his non-academic works is also true for Chile. If Arnold Harberger was the fatherly figure for most of the Chicago Boys, from a purely philosophical perspective there is no doubt that Milton Friedman was more influential than any other economics professor at Chicago. Apart from *Free to Choose*, Friedman’s classical liberal philosophy was essentially laid down in his best sellers *Capitalism and Freedom* and the *Tyranny of the Status Quo*.

<sup>514</sup> Milton Friedman, *Capitalism and Freedom*, p.8.

for both political freedom and democracy.<sup>515</sup> Accordingly in Friedman's view, the replacement of economic freedom with central planning or a socialist system inevitably leads to the destruction of political freedom and democracy. The reason is simple. Exchange in the market economy is a form in which the different individuals freely collaborate in order to pursue their goals. It is a voluntary form of cooperation in which coercion is absent from human relations. Friedman argues that this system of cooperation enables people to create and provide for themselves the material means they need in order to pursue their aims. And it does so in a way that keeps power dispersed so that no one can be subjected to the arbitrary use of coercion of another. In this system "the consumer is protected from coercion by the seller because of the presence of other sellers with whom he can deal".<sup>516</sup> Friedman says that if only one person – or the government – was able to sell food in a given society, he would have the power to coerce the consumers because they need to eat and would have nowhere else to go. In Friedman's logic economic freedom becomes a necessary condition for political freedom because it "enables people to cooperate with one another without coercion or central direction" reducing the area over which "political power is exercised."<sup>517</sup> It is necessary to develop this last argument somewhat more extensively given its importance for neoliberalism. Like all classical liberals, Friedman defined political freedom as "the absence of coercion of a man by his fellow men".<sup>518</sup> This means that no person can be forced to pursue ends that are not her or his own. In this view, economic freedom is a necessary condition for political freedom because it is part of that sphere where individuals should not be coerced. This sphere includes freedom of speech, freedom of movement, freedom of religion and so on. Friedman endorsed what is known as "negative freedom" which is an idea of freedom that has its origin in classical liberalism. As George Smith has explained, for classical liberals freedom means negative freedom, that is to say, the absence of physical coercion and threats of coercion.<sup>519</sup> In other words, "one is free when one can act on one's own judgment in pursuit of one's own goals, enter into voluntary relationships with other people and dispose of one's person and property as one sees fit, so long as one respects the freedom of other people to do the same".<sup>520</sup> Accordingly, in the classical liberal worldview, a system that protects freedom is one that reduces as much as possible the power of coercion by any kind of authority or group. The dispersion of power is thus a crucial element for freedom. In Friedman's view, by taking away economic power from government and passing it to

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<sup>515</sup> Under political freedom Friedman basically understood the whole realm of personal liberties including freedom of speech, freedom of movement and so on, whereas under democracy Friedman understood basically a means to decide who is to hold political power. Sometimes however, Friedman does include democracy in the definition of political freedom.

<sup>516</sup> Ibid., p.14.

<sup>517</sup> Friedman and Friedman, *Free to Choose*, pp. 2-3.

<sup>518</sup> Friedman, *Capitalism and Freedom*, p.15.

<sup>519</sup> George Smith, *The System of Liberty*, Cato Institute-Cambridge University Press, New York, 2013, p.7.

<sup>520</sup> Idem.

the people, the free market enables “economic strength” to become a check to political power and not its reinforcement.<sup>521</sup> In Friedman’s words: “by dispersing power the free market provides an offset to whatever concentration of political power may arise”.<sup>522</sup> On the other hand, “the concentration of economic and political power in the same hands is a sure recipe for tyranny”.<sup>523</sup>

Friedman’s major concern was the same that all classical liberals had, namely, how to protect the individual from the abuses of government power and interest groups that extract benefits through government. For Friedman, the free market system, by keeping property in the hands of the people, contributes in a crucial way to keep power disperse. None of this can exist under a socialist system argued Friedman. In such a system, government controls both political and economic power and thereby replaces the voluntary arrangements of individuals by coercion. In addition it gives government the power of life and death over people by controlling the supply of all the goods people need to survive. Under such circumstances said Friedman, a democratic society is undermined because according to Friedman democracy presupposes not the mere procedure of electing politicians but also having a real chance of engaging in the public debate and opposing the government. In Friedman’s words:

In order for men to advocate anything they must in the first place be able to earn a living. This already raises a problem in a socialist society, since all jobs are under direct control of political authorities. It would take an act of self-denial...for a socialist government to permit its employees to advocate policies directly contrary to the official doctrine.<sup>524</sup>

On the other hand, in a capitalist society said Friedman, it is only necessary to convince a few wealthy people to launch an idea and promote a cause. In a socialist society said Friedman, even if that was possible, raising funds for activism would not be enough because the government controls the factories that produce the paper and the diverse materials necessary to spread the message. Thus, in Friedman's view, in a socialist system that does not allow economic freedom, dissent becomes practically impossible and political freedom an illusion.

In Friedman’s perspective, the Unidad Popular government, with its attempt to create a centrally planned economy was a direct attack both on economic freedom and political freedom. Since it sought to concentrate economic and political power in the same hands, in the eyes of Friedman and the Chicago Boys it inevitably threatened to become a tyrannical regime.

<sup>521</sup> Friedman and Friedman, *Free to Choose*, p.3.

<sup>522</sup> Idem.

<sup>523</sup> Idem.

<sup>524</sup> Friedman, *Capitalism and Freedom*, p.17.

Accordingly, for Friedman the restoration of economic freedom after Allende's government was necessary but not sufficient to restore political freedom and a functioning democracy. Decades later Friedman would claim that the free market reforms in Chile "had worked their way in bringing about a free society."<sup>525</sup> What the Chicago professor meant with that expression was that without the free market reforms and the new economic liberties Chile would have not been able to restore a politically free and democratic society. Already in the mid-1970s, Friedman had warned the Chilean public of the importance of economic liberty for political liberty and democracy. Invited by a private foundation in April 1975, he spent six days in the country giving lectures and attending meetings. One of the key lectures given by Friedman was called "The Fragility of Freedom" and was addressed to students and professors of both the University of Chile and the Catholic University.<sup>526</sup> The lecture is crucial not only because Friedman criticized the military government for curtailing individual freedoms, but because it offered an explanation in the purest classical liberal tradition about the reasons why Chile had ended up destroying its democracy.<sup>527</sup>

In Friedman's view, the problem with Chile was that personal freedom and in particular economic liberty had been gradually strangled by government intervention since the early 20<sup>th</sup> century. Friedman believed that government had to perform basically the functions that Adam Smith had enumerated in his *Wealth of Nations*.<sup>528</sup> This role was essentially limited to protecting the fundamental rights of individuals from foreign and domestic aggressors, creating a court system in order to enforce contracts and resolve disputes among individuals and providing some public goods that the market would not provide. To these functions Friedman added that government had to protect individuals who could not be considered "responsible" such as children and madmen.<sup>529</sup> In Friedman's eyes, a government that overextended its functions was not only a threat not only to liberty but also to economic stability and social tranquility. In his view, this had been Chile's problem. In Friedman's words: "The present state of Chile, in my opinion, is the end result of an expansion in the role of government over the lives of the people".<sup>530</sup> Without any doubt, said Friedman, the attempt to use the state to solve all sorts of social problems had been well-intentioned, but had finally led to a "communist totalitarian" attempt that had ended up in a coup and a military government that also denied liberties.<sup>531</sup>

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<sup>525</sup> Interview available at:

[http://www.pbs.org/wgbh/commandingheights/shared/miniextlo/int\\_miltonfriedman.html#10](http://www.pbs.org/wgbh/commandingheights/shared/miniextlo/int_miltonfriedman.html#10) Last accessed: 28-06-2014.

<sup>526</sup> Friedman gave the same lecture some months later at the Brigham Young University. The version analyzed here is the latter.

<sup>527</sup> *Ercilla Magazine* reported on April 2, 1975, that Friedman had given this lecture at the Universidad de Chile.

<sup>528</sup> Milton Friedman and Rose Friedman, *Free to Choose*, pp. 28-33.

<sup>529</sup> *Ibid.*, p.32.

<sup>530</sup> Milton Friedman, *The Fragility of Freedom*, p.562. Available at:

<https://journals.lib.byu.edu/spc/index.php/BYUStudies/article/download/4927/4577> Last accessed: 28-06-2014.

<sup>531</sup> *Ibid.*, p.564.

The central question that had to be answered according to Friedman was the following: “What is the explanation of the tendency for the attempt to use the political market to achieve noble objectives to go awry and destroy our freedom?”<sup>532</sup> In order to answer the question Friedman, like North, distinguished between the political market and the economic market. In both markets the participants serve their own interest. In the political market, interest groups such as companies have much more weight on the decisions made than voters. Thus, according to Friedman, it is not true that in a political market people have identical influence on decision making. The fundamental difference between both markets was that in the political market there was little relation between what people vote for and what they get. Incentives, explained Friedman, are thus put so that the general public does not really examine what it gets in exchange for their votes while organized interest groups have all the incentives to get benefits from legislation. In the words of Friedman the fundamental defect of the political mechanism is that it is a “system of highly weighted voting under which the special interests have greater incentive to promote their own interests at the expense of the general public”.<sup>533</sup> In an economic market on the other hand, said Friedman, people have a one-to-one relationship. No one can transfer the costs of his own decisions to others and everyone can examine what he is getting in exchange for a dollar spent. Thus, in an economic market there is true individual freedom because people always get what they want provided there was no fraud. In addition, Friedman argued that unlike political markets in economic markets there is an incentive for people to control that they get what they voted for with their money. Another important distinction made by Friedman in his speech was that an economic market is characterized by voluntarily cooperation while government acts through orders, that is to say, coercion. But because reality is too complex, an economy run on orders by an authority cannot work. Using an argument similar to Hayek’s on the use of knowledge in society, Friedman said that the authorities would simply lack the necessary knowledge to achieve the same results a decentralized mechanism like the market is able to achieve. Even worse, said Friedman, was the fact that the replacement of the voluntary arrangement of individuals in the marketplace with government coercion would end up by crashing personal liberties. Thus, in Friedman’s view, a large welfare state not only undermined individual freedom but also democracy because a vibrant market was a necessary condition for a functioning democracy. According to him, Chile had followed the “false road of the welfare state”, which could only lead to “tyranny and misery and not freedom”.<sup>534</sup>

Some days after Friedman’s lecture on the fragility of freedom, the Chilean political magazine *Ercilla* reported that one of the main conclusions of Friedman’s talk was that “individual

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<sup>532</sup> Ibid., p.567.

<sup>533</sup> Ibid., p.572.

<sup>534</sup> Ibid., p. 574.

freedom was permanently under threat by the government and that all social programs that had been developed to help the poor had ended up harming them and helping middle income groups and rich people”.<sup>535</sup> In an interview given to *Qué Pasa* magazine and published on April 3, 1975, Friedman confirmed these views. When asked about his differences with Keynesian economist John Kenneth Galbraith, Friedman responded that Galbraith believed in a society in which government played a central role. He, on the contrary, promoted a society in which government was restricted to guarantee peace, protect the individuals from coercion, provide a sound monetary framework and create the rules for the functioning of a private economy. According to Friedman, Galbraith’s idea of a welfare state would “inevitably degenerate into a centralized and collectivist state that would destroy freedom”.<sup>536</sup> Moreover, Friedman explained that the political mechanism was used to favor interest groups that sought to extract rents through special privileges whereas, by enabling competition, the market provided an effective check to the power of capitalists because it forced them to develop new products at better prices thus benefiting the consumers.<sup>537</sup> These ideas were a substantial part of the set of beliefs behind the free market revolution made by the Chicago Boys. At the time Friedman gave his lecture there were still many old-fashioned statist economic policies that were still being applied by the military government. In one of his lectures, economics Professor Arnold Harberger, who had come to Chile along with Friedman, argued that his diagnosis on the Chilean economy remained exactly the same as in 1974.<sup>538</sup> The main problem, he explained, was hyperinflation caused by excessive government spending. He added that he was “sad” not to see enough efforts to reduce the deficit, which was a crucial step for building a real social market economy.<sup>539</sup> Friedman made the same case declaring in his interview to *Qué Pasa* magazine, that the Chilean economy at the time was not a free market economy but a “mixed economy where the market economy does not prevail”.<sup>540</sup>

Both Friedman and Harberger presented their solutions for Chile’s main economic problems at a time when Chileans were largely deprived both of political freedom and economic freedom. Their message to the Chicago Boys and the Chilean public was that the restoration of economic freedom and economic soundness was a necessary condition for restoring political freedom and democracy. In a letter sent to the president of the Nobel Foundation Stig Ramel in 1976, reprinted in the *Wall Street Journal*, Harberger explained: “we believe now as we did when we visited Chile, that the restoration of political freedom is impossible without a restoration of economic health. As

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<sup>535</sup> *Revista Ercilla*, April 2, 1975.

<sup>536</sup> Interview with Milton Friedman, *Que Pasa*, No. 206, April 3, 1975.

<sup>537</sup> *Idem*.

<sup>538</sup> Harberger’s conferences were published in: Fundación de Estudios Económicos, *Cuatro momentos de la economía chilena*, Santiago, 1976.

<sup>539</sup> *Ibid.*, p. 97.

<sup>540</sup> Interview with Milton Friedman, *Qué Pasa* magazine No. 206, April 3 1975.

we said in our public lectures, there is no easy road to that result, but there are better and worse roads and scientific economic analysis has much to contribute to a wise choice”.<sup>541</sup> Once the economic reform had been made, Milton Friedman would directly advocate the transition to democracy in Chile. At his arrival in Santiago in 1981 on the occasion of the Mont Pelerin Society meeting in Viña del Mar, Friedman gave an interview to *Ercilla* magazine in which he declared:

I believe that a free economy is a necessary condition for a politically free society. Unfortunately, this condition does not suffice. Yet, I believe that a free economy will be very difficult to sustain in the long run unless it is combined with a society that is politically free.<sup>542</sup>

In a column published in *Newsweek* in 1982 entitled *Free Market and the Generals*, Friedman would insist on the idea that political liberty was necessary for sustaining economic liberty. In the article, the Chicago professor celebrated the fact that a military government like the Chilean one had made free market reforms that undermined its own power. He called it a “political miracle” and went on to warn that a free market system was incompatible with an authoritarian government and that in the long run political liberty was a necessary condition for economic liberty. In Friedman’s perspective, spaces of individual freedom given by the market would challenge sooner or later the power of the military authorities leaving them two possible choices: reverse course and go back to a state controlled economy, or give away their power to civilian authorities. In Friedman’s words:

I predict that the free market policy will not last unless the military government is replaced by a civilian government dedicated to political liberty –as the junta has announced is its intention. Otherwise, sooner or later –and probably sooner rather than later– economic freedom will succumb to the authoritarian character of the military...I have long argued that economic freedom is a necessary but not sufficient condition for political freedom. I have become persuaded that this generalization, while true, is misleading unless accompanied by the proposition that political freedom in turn is a necessary condition for the long term maintenance of economic freedom.<sup>543</sup>

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<sup>541</sup> A full reproduction of the letter can be found in: Milton and Rose Friedman, *Two Lucky People*, p.598.

<sup>542</sup> Revista *Ercilla*, November 25-December 1, 1981.

<sup>543</sup> Milton Friedman, “Free Market and the Generals”, *Newsweek*, January 25, 1982.



Friedman offered the same argument in an interview with Chilean magazine *Cosas* in 1982. On that occasion Friedman argued that even though an authoritarian government could impose free market reforms, in the long run authoritarianism and a free economy were not compatible. At some point Friedman said, “the essential incompatibility between a lack of competition in politics and competition in the market becomes evident”.<sup>544</sup> He further argued that if the junta did not keep its promise to restore democracy then the free market would end up by being destroyed. According to Friedman, this would be nothing new in the Latin American context, where many dictatorships had introduced economic reforms when they were desperate but then refused to reintroduce democracy and opted for reversing the liberalization course. Friedman went on explaining that it was possible to have a free market economy for some time under an authoritarian regime, but that the cultural, sociological and philosophical foundations of the free market were in open “conflict” with those of an authoritarian regime.<sup>545</sup> Under an authoritarian regime said Friedman, “there is the idea that things must be organized top down while in the free market the inverse is the case”.<sup>546</sup> That combination, said Friedman, could lead to an explosive social or political reaction and to the frustration of the free market.

Interestingly enough, Friedman’s analysis that economic freedom required political freedom in order to be preserved was fully coherent with Douglass North’s vision on the same subject. According to North, “economic growth and the development of freedom are complementary processes of societal development”.<sup>547</sup> While economic growth creates the resources to support a system of civil and political liberties, these reinforce economic freedom and economic growth. In North’s words:

Economic growth provides the resources to support more complex societies and it is unlikely to persist in the long run without the development of political and civil liberties. A world of specialization and division of labor –the roots of economic growth– is going to nurture democratic polities and individual freedom.<sup>548</sup>

North further argued that well specified and impartially enforced property rights, which are a condition for economic growth, can only be protected from arbitrary confiscation when political rights and civil rights are secure.<sup>549</sup> Thus North’s theory seems to confirm the mutual dependence

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<sup>544</sup> See: Revista *Cosas* No. 149, June, 1982.

<sup>545</sup> Idem.

<sup>546</sup> Idem.

<sup>547</sup> Douglass North, *The Paradox of the West*, p.1. Available at:

<http://dlc.dlib.indiana.edu/dlc/bitstream/handle/10535/4158/9309005.pdf?sequence=1> Last accessed: 28-06-2014.

<sup>548</sup> Idem.

<sup>549</sup> Idem.

between economic freedom and political freedom alleged by Friedman.

*The Chicago Boys on democracy and political liberty*

There is little doubt that the Chicago Boys saw things as Friedman did. In their view, no one who was interested in preserving democracy and political liberty could afford to ignore the economic reality or despise economic liberty. Like Friedman, they believed that it had been the misinterpretation of economic reality by previous ideologies and the use of the political process to expand the welfare state thereby restricting freedom that had led to Chile's economic and democratic failure. Their beliefs, as North allows to conclude, were not only the result of their education at Chicago but also of their own experience under the ISI system. In the words of "*The Brick*": "from the late 1930s Chile has increased a line of state interventionism" creating an enormous "discretionary power" for institutions which use this power in an "abusive way".<sup>550</sup> In particular the ISI system had been counterproductive because it had resulted in a "concentration of productive resources", which was "dammed to have low growth rates".<sup>551</sup> More importantly, as Bardón pointed out, this expansion of government had also meant a "deterioration of the effective exercise of personal rights, in particular freedom".<sup>552</sup>

According to "*The Brick*" by promoting runaway government intervention, the interventionist policies of the ISI system had undermined the economy leading to social conflict and political instability. For the Chicago Boys, the result of statism had been a vicious circle in which government intervention created economic problems that fed more radical ideologies, which in turn expanded government intervention even further.<sup>553</sup> In the words of "*The Brick*":

There is no doubt that the deficient economic development of the last decades not only has led to increasing tensions and frustrations but also has fed the growth of political currents and ideologies that prevent the country from solving its problems in an efficient way and in a framework of mutual respect among Chileans. The social, economic and political crisis is evident....<sup>554</sup>

And later "*The Brick*" insisted: "the anxiety for achieving more economic growth and the

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<sup>550</sup> *El Ladrillo*, p. 29-30.

<sup>551</sup> *Ibid.*, p. 32.

<sup>552</sup> Álvaro Bardón, *Elementos para elaborar un programa*, 1983, CIDOC, Universidad Finis Terrae, Reference code CL-CIDOC-14-L.10-122159/1983- Box: AG-7.

<sup>553</sup> *Ibid.*, p. 29.

<sup>554</sup> *Ibid.*, p. 22.

failure in delivering it by the successive programs have paved the way for the Marxist demagoguery”, which promised to “substantially improve the quality of life of the immense majority of Chileans without affecting more than the rich”.<sup>555</sup> Less than three years, continued “*The Brick*”, had been enough for making evident the complete failure of the Marxist recipe.<sup>556</sup>

In the view of the Chicago Boys, the free market revolution, based on the science of economics, was necessary not only to restore a functioning economy but also to create the foundations for a viable democracy and political liberty. In a book assessing one decade of liberal economic reforms under the military government (1973-1983), Chicago Boys Álvaro Bardón, Camilo Carrasco and Álvaro Vial endorsed Friedman’s vision arguing that the evidence not only proved that free market oriented countries had the highest living standards, but also showed a much higher level of respect for the fundamental rights of the individuals than socialist countries. Like Friedman, Carrasco, Vial and Bardón, explained that a system of free market institutions in which government assumes a subsidiary role would also increase the respect for human rights and personal liberties:

For the effective respect for personal rights, authentic liberty and equality before the law, government interventionism becomes an almost impassable barrier. Personal rights that appear in laws become pure formality when the obtainment of jobs is more a political than an economic matter. If the state distributes jobs, goods, fixes quotas, fixes prices, etc., arbitrariness that favors friends, relatives and people connected to the political power becomes the rule while personal rights tend to disappear as happened under the government of Salvador Allende.<sup>557</sup>

In the words of Bardón, Carrasco and Vial, economic liberty was a “necessary condition” for political liberty. In the long run, they argued, economic liberty had “a very high probability of influencing political liberty”, even though it was not a “sufficient condition for it”.<sup>558</sup> Moreover, economic liberty was a “value in itself” because it was part of integral liberty and was “indispensable for an effective political liberty and the respect of the most fundamental rights” of the individuals.<sup>559</sup> Accordingly, increasing statism was “incompatible with personal freedom and an effective democracy” that required “decentralization and the respect for private property”.<sup>560</sup> For

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<sup>555</sup> *El Ladrillo*, p.28.

<sup>556</sup> *Ibid.*, p. 29.

<sup>557</sup> Álvaro Bardón, Camilo Carrasco and Álvaro Vial, *Una década de cambios económicos*, Editorial Andrés Bello, Santiago, 1985, p.206.

<sup>558</sup> *Ibid.*, p. 218.

<sup>559</sup> *Ibid.*, pp.218-219.

<sup>560</sup> *Idem.*

the authors, in Chile this reality had been gradually forgotten by “the influence of socialist ideas and the myth that government serves the interest of the whole of the community.”<sup>561</sup>

The Chicago Boys claimed that Chile’s institutional evolution from the 1930s onwards had made people more dependent on government and political parties, which in turn had become instruments for serving interest groups.<sup>562</sup> The same diagnosis had been made by the Klein & Saks Mission two decades earlier. And just as the Klein & Saks Mission had observed, the Chicago Boys warned in “*The Brick*” that this politicization of society had become the source of permanent social conflicts and political instability, threatening to destroy the foundations of democracy. As a result, the Chicago Boys believed that between the 1930s and 1973, despite formal appearances, the Chilean democracy “was never functional to progress and personal liberty”.<sup>563</sup> Accordingly, they sustained that it was only by reducing the size of government that it was possible to create an institutional framework that would put an end to an “anarchic system” that favored the “abusive use of power” by interest groups.<sup>564</sup> In the words of Sergio de Castro, the restoration of economic liberty was “the only way to improve the quality of life and guarantee justice for all Chileans”.<sup>565</sup>

For the Chicago Boys, political liberty and democracy demanded that government became a rule maker and an umpire along the lines classical liberals like Friedman and Courcelle-Seneuil had advocated. This did not exclude the provision of a safety net for the very poor. It meant that the main goal of the libertarian revolution was to maximize spaces of individual freedom by dramatically reducing the scope of government intervention. This would lead to a depolitization of society, giving power back from the government and interest groups to the people. Only thus could the foundations for a viable democracy be set in place. As Bardón argued, a functioning democracy could not be “imposed by decree”.<sup>566</sup> It was necessary to liberalize “step by step” so that “government gives its power away”.<sup>567</sup> Otherwise, as Bardón himself explained in 1979, when government controls everything, “when there is a presidential election what one is electing is a dictator”.<sup>568</sup> Along the same lines, labor minister José Piñera said that the structural economic reforms promoted by the government sought to “introduce spaces of individual freedom unknown to the Chilean people, transforming Chile into a country where reason prevails over dogmatism and prejudices, and where individual liberty is the general rule and state intervention the exception”.<sup>569</sup>

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<sup>561</sup> Ibid., p. 204.

<sup>562</sup> *El Ladrillo*, p.32.

<sup>563</sup> Álvaro Bardón, *Elementos para elaborar un programa*, p.1.

<sup>564</sup> Ibid., p.30.

<sup>565</sup> Sergio de Castro, *Fundamentos del modelo económico mixto y moderno del gobierno de Chile*, CIDOC Universidad Finis Terrae, Reference code CL-CIDOC-10-K.4-122268/1901- Box WTA-45.

<sup>566</sup> Pablo Baraona, Hernán Felipe Errázuriz, Cristián Larroulet, *Álvaro Bardón: un libertario original*, El Mercurio-Aguilar, Santiago, 2008, p 212.

<sup>567</sup> Idem.

<sup>568</sup> Idem.

<sup>569</sup> *Qué Pasa*, December 27, 1979.

Piñera added that it was necessary to “establish individual liberty in the roots of society”.<sup>570</sup> The Chicago Boys believed in the principle of decentralization in order to reduce the power of government and increase individual freedom: “Professors should be in charge of the universities, parents should take part in the administration of schools, individuals should integrate community organizations, communities should contribute to define the general orientation of public hospitals, etc.”<sup>571</sup> Piñera explained that this was a “bottom up” democratization process that was essential for reintroducing formal democracy: “It is only after a bottom up democratization process, which takes away from government its absolute power eliminating several conflict sources for the state, that modern democratic mechanisms to create the political leadership on top, can be operated”.<sup>572</sup> In this context, Piñera argued that the aim of the reforms was clear: “the big challenge for the government is to make the last revolution; a libertarian one that will take away the power of government giving it back to the individuals, thereby ending with all revolutions”.<sup>573</sup>

“*The Brick*” shared the same goal of restoring economic liberty as a necessary condition for reintroducing a stable democracy and political liberty. Indeed, the first goal on the list prepared by the authors was to “obtain a high and stable rate of economic growth within the context of a truly democratic government, which ensures the full enjoyment of civil rights to majorities and minorities”.<sup>574</sup> The authors echoed Adam Smith and Friedman arguing that the best way to solve Chile’s economic problems was by allowing “the functioning of the impersonal markets without bureaucratic discretion but regulated by competition and the existence of several controls, incentives and sanctions”.<sup>575</sup> In this free market system they added, government had to secure the most comprehensive “economic liberty and economic equality for all citizens guaranteeing their political liberty and political equality” the only limit being “the common or social good”.<sup>576</sup> For that it was necessary to “decentralize the economic system” disseminating the power concentrated in the hand of political parties so that the community could have an effective participation and equality in opportunities could increase. This decentralization argued “*The Brick*”, would “fraction and distribute power transferring it from the top to the bottom”.<sup>577</sup> As a result of this dissemination of power, numerous activities would become “depoliticize” and ideological conflicts would not take place within the government’s action.<sup>578</sup>

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<sup>570</sup> Idem.

<sup>571</sup> Idem.

<sup>572</sup> Idem.

<sup>573</sup> Idem.

<sup>574</sup> *El Ladrillo*, p.52.

<sup>575</sup> *Ibid.*, p.160.

<sup>576</sup> Idem. By economic equality “*The Brick*” meant the absence of arbitrary privileges granted by government.

<sup>577</sup> *Ibid.*, p.71.

<sup>578</sup> *Ibid.*, p.54.

*Constructing a libertarian and democratic society: Bardón's memo to General Pinochet and Büchi's classical liberal government program.*

One of the most telling documents with regard to the Chicago Boys' project of creating a free society both in economic and political terms was a memo prepared by Alvaro Bardón in the early 1980s. The document entitled "Elements for Designing a Program" was written for General Pinochet and its aim was to orient the military government on the course of action it had to follow until the return of democracy in 1990. Bardón laid down the fundamental principles of British-American liberalism. It insisted that a consensus had to be reached along the libertarian lines proposed in the document so that a successful transition to a "regular government" could take place.

In the first part, the President of the Chilean Central Bank basically repeated the argument of "*The Brick*" in that from the 1930s onwards Chile had followed a path of increasing statism that had resulted in economic stagnation, high inflation and social instability. According to Bardón this over expansion of government had affected personal liberties and distorted democracy because government no longer represented the interest of the voters, and was instead captured by interest groups. In Bardón's words: "social conflicts were permanent and the power of the *gremios* in collusion with political parties... distorted political participation and the allocation of resources creating a sort of corporatist socialism".<sup>579</sup> This process had in turn led to increasing ideological responses until it reached its climax under the UP government.

After listing the achievements of the military regime in one decade, Bardón went on to explain which the pending challenges for the government were. According to Bardón the government had to "open more space for a true exercise of personal rights, in particular freedom".<sup>580</sup> In addition, the government had to continue the process of decentralization of power and further modernize the economy in order to allow the development of the liberty necessary to adapt to the radical changes that were taking place in the world. For Bardón, this goal required a system of private property that was both extensive and massive.

The government also had to reassure that the social order would enable the "organization of the people in a framework of the most extensive liberty".<sup>581</sup> Moreover, for Bardón the government had to "reiterate that the political goal of the regime is to achieve a democracy without the vices of the past, adapted to the new world, functional to development and respectful of personal liberties".<sup>582</sup> This regime, insisted Bardón, was not corporatist. It aimed at constructing "a true

<sup>579</sup> Bardón, *Elementos para elaborar un programa*, p.2.

<sup>580</sup> Ibid., p.14.

<sup>581</sup> Ibid., p.15.

