

## ABSTRACT

### THE GREAT CHILEAN RECOVERY: ASSIGNING RESPONSIBILITY FOR THE CHILEAN MIRACLE(S)

September 11, 1973, a day etched in the memory of Chilean history, marked the abrupt end to the socialist government of Salvador Allende, via a military coup led by the General of the Army, Augusto Pinochet. Although condemned by many for what they consider the destruction of Chile's democratic tradition, the administrative appointments made and decisions taken by Pinochet and his advisors established policies necessary for social changes and reversed economic downward trends, a phenomenon known as the "Chilean Miracle." Pinochet, with the assistance of his economic advisors, known as the "Chicago Boys," established Latin America's first neoliberal regime, emphasizing that a free-market, not the government, should regulate the economy. Examining the processes through which Pinochet formed his team of economic advisors, my research focuses on the transformations wrought by the Chicago Boys on the economic landscape of Chile. These changes have assured that twenty-four years after Pinochet's rule, the Chilean economy remains a model for Latin American nations. In particular, this examination seeks to answer the following question: Who was responsible for the "Chilean Miracle"?

William Ray Mask II  
May 2013



THE GREAT CHILEAN RECOVERY: ASSIGNING  
RESPONSIBILITY FOR THE CHILEAN  
MIRACLE(S)

by  
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## ACKNOWLEDGMENTS

### **“Thirty-percent chance”**

Twice in the last seven years I have been given a “thirty-percent chance” of beating the odds or succeeding at something very important to me.

The first time occurred in late 2005, after a three-month battle with reoccurring health issues, when my doctor told me I had a thirty-percent chance of survival. I decided that if I had a “thirty-percent chance,” it was time to start living. Therefore I decided to return to school and finish something I had started nearly fourteen-years earlier...my college education.

After enrolling at Reedley College/Madera Center, I began going to school four days a week. David Richardson (History), Todd Kandarian (Math), Jim Druly (Philosophy), and Bill Kastanes (Geography) pushed me to excel every day in class. Each, through their passion and enthusiasm, relit my fire and urgency for furthering my education. Sheryl Young-Manning gave me my first opportunity to tutor other students in several different disciplines; tutoring became a passion.

After completing my Associate’s Degree I enrolled in classes at Fresno State for the Spring 2008 semester. My first day at CSU, Fresno was an eye opening and jaw dropping event. Immediately, thoughts began swirling in my mind, “Did I belong here? Can I really do this?” I had enrolled in History 126- The Reformation- thinking it would be an easy course for me. Yet, as I sat in the first class meeting, Dr. Maritere López had me thinking differently. In fact, after she had introduced herself to our over-crowded class and read the syllabus aloud, I began wondering if I could even pass the class. She told me not to worry, that if I continued to come every day, apply myself, and get involved, I would be just fine. I learned some of the most important traits for becoming a successful student at

CSU, Fresno during that first semester with Dr. López. I am grateful to say that over the last five years Dr. López has been my mentor and academic guiding light. She made me feel like I belonged and that I was not too old to be successful at this or any other institution.

My special thanks to Dr. Linda Gannaway, William Hardaway, and Ashley Hedemann for hiring me as a tutor in the Learning Center. While they were each influential in my academic and professional development, none have been more important than William. A true friend in every sense of the word!

### **The second “thirty-percent chance”**

During my junior year, while attempting to join a post-graduate research program, one particular instructor told me that if I were married and/or had children I should just quit now because my chances of graduating with a master’s degree would only be about a “thirty-percent chance...if lucky.” Nevertheless, as I had done before, I pressed forward and never looked back.

I want to also thank the Ronald E. McNair Foundation. From the moment I met the staff, Millie Byers, Marie Fisk, and Barbara Hopkinson, I knew this program was for me. Throughout my research and writing efforts, the McNair staff has always provided me a safe haven for reading, writing, and studying. I will be forever grateful to them, especially Marie.

Latin American studies captivated my interests. I blame that on Dr. William E. Skuban, my advisor. The way he presented the material always had me on the edge of my seat. For the better part of four years, Dr. Skuban has read every rough draft, chapter, and presentation far too many times, and yet he continues to work with me...patiently. If I can someday become half the historian that Dr. Skuban is, I will be a terrific instructor. Sometimes a “Thank you” just isn’t enough.

Throughout my academic journey I have been blessed to work with some of the most energetic and influential instructors in our history department. Doctors Ethan Kytle, Bradley Jones, Melissa Jordine, Michelle Denbeste, Lori Clune, Sidney Chang, David Berkey, and Jill Fields, as well as James Kus from the geography department, have all contributed to the improvements in my writing and research skills.

I want to send a special thanks to my thesis committee, Dr. Skuban, Dr. López, and Dr. Maria Lopes, for their tireless devotion in assisting my research and writing efforts. Any errors in this thesis are mine alone.

During the endless hours of reading each other's papers, listening to research ideas, or calming each other during the trials and tribulations of graduate work, I have formed life-long friendships with my graduate cohort: Michael Nankervis (six years of reading my work), Steven Colagiovanni (presenting his left-wing ideals), Jose Garcia (The Thinker), Hagop Ohanessian (Forever a Nice Guy), Brandi Cruz (My Carpool Buddy), Whitney Thompson-Tozier (loved our conversations!!!) and so many others who have profoundly contributed to the scholarly version of me. I leave CSU, Fresno as a better person because of them.

Finally, my deepest thanks goes to my magnificent family, my greatest source of inspiration! The love of my life and wife of twenty-three years, Edna, has worked tirelessly, while I pursued an academic dream. She has never flinched in her unwavering support, encouragement and love. Linda Gerbi, the greatest mother in the world, has never let me lose sight of my goals (so I can get back to work), bought my books on occasion, paid my honour society fees, and provided a good kick in the britches when it was necessary. Nothing can ever replace a mother's love, especially mine! My children, Rayann, Kristopher, Kyle, and Daniell have sacrificed valuable time with Dad while I spent endless hours being a

student. My three precious granddaughters are probably looking forward to more quality time with Papa...as am I with them. Without my family's love and support this journey would have been pointless.

God's Love Always! William "Billy" Mask II

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## INTRODUCTION: THE COLLAPSE OF SOCIALISM AND THE BEGINNING OF MILITARY RULE

In 1973, thousands of grandmothers, mothers, and young women staged the “March of the Empty Pots,” banging their cooking pots with utensils to illustrate their anxiety over food lines that developed as a consequence of massive food shortages in Santiago, Chile.<sup>1</sup> Even after the protestors were violently dispersed by supporters of President Salvador Allende, they exhibited a hardened resolve by reforming their ranks and conducting further protests throughout the nation’s capital.<sup>2</sup>

The precursor to these protests was the election of Salvador Allende in 1970. Allende, the first openly Marxist president elected in Latin-American history, enacted political, social, and economic policies that followed his leftist ideology.<sup>3</sup> His goals included an improved economic status for the impoverished, an increase in employment opportunities through the expropriation of privately owned production and mining facilities, and the increase of food supplies and land redistribution through agrarian reform. While the first eighteen months of his presidency can be viewed as somewhat successful due to a drop in unemployment and an increase in GDP per capita (real income), the second half of Allende’s three-year presidency was defined by economic collapse and social unrest. In fact,

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1 John L. Rector, *The History of Chile* (New York: Palgrave Macmillan, 2003), 197; Isabel Allende, *My Invented Country: A Memoir*, trans. Margaret Sayers Peden (New York: Harper Collins Publishers, 2003), 55.

2 Nathaniel Davis, *The Last Two Years of Salvador Allende* (Ithaca: Cornell University Press), 47.

3 Salvador Allende was the nominee of the Unidad Popular (UP), a coalition of six different political parties (the Socialist Party, the Communist Party, the Radical Party, the Social Democratic Party, the Movement of Unitary Action, and the Independent Popular Action). The UP is discussed in further detail on pages 2 and 3 of Chapter 1.

it was upper- and lower-middle class women who took to the streets in protest of the president's failure to deliver on his promise to increase food supplies.

By 1973, the protests became more vocal and involved multiple sectors of society once the unemployment rates increased and the inflation rates reached astronomic levels. In response to the imminent collapse of the Chilean economy and with the escalation of violent protests, military commanders of the Army, Air Force, and Navy planned and orchestrated a military coup. As a result of their success, Allende's presidential term and the Chilean experiment with socialism abruptly ended. Consequently, the military junta ushered in the sixteen-year reign of General Augusto Pinochet. His hard-line military dictatorship, which restructured Chilean society, established a free-market economy that twice revived the nation's collapsed economy and produced what is commonly referred to as the "Chilean Miracle."

