The ‘Chicago Boys’ in Chile: Economic Freedom’s Awful Toll

Repression for the majorities and “economic freedom” for small privileged groups are two sides of the same coin.

By Orlando Letelier

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EXCERPT:

The Economic Prescription & Chile’s Reality
The economic plan now being carried out in Chile realizes an historic aspiration of a group of Chilean economists, most of them trained at Chicago University by Milton Friedman and Arnold Harberger. Deeply involved in the preparation of the coup, the “Chicago boys,” as they are known in Chile, convinced the generals that they were prepared to supplement the brutality, which the military possessed, with the intellectual assets it lacked. The U.S. Senate Select Committee on Intelligence has disclosed that “CIA collaborators” helped plan the economic measures that Chile’s junta enacted immediately after seizing power. Committee witnesses maintain that some of the “Chicago boys” received CIA funds for such research efforts as a 300-page economic blueprint that was given to military leaders before the coup. It is therefore understandable that after seizing power they were, as The Wall Street Journal put it, “champing to
be unleashed” on the Chilean economy. Their first approach to the situation was gradual; only after a year of relative confusion did they decide to implement without major modification the theoretical model they had been taught at Chicago. The occasion merited a visit to Chile by Mr. Friedman himself who, along with his associate, Professor Harberger, made a series of well-publicized appearances to promote a “shock treatment” for the Chilean economy—something that Friedman emphatically described as “the only medicine. Absolutely. There is no other. There is no other long-term solution.” These are the basic principles of the economic model offered by Friedman and his followers and adopted by the Chilean junta: that the only possible framework for economic development is one within which the private sector can freely operate; that private enterprise is the most efficient form of economic organization and that, therefore, the private sector should be the predominant factor in the economy. Prices should fluctuate freely in accordance with the laws of competition. Inflation, the worst enemy of economic progress, is the direct result of monetary expansion and can be eliminated only by a drastic reduction of government spending.

Except in present-day Chile, no government in the world gives private enterprise an absolutely free hand. That is so because every economist (except Friedman and his followers) has known for decades that, in the real life of capitalism, there is no such thing as the perfect competition described by classical liberal economists. In March 1975, in Santiago, a newsmen dared suggest to Friedman that even in more advanced capitalist countries, as for example the United States, the government applies various types of controls on the economy. Mr. Friedman answered: “I have always been against it, I don’t approve of them. I believe we should not apply them. I am against economic intervention by the government, in my own country, as well as in Chile or anywhere else.”

This is not the place to evaluate the general validity of the postulates advanced by Friedman and the Chicago School. I want to concentrate only on what happens when their model is applied to a country like Chile. Here Friedman’s theories are especially objectionable—from an economic as well as a moral point of view—because they propose a total free market policy in a framework of extreme inequality among the economic agents involved: inequality between monopolistic and small and medium entrepreneurs; inequality between the owners of capital and those who own only their capacity to work, etc. Similar situations would exist if the model were applied to any other underdeveloped, dependent economy.

It is preposterous to speak about free competition in Chile. The economy there is highly monopolized. An academic study, made during President Frei’s
regime, pointed out that in 1966 “284 enterprises controlled each and every one of the subdivisions of Chilean economic activities. In the industrial sector, 144 enterprises controlled each and every one of the subsectors. In turn, within each of these 144 manufacturing enterprises which constituted the core of the industrial sector, a few shareholders controlled management: in more than 50 percent of the enterprises, the ten largest shareholders owned between 90 and 100 percent of the capital.”

On the other hand, studies also conducted during the pre-Allende period demonstrated the extent to which the Chilean economy has been dominated by foreign-based multinationals. As Barnet and Müller put it in Global Reach, “In pre-Allende Chile, 51 percent of the largest 160 firms were effectively controlled by global corporations. In each of the seven key industries of the economy one to three firms controlled at least 51 percent of the production. Of the top twenty-two global corporations operating in the country, nineteen either operated free of all competition or shared the market with other oligopolists.” From 1971 to 1973, most of the monopolistic and oligopolistic industries were nationalized and transferred to the public sector. However, the zeal with which the military dictatorship has dismantled state participation in the economy and transferred industries to foreign ownership suggests that levels of concentration and monopolization are now at least as high as they were before the Popular Unity (Allende) Government.

**Friedman's theories propose a total free market policy in a framework of extreme inequality.**

An International Monetary Fund Report of May 1976 points out: “The process of returning to the private sector the vast majority of the enterprises which over the previous fifteen years, but especially in 1971-73, had become part of the public sector continued [during 1975]…. At the end of 1973 the Public Development Corporation (CORFO) had a total of 492 enterprises, including eighteen commercial banks…. Of this total, 253 enterprises…have been returned to their former owners. Among the other 239 enterprises…104 (among them ten banks) have been sold; sixteen (including two banks) have already been adjudicated, with the completion of the transfer procedure being a matter of weeks; the sale of another twenty-one is being negotiated bilaterally with groups of potential buyers.” Competitive bidding is still to be solicited for the remaining enterprises. Obviously the buyers are always a small number of powerful economic interests who have been adding these enterprises to the monopolistic or oligopolistic structures within which they operate. At the same time, a considerable number of industries have been sold to transnational corporations, among them the national tire industry (INSA), bought by
Firestone for an undisclosed sum, and one of the main paper pulp industries (Celulosa Forestal Arauco), bought by Parsons & Whittemore.

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There are many other examples to show that, as far as competition goes, Mr. Friedman’s prescription does not yield the economic effects implicit in his theoretical model. In the first half of 1975, as part of the process of lifting regulations from the economy, the price of milk was exempted from control. With what result? The price to the consumer rose 40 percent and the price paid to the producer dropped 22 percent. There are more than 10,000 milk producers in Chile but only two milk processing companies, which control the market. More than 80 percent of Chilean paper production and all of certain types of paper come from one enterprise—the Compañía Manufacturera de Papeles y Cartones, controlled by the Alessandri interests—which establishes prices without fear of competition. More than fifteen foreign brands are offered in the Chilean home appliances market, but they are all in the hands of only three companies, which assemble them in Chile and determine their retail prices.

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