<sup>582</sup> Idem.

democracy” by promoting an active and direct participation of the diverse groups and civil organizations.<sup>583</sup> In order to achieve this, Bardón argued that the military government also had to “explain how the transference of power” from the military government to the newly elected authorities was going to take place.<sup>584</sup>

With regard to terrorism, Bardón emphasized that the internal security forces had to be organized in a way that could effectively fight terrorism “protecting individual rights and the tranquility especially of marginalized groups of society”.<sup>585</sup> Bardón added that among western intellectuals libertarian ideas had been experiencing a comeback and that the Chilean government could benefit by adopting those ideas in its fight against Marxism.<sup>586</sup>

As far as concrete policies were concerned, Bardón suggested that private property should be extended, arguing, like Friedman, that “the diffusion of property” enabled an “effective liberty”.<sup>587</sup> For this, the military government had to implement several reforms which, according to Bardón, were necessary to apply this “democratic and libertarian philosophy” that saw the division of power as an essential feature.<sup>588</sup> Accordingly, all restrictions to the creation of research centers, healthcare centers, as well as prohibitions for television, radio and publications had to be eliminated. Likewise, Bardón insisted that “several democratic libertarian” improvements could be made such as eliminating restrictions for creating sports clubs, student federations, unions or any other form of civil organization.<sup>589</sup>

Shortly before finishing the document, Bardón warned that the program of the government for the coming years could by no circumstance be corporatist or fascist because that was not what had been promised. In order to fight that stigma, the government had to “increase political participation, enable the existence of political parties, favor liberty and personal rights and speak about constructing a modern democracy”.<sup>590</sup> Finally Bardón urged Pinochet to “decentralize power” as soon as possible in a way that was “difficult to reverse”. Bardón’s final remark in the memo stated in no uncertain terms the philosophy behind the free market revolution: “This is all about constructing a modern and libertarian society that is able to resist the radical and constructivist ideologies that have dominated us”.<sup>591</sup>

The person in charge of projecting that libertarian and democratic society was finance minister Hernan Büchi who ran for president in 1989. Along with Jose Piñera, Büchi had been the

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<sup>583</sup> Idem.

<sup>584</sup> Idem.

<sup>585</sup> Idem.

<sup>586</sup> Ibid., p.34.

<sup>587</sup> Ibid., p.18.

<sup>588</sup> Ibid., p. 19.

<sup>589</sup> Ibid., p. 37.

<sup>590</sup> Ibid., p. 42.

<sup>591</sup> Ibid., p. 46.

most influential second generation Chicago Boy and the central architect of Chile's rapid economic recovery after the devastating 1981 economic crisis. The basic philosophy of Büchi's campaign was summarized in a brief document that was made available to the Chilean public under the title "Cuatro tareas para avanzar en paz: lineamientos fundamentales del programa de gobierno de Hernan Büchi". (Four Tasks to Move Forward in Peace: Fundamental Guidelines of the Government Program of Hernan Büchi".) The document stated that at the end of the 20<sup>th</sup> century mankind had "rediscovered" the "value of personal liberty as the most powerful engine of human perfection and the principle upon which society should be organized".<sup>592</sup> According to the document, thanks to this "libertarian revolution" several countries had been able to progress in economic, social and cultural terms, which contrasted dramatically with the failure of collectivist systems that opposed freedom.<sup>593</sup> Socialism, argued Büchi's campaign, not only created economic misery but also led to the systematic violations of personal rights. The document went on explaining the philosophical position of Büchi and his followers in the following terms: "we deeply believe in personal liberty which is the source of individual and collective progress...we promote the stability of the family, and the creation of an atmosphere of responsibility and individual effort, of sobriety and respect for the individuals".<sup>594</sup> According to Büchi's basic philosophy, personal liberty implied "tolerance" which meant "the respect for different ways of thinking and acting."<sup>595</sup> Moreover, far from endorsing a purely economic approach to progress, Büchi's campaign stated that "the degree of development of every country should be measured by its respect to individuals" more than by its material wealth.<sup>596</sup> The document went on arguing that people had fundamental rights that were "prior and superior to the state". In this context, liberty was understood mostly in a negative sense. According to the document, liberty "dignified" the individual because it entailed the respect for fundamental rights such as the right of life, freedom of speech, property and political rights.<sup>597</sup>

After stressing the value and meaning of liberty, Büchi's program explained the origins of the crisis that put an end the UP government. The explanation was that same that had been given by Friedman, the authors of "*The Brick*" and several other documents written by the Chicago Boys. According to Büchi's program, the government had strangled individual freedom over the decades making economic progress impossible, thereby undermining social stability, and eventually leading to the breakdown of the economy and the democratic order. The lack of economic liberty had

<sup>592</sup> "4 Tareas para avanzar en paz", 1989, p.1. CIDOC, Universidad Finis Terrae, Reference code CL-CIDOC-14-M.2-122802/1901-

<sup>593</sup> Ibid., p. 2.

<sup>594</sup> Idem.

<sup>595</sup> Idem.

<sup>596</sup> Idem.

<sup>597</sup> Idem.



brought about the destruction of political liberty and democracy, argued the document. In the light of that experience, Büchi's government would "construct a society that was politically and economically free".<sup>598</sup> This new democracy should by no means "sacrifice" the economic achievements that had been reached because freedom was the only way to maintain prosperity and a functioning democratic system.<sup>599</sup>

Following "*The Brick's*" diagnosis that democracy and political liberty could only be sustainable if effective economic freedom and progress were achieved, Büchi argued that the challenge was to combine and maintain all these elements in order to ensure peace and progress. Accordingly, government power had to be strictly limited not only in economic terms but also in its ability to affect personal rights. In the document's words: "our project seeks to enlarge economic, social and political liberty by creating the conditions which enable everyone to develop his creativity and potentialities".<sup>600</sup> Education in values such as love, tolerance, austerity and responsibility were essential for the proper cultivation of liberty argued the document.

*Spreading British - American liberalism: the creation of the Centro de Estudios Públicos and the Mont Pelerin Society meeting in Viña del Mar*

As has been argued, Douglass North identifies ideas and ideologies as a major force of institutional change. In Chile, two of the most important efforts made during the military regime to provide the necessary intellectual base for the transition to a free and democratic society were the creation of the Centro de Estudios Públicos (CEP) in 1980 and the celebration of the Mont Pelerin Society (MPS) regional meeting in the city of Viña del Mar in 1981. The meeting in Viña del Mar was attended by emblematic figures of the neoliberal world such as James Buchanan, Hans Sennholz, Milton and Rose Friedman, Gottfried Dietze, Arnold Harberger, Gordon Tullock and Reed Irvine among others. The event was described by the editor of the MPS Newsletter Eric Brodin as "the largest and one of the most successful regional meetings in the ten years in which regional meetings had been held".<sup>601</sup>

The initiative to celebrate the regional meeting in Viña del Mar came from Chile. It was former senator Pedro Ibáñez and Chicago Boy Carlos Cáceres who contacted Friedrich von Hayek in order to propose to him the idea of holding a meeting in Chile. Ibáñez had been one of the founders of the Adolfo Ibáñez Business School in Viña del Mar, a free market oriented institution

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<sup>598</sup> Ibid., p.3.

<sup>599</sup> Idem.

<sup>600</sup> Ibid., p.22.

<sup>601</sup> Eric Bodwin, "MPS Regional Meeting in Chile", 15-19 November 1981, *The Mont Pelerin Society Newsletter*, p.1. Box 490, Campell University, North Carolina 27504-0400. Also available at: <http://coreyrobin.files.wordpress.com/2012/07/vina-del-mar-2.pdf> Last accessed: 28-06-2014.

whose dean at the time of the MPS meeting was Cáceres. In April 1978, Cáceres wrote a letter to Hayek thanking him for having visited the Business School in November of 1977. Cáceres also thanked Hayek for his invitation to attend the general MPS meeting which took place in Hong-Kong in September of 1978. Cáceres wrote that he considered “that the topic to be discussed, ‘The Order of Freedom,’ was of “extreme importance to what is going on in Chile and in the free world in our days”.<sup>602</sup> In the same letter, Cáceres informed Hayek that Ibáñez would make a formal proposal to hold the 1980 general meeting of the MPS in Chile. On July 8, 1978, Ibáñez sent a letter to Hayek telling him about his intentions to formally propose Chile for holding the MPS general meeting of 1980 and asking him for his support at the Board of Directors of the MPS. At the time Ibáñez wrote to Hayek, the discussion about a new constitution that would enable a transition to democracy was at its height. In the letter, Ibáñez left no doubt about the importance of an MPS meeting given the historical context of the country. Ibáñez explained to Hayek that there was “an increasing debate on the new political institutions” adding that his ideas constantly emerged “as frequent subjects of discussion.”<sup>603</sup> For Ibáñez, an MPS meeting in Chile would be crucial to provide intellectual support to the process of creating a free society: “I sincerely feel that there are good valid reasons to consider Chile as the place for the 1980 meeting of the Society. Economic as well as political developments in my country may be worth reviewing and analyzing on the spot.”<sup>604</sup>

As a result of Ibáñez proposal, the Board of Directors of the MPS decided to hold a regional meeting in 1981 in Viña del Mar. The local organizing committee was made up by Pedro Ibáñez and Chicago Boys Carlos Cáceres, Rolf Lüders, Jorge Cauas, Pablo Baraona and Hernán Cortés. Although Hayek did not attend the meeting, he visited Chile in April of the same year after an invitation made by Jorge Cauas. Cauas invited Hayek on the occasion of the foundation of the Centro de Estudios Públicos (CEP). The CEP was a think tank created by Cauas and other Chicago Boys, economists and business people with the aim of promoting a classical liberal philosophy in an effort to contribute to the construction of a free society along the lines of neoliberalism in Chile. In its statement of aims, the CEP declared that it sought to diagnose “the problems related to philosophy, politics, society and public affairs in order to facilitate the comprehension of the factors that are decisive for the achievement and conservation of a free society...”<sup>605</sup> It further declared that “the values on which its work is grounded are those that enable the existence of the most extended

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<sup>602</sup> The letter is to be found at the Hoover Institution on War, Revolution, and Peace, Stanford, California 94305-6010, under the title “The Mont Pelerin Society Records”, boxes 5-28. A photo of the letter and other original material concerning the MPS meeting in Chile can also be found at: <http://coreyrobin.files.wordpress.com/2012/07/vina-del-mar-4.pdf> Last accessed 28/06/2014.

<sup>603</sup> Idem.

<sup>604</sup> Idem.

<sup>605</sup> See: Centro de Estudios Públicos, Colección Hayek, Caja 15, Carpeta 16.

personal liberty within a society that lives in peace and harmony. The set of values that orient and organize its work are therefore those in which the ideals of liberty are privileged”.<sup>606</sup> The CEP became by far the most influential think tank in Chilean history and a powerful engine in spreading neoliberal ideas. In 2012 it was ranked among the 25 most influential think tanks in the world by the Think Tanks and Civil Societies Program of the International Relations Program of the University of Pennsylvania.<sup>607</sup> Until these days, the think tank declares that it “is a private non-partisan non-profit academic foundation” that engages “in cultivating, analyzing, and disseminating the values and principles on which a free and democratic order is based”.<sup>608</sup>

The creation of the CEP and the celebration of the MPS meeting were part of the strategy of achieving intellectual hegemony by the Chicago Boys so that neoliberalism would become the driving intellectual force behind institutional change even after the transition to democracy. After the MPS meeting in Viña del Mar, Brodin reported that several participants had visited the CEP in order to become better acquainted with the institution. Brodin described the CEP as “an institute supported by heavy weights in classical liberalism” including “Sergio de Castro, Juan Carlos Méndez and Jorge Cauas,” all of whom belonged to the group of the Chicago Boys.<sup>609</sup> According to Brodin, the CEP was concerned with “the lack of a sense of moral philosophy in the classical tradition of Adam Smith’s *The Theory of Moral Sentiments* in contemporary economics”.<sup>610</sup>

The CEP’s ambition to influence the institutional transformation of Chile along the lines of neoliberalism and classical liberalism was supported by major figures of the neoliberal world such as Friedrich Hayek, Theodore Schultz, Karl Brunner and Arthur Seldon, all of whom became members of the think tank’s board of directors.<sup>611</sup> Of all the great names, Hayek was the most important for the project. This is further indication that the Chicago Boys were not only interested in economic liberalism. In March 1981 Cauas wrote to Hayek explaining that even though the economy was making progress thanks to the free market reforms, he and the group behind the CEP were aware that much more had to be done in order to create the base for “the political order of a free society”. With this last phrase Cauas was alluding to Hayek’s third volume of his work *Law, Legislation and Liberty*, which was entitled “The Political Order of a Free People”.<sup>612</sup> Cauas went on to explain the importance of Hayek’s philosophy in the process of construction of a free political system in Chile:

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<sup>606</sup> Idem.

<sup>607</sup> See: [http://www.cepchile.cl/1\\_4965/doc/el\\_cep\\_entre\\_los\\_30\\_think-tanks\\_top\\_del\\_mundo.html#.UiXPVNJgdNJ](http://www.cepchile.cl/1_4965/doc/el_cep_entre_los_30_think-tanks_top_del_mundo.html#.UiXPVNJgdNJ)  
Last accessed: 28/06/2014

<sup>608</sup> See: [http://www.cepchile.cl/dms/lang\\_1/base/nosotros.html](http://www.cepchile.cl/dms/lang_1/base/nosotros.html) Last accessed: 28/06/2014

<sup>609</sup> Bodwin, “MPS Regional Meeting in Chile”, p.5.

<sup>610</sup> Idem.

<sup>611</sup> Bruce Caldwell, “Los cincuenta años de los Fundamentos de la Libertad”, in: *Revista Estudios Públicos* No. 120, Santiago, 2010, p.45.

<sup>612</sup> Ibid., p.44.

We believe it is an extremely important enterprise in particular for Chile...the work you have done in the last decades and which culminated with the publication of *The Constitution of Liberty* and *Law, Legislation and Liberty*, is without any doubt the most important work in this sense and therefore it is natural that we see you, professor Hayek, as our intellectual leader. We would feel honored to count on your advice and support in this mission.<sup>613</sup>

In May 1981, Cauas visited Hayek in Freiburg asking him to become honorary president of the CEP, a position that Hayek accepted. Some months earlier, Hayek had written to Carlos Cáceres to ask for his opinion about Cauas and the CEP. Cáceres wrote a letter to Hayek dated October 10, 1980, where he answered that Cauas, who had been Finance Minister from 1975 to 1977, had been in charge of “making the most important decisions to establish in our country a free economic system in an environment that could be qualified as the most difficult since the 1930s”.<sup>614</sup> Cáceres accounted for the libertarian motivation of Cauas with the creation of the CEP as follows:

Since he returned to Chile Mr. Cauas has been concerned about the development of an intellectual group which can support the basic ideas of a free social system. With that purpose he has joined the effort of some academicians and businessmen...All of them have decided to create the Centro de Estudios Públicos with the purpose of researching and publishing the ideas concerning the fundamentals of a free society...I share the concern of establishing in Chile an institute which could develop an original set of ideas about the whole meaning of freedom in the social, political and economic structure.<sup>615</sup>

As part of the coordinated efforts to spread British-American liberalism, after the MPS meeting in Viña del Mar, the CEP published a selection of the papers presented at the conference as well as a lecture given by Hayek during his visit to Chile earlier that year. The papers presented at the MPS meeting are of particular importance because they clearly sought to influence the intellectual climate of opinion in Chile with classical liberal ideas of liberty. The same CEP declared in the introduction of the book with the papers that the think tank was “sure that the essays contained in this number will contribute to the extensive and sound debate on the ideas of liberty”.<sup>616</sup>

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<sup>613</sup> Ibid. pp. 44-45.

<sup>614</sup> Letter available at: <http://coreyrobin.files.wordpress.com/2012/07/vina-del-mar-4.pdf> Last accessed 28/06/2014.

<sup>615</sup> Idem.

<sup>616</sup> See: Centro de Estudios Públicos, Conferencia Mont Pelerin, in: *Revista Estudios Públicos* No. 6, Santiago, 1982,

The essays selected for publication were *Freedom of expression and misinformation in the Western World* by Reed Irvine, *Introduction of Market Economies: The German Model compared with the Chilean Model*, by Wolfgang Frickhöffer, *Democracy: Limited or Unlimited* by James Buchanan, *The Growth of the Leviathan* by Christian Watrin, *The Chilean way to the Market Economy*, by Carlos Cáceres, *The Morality of the Market System*, by R.M Hartwell, *Capitalism under the test of Ethics*, by Arthur Shenfield, *The Foundations of Redistribution* by Gordon Tullock, *A Monetary System for a Free Society*, by Milton Friedman, Gotfried Dietze *Democracy and Proper Democracy*, and Friedrich von Hayek's conference in April 1981 at the CEP entitled *The Principles of a Liberal Social Order*. These articles covered many of the most important topics of classical liberalism all of which were of high relevance for the Chilean situation. Buchanan's reflection on the nature of democracy for example, came at a point in time when the new constitution had recently been created and the transition to democracy was being discussed. According to Karin Fisher, Buchanan's paper provided theoretical support for the construction of a limited democracy by the Chicago Boys.<sup>617</sup>

For Buchanan, who along with Gordon Tullock visited Chile several times during the free market revolution, the question was how to restrict democracy so that a society could function enabling people to retain their individual liberties.<sup>618</sup> The scope of government activity played a crucial role in this context. According to Buchanan's public choice theory bureaucrats are self-interested motivated people that seek to maximize their own utility from their positions in government. When this becomes clear then the only system that can ensure political equality<sup>619</sup> is one that tends to a minimal state that protects property rights and personal liberties and provides the elements necessary for the enforcement of contracts.<sup>620</sup> The opposite is a protectionist and redistributive government in which collective decisions have winners —takers— and losers —payers. According to Buchanan, modern democracies, with massive transference programs and protectionist legislations were in some middle point between both extremes. The protection of personal liberties he insisted, can be best achieved with constitutional provisions that restrict the scope of government to some well-defined activities even if this means restricting democracy. Only thus can society be depoliticized and the market can play the role of efficiently allocating resources and coordinating human activity.<sup>621</sup>

Buchanan's ideas were of course in the classical liberal tradition. He himself recognized in

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p.6.

<sup>617</sup> Fisher, "The influence of Neoliberals in Chile, before, during and after Pinochet", p.235.

<sup>618</sup> James Buchanan, "Democracia: limitada o ilimitada", *Revista Estudios Públicos*, No. 6, Santiago, 1982, p.37.

<sup>619</sup> Political equality as described by Buchanan is a situation in which all members of the community are equal before the law and have equal saying in the process that changes the laws and constitution of the polity.

<sup>620</sup> Buchanan, "Democracia: limitada o ilimitada", p.42.

<sup>621</sup> Idem.

the paper published by the CEP that he was following the ideas of thinkers from the 18<sup>th</sup> century such as, Adam Smith, David Hume, Thomas Jefferson, James Madison and Montesquieu.<sup>622</sup> According to Buchanan, these thinkers and others had develop a healthy skepticism with regard to governments and bureaucrats, which had led them to propose several constitutional controls over their power. In addition, wrote Buchanan, these thinkers understood that it was the spontaneous order of the market what was capable of coordinating human efforts in the context of a minimal state thus offering a powerful check to the power of government. These classical liberals argued Buchanan, understood that there was a political function of the market economy, something that had been lost with time.

Buchanan's paper published by the CEP was complemented by two other papers that addressed the dangers that democracy poses to individual liberty. One was Dietze's paper on proper and improper democracy and the other one was Watin's paper on the growth of the Leviathan. In his paper, Dietze argued that the modern tendency towards liberalism emerged prior to the modern tendency towards democracy and that democracy used to be an instrument to increase liberty. According to Dietze, in the tradition of classical liberalism, "proper democracy serves for the defense of the rights of the individuals against the power of government".<sup>623</sup> Like Buchanan, Dietze argued that the constitution's role in this tradition was the limitation of the powers of government. According to Dietze, from a classical liberal perspective, the more the liberty of individual is guaranteed, the more proper is democracy. And this implied a strong and special protection of the right of property without which democracy ceases to be proper. Socialists and fascist regimes were plain democracies so long as they are structured upon the base of the popular participation principle, but could not be considered proper democracies because there was no protection of property rights and other individual rights.<sup>624</sup> In order to subsist, concluded Dietze, proper democracies, or democracies as they were understood in the tradition of classical liberalism, had to protect the rights of the individuals both from the government and from other individuals. Dietze concluded that a liberal democracy required a constitution that protects democracy from its abuses and self-destruction.<sup>625</sup>

Watin's paper made the same case as Dietze's arguing that from ancient times the democratic movements had had the objective of protecting individual liberties adding that history was full of examples of democracies that had ended up destroying themselves.<sup>626</sup> According to Watin, this was due to the fact that from Rousseau onwards democracy was no longer understood

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<sup>622</sup> Ibid., p.47.

<sup>623</sup> Gottfried Dietze, "Democracia tal como es y democracia apropiada", *Revista Estudios Públicos* No. 6, Santiago, 1982, p.28.

<sup>624</sup> Ibid., p.31.

<sup>625</sup> Ibid., p.34.

<sup>626</sup> Christian Watin, "El crecimiento del Leviatán", *Revista Estudios Públicos* No. 6, Santiago, 1982, p.55.

as a means to guarantee liberty but as a form of government that idealizes the power of the majority. It was this transition from a government of majorities to a tyranny what was the greatest threat to free societies.<sup>627</sup> Following Buchanan's argument, Watrin sustained that a crucial distortion of democracies in the western world was the expansion of the welfare state, which did not necessarily serve the interest of the people. This tendency of government to grow, added Watrin, had the potential of destroying individual liberties and democracy itself.<sup>628</sup> Accordingly, the only way to ensure the subsistence of liberal democracies was to stop the growth in government activities by creating constitutional arrangements. Constitutional rules that ensured liberal policies in commerce, industry and research, a possible return to the gold standard and a reduction in government redistributive activities along the lines of the German model of the social market economy were some of the ideas proposed by Watrin in order to dismantle the welfare state.<sup>629</sup>

It was no coincidence that the CEP, a home to the Chicago Boys, should have chosen Buchanan's, Dietze's and Watrin's articles for publication. At a time when the nature of the new democracy was being discussed and defined in the new Chilean constitution, those classical liberal authors provided intellectual support for creating a type of democracy based on the classical liberal view. The three authors promoted a prevalence of liberty, understood in negative sense, over democracy and warned against the dangers of the welfare state both for personal rights and democracy itself. With these ideas, the articles by Buchanan, Watrin and Dietze basically came to reinforce Milton Friedman's and the Chicago Boys' views about Chile's recent history and the relevance of economic liberty for democracy and political liberty. The fact that Carlos Cáceres' conference at the MPS in Viña was also chosen for publication confirms this motivation. In his paper, Cáceres started with an explanation common to all Chicago Boys with respect to the causes of Chile's institutional and economic crisis in 1973. He argued that there had been a period of free market economy at the beginning of the 20<sup>th</sup> century and that the Great Depression had led to an "increasing intervention of government and ultimately the implantation of a socialist regime".<sup>630</sup> Dependency theory, explained Cáceres, had defined the new development model without any regard for efficiency considerations. This had led to even more government intervention and the use of discretionary power by state officials, which restricted economic and civil liberties. Cáceres also blamed the Alliance for Progress, the Christian Democratic Party and ECLA for pushing socialism even further with disastrous consequences for the economy and personal liberties.<sup>631</sup> Finally, Cáceres explained, the UP government and its attempt to introduce a full scale centrally

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<sup>627</sup> Ibid., p.56.

<sup>628</sup> Ibid., p.62.

<sup>629</sup> Ibid., pp.65 ff.

<sup>630</sup> Carlos Cáceres, "La vía chilena a la economía de mercado", *Revista Estudios Públicos*, No. 6, Santiago, 1982 p.72.

<sup>631</sup> Ibid., p.74.

planned economy in a context of political violence and hyperinflation had led to the collapse of the entire social system. According to Cáceres, along with the economic disaster, the UP government had broken the central rules of a liberal democracy by violating the fundamental rights of the individuals thereby paving the way for the military intervention.<sup>632</sup> The new military regime, said Cáceres, had assumed the task of reintroducing a market economy and a liberal democracy. Cáceres went on making the case for limited democracy arguing that the new government understood that an “unlimited democracy” sooner or later would sow the seeds of its own destruction.<sup>633</sup> The new system envisioned by the government, had to be based upon a market economy, a strong protection of property rights as well and the principle of subsidiarity of the role of government. Democracy thus organized, concluded Cáceres, was not a mere procedure to elect the rulers but a way of life that guaranteed personal liberties. For Cáceres, Friedman’s *Free to Choose*, was the aim of the new democratic order incorporated in the Constitution of 1980.<sup>634</sup>

Along the same lines of Cáceres and even in more radical terms, Frickhöffer’s presentation at the MPS in Viña del Mar, also published by the CEP, argued that it was undeniable even for a democrat like himself, that before 1973 the Chilean democracy was “an abominable and antisocial farce”.<sup>635</sup> He argued that the authoritarian nature of Chile’s political regime allowed to make more profound reforms than would be possible under a democracy. Frickhöffer compared Chile with the Germany of Ludwig Erhard, who also made his drastic economic reforms in a context that was not a parliamentary democracy.<sup>636</sup> The inability to make the necessary free market reforms to correct an unsustainable statist course was for Frickhöffer one of the central weaknesses of democracy. A weakness that became a threat to personal liberty and democracy itself and that had to be eliminated by constitutional restraints.

### *Conclusions to chapter III*

Following North’s insight that reality feedback modifies beliefs and in turn the new beliefs lead to institutional changes, this chapter has explained how new ideologies prone to the expansion of government penetrated in Chile and contributed to change the liberal institutional framework that had prevailed until the Great Depression of 1929. Along with the failure of the free banking system the Great Depression was largely responsible for the decline of British-American liberalism and the

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<sup>632</sup> Ibid., p.81.

<sup>633</sup> Idem.

<sup>634</sup> Ibid., p.83.

<sup>635</sup> Wolfgang Frickhöffer, “La implantación de una economía de mercado: el modelo alemán y el modelo chileno”, *Revista Estudios Públicos*, No. 6, Santiago, 1982, p.89.

<sup>636</sup> According to Frickhöffer, Erhard used the “golden opportunity” offered by the fact that Germany was occupied and all that was needed was General Lucius Clay’s consent to make the reforms.



rise of socialism, nationalism, fascism, protectionism and communism. Of all the institutions that congregated intellectuals who sought to debunk classical liberalism, ECLA had the most decisive influence on the intellectual and political spheres. With the explicit aim of putting an end to Courcelle-Seneuil's legacy, ECLA managed to lead Chile's institutional evolution towards an increasing role of government in the economy and social life. However, as this chapter shows, liberalism, although weakened, remained present in Chile. The fact that in the 1920s and the 1950s the Chilean government sought economic advice from American liberal economists indicates that at least in economic matters liberalism remained an influential worldview. Both Edwin Kemmerer and the Klein & Saks mission basically sought to revive Courcelle-Seneuil's economic philosophy through reforms that pointed in the direction of substantially reducing the scope of government interference. The intellectual turning point in favor of liberalism would come in the 1950s with the visit of the Klein & Saks mission and the agreement between the Universidad Católica and the University of Chicago. In addition, *El Mercurio* started an aggressive campaign in order to promote the liberal ideas imported from the United States. All of this shows that liberalism had started to gain intellectual terrain in Chile decades before the Chicago Boys had the chance to make their reforms. This revival of liberalism was largely a reaction against what was viewed as the poor results of the ISI system and government intervention in the economy. It was again reality feedback, as North allows to conclude, that led to the rebirth of what Anibal Pinto called "courcelle-seneuilismo". Also vital in this process of liberal revival was the role played by the Cold War. As this chapter explains, the Chicago Boys were largely the product of the ideological clash between American democratic capitalism on the one hand and Soviet socialism on the other hand. Moreover, the joint program of the University of Chicago and the Universidad Católica was partly financed by the American government and had the explicit aim of promoting American ideas of freedom that could debunk ECLA's dominance as well other collectivist doctrines. The historical context in which the process took place was of extreme ideological polarization and increasing "political disorder". As North observed, political disorder leads to ideological responses among those who fear that a revolution might take place. The perceived threat that Chile could turn into Cuban style socialist regime played thus an important role in the radical endorsement of neoliberalism and the American cause by the Chicago Boys. This version of neoliberalism, as "*The Brick*" and other documents analyzed in this chapter show, included ideas of liberty and democracy in the classical liberal tradition. Simply put, the Chicago Boys' view was that a free economy and economic development were a necessary but not sufficient condition for a functioning democracy and the existence of political liberties. In other words, they believed, like classical liberals before them, that without economic liberty, neither democracy nor political liberties could exist. Moreover, they were

convinced that Chile's democracy and liberties had been ultimately destroyed by the systematic expansion of government that had taken place in the previous decades –an expansion that in their opinion derived from mistaken ideologies and which had transformed Chile into a rent-seeking society and what North calls a “Limited Access Order”. Thus, the Chicago Boys took over the task of restoring economic freedom and economic stability as the priority, for in their view it was only after an institutional framework favorable to economic liberty was established that democracy could be reintroduced and political liberty be real. As this chapter shows, in all of this Friedman shared identical views. Moreover, Friedman himself urged for the reintroduction of democracy in Chile because he believed that the temptation of the military to reverse the economic reforms in order to consolidate more power in their hands was a risk for the whole project of the Chicago Boys. Hence Friedman's statement that while economic liberty was a necessary but not sufficient condition for political liberty, the latter was a necessary condition for economic liberty. Overall Friedman and the Chicago Boys' views were grounded on the same economic philosophy promoted a century earlier by Courcelle-Seneuil and earlier by Adam Smith. The similarity between both traditions becomes clear when the ideas of the Chicago Boys explored in this chapter are compared to the ideas of Courcelle-Seneuil and Andrés Bello presented in the previous chapter. The similarity between the Chicago Boys' and Courcelle-Seneuil's tradition becomes even more remarkable when the writings of the French professor are compared with those of Friedman.

This chapter provides further evidence that the Chicago Boys were inspired by a comprehensive classical liberal tradition that included ideas of democracy and political liberty when analyzing the creation of the think tank CEP and the meeting of the Mont Pelerin Society in Chile. As the previous pages show, the creation of the CEP by some of the Chicago Boys had the explicit aim of spreading classical liberal ideas, that is to say, liberalism of British-American origin in all its dimensions in order to provide intellectual support to the institutional reforms that were being made at the time. The fact that Hayek accepted to become honorary president of the CEP indicates the wider ideological nature of the CEP. The CEP's ideological position, along the lines of British-American liberalism was made clear in its statement of aims as well as in its publications. Among the first publications were the conferences given at the Mont Pelerin Society meeting in Viña del Mar in 1981, which was organized by many Chicago Boys and which addressed several of the most important philosophical issues concerning a free society from a classical liberal perspective. Further evidence of the influence of British-American liberalism on the reforms made during the free market revolution will be analyzed in the next chapter which deals with the ideological sources behind the most important legal document made under Pinochet's military regime: the Constitution of 1980.