My study focuses strictly on the neo-liberal economic agenda established over the course of General Pinochet's regime that encouraged foreign investment, the reduction in government expenditures, and other free-market strategies. It seeks to find an answer to the following question: Who was responsible for the "Chilean Miracle"? In order to shed light on this complex political and economic issue, my research crosses the boundaries of multiple academic disciplines to include historical, economic, political, and social perspectives. In the study of this particular period in Chilean history, many observers have concluded that the Chilean Miracle was an "anomaly" and that it was "merely by chance" the nation experienced any economic success.<sup>4</sup> Conversely, I argue that the historical and

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<sup>4</sup> For a single example to prove what "many others" conclude, see Glen Biglaiser, *Military Regimes, Neoliberal Restructuring, and Economic Development: Reassessing the Chilean Case* (New York: Springer, 1999), 1.

economic record shows that General Pinochet not only made immediate and significant changes to the infrastructure of the Chilean government, but that he also recruited economic experts to rebuild the nation's crippled economy.<sup>5</sup> In fact, this research illustrates that Pinochet's decision-making processes helped re-establish relationships with foreign lending institutions, encouraged foreign investment, created thousands of new jobs, and reversed the import/export ratios while saving the Chilean nation from the financial crisis experienced from 1972-75, and again in the early 1980s.

It is not my intention to ignore, or make light of, the atrocities committed under the leadership of Pinochet and the military junta. Decades of work from scholars in many disciplines have shown, without a doubt, that the Chilean military was responsible for the murder, torture, imprisonment, and disappearance of individuals who opposed the Pinochet regime. Ignoring this proven and irrefutable pattern of abuse would not only be disrespectful to a proud Chilean nation, but would also detract from the argument posed in this work. Indeed, there were aspects of Pinochet's dictatorship that were horrifying and disturbing. Nevertheless, the ultimate success of the economic reforms established by the Pinochet administration is that they have remained the fundamental basis of the country's economic policy for every administration until this current day.<sup>6</sup>

### Historiography

Scholars of the sixteen-year dictatorship tend to focus on the winners and losers of the neo-liberal economic agenda in their attempts to distinguish the

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<sup>5</sup> Lanny Ebenstein, *Milton Friedman: A Biography* (New York: Palgrave MacMillan, 2007), 189.

<sup>6</sup> Lois Hecht Oppenheim, *Politics in Chile: Socialism, Authoritarianism, and Market Democracy* (Boulder: Westview Press, 2007) 169.

success or failures of Pinochet's administration. For example, the works of Pamela Constable and Arturo Valenzuela, in *A Nation of Enemies: Chile Under Pinochet*, and Peter Winn, in *Victims of the Chilean Miracle*, through the use of hundreds of interviews with Chilean citizens, promote a deeper understanding of how the common citizens were affected by the changes of economic policy.<sup>7</sup>

Constable and Valenzuela give an in-depth look at the economic atmosphere directly after Pinochet's reign. Looking at both winners and losers, the authors take an even-handed approach in their examination of the memories, perspectives, and opinions of Chilean citizens. Probing the diverse memories of Chilean citizens, their research explains how military rule "dominated and shaped society for nearly seventeen years."<sup>8</sup> Constable, a veteran *Washington Post* correspondent, and Valenzuela, the director of Latin American studies at Georgetown University, conducted these interviews over a five-year period, during repeated visits to the northern regions of Chile. Both authors assert that those individuals who benefited from the economic plan supported Pinochet, and those who did not benefit were opposed to the military administration. However, they also identify several citizens who benefited and yet opposed Pinochet, as well as economic losers who fully supported the General.

All of the essays contained in Peter Winn's collection argue that those Chileans in the lower rungs of society were victims of the "Chilean Miracle." In fact, the authors dispute that any miracle ever occurred. Specifically, the authors name as victims the disenfranchised laborers from the mining, textile, fishing, and forestry industries. They contend that while Chile experienced a "decade-long

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<sup>7</sup> Pamela Constable and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet* (New York: W. W. Norton, 1991).

<sup>8</sup> Constable and Valenzuela, *A Nation of Enemies*, 12.

economic boom” during the first half of the Pinochet regime and the national wealth increased significantly, “there was no comparable rise in real incomes” for the majority of the population.<sup>9</sup> Having enjoyed increased influence during the era of the socialist reforms of Salvador Allende, labor organizations now bore the brunt of neo-liberal reforms that severely limited union power.<sup>10</sup> Winn notes that, prior to the military dictatorship, the northern textile plants employed a significant number of Chileans, but Pinochet’s sell-off of government-owned properties resulted in the majority of textile plants reducing or halting production.<sup>11</sup> Winn asserts that Pinochet continued to focus on disrupting union power and limiting labor rights, regardless of how successful the economy had become.

Winn argues that Pinochet maintained a persistent urgency for the removal of left-wing political beliefs and worker organizations throughout his reign. Furthermore, Winn asserts that, faced with increased international outrage for the ongoing human rights violations, Pinochet created “decree laws” that essentially “ended job security for Chilean workers.”<sup>12</sup> Employers were now free to hire and fire, whomever and whenever, without political repercussion. The authors all agree that the economic and working condition of laborers worsened even during economic windfalls because labor income remained woefully inadequate in proportion to economic growth. Several authors in this collection point out that when the economy suffered major setbacks in the early 1980s, incomes were

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<sup>9</sup> Peter Winn, ed., *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 1-4.

<sup>10</sup> Winn, *Victims of the Chilean Miracle*, 15.

<sup>11</sup> Peter Winn, “The Chilean Textile Industry,” in *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 129.

<sup>12</sup> Peter Winn, “The Pinochet Era,” in *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 32.

further reduced, plants were closed, and unemployment skyrocketed back to levels previously experienced under the Allende presidency.<sup>13</sup> Additionally, poor working conditions, reduced pay, anti-union legislation, and incessant brutality against protesters illustrated that laborers were victims of Pinochet's economic policies.<sup>14</sup> Winn concludes that workers were left with two options, continue their struggle for recognition or accept the rules mandated by their oppressors.

While the work of Winn and others focus strictly on the losers, other authors examine the economic successes and failures experienced by the nation as a whole. The recent works of Juan Gabriel Valdés, in *Pinochet's Economists: The Chicago School in Chile*, and Barry P. Bosworth, Rudiger Dornbusch, and Raúl Labán, in *The Chilean Economy: Policy Lessons and Challenges*, give in-depth analyses of Allende's socialist economy and the Pinochet neo-liberal approach.<sup>15</sup> Each monograph explores the factors responsible for the fluctuations in the nation's Gross Domestic Product (GDP), GDP per capita, inflation, and unemployment rates.

In his monograph, Valdés analyzes the influence of American economic theory on Chilean policy and how it formed the basis for the conversion of the Chilean economy to a neo-liberal philosophy. Valdés examines the exchange of the neo-liberal ideas between the Universidad Católica de Chile and the University of Chicago in Illinois. Valdés argues that this process of ideological change led to the development of the economic plan that was installed during by the Pinochet regime. Valdés also examines how elite citizens took advantage of the free-market

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13 Winn, "The Pinochet Era," *Victims of the Chilean Miracle*, 41.

14 Winn, *Victims of the Chilean Miracle*, 10.

15 Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile* (New York: Cambridge University Press, 1995); Barry P. Bosworth, Rudiger Dornbusch, and Raul Labán, eds., *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994).

established by the military government and Pinochet's neo-liberal agenda to enhance their property holdings and net worth.<sup>16</sup>

Valdés asserts that Pinochet's sixteen-year rule should be viewed in two separate phases: the "naïve phase" of 1973 through 1982 and the "on the job training" phase from 1983 to 1989. He argues that the first phase was dominated by the "Chicago Boy" neo-liberal beliefs, which viewed economics as a "science that needed to be imposed for the economy's own good." The second phase, which followed a period of severe economic downturn, brought a change in economic philosophy, promoting "state-led corrections" in order to heal the rapidly declining economy.<sup>17</sup> Valdés states that the purpose of his work was a "deliberate endeavor aimed to influence economic views and to influence government decisions on the course of the economy."<sup>18</sup>

Another collection of essays, edited by Bosworth, Dornbusch, and Labán, examines the Chilean economy from 1970-1993, viewing the economic conditions before, during, and after Pinochet's reign. Each author compares and contrasts the decision-making processes that each administration adhered to in establishing their economic model. Each essay examines distinct features of the Chilean economy (inflation, GDP growth and decline, labor, savings, and investment) in their effort to argue that the neo-liberal economy of Chile served as an example to Latin American nations due to its successful "drastic and rapid reforms."<sup>19</sup> While the authors argue that the Pinochet regime made significant strides towards rescuing

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<sup>16</sup> Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile* (New York: Cambridge University Press, 1995), 6.

<sup>17</sup> Valdés, *Pinochet's Economists*, 10-12.

<sup>18</sup> Valdés, *Pinochet's Economists*, 13-14.

<sup>19</sup> Barry P. Bosworth, Rudiger Dornbusch, and Raul Labán, eds., in *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 4.

the economy, they also claim that mistakes were made and that “substantial transitional costs” occurred in areas of real income and employment opportunities, which in turn created enormous economic inequalities.<sup>20</sup> Nevertheless, the authors assert that the neo-liberal experience of Chile was a successful example for stabilizing and strengthening economies experiencing similar characteristics to those of Allende’s Chile. In particular, four of the essays discuss features that are pertinent to my thesis.