*The military Junta, Jaime Guzmán and the shift to American liberalism*

There is no doubt that the Chilean military were not prone to liberalism. Like the idea of reintroducing democracy, the free market revolution was the outcome of the influence of civilian advisers. As we have seen, democracy and economic liberty were two inseparable parts of the original plan of the Chicago Boys, the latter being the priority. It is important to note here that the authors of “*The Brick*” many of whom were Christian Democrats, never imagined that the plan would be used by an authoritarian regime. As Sergio de Castro explained: “I took over the task of writing what we had agreed on. The following week we revised my notes and went on working without having the slightest idea of the possible practical fate of what we were doing”.<sup>637</sup> Along the same lines, Professor Patricio Meller, a critic of the Chicago Boys and opponent of the military regime has pointed out that the authors of “*The Brick*” “did not believe that a military coup was coming. Their purpose was to solve social problems from a different perspective”.<sup>638</sup> But even if some of the Chicago Boys had suspected the possibility of a military coup, it was impossible for them to have foreseen whose side would the military take in the Cold War. As Vial observed, Allende initiated his presidential term of office with the approval of the Army generals. As for the officers, not only did they not reject socialism, but they even showed affinity with it.<sup>639</sup> Moreover, Pinochet, who had been appointed Commander-in-Chief of the Army by Allende himself, was a complete enigma from an ideological point of view.<sup>640</sup>

The impossibility of foreseeing the practical fate of “*The Brick*” is also clear from the fact that after the coup, the military regime opted for running the economy in the old Keynesian and nationalist style. There was not even the shade of an idea among the army generals of introducing a free market model, which in any case they did not know about and was even contrary to their nationalistic mindset. What is more, many in the military opposed the implementation of the reforms once the Chicago Boys were in government positions arguing that national security required state control of major economic assets.<sup>641</sup> Fernando Leniz, who became economy minister

<sup>637</sup> Arancibia, Patricia y Balart, Francisco, *Sergio de Castro, el arquitecto del modelo económico chileno*, Editorial Biblioteca Americana, Santiago, 2007, p. 156.

<sup>638</sup> Kaiser, *En vez de una sola mirada*, p.58.

<sup>639</sup> Gonzalo Vial, *Pinochet, la biografía*, El Mercurio-Aguilar, Santiago, Vol. 2, 2002, p. 150.

<sup>640</sup> Constable and Valenzuela, p. 44 ff.

<sup>641</sup> *Ibid.*, p.169.

in 1974, said that he spent 90 per cent of his time trying to explain to the generals and the country “what a free market was”, adding that “there was huge resistance”.<sup>642</sup> It was only when it became clear that the crisis could not be solved by persisting in the same statist policies that the Chicago Boys were put in charge, not without resistance from many members of the military. The military’s opposition to a free market philosophy was reflected in the declaration of principles of the Junta in 1974. Although the document already showed some liberal elements and a clear rejection of socialism it nevertheless condemned American capitalism and the consumer society promoted by the Chicago Boys:

The developed societies of the West...have evolved into a materialism that drowns men spiritually and enslaves them. Thus the so-called “consumer societies” have been configured in which it seems that the dynamic of development has dominated the human being himself, who feels empty and unsatisfied, and longs for a more humane and calm life.<sup>643</sup>

Advised by catholic intellectual Jaime Guzmán who would later endorse liberalism, the Junta declared that it rejected collectivism as well as “liberal individualism” adding that the government had to provide the “social conditions so that all individuals could achieve their full personal development”.<sup>644</sup> The Junta’s decision to appoint a Christian Democrat, Raúl Saez, as Chile’s first minister of economic coordination confirmed its statist bias. Saez had been finance minister under the government of Eduardo Frei Montalva and strongly believed, along the lines of ECLA’s philosophy at the time, that the state had to play a large role in the economy.<sup>645</sup> It was with the appointment of Jorge Cauas, an economist with post graduate studies from Columbia University, as minister of finance that the situation started to change. Cauas’ appointment meant a shift of power over economic issues from the economy ministry to the finance ministry.<sup>646</sup> Even though Cauas was a Christian Democrat, he shared the Chicago Boys’ position and became one of the group. Cauas saw that the economy was not recovering. Instead, it showed an inflation of 375.9% in 1974, an enormous fiscal deficit and practically no growth.<sup>647</sup> In order to get the economy back on track the Chicago Boys advocated a radical free market therapy that would create

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<sup>642</sup> Idem.

<sup>643</sup> Declaración de Principios del Gobierno de Chile, March 11, 1974. Available at: [http://es.wikisource.org/wiki/Declaraci%C3%B3n\\_de\\_principios\\_del\\_gobierno\\_de\\_militar#Declaraci.C3.B3n\\_de\\_principios\\_del\\_gobierno\\_de\\_Chile](http://es.wikisource.org/wiki/Declaraci%C3%B3n_de_principios_del_gobierno_de_militar#Declaraci.C3.B3n_de_principios_del_gobierno_de_Chile) Last accessed 28/06/2014.

<sup>644</sup> Idem.

<sup>645</sup> Edgardo Boeninger, *Democracia en Chile: lecciones para la gobernabilidad*, Andrés Bello, Santiago, 1997, p.261.

<sup>646</sup> Idem.

<sup>647</sup> Idem.

pain in the short run but would benefit the whole country in the long run. Cauas agreed while Saez rejected this policy and submitted his resignation. Such shock therapy had also been Friedman's recommendation when he visited Chile in March 1975. In a conference given at the Diego Portales building, Friedman argued that a gradual policy for controlling inflation and establishing the foundations for a social market economy "made no sense" because "the patient could die before the treatment worked out".<sup>648</sup> In a letter to general Pinochet after his visit, Friedman insisted that the central challenges for Chile were inflation and the construction of a social market economy.<sup>649</sup> As far as inflation was concerned, Friedman explained that its main cause was excessive government spending, which was financed through money printing. A gradual policy of reforms, wrote Friedman, would not work given the magnitude of the problem. It had to be radical and accept short term negative consequences in order to restore monetary soundness. The same radical approach was suggested for the rest of the free market reforms. Friedman formulated an eight point program in order to rebalance the economy and put an end to the rent-seeking system that in his view characterized the Chilean economic model. The suggestions included a monetary reform, a dramatic reduction of government spending, a halt to money printing as a way to finance government expenditure, floating exchange rates, the elimination of obstacles to business and entrepreneurs, price liberalization, labor reform and a policy designed to support the poorest members of society while the treatment was implemented. Friedman concluded that "a shock program like this would eliminate inflation in a matter of months and would also establish the necessary foundations for the effective promotion of a social market economy".<sup>650</sup>

Shortly after Friedman's visit to Chile, Pinochet decided to go for the shock therapy, appointing Sergio de Castro as finance minister. De Castro had been a second-rank adviser to the government and had faced serious opposition. He had even been fired by Pinochet after an argument over how to fix the economy, a decision the general decided to reverse after being persuaded by his former finance minister Fernando Léniz.<sup>651</sup> De Castro's appointment as finance minister in 1975 was a decision based on pragmatism and not ideology. Pinochet was not inclined to the idea of a free market but de Castro had a plan, he was persuasive and the old formula was not working. As Anil Hira argued, one of the reasons that explain why the Chicago Boys were able to gain the support of "nationalistic and state oriented military men" was that they were the only group

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<sup>648</sup> See: "Milton Friedman en Chile: bases para el desarrollo económico", Conference given at the Diego Portales Building, March 26, 1975. In: Axel Kaiser, Jaime Belollo, José Piñera and Sergio de Castro, *Un legado de libertad: Milton Friedman en Chile*, Edited by Angel Soto, Fundación Jaime Guzmán-Fundación para el Progreso, Santiago, 2012, p. 25.

<sup>649</sup> See: *Ibid.*, pp. 64-71.

<sup>650</sup> *Ibid.*, p.69.

<sup>651</sup> Ascanio Cavallo, Oscar Sepúlveda and Manuel Salazar, *La historia oculta del regimen militar*, Grijalbo, Santiago, 1999, p.77.

with a clear plan, a diagnosis of the situation and a clear idea of how to achieve prosperity.<sup>652</sup> In addition, they had a non-partisan approach that resulted appealing to the military because it offered a depoliticized project of society that would move the country forward. Finally, they counted on the support of the most influential civil adviser to the military regime: Jaime Guzmán.<sup>653</sup> This last aspect was decisive. Guzmán became one of the most influential conservative political and intellectual figures of the 20<sup>th</sup> century in Chile.<sup>654</sup> In 1966, at the Catholic University, Guzman had founded the “*gremialista* movement” in order to oppose several reforms which sought the complete transformation of the higher education system in Chile.<sup>655</sup> The movement was made up by catholic students who were equally hostile to Marxism and liberalism and saw their main inspiration in the social doctrine of the Catholic Church. With the passing of time however, Guzmán and the *gremialistas* accepted neoliberalism and played a crucial role in the Chilean economic revolution. In fact one of the central figures among the *gremialistas* was Chicago Boy Miguel Kast, a key actor in the free market revolution, who served as a nexus between both groups and who, from his leading position in ODEPLAN (Office of National Planning) appointed several young liberal professionals to assist the government in the implementation of the free market revolution.<sup>656</sup> Apart from their academic education at the Catholic University, both groups, the *gremialistas* and the Chicago Boys, were the most ferocious opponents of socialism and the political model that had prevailed in Chile from the 1930s to the 1970s.<sup>657</sup> Their combined efforts provided Pinochet with the intellectual and technical platform for a truly revolutionary institutional project. In all this Guzman’s role was essential. As Belén Moncada argued, Guzman’s influence on Pinochet was decisive for overcoming the nationalist and corporatist resistance to the free market revolution, which arose within the military government.<sup>658</sup>

Guzmán had not always been keen on economic liberalism. In his youth, he embodied the typical conservative, authoritarian and corporatist right wing politician that had prevailed in Chile since the Great Depression. Moreover, as a student, Guzman became the most outspoken proponent of the corporatism of thinkers such as Alberto Edwards and Francisco Encina.<sup>659</sup> Still in the late

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<sup>652</sup> Hira, *Ideas and Economic Policy in Latin America Regional, National, and Organizational Case Studies*, pp.95-96.

<sup>653</sup> Boeninger, *Democracia en Chile: Lecciones para la gobernabilidad*, p. 262.

<sup>654</sup> Renato Cristi/ Pablo Ruiz Tagle, *La república en Chile, Teoría y práctica del constitucionalismo republicano*, Lom, Santiago, 2008, p.177.

<sup>655</sup> On the history of the university reform in Chile see: Carlos Huneeus, *La reforma universitaria*, Corporación de Promoción Universitaria, Santiago, 1988.

<sup>656</sup> On the collaboration between *gremialistas* and Chicago Boys to advance to free market project see: Carlos Huneeus, “Technocrats and Politicians in an Authoritarian Regime, ‘The ODEPLAN’s Boys and the Gremialists in Pinochet’s Chile”, *Journal of Latin American Studies*, Vol.32, No. 2, May 2000, p.472. Published by Cambridge University Press.

<sup>657</sup> Fontaine, *Los economistas y el Presidente Pinochet*, Zig-Zag, Santiago, 1988, p.103.

<sup>658</sup> Belén Moncada Durruti, *Jaime Guzmán, una democracia contrarrevolucionaria, el político 1964 a 1980*, Ril Editores, Santiago, 2006, p.21.

<sup>659</sup> Renato Cristi, *El pensamiento político de Jaime Guzmán*, Lom, Santiago, 2011, p.25.

1960s Guzman would maintain a critical view with regard to classical liberalism. In 1969 he wrote that the “amoral and purely economic foundation of liberalism with its night watchman state” had led to socialism, adding that the postulates of individualism had “failed.”<sup>660</sup> At the same time however, invoking the Catholic tradition, Guzmán argued that the state had to be subsidiary because men had an “ontological priority” which implied the respect of private property and the free enterprise system.<sup>661</sup> For Guzman, both were manifestations of human nature and a safeguard for its freedom. At this stage Guzmán still endorsed what can be defined as “state capitalism”. A few years later, Guzmán would fully adopt neoliberalism and integrate it to his Catholicism. Already in 1971 Guzmán had shown the beginning of his transition to economic liberalism in an article published in *Portada* magazine. In the piece, Guzmán defined capitalism as an economic system founded on the private ownership of the means of production, in which private enterprises account for the largest part of economic activity. In this context the government has the role of regulating the market in order to “guarantee and stimulate competition and not to prevent or distort it”.<sup>662</sup> Guzmán went on making a defense of capitalism arguing that the social problems denounced by socialists and Marxists did not derive from too much capitalism but from the fact that since the 1930s Chile had departed from a capitalist system, introducing an increasingly statist system:

If we observe the Chilean economic life from 1938 onwards we will conclude that far from being ruled by uniform norms of general application, the Chilean economy — agriculture, industry or commerce— has been damaged by an increasingly statist legislation which replaced the automatic verdict of efficiency by the discretion of the bureaucratized government official...Nothing then is more inaccurate than assimilating the current economic system to competitive capitalism.<sup>663</sup>

For Guzmán this over expansion of government had undermined the stability of the whole institutional structure. The power of government officials he argued, had put aside the market forces in favor of demagoguery and the politicization of society transforming the government in the prey for interest groups. According to Guzman there were thousands of unjust privileges granted to interest groups.<sup>664</sup> In North words, Guzmán viewed Chile as a “Limited Access Order”.

Many of the concepts which Guzmán referred to in his article had their origin in the

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<sup>660</sup> Jaime Guzmán, *El miedo, Síntoma de la realidad político social- chilena*, in: Arturo Fontaine Talavera, “Jaime Guzmán, El miedo y otros escritos”, *Revista Estudios Públicos*, No. 42, Santiago, 1991, p. 256.

<sup>661</sup> Idem.

<sup>662</sup> Jaime Guzmán, “La iglesia chilena y el debate político, Visión crítica de Chile”, in: Arturo Fontaine Talavera, *Jaime Guzmán, El miedo y otros escritos*, p. 294.

<sup>663</sup> Ibid., pp. 294-295.

<sup>664</sup> Ibid., p. 296.

thinking of Milton Friedman, which he came to know through Emilio Sanfuentes, Carlos Urenda and Hernán Cubillos, all of whom worked for the classical liberal think tank CESEC.<sup>665</sup> Later on Guzmán would seek economic advice with Sergio de Castro, José Piñera, Miguel Kast, Juan Carlos Méndez and Ernesto Silva. The influence of this group of liberal economists would be crucial in Guzmán's transition from the corporatist views that were still to be found in the 1974 Declaration of Principles of the military regime, to liberal capitalism. It is important to note that Guzmán attended regularly the meetings in which the Chicago Boys discussed the policies proposed in “*The Brick*”.<sup>666</sup>

Guzmán's shift to economic liberalism was accompanied by a similar evolution in his political philosophy, which ultimately led him to adopt a pluralist and inorganic conception of democracy, which brought him remarkably close to political liberalism.<sup>667</sup>

Of all the classical liberal intellectual influences however, none was greater on Guzmán's thinking than Hayek's philosophy.<sup>668</sup> It was Hayek's influence that would finally lead Guzmán to the full adoption of economic liberalism and a classical liberal conception of democracy. Through Guzmán and others, Hayek's influence on the Chilean institutional transformation became decisive. Particularly important was this influence on the 1980 Constitution, whose main architect was Guzmán and which came to institutionalize the neoliberal political and economic model that prevails in Chile until this day. Hayek's influence was so great and openly admitted that the 1980 Constitution was called *The Constitution of Liberty* after Hayek's book.<sup>669</sup> To study somewhat in more depth Hayek's ideas is therefore crucial to account, as North would say, for the set of beliefs behind the process of institutional change led by the Chicago Boys.

### *Hayek on institutions, liberty and the economic order*

F.A Hayek has been described as the most consequential 20<sup>th</sup> century political thinker right or left, and the most influential on policy makers and public opinion, leading to the triumph of capitalism over socialism in the 1990s.<sup>670</sup> Chile did not stay exempt from Hayek's influence. In the letter to Hayek commented in the previous chapter, former minister Jorge Cauas claimed that he was the “natural intellectual leader” of the civil advisers to the military regime as far as political

<sup>665</sup> Arturo Fontaine Talavera, “Jaime Guzmán, El miedo y otros escritos”, *Revista Estudios Públicos*, No. 42, Santiago, 1991, p. 252. The CESEC was a think tank financed by the Edwards group which through its newspaper *El Mercurio* persistently promoted neoliberalism.

<sup>666</sup> See: *El Ladrillo*, p.10.

<sup>667</sup> Cristi, *El pensamiento político de Jaime Guzmán*, p. 25.

<sup>668</sup> See: Renato Cristi, *El pensamiento político de Jaime Guzmán*, 2011.

<sup>669</sup> See: Fisher, “The influence of Neoliberals in Chile, before, during and after Pinochet”, 2009, p. 326 ff.

<sup>670</sup> See: Edward Feser, *The Cambridge Companion to Hayek*, Edited by Edward Feser, Cambridge University Press, Cambridge, 2008, p.1.



philosophy was concerned and that his works *The Constitution of Liberty* and *Law, Legislation and Liberty*, were essential for the neoliberal institutional project. We have also seen that Hayek became honorary president of the CEP, the most influential think tank in Chile and intellectual home to the Chicago Boys. During the military regime, his ideas were widely discussed among the Chicago Boys, intellectuals and other civil advisers to the government. In a letter to Hayek on April 28, 1978 Carlos Cáceres would leave no doubt about Hayek's relevance for the discussions that were taking place: "On several occasions the President of the Republic as well as the members of the economic committee, have made public statements acknowledging your comments about the Chilean economy".<sup>671</sup>

Before going directly into Hayek's economic and political philosophy it is important to stress that Hayek's economic tradition, namely Austrian economics, had emerged as a reaction against the German historical school of economics of Gustav von Schmoller and Friedrich List, which had been extremely influential in Chile in the late 19<sup>th</sup> century and throughout most of the 20<sup>th</sup> century through the work of ECLA. As has been explained, these protectionist ideas had been fought by Courcelle-Seneuil and his Chilean followers, but eventually became hegemonic and were largely responsible for the decline of liberalism in Chile.

In the case of Germany, Hayek observed that the influence of the German historical school had also led to the complete abandonment of the classical liberal tradition of British- American origin. According to Hayek, the new class of intellectuals in Germany had a "complete dislike for the practical conclusions of the classical English school".<sup>672</sup> Along the same lines, Hayek's mentor, Ludwig von Mises, argued that after the hegemony of Schmoller's doctrine, "there was no longer any liberal thinker left in Germany".<sup>673</sup> To have a more accurate idea of Schmoller's philosophy and its complete incompatibility with liberalism of the sort defended by Hayek, Friedman, Guzmán and the Chicago Boys it is worth reproducing the following comment by Schmoller:

The state is the centre and the heart in which all institutions empty and unite... Above all it exercises as legislator and administrator the greatest indirect influence on law,

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<sup>671</sup> The letter is available at: <http://coreyrobin.files.wordpress.com/2012/07/vina-del-mar-4.pdf> Last accessed: 28/06/2014

<sup>672</sup> Friedrich von Hayek, Introduction to Carl Menger, *Principles of Economics*, Ludwig von Mises Institute, Auburn, Alabama, 2007, p. 13.

<sup>673</sup> Ludwig von Mises, *The Historical Setting of the Austrian School of Economics*, Ludwig von Mises Institute, Auburn, Alabama, Online Edition, 2003, p.13. A crucial element in this overwhelming influence of the historical school according to Mises, was Schmoller's position as adviser to the Prussian minister of instruction Friedrich Althoff. Althoff was in charge of German universities ruling as Mises put it, "like a dictator". According to Mises, since Prussia had the largest and best paid number of professorships, Althoff could make all the ambitious professors in the German speaking world accept his opinions. According to Mises, in everything concerning social sciences, Althoff's views were almost entirely the result of Schmoller's influence which led to the selection of those scholars favorable to the historical school and contrarian to the classical school.

and custom, on all social institutions; and this is the decisive point. The right man in the right place, the great statesman and reformer, the far-seeing party chief and legislator can here accomplish extraordinary things, not directly, not immediately but through a wise and just transformation of the economic institutions...Adverse opinions forget that the state is and must be the leading intelligence, the responsible centre of public sentiment, the acme of existing moral and intellectual powers, and therefore can attain great results in this direction.<sup>674</sup>

Mises argued that the political consequences of Schmoller's doctrines had been disastrous, making Germany "safe for the ideas the acceptance of which made popular with the German people all those disastrous policies that resulted in the great catastrophes" including the aggressive imperialism, the hyperinflation of the 1920s and the *Zwangswirtschaft* of the Nazi regime.<sup>675</sup> What the historical school advocated in Mises opinion was "state socialism", that is to say, a system of planning managed by the aristocracy which would become the model for Bismarck's welfare state characterized by interventionist measures such as labor legislation, social security, progressive taxation, trade protectionism, cartels and dumping.<sup>676</sup> Bismarck's welfare legislation was indeed supported by Schmoller and other members of the Historical School, who had been working on the intellectual foundations for social legislation.<sup>677</sup> Moreover, Schmoller's role as an intellectual force behind the rise of the modern welfare legislation in the western world was so substantial, that according to Nicholas Balabkins he can be considered the father of the welfare state.<sup>678</sup> It is no surprise that in trying to debunk those doctrines Hayek should have developed his theories in order to revive the British-American liberal tradition of authors such as David Hume and Bernard Mandeville.<sup>679</sup> By any standards, Hayek was, in the words of John Gray, "the foremost contemporary exponent of the liberal tradition".<sup>680</sup> His central aim was to debunk the idea that central planning and social engineering, as was proposed by socialism, the German historical school, new dealers, and the French rationalist philosophers, was economically possible or compatible with individual liberty.<sup>681</sup> Hayek's main argument was that any attempt to control social

<sup>674</sup> Quoted in: Bruce Caldwell, *Hayek's Challenge*, The University of Chicago Press, Chicago, 2004, p.53.

<sup>675</sup> Ibid., p.13.

<sup>676</sup> Idem.

<sup>677</sup> See: Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany: 1864 – 1894*, Oxford University Press, New York, 2003.

<sup>678</sup> Nicholas Balabkins, *Not by Theory Alone: The Economics of Gustav Von Schmoller and Its Legacy to America*, Duncker & Humblot, Berlin, 1988, p.80.

<sup>679</sup> See: John Gray, *F.A Hayek and the Rebirth of Classical Liberalism: A Biographical Essay*, 1982. Available at: [http://oll.libertyfund.org/?option=com\\_content&task=view&id=171&Itemid=280](http://oll.libertyfund.org/?option=com_content&task=view&id=171&Itemid=280) Last accessed: 28/06/2014

<sup>680</sup> John Gray, "F.A Hayek on Liberty and Tradition", *Journal of Libertarian Studies*, Vol. IV, No.2, Spring 1980, p.119.

<sup>681</sup> Chandran Kukathas, "Hayek and Liberalism", in: *The Cambridge Companion to F.A Hayek*, Edited by Edward Feser, Cambridge University Press, New York, 2006. p.183

evolution or the market by using rational planning must fail because the authorities that would be in charge of designing the institutions and make the economic calculation do not possess the necessary knowledge to achieve their aims. Furthermore, knowledge in society is of a practical nature and it is dispersed among the millions of individuals that interact while pursuing their own aims. It is worth reproducing Hayek's insight in this respect in his most influential academic article entitled *The Use of Knowledge in Society*, in order to better understand the cornerstone of his economic theory as well as the essence of his critique of socialism and rationalism:

The problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exist in integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate "given" resources— if given is taken to mean given to a single mind which deliberately solves the problem set by these "data"....it is a problem of how to secure the best use of resources known to any of the members of society for ends whose relative importance only these individuals know. Or to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality.<sup>682</sup>

Hayek insisted that the market was a spontaneous order that enabled what North called "adaptive efficiency" and did not need of central commands to operate. Prices, which can only exist in a free market, transmitted the necessary information about demand and supply of goods enabling the best use of resources.<sup>683</sup> Accordingly, a market society is one which allows responsible free people to make their choices and do as they wish without harming others.<sup>684</sup> Socialism and freedom are thus completely opposed.

The same as for North, for Hayek institutions such as language, money, private property government and others, are mainly the product of social evolution, that is to say, the result of a spontaneous process—in which the market plays a crucial role—that over time has selected the most useful elements for improving society. To believe, as French Enlightenment philosophers and thinkers like Schmolter did, that civilization is the product of rational planning is a fallacy.<sup>685</sup>

Unlike the French rationalist philosophers, the British thinkers, said Hayek, had understood

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<sup>682</sup> Friedrich von Hayek, "The Use of Knowledge in Society", in: F.A. Hayek, *Individualism and Economic Order*, pp.77-78.

<sup>683</sup> As Alan O. Ebenstein observed, the role of prices as information transmitters is central to Hayek's classical liberal order. See: Alan O. Ebenstein, *Friedrich Hayek, A Biography*, University of Chicago Press, Chicago, 2003, p.2.

<sup>684</sup> Idem.

<sup>685</sup> Friedrich von Hayek, *Law, Legislation and Liberty*, Routledge & Kegan Paul, London, p.17.

that institutions and civilization were not a matter of rational design but of cumulative growth and that the human mind itself had been a product of this evolutionary process.<sup>686</sup> This difference had practical consequences. The necessary use of coercion which according to Hayek central planners would require to execute their plans, would prevent the spontaneous forces of society from spreading out thereby hindering progress. The same as for all classical liberals, for Hayek liberty consisted in the absence of coercion and not in man's ability to control his circumstances.<sup>687</sup> By the same token, coercion implied "both the threat of inflicting harm and the intention thereby to bring about a certain conduct".<sup>688</sup> The use of arbitrary coercion had the effect of restricting individual liberty and damaging the welfare of the community because it prevented each person from increasing the social wellbeing by pursuing his own ends: "coercion thus is bad because it prevents a person from using his mental capacity to the full and consequentially of making the greatest contribution he is capable of to the community".<sup>689</sup>

Hayek saw liberalism as a social philosophy that sought to understand the spontaneous nature of the social process.<sup>690</sup> Accordingly, his central concern was how to limit power, understood as the capacity of forcing others to follow ends that are not their own. This is crucial to understanding Hayek's influence on Guzmán. Hayek's political philosophy was the result of his economic theory and epistemology.<sup>691</sup> The same was the case with Guzmán. From Hayek's understanding of social progress and the market as spontaneous processes, it follows that a liberal society is one governed by the rule of law. This means that "government in all its actions is bound by rules fixed and announced beforehand which makes it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances and to plan one's affairs on the basis of this knowledge".<sup>692</sup> Under such a system every individual is free to pursue his aims in peace and the only kind of equality which is just is equality before the law.<sup>693</sup> And since all individuals are different by nature, equality before the law inevitably leads to inequality of results.<sup>694</sup> From the former it follows that any pattern of income distribution imposed by government would be contrary to the abstract and impersonal rules that characterize the rule of law and would constrain individual liberty resulting in the loss of economic and social wellbeing: "the principle of

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<sup>686</sup> Hayek, *The Constitution of Liberty*, p. 51.

<sup>687</sup> Kukathas, "Hayek and Liberalism", p.184.

<sup>688</sup> Hayek, *The Constitution of Liberty*, p. 118.

<sup>689</sup> Idem.

<sup>690</sup> Kukathas, "Hayek and Liberalism", p.185.

<sup>691</sup> Bruce Caldwell's observation that there is a link in Hayek's discussion of liberty and the rule of law to the problem of how to coordinate dispersed knowledge is precisely due to the fact that Hayek's economic theory is one of the central pillars of his political theory. See: Bruce Caldwell, *Hayek's Challenge*, The University of Chicago Press, Chicago, 2004, p.290.

<sup>692</sup> Hayek, *The Road to Serfdom*, pp.75-76.

<sup>693</sup> Idem.

<sup>694</sup> Hayek, *The Constitution of Liberty*, p. 77.

distributive justice once introduced would... produce a society which in all essential respects would be the opposite of a free society — a society in which authority decided what the individual was to do and how he was to do it”.<sup>695</sup> A social order based on claims of redistributive justice or social justice argued Hayek, is opposed to a form of social order based on classical liberalism. In the latter one, society is governed by rules of just individual conduct while the former places in the authorities the duty of ordering people what to do.<sup>696</sup> With its promotion of government intervention the appeal to social justice has another consequence that proves highly destructive to the political order: the capture of government by special interests that have “learnt to employ the open sesame of social justice” to claim benefits from government.<sup>697</sup> For Hayek, the quest for social justice was characteristic of the welfare state, which in some of his writings he viewed as the successor of socialism and as a threat to personal freedom.<sup>698</sup>

*The dangers of unlimited democracy and the case for “transitional dictatorship”*

Essential to Hayek’s program of limiting government’s power are his ideas about democracy and the constitution as an instrument to limit democracy. Following the classical liberal tradition, Hayek argued that democracy was not an end in itself and that its goal was to protect individual liberty. For Hayek, although usually in agreement with personal freedom, democracy can be also in conflict with it leading to a dictatorship of the majority. This means that liberalism and democracy are not the same. Liberalism has the aim of maximizing individual liberty, that is to say, limiting the coercive powers of the state whether democratic or not, while dogmatic democrats only see a limit in the decision of the majority. In Hayek’s words: “liberalism is a doctrine about what the law ought to be, democracy is a doctrine about the manner of determining what will be the law”.<sup>699</sup> The opposite of democracy said Hayek, was authoritarianism, while the opposite of liberalism was totalitarianism. According to Hayek, under certain circumstances, an authoritarian regime might allow even more individual freedom than a democratic regime if the authoritarian leader restricts its own power. On the other hand, a democratic regime can effectively become a tyranny if its power is not constrained. For Hayek a crucial limitation for every true democracy was a capitalist society that enabled an effective control over the rulers.<sup>700</sup>

In an interview with *El Mercurio* during his visit to Chile in 1981, Hayek developed these ideas in full. His reflection is worth reproducing because it offered a theoretical justification for the

<sup>695</sup> Ibid., p. 88.