Vittorio Corbo and Stanley Fischer, in “Lessons from the Chilean Stabilization and Recovery,” examine the Chilean economy from 1973 to 1993, evaluating the economic strategies used in rehabilitating the Chilean economy.<sup>21</sup> Corbo and Fischer argue that Pinochet’s military government had to employ a “shock treatment,” as opposed to a gradual approach, due to limited trading opportunities with other nations, a nonexistent private sector, severe economic imbalances, and declining GDP.<sup>22</sup> In other words, Corbo and Fischer agree that Pinochet, and his economic brain trust, had to assert drastic measures in order to revive Chile’s dismal fiscal situation.

Rudiger Dornbusch and Sebastian Edwards, in “Exchange Rate Policy and Trade Strategy,” analyze the second phase of Chile’s economy, from 1983 to 1989.<sup>23</sup> Dornbusch and Edwards assert that Chile is the “textbook example of an

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<sup>20</sup> Bosworth, Rudiger Dornbusch, and Raul Labán, eds., *The Chilean Economy*, 4-5.

<sup>21</sup> Vittorio Corbo and Stanley Fischer, “Lessons from the Chilean Stabilization and Recovery,” in *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 29.

<sup>22</sup> Corbo and Fischer, “Lessons from the Chilean Stabilization and Recovery,” in *The Chilean Economy*, 51.

<sup>23</sup> Rudiger Dornbusch and Sebastian Edwards, “Exchange Rate Policy and Trade Strategy,” in *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 81.

open economy” in the areas of exchange rate policy and trade strategies. They note that the lack of institutional controls used to monitor a competitive business atmosphere was a major factor in the economic collapse experienced from 1981 to 1982. Dornbusch and Edwards highlight Pinochet’s selection of Hernan Büchi as an instrumental decision that enabled Chile to overcome its second recession in less than ten years. The authors note that the administration’s willingness to make policy changes concerning economic reforms, in 1983, produced financial gains that were “outstandingly successful” for the nation of Chile.<sup>24</sup>

Manuel Marfán and Barry P. Bosworth, in “Saving, Investment, and Economic Growth,” review the growth patterns of the Chilean economy and its ability to sustain positive economic trends.<sup>25</sup> Marfán and Bosworth argue that the success of the “Chilean economy during the 1980s should be viewed as a recovery from an extreme depression.” In addition, they note that a dramatic rise in “national saving rate” indicates that the Chile had acquired a strong “fiscal position.”<sup>26</sup> Both authors are indicating that Chile’s miraculous recovery was not only a useful road map for other countries experiencing similar conditions, but that the plan also strengthens long-term fiscal conditions.

Eduardo Bitran and Raúl E. Sáez, in “Privatization and Regulation in Chile,” focus on the Chilean plan for privatization and regulation of over 500 companies that were nationalized during the Allende administration. Bitran and Sáez argue that Chile’s “massive divestiture of state-owned enterprises” under

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<sup>24</sup> Dornbusch and Edwards, “Exchange Rate Policy and Trade Strategy,” in *The Chilean Economy: Policy Lessons and Challenges*, 81.

<sup>25</sup> Manuel Marfán and Barry P. Bosworth, “Saving, Investment, and Economic Growth,” in *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 165.

<sup>26</sup> Marfán and Bosworth, “Saving, Investment, and Economic Growth,” in *The Chilean Economy: Policy Lessons and Challenges*, 165.

Pinochet serves as “valuable lesson” for other Latin American nations.<sup>27</sup> In counterpoint, the authors also assert that the Chilean government’s failure to monitor the number of companies bought by conglomerates, especially financial institutions, made the nation and those conglomerates susceptible to international economic forces in the early 1980s. Nevertheless, after Pinochet’s appointment of Büchi in 1983, the necessary corrections were made that allowed for further competition and prohibited the creation of monopolies.<sup>28</sup>

### Argument and Structure

My argument is structured to first introduce the major figures, Allende and Pinochet, detail the economic climate in 1973, and then illustrate that the “Chilean Miracle” was not merely by happenstance, but the result of solid economic planning and critically important adjustments. In addition, while historiography has often labeled the economic winners and losers of the Allende and Pinochet administrations, this study steers clear of such judgments and aims only to evaluate Pinochet’s decision-making processes in building a neo-liberal success story in Chile.

Chapter 1 examines the presidency of Salvador Allende, the creation of a socialist government, and the implementation of new left-wing policies that affected the Chilean economy and society. I analyze Allende’s speeches, interviews and writings to develop an understanding of his plan for creating an improved Chile. This plan included the nationalization of privately owned companies and financial institutions, as well as large-scale land reform and the

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<sup>27</sup> Eduardo Bitran and Raul E. Sáez, “Privatization and Regulation in Chile,” in *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 329-331.

<sup>28</sup> Bitran and Sáez, “Privatization and Regulation in Chile,” in *The Chilean Economy: Policy Lessons and Challenges*, 329-331.

creation of a state-run economy that was specifically designed to elevate disenfranchised citizens into a dominant middle class. In addition, I assess both internal and external forces that wreaked havoc in the Chilean political arena and the several push-pull factors that disrupted the socialist president's plan for democracy.

Chapter 2 examines the life of Augusto José Ramón Pinochet Ugarte from childhood to his eventual dictatorship in Chile. From his education in parochial schools, then in military academies, Pinochet adopted a strict and structured lifestyle that led to his continual promotions through the military ranks. During his lifetime of military service, his dedication and care for Chile would foster his scorn for failed governments. In addition, I evaluate Pinochet's speeches and pamphlets for a further understanding of his political and economic strategies. I then explain how Pinochet's decision to appoint "The Chicago Boys," as the nation's economic brain trust, directly led to the resuscitation, on two separate occasions, of the Chilean economy.

Chapter 3 investigates the "winners and losers" of the Chilean Miracle and how the neo-liberal economic agenda of the Pinochet era played a significant role in determining Chile's economic future. While there were individuals who experienced gains in terms of property, capital, and employment, there were many who experienced diminished income and loss of employment. Programs that encouraged foreign investment and private ownership simultaneously led to the nation's long-term economic stability and improved employment opportunities for some, while others struggled to maintain the necessary capital to house and feed their families.

In the conclusion I will reemphasize that the neo-liberal economic agenda of 1973-1989, did, in many respects, produce a "Chilean Miracle." I will also

establish that Augusto Pinochet was responsible for these successes. When Pinochet was faced with devastating economic conditions immediately after the coup, he looked for economic advisers that would help him begin a series of reforms that revived the nation's collapsed economy. After experiencing phenomenal economic results within the first five years, Chile experienced another devastating downturn in its economy. Nevertheless, Pinochet's determination continued to change the economic brain trust until he found the correct combination of individuals and strategies that were necessary to once again revive the economy. In fact, Pinochet's economic platform was so successful that Chile has continued to lead Latin American nations in many economic categories well into the twenty-first century.

## CHAPTER 1: THE RISE AND FALL OF SALVADOR ALLENDE AND SOCIALIST CHILE

The workers aren't fed, nor are the social problems resolved.  
Our stupid government can't comprehend this simple truth.  
Ramon Allende Castro, Mayor of Santiago, 1916

Riding the global wave of socialism following World War II, Salvador Allende Gossens came to power, in 1970, with the promise to establish economic equality, social justice, and an immediate relief for the oppressed. Elected by the narrowest of margins, Allende faced significant opposition from both domestic and international forces. The tragedy of his presidency is that it ended before his dream for Chileans became a reality: the unbridled opportunity for all.

### A Socialist in the Making

Influenced at an early age by his outspoken uncle, Salvador Allende Gossens spent his entire adult life fighting for poverty-stricken Chileans. Even though he grew up in a “prosperous middle-class” family and experienced a rewarding education, Allende, like so many young Latin American college students of the twentieth century, loathed the massive inequalities and severe poverty levels that faced millions of Chileans. Educated at the University of Chile in Santiago, Allende became a physician by trade, but it was politics that stoked his passion. He longed for a government that provided a sensible and equitable future for the scores of “broken ones” throughout Chile.<sup>1</sup> Before his activist/political life began, Allende worked evenings teaching citizens how to manage their “preventative health care” because the government did not. It was

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<sup>1</sup> James D. Cockcroft, “Allende’s Words Then and Now” in *Salvador Allende Reader: Chile’s Voice of Democracy*, ed. James D. Cockcroft and Jane Carolina Canning (New York: Ocean Press, 2000), 5.

during his college years that he, “a self-avowed Marxist,” began to participate in protests against Chilean governments that tended to focus on upper-class needs, while ignoring the greater portion of the nation’s population.<sup>2</sup> Allende believed in a Chile that provided a “state regulation of principal sectors” that equally provided opportunity for small businesses and those mired in poor living conditions.<sup>3</sup>

Ironically, it was the consecutive military coups in 1932, over a twelve-day period, that prompted Allende to begin his long-traveled road as an activist, always representing the individuals whose voices were often unheard.<sup>4</sup> A long-time friend of the Allende family, Marmaduke Grove, actually led the first coup that ended the dictatorship of Colonel Carlos Ibáñez del Campo. However, less than two weeks later, another military coup returned the nation to capitalist-minded upper-class rule. It was this turn of events that fueled Allende’s political ambitions. Immediately after the second coup, Allende, while protesting the overthrow of Grove, was captured and imprisoned.<sup>5</sup> Upon his release, Allende swore that he “would dedicate [his] life to the social struggle and the freedom of Chile” from its right-wing leadership.<sup>6</sup>

After graduating from college in 1933, Allende co-founded the Chilean Socialist Party and began his political career, during which he served as a congressman, a senator, and the Minister of Health, among many other positions. Eventually, Allende became a very popular figure with impoverished Chileans all over the nation. After three failed attempts to become president (1952, 1958, and

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<sup>2</sup> Cockcroft, *Allende’s Words*, 6.