<sup>696</sup> Hayek, *Law, Legislation and Liberty*, pp.65-66.

<sup>697</sup> Ibid.,p. 67.

<sup>698</sup> Hayek, *The Constitution of Liberty*, Part III.

<sup>699</sup> Hayek, *The Constitution of Liberty*, p.90.

<sup>700</sup> Hans Jörg Hennecke, *Friedrich August von Hayek*, Junius, Hamburg, 2010, p. 127.

military regime as a “transitional dictatorship”, an idea that was taken by Guzmán as well as the Chicago Boys:

I would say that, as long-term institutions, I am totally against dictatorships. But a dictatorship may be a necessary system for a transitional period. At times it is necessary or a country to have, for a time, some form or other of dictatorial power. As you will understand, it is possible for a dictator to govern in a liberal way. And it is also possible for a democracy to govern with a total lack of liberalism. Personally I prefer a liberal dictator to democratic government lacking liberalism. My personal impression —and this is valid for South America— is that in Chile, for example, we will witness a transition from a dictatorial government to a liberal government. And during this transition it may be necessary to maintain certain dictatorial powers, not as something permanent, but as a temporary arrangement... When a government is in a situation of rupture, and there are no recognized rules, rules have to be created in order to say what can be done and what cannot. In such circumstances it is practically inevitable for someone to have almost absolute powers. Absolute powers that need to be used precisely in order to avoid and limit any absolute power in the future. It may seem a contradiction that it is I of all people who am saying this, I who plead for limiting government’s powers in people’s lives and maintain that many of our problems are due, precisely, to too much government. However, when I refer to this dictatorial power, I am talking of a transitional period, solely. As a means of establishing a stable democracy and liberty, clean of impurities. This is the only way I can justify it —and recommend it.<sup>701</sup>

Along the same lines, in a letter to *The Times* in 1978 Hayek had argued that he had “never contended that generally authoritarian governments are more likely to secure individual liberty than democratic ones, but rather the contrary”, adding that this did not mean, that “in some historical circumstances personal liberty may not have been better protected under an authoritarian than democratic government”.<sup>702</sup> Hayek further said that he had “not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende”.<sup>703</sup> In an interview with a Venezuelan journalist in 1981 Hayek referred to the Chilean case once again. Asked by the interviewer about totalitarianism

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<sup>701</sup> *El Mercurio*, April 12, 1981.

<sup>702</sup> *Times of London*, July 11, 1978.

<sup>703</sup> *Idem*.

Hayek responded: “Don’t confuse totalitarianism with authoritarianism. I don’t know of any totalitarian governments in Latin America. The only one was Chile under Allende. Chile is now a great success. The world shall come to regard the recovery of Chile as one of the great economic miracles of our time”.<sup>704</sup> Like Friedman, Hayek was convinced that the Chicago Boys were making an institutional transformation that would restore economic liberty first and democracy later. Shortly after his first visit to Chile in 1977 he wrote that he had met “educated, reasonable and insightful men, who honestly believe that the country could be returned to a democratic order soon”.<sup>705</sup> Thus, Hayek justified the Chilean military regime and the lack of civil liberties based on two arguments: a) the alternative to Pinochet’s regime would have been a communist totalitarian regime where liberty would have been even more affected,<sup>706</sup> and b) the Chilean dictatorship was transitional and sought to restore economic liberty and civil liberties and democracy. The use of this justification by the Chicago Boys and Guzmán, whether valid or not, is important because it provides further evidence that the project of institutional transformation in Chile sought the reintroduction of political liberties and democracy and was not reduced to economic reforms. Moreover, the promise of the restoration of a free society along the lines of neoliberalism was more than the justification of the Chicago Boys’ collaboration with an authoritarian regime: it was the base upon which the same regime based its legitimacy before the public at the level of discourse.

It is necessary to stress at this point that the idea of transitional dictatorship and the notion that a dictator might be more respectful of individual liberty than a totalitarian democracy, was already present in the classical liberal tradition before Hayek. In fact Hayek was not the only one who defended this idea in the 20<sup>th</sup> century. Following the teachings of John Stuart Mill and Benjamin Constant, Isaiah Berlin made the same case as Hayek for the potential conflict between freedom and democracy and the eventual need for a transitional dictatorship. In Berlin’s words, individual liberty is not inviolable because “abnormal conditions may occur in which even the sacred frontiers” of liberty “may have to be disregarded if some sufficiently terrible alternative is to be averted”.<sup>707</sup> Berlin went on in the same terms as Hayek arguing that it is “precisely because we regard such situations as being wholly abnormal, and such measures abhorrent, to be condoned only in emergencies so critical that the choice is between great evils” that we recognize that “under normal conditions, for the great majority of men at most times in most places these frontiers are sacred”.<sup>708</sup> In this context, Berlin insisted that just as democracy “may in fact deprive the individual

<sup>704</sup> Quoted in: Ebenstein, *Friedrich Hayek, A Biography*, p. 300.

<sup>705</sup> See: Andrew Farrant, Edward Mcphail and Sebastian Berger, “Preventing the “Abuses” of Democracy: Hayek, the “Military Usurper” and Transitional Dictatorship in Chile?”, *American Journal of Economics and Sociology*, Volume 71, Issue 3, July 2012, p.518. As Farrant, Mcphail and Berger argued in the piece cited, these opinions of Hayek did not mean for Hayek a full endorsement of the Pinochet regime.

<sup>706</sup> *Ibid.*, p.526.

<sup>707</sup> Isaiah Berlin, *Liberty*, Edited by Henry Hardy, Oxford University Press, New York, 2002, p. 52.

<sup>708</sup> *Ibid.*, pp.52-53.

citizen from a great many liberties which he might have in some other form of society, so it is perfectly conceivable that a liberal-minded despot would allow his subjects a large measure of personal freedom”<sup>709</sup>Berlin not only thought of this as a theoretical plausibility but as a historical reality.

It is very plausible that Hayek elaborated his own theory about transitional dictatorship based on John Stuart’s Mill’s insight on the subject. Hayek was after all a Mill scholar and probably one of the most knowledgeable about Mill’s work among his contemporaries. Moreover, Mill is the thinker with whom Hayek has more often been associated and despite his critical judgment of Mill’s intellectual evolution, Hayek considered Mill in his main work *The Constitution of Liberty*, as one of the greatest classical liberal thinkers citing him more than any other author.<sup>710</sup> It is no coincidence then that Hayek’s case for a “transitional dictatorship” closely resembled Mill’s reflection on the subject. In his *Essays on Politics and Society* the British philosopher argued in a straightforward way:

I’m far from condemning, in cases of extreme exigency, the assumption of absolute power in the form of temporary dictatorship. Free nations have, in times of old, conferred such power by their own choice, as a necessary medicine for diseases of the body politic which could not be got rid of by less violent means. But its acceptance even for a time strictly limited, can only be excused, if like Solon or Pittacus, the dictator employs the whole power he assumes in removing the obstacles which debar the nation from the enjoyment of freedom”.<sup>711</sup>

Moreover, Mill further sustained that

however little probable it may be, we may imagine a despot observing many of the rules and restraints of constitutional government. He might allow such freedom of the press and of discussion as would enable a public opinion to form and express itself on national affairs. He might suffer local interest to be managed without interference of authority by the people themselves...Were he to act thus, and so far abdicate as a despot, he would do away with considerable part of the evils

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<sup>709</sup> Ibid.,pp.176-177.

<sup>710</sup> Ebenstien, *Friedrich Hayek, A Biography*, p.185. Hayek’s identification with Mill went so far that -in 1954 he wrote to the Guggenheim Foundation to ask for funding for his travels with his wife in France, Italy and Greece so he could repeat and identical journey made by John Stuart Mill and his wife exactly 100 years before.

<sup>711</sup> John Stuart Mill, *The Collected Works of John Stuart Mill*, Vol. XIX, *Essays on Politics and Society*, Part 2, Edited by John M. Robson, University of Toronto Press, Toronto, 1977, p. 75.



characteristics of despotism.<sup>712</sup>

Mill also wrote on the dangers of majority rule, which Hayek warned against several times and which became a central concern for the Chicago Boys. In his famous work *On Liberty*, Mill argued that in a democratic republic “the people who exercise the power are not always the same people with those over who it is exercised” and that the will of the people “practically means the will of the most numerous or the most active part of the people; the majority or those who succeed in making themselves accepted as the majority”.<sup>713</sup> Mill went on to say that the people could desire to “oppress a part of their number” which was a good reason for limiting the power of the majority. In Mill’s words: “The limitation, therefore, of the power of government over individuals loses none of its importance when the holders of power are regularly accountable to the community...in political speculations the tyranny of the majority is now included among the evils against which society requires to be on its guard”.<sup>714</sup>

Hayek had shared many of these ideas personally with Pinochet when he met him during his first visit to Chile. On that occasion, Hayek told the general that unlimited democracy could develop forces that led to the destruction of democracy. Pinochet listened carefully and asked Hayek to provide him with documents he had written on the issue.<sup>715</sup> The issue of limited democracy was essential in Hayek’s work and became also a main concern of the Chilean reformers. Following a long-established classical liberal tradition which seemed confirmed by their own experience, the Chicago Boys and Guzmán believed that a constitution had to introduce restraints to the ability of politicians to serve interest groups if a sound economy and a sustainable democracy were to be preserved in the long run. In other words, the ability of redistributing wealth and intervene in the economy had to be restricted. It is interesting to note that Hayek’s ideas for a constitution of this sort were summarized in an article published by the CEP in the same issue dedicated to the papers of the MPS in Viña del Mar. The article was entitled “Principles of a Liberal Social Order” and has been considered crucial in the effort of the military regime to institutionalize neoliberalism in Chile.<sup>716</sup> The article is important from a philosophical perspective because it complements other works of Hayek’s and makes it clear that the ideas of neoliberalism applied in Chile have a British-American origin. As Hayek explained in the piece, liberalism was a set of beliefs that defined a political order as had been conceived in England by Old Whigs and thinkers such Adam Smith, David Hume, Edmund Burke, T.B Macaulay and Lord Acton. Hayek insisted

<sup>712</sup> Ibid., p.74.

<sup>713</sup> Ibid., pp.231-232.

<sup>714</sup> Ibid., p.232.

<sup>715</sup> Farrant, Mcphail and Berger, “Preventing the “Abuses” of Democracy: Hayek, the “Military Usurper” and Transitional Dictatorship in Chile?”, p. 520.

<sup>716</sup> See: Friedrich Hayek, “Los principios de un orden social liberal”, *Revista Estudios Públicos* No. 6, Santiago, 1982.

that this conception of individual freedom had become the base of the American political tradition and that it was essentially opposed to the French idea of liberalism which was constructivist and rationalist leading to the expansion of government powers. Then Hayek explained his famous distinction between liberalism and democracy, arguing that they were complementary but could also be in opposition. Liberalism he wrote, derived from the discovery of a spontaneous order which enables social progress without a central authority. This presupposed the existence of rules of just conduct that protect a sphere of private activity and which must be enforced by the government. A free society is one which is ruled by abstract norms, that is, laws that do not impose specific courses of actions on people but which establish the scope of individual responsibility. What is needed said Hayek, is the rule of law, that is to say a set of rules which limits government power. In this context the redistribution of wealth under the concept of social justice is incompatible with the spontaneous order because it seeks to achieve certain results determined by the arbitrary will of the authority. The aim of an economic order in a free society cannot be, according to Hayek, to guarantee a certain income to specific groups. A welfare economy is therefore a mistake and incompatible with the spontaneous order. Along these lines, in *Law, Legislation and Liberty*, Hayek argued that never in the whole history “were governments so much under the necessity of satisfying the particular wishes of numerous special interests as it is true of government today”.<sup>717</sup> He added that a democratic omnipotent government would have no choice but satisfying the demands of multiple special interest groups. In order to prevent this corruption process, Hayek argued that “all government, especially if democratic, should be limited”.<sup>718</sup> The Austrian professor explained that this had been a central concern of classical liberal thinkers and of the framers of the American Constitution. About a century earlier, John Stuart Mill had made the same case arguing that one of the greatest dangers of democracy lay “in the sinister interest of the holders of power: it is the danger of class legislation; of government intended for (whether really effecting it or not) the immediate benefit of the dominant class, to the lasting detriment of the whole.”<sup>719</sup> Mill added that “one of the most important questions demanding consideration, in determining the best Constitution of a representative government, is how to provide efficacious securities against this evil.”<sup>720</sup>

Hayek’s effort in the third volume of *Law Legislation and Liberty* was precisely to provide what he called a “model of an ideal Constitution” in order to provide the security Mill thought necessary for avoiding the degeneration of representative institutions. In the introduction to the three volume edition he wrote that, like Montesquieu, the framers of the American Constitution had sought to introduce institutional safeguards to protect individual freedom and that this attempt had

<sup>717</sup> Hayek, *Law, Legislation and Liberty*, p.99.

<sup>718</sup> Idem.

<sup>719</sup> John Stuart Mill, *The Collected Works of John Stuart Mill*, Vol. XIX, *Essays on Politics and Society*, Part 2, p. 110.

<sup>720</sup> Idem.

failed due to a new conception of democracy according to which “the will of the majority on any particular matter is unlimited”.<sup>721</sup> Hayek’s aim with *Law, Legislation and Liberty* was precisely to revive American liberal constitutionalism, which he believed did no longer enjoy the support it had had in past times and had been replaced by an increasingly interventionist system based on a set of beliefs which favored the use of democracy for satisfying the needs of interest groups.

### *Guzmán's reception of neoliberalism*

Jaime Guzmán knew Hayek’s theories well and thought, like Hayek and Friedman, that economic liberty was the base for democracy and all other liberties. In 1981 Guzmán personally met Hayek in order to interview him about his intellectual work. The interview was published under the title “The force of freedom” in *Realidad Magazine* and was divided into five parts: market economy, government and redistribution, law and positivism, evolutionism and constructivism, Hayek’s ideas and the Catholic Church, and democracy and government limitation.<sup>722</sup> In the interview, Hayek declared to be in favor of a minimum safety net for the very poor but insisted that the role of the law was to protect individual freedom. Guzmán specifically asked Hayek about the meaning of the concept “abstract rules” to which Hayek replied that an abstract rule did not impose specific obligations on individuals. Instead these rules “must be applicable under unknown circumstances to unknown people”. When government creates rules that are applicable to specific individuals, these rules ceased to be laws because they are no longer protecting individual freedom. Hayek also insisted that private property was essential to progress and that institutions and values were not the result of a rational design. Constructivism said Hayek to Guzmán, led directly to socialism. In the final part of the interview, Guzmán asked Hayek about democracy, to which Hayek answered that democracy had originally been invented in order to limit the power of government and protect individual liberty. Hayek added that democracy was indispensable in order to get rid of bad governments but unfortunately it had degenerated under the illusion that democratic control would suffice to limit the power of government. Normally, continued Hayek, democracies were not really the rule of the majorities but of well-organized interest groups that came together in order to obtain privileges.

Influenced by Hayek, Guzman incorporated individual freedom understood in a classical liberal sense, as the central value of his institutional project. Moreover, if the program of classical liberalism as Mises put it, could be summed up in the protection of private property, then there is no doubt that Guzmán was a classical liberal. According to Cristi, Guzmán’s constitutional project was

<sup>721</sup> Hayek, *Law, Legislation and Liberty*, p.1.

<sup>722</sup> See: Interview from Guzmán to F.A. Hayek, in: *Revista Realidad*, No. 24, May 1981.

similar to that of the American Founding Fathers, having as its main goal the protection of private property from redistributive policies.<sup>723</sup> As Cristi has explained, Guzmán's concept of private property as a relation between the individual and the object rather than a subjective right puts Guzmán in the individualistic tradition of John Locke and Robert Nozick.<sup>724</sup> Along the same lines Belén Moncada argued that Guzmán saw in the principle of economic liberty, which he introduced in the 1980 Constitution, "the base and support of all other liberties and a true example of the possibility of social participation of the individuals outside the scope of action of political parties".<sup>725</sup>

Guzmán of course had also been strongly influenced by the recent Chilean experience. Reality feedback, as North would say, was crucial in defining Guzmán's ideology. Socialism, he argued, necessarily meant the destruction of freedom:

If all production and economic activity of a nation is in the hands of the state then the source of living of almost all citizens is directly given to the arbitrary will of the political authorities. To pretend under such circumstances that a regime of individual liberty, of political liberty, of liberty of expression and civic action can exist, is a strange inconsistency that history shows as such in every step.<sup>726</sup>

In 1981 Guzmán celebrated Henry Kissinger's praise of Chilean progress arguing that in Latin American history it was not easy to find military regimes that had preserved an economic system based on the private initiative.<sup>727</sup> Such a system said Guzmán using Hayekian terms, was based on several impersonal and competitive market rules. Guzmán further explained that the free market system introduced in Chile had a fundamental difference with all other Latin American military regimes. In most of other Latin American countries, even if initially free market reforms had been made, eventually they had been undone by the "statist mentality of the military", who had ruined the development chances of their countries. The Chilean government was far from following that logic because it had, in Guzmán's words a "strong faith" in a system of a free market economy and was determined to make an institutional transformation in order to reintroduce democracy.<sup>728</sup>

In 1982, when Chile was suffering the consequences of a harsh economic crisis, Guzmán defended the free market system arguing that under the UP government Chile was heading to a

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<sup>723</sup> Ibid., p.18.

<sup>724</sup> Idem.

<sup>725</sup> Belén Moncada, "Autoritarismo y participación: el pensamiento político de Jaime Guzmán", *Anuario Filosófico* XXXVI/I, Universidad de Navarra, 2003, p.486.

<sup>726</sup> Arturo Fontaine Talavera, *Jaime Guzmán, El miedo y otros escritos*, p.299.

<sup>727</sup> *La Segunda*, November 27, 1981.

<sup>728</sup> Idem.

Marxist totalitarian regime and that after the collapse of democracy a new economic system based on freedom had enabled a recovery with unprecedented achievements.<sup>729</sup> The same year Guzmán insisted that the government had assumed the obligation of reintroducing a “new, stable and effective democracy that serves an integrally free society”.<sup>730</sup> Guzmán warned that there were “fascist” groups close to the government that did not want to reestablish democracy. Fortunately, he said, these groups had been defeated and democracy was going to be reintroduced.<sup>731</sup>

The defense of economic liberty and a sound economy as a condition for the transition to democracy and as justification for a temporary dictatorship would be a permanent subject in Guzmán’s writing throughout the 1970s and 1980s. In 1979, Guzmán declared once again that the military regime’s main goal was the reintroduction of democracy. He argued that the government had no choice but to create a new constitution in which the transition to democracy was defined because, otherwise, the stability of the government itself would be at risk.<sup>732</sup> Thus Guzmán was alerting that the military regime could claim legitimacy only if it admitted its transitional nature. However, this transition had to be made when the new institutions for a functioning democracy were ready and, more importantly, when a sound and free economy had been achieved. In Guzman’s words:

I believe we have to continue moving towards democracy...In my opinion we don’t have yet the conditions for the reintroduction of a stable masses democracy...I take a look at the world and see where the stable democracies are. And there is only serious and stable democracy in those countries where the people have achieved a standard of living that makes them become engaged with a democratic regime and the system of life that this regime favors...as long as there is not a sufficient degree of economic development there can be no stable democracy of masses.<sup>733</sup>

This view on the importance of economic growth and economic liberty for democracy was common to all neoliberals and had been stressed systematically by Hayek and Friedman. It led Guzman to argue that the return to democracy in Chile could be possible only in the second half of the 1980s, once the economic objectives had been achieved and the new institutions for democracy had been designed. To anticipate the reintroduction of democracy, said Guzman, would be “suicidal”.<sup>734</sup> First the new constitution had to create a “new democracy” free from the “impurities”

<sup>729</sup> *La Segunda*, January 2, 1982.

<sup>730</sup> *La Segunda*, March 2, 1982.

<sup>731</sup> Idem

<sup>732</sup> Interview with *Revista Cosas*, No. 83, December 6, 1979.

<sup>733</sup> Idem.

<sup>734</sup> Idem.

that had led the old Chilean democracy to “favor totalitarianism and statism instead of liberty” and “demagoguery”, and “social injustice” instead of “progress and justice”.<sup>735</sup> Once the new constitution was finally approved in 1980 and neoliberalism had been institutionalized, Guzmán publicly reiterated the commitment of the military government to the restoration of democracy.<sup>736</sup> He argued that the content of the new democracy had been defined along with the new democratic institutions and that no one could doubt any longer the intentions of the government to undertake the transition to democracy.<sup>737</sup> The democratic project however, depended directly on the economic one. Appealing to a straightforward classical liberal logic, in 1983 Guzmán explained the centrality of the free market for the reintroduction of democracy and political freedom in Chile:

The free economic system has shown worldwide that it is the most effective to create development and employment...its existence is also a necessary condition for a strong political liberty, which is inherent to the democratic goal constitutionally approved...to fight against socialism and statism is therefore to defend the whole path of liberty assumed by Chile in 1973...<sup>738</sup>

As this quotation makes it clear, Guzmán believed that economic liberty was the priority and that civil liberties and democracy, although important, could only be introduced once economic freedom was reestablished. Again, this was an implicit justification of the absence of democracy and the restriction of political liberties with the need to consolidate economic liberty. Far from being inconsistent, this was to a large extent the logical result of the classical liberal worldview applied to the concrete situation of Chile and its recent history. There is no doubt that Guzmán and the Chicago Boys had the intention of restoring democracy once economic liberty had been institutionalized and the new political institutions had been designed. Moreover, this intention existed from the beginning of the military rule. Indeed, Guzmán had been one of the main brains behind the Junta’s Declaration of Principles of 1974, which stated that the military regime had a transitional nature: “the military Junta will yield the political power in due time to those that the people have elected in universal, free, secret and informed suffrage.”<sup>739</sup> The document did not set a deadline arguing that it was impossible to foresee the time that the reconstruction of the country would require. By the late 1970s however, it was defined and established in the 1980 Constitution that the authoritarian government would come to an end in 1990.

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<sup>735</sup> Idem.

<sup>736</sup> See: *Revista Ercilla*, December 31, 1980.

<sup>737</sup> Idem.

<sup>738</sup> *Revista Ercilla*, January 26, 1983.

<sup>739</sup> *Declaración de principios del gobierno de Chile*, Santiago, March 11, 1974. Available at: [http://es.wikisource.org/wiki/Declaración\\_de\\_principios\\_del\\_gobierno\\_de\\_militar](http://es.wikisource.org/wiki/Declaración_de_principios_del_gobierno_de_militar) Last accessed: 28/06/2014.

Crucial to the analysis of the neoliberal influence on Guzmán are not only his idea that the military regime was “transitional” and therefore acceptable as long as it sought to restore economic freedom and at some point civil liberties and democracy, but also his definition of democracy. Like Hayek who, following a long classical liberal tradition that was opposed to the French rationalist liberal philosophy, had argued that democracy was not an end in itself and could turn against individual freedom, Guzmán declared that “democracy as a form of government is not an end in itself. It is only a means to achieve liberty, security and progress”.<sup>740</sup> This was the same notion of democracy as that of the American Founding Fathers. As Holcombe explains, “the founders did not intend for government policy to be democratic. Rather the role of democracy was very limited and was intended to be a means to an end.”<sup>741</sup> In this tradition, Guzmán argued that democracy “does not necessarily lead to freedom as a way of life”, as Chile’s recent history had clearly shown.<sup>742</sup> Attacking the implications of Rousseau’s political philosophy, Guzmán argued that there was no such thing as the “will of the people” but only different individual wills that could not be trusted in an unlimited manner.<sup>743</sup> It was therefore necessary to develop the institutional mechanisms in order to limit democracy so that it would not degenerate into a threat to individual freedom and democracy itself. Guzmán insisted that the task of the new constitution was to clean the Chilean democracy of the evils that had led the country to the “verge of totalitarianism, to complete social personal chaos and insecurity and to an economic and social set-back unprecedented in our history”.<sup>744</sup> The new institutions repeated Guzmán, had the aim of fighting totalitarianism and statism —meaning the welfare state— subversion and terrorism as well as fighting against demagoguery, which was an “internal cancer of democracies” that made them ineffective to achieve progress. In a passage that best reflected the reception of neoliberalism by Guzmán and the centrality of economic freedom for his institutional project, he made an argument which is worth reproducing entirely:

Personal liberty is not only threatened by totalitarian systems. Current reality teaches us that an excessive intervention of the state in the economy...constitutes a more subtle but not less grave and dangerous threat to personal liberty. Therefore a set of new institutions conceived to serve liberty and progress has been created in order to strengthen a free economy, without which political democracy can end up by being an empty formula without any real content or at least without any libertarian content.

<sup>740</sup> Arturo Fontaine Talavera, *Jaime Guzmán, El miedo y otros escritos*, p.332.

<sup>741</sup> Randall G. Holcombe, *From Liberty to Democracy: The Transformation of American Government*, p.1.

<sup>742</sup> Arturo Fontaine Talavera, *Jaime Guzmán, El miedo y otros escritos*, p. 332.

<sup>743</sup> Idem.

<sup>744</sup> Idem

Do not forget that the way chosen by the Unidad Popular to terminate political freedom was to first strangle economic freedom. State control over the citizens' stomach after a short period of time brings with it control over their will. To consolidate an economy where the state guarantees impersonal rules of the game and ensures the efficiency of a competitive system, but does not invade the scope of action that can be taken by private individuals...is simply to strengthen constitutionally the base for an economic system inextricably linked to a free society. It is unnecessary to stress that the respect for private ownership of the means of production, distribution and commercialization is a cornerstone of a free economy.<sup>745</sup>

In 1980 Guzmán would come back to this idea explaining that the government had the purpose of achieving a complete social, political and economic transformation in order to reintroduce democracy. According to Guzmán, the democratic commitment of the new constitution and the key to the success of the new democracy would be “the extension of the fruits of economic success and the consolidation of individual freedom which the social modernizations entail”.<sup>746</sup> In 1982 he would insist on this idea: “A serious, efficient and stable democracy requires the previous achievement of sufficient integral development of the country so that the spiritual and material fruits reach all the citizens, thus involving all Chileans with the democratic system.”<sup>747</sup> This necessarily implied that democracy had to be limited with constitutional constraints in order to prevent politicians from endangering the free economic system by engaging in massive redistributive policies. In an interview in 1986, five years after the constitution had been approved in a referendum, Guzmán declared once again that demagoguery was “a cancer of democracy” and that “the constitutional mission is to prevent demagoguery as much as possible”.<sup>748</sup> The Constitution of 1980 said Guzmán, clearly established a “free economic system based on private ownership of the means of production and the initiative of particular individuals as the engine of economic activity within the framework of a subsidiary state”.<sup>749</sup> Guzmán explained that there were several rules in the constitution guaranteeing those principles, including one which prohibited the state from arbitrarily discriminating in economic matters, a problem that according to Guzmán was a typical of statist economies. The ability of government to engage in economic activities and change the economic model was also severely restricted. According to Guzmán “in the former constitution

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<sup>745</sup> Ibid., p. 336

<sup>746</sup> Idem.

<sup>747</sup> Jaime Guzmán, “El sentido de la transición”, *Revista Realidad*, No. 38, July, 1982.

<sup>748</sup> *La Nación*, March 11, 1986.

<sup>749</sup> Idem.



a simple law was enough to transform Chile into a collectivist country” while with the new constitution “that is impossible because its norms prevent it. It would take a constitutional reform in order to transform Chile into a collectivist country”.<sup>750</sup>In addition, the Constitution set limits to the president to “prevent the abuses in which he may be tempted to incur”.<sup>751</sup>

The same year Guzmán wrote an article rejecting any comparison between the Chilean experience and the case of Spain under Franco, confirming his full endorsement of a neoliberal economy. Guzmán’s main argument was that Spain under Franco had followed a corporatist economic system “essentially different from a pluralist democracy”.<sup>752</sup> Corporatism, which Guzmán himself had endorsed in the past, was now described by Guzmán as a “failure” and a “mask for a fascist state” or “an impossible fantasy”.<sup>753</sup> Unlike Spain, continued Guzmán, making once again the case for the necessary relation between economic liberty and democracy, Chile had introduced a free market system and especially a “pluralist democratic regime”, which reflected its own tradition.<sup>754</sup> This ideological pluralism was however limited, which shows another crucial classical liberal influence on Guzmán’s thinking. In 1982 Guzmán wrote that in order to serve liberty, a democracy had to rest on a social consensus and that it was necessary to prevent the threats to that consensus coming from terrorism, totalitarianism, demagoguery and “socializing statism”.<sup>755</sup> Accordingly, the Chilean constitution not only institutionalized a free economic system that could only be changed by a constitutional reform, but in its Article 8 it also declared unconstitutional all totalitarian political parties or groups that threatened to destroy the democratic system, attempted to promote class warfare or sought to introduce a totalitarian regime. Thus, the Constitution established a protected democracy, which as Jorge Vergara noted, was inspired in the conception of instrumental democracy of authors such as Karl Popper, Friedrich Hayek and Joseph Schumpeter.<sup>756</sup> Guzman’s justification for protecting democracy was the following:

Definitely, a first impulse leads to wish that it is not necessary to establish limits to ideological pluralism through legal rules because those limits should be spontaneously respected by all members of the community as a result of a basic consensus...but when this is broken by the rise of doctrines that attack this basic consensus...it becomes indispensable to set limits to the function of political

<sup>750</sup> Idem.

<sup>751</sup> Idem.

<sup>752</sup> *Revista Ercilla*, December 17, 1986.

<sup>753</sup> Jaime Guzmán, “La definición constitucional”, *Revista Realidad*, No. 3, August, 1980.

<sup>754</sup> *Revista Ercilla*, December 17, 1986.

<sup>755</sup> Guzmán, “El sentido de la transición”.