<sup>3</sup> Salvador Allende, “The Programme of Unidad Popular,” *Chile’s Road to Socialism* (Baltimore: Penguin Books, 1973), 23-29; Cockcroft, *Allende’s Words*, 6.

<sup>4</sup> The irony is that a military coup in 1973 eventually ended Allende’s life.

<sup>5</sup> Allende, *Chile’s Road to Socialism*, 11.

<sup>6</sup> Cockcroft, *Allende’s Words*, 5-6.

1964), Allende in 1969, the year before the next presidential election, united six groups of the “argumentative and opinionated Chile left” into one amalgamated political group, the *Unidad Popular*. In turn, these six political parties (the Socialist Party, the Communist Party, the Radical Party, the Social Democratic Party, the Movement of Unitary Action, and the Independent Popular Action) selected Allende as their presidential candidate.<sup>7</sup> This extraordinary political party was formed “as a movement explicitly aimed at the implementation of Marxist socialism in Chile.”<sup>8</sup> Immediately after the formation of the *Unidad Popular*, the party began to build its political campaign against the inhumane conditions that the majority the Chilean people endured on a day-to-day basis.

### The Promise

In a 1969 campaign speech, Allende claimed that “Chile [was] in a state of profound crisis... [suffering from] economic and social stagnation...general poverty.... [and] total neglect suffered on all fronts by the workers, the peasants, and other exploited groups.”<sup>9</sup> Allende argued that Chile had become dependent upon the same foreign influence that had invested \$7.5 billion dollars in Chile, but had taken \$16 billion in profits.<sup>10</sup> He pointed out that the price Chileans paid to maintain the profit margins for this group of “North American” investors was more than “half a million families [suffering from] homeless[ness]... liv[ing] in abominable conditions, without adequate sewage...drinking water, light, or

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<sup>7</sup> Lois Hecht Oppenheim, *Politics in Chile: Socialism, Authoritarianism, and Market Democracy* (Boulder: Westview Press), 33; Allende, “The Programme of *Unidad Popular*,” 23.

<sup>8</sup> Jonathan Haslam, *The Nixon Administration and the Death of Allende’s Chile* (New York: Verso Books, 2005), 6.

<sup>9</sup> Allende, “The Programme of *Unidad Popular*,” 23-27.

<sup>10</sup> Allende, “The Programme of *Unidad Popular*,” 25.

sanitation.”<sup>11</sup> Allende asserted that former presidents Jorge Alessandri (1958-64) and Eduardo Frei (1964-70) had failed to curtail the capitalist forces that controlled the monetary plight of Chilean households and had not reduced the nation’s increasing inflation rates.<sup>12</sup> Therefore, Allende called for an immediate acceleration of the Agrarian Reform Act, initiated by Alessandri and continued by Frei, which eliminated large land ownership and redistributed property into the hands of impoverished Chilean families desperately attempting to survive.<sup>13</sup>

Consequently, the impoverished and working class citizens gave Allende their unwavering support. Simultaneously, the more conservative and moderate political parties, which had previously decided to join forces in order to prevent Allende’s possible victory, were split between the conservative National Party (NP) nominee Luis Bossay and the moderate Christian Democrats (CD) leader Radomiro Tomic. The split was engendered by Eduardo Frei’s decision to increase land expropriation, so as “to form peasant cooperatives.” This political maneuver angered many right-wing supporters and destroyed any chance of a center-right alliance because it smacked of socialism. In fact, had not the CD and the NP run separate candidates, Allende would have suffered his fourth defeat in a presidential election. Ultimately, he won the election by less than two percent, or fewer than 40,000 votes.<sup>14</sup> This untimely split by the center/right parties, which

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<sup>11</sup> Allende, “The Programme of Unidad Popular,” 27.

<sup>12</sup> Allende, “The Programme of Unidad Popular,” 28.

<sup>13</sup> Allende, “The Programme of Unidad Popular,” 39-40.

<sup>14</sup> Edward Boorstein, *Allende’s Chile* (New York: International Publishers, 1977), 54; Barbara Stallings, *Class Conflict and Economic Development in Chile, 1958-1973* (Stanford: Stanford University Press, 1978), 124.

represented the growing divisions within Chilean society, ushered in the dramatic political and economic changes by a socialist president.<sup>15</sup>

### A Foundation of Sand

Even though Allende had won a fair and democratic election, there remained forces that wanted to prevent his inauguration. Because he was elected with a plurality, and not a majority of the vote, the Chilean Congress would have to approve the election results.<sup>16</sup> In the sixty days between the election and the inauguration, Chile's NP members and the US government plotted to either negate the election results or convince Chilean congressmen to vote against accepting them. While past presidents Alessandri and Frei used political influence in their attempts to convince congressmen to nullify Allende's victory, the United States, and its Cold War policies, employed the Central Intelligence Agency (CIA) to create dissention through economic sabotage.<sup>17</sup> At the instruction of President Richard Nixon, banks were to stop or delay the renewal of all loans and that companies should refrain from investing, making deliveries, or shipping necessary parts for manufacturing repairs. Furthermore, pressure should be applied to savings and loan companies, and the withdrawals of any technical assistance became paramount in the creation of an "economic collapse" in Chile.<sup>18</sup>

Meanwhile, the CIA and the Chilean military began discussions of a military coup, which hinged on the approval of multiple leaders within the Chilean

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<sup>15</sup> Pamela Constable and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet* (New York: W. W. Norton & Co., 1991), 23; Haslem, *The Nixon Administration*, 86.

<sup>16</sup> Nathaniel Davis, *The Last Two Years of Salvador Allende* (Ithaca: Cornell University Press, 1985), 5; Boorstein, *Allende's Chile*, 63.

<sup>17</sup> Lubna Z. Qureshi, *Nixon, Kissinger, and Allende: U.S. Involvement in the 1973 Coup in Chile* (New York: Lexington Books, 2009), 59-61; Boorstein, *Allende's Chile*, 60.

<sup>18</sup> Boorstein, *Allende's Chile*, 63.

armed forces. Unfortunately, any hopes for a united effort were thwarted by the General of the Army, Rene Schneider, who supported the democratic election process and the Chilean Constitution. Schneider declared that he and the army served as “the guarantor of a normal election and that the Presidency of the Republic will be assumed by the one who is elected by the people through an absolute majority, or by the Congress as a whole in case none of the candidates obtain more than 50 percent of the vote.”<sup>19</sup> This firm stance ended discussions for a military overthrow of Allende, but it did not stop the CIA. If Schneider would not consent, they planned to remove him by force if necessary.<sup>20</sup>

The original plan was simply to kidnap Schneider and move him to another country in order to replace him with another person who favored a possible coup.<sup>21</sup> However, in the third attempt to apprehend the general, Schneider was shot three times and died less than seventy-two hours later.<sup>22</sup> Not only did the CIA fail, but any discussion of a coup or a congressional nullification of the election results ended as well. The Chilean people and a plethora of officers from the armed forces were outraged at the death of the general, which in turn further strengthened support for Allende. The election results were approved a short time later, on October 24, 1970.<sup>23</sup>

### Socialist Paradise

Two weeks later, in his inaugural address on 5 November 1970, Salvador Allende asserted that the UP would seek to “abolish the pillars propping up the

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<sup>19</sup> Davis, *The Last Two Years*, 5; Boorstein, *Allende's Chile*, 63.

<sup>20</sup> Davis, *The Last Two Years*, 8-10

<sup>21</sup> Quershi, *Nixon, Kissinger, and Allende*, 59; Haslam, *The Nixon Administration*, 70.

<sup>22</sup> Quershi, *Nixon, Kissinger, and Allende*, 65; Boorstein, *Allende's Chile*, 68.