<sup>756</sup> Jorge Vergara Estevez, “La democracia protegida en Chile”, *Revista de Sociología*, 21, Facultad de Ciencias Sociales Universidad de Chile, 2007, p.48.

pluralism precisely in order to ensure that it subsists and is not destroyed by installing a totalitarian regime.<sup>757</sup>

Guzman's defense of Article 8 clearly followed the logic of Popper's famous *paradox of tolerance* which he formulated in his major work on political philosophy, *The Open Society and its Enemies*:

Unlimited tolerance must lead to the disappearance of tolerance. If we extend unlimited tolerance even to those who are intolerant, if we are not prepared to defend a tolerant society against the onslaught of the intolerant, then the tolerant will be destroyed, and tolerance with them. – In this formulation...we should claim the *right* to suppress them if necessary even by force; for it may easily turn out that they are not prepared to meet us on the level of rational argument....We should therefore claim, in the name of tolerance, the right not to tolerate the intolerant. We should claim that any movement preaching intolerance places itself outside the law, and we should consider incitement to intolerance and persecution as criminal, in the same way as we should consider incitement to murder, or to kidnapping, or to the revival of the slave trade, as criminal.<sup>758</sup>

The fact that Guzmán followed Popper and Hayek on this aspect is further proof of his adoption of neoliberal or classical liberal ideas. Indeed, as Daniel Stedman Jones, has explained, along with Hayek's *The Road to Serfdom* and Mises *Bureaucracy*, Popper's work *The Open Society and its Enemies*, was one of the three central books in the rise of neoliberalism.<sup>759</sup> These three authors believed, as Jones put it, that individualism was “central to the Anglo-Scottish-American Enlightenment tradition of economic and political thought” and that this liberalism was not only opposed to socialism but also to the New Deal type of liberalism.<sup>760</sup>

### *The Chilean “Constitution of Liberty”*

If Hayek's effort in his work *The Constitution of Liberty* was to revive Adam Smith's classical liberalism and offer a guide to policy-making<sup>761</sup> so that the ideas of limited government

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<sup>757</sup> *La Nación*, March 11, 1986.

<sup>758</sup> Karl Popper, *The Open Society and its Enemies*, Vol 1, Roudledge, London, 2009, p. 293.

<sup>759</sup> Stedman Jones, *Masters of the Universe, Hayek Friedman and the Birth of Neoliberal Politics*, pp.43-44.

<sup>760</sup> *Ibid.*, p.44.

<sup>761</sup> See: Irwin Stelzer Introduction to Hayek's *The Constitution of Liberty*, Routledge, Abingdon, 2006, p.xii.

that had been the driver of the American Revolution would once again prevail, then the Chilean Constitution of 1980 was fairly called “The Constitution of Liberty.” Without any doubt the Constitution of 1980 was the one which received more influence from classical liberalism in Chilean history. Specifically, its aims were to prevent a repetition of the UP experience, to limit leftwing and populist projects and to protect the neoliberal economic model from any possible attack.<sup>762</sup>

As has been argued throughout this work, to a large extent the adoption of neoliberalism in Chile was the result of the reality feedback offered by Chilean history prior to the military regime. The Chilean Constitution of 1925 had been extremely weak in the protection of economic liberties enabling the expansion of government since the 1930s to the early 1970s.<sup>763</sup> According to many scholars previously cited, throughout these decades the state had suffocated the private sector by creating numerous public services in order to satisfy social needs. Hyperinflation, a state that controlled 80% of economic activity and systematically engaged in price fixing as well as massive trade restrictions were some characteristics of this time. The lesson delivered to the framers of the new Chilean Constitution by history had been, in the words of Professor Eduardo Soto-Kloss, that the only way to preserve personal freedom and progress in a society was by limiting state interventionism.<sup>764</sup> Accordingly, the Chicago Boys and the framers of the Constitution saw no future for democracy or political liberties if economic liberties were not guaranteed. In the words of professor Roberto Guerrero, who advised the Constituent Commission, it seemed “evident that if a democratic system wants to be established it is necessary to constitutionally guarantee the right to freely develop any kind of economic activity...economic liberty is a substantial part of a democratic system because it enables the exercise of other rights that a democratic system guarantees to the inhabitants of a country”.<sup>765</sup> Therefore, the aim of the new economic institutions was to “preserve a fundamentally libertarian society in which the individuals are free to decide their destiny with limitations only in so far as they affect the integrity and well-being of others”.<sup>766</sup> And this could only be achieved by decentralizing power and establishing the subsidiarity principle of state activity in the economy so that government could not engage in those activities which can be developed by private individuals. All of this, said Guerrero, was

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<sup>762</sup> Paul W. Drake, Ivan Jakšić, *El Modelo Chileno: Democracia y Desarrollo en Los Noventa*, Lom, Santiago, 1999, p.22.

<sup>763</sup> Ivan Arostica, “De espaldas al estatismo: el derecho de los particulares a desarrollar cualquier actividad económica” in: *Ius Publicum*, No. 1, 1998, Universidad Santo Tomás, Santiago, pp. 105-106.

<sup>764</sup> Eduardo Soto-Kloss, “La actividad económica en la Constitución Política de la República de Chile (La primacía de la persona humana)” in: *Ius Publicum*, No. 2, 1999, Universidad Santo Tomás, Santiago, pp. 119- p.122.

<sup>765</sup> Roberto Guerrero, “La Constitución Económica” in: *Revista Chilena de Derecho*, Vol. 6, No. 1-4, 1979, Pontificia Universidad Católica de Chile, Santiago, p.84.

<sup>766</sup> *Ibid.*, p.83.

framed within the rule of law, “that is to say a legal order of objective and impersonal character whose norms equally obliged rulers and governed”.<sup>767</sup>

To prevent a similar experience from being repeated in the future, the new constitution in its article 19 paragraph 21 guaranteed “the right of every individual to develop any economic activity which is not contrary to morals, public order or national security...” The Constitution went as far as establishing the right to economic liberty as a natural individual right, which was prior and superior to the state.<sup>768</sup> The same paragraph established a second guarantee for private enterprise and economic liberty prohibiting government to engage in economic activities unless a special high quorum law authorized it and always being subject to the same laws private enterprises were subject to. Thus, there could be no special advantage for the government’s economic activity. Along these lines, paragraph 22 of the same article established the non-discriminatory treatment obligation that the state and its organisms have to give in economic matters to private individuals and businesses. This rule put an end to special benefits and privileges historically granted by the state to interest groups. In addition, paragraph 23 guaranteed all individuals the liberty of acquiring all kinds of goods while paragraphs 24 and 25 strongly guaranteed property rights.

These paragraphs were the cornerstone of the so-called “public economic order” of the Chilean Constitution which, as Jaime Bassa and Christian Viera noted, had in Hayek’s economic and social philosophy its main intellectual influence.<sup>769</sup> Given this classical liberal influence, the constitution followed a negative idea of liberty, whose main expression was economic liberty and the free market.<sup>770</sup> As a result of the new regulation inspired in these ideas, the economic rights or so called “negative rights” could be legally defended against the interference of any public authority or private person.<sup>771</sup>

The centrality of economic liberty for the whole constitutional project led by Guzmán can clearly be seen in the registers of the sessions of the Constituent Commission. In one of the initial sessions the president of the Commission, Enrique Ortúzar, remarked that the new constitution had to strongly protect private property and encourage private initiative in economic matters because private business was “the great engine of a nation’s development” and it was “a guarantee for freedom”<sup>772</sup> Moreover, Ortúzar declared that private property was “the foundation of all public

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<sup>767</sup> Idem.

<sup>768</sup> Ibid.p.,108.

<sup>769</sup> Jaime Bassa and Christian Viera, “Contradicciones de los fundamentos teóricos de la Constitución Chilena con el estado constitucional: notas para su reinterpretación” in: *Revista de Derecho*, Vol. 21, No. 2, 2008, Universidad Austral, Valdivia, p.134.

<sup>770</sup> Idem.

<sup>771</sup> Pablo Ruiz Tagle, “Principios constitucionales del estado empresario”, *Revista de Derecho Público*, No. 62, Facultad de Derecho Universidad de Chile, 2000, p. 49.

<sup>772</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 1, Wednesday September 24, 1973. Available at: [http://www.bcn.cl/lc/cpolitica/constitucion\\_politica/Actas\\_comision\\_ortuzar/Tomo\\_I\\_Comision\\_Ortuzar.pdf](http://www.bcn.cl/lc/cpolitica/constitucion_politica/Actas_comision_ortuzar/Tomo_I_Comision_Ortuzar.pdf) Last

liberties”.<sup>773</sup>In the following session, the Commission insisted that the new Constitution had to protect private property because it was “the essential base for all other liberties” explaining that “economic control is the means to achieve political control”.<sup>774</sup> In some of the latest sessions, commissioner Alicia Romo explained that the constitution had conceived of the public economic order as a set of rules that were crucial to modern life because economic policy determined “in a substantial and absolute way the basis of the liberty of an individual” and was prior even to the legal foundations of individual liberty.<sup>775</sup> Romo added that the constitutional restriction of state activity in the economy and the consolidation of the guarantee of free private initiative in economic matters was an expression of individual liberty that the constitution protected.<sup>776</sup> By the same token, Guzmán urged the Commission to guarantee private initiative in economic matters as the natural and preferential way of a community to prosper and develop.<sup>777</sup>

There were of course other intellectual influences on the Chilean Constitution of 1980 such as natural law and the catholic philosophy. All of them contributed to the ideological pluralism of the Constitution. What marked a distinction between the 1980 Constitution and its predecessors was the substantial incorporation of a classical version of liberalism. As Bassa and Viera argued, the classical liberal worldview was based on ideas such as Hayekian anti-rationalism, epistemological skepticism, the impossibility of a universal idea of common good and an evolutionary approach to institutions, laws and traditions.<sup>778</sup> This is the set of beliefs that lies behind the strong protection of private property and the idea of limited democracy that was institutionalized in the constitution. But the constitution also incorporated classical liberalism in other fundamental norms that recognized individual liberty as a principle that did not admit other limitations than those which are necessary to safeguard liberty itself.<sup>779</sup> Thus, for the 1980 Constitution equality meant that there could be no artificial distinctions made by law between

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accessed: 28/06/2014.

<sup>773</sup> Idem.

<sup>774</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 3, September 26, 1973. Available at: [http://www.bcn.cl/lc/cpolitica/constitucion\\_politica/Actas\\_comision\\_ortuzar/Tomo\\_I\\_Comision\\_Ortuzar.pdf](http://www.bcn.cl/lc/cpolitica/constitucion_politica/Actas_comision_ortuzar/Tomo_I_Comision_Ortuzar.pdf) Last accessed: 28/06/2014.

<sup>775</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 384, Wednesday June 14, 1978. Available at: [http://www.bcn.cl/lc/cpolitica/constitucion\\_politica/Actas\\_comision\\_ortuzar/Tomo\\_XI\\_Comision\\_Ortuzar.pdf](http://www.bcn.cl/lc/cpolitica/constitucion_politica/Actas_comision_ortuzar/Tomo_XI_Comision_Ortuzar.pdf) Last accessed: 28/06/2014.

<sup>776</sup> Idem.

<sup>777</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 388, Tuesday, June 27, 1978. Available at: [http://www.bcn.cl/lc/cpolitica/constitucion\\_politica/Actas\\_comision\\_ortuzar/Tomo\\_XI\\_Comision\\_Ortuzar.pdf](http://www.bcn.cl/lc/cpolitica/constitucion_politica/Actas_comision_ortuzar/Tomo_XI_Comision_Ortuzar.pdf) Last accessed: 28/06/2014.

<sup>778</sup> Bassa and Viera, “Contradicciones de los fundamentos teóricos de la constitución chilena con el estado constitucional: notas para su reinterpretación”, p. 147.

<sup>779</sup> Mario Cerda, *Origen de algunos principios básicos de la institucionalidad política establecida por la constitución de 1980*, in: Revista de Derecho, No. 212, Universidad de Concepción, Concepción, 2002. p.8.

people. This idea of equality is purely moral and does not in any way mean material or economic equality. It rather means that all individuals are an end in themselves and are free to pursue their own happiness free from arbitrary coercion.<sup>780</sup> That was also the idea behind the American Declaration of Independence, which was in fact one of the historical antecedents of this part of the Chilean Constitution.<sup>781</sup>

It is worth bearing in mind that Guzmán, like Hayek and Courcelle-Seneuil, rejected the idea that democracy and equality of material opportunity were related. He argued that the most a democratic society could aspire to was that no one fell below a minimum living standard—an idea also defended by Hayek and Friedman—but that beyond that limit inequality would arise because it was inherent to human nature as could be seen both in capitalist and socialist societies.<sup>782</sup>

With regard to democracy, understood in the classical liberal tradition, the acts of the Constituent Commission made it clear that its restoration was a central goal of the Constitution, showing once again that ideas of democracy were present in the Chilean free market revolution. Already in the first session the members of the Commission declared that the objective was to restore a new democracy that had to be “modern and clean of the impurities that had favored the action of its enemies”.<sup>783</sup> The inevitable and paradoxical result of this transitional plan was that the Constitution did to some extent limit Pinochet’s power. As Professor Robert Barros concluded in one of the most comprehensive studies made on the Chilean Constitution of 1980: “contrary to the established view that dictatorships stand above the law and are structurally incapable of being subject to institutional constraints, the dictatorship in Chile is a case of an autocratic regime being bound by a Constitution of its own making”.<sup>784</sup> According to Barros, one of the central reasons for this was the fact that the power in Chile was not held by Pinochet alone but shared by the four branches of the Armed Forces, each of them wanting to prevent the others from concentrating power. Chile would be thus, in Barros’ words, a case where “institutional limits upon nondemocratic power can be viable forcing us to rethink a long tradition in the analysis of political power”.<sup>785</sup>

Barros’ explanation of the institutional limits that the Chilean military government put upon its own power is supported by historical documents. At the first session of the Constituent

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<sup>780</sup> Idem

<sup>781</sup> Idem.

<sup>782</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 10, Thursday October 25, 1973. Available at: [http://actas.minsejpres.gob.cl/aocencpr/fch\\_capitulo.asp?codigo=Cap%EDtulo%201,%20Bases%20de%20la%20Institucionalidad#](http://actas.minsejpres.gob.cl/aocencpr/fch_capitulo.asp?codigo=Cap%EDtulo%201,%20Bases%20de%20la%20Institucionalidad#) Last accessed: 28/06/2014.

<sup>783</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 1. Available at: [http://actas.minsejpres.gob.cl/aocencpr/fch\\_capitulo.asp?codigo=Cap%EDtulo%201,%20Bases%20de%20la%20Institucionalidad#](http://actas.minsejpres.gob.cl/aocencpr/fch_capitulo.asp?codigo=Cap%EDtulo%201,%20Bases%20de%20la%20Institucionalidad#) Last accessed: 28/06/2014.

<sup>784</sup> Robert Barros, *Constitutionalism and Dictatorship, Pinochet, the Junta and the 1980 Constitution*, Cambridge University Press, Cambridge, 2002, p.1.

<sup>785</sup> Idem

Commission, the members proposed a decree that stated that the dictatorship would be transitional having a precise goal: to “reconstruct the country morally and materially” in order to establish new institutions and a “new democracy” free from the vices that had led to its destruction.<sup>786</sup> As the same Barros noted, “from its inception the members of the Constituent Commission took it for granted that the purpose of a new political Constitution of the Republic was to structure a representative, democratic, republican form of government with explicit constitutional guarantees protecting individual rights”.<sup>787</sup> Moreover, according to Barros, none of the members sought to break away from Chile’s traditional democratic principles.<sup>788</sup> On the contrary, the commissioners had not understood the crisis under the UP government as a failure of the general principles of democracy but as a failure of particular institutional mechanisms.<sup>789</sup>

It was to a large extent the internal push for power between the different branches of the Armed Forces that shared the direction of the government in the form of a Junta that finally enabled the civil advisers of the military regime to put forward an institutional transformation that eventually restored economic freedom and democracy. As Barros noted, the Constitution, closed the debate about the duration of the military regime by specifying “the contours of a post military regime and a timetable for its realization”.<sup>790</sup> As a result, Pinochet was “abiding by known impersonal rules even though these rules had frustrated his ambition to remain president”.<sup>791</sup> The outcome of this process was that Pinochet was forced to “leave the table after the people said No” in the referendum of 1988.<sup>792</sup> In short, if as Fareed Zakaria observed, Pinochet did “lead his country to liberal democracy”<sup>793</sup>, it was because the transition to democracy came almost as an inevitable consequence of the constraints established by the 1980 Constitution.

The idea that the military government, under the influence of the Chicago Boys and the members of the Constituent Commission had created the institutions necessary for a transition to democracy and that the promise of the transition could not be ignored by the regime, was also shared by the political opposition. Before the referendum none other than Clodomiro Almeyda, one of the central figures of the UP government, declared that he was “rationally optimistic” about the Chilean future because he thought that the military regime was going to materialize the

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<sup>786</sup> Actas Oficiales de la Comisión de Estudios de la Nueva Constitución Política de la República, Sesión 1.

<sup>787</sup> Barros, *Constitutionalism and Dictatorship, Pinochet, the Junta and the 1980 Constitution*, p. 220.

<sup>788</sup> *Ibid.*, p 221.

<sup>789</sup> *Idem.*

<sup>790</sup> *Ibid.*, p.179.

<sup>791</sup> *Ibid.*, p. 312.

<sup>792</sup> *Idem.*

<sup>793</sup> Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, W. W. Norton & Company, New York, 2007, p.95. A liberal democracy is one in which not only elections take place but one in which fundamental rights and spaces of individual freedom are in fact respected mostly as a result of institutional arrangements that prevent the abuse of power. See also: Shalendr Sharma, *Achieving Economic Development in the Era of Globalization*, Routledge, New York, 2007, p. 43.

referendum established in its “fraudulent constitution”.<sup>794</sup> According to Almeyda, the No alternative would obtain an “overwhelming” victory.<sup>795</sup> Along the same lines, also before the referendum, socialist leader Ricardo Lagos sustained that because the transition to democracy had been fabricated by the military regime he did not believe that Pinochet would be able to ignore the very institutions that he himself had created.<sup>796</sup>

For the Chicago Boys the Constitution had also a strategic objective. As Barros noted, by allowing themselves to be subject to limits, the military Junta “successfully imposed upon Chile a complex institutional framework that protects private property and bolsters parties defending the status quo...”<sup>797</sup> Barros’ conclusion on the Chilean process is particularly enlightening from an institutional analysis and historical perspective:

We can no longer presume that authoritarian regimes cannot make use of law and limiting institutional devices to structure and stabilize their domination... Constitutional constraints on political power are not incompatible with a nondemocratic authoritarian rule. If this is the case we need to reconsider many of our assumptions about law and constitutionalism. For if legal institutional restraints can coexist with nondemocratic power, the operation of the law and constitutionalism must be reposed independent of their presumed exclusive affinity with democracy.<sup>798</sup>

A decisive factor in restraining the dictator’s power is the set of beliefs that inspire those who are making the rules of the game. In the Chilean case, British-American ideas of liberty were largely responsible for an institutional design that put limits to authoritarianism and enabled the restoration of not only economic freedom but also political liberties and democracy. This does not mean however, that those who collaborated with the Chilean dictatorship have no potential political or legal responsibility for the human rights violations that occurred during their time as advisers to the military regime. This issue remains an open debate, which is beyond the scope of this work.

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<sup>794</sup> Interview by Florencia Varas and Monica Gonzalez, in: *Chile, SI-NO*, Ediciones Melequías, Santiago, 1988, p. 43.

<sup>795</sup> *Idem.*

<sup>796</sup> *Ibid.*, p 105.

<sup>797</sup> Barros, *Constitutionalism and Dictatorship, Pinochet, the Junta and the 1980 Constitution*, p.323.

<sup>798</sup> *Ibid.*,p. 325.



## *Conclusions to Chapter IV*

Jaime Guzmán was what North describes as an actor “able to make the rules of the game”. He had the crucial task of creating a new Constitution that would provide an ironclad shield to the economic and institutional project of the Chicago Boys. Guzmán’s ideology is therefore extremely relevant from an institutional perspective. As this chapter shows, to a large extent Guzmán followed an approach along the lines of British-American liberalism. It becomes clear from the reading of Guzmán’s writings that he fully shared the view that economic liberty was the base for all other liberties and that its restoration was a necessary condition for the restoration of democracy and political liberties at large. As explained in Chapter I, the view that economic liberty was a necessary condition for other liberties was typical of the British-American classical liberal tradition and was also endorsed by Courcelle-Seneuil and the Chicago Boys, as shown in Chapters II and III. In other words, like all classical liberals, and after evolving from a statist position, Guzmán promoted essentially a negative idea of liberty, which automatically led to the limitation of government interference on the economy and social life. The most important influence on Guzmán’s later thinking was Friedrich Hayek. This is of crucial importance because Hayek was the leading intellectual in the British-American classical liberal tradition in the 20<sup>th</sup> century. This means that through the influence of Hayek on Guzmán, classical liberalism found yet another way to define Chile’s institutional evolution in the direction of British-American liberalism, particularly via the 1980 Constitution. In addition, Hayek’s theory offered a justification for the Pinochet regime that was also grounded on the classical liberal ideas of democracy and freedom. This justification was used by Guzmán, who argued that democracy could not be reintroduced until economic liberty and economic development were consolidated. It is important to stress, however, that this justification of dictatorship in times of emergency put forth by Hayek, Mill and Berlin, did not vindicate crimes such as those committed under the Pinochet regime. From a classical liberal perspective, it was not necessarily the lack of democracy that was incompatible with the institutional project of the Chicago Boys and Jaime Guzmán, but the lack of respect for fundamental rights. Moreover, the notion that democracy was a means to preserve liberty and not an end in itself was Guzmán’s justification for an authoritarian regime that was seeking to restore economic liberty and a democracy free from what were considered the impurities of the past. Guzmán believed that these impurities had allowed democracy to become corrupt and to reduce economic freedom, thereby affecting all other liberties and ultimately leading to the destruction of democracy itself. Also, in Guzmán’s thinking, the Cold War logic was decisive. The classical liberal explanation for the

advancement of socialism through an increasing reduction of economic liberty until no freedom at all remained had convinced Guzmán of the need for a free economy and a limited democracy. Otherwise, he believed, Chile would go back to socialism, as had happened with the socialist revolution of Allende. Like Friedman and the Chicago Boys, Guzmán was convinced that socialism had had a chance in Chile because of decades of failed economic policies that had paved the way for populism and more radical statist experiments. The idea of a limited democracy and a deep skepticism about rational planning and the centrality of a free economy were crucial pillars of Guzmán's constitutional project. As this chapter shows, the individualistic philosophy of Guzmán's constitution and its concern for the protection of negative liberty and private property closely resembled the constitutional project of the framers of the American Constitution. This is further evidence of the presence of American ideas of freedom and democracy in the Chilean free market revolution.

That ideas of democracy in the classical liberal tradition were part of Guzman's constitutional project is not only clear in the case of Guzman himself, but also in that of the other members of the constituent commission. The documents analyzed in this chapter show that from the beginning they had conceived the authoritarian regime as transitional. Authoritarianism was thus seen as a means to create a new institutional apparatus that allowed the introduction of a limited democracy as well as a free economic system that could ensure its survival. In other words, authoritarianism proved useful to create a set of rules and institutions that would set the foundations for a social, economic and political order along the lines of British-American liberalism. Probably the most striking aspect of this process of institutional change is the fact that Guzmán's constitution did indeed serve as a limitation of Pinochet's power. A clear manifestation of this is that after being defeated at the referendum of 1988 Pinochet stepped down and democracy was reintroduced. If North is right about the interplay between beliefs and institutional change, then the reintroduction of democracy and political liberties in Chile in 1990 was at least to a considerable extent the result of the set of beliefs that inspired the new institutions created by Guzmán and the Chicago Boys. These beliefs, as explained in Chapter II, were part of Chile's intellectual and institutional tradition. The next chapter will provide further evidence of the influence of this branch of liberalism on the intellectual foundations of the Chilean free market revolution.

## Chapter V: José Piñera and the promotion of American liberalism

### *Piñera and Economía y Sociedad on liberalism and fundamental rights*

Among all the Chicago Boys no one wrote more about the Chilean institutional transformation and its connection to British-American liberalism than José Piñera. Given his intellectual background, his fame as the most radical among the Chicago Boys, and his influence on the Chilean public opinion through his numerous writings, it is useful and necessary to dedicate a special chapter to Piñera's intellectual contribution to the Chilean free market revolution. Piñera, who obtained his PhD in economics from Harvard, publicly declared to have been inspired in his work by classical liberal thinkers such as the American Founding Fathers. Moreover, Piñera's first choice for a research topic for his dissertation at Harvard was on the American Founding Fathers, a project he could not materialize because his professors wanted a more standard dissertation.<sup>799</sup> With regard to the main intellectual influences on his thinking Piñera wrote:

In my four years in Cambridge, not only did I deepen my knowledge of economics and other social sciences, but I immersed myself in the exhilarating climate of freedom of American society. In search of the ultimate causes of the success of America, I became a passionate admirer of the Founding Fathers, and their two great legacies to the world: the Declaration of Independence and the Constitution of the Republic. I also found great inspiration in the works of thinkers of liberty such as John Locke, Adam Smith, Frederic Bastiat, Friedrich Hayek, Karl Popper, Ludwig von Mises, and Milton Friedman.<sup>800</sup>

Piñera became labor minister in 1978 after having impressed the Junta with an original analysis of Chile's economic potential. Later on he also became minister of mining which is a key

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<sup>799</sup> See: "El valor presente de los Founding Fathers" *Economía y Sociedad*, December 19, 2001. Available at: [http://www.josepinera.com/articles/articulos\\_eyes\\_valor\\_presente\\_de\\_los\\_padres\\_fundadores.htm](http://www.josepinera.com/articles/articulos_eyes_valor_presente_de_los_padres_fundadores.htm) Last accessed: 28/06/2014.

<sup>800</sup> José Piñera, "How the Power of Ideas can Transform a Country", Available at: [http://www.josepinera.com/articles/articles\\_powerofideas.htm](http://www.josepinera.com/articles/articles_powerofideas.htm) Last accessed: 28/06/2014. As will be shown, several documents and writings of Piñera during the 1970s and 1980s confirm his classical liberal worldview.

position in a country that derives its main income from the exploitation of natural resources. More importantly, Piñera was the only Chicago Boy to create a magazine with the aim of spreading neoliberal ideas. The magazine was called *Economía y Sociedad (Economy and Society)* and was widely read by the Chilean economic, academic and political elites. As this chapter will show, *Economía y Sociedad* was Piñera's main platform for making the case in defense of the transitional nature of the military regime and the centrality of the free market revolution to achieve democracy. It was also a platform for criticizing the government for not restoring civil rights and for crashing other personal liberties. It must be pointed out however, that even if Piñera actively engaged in the defense of a free society both in economic and political terms, most of Piñera's criticism to the military regime on human rights issues were made after he had left his position in the government and his job as free market reformer had been accomplished. This is further indication of the centrality that economic liberty has over all other liberties in the neoliberal tradition. In the words of Piñera himself "with the fruits of his labor man conquers that amount of private property and economic liberty which is the base of his social and political liberty".<sup>801</sup> Of course, there can also be a pragmatic dimension to the decision of advocating for other individual liberties after leaving the government. It is not unlikely that Piñera would have lost his job and would not have been able to make the radical reforms he intended to, had he publicly criticized the military government during his time as minister. At any rate, Piñera remained a central figure in Chilean public life throughout the military regime, achieving great influence on the Chilean political, academic and economic leadership through his writings and opinions. Without any doubt his ideas and particular contribution formed part of the set of beliefs that influenced political events and institutional development in Chile during the 1980s. A statement such as the one made by former United States ambassador to Chile from 1977 to 1982, George Landau in *El Mercurio*, should be understood in this framework. Referring to the free market revolution, the Chicago Boys and the human rights problems, Landau wrote:

I was the ambassador of the United States in Chile during the years in which these projects were developed. Despite the fact that I had serious conflicts with the government with regard to the Letelier case, I want to stress that I was a first line witness of how Jose Piñera and this group of economists of solid liberal convictions transformed Chile into a free society, fighting for liberty, democracy and the rights of the individuals under the most adverse internal and external conditions.<sup>802</sup>

<sup>801</sup> José Piñera, "Trabajo y libertad", *La Tercera*, April 25, 1983.

<sup>802</sup> George Landau, "El otro día decisivo", *El Mercurio*, August 8, 2008.

Indeed, throughout the 1980s Piñera and *Economía y Sociedad* actively engaged in the defense of individual rights against the abuses of the military regime arguing that these rights were inherent to any free society and that they had been guaranteed by the Constitution. Useful to understand the philosophical background of this engagement is an article Piñera would write on human rights in 1991. In the piece, Piñera declared that the discussion on the subject of human rights could not be avoided. According to him, no one should think again that human rights and individual liberties were merely formal prerogatives of the individuals that could be taken away by government decisions or by the actions of other groups. For Piñera, this was the central lesson of liberalism: “liberalism teaches us that the best way to recognize the dignity of a person is to vindicate his liberties.”<sup>803</sup> In Piñera’s view, human dignity understood by classical liberalism entailed “freedom of speech, freedom of religion, freedom of association, freedom to work, freedom to entrepreneurship, freedom of education...”<sup>804</sup> In short, said Piñera, liberalism defends the right of everyone “to live according to his own opinions”.<sup>805</sup> This idea of human dignity required “an effective control of the abuses against the individual from the concentrated powers of society: government, monopolies, groups with collectivist pressures, circumstantial majorities with their arbitrary wishes”.<sup>806</sup> Accordingly, authority had to be subordinated to the individual and not the other way around. For ensuring these rights, a system of separation of powers was necessary, in which the authorities that abused power could be punished both in civil and criminal cases. Finally, Piñera sustained that human rights could not be defended with abstract concepts. The challenge was not to protect “the people” but to protect each individual providing real people with the legal and material tools so they could defend themselves.<sup>807</sup>

This view on human rights was consistent with Piñera’s engagement in the defense of civil liberties since the late 1970s. Piñera’s classical liberal approach to this issue was best reflected in an article authored by London School of Economics professor Maurice Cranston, which was endorsed and reproduced by *Economía y Sociedad* in 1985 reflecting the magazine’s position on the subject. The article was entitled “¿Qué son los derechos humanos?” (What are human rights?) and was a radical defense of a negative version of human rights that entailed economic freedom at its core. According to Cranston, John Locke had been the father of the concept of natural rights such as life, liberty and property, achieving great influence in England and the United States.<sup>808</sup>

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<sup>803</sup> José Piñera, “Derechos humanos: y el futuro cuándo?” *Revista Hoy*, June 1991. Available at: [http://www.josepinera.com/chile/chile\\_ddhh\\_futuro.htm](http://www.josepinera.com/chile/chile_ddhh_futuro.htm) Last accessed: 28/06/2014.

<sup>804</sup> Idem.

<sup>805</sup> Idem.

<sup>806</sup> Idem.

<sup>807</sup> Idem.

<sup>808</sup> Maurice Cranston, ¿Qué son los derechos humanos?, *Economía y Sociedad*, September 1985, p.33.

For Cranston the cause of natural rights had been damaged by German intellectuals who had argued that they were not individual rights but collective or national rights. By the late 19<sup>th</sup> century the influence of these ideas had led to the disappearance of natural rights from the intellectual world. According to Cranston, after the experiences of the first half of the 20th century, the United Nations passed a declaration of human rights that again revived the tradition of natural rights. However, Cranston warned that under the pressure of socialist countries the UN had also incorporated social and economic rights such as the right to social security, home, health care, proper income and so on. These rights were not only unattainable but implied a negation of natural rights because it was reducing rights to the category of ideals. While human rights admitted no exceptions and had to be respected everywhere, ideals are no more than wishes. In Cranston's words: "the effect of a declaration of human rights overloaded with social and economic rights consists in taking out the civil and political rights of the morally compelling camp and bringing them to the world of utopic aspirations. To understand a right nothing is more important than to recognize that it is not an ideal".<sup>809</sup>Real human rights continued Cranston, did not need a justification for their existence: they were inherent to human nature.

Throughout the 1980s there were several publications where Piñera and *Economía y Sociedad* defended personal liberties along the lines of Cranston's classical liberalism. In these writings is possible to distinguish three main concerns in regard to human rights violations by the military regime: a) forced exiled, b) freedom of speech and freedom of information, and c) the right to life and personal security. Social and economic rights were rejected even though a limited redistributive role of government was acknowledged. It is useful to examine briefly the sort of defense made by Piñera and *Economía y Sociedad* of human rights in order to understand the tension between the classical liberal worldview and the Chilean authoritarian government as well as to provide further evidence with regard to the presence of ideas of political liberty and democracy in the free market revolution.

#### A) Forced exile

One of the most recurrent punishments that the military regime applied to political opponents was forced exile. For the people expelled from the country this meant leaving home, family and property behind, as well as a prohibition to return until the authorities allowed them to do so. In 1982, in the newspaper *La Tercera* Piñera criticized this government policy arguing, that "men should not be deprived of the right to live in his motherland".<sup>810</sup> Piñera further argued that

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<sup>809</sup> Ibid., p.35.

<sup>810</sup> José Piñera, "Dios nació en el exilio", *La Tercera*, November 15, 1982.

Chile was different to the communist regimes that blocked their borders so that people could not freely leave, adding that even the most radical adversaries of the military regime wanted to come back to Chile. After the government decision to allow the exiled to return in 1982, Piñera argued that it was “the best news of the year” celebrating the fact that opponents to the military government such as Andrés Zaldívar, Jaime Castillo and Eugenio Velasco could return to Chile.

Again in *La Tercera* but this time in 1986, Piñera would come back on the topic of forced exile, which the government had reintroduced. On that occasion Piñera demanded that the government should end this policy “immediately”.<sup>811</sup> The former labor minister explained that in a free society every person had the right to be judged by an impartial court in a due process of law and that the sanction of exile was “incompatible with a free society given its intrinsic cruelty”.<sup>812</sup> For Piñera, the people most affected were the families of those outcast by the authorities, which introduced an element that made “civic friendship” in society “impossible”.<sup>813</sup> Also in 1986 in *Economía y Sociedad*, Piñera would make the same case for the end of forced exile. He argued that the punishment was a “shame” and that the government should renounce to use the faculty of “administrative exile” provided by the Constitution.<sup>814</sup> He went on to say that the courts should challenge the government actions by accepting habeas *corpus* as a way to protect people from possible arbitrary actions by the government. In August of the same year the editorial of *Economía y Sociedad* warned that the main problem of the military regime was credibility with respect to human rights and the transition to democracy, arguing that it was necessary to regain credibility in the eyes of the United States and the developed world. In order to achieve that, the magazine sustained that the government had to allow the installation of independent TV networks and other media that could watch and denounce the government on human rights abuses.<sup>815</sup>

## B) Freedom of speech

Like all classical liberals, Piñera attributed enormous importance to freedom of speech and information. It is to this right that Piñera dedicated most of his writings. In Piñera’s view, a free press and freedom of speech were essential to control government power from outside and therefore crucial to protect individual liberties. No open and dynamic society could work without the free flow of information. In an article entitled “The Open Society” after Karl Popper’s famous work on totalitarian philosophies, Piñera argued, like Hayek and Friedman, that knowledge was

<sup>811</sup> José Piñera, “Fin al exilio”, *La Tercera*, August 18, 1986.

<sup>812</sup> Idem.

<sup>813</sup> Idem.

<sup>814</sup> José Piñera, “Fin al destierro”, *Economía y Sociedad*, July 1986, p.10.

<sup>815</sup> *Economía y Sociedad*, August 1986, p.8.

dispersed among all individuals in society.<sup>816</sup> The more complex a society was, the more limited was this knowledge. The advantage of a free society was that individuals could share their ideas, opinions and particular knowledge so that society could select the best combinations. This process required the existence of critique and analysis: “critique and the freedom to contribute with new ideas or objections to useless ideas allow–society to correct many mistakes and adapt to the future”.<sup>817</sup> Following this line of analysis, Piñera argued that societies best progressed by the free play of their spontaneous forces and not by the dictate of an “enlightened elite”.<sup>818</sup> In a passage that closely resembled Adam Smith’s theory of the invisible hand, Piñera argued that “the interaction of free men, each one with his own contribution, produces in a free society results that are superior to those that could have been imagined by a single person or group with knowledge that is by definition limited”.<sup>819</sup> Piñera was thus making the same case Hayek had made in favor of epistemological skepticism and limited government. In Piñera’s words: “collectivist societies...where individuals are subordinated to the State or the nation are in reality societies where groups of people have centralized power in order to impose their own limited vision...These are societies distorted by the monstrous arrogance of those who believe to have access to reason or truth...In these societies not only does tyranny rule but also inefficiency”.<sup>820</sup>

One of the first concrete critiques of repressive government policies was made by Piñera in 1982 after the government’s decision to censor books. On the occasion, Piñera argued that the decision showed a “paternalistic conception of the development of the social body” that was grounded in the fear of confronting different ideas.<sup>821</sup> Piñera denounced that those who censored believed to be in the possession of “absolute truth” which was nothing but a “myth” to hide their “dogmatism”.<sup>822</sup> In a free society, continued Piñera, there was no such form of previous censorship because it was not the role of government to protect people from the books that could be dangerous. It was through public debate that those books could and should be neutralized and not through the use of government coercion. Piñera further explained that in a free society the real problem was not to “suppress with efficacy what is considered undesirable but to develop sufficient energies so that the greatest perversions produce the smallest damage”.<sup>823</sup> A free society entailed “sustained trust in the mechanisms of the open debate, in the right to disagree and in the value of tolerance”.<sup>824</sup> On the contrary, censorship assumed that the people were not mature

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<sup>816</sup> José Piñera, “La sociedad abierta”, *La Tercera*, August 26, 1985.

<sup>817</sup> *Ibid.*, pp.151-152.

<sup>818</sup> *Ibid.*, p.152.

<sup>819</sup> *Idem.*

<sup>820</sup> *Idem.*

<sup>821</sup> “Previa, discrecional, inapelable”, *Economía y Sociedad*, September 1982, p.14.

<sup>822</sup> *Idem.*

<sup>823</sup> *Ibid.*, p.,15.

<sup>824</sup> *Idem.*



enough to distinguish between what was good and wrong. Moreover, for Piñera, the government was again acting in an unconstitutional manner for it deprived the people from the ability to make their own choices. In addition, said Piñera, it was counterproductive because it weakened the capacity of society to react against dangerous ideas.

For Piñera, another unjust consequence of the logic of censorship is that it transformed the writer into a sort of ideological sniper, thereby making all writers suspicious of a possible crime. On top of that, the necessary controls for implementing censorship were “humiliating” for all writers. For these reasons, Piñera claimed that the “abolition of prior censorship was an imperative” arguing that history showed that censorship usually became a source of abuse.<sup>825</sup>

In 1983 Piñera once again defended freedom of expression, which he thought was being abusively suppressed by the military government. Piñera referred to the pressures made by government officials on newspaper editors to prevent them from publishing certain types of information. Piñera declared that it was his “moral duty to defend these liberties”.<sup>826</sup> He argued that there was press censorship in Chile, which was contradictory with the fundamental rights established in the Constitution of 1980 created by the same military government. He denounced the attempts of censorship as foolish and added that “those of us who promote integral freedom see freedom of speech as an essential pillar of a free and civilized society”.<sup>827</sup> Piñera warned the government that the truth would eventually prevail and that the attempts to hide it would only undermine its legitimacy.

Along the same lines, in 1985 in *Economía y Sociedad* Piñera published an article entitled “Una libertad vital” (A Crucial Liberty) in which he denounced that freedom of speech was “severely limited” in Chile making public debate extremely difficult.<sup>828</sup> In a line of argumentation that would be a constant during the 1980s, Piñera rejected the arguments restricting freedom of expression to make the fight against terrorism effective, arguing that the government had gone too far with restrictions that prevented public debate and open criticism. For Piñera, these measures deprived society “of their most important tool of intellectual discipline” and the best source of information “for the adoption of good decisions not only in the political sphere but also in the economic and social spheres”.<sup>829</sup> Piñera went on listing the restrictions imposed by the government on freedom of information, explaining that they constituted a “control exerted by a small group of people over the vital liquid that moves society: information”.<sup>830</sup> Piñera concluded his article with a set of recommendations to the government in order to restore freedom of information. Among them,

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<sup>825</sup> Idem.

<sup>826</sup> José Piñera, “Con la vista nublada”, *La Tercera*, July 4, 1983.

<sup>827</sup> Idem.

<sup>828</sup> José Piñera, “Una libertad Vital”, *Economía y Sociedad*, February, 1985, p.6.

<sup>829</sup> Ibid.,p.6.

<sup>830</sup> Idem.

he demanded to put an end to censorship of a Chilean left wing magazine called *Hoy*; to modify the law that prohibited to inform and talk without prior authorization about topics considered “politically relevant”; to put an end to the pressure exercised by some ministers on the media through government propaganda; and to ensure independent management of the state television channel in order to get ready for the transition to democracy.

A few months later in an article entitled “No más censura” (No More Censorship) Piñera argued that the country could “no longer live without the oxygen that is freedom of speech”.<sup>831</sup> Piñera further argued that *Economía y Sociedad* clearly disagreed with the “anti-liberal prejudices of *Hoy* magazine” but insisted that according to a coherent position with the principles of liberty “no government official” had “the right to determine a priori what a publication can say”.<sup>832</sup> Piñera’s defense of the right to free speech of political opponents was based on the belief that prior censorship violated “one of the fundamental principles of a free society”.<sup>833</sup> He added that the military government was different from Marxist governments such as the one in–Nicaragua and therefore should not fall “into the temptation of silencing opinions and news that a given censor considers inconvenient for the 11 million Chileans to know”.<sup>834</sup> Measures such as decree number 1,217 which established that the media could inform on “politically relevant issues” subject to prior authorization by the government were, according to Piñera, “draconian” and could be used at any time to censor any medium. In Piñera’s view there was “no justification” for the censorship that the Chilean people were suffering, which not only was “restricting the intellectual debate” but also hindering the construction of the necessary civic friendship to live in peace.<sup>835</sup>

Piñera once again referred to the issue of freedom of speech at a meeting organized by the National Press Association in June 1985. In his presentation, Piñera argued that there was no more difficult task for a society than having a successful transition from an authoritarian to a democratic system. What was needed to succeed, argued Piñera, was a sort of “Magna Carta that limits the action of the state” by establishing “fundamental rights, key economic liberties, private property, freedom of speech” and mechanisms to prevent the rise of totalitarianism.<sup>836</sup> For all that, the role of a free press was essential. A free press in Chile, explained Piñera, could only exist under the following conditions: a) full enforcement of constitutional guarantees; b) effective law that established sanctions to the abuse of information; c) a free journalism that did not force journalists to join unions in order to be able to work; d) autonomy of the media, which meant no government ownership of media; e) free access to all communication media, and f) a reduction in the economic

<sup>831</sup> José Piñera, “No más censura”, *Economía y Sociedad*, May, 1985, p.7.

<sup>832</sup> Idem.

<sup>833</sup> Idem.

<sup>834</sup> Idem.

<sup>835</sup> Idem.

<sup>836</sup> José Piñera, “Seis condiciones para una prensa libre”, *Economía y Sociedad*, August, 1985, p.31.

power of the state. This last point is crucial to analyze the way in which economic and political liberty were intertwined in the worldview of classical liberalism. Along the lines of Friedman, Piñera explained that the power of the government to control the materials necessary to produce the newspapers, to fix the prices of the products that the media can sell or buy and to regulate the commercial activities that allowed the media to work, were all forms in which government could exercise a de facto censorship. For those reasons, according to Piñera, a “social market economy contributes powerfully to the existence of a free press”.<sup>837</sup> Finally, Piñera concluded that the enormous influence that the state still had on all aspects of the life of the citizens was the consequence of the hesitation of the different sectors of society to advance to a “regime of integral liberties which is the only one capable of guaranteeing development and pluralism”.<sup>838</sup>

### C) Right to life and security

The most critical article with regard to human rights abuses was published by Piñera in *Economía y Sociedad* in 1986. The article addressed an incident in which some members of the military forces had burned two people who were planning a terrorist attack. The case was called the “quemados” —the burned— and became a major scandal in the Chilean media. In his intervention, Piñera argued that the “inexplicable incapacity” of the military government to guarantee respect for fundamental rights was undermining “its ethical value and chasing away its supporters”.<sup>839</sup> Piñera continued:

why do more than 3,000 Chileans still remain in exile? Why is terrorism being hunted down in the shantytowns with massive raids that hurt the dignity of the hundreds of thousands of people that live there? Whose idea was it to send young conscripts with camouflage and combat uniforms to watch their own countrymen?<sup>840</sup>

Piñera concluded that it was “incomprehensible” that a government with such an incredible record on economic reforms could not understand that such “persistent” human rights violations were not acceptable, urging it to adopt substantial measures to solve the problem and guarantee the respect of fundamental rights for all Chileans.<sup>841</sup>

Unsurprisingly, Piñera had to face the reaction of the government which, through the state

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<sup>837</sup> Idem.

<sup>838</sup> Idem.

<sup>839</sup> José Piñera, “¿Hasta cuándo?”, *Economía y Sociedad*, July, 1986.

<sup>840</sup> Idem.

<sup>841</sup> Idem.

owned newspaper *La Nación*, accused *Economía y Sociedad* of confusing the public with regard to the “quemados case”. Responding to a leader in *La Nación* that made those accusations, Piñera reiterated that the government was incapable of guaranteeing human rights, adding that among the Chilean military there were “bands of assassins” who acted with impunity and were responsible for the killing of several people.<sup>842</sup>

In August 1986, in *La Tercera* Piñera would again address the “quemados case” arguing that it was unacceptable that the case remained in “obscurity and impunity”.<sup>843</sup> He added that lies destroyed any possibility of achieving the civic friendship that Chile needed for constructing peace. In Piñera’s view, lies would prevent the restoration of trust within Chilean society, which was the reason why the authorities had to discover the truth and make it public.<sup>844</sup>

With regard to other fundamental rights, also in 1986, Piñera would make the case to end the states of emergency because they were not effective in fighting terrorism and consistently restricted fundamental rights such as the right to assemble, to mobilize, to be informed and to enter and leave the country.<sup>845</sup> The government, according to Piñera, was undermining constitutional stability by not protecting fundamental rights. In Piñera’s words: “Why should Chileans feel loyal to the Constitution when the chapter which is most important to them—the chapter on fundamental rights—which protects their liberty and gives them security that they will not be subjected to abuses is not being applied?”<sup>846</sup> Along these lines Piñera, criticized those judges who were ruling that *habeas corpus* claims could not be filed under a state of exception. He added that the restrictions imposed on freedom of expression made impossible the emergence of a press that could “watch over the power and the political debate”.<sup>847</sup>

Another important article with regard to the fight against terrorism and the protection of human rights was published by *Economía y Sociedad* in July 1987. The piece argued that terrorism sought to discredit the legal institutions so that it could destroy the foundations of a civilized order, warning that when the intelligence services acted brutally they became themselves agents of subversion by destroying the confidence of the people in the institutions.<sup>848</sup> This in turn made of society an easy prey for totalitarianism. Therefore, it was crucial that the military rulers should understand that terrorism should be fought with “the most complete respect for the rights of all Chileans”.<sup>849</sup> According to the article, Chile needed better intelligence services that could deal with terrorism without destroying the confidence of the public in the government institutions. Moreover,

<sup>842</sup> See: *La Nación*, August 6, 1986.

<sup>843</sup> *La Tercera*, August 4, 1986.

<sup>844</sup> Idem.

<sup>845</sup> José Piñera, “Estados de excepción”, *Economía y Sociedad*, April, 1986.

<sup>846</sup> Ibid., p.

<sup>847</sup> Idem.

<sup>848</sup> “El dilema de los príncipes”, *Economía y Sociedad*, July, 1987, p.11.

<sup>849</sup> Idem.

for *Economía y Sociedad*, intelligence services should “not be a source of danger for human rights but their defender; the last shield of the open society”.<sup>850</sup>

In 1987 the editorial *Economía y Sociedad* argued that the Pinochet government was not going to win the referendum of 1988 if it continued to undermine its support by persisting in policies that violated human rights.<sup>851</sup> Some of the most important deficiencies of the government, argued the magazine, were the concentration of political power and the absence of checks and balances.<sup>852</sup> According to the magazine, the government had now an opportunity to correct this in order to gain credibility. Among the measures recommended by Piñera was the elimination of the article of the Constitution that enabled declaring a state of exception due to the perturbation of internal peace. According to Piñera, this measure would put an end to forced exile as well as reestablish *habeas corpus* and enable the free functioning of newspapers and magazines. Piñera insisted that a well-functioning economy was not enough for achieving all the support necessary to win the election of 1988 and that political liberties were essential.<sup>853</sup> Accordingly, the government also had to lead the transition to democracy making sure that no violations of fundamental rights took place.<sup>854</sup> In addition, the transition to democracy needed a consensus about essential values among the ruling elites and the civil society. In the words of *Economía y Sociedad*:

Civil society has to do an indispensable task in order to make possible a democratic political order which is stable and effective: to reach an agreement about the basic rules of the game that will lead the economic social and political development of the country...it seems that this consensus should at least include...rights that are inherent to human nature such as the right to life, freedom of conscience, freedom of expression and due process of law...<sup>855</sup>

The magazine included the right to private ownership and economic liberty making it very clear that so-called “social and economic rights” such as the right to a home provided by the government were not part of the list of negative rights. Moreover, *Economía y Sociedad* warned that a government that assumed the role of providing for the people in their necessities could easily lead to weakening personal liberties.<sup>856</sup> *Economía y Sociedad* was thus once again promoting a negative idea of liberty along the lines of classical liberalism, rejecting one of the central premises of the

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<sup>850</sup> Idem.

<sup>851</sup> “Otro golpe de timón”, *Economía y Sociedad*, April 1987, p.7.

<sup>852</sup> Idem.

<sup>853</sup> Idem.

<sup>854</sup> Idem.

<sup>855</sup> “El camino al 89”, *Economía y Sociedad*, April, 1985, p.6.

<sup>856</sup> Idem.

welfare state.

*Economía y Sociedad on democracy, government and liberty*

As has been pointed out, *Economía y Sociedad* assumed the role of influencing society, especially the ruling elites. The magazine openly declared that its task was “to persuade” and “become a useful instrument for the decision-making of businesses and also for the civic decisions of private individuals and the authorities.”<sup>857</sup> In the case of the authorities, the magazine argued that “public responsibilities have to be inserted in a body of ideas about the individual, society and the state, which recognized the essential values of collective life and the priorities that must orient them”.<sup>858</sup>

The reading of the magazine created by Piñera provides yet another proof that a comprehensive version of classical liberalism—with a social market economy component—was at the heart of the free market revolution. All the central ideas of classical liberalism, such as the rule of law, a limited government, limited democracy, negative liberty, property rights, the spontaneous nature of progress, the inconvenience of the welfare state and the efficiency of the market are to be found in the magazine. Like “*The Brick*” and the Constitution, a special emphasis was put on the connection between economic freedom, democracy and political freedom. As the third issue published in 1978 explained, the new military government had three essential commitments: freedom, reason and democracy. As far as freedom was concerned, a crucial point made by *Economía y Sociedad* was that the process of disintegration of the Chilean democracy and economy had started long before the UP government. Just like “*The Brick*” had done years earlier, *Economía y Sociedad* argued that for decades, government power had expanded increasing the scope of public decisions.<sup>859</sup> In the words of the magazine:

The pace at which the state expanded, its increasing intervention in spheres that are not of its concern, the diversified volume of services that became -dependent on it, the vast amount of resources and the number of jobs it came to control are features that describe what it seemed an unstoppable movement towards socialism.<sup>860</sup>

Thus, in the eyes of *Economía y Sociedad*, statism had restricted private initiative and

<sup>857</sup> “Un año”, *Economía y Sociedad*, April, 1983, p.3.

<sup>858</sup> “Sobre realismo y la flexibilidad”, *Economía y Sociedad*, August, 1982, p.11.

<sup>859</sup> “Hacia un nuevo modelo político”, *Economía y Sociedad*, Santiago, May-June, 1978, p.2.

<sup>860</sup> Idem.

seriously “jeopardized individual freedom”.<sup>861</sup> It had also destroyed the “basic pillar of democracy —freedom— leading to serious economic inefficiencies”.<sup>862</sup> As a consequence, the sphere of decisions that individuals could make without the involvement of the state was dramatically reduced while the power of the authority became substantially greater.<sup>863</sup> Consequentially, for the magazine, Chile had not only gradually destroyed individual freedom but also become a rent-seeking society where government was the “great distributor of rents and favors”.<sup>864</sup> The military government had to reverse that situation if it wanted to restore the soundness of the economy and a functioning democracy. In a speech given by Piñera and reproduced in *Economía y Sociedad*, the former minister argued that the contribution of economic freedom to the establishment of a true democracy was a fact that was no longer debated in western nations that had been able to combine progress, liberty and democracy.<sup>865</sup> It was evident he added, that when government fixed prices and salaries, controlled major enterprises and hundreds of thousands of jobs and granted thousands of privileges, there could be no real democracy. Under such a system, the fight over political control was a fight over the control of people’s lives. In this context, said Piñera echoing Friedman, “economic liberty is much more than a mechanism that allows... the efficient allocation of resources and maximizes productive growth. Economic liberty is a necessary but not sufficient condition for a true democracy and a free society.”<sup>866</sup>Therefore, economic liberties such as the right to engage in productive activities, the right of free association and equality before the law had to be guaranteed.<sup>867</sup> At the same time Piñera considered private property as the base for individual liberty and progress. If John Adams argued that “the moment the idea is admitted into society, that property is not as sacred as the laws of God... anarchy and tyranny commence”<sup>868</sup> Piñera declared that “when private property is confiscated individual liberty becomes an illusion and progress comes to a halt”.<sup>869</sup> In this logic the success of a process of political liberalization was measured by the degree of negative liberty that it achieved: “the success of a process of political liberalization can be measured by its potential to reduce state power so that in basic matters society can develop independent from the political color that is in power”.<sup>870</sup>For Piñera, only when society was depoliticized would it be stable and the economy could prosper.<sup>871</sup>

<sup>861</sup> “Institucionalidad económica”, *Economía y Sociedad*, Santiago, July-August, 1978, p.2.

<sup>862</sup> Idem.

<sup>863</sup> Hacia un nuevo modelo político, *Economía y Sociedad*, Santiago, May-June, 1978, p.2.

<sup>864</sup> Idem.

<sup>865</sup> José Piñera, “Megatendencia del decenio”, *Economía y Sociedad*, Santiago, September 1983, pp.8-9.

<sup>866</sup> Ibid.,p.9.

<sup>867</sup> “El camino al 89”, *Economía y Sociedad*, April 1985, p.6.

<sup>868</sup> John Adams, “The Life of the Author” in: *The Works of John Adams, Second President of the United States:with a Life of the Author, Notes and Illustrations, by his Grandson Charles Francis Adams*, Vol. I, Little, Brown and Co., Boston, 1856, p.148.

<sup>869</sup> “El camino al 89”, *Economía y Sociedad*, April 1985, p.6.

<sup>870</sup> “Modernización y futuro”, *Economía y Sociedad*, July, 1984, p.15.

<sup>871</sup> Idem.

In the eyes of the magazine, economic liberty required that public decisions should be restricted to their own spheres so that property was “dispersed” and private individuals had “a wider area for their initiatives”.<sup>872</sup> What the military government had to construct, said the magazine, was “a society that is more free, stronger and less dependent on the decisions of the authority”.<sup>873</sup> For that, free economic institutions were essential and had to pursue the following aims: a) material progress and security of the Chilean people; b) securing economic liberty in order to construct a libertarian society; c) ensuring justice both in its individual and social dimension.<sup>874</sup> All of this, claimed *Economía y Sociedad*, had not been promoted by the Chilean economic model existent prior to 1973. On the contrary, the magazine argued that even though many of the statist policies responded to a desire of achieving justice, they had instead been the source of much injustice leading the state to serve interest groups and thereby abandoning the poor. Therefore, the new economic institutions had to be inspired in the following four principles: a) The subsidiarity of the state, which implied a “recognition of free private initiative and private property on the one hand, and state responsibility for satisfying the basic needs of the population and regulating the economy on the other hand”; b) equality before the law; c) rationality in public decisions allowing technicians to define economic and public policy; and d) participation of the citizens so that political decisions reflected the value judgment of the people.<sup>875</sup>

Of all of these principles the one most stressed by *Economía y Sociedad* was the subsidiarity of the state. In the view of the magazine, it was this principle that guaranteed the economic freedom on which all liberties in society depended. As the magazine argued, upon the correct understanding and application of the subsidiarity of the state rested “the best defense of a free society” because statist excesses were “one of the most dangerous threats to western democracies...”<sup>876</sup> Moreover, the magazine argued that the correct interpretation of the subsidiarity principle and its consolidation in constitutional rules was “the most powerful defense against runaway statism”.<sup>877</sup> Statism was in turn opposed to a principle which according to *Economía y Sociedad* was essential to Chilean culture: freedom.<sup>878</sup> For the magazine, it was freedom as well as the stability of the economic and democratic system that demanded that the new institutions created by the military government did not intervene in the spheres of the individual initiative. Otherwise they would become dependent on the political system leading to the politicization of society and to increasing conflicts within the political class. One year before the referendum of 1988 *Economía y*

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<sup>872</sup> “El camino al 89”, *Economía y Sociedad*, April 1985 ,p.4.

<sup>873</sup> Idem.

<sup>874</sup> “Institucionalidad económica”, *Economía y Sociedad*, Santiago, July-August, 1978, p.2.

<sup>875</sup> Idem.

<sup>876</sup> “Definiciones Constitucionales”, *Economía y Sociedad*, Santiago, July-August, 1978, p.4.

<sup>877</sup> “Marco institucional para la política económica”, *Economía y Sociedad*, Santiago, July-August, 1978, p.5.

<sup>878</sup> Idem.



*Sociedad* argued that just like Margaret Thatcher had done in Britain, the military government in Chile had made a “neoliberal revolution” that sought to return to the individuals “those spaces of freedom taken away by bureaucracy and statism”.<sup>879</sup> For *Economía y Sociedad*, London and Santiago concentrated on recovering “the liberties in that sphere where socialism usually confiscates first: the market”.<sup>880</sup>

The second commitment of the military government, according to *Economía y Sociedad* was with reason. This idea was inextricably linked to the concept of limited democracy that was at the core of the free market revolution. The magazine argued that a distinction had to be made between value judgments and technical judgments. On technical issues such as public policy and the economy, it was the experts on the social sciences that had to make decisions unless the public was well informed; otherwise individual freedom would be restricted and collectivism would arise.<sup>881</sup> This was a clear justification for institutional constraints on politicians and thereby on the democratic principle. The magazine went as far as arguing that a mechanism had to be considered so that certain decisions were not made by politicians but by experts: “It is beyond doubt that the complexity or confidential nature of certain decisions make unthinkable its public debate. In some cases, when the decision is primarily technical, it could be submitted to these commissions of experts”.<sup>882</sup> What was required was that the Constitution laid down the principles of the free market model and designed “the mechanisms which canalized the contribution of experts and the will of the people in a genuinely democratic way”.<sup>883</sup> In turn, the new economic institutions had to be designed so that they would “make sure that public decisions respond to a national commitment to freedom, reason and democracy”.<sup>884</sup> In other words, democracy had to be limited in order to protect the free market economy which was seen as the base for a functioning democracy and all other liberties.

In a rather unconvincing way, the magazine claimed that it did not advocate a technocracy, because all values and ideological positions were not determined by experts but by society. Experts should only recognize the scientific truths and be responsible for issues such as monetary policy, subsidies, taxes and others. The aim of this strategy of limiting democracy, according to the magazine, was to avoid the politicization of issues that were crucial for the wellbeing of the population thus preventing populism, demagoguery and eventually the destruction of the economy and the political system, as had recently happened in Chile. What *Economía y Sociedad* was promoting in other words, was a tradition that put experts in the position of defining public and

<sup>879</sup> “Cómo proyectar una obra”, *Economía y Sociedad*, Santiago, June 1987, p.7.

<sup>880</sup> Idem.

<sup>881</sup> “Hacia un nuevo modelo político”, *Economía y Sociedad*, Santiago, May-June, 1978, p.5.

<sup>882</sup> “Definiciones Constitucionales”, *Economía y Sociedad*, Santiago, July-August, 1978, p.4.

<sup>883</sup> “Entre lo anacrónico y lo imposible”, *Economía y Sociedad*, Santiago, July-August, 1978, p.9.