<sup>23</sup> Boorstein, *Allende's Chile*, 68.

minority” and return the Chilean nation to the entirety of the population.<sup>24</sup> Immediately, Allende instituted the key components of his economic plan, which were designed to change property relationships and “to break the power of the economic elite in Chile.”<sup>25</sup> Three divisions of the economy were established: the *Area de Propiedad Social* (APS), *Area de Propiedad Mixta* (APM), and *Area de Propiedad Privada* (APP).<sup>26</sup> The designated areas of control were viewed by the newly elected government “as essential ingredients in the plan to build socialism in Chile.”<sup>27</sup> The responsibility for managing each of the divisions and corporations fell under the purview of *Corporación de Fomento de la Producción* (CORFO), which was created in 1939 to establish new publicly owned companies that stimulated industrial growth. Now, with Allende’s new plan, CORFO responsibilities expanded to greater levels.<sup>28</sup> The UP nationalized large mines, the financial system, foreign commerce, wholesale distribution, utilities, transportation industries, and communication companies, all critically important to the nation’s financial success.<sup>29</sup>

While only 250 of the over 30,000 companies fell under the APS umbrella, the largest percentage were owned or operated by foreign investors, many were

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24 Allende, *Chile’s Road*, 23-27.

25 Oppenheim, *Politics in Chile*, 36.

26 Oppenheim, *Politics in Chile*, 37-43. The APS the most important division, consisted of state-owned or socialized properties pivotal to the economic development of the UP. The APM consisted of properties partially owned by the state and partly by private parties. Together, the APS and the APM controlled a major part of the economic system. The APP consisted of enterprises that remained in private hands.

27 Oppenheim, *Politics in Chile*, 37.

28 Oppenheim, *Politics in Chile*, 20 and 42; Constable and Valenzuela, *A Nation of Enemies*, 188-189.

29 Patricio Mellor, *The Unidad Popular and the Pinochet Dictatorship* (New York: St. Martin’s Press, 2000), 29; Stallings, *Class Conflict and Economic Development in Chile*, 126; Oppenheim, *Politics in Chile*, 37.

privately owned companies from the United States. In fact, the two largest copper mines, Anaconda and Kennecott, provided enormous profit margins each year for their U.S. investors. Instead of offering compensation for the loss of each mine, Allende claimed the property and issued bills for nearly \$400 million owed to the Chilean government, which represented the profits that went into the coffers of North Americans instead of the Chilean nation.<sup>30</sup>

Instantaneously, and predictably, the US administration reacted with great concern and disbelief. Allende's bold action resulted in the US pressuring lending institutions to curtail investment and eliminate most of the short-term credit loans that Chile received annually from foreign banking systems, primarily the International Monetary Fund (IMF). The US, feeling slighted, reduced their assistance to a trickle compared to past funding.<sup>31</sup> Prior to the nationalization of companies, Chile received approximately \$220 million per year in foreign aid and investment, but after Allende's reforms this number was drastically reduced to thirty-five million dollars by 1972.<sup>32</sup> By the end of Allende's presidency, the only source of short-term loans or credit was the IMF; however, military supplies and weapons continued to flow in from the United States in support of the Chilean Army.<sup>33</sup> Even though a freely elected socialist regime existed in Chile, the United States government continued willingly to support and supply elements of the Chilean military with the hope of removing the socialist regime.

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<sup>30</sup> Sarver, Christopher C. "Multinational Firm Strategy and the Nationalization of Copper in Chile and Zambia: The Experience of Five Companies." (PhD diss., University at Albany, State University of New York, College of Arts and Sciences Department of Political Science, 2010), 171.

<sup>31</sup> James F. Petras and Morris H. Morley, *How Allende Fell: A Study in U.S.-Chilean Relations* (Nottingham: Spokesman Books, 1974), 59; Constable and Valenzuela, *A Nation of Enemies*, 26.

<sup>32</sup> Stallings, *Class Conflict and Economic Development in Chile*, 132.

<sup>33</sup> Stallings, *Class Conflict and Economic Development in Chile*, 133.

The mere presence of a socialist or communist state within the borders of Latin America sent tidal waves of resentment throughout North America, particularly in the United States. As Cold War differences continued to dominate political landscapes worldwide, co-existence between the United States and the new socialist regime was unacceptable. Especially disconcerting to the Americans was the escalating number of “Marxist activists...pouring [into Chile] from Cuba, Czechoslovakia, and China.”<sup>34</sup> President Nixon, already infuriated with the election results in Chile, the expropriation of US citizen-owned companies, and now the infiltration of Marxists into Latin America, ordered Secretary of State Henry Kissinger and the CIA to “smash” Allende.<sup>35</sup> The issuance of National Security Decision Memorandum 93 (NSDM 93) followed Nixon’s continuing demand to “make the [Chilean] economy scream.”<sup>36</sup> Consequently, an “invisible blockade” isolated the Chilean government from the world community, essentially eliminating foreign investment or assistance.<sup>37</sup>

Nevertheless, the UP pressed forward with its plan to address the economic situation it had inherited from the Frei administration. In the period 1966-70, the Chilean “economy had been stagnating” and experiencing an inflation rate ranging from 29-30 percent during the last two years of the Frei administration.<sup>38</sup> To combat these economic problems, Allende turned to Professor Pedro Vuskovic

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<sup>34</sup> Haslam, *The Nixon Administration*, 77.

<sup>35</sup> Peter Kornbluh, *The Pinochet File: A Declassified Dossier on Atrocity and Accountability* (New York: The New Press, 2004), 25.

<sup>36</sup> Kornbluh, *The Pinochet File*, 83.

<sup>37</sup> Kornbluh, *The Pinochet File*, 83; Petras and Morley, *How Allende Fell*, 58; Haslam, *The Nixon Administration*, 78.

<sup>38</sup> Barry P. Bosworth, Rudiger Dornbusch, and Raul Labán, eds., *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 391; Boorstein, *Allende’s Chile*, 110.

Bravo, a Marxist economist from the Universidad de Chile, “to create economic proposals” following Allende’s socialist program “within the space of a couple of months.”<sup>39</sup> Even though a Soviet diplomat in Chile had advised Allende that the Russian government felt a “gradualist path” was the more appropriate approach to installing a socialist government, Allende nevertheless began a complete overhaul of the Chilean infrastructure, especially the economy.<sup>40</sup> Allende installed Vuskovic’s plan for a “Basic Orientation of the Economic Programme for the Short-term,” even though the necessary in-depth analysis was never completed.<sup>41</sup>

The economic plan called for an increase in production and the reduction of an unemployment rate that had eclipsed eight percent in Santiago.<sup>42</sup> Using the \$300 million that were in foreign reserves, the government pumped necessary funds into social programs that increased lower-class wages to equal the rate of inflation, with many experiencing pay increases of 66 percent.<sup>43</sup> Simultaneously, newly implemented price controls eliminated the “shameful devaluation of the *escudo* (Chilean dollar),” allowing consumers excess money in their weekly/monthly budgets, thus granting increased purchasing power to Chileans. This policy of the UP not only created short-term capital gains, but also fulfilled Allende’s promise for increased employment, enhanced wages, and cost of living reductions. In the first six months of his presidency, Allende’s economic policies began to reverse the fortunes of Chile. There were noticeable increases in production, a reduction in unemployment, a 9 percent increase in the GDP, and the

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<sup>39</sup> Haslam, *The Nixon Administration*, 101; Throughout the remaining pages of this chapter Pedro Vuskovic Bravo will be simply referred to as Vuskovic.

<sup>40</sup> Haslam, *The Nixon Administration*, 74.

<sup>41</sup> Haslam, *The Nixon Administration*, 102.

<sup>42</sup> Boorstein, *Allende’s Chile*, 111.

<sup>43</sup> Boorstein, *Allende’s Chile*, 110.

nation's inflation fell to 22 percent.<sup>44</sup> By the end of 1971, many of the previously impoverished Chileans experienced "dramatic" improvements, in that they could now afford to buy meat and respectable clothes.<sup>45</sup> However, while the first year was an overwhelming success for the poorer segments of society, there were continuing forces that made the advances a short-term anomaly.

Just as the socialist government began to see signs of economic success, copper prices plummeted by nearly 35 percent, from seventy cents a pound to forty-six cents a pound. Each cent represented a decrease of \$15 million dollars in the profits for the recently nationalized mines.<sup>46</sup> This meant that Allende needed to offset the loss of revenue immediately. Yet, the refusal of the Nixon administration, or the IMF to extend past-due Chilean loans, or rewrite current loans at a reduced interest rate, created a financial crisis for which the UP was unprepared. The nation was operating with a significant shortage of capital, over-producing with a shortened list of possible trading partners, and overdue to pay back enormous short-term loans with high interest rates.

As a result, losses mounted quickly for an administration that had confiscated over five hundred properties, many of which were losing money even before the expropriation. Many government companies were forced to stop production, and thus lay off workers. Coupled with the UP demand for an increase in production, and then the unexpected financial declines, companies nationwide experienced a reversal in the demand for their products. When consumers experienced the loss of jobs or reductions in pay, Chilean purchasing power was greatly diminished. Thus, store shelves were full of manufactured products that

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<sup>44</sup> Boorstein, *Allende's Chile*, 111.