<sup>884</sup> Idem.

economic policy taking away the ability of politicians to engage in massive redistributive policies. In this the magazine followed the distinction made by Courcelle-Seneuil and Friedman between economics as a science and morals: “The economic field presents the clearest example of the distinction between moral and technical judgments. The latter must be made based on technical considerations, which requires the establishment of formulas that effectively canalize the contribution of experts providing rationality to public decisions”.<sup>885</sup>

Instead of damaging democracy, in the view of the magazine this limitation to the democratic principle would strengthen it by preventing the harmful effects of the politicization of technical decisions. The commitment to democracy constitutes a “fundamental principle of the Chilean society”,<sup>886</sup> said the magazine. This required universal suffrage in order to give equal value to the preferences of all citizens. However, the magazine insisted that the commitment to democracy was subordinated to a free economic system. According to *Economía y Sociedad*, “a new balance between the power of the state and the individual” by separating technical from moral decisions and by developing the “democratic procedures” necessary for the generation of political power had to be reached. All of this had the aim of constructing a “stable political model for a society that seeks liberty, justice and progress”.<sup>887</sup>

As has been argued in this view, economic liberty was the base for the whole organization of society and a necessary condition for prosperity, civil liberties and even democracy. In 1982, the magazine would leave no doubt about the importance of economic freedom and limited government for the whole institutional project.<sup>888</sup> The new economic model argued the magazine, sought four objectives. The first one was to give a new value to private initiative and private enterprise, for which both the respect for private property and the reduction in the size of government were crucial. The second one was to select the free competitive market as the main allocator of resources, an idea that had been essential to classical liberalism since Adam Smith. Also following classical liberal ideas the magazine declared that the third objective was to liberalize trade enabling the use of the competitive advantages of the Chilean economy. And finally, the fourth objective was to establish a state that acted according to the subsidiarity principle. In addition several major free market reforms and changes to social policy had to be made. According to the magazine, this new social model sought to make compatible “justice with efficiency and personal freedom”.<sup>889</sup>

The severe economic crisis of 1981 did not diminish the support of *Economía y Sociedad* to the free market revolution. On the contrary, it made it stronger. Even if the magazine criticized

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<sup>885</sup> “Institucionalidad económica”, *Economía y Sociedad*, Santiago, July-August, 1978, p.3.

<sup>886</sup> *Ibid.*, p8.

<sup>887</sup> *Idem.*

<sup>888</sup> “Una clarificación indispensable”, *Economía y Sociedad*, June, 1982, pp.9-10.

<sup>889</sup> *Ibid.* p.,10.

some proponents of the neoliberal economic model for being too orthodox in facing the crisis, it nevertheless argued that the government had to stay on its liberalization course. It further declared that businessmen and workers were the wealth creators and that everything that was said against this idea was “illusion and demagoguery”.<sup>890</sup> It warned against the reemergence of socialism and populism which was taking advantage of the difficult situation of the country. According to *Economía y Sociedad*, statism could only offer a future of “mediocrity, poverty, coercion and discrimination” to the Chilean people.<sup>891</sup> Besides maintaining the liberal economic system, the magazine argued that the biggest challenge for the government was to “evolve towards the democratic objective”.<sup>892</sup> The transition to a new democratic system that was strong enough to endure the attacks of totalitarianism and communism was according to the magazine “the most solemn commitment of this regime”.<sup>893</sup> The magazine harshly criticized the doubts that were arising among sectors of the military that were questioning the need to return to democracy and a free society.<sup>894</sup> According to *Economía y Sociedad*, there was no clarity with regard to the definition of freedom. The magazine made its classical liberal position clear once again arguing that personal liberty had been gradually destroyed by the welfare state that seemed very attractive to the population.<sup>895</sup> Accordingly, liberty could only prevail if the state retreated to the activities that were of its concern. Only thus “every individual could be the master of his own destiny in all aspects of life”.<sup>896</sup> For the magazine, there was not enough awareness that a welfare state gradually but inevitably led to “an overextended organization that ended up being the great employer” thereby destroying liberty.<sup>897</sup> In the words of the magazine:

To pretend that in such a regime a significant sphere for the enjoyment of political liberties is possible is an instance of naiveté that Trotsky himself refutes in his writings: in a country where the only employer is the state, dissent means death by slow starvation. The old principle ‘he who does not work shall not eat’ is replaced by another: he who does not obey shall not eat.<sup>898</sup>

The threat that *Economía y Sociedad* saw in the welfare state followed the same logic of neoliberals like Hayek, Friedman, Buchanan and classical liberals like Courcelle-Seneuil, Edmund

<sup>890</sup> *Economía y Sociedad*, September, 1982, p.7.

<sup>891</sup> “Un falso dilema”, *Economía y Sociedad*, December, 1982, p.3.

<sup>892</sup> *Ibid.*, p.5

<sup>893</sup> *Idem.*

<sup>894</sup> *Idem.*

<sup>895</sup> *Ibid.*, p.8.

<sup>896</sup> *Idem.*

<sup>897</sup> *Idem.*

<sup>898</sup> “Hacia una sociedad libre”, *Economía y Sociedad*, December, 1982, p.8.

Burke and Thomas Jefferson. Neoliberals believed that if not stopped in time a welfare state would lead to socialism. The welfare state, wrote Hayek in the preface to the 1976 edition of *The Road to Serfdom*, had taken the place of classical socialism with its large schemes of wealth redistribution.<sup>899</sup> Despite its gradualism, the results of the welfare state, according to Hayek, would be almost the same as classical socialism.<sup>900</sup> In such a system, argued Hayek also citing Trotsky, there would exist “a complete monopoly of employment” giving the state unlimited power of coercion”.<sup>901</sup> Along the same lines *Economía y Sociedad* declared that Chile could not afford to “renounce its path towards liberty”.<sup>902</sup> Instead it had to renew its “faith in true liberalism” and invite all people who believed in freedom to work for the fulfillment of the pending tasks. This idea of freedom, stressed the magazine, did not only include economic freedom but “all implications of the concept of freedom”.<sup>903</sup>

### *The intellectual origins of the free market revolution according to Economía y Sociedad*

One of the most telling aspects of *Economía y Sociedad* with regard to the ideas it sought to spread, has to do with the thinkers and intellectual tradition that the magazine explicitly recognized as the antecedents of the free market revolution. A very enlightening episode in this respect involved Arturo Fontaine Talavera, who was close to Jaime Guzmán and would later become the director of the CEP, and Mario Góngora, one of Chile’s most eminent conservative historians and a follower of Oswald Spengler. The exchange between Fontaine and Góngora is important because it reflected the ideological and political differences between neoliberals who were making the free market revolution and conservatives who were opposing it. It was another chapter in the old conflict between nationalist and corporatist forces and the liberal forces that were following Courcelle-Seneuil’s tradition.

In an important book, Góngora complained that under the military regime liberalism and its “anti-statist” bias had completely replaced the traditional notion of the state in Chile. Góngora linked this statist tradition to Edmund Burke and Oswald Spengler. According to Góngora, as a result of the neoliberal ideas, there was no longer a state that defined the Chilean identity or served the “common good”. In the words of Góngora, “the subsidiarity principle of the disciples of Milton Friedman’s school has become almost the only principle.”<sup>904</sup> Góngora correctly identified the core

<sup>899</sup> Friedrich von Hayek, *Camino de Servidumbre*, Alianza, Madrid, 1985, p. 25.

<sup>900</sup> Idem.

<sup>901</sup> Friedrich von Hayek, *The Constitution of Liberty*, Routledge, London, 2009, p. 120

<sup>902</sup> “Hacia una sociedad libre”, *Economía y Sociedad*, December, 1982, p.8.

<sup>903</sup> Idem.

<sup>904</sup> Mario Góngora, *Ensayo histórico sobre la noción de Estado en Chile en los siglos XIX y XX*, Ediciones La Ciudad, Santiago, 1981, p.134.

of the new beliefs that were defining Chile's institutional evolution. If the state had always played a central role in Chilean society, said Góngora, "now the tendency of privatization is expanding and the belief that economic liberty is the base for political liberty and ultimately of all liberties is being postulated by members of the economic team..."<sup>905</sup> For Góngora, the 1980 Constitution had done much to consolidate the neoliberal worldview, eliminating ideas like state education that had their origin in the statist tradition of Chile. Like his nationalist predecessors Encina, Subercaseaux and Fuentealba, who attacked Courcelle-Seneuil's liberalism, Góngora went on criticizing the free trade policies of the Chicago Boys accusing them of harming the national industry. Interestingly enough, Góngora addressed one of the crucial aspects of Douglass North's institutional analysis. He argued—mistakenly as we have seen—that because neoliberalism was alien to Chilean culture it would not endure the passing of time: "Neoliberalism is not a product of our society as it is in England, Holland or the United States. It is a top down anti-statist revolution in a nation that was formed by the state...Is liberalism compatible as an idea with the planning of a liberal system in a country in which this idea is not incorporated into its tradition?"<sup>906</sup> Citing Friedrich von Hayek and his thesis that constructivism does not work because institutions evolve over time, Góngora concluded that neoliberalism would not prosper in Chile. Thus Góngora was accusing the Chilean reformers of following a socialist method of rational planning, completely ignoring the Chilean cultural heritage.

On an intellectual level, Góngora's critique using Hayek's and Edmund Burke's arguments was potentially devastating to the efforts being made by the Chicago Boys. Based on a cultural approach and taking the ideas of two main liberal referents, Góngora was predicting nothing less than the failure of the free market revolution. It is no wonder that *Economía y Sociedad* extensively responded to Góngora in order to defend the institutional transformation that was taking place in Chile. One of the replies to Góngora's critique *came* from Gonzalo Vial, another eminent conservative historian who nevertheless was close to the Chicago Boys' ideas. Vial reminded Góngora that historically the Chilean state had been captured by oligarchs who exploited it to their own benefit.<sup>907</sup> For Vial, the Chilean state that Góngora viewed as the protector of the common good had never existed. Justifying the economic reforms, Vial argued that the government had to help the very poor and not interest groups as it had done throughout Chilean history.<sup>908</sup>

Arturo Fontaine's response was far more important from a philosophical perspective especially given the fact that Fontaine was himself part of the group contributing to the free market revolution. He entitled his critique of Góngora's work "A Disturbing Book". The first thing Fontaine did was to put into question Góngora's thesis that the state had formed the Chilean nation

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<sup>905</sup> Idem.

<sup>906</sup> Ibid. p137.

<sup>907</sup> Gonzalo Vial, "Un ensayo, dos enfoques," *Economía y Sociedad*, June, 1982, p.19.

<sup>908</sup> Idem.

through several wars and its permanent presence in social life. For Fontaine, this could also be said of almost all states in the world, including liberal ones like England or the United States, so this could not be a reason to sustain that neoliberalism would fail in Chile.<sup>909</sup> Then Fontaine added that contrary to what Góngora seemed to suggest, Edmund Burke was a liberal in the tradition of Adam Smith and that he had made a fundamental mistake in putting him on a same level with Oswald Spengler, who belonged to a collectivist tradition. Unlike Spengler, Burke never promoted the idea endorsed by Góngora of a state with separate personality and “above the class and interest conflicts of society”.<sup>910</sup>

For Fontaine Góngora’s argument that liberalism had no cultural heritage in Chile directly ignored that “during the 19<sup>th</sup> and 20<sup>th</sup> centuries liberal political and economic philosophy had more importance in Chile than Thomism or Spanish traditionalism”.<sup>911</sup> According to Fontaine, Góngora offered no evidence that the notion of the state in Chile in the 19<sup>th</sup> century was incompatible with liberalism. Fontaine further argued that Góngora was wrong when he said that neoliberalism, like socialism and the Prebisch doctrine, were utopias. According to Fontaine, modern liberalism was a realistic approach, which made it the best model for the Chilean society.<sup>912</sup>

After a reply by professor Góngora, in the following edition of *Economía y Sociedad*, Fontaine further developed his arguments in defense of the free market revolution. He insisted that Burke did not belong to the same tradition as Spengler, suggesting that Burke was a liberal in the tradition of Friedman and his Chilean followers. Fontaine cited several passages of Burke to support his point. Among them was Burke’s famous work *Thoughts and Details on Scarcity*, in which the British thinker argued that “to provide for us in our necessities is not in the power of Government. It would be a vain presumption in statesmen to think they can do it. The people maintain them, and not they, the people.”<sup>913</sup> Thus, insisted Fontaine along the lines of Hayek who considered Burke a central figure of classical liberalism, Burke was an anti-statist. By putting Burke in the same tradition as Spengler, Góngora had confused the tradition of the Chicago Boys with that of collectivist doctrines.

Some time later, *Economía y Sociedad* would publish an opinion again referring to Góngora’s thesis. According to the magazine it was true that the free market revolution was a “re-foundational act”, but it was not comparable to the rational planning that had been intended by Christian Democrats with the so called “revolution in liberty” or by the UP with the socialist

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<sup>909</sup> Arturo Fontaine Talavera, “Un libro inquietante”, *Economía y Sociedad*, June, 1982, p.22.

<sup>910</sup> Idem.

<sup>911</sup> Idem.

<sup>912</sup> Ibid., p.23.

<sup>913</sup> Edmund Burke, “Thoughts and Details on Scarcity”, in: *Select Works of Edmund Burke*, Liberty Fund, Indianapolis, 1999. Vol. 4, p. 41.

revolution.<sup>914</sup> *Economía y Sociedad* argued that the libertarian revolution of the Chicago Boys had resulted as a necessity from the complete destruction of the country caused by statist ideologies. Its challenge was to create “a new economic and social order that through the liberalization of society dramatically increases the scope of individual liberties and reduces the excessive power of the state enabling a stable, democratic and integrating future”.<sup>915</sup> Using Hayek’s terminology, the magazine added that the Chilean democracy had not been interrupted so that some “Manchesterian economists” could fulfill their dream of having the price of bread being determined by supply and demand laws, but to prevent Chile from going down the “road to serfdom” followed by Cuba.<sup>916</sup> It concluded with the following remark directly citing Hayek:

The path to freedom is full of obstacles and it is extraordinary difficult when a country has go down the road to serfdom described by Hayek. Even though the project of constructing in Chile a free economy and a free society is still valid, its consolidation and concretion will take time...., time for creating a true culture of freedom that supports in the mind of the Chilean people those values and conducts that are required...<sup>917</sup>

In this context, the magazine argued, following Friedman’s thesis of Chile’s “political miracle” and Hayek’s case for a transitional dictatorship, that the Chilean experience showed that “authoritarian regimes are capable of giving away substantial amounts of power in the social and economic sphere in order to accomplish a project of a free society”.<sup>918</sup> It added, however, that it was exceptional that a “neoliberal experience” should have taken place under a military government.<sup>919</sup>

The defense that *Economía y Sociedad* did of the Chilean free market revolution citing classical liberal authors was persistent over time and it included the justification of particular reforms such as the privatization of social security with classical liberal philosophy. This reform made by Piñera was described by *Economía y Sociedad* as a great triumph of individual liberty over statism. According to the magazine, in Chile the old Bismarckian social security system had crushed individual liberties, becoming the philanthropic ogre denounced by Mexican Nobel laureate writer Octavio Paz in his essay *El ogro filantrópico*.<sup>920</sup> The privatization of social security had changed this situation by “extending the margins of individual freedom and by creating a sentiment

<sup>914</sup> “El desafío chileno”, *Economía y Sociedad*, January 1983, p.7.

<sup>915</sup> Idem.

<sup>916</sup> Idem.

<sup>917</sup> Ibid.,p.9.

<sup>918</sup> Ibid.,p.8.

<sup>919</sup> Idem.

<sup>920</sup> “Del ogro filantrópico a la verdadera previsión”, *Economía y Sociedad*, November, 1982, p.11.

of adhesion to the social system”.<sup>921</sup> Moreover, Piñera’s emblematic reform, said the magazine, eliminated the discretionary power and the corruption of the system constructing “effective safeguards to prevent the corrosive action of totalitarianism”.<sup>922</sup> Because every worker was the owner of his retirement money the new system had a “commitment with personal effort and a responsible management of the economy”.<sup>923</sup> Along the lines of North’s thesis that the feedback offered by reality changes belief systems, the magazine argued that the prevailing statist ideas and values had been partly changed thanks to economic reforms in areas such as social security, labor law, mining and others: “it is not a political crime anymore to praise the private enterprise, it is not a sin anymore to value the market and it is not shameful any more to plea for a reduction in the size of government.”<sup>924</sup> Thus, the liberal reforms had put an end to many prejudices and ideological biases by opening the people’s minds to the policies that had achieved “development in freedom in western nations”.<sup>925</sup>

For the magazine, Chile had followed the United States where economic liberty had been understood as the basis for all other liberties and democracy. In 1983 the magazine reproduced and endorsed a speech given by the American ambassador to Chile, James Therberge, on the occasion of the American Independence Day.<sup>926</sup> The piece is telling because the arguments Therberge put forth to explain the success of the American democracy were firmly grounded on classical liberalism and were almost identical to those the Chicago Boys were making to support their own reforms. By reproducing Therberge’s speech *Economía y Sociedad* was not only promoting its own political and intellectual agenda but also explaining the intellectual origins of the free market revolution, linking it directly to the American tradition of political and economic freedom.

According to Therberge, one of the central reasons why democracy in America had endured the passing of time was because it had been limited.<sup>927</sup> This meant that government did not massively engage in redistributive policies. In Therberge’s view, negative liberty was essential for the well-functioning of democracy:

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<sup>921</sup> Idem.

<sup>922</sup> Idem.

<sup>923</sup> Ibid.,p.12.

<sup>924</sup> “Megatendencias del decenio”, *Economía y Sociedad*, September, 1983, p.8. The idea that especially among political elites the free market revolution had changed beliefs was also shared by historian Lucia Santa Cruz who in 1983 observed that economic liberalism had been gradually accepted even by its former critics. In the words of Santa Cruz: “The permanent and most important changes, although difficult to foresee...are those related to the mindset. In this sphere, and despite the opposition to certain currents of economic liberalism it is possible to see that...certain basic premises of the market economy had permeated even sectors that were opposed to them”. *La Segunda*, September 9, 1983.

<sup>925</sup> Idem.

<sup>926</sup> “Democracia en América”, *Economía y Sociedad*, May 1983, p. 29.

<sup>927</sup> Ibid.,p30.



We enjoy a democracy that still limits the scope of activities of the state and its great bureaucracy. The innate American mistrust in state power and in fact in any great concentration of power whether public or private is one of the strongest defenses against the establishment of the Leviathan state, the most oppressive of all state tyrannies.<sup>928</sup>

The ambassador warned however, quite along the lines of Friedman, Hayek and the Chicago Boys, that in the last decades the government had expanded with the aim of providing for the wellbeing of the people. This increase in the role of government, said Therberge, “constitutes a potential threat to liberty in so far as it controls and regulates more and more of the life of society and the life of the individual”.<sup>929</sup> Therberge went on explaining that not only a free press and private property had been crucial for America, but also the fact that many liberties such as to join or not to join a union, did not depend on the will of any bureaucrat. Democracy and liberty were in the roots of American society because government and politics did not get involved. Thus, in the ambassador’s view, the American society was a depoliticized society. And a depoliticized society had been exactly the aim of the Chicago Boys.

Therberge continued saying that an omnipotent government could emerge from the antiliberal reaction that presented itself as “progress” and sought to destroy the legacy of the Founding Fathers.<sup>930</sup> For Therberge, the Founding Fathers had understood that human nature is selfish and that social conflict is inevitable, a vision also shared by the Chicago Boys. Accordingly, the American Constitution sought to limit the power of government. Therberge further said that civil liberties and democratic elections could be used to destroy freedom. Democracy could lead to the destruction of democracy by the use that antiliberal and pro-totalitarian groups like communists made of it.<sup>931</sup> As we have seen, this was also a standard argument of the Chicago Boys and Jaime Guzmán in order to limit democracy.

In its editorial of July 1986 *Economía y Sociedad* picked up Therberge’s ideas arguing that the American Founding Fathers were aware of the weakness of human nature. This had led them to limit the abuses of power by creating a set of institutions that guaranteed individual liberty. In the words of the magazine, the United States had been a role model democracy because it had “defended political and economic liberties”.<sup>932</sup> *Economía y Sociedad* further argued that the fact that the Declaration of Independence with its new concept of representative democracy was drafted the

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<sup>928</sup> Idem.

<sup>929</sup> Idem.

<sup>930</sup> Idem.

<sup>931</sup> Idem.

<sup>932</sup> “Cien años de libertad”, *Economía y Sociedad*, July, 1986, p.7.

same year of publication of Adam Smith's *Wealth of Nations* and its free market intellectual revolution, symbolized the inseparable relation between political liberty, economic liberty and democracy.<sup>933</sup> For the magazine, Chile's tragedy had been that unlike the Americans, its leadership had not understood the relationship between economic and political liberty. This had ultimately led to the collapse of democracy in 1973. The magazine celebrated the economic reforms of the military regime but criticized it for crushing individual liberties such as freedom of expression. It also criticized the American political leadership for encouraging statism in Latin America via foreign aid programs like the Alliance for Progress.<sup>934</sup>

Another interesting defense of the Chilean free market revolution directly using classical liberal thinkers was made by the editor of *Economía y Sociedad*, David Gallagher. In a very long article dedicated to the 40<sup>th</sup> anniversary of Hayek's best seller *The Road to Serfdom*, Gallagher not only explained the intellectual origin of Hayek's liberalism but it directly applied it to the Chilean case. According to Gallagher, in *The Road to Serfdom*, Hayek had made clear the connection between economic liberty and political liberty and showed that any system which seeks collective results tends towards totalitarianism.<sup>935</sup> He added that Hayek's thinking was "now more valid than ever before", explaining that one of Hayek's greatest philosophical contributions had been to distinguish between false and true liberalism. For Gallagher, true liberalism had inspired the glorious British revolution of 1688 and the American Constitution.<sup>936</sup> This tradition rejected the power of human Reason to design progress and was therefore essentially skeptical. In Gallagher's view, institutions evolved over time and knowledge was dispersed in society. Only the spontaneous order could lead to real progress, which implied a limited government and individual freedom understood as the absence of coercion.<sup>937</sup> The place where knowledge was used and exchanged was the market. Thus, a free economy was inseparable from free people and progress.<sup>938</sup>

False liberalism held the complete opposite view, wrote Gallagher. It had its origin in the French revolution, particularly in Rousseau. Its pretense of knowledge inevitably led to the dismissal of traditions and established institutions and to the attempt to construct a new order based on rational design. This in turn could only lead to collectivism and socialism, a path that looked attractive because of its promises of triumph over necessities. This path was reinforced by the pride of intellectuals who could not tolerate the idea that society could progress without their commands. According to Gallagher, among the most ferocious critics of this rationalist liberal tradition were

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<sup>933</sup> Idem.

<sup>934</sup> Idem.

<sup>935</sup> David Gallagher, "Hayek: el verdadero liberalismo", *Economía y Sociedad*, October, 1984, p.23.

<sup>936</sup> Idem.

<sup>937</sup> Idem.

<sup>938</sup> Ibid., p.24.

Edmund Burke and Alexis de Tocqueville, both of them classical liberals in the tradition of Hayek.<sup>939</sup> For this tradition, added Gallagher, it was not possible to achieve certain collective results if freedom was to be preserved.<sup>940</sup> The quest for equality, for instance, would lead a society to “reduce the multiplicity of individuals” and because not all individuals would agree on common aims, coercion would be necessary. Only the market system was compatible with multiple aims said Gallagher. Gallagher went to say that this collectivist path had been followed by Chile until the destruction of the society under the Unidad Popular regime.<sup>941</sup> Moreover, Gallagher reminded his readers that Hayek had warned against the threat of redistributive policies for personal liberty and democracy. In a highly critical observation about the welfare states which was typical of neoliberals Gallagher said:

In reality, modern democratic governments are more powerful than the monarchies that classical liberals denounced in the past. The separation of power, an invention of classical liberals, has not been enough to limit the discretionary power of governments...in these last decades the uncontrollable discretionary power of the state apparatus has been dominated in many countries by pressure groups that have extracted from society enormous wealth transference in order to protect their interests.<sup>942</sup>

The solution, said Gallagher, was to return to Hayek’s idea of the rule of law and a Constitution which entirely prohibits redistributive policies with the exception of those for the people that cannot compete in the market. These constitutional ideas said Gallagher “are completely valid for current Chile” urging to make the Constitution even stronger against the possible abuses of democracy.<sup>943</sup> Gallagher concluded sustaining that the liberal vision of Hayek, Burke, the American Constitution, Lord Acton and others, was the only plausible vision for society because it accepted men as they were.

Along the lines of Gallagher’s article, *Economía y Sociedad* published an extensive piece by former Christian Democrat senator and Harvard economist José Musalem Saffie, in which he praised “neoliberalism” as the form of organizing society. According to Musalem, neoliberalism was “the most creative and elaborate doctrine in the last fifty years”.<sup>944</sup> Referring to an essay by the French classical liberal intellectual Guy Sorman, Musalem argued that liberalism was defeating

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<sup>939</sup> Idem.

<sup>940</sup> Ibid., p.25.

<sup>941</sup> Ibid., p.25.

<sup>942</sup> Ibid., p.26.

<sup>943</sup> Idem.

<sup>944</sup> José Musalem Saffie, “Nuevo liberalismo”, *Economía y Sociedad*, May, 1986, p.11.

social statism. Neoliberalism he argued, was progressive and gave the individual priority over the state. Musalem recognized the origins of the Chicago Boys' neoliberalism in classical liberalism, which he claimed had gained more rationality and had included a preoccupation for the poor thanks to Hayek's work.<sup>945</sup> In this context, wrote Musalem, "free enterprise is not an end in itself; it is the most democratic form of association to combine liberty, prosperity, efficacy, solidarity and economic progress".<sup>946</sup> For Musalem, these were the ideas behind the Chilean reformers who believed that the liberal solution consisted in "reducing the state to make the individuals and the nation greater".<sup>947</sup> Crucial for Musalem was that neoliberalism in his view, did take care of the poor: "for the new liberalism there is a duty of solidarity in front of problems such as poverty, which has to arise from the people, from business and from the government".<sup>948</sup> In addition, according to Musalem, this new liberalism conceived of liberty as an integral entity, which included the protection of human rights. This had clearly not been the case under the military regime even though *Economía y Sociedad* was trying to influence in order to change repressive policies.

#### *Piñera's defense of American liberalism in the aftermath of the military regime*

Piñera's defense of American ideas of liberty is not only to be found during the time of the free market revolution but also from the 1990s onwards. To examine his intellectual work after the return of democracy in Chile is important in order to confirm that the set of beliefs that inspired him during his time both as an adviser to the military regime and as a public intellectual during the 1980s was indeed British-American liberalism. The study of these materials, mostly books, papers, and publications in *Economía y Sociedad*, after 1990 show a remarkable intellectual consistency throughout time. A recurrent theme was the justification for the military coup of 1973. According to *Economía y Sociedad*, it had been this event that had prevented the consolidation of a Marxist totalitarian regime in Chile.<sup>949</sup> The liberalization process that took place later continued to be presented as an important contribution to the defeat of communism, not only in Chile, but worldwide. Along the same lines, economic liberty still played the primary role in the historical analysis. The free market revolution had, in the words of the magazine, been "the most important cause" of the return of democracy in Chile.<sup>950</sup> The magazine insisted that unlike the previous democracy, the new Chilean democracy was free from the sources of conflict that had destroyed the old one: "the opening of wide spaces for an effective economic and social freedom generated the

<sup>945</sup> Idem.

<sup>946</sup> Ibid., p.13.

<sup>947</sup> Idem.

<sup>948</sup> Ibid.,p.12.

<sup>949</sup> "¿Cuándo se salvó Chile?", *Economía y Sociedad*, July/September 1996, p. 7.

<sup>950</sup> Idem.

indispensable complement for political freedom preventing the new democracy from falling into another crisis”.<sup>951</sup> In this context the free market revolution was presented as the result of the power of ideas, specifically as the result of a deep belief in the idea of freedom. All the reforms, recollecting *Economía y Sociedad*, faced ferocious opposition within and outside the military government. This left the Chicago Boys no other option than becoming public intellectuals in order to influence the climate of opinion. In the words of the magazine: “the economists became speakers, editorialists, panelists in debate programs on the radio and even commentators on the news of some TV channels”.<sup>952</sup> Thus *Economía y Sociedad* was once again acknowledging the importance of ideas and intellectuals in the institutional evolution of Chile. And these ideas, as Piñera would insist ever since, were those of classical liberalism. A telling article in this respect was published by Piñera in the *Cato Journal* in 2003. In the paper, Piñera argued along the lines of Douglass North’s approach in attempting to provide an answer for the differences in economic and political performance between Latin America and the United States. According to Piñera, to a large extent the success of the latter was due to the institutions created by Thomas Jefferson, James Madison, John Adams, Alexander Hamilton and the rest of the Founding Fathers, which had been inspired in classical liberal beliefs.<sup>953</sup> Their greatest intellectual and institutional legacies according to Piñera were the American Constitution, the Bill of Rights, the Federalist Papers and the Declaration of Independence. Like Hayek’s argument that Latin America had failed because it had modeled its institutions after the French rationalist tradition, Piñera argued that Latin America’s tragedy was that instead of “founding fathers” it had had “founding generals” that did not value individual liberty, as they were closer to the Spanish centralizing tradition.<sup>954</sup> As a result of this set of beliefs, the region lacked the institutions and principles necessary to build democracies and economies that served individual freedom. The Chilean free market revolution, suggested Piñera, had been an exception to this by following an American liberal philosophy that had enabled economic prosperity as well as the return to a functioning democracy. Piñera insisted that many of the problems of Latin America were due to the existence of unlimited democracies. He stressed that freedom was a greater value than democracy, quoting Alexis de Tocqueville’s dictum that democracy has always to be on its guard against popular despotism. In Piñera’s words the tragedy of Latin America had been that “the tyranny of the majority has led again and again to excessive government interventionism, and invasive policies and actions”.<sup>955</sup> Confirming the instrumental vision of democracy of neoliberals and classical liberals, Piñera argued that democracy was a means to

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<sup>951</sup> Idem.

<sup>952</sup> Idem.