<sup>45</sup> Boorstein, *Allende's Chile*, 111.

<sup>46</sup> Boorstein, *Allende's Chile*, 112.

citizens could no longer afford to purchase. Conversely, Chileans, in their desperation to feed their families and pay bills, began selling items through a “black market.”<sup>47</sup> According to Monica Barcenas, a Chilean national from a small-town poor family, the black market, from which the government received no tax monies, became a critical source of income. As Barcenas recalls, it was “easy to sell items and I made a lot of money...I had no choice.”<sup>48</sup> Barcenas claims that the “chaotic” situation nationwide bore negative consequences for everyone, forcing many into alternative means for financial gain.<sup>49</sup>

Consequently, due to escalating government debt, production stoppages, and the increase in black market activities, the Chilean nation experienced skyrocketing unemployment, increased pricing, and a staggering inflation rate. With across-the-board losses mounting and social dissention growing, the UP announced counter-inflation policies that followed their socialist ideologies: 1) inflation is a structural phenomenon, 2) state control of the greater part of production and trading apparatus would end inflation, and 3) a given combination of price controls and wage increases (where wages would rise more than prices) would lead to a cut in profit rates.<sup>50</sup> Even as inflation rates reached epic levels, Allende stuck to the plan; it failed badly.

By the end of Allende’s presidency, inflation was over 600 percent, indicating that an employee earning 5 *escudos* per day must now earn 30 *escudos* per day in order to compensate for the increased cost of living. Escalating prices,

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<sup>47</sup> Monica Barcenas, 2012, interviewed by author, Fresno, CA, August 11.

<sup>48</sup> Barcenas, interview.

<sup>49</sup> Barcenas, interview.

<sup>50</sup> Patricio Mellor, *The Unidad Popular and the Pinochet Dictatorship* (New York: St. Martin’s Press, 2000), 31.

accompanied by a reduction in wages, dramatically reduced profit margins and limited tax revenues flowing to the government.<sup>51</sup> The Producer Price Index (PPI) pointed to indicators which predicted inflation rates of over one thousand percent by late 1973.<sup>52</sup> The combination of internal and external factors hindered Allende's socialist plan and Chile became a beleaguered country.

At the start of Allende's term, exports exceeded imports by 2 percent. By the end of the first year, imports exceeded exports, indicating that Chile had become dependent upon other nations, a major complaint Allende had made of past administrations.<sup>53</sup> Furthermore, the GDP shrank considerably in 1972-73, from a 9 percent increase in 1971 to nearly a 6 percent decrease in 1973, while other Latin American countries averaged more than 5 percent growth during the same period.<sup>54</sup> Following the nationalization of agricultural lands, through the Agrarian Reform Act, production fell for food products nationwide even though Allende had complained that past administrations' food production was inadequate.<sup>55</sup> Moreover, the reduction in food production in turn required an increase of food imports by 3.8 percent yearly.<sup>56</sup> Therefore, the Chilean population

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<sup>51</sup> Paul W. Drake, *Labor Movements and Dictatorships: The Southern Cone in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1996), 125; Mellor, *The Unidad Popular*, 38.

<sup>52</sup> Mellor, *The Unidad Popular*, 38. The purpose of the producer price index is to measure changes in prices that producers initially receive for goods and services. In this particular case, the PPI is predicting that an item that formerly cost one *escudo*, now sold for nearly a 1000 *escudos*.

<sup>53</sup> Mellor, *The Unidad Popular*, 39.

<sup>54</sup> Vittorio Corbo and Stanley Fischer, "Lessons from the Chilean Stabilization and Recovery," in *The Chilean Economy: Policy Lessons and Challenges*, ed. Barry P. Bosworth, Rudiger Dornbusch, and Raúl Labán (Washington DC: The Brookings Institution, 1994), 31; Ricardo Ffrench-Davis, *Economic Reforms in Chile: From Dictatorship to Democracy* (Ann Arbor: University of Michigan Press, 2002), 25; Mellor, *The Unidad Popular*, 33.

<sup>55</sup> Oppenheim, *Politics in Chile*, 36.

<sup>56</sup> Oppenheim, *Politics in Chile*, 38.

began experiencing losses that greatly surpassed those experienced during the Alessandri and Frei administrations.

### The Failure of Kept Promises

Chileans began protesting throughout the nation's major cities. Allende's determination to increase food supplies in the most populated areas created shortages in "well-to-do" neighborhoods. As a result, upper middle-class women and their maids staged the "March of the Pots" as the first major protest against socialist policies.<sup>57</sup> In addition, opposing political parties staged riots, and members of Allende's own party, the UP, began fighting "like cats and dogs."<sup>58</sup> Moreover, some members of the UP coalition, the Movement of the Revolutionary Left (MIR), began politicking against the policies of Allende that allowed the Chilean military to maintain its relationship with the US government. They demanded that the relationship be terminated immediately.<sup>59</sup> In fact, it was Cuba's president, Fidel Castro, who actually created the rift when he publicly said "the Chilean experiment was failing" because of Allende's reluctance to become "more radical."<sup>60</sup> Trucker strikes that took place in northern Chile nearly crippled the beleaguered UP government.<sup>61</sup> Then, due to the failing economy, the NP and members of other political parties became increasingly distraught with the economic planning, or lack thereof, of Allende's economic advisor Vuskovic.<sup>62</sup> As

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<sup>57</sup> Isabel Allende, *My Invented Country: A Memoir*, trans. Margaret Sayers Peden (New York: Harper Collins Publishers, 2003), 151; Oppenheim, *Politics in Chile*, 58-59.

<sup>58</sup> Davis, *The Last Two Years of Salvador Allende*, 47-48.

<sup>59</sup> Allende, *My Invented Country*, 152.

<sup>60</sup> Davis, *The Last Two Years of Salvador Allende*, 44.

<sup>61</sup> Haslam, *The Nixon Administration*, 197.

<sup>62</sup> Oppenheim, *Politics in Chile*, 57.

a result, the Allende regime experienced the pull of US manipulations, the push from within his political party, and the wrath of Chileans throughout the nation.

Dr. Manuel Figueroa, then a Dean of Students at the Universidad Católica de Chile, remembers “thinking that, my God this thing is going to explode.” According to Figueroa, Chilean society, as a whole, was experiencing “extreme exasperation,” especially among the supporters of Allende.<sup>63</sup> In addition, the poorer sectors of society, those “broken ones” to whom Allende had promised an improved life, began to struggle.<sup>64</sup> Barcenas remembers “walking over twenty-one miles to a food line that was nearly 10 blocks long” in the nation’s capital “to get a loaf of bread.”<sup>65</sup> Allende’s dream of an improved Chile was crumbling.

Sensing the perfect opportunity to return the nation to capitalist rule, military leaders from the Army, Air Force, and Navy began planning their eventual military coup in late 1972. However, it is important to note that General Pinochet, eventual leader of the *junta*, was not originally a conspirator.<sup>66</sup> According to air force general Nicanor Diaz, General Pinochet was originally thought to be a supporter of Allende, in that “the idea existed that he opposed the coup... We all believed it.”<sup>67</sup> In fact, the month preceding the military coup Allende actually promoted Pinochet to the post of Army Commander to replace General Carlos Prats, further distancing Pinochet from the growing military clique of plotters.<sup>68</sup> Among military officials, especially those supporting the operation,

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63 Dr. Manuel Figueroa, 2010, interviewed by author, Fresno, CA.

64 Cockcroft, *Allende's Words*, 5.

65 Barcenas, interview.

66 Constable and Valenzuela, *A Nation of Enemies*, 52.

67 Quoted in Constable and Valenzuela, *A Nation of Enemies*, 52.

68 Constable and Valenzuela, *A Nation of Enemies*, 52.

Pinochet's ideologies and political allegiances were relatively unknown due to his lifelong passion for military honor and traditions; scuttle-butt and small-talk were seemingly unimportant to him. It was not until 8 September 1973, that Pinochet was approached with an invitation to join the effort to remove the president.<sup>69</sup> Pinochet hesitated, which was "received with a mixture of surprise and annoyance" by other military plotters for his perceived lack of commitment to the well-being of Chile's future.<sup>70</sup> Nevertheless, with the coup seemingly inevitable and the Chilean economy and social sectors swirling towards complete destruction, Pinochet joined the cause. Shortly after the successful coup, Pinochet was selected as leader of the military junta, essentially a president without the traditional title, because of his "strong leadership, quick grasp of issues, and dedication to Chile's future."<sup>71</sup>

The Chilean experiment with socialism had lasted merely three years. However short-lived Allende's dream was, the administration's intentions were certainly noble and praiseworthy. Prior to Allende's election, the mass of the Chilean population was mired in undesirable living conditions, impoverished, and simply struggling to survive. The first year of Allende's regime marked the reversal of an economy that favored few Chileans, providing a long-desired improvement in life for millions. The nation began producing at record levels, thousands of jobs were created, and the alarming economic conditions experienced during the Alessandri and Frei administrations were reversed. In short, Allende's plan was working well.

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69 Robert Barros, "Personalization and Institutional Constraints: Pinochet, the Military Junta, and the 1980 Constitution," in *Latin American Politics and Society*; Spring 2001, 11; Constable and Valenzuela, *A Nation of Enemies*, 52.

70 Constable and Valenzuela, *A Nation of Enemies*, 53.

71 Constable and Valenzuela, *A Nation of Enemies*, 80.

However, the end of that first year marked the beginning of the end for Allende's socialist democracy. There were multiple forces that essentially eliminated any chances for the policies of the UP to garner long-term support and progress. First, the never-ending manipulations and covert operations of the US government, which were fostered by intense Cold War political ideologies, prevented Allende's socialist doctrine from having any opportunity for continued successes. Second, the splintering of the UP political alliance distracted Allende's attempt to overhaul the Chilean government and economy. Third, the fluctuations of the economy prevented millions of Chileans from experiencing sustained employment and garner the necessary funds to provide for their families. Finally, sensing a total collapse of the economy, the Chilean armed forces planned and executed a devastatingly effective military coup that returned the nation to a pro-capitalist government. Had Allende taken the advice of the Soviet Union and chosen the path of gradualism, socialist democracy may have experienced less turmoil and greater success. Nevertheless, President Allende chose to ignore the slow and steady pace and instead embraced an immediate revamping of the Chilean government. When the plan disastrously failed, the military stepped in and ended the socialist experiment. According to Isabel Allende, the niece of fallen president Salvador Allende, "Marxism as an economic project [was] dead."<sup>72</sup>

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<sup>72</sup> Allende, *My Invented Country*, 153.

## CHAPTER 2: PINOCHET AND THE INSTALLATION OF NEO-LIBERAL ECONOMY

After reorganizing its economy, destroyed to its very roots by the Marxist regime, Chile has to advance rapidly and decisively for without this, it will be impossible to satisfy the hopes for security of our countrymen, especially the poor. This demands a clear understanding that the only realistic way to reach these objectives lies in a large increase of mining, agricultural, and industrial production, which requires national and foreign investment.

Augusto Pinochet, March 1974

Augusto Pinochet was a complex figure, both loved and hated throughout the world. He has dedicated apologists and fanatical critics. Yet, his presidency had specific, measurable economic results—increased GDP, a massive decrease in inflation rate, an import/export ration that heavily favored Chile, and the infusion of foreign investors—which are the focus of this thesis. His choosing of civil administrators was either genius or diabolical depending on to whom one talks. However, regardless of the interpretation offered by many researchers, economic successes, that were miraculous, did occur during his term in office.

### A Patriot is Born

Pinochet inherited an economic crisis that threatened the future of the Chilean people. As a result, he immediately focused his attention on the fiscal situation before the nation's crisis became irreparable. Unlike the Allende administration's usage of the ill-prepared plan of Pedro Vuskovic Bravo, Pinochet sought individuals who had a thorough understanding of economics and possessed a plan for long term achievement.<sup>1</sup> Educated, for the most part, in military academies and the Chilean Army, Pinochet did not possess an education in economics. Therefore, Pinochet went outside the traditional military ranks to form

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<sup>1</sup> The term "ill-prepared" refers to the fact, as previously stated in Chapter 1, Vuskovic had only two-months to prepare an economic plan for Allende after the 1970 presidential elections.

his economic brain trust. Understanding his economic weaknesses became his greatest strength.

Pinochet was not the most successful student during his adolescent years. While his parents were not members of the social elite, they still managed to send Pinochet to several academic institutions, including college. However, according to Hugh O'Shaughnessy, "In none of the schools did Pinochet show academic aptitude."<sup>2</sup> Even though his early years were filled with disappointing results, his family nevertheless continued searching for an avenue that best served his pursuit of accomplishment. When public and private schooling methods failed, they turned to military academies to continue his education with the hope of creating a determined work ethic.

Rejected on two occasions by the Chilean army for poor grades and his below-average height, Pinochet was accepted on his third attempt.<sup>3</sup> His parents' perseverance and determination had paid off. At the military academy his grades did not improve exponentially; in fact, the increase was minimal. However, his relentless effort impressed professors during his three years at the academy. An instructor at the academy, Alejandro Rios, later noted that Pinochet was older than most students and rarely participated in juvenile activities that included pranks and/or teasing. Instead, Pinochet attended church services regularly and developed a favorable reputation because of his good conduct.<sup>4</sup>

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<sup>2</sup> Hugh O'Shaughnessy, *Pinochet: The Politics of Torture*. New York: New York University Press, 2000, 12; Mary Helen Spooner, *Soldiers In A Narrow Land: The Pinochet Regime in Chile* (Berkeley: University of California Press, 1994), 20.

<sup>3</sup> Roger Burbach, *The Pinochet Affair: State Terrorism and Global Justice* (New York: Zed Books, 2003), 23; Spooner, *Soldiers In A Narrow Land*, 20.

<sup>4</sup> Quoted by Spooner, *Soldiers In A Narrow Land*, 20.

Pinochet received continuous accolades throughout his entire military career, and received several promotions along the way. His drive towards military excellence aided in the development of his engrained discipline as a well-respected leader.<sup>5</sup> His fascination with military discipline began in his youth and continued into the later years of life. In fact, the study of other historical military figures and their guiding principles consumed his spare time. He admired Napoleon, became captivated with Rommel, and read Machiavelli's *The Prince*, Sun-Tzu's *The Art of War*, and the works of Karl von Clausewitz.<sup>6</sup> Although his secondary education was sub-par by most accounts, his military education and his dedication to Chile led others to see him as a potential leader. Consequently, following the coup, the newly installed military government elevated Pinochet to "Junta President."<sup>7</sup>

Even though Pinochet never exhibited keen and vast scholarly knowledge, he nevertheless ascended to the highest military rank, due to his dedication and potential as a leader.

### A Path to Recovery

Given the situation immediately following the coup, General Pinochet and his advisors began a lengthy and detailed process of deliberation and decision making that restructured the Chilean economy.<sup>8</sup> As a result, Chile underwent a series of reforms as a means to correct and rectify the problems created by

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<sup>5</sup> Burbach, *The Pinochet Affair*, 24.

<sup>6</sup> Pamela Constable and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet* (New York: W. W. Norton & Co., 1991), 76; Burbach, *The Pinochet Affair*, 24-30.

<sup>7</sup> Spooner, *Soldiers In A Narrow Land*, 85.

<sup>8</sup> Robert A. Packenham and William Ratliff, "Latin America: What Pinochet did For Chile" *Hoover Digest* vol. 1, 2007, 1.

Allende's policies. As inflation rates continued to rise and unemployment soared, Pinochet made many necessary adjustments to Chilean fiscal policy, long before his future economic team would arrive on the scene. First, he established gradual price controls over the first eighteen months of his presidency, giving the *escudo* a stable value, which led to a steady recovery of the economy.<sup>9</sup> Second, he eliminated government overhead, which meant the discarding over five hundred companies owned by the Chilean state. Starting in early 1974, less than six months after the coup, the *junta* began to privatize companies by selling them to local and foreign investors.<sup>10</sup> Third, the government maintained control of the Chilean copper mines because they accounted for 75 percent of Chilean exports.<sup>11</sup> According to Hernán Büchi Buc, Pinochet's most successful economic advisor, these decisions are considered "the most important economic reform[s] in Chile...[and] much of the credit for Chilean economic reforms in the following thirty years should be given to the decision to open our economy to the rest of the world."<sup>12</sup> Pinochet's initial decisions removed a massive financial burden from the government's budget.<sup>13</sup> Yet, Pinochet continued to look for other viable long-term economic plans for making the Chilean economy independent.

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<sup>9</sup> Ricardo Ffrench-Davis, *Economic Reforms in Chile: From Dictatorship to Democracy* (Ann Arbor, University of Michigan Press, 2002), 55; Juan Gabriel Valdés, *Pinochet's Economics: The Chicago Boys In Chile* (New York: Cambridge University Press, 1995), 22.

<sup>10</sup> Barry P. Bosworth, Rudiger Dornbusch, and Raul Labán, *The Chilean Economy: Policy Lessons and Challenges* (Washington, The Brookings Institution, 1994), 398-390; Carlos Fortin, "The Failure of Repressive Monetarism: Chile, 1973-83" in *Third World Quarterly* vol. 6 no. 2, Taylor and Francis, April 1984, 321.

<sup>11</sup> Kurt Weyland, "Economic Policy in Chile's New Democracy," *Journal of Interamerican Studies and World Affairs*; Fall 1999, 75.

<sup>12</sup> Hernán Büchi Buc, "How Chile Successfully Transformed Its Economy" (The Heritage Foundation, September 18, 2006), 1.

<sup>13</sup> Büchi Buc, "How Chile Successfully Transformed Its Economy," 1.