<sup>953</sup> José Piñera, “Latin America: A Way Out,” *Cato Journal*, Vol.22, No.3, Winter 2003, p. 409.

<sup>954</sup> Idem.

<sup>955</sup> Ibid., p.412.

adopting decisions where collective decisions were needed, but that it should exist to serve freedom, which implied that government powers had to be limited.<sup>956</sup> Failing that, majorities could easily create institutional instability by changing economic and social policies at will. Following Locke, Piñera argued that to be legitimate the majority rule had to be “limited by a constitutional framework that protects life, liberty and property.”<sup>957</sup> Only in that case would democracy and liberty be compatible. Moreover, for Piñera, “the lesson of history is that a free economy and civil society cannot prosper without limited government and rule of law”.<sup>958</sup> In Piñera’s view, the United States, unlike Latin America, had been successful largely because it had a limited government and a rule of law that followed what F.A Hayek had called “The Constitution of Liberty”.<sup>959</sup>

As can be seen, long after the free market revolution had taken place, Piñera still saw the philosophical foundations of the reforms in the American tradition of freedom. This ideological consistency is also confirmed in other works. In a book published in 2002 explaining the reforms to the mining law, Piñera argued that only a regime of private property was compatible with a free social order and that the control by the state of companies had failed because it had prevented the development of the creative forces of society.<sup>960</sup> Piñera argued that there was an intimate relation between private property and freedom citing one of John Adams’ remarks in his *Defense of the Constitution of 1787* to support his claim.<sup>961</sup> He recalled that for John Adams private property had to be as sacred as the laws of God if tyranny and chaos were to be prevented and added that the Chilean democracy had collapsed precisely because the institution of private property had been put into question by projects like the agrarian reform of the 1960s.<sup>962</sup> Citing the French classical liberal economist Frédéric Bastiat, Piñera went as far as to argue that these confiscatory measures had been nothing but legalized robbery.<sup>963</sup> In Piñera’s view, the principle of private property introduced in the economy and in the mining sector after the nationalization of the mines, had enabled the formidable expansion of the economy and the reconstruction of the social order along the lines demanded by John Adams.<sup>964</sup>

Similarly, Piñera argued that the philosophy that had inspired the privatization of social security had its roots in the American tradition of individual liberty. In his best seller on the social security reform Piñera wrote that in the previous social security system, inherited from the Bismarckean model, freedom did not exist and monopoly was the rule. Like Mises, Hayek and

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<sup>956</sup> Idem.

<sup>957</sup> Ibid. p. 413.

<sup>958</sup> Ibid., p.414.

<sup>959</sup> Idem.

<sup>960</sup> José Piñera, “Fundamentos de la ley constitucional minera”, *Economía y Sociedad*, Santiago, 2002, p.16.

<sup>961</sup> Idem.

<sup>962</sup> Idem.

<sup>963</sup> Idem.

<sup>964</sup> Idem.

neoliberals in general, Piñera had a critical opinion of Bismarck. In his eyes the German Chancellor had not only created the militaristic state that had produced two world wars but also the gigantic welfare state that was threatening to bankrupt the western nations.<sup>965</sup> In an essay entitled *Bismarck versus Franklin*, Piñera argued that the age of Bismarck had been the same as that of central planners like Marx, Comte and Saint Simon.<sup>966</sup> In his view, a complete different philosophy was represented by Benjamin Franklin and the American Founding Fathers. According to Piñera, Franklin had seen that “the individual is not a passive data point for central planners, but the source of initiative, creativity, and individuality”.<sup>967</sup> Moreover, Piñera remarked that Franklin had understood the extraordinary power of compound interest, which was one of the characteristics of the Chilean private social security system. Thus, according to Piñera, Chile had been the first country in the world to put away the Bismarckean legacy by making of individual liberty the cornerstone of the new social security system. For Piñera, the new system put an end to “enlightened planners” putting instead the individual choices of the Chilean workers at the center of the system.<sup>968</sup> Piñera said that this meant the beginning of a new era, the era of individual responsibility based on personal and private capitalization accounts. For Piñera, this was a way of dismantling the welfare state, preserving individual freedom and securing an economically sound pension system. In Piñera’s view, all that was in the purest spirit of the American Founding Fathers: “Chile’s new social security paradigm, anchored in personal retirement accounts, captured Franklin’s virtues of individual responsibility and ownership, savings and thrift, wealth creation through the miracle of compound interest, and passing a legacy onto the next generation”.<sup>969</sup> In an interview in 2004, Piñera would insist on this idea. Asked about the social security system in the United States he declared: “What I advocate is to replace the current system for one rooted in individual responsibility that is fully coherent with the ideas of Thomas Jefferson and the other Founding Fathers”.<sup>970</sup> He criticized Franklin Roosevelt for having introduced the Bismarckean system in the United States, which he considered alien to the American culture.<sup>971</sup> The Chilean private social security system, he suggested, was much more in the American tradition not only because it was economically more sound but because it was an “act of faith in the liberties of individuals and in the wonderful things they can do when they are free.”<sup>972</sup> As a final warning, Piñera argued that if this private social security system was to endure the passing of time, it was

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<sup>965</sup> See: Interview in *Diario Financiero*, November 26, 2004.

<sup>966</sup> José Piñera, “Franklin versus Bismarck”, *Economía y Sociedad*, July 4, 2005. Available at: [http://www.josepinera.com/articles/articulos\\_eyes\\_Franklin\\_vs\\_Bismarck.htm](http://www.josepinera.com/articles/articulos_eyes_Franklin_vs_Bismarck.htm) Last accessed: 28/06/2014.

<sup>967</sup> Idem.

<sup>968</sup> *Diario Financiero*, November 26, 2004.

<sup>969</sup> Piñera, *Franklin versus Bismarck*.

<sup>970</sup> *Diario Financiero*, November 26, 2004.

<sup>971</sup> Idem.

<sup>972</sup> Idem.

necessary to follow Jefferson's advice that liberty demanded eternal vigilance.<sup>973</sup> This implied that individuals had to remain always suspicious of political power and its attempts to distort the system. Like Hayek, Friedman, Mises, Mill and many others, Piñera called for an active engagement in the battle of ideas arguing that ideas were the most powerful instrument for changing society.<sup>974</sup>

### *Conclusions to Chapter V*

Among the Chicago Boys, José Piñera was by far the most actively engaged in the public debate to promote the philosophical foundations of the free market revolution. His numerous writings and *Economía y Sociedad*, the magazine he founded in the late 1970s aiming at influencing the Chilean ruling elites, provide useful material to have a better understanding of the ideas behind the institutional project of the Chicago Boys and people like Jaime Guzmán. As this chapter shows, Piñera and *Economía y Sociedad* permanently linked the free market revolution to American ideas of liberty and classical liberalism in general. While Chapter I of this work explained that British-American liberalism endorsed a negative conception of liberty with all its institutional implications and Chapters II, III and IV showed that this vision had been promoted by Courcelle-Seneuil, the Chicago Boys, Hayek, Friedman, and Guzmán, the evidence presented in Chapter V confirmed that the tradition of negative liberty was the main driving force behind the free market revolution. Despite the fact that some redistributive role was given to the state, overall, Piñera and *Economía y Sociedad* rejected the social rights and New Deal type of liberalism and defended instead the proposition that economic liberty is the base of all other liberties. Piñera also promoted a limited democracy, a strong protection of property rights and a depoliticized society. In short, the whole intellectual project of Piñera both as a reformer and as a public intellectual was about limiting the power of government in all spheres. These and the other elements analyzed in this chapter allow to conclude that a comprehensive version British-American liberalism found another channel to become part of the intellectual foundations of the free market revolution through Piñera's contribution as a policy maker and as an intellectual. Coinciding with the Chicago Boys, reality feedback, which for North is crucial in defining beliefs, was one of the central reasons for Piñera's promotion of the neoliberal worldview. In particular the Cold War and Chile's institutional evolution under the ISI system and socialism contributed to this ideological reaction. For Piñera and *Economía y Sociedad* the progressive strangling of economic freedom had

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<sup>973</sup> Idem.

<sup>974</sup> José Piñera, "Reforma previsional: veinte claves del éxito y una crisis desesperada", *Economía y Sociedad*, Julio/Septiembre, 1996, p.30.



led to the destruction of democracy and political liberties under the UP government. Also in this aspect, Piñera and *Economía y Sociedad* showed remarkable consistency with “*The Brick*”, Friedman’s views on Chile, Guzmán justification for his so-called “constitution of liberty” and the worldview of the Chicago Boys at large. Piñera’s intellectual engagement included a strong defense of human rights once he left office. It is interesting to note that Piñera himself linked the defense of negative rights such as freedom of expression, life, due process of law, and others, to a classical liberal worldview. Critique of the military regime for violating these rights was systematic throughout the 1980s, indicating that the ideas of political freedom broadly understood were indeed part of the concern of José Piñera and other actors of the free market revolution who wrote for *Economía y Sociedad*. This by no means exempts those who collaborated with the military regime from the potential political, criminal or moral responsibility for the abuses that took place under the regime. It simply shows that ideas of freedom beyond economic freedom were indeed a concern of people like José Piñera and others who were pushing for the construction of an integrally free society along the lines of British-American liberalism. Equally important in this context, was Piñera’s and *Economía y Sociedad*’s engagement in the reintroduction of democracy. This chapter again shows that through Piñera and the magazine, democracy was part of the philosophical foundations of Chile’s free market revolution. Like all the Chicago Boys, Guzmán and Hayek, Piñera conceived of the authoritarian regime as a transitional period which was necessary to restore a functioning economy and the institutions for a limited democracy that would not degenerate into collectivism by undermining economic liberties. The many articles of *Economía y Sociedad* analyzed in this chapter also show that the magazine saw in thinkers such as Hayek, Edmund Burke, Karl Popper and the American Founding Fathers among others, its intellectual forerunners. Particularly Piñera linked the free market revolution to what he viewed as the libertarian philosophy of Thomas Jefferson, Benjamin Franklin, John Adams and Alexander Hamilton. Even though Piñera made this connection especially after democracy had been reintroduced, it becomes clear from the analysis of his previous writings and the publications of *Economía y Sociedad* that from the late 1970s to the 1990s the intellectual driving force behind Piñera and *Economía y Sociedad* was largely a comprehensive version of liberalism rooted in the British-American tradition of negative liberty.

## Conclusions

This work has followed a long tradition that considers ideas as a major force of historical change. Thinkers so diverse as John Stuart Mill, John Maynard Keynes, Max Weber, Milton Friedman and Friedrich Hayek have belonged to this tradition. Specifically, this work has delved into the Chilean experience applying the theoretical framework developed by Douglass North, who has explored in depth the impact of ideas and beliefs in the process of economic and institutional change. This study has found that the Chilean free market revolution of the 1970s and 1980s was a comprehensive institutional transformation inspired in a classical liberal worldview which was not reduced to pure economic liberalism. In Chile, the Chicago Boys applied a theory of society that included ideas about the role of government, individual freedom, the nature of progress, the function of the law, justice, and the limits of democracy, among others. The ideology behind this process of institutional transformation goes under the somewhat misleading name of “neoliberalism”, which essentially refers to a modern version of the classical liberalism of British-American origin developed mainly in the 18<sup>th</sup> and 19<sup>th</sup> centuries. In following this tradition the Chicago Boys were inspired in their reforms by one of the main intellectual traditions that lay behind the American Revolution. In other words, the free market revolution of the Chicago Boys was an “American revolution” that was crucial for the construction of a free society both in political and economic terms. As this work has argued, in the 20<sup>th</sup> century the two most powerful organizations created with the aim of reviving the classical liberal tradition of British-American origin were the Mont Pelerin Society in Europe and the Chicago School in the United States. Both organizations were directly related to the Chicago Boys. In the creation of both the MPS and the Chicago School of Economics, Friedrich Hayek played a decisive role. Hayek himself explained that his aim was the revival of the classical liberal ideas that had led to the American Revolution. This set of beliefs were not only present in the Chilean free market revolution through the work of the Chicago Boys but also through Hayek’s direct influence on the Chilean process of institutional change. Indeed, Hayek personally supported the free market revolution by visiting Chile, meeting with General Pinochet and his advisers and accepting the position of honorary president of the think tank Centro de Estudios Públicos (CEP). The fact that the Chicago Boys were followers of a classical liberal tradition explains why the overall philosophy behind the process of institutional transformation in Chile sought basically to reduce the power of government. Beyond any doubt, liberty was essentially understood in a negative sense, that is to say, as the absence of arbitrary coercion of one man over another. In this perspective, economic liberty was seen the base for all liberties. Following this worldview, the

Chicago Boys believed that progress was fundamentally the natural result of the spontaneous forces of the market and not the product of a rational design by experts or central planners. Consequentially, they rejected socialism as well as Keynesianism, fascism, corporatism, protectionism and New Deal liberalism. They saw economics as a universal science which seeks to understand the free interplay of market forces in order to create institutions that set the incentives for engaging in productive activities and peaceful cooperation.

As far as ideas of democracy and political liberty are concerned, this study has found, contrary to the standard opinion in the literature, that the liberal worldview of the Chicago Boys by no means excluded them from the process of institutional transformation. It was not the case that political liberties and democracy did not matter for Chilean neoliberals. Nor was it the case that the Chicago Boys just opted to fully ignore them. The issue is that for classical liberals and neoliberals even though democracy is the most desirable system, it is not an end in itself and cannot exist without economic liberty. The direct consequence of this doctrine is that private property becomes the central preoccupation of every institutional and intellectual project since it is private property that in this view ultimately enables the existence of a free market and provides the individuals with the means to pursue their ends. Equally important for the Chicago Boys was the idea that private property and economic liberty, as part of the rules of game, enables the individual to oppose government power. In addition, it creates the incentives for economic growth. This last aspect is crucial to understand the Chilean institutional transformation. If North argued that experience, that is to say, the feedback offered by reality is a substantial part of the process of beliefs formation, then Chile's experience from the 1930s to the 1970s with the ISI model, an over-expanded welfare state, chronic inflation and government attacks on property rights, reinforced the Chicago Boys' view that no society or democracy could function without economic freedom and the benefits that it produces for the masses. Moreover, the fact that in the eyes of the Chicago Boys Chile became a "rent-seeking society" in which interest groups captured the state for their benefit confirmed a deep suspicion towards democracy on the part of the Chicago Boys, which was already part of the classical liberal worldview. Like classical liberals such as Tocqueville and Madison, and neoliberals such as Friedman and Hayek, the Chilean reformers thought that democracy could easily degenerate into demagoguery or totalitarianism if it was not checked by constitutional constraints. In the eyes of the Chicago Boys and other reformers like Jaime Guzman, it had been precisely the abuse of democracy and the gradual destruction of economic liberty that had led to the collapse of the Chilean economy and ultimately to the destruction of the Chilean democracy itself. This process of institutional and political distress was compounded by the Cold War and the threats posited by socialist revolutionary movements to the existing social and economic order based on private property. The resulting "political disorder", as North called it, had a negative economic effect and was a decisive factor in reinforcing the pro American liberal worldview among the Chicago Boys.

Indeed, political disorder in the context of the Cold War provided a sort of reality feedback that led the Chicago Boys and reformers like Jaime Guzmán to put the strongest emphasis on the protection of property rights and economic liberty. As the fourth chapter explains, the novelty of the Chilean Constitution of 1980 created under the direction of Jaime Guzmán was precisely that it introduced a classical liberal worldview in which private property and economic freedom were considered the highest values being secured through several constitutional mechanisms. Thus, Chile's Constitution to a large extent shared the same Lockean aim of the American Constitution, namely to limit the power of government in order to protect the individual's liberty and property from the democratic tendencies that could crash economic and individual freedoms. Hayek's influence on Guzmán explains in part the unprecedented crystallization of British-American liberalism in the Chilean Constitution. It is in this ideological framework that this work concludes that Guzmán and the members of the constituent commission, the same as the Chicago Boys, did in fact have a concern for ideas of political liberty and democracy. In other words, because economic liberty was considered the base for all other liberties and also the base for democracy, it had to be secured first in order to achieve an integrally free system with democratic institutions and political liberties. Democracy and political liberties were the ultimate aim of the reforms and institutions created by the Chicago Boys and Guzmán. This view is to be found in several documents written by the Chicago Boys; in *"The Brick"*; in the declaration of principles of the military regime of 1974 drafted by Guzmán; in interviews, books, and articles. Besides *"The Brick"*, Álvaro Bardón's memo to General Pinochet analyzed in Chapter Two is probably one of the most telling documents in this regard. Bardón's insistence that the military regime had to create the basis for a democratic and "libertarian" society in which all people enjoy economic liberties as well as political liberties leaves no doubt as to what the Chicago Boys had in mind as the major goal of their reforms. Jaime Guzmán and the members of the constituent commission applied the same rationale. As the fourth chapter shows, the members of the constituent commission and Jaime Guzmán always worked under the assumption that the dictatorship had a limited lifespan and that democracy had to be restored. This is an important reason why the Constitution of 1980 created a set of democratic institutions and an itinerary for the transition to democracy. It was the permanent efforts of the different branches of the armed forces that ruled the country in the form of a junta to block one another in their attempts at consolidating power over the others that probably made it possible for Guzmán and the Chicago Boys to put forward their ideas for a transition to a democratic regime based on free market institutions. As this study shows, for the Chicago Boys the transition to democracy also involved credibility. Their justification for collaborating with an authoritarian regime rested largely on the claim that this collaboration would eventually lead not only to economic prosperity but also to democracy. In this context it is also important to note Milton Friedman's warning that if Chile did not make the transition to democracy and political liberties,

the military would feel tempted to reverse the liberalization process. This view was taken seriously by the Chicago Boys and Jaime Guzmán, who consistently advocated for the transition back to democracy and to political liberties. Interestingly, Friedman's argument that a regime of civil and political liberties was crucial for the existence of a free economy is also supported by North's theory that questions the predictability of the rules of the game under authoritarianism claiming that civil liberties are essential for the well-functioning of the market. If North is right, then the transition to democracy orchestrated by the Chicago Boys and Guzman, among others, was also decisive to consolidate Chile's free market model after the dictatorship. In turn, according to North's approach, the free market model was crucial to consolidate an Open Access Order and thereby a democratic regime.

A second major finding of this study is that the sort of ideas promoted by the Chicago Boys, particularly in the economic field, were not alien to Chile's institutional and political history. It is therefore not true, as many scholars have argued, that the free market revolution had no antecedent in Chile's political or intellectual history. Evidence indicates that the classical liberal worldview of British-American origin that inspired the Chicago Boys had been extremely influential in the Chilean intellectual and political life from the mid-19th century to the early 20<sup>th</sup> century. This influence was achieved mainly due to the work of the French economist Jean Gustav Courcelle-Seneuil, who was a proponent of the British -American liberal tradition of Adam Smith, Benjamin Constant, William Graham Sumner and John Stuart Mill. Andrés Bello, who is arguably the most influential non-economic thinker in Chilean history, also fully endorsed classical liberalism especially with regard to market arrangements. His most important institutional legacy, the Chilean Civil Code, put an end to a feudalist and collectivist vision of ownership replacing it with a completely capitalist and individualist system of private property. The same capitalist system that Jaime Guzmán would establish in the 1980 Constitution more than a century later. As the second chapter explained, the Civil Code of 1855 is the most influential legal document in Chilean history and had a gigantic impact on the country's legal and institutional tradition thereby facilitating the institutional success of free market reforms. As a public intellectual, Bello was also an ardent proponent of free trade policies along the lines of Adam Smith's *Wealth of Nations* which contributed to deepen his classical liberal legacy in Chile. Bello was also instrumental in bringing over Courcelle-Seneuil, who arrived in Chile in 1855 to work as an adviser to the finance ministry and teach political economy at the two most emblematic educational institutions of the country, namely, the Universidad de Chile and the Instituto Nacional. His academic activities were crucial to education, which North has identified as one of the two sources of belief formation. Thus, Courcelle-Seneuil became the "founding father" of the discipline of economics in Chile and achieved gigantic influence on the country's intellectual and political elites. As this study argues following North's theory, the institutional success of the free market revolution of the Chicago

Boys and its acceptance by the democratic elites after 1990, is largely explained by the fact that Chile had a strong liberal intellectual and institutional tradition. In other words, this study concludes that the Chicago Boys were nothing but the heirs of this old and once dominant Chilean tradition of limited government, which started to rise again in the 1950s and which was crucial for the institutional success of the free market revolution. While Courcelle –Seneuil’s intellectual and political efforts sought to debunk the socialist and protectionist ideas that were fashionable at the time, the Chicago Boys and neoliberals in general had identical goals. Despite the intervening time gap, all of them took the same side in the global clash between classical liberalism and theories that promoted active government intervention. In Europe, the beginning of this ideological clash is usually traced back to Adam Smith and his ferocious critique of mercantilism in his 1776 *Wealth of Nations*. As this study has argued, more than any other country in Latin America, Chile became a battlefield between the heirs of Smith and those who endorsed government intervention. Moreover, in no other country in Latin America were most of the major economic theories of the last one and a half century—including British-American liberalism, the ISI model, socialism and corporatism, welfare state liberalism and neoliberalism— tried out in such a consistent and radical way as in Chile. First, under the influence of Courcelle-Seneuil classical liberalism came to dominate economic policy, shaping the economic institutions towards a free market system. After the Great Depression a new form of protectionism along with a substantial welfare state emerged following the ideas spread by Keynesian economist Raul Prebisch and the United Nations Economic Commission for Latin America (ECLA). The failure of the structuralist theories promoted by ECLA to solve the most urgent economic and social problems led the political and intellectual class to seek a more radical solution. As a result, structuralism paved the way for a Marxist and anti-American interpretation of development called *dependencia*, which held that rich countries were rich because they exploited the poor countries. *Dependencia* became fashionable among Latin American politicians and intellectuals on the left, who resented the American influence on the region and pushed for revolutionary changes. It provided part of the intellectual foundations of the socialist experiment under the UP government, which ended with the military coup in 1973. In turn, the military regime led to the free market revolution and the definite revival of Chile’s British-American liberal tradition. As this work has shown, there were not many differences between the Chicago Boys’ set of beliefs and those of Courcelle-Seneuil and his followers. For all of them, economic liberty was the base of all liberties. In other words, the Chicago Boys and Courcelle-Seneuil advocated political freedom but did not believe that it was possible to attain without economic freedom. This is an important reason why all of them advocated free trade, free prices, a small government, strong protection of private property and stable money and rejected protectionism, socialism and government interference in economic affairs. They also shared the same methodological approach to economics, which they viewed as a universal science that could

not be ignored of prosperity and a stable society were to be achieved. Also, both the Chicago Boys and Courcelle-Seneuil were skeptical of democracy and feared that an expanding government would be captured by interest groups attempting to extract rents through government favors. They understood liberty in a negative sense and rejected the idea of people having a right to claim goods of any kind from society. The central difference between them was that the Chicago Boys accepted a redistributive though limited role of government in order to help the very poor whereas Courcelle-Seneuil rejected this notion. This difference, however, is minor compared to the similarities between them.

A third conclusion of this work is that the free market revolution of the Chicago Boys was only partially a revolution. This is the case not only because American liberalism had a strong antecedent in Chilean history, but because the emergence of neoliberalism in the 1950s started a gradual process of change in the climate of opinion, which contributed to the acceptance of the reforms. It was in the 1950s that the Catholic University sealed an exchange agreement with the University of Chicago in order to import to Chile the American liberal ideas. The institutional framework for this agreement was President Truman's Point Four program, which had the aim of spreading American ideas of freedom and democracy to contain the advancement of communism. It was also in the 1950s that *El Mercurio*, the most influential newspaper in the country, started a systematic campaign to spread the values of American democratic capitalism. Also in the 1950s *El Mercurio's* owner, Agustin Edwards, organized on behalf of the Chilean government the visit of another group of liberal economic experts called the Klein-Saks Mission to liberalize the economy and solve the economic crisis that was affecting the country. Some years later, Edwards himself would provide financial support for the liberal think tank CESEC created by some of the Chicago Boys, which became crucial in the elaboration of the liberal economic program that was later on applied by the military regime.

When all the efforts to spread classical liberalism since the 1950s are examined, it is clear that a gradual change in the climate of opinion in Chile preceded the free market revolution. The complete transformation of the teaching of economics at the Catholic University was part of the strategy to overthrow the hegemony of statist economic theories such as those promoted by ECLA, socialist intellectuals and right wing nationalists. The CEP, founded by some of the most emblematic Chicago Boys in the early 1980s with the aim of inclining the public debate towards British-American liberalism, also played a substantial role on the intellectual front. The Mont Pelerin Society also played a role in spreading classical liberal ideas in Chile. Its 1981 meeting in the city of Viña del Mar showed the close collaboration between the neoliberal world elite and the Chilean Chicago Boys to advance the classical liberal cause. Many of the conferences given at the MPS meeting were published by the CEP with the aim of providing intellectual support for the process of institutional transformation that was taking place in Chile.

The fourth major conclusion of this work is that the Chicago Boys were willing to collaborate with a military regime largely as a result of Chile's particular political and economic context in the Cold War as well as for ideological reasons. Given the fact that in the neoliberal worldview democracy is not an end in itself and economic liberty is considered the base of all other liberties, there is no ideological reason in the neoliberal worldview not to collaborate with an authoritarian government that in times of economic and social distress has assumed the task of restoring economic liberty and eventually democracy. The Chicago Boys did not feel uncomfortable working for a military regime because in their view the regime was taking the right steps to consolidate a free society that would create prosperity and keep the socialist threat at bay. From a philosophical perspective the idea of a "transitional dictatorship" defended by the Chicago Boys, finds intellectual support in the tradition of classical liberal thinkers like John Stuart Mill, Isaiah Berlin and especially Friedrich von Hayek. It must be stressed however, that even if this tradition justifies a dictatorship in cases of social and economic crisis it does so only in order to restore integral freedom and prevent a greater evil, that is to say, a situation in which human suffering and the threat to liberty would be much bigger. For the Chicago Boys, the military regime was not only restoring order and liberty but was also preferable to a communist regime of the UP government sort. In that sense, they viewed Pinochet's regime as the lesser evil, which was an entirely subjective assessment. It is important to stress that the theory of transitional dictatorship in classical liberalism does not justify human rights violations such as the ones that occurred under the Pinochet regime. It is one thing in a situation of emergency to justify a transitional dictatorship and a partial temporary restriction of civil rights, but it is a different thing to justify crimes. The case could certainly be made that a period of authoritarianism was necessary to correct the chaos in which Chile found itself in 1973. However, the same cannot be said of human rights abuses. Thus, the moral dilemma faced by the Chicago Boys and the people who collaborated with the Chilean authoritarian regime is not solved. The question remains if it is justifiable to collaborate with a regime —democratic or non-democratic— under which human rights violations occur even if this collaboration is not directly responsible for the crimes and even if the collaboration contributes to economic growth and to reintroduce democracy and political liberties. The question is worth formulating in the Chilean case for, as this work shows, there is no doubt that the civil advisers to the military regime —Chicago Boys and people like Jaime Guzmán— pushed for the liberalization of the economy and the reintroduction of democracy. But they did this while human rights were being violated. This points to the essentially paradoxical nature of the Chilean experience: an authoritarian regime that crushed the fundamental rights of opponents and restricted other liberties of the population at large proved to be instrumental not only in creating the institutions that guaranteed economic freedom and led to economic prosperity, but also those necessary for a stable democracy. Accordingly, this work concludes that authoritarianism can set the foundations for a



free society if certain conditions are met. Among them, what is required is a set of beliefs favorable to political liberties, democracy and economic liberties that serves as inspiration to those in a position to make the new institutions. It is highly unlikely that Chile would have followed the path of free markets and democracy if the Chicago Boys had been inspired by fascism or Marxism instead of the tradition of British-American liberalism. It must be stressed that this analysis does not imply that the Chicago Boys and other civil advisers to the Chilean dictatorship are exempt of any kind of responsibility for what happened under the military regime with regard to human rights. However, from potential responsibility it does not follow that there was a total lack of concern for democracy, political liberties and even the respect for human rights on the part of the Chicago Boys, as many scholars have argued. Evidence does not support a claim of this sort. In fact José Piñera, the most outspoken proponent of American liberalism among the Chicago Boys and one of the most influential reformers, systematically engaged in the defense of political liberties and human rights once he had left his position in the government in the early 1980s. Piñera's defense of political liberties and human rights, shows that there was indeed a tension between the classical liberal worldview of the reformers and the way in which the dictatorship was acting. This becomes clear in the fact that Piñera explicitly invoked classical liberalism in his defense of human rights. Piñera's intellectual engagement is crucial because it provides additional evidence that during the late 1970s through the 1980s American ideas of economic and political freedom as well as democracy were at the core of the free market revolution. Both during the institutional transformation in the 1980s and after it, Piñera systematically linked the political and economic reforms made by the Chicago Boys to American liberalism. In the late 1970s Piñera founded the magazine *Economía y Sociedad* with the explicit purpose of spreading American liberalism among the Chilean ruling elites to ensure the survival of the free market reforms and the transition to democracy. *Economía y Sociedad* did indeed achieve great influence, becoming a platform for the discussion of political and economic issues among leading public figures, business people and intellectuals. The magazine was thus a major intellectual source for the free market revolution and the process of institutional transformation that took place in Chile at the time. It consistently came back on crucial aspects for classical liberalism, stressing the importance of economic liberty for political liberties, the need of economic growth for a stable democracy and of a limited government for a free society. Although many of the articles and interviews addressed technical economic issues, there was an equal concern for wider aspects, which showed an interest to integrate economic as well as cultural and philosophical aspects in a broader classical liberal framework.

After the return of democracy Piñera would insist more explicitly in the connection between the reforms and the ideas of the American Founding Fathers. In these later writings he openly addressed the ideological connection between the free market revolution and the thinking of figures such as Thomas Jefferson, Benjamin Franklin and John Adams. With his philosophical consistency

over time Piñera confirmed the classical liberal worldview that inspired the Chilean institutional transformation during the 1970s and 1980s. The analysis of Piñera's material, so far absent in the literature on the free market revolution and the Chicago Boys, provides further evidence that ideas of economic liberty as well as political liberty and democracy, all in the tradition of British-American liberalism, were at the heart of the institutional transformation that took place in Chile in the 1970s and 1980s.

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