One of Pinochet's original advisers, Javier Fial, urged him to meet with Milton Friedman, one of the world's leading economic minds, for a possible solution to a stagnant Chilean economy. During a six-day tour of Santiago, Friedman and his colleague from the University of Chicago in Illinois, Arnold Harberger, suggested that Pinochet take "decisive and immediate action" in order to stabilize the rising inflation rates.<sup>14</sup> Friedman recommended that the government continue the privatization of state-controlled industries, and strongly encouraged the influx of foreign investment as a necessary means to resuscitate the economy. In his visit to the Catholic University of Chile, Friedman told economics students, in his "the Fragility of Freedom" speech, that "shock treatment and deep spending cuts" were required for any possible recovery of a recessive, or depressive, economy.<sup>15</sup> Friedman further argued that in order to develop a successful economy, there must be a free market removed from governmental central control.<sup>16</sup> Friedman argued that if the military government was willing to relinquish control of the market it could experience the necessary economic recovery that Chile sought.<sup>17</sup> After his visit to the university Friedman spoke to Pinochet and the military junta, delivering the same message in support of a free market. In fact, Friedman's conversation with Pinochet was so alluring that he eventually became "the guiding light of the junta's economic policy" leading the conversion of the Chilean economy to Neo-liberalism.<sup>18</sup> As a result,

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<sup>14</sup> PBS Documentary, *Commanding Heights: Chicago Boys and Pinochet*, [http://www.pbs.org/wgbh/commandingheights/shared/video/qt/mini\\_p02\\_07\\_300.html](http://www.pbs.org/wgbh/commandingheights/shared/video/qt/mini_p02_07_300.html). (accessed on 11 Jan, 2010).

<sup>15</sup> PBS Documentary, *Commanding Heights*; Constable and Valenzuela, *A Nation of Enemies*, 170.

<sup>16</sup> PBS Documentary, *Commanding Heights*.

<sup>17</sup> Milton Friedman, "Free Markets and the Generals," *Newsweek* (January 25, 1982): 59

<sup>18</sup> Lanny Ebenstein, *Milton Friedman: A Biography* (New York: Palgrave MacMillan, 2007), 190.

Chile became a free-market, export-driven economy that limited government involvement in economic matters and encouraged foreign investment. Shortly after the meetings concluded, Pinochet began recruiting Friedman's students.<sup>19</sup> These men, collectively known as "The Chicago Boys," became Pinochet's economic brain trust.<sup>20</sup>

During the tumultuous and destructive years of Allende's tenure, these Chilean economists, graduates of the University of Chicago, had gathered every Tuesday for lunch, discussing every Allende economic failure and what they would do to improve the dismal financial situation.<sup>21</sup> Taught by Friedman, Harberger, and other University of Chicago professors the importance of a free-market system (neo-liberalism), the Chilean graduates were instructed to mistrust any governmental controls which would prohibit the economy from flourishing.<sup>22</sup> Pinochet wisely used this home-grown talent. Many of these men became administrators or advisors during the Pinochet era.

The Pinochet regime began to follow the neo-liberal philosophy, which stimulated the economy within the first six months, a success which drew the attention of many countries worldwide. As the economy continued to improve Pinochet appointed "Chicago Boys" to the positions of Minister of Finance and Minister of Economic Affairs. Sergio de Castro, the leader of the Chicago Boys and Minister of Economic Affairs, implemented a "shock treatment" to cleanse

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<sup>19</sup> Patricio Silva, "Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks" *Journal of Latin American Studies* 23 (May 1991): 390.

<sup>20</sup> Valdes, *Pinochet's Economists*, 127.

<sup>21</sup> PBS Documentary, *Commanding Heights: Chicago Boys and Pinochet*, [http://www.pbs.org/wgbh/commandingheights/shared/video/qt/mini\\_p02\\_07\\_300.html](http://www.pbs.org/wgbh/commandingheights/shared/video/qt/mini_p02_07_300.html) (accessed on 11 Jan, 2010).

<sup>22</sup> Ebenstein, *Milton Friedman*, 191.

and re-energize the market forces.<sup>23</sup> Castro's implementation of sweeping tax reforms brought instant stability to the economy. In addition, removal of trade restrictions and enormous international tariffs (taxes) encouraged foreign trade.<sup>24</sup> In addition, foreign investments, allowed for the first time since 1970, flooded the nation's financial systems. Finally, the junta also installed labor market reforms to eliminate strikes and protests, placing further restrictions on workers' disruptive tendencies.<sup>25</sup> These changes turned the economy around in less than one year and founded a pattern of Chilean GDP growth for the next six years.<sup>26</sup>

Along with changing the economic direction, the Chilean government experienced an infusion of new, highly trained bureaucrats. Through Pinochet directives, the Chicago Boys progressively assumed positions in the Chilean government during the years 1975-81, changing the balance of economic professionals in monetary policy-making positions within the administration. In 1974, 21 percent of the individuals involved in government had an education in Economics. By 1975 economists made up 78 percent of the administration.<sup>27</sup> As economic conditions improved, Pinochet continued to enhance the government through the recruiting of Chilean students who had graduated from the University of Chicago. Pinochet rebuilt the Chilean government, demonstrating an ability to

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<sup>23</sup> Patricio Silva, *In the Name of Reason: Technocrats and Politics in Chile* (University Park: Pennsylvania State University Press, 2008), 150; Silva, "Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks," 393; Oppenheim, *Politics in Chile*, 113.

<sup>24</sup> Sebastian Edwards and Alejandra Cox Edwards, *Monetarism and Liberalization: The Chilean Experiment* (Cambridge: Ballinger Publishing Company, 1987), 109.

<sup>25</sup> Alejandra Cox Edwards and Sebastian Edwards, *Economic Reforms and Labor Markets: Policy Issues and Lessons From Chile* (Cambridge: National Bureau of Economic Research, 2000), 1.

<sup>26</sup> Paul W. Drake, *Labor Movements and Dictatorships: The Southern Cone in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1996), 125; Bosworth, *The Chilean Economy*, 35; Ffrench-Davis, *Economic Reforms in Chile*, 60.

<sup>27</sup> Glen Biglaiser, *Military Regimes, Neoliberal Restructuring, and Economic Development: Reassessing the Chilean Case* (New York: Springer, 1999), 1.

hire qualified individuals, and then place them in positions that enhanced the capabilities of the administration.

According to Pinochet, having formed the economic brain trust, Chile would continue the process of correcting “the country’s economic and productive systems [that] were so badly damaged.”<sup>28</sup> In his 1975 presidential message to the nation, he alluded to the drastic reduction in agriculture and mining under Allende as a significant factor for massive economic losses: “It is enough to recall that agricultural production had fallen 30%, thus forcing the country to multiply its food imports by more than four,” and that diminished mine production prevented the healing of a “ruined economy.”<sup>29</sup> In order to correct this “inconceivable situation,” Pinochet announced that, as the first step in a comprehensive overhaul, the Chilean government would “retain” its copper and nitrate mines which are of vital importance for national development. The remaining properties were to be returned to the capable hands of the “private sector.”<sup>30</sup> While maintaining control of mining operations may be seen as contrary to neo-liberal philosophies, the decision followed Friedman’s “lag doctrine,” which, according to J. Daniel Hammond, argued the importance and vital role of capital for an economy desperately seeking positive results.<sup>31</sup> With the mines producing the largest amount of exports on a yearly basis, returning the properties to foreign ownership would negate any possible Chilean benefits. Furthermore, Pinochet, in this one instance, agreed with Allende that “it is necessary that we soon adopt a politics of

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<sup>28</sup> Augusto Pinochet, *Chile Lights the Freedom Torch*, Chilean Government Pamphlets, 1973-76, 23.

<sup>29</sup> Pinochet, *Chile Lights the Freedom Torch*, 23-25.

<sup>30</sup> Pinochet, *Chile Lights the Freedom Torch*, 26.

<sup>31</sup> J. Daniel Hammond, *Theory and Measurement: Causality Issues in Milton Friedman’s Monetary Economics* (Cambridge: Cambridge University Press, 1996), 89 and 100.

Chileanization of our riches because we do not want to convert the Chilean race into an inferior one” while foreign owners control “our ground and our riches.”<sup>32</sup>

The next step, according to Pinochet, was to set “a realistic exchange and tariff policy...to open our economy to foreign commerce.”<sup>33</sup> In order to convince other nations to purchase Chilean resources, excessive tariffs would not be placed on each transaction. For that reason, a “fixed” and affordable tax replaced the “maximum tariff [that had] reached 600%” during the Allende regime.<sup>34</sup> Most notably, Pinochet pointed to the increase from “235 million US dollars to 650 million US dollars between 1973 and 1975” as “eloquent proof” that the new policies were working.<sup>35</sup>

In the many areas of the economy that Pinochet addressed, none was more important than reducing the high inflation rates that nearly crippled the nation’s financial system in 1973. As Pinochet explained, “with this in mind, there has been a further reduction of fiscal expenditure” in the “so-called Social Area,” in which the previous regime spent over 60 percent of their fiscal budget. Therefore, a “reform in the Social Security System [and] a reduction in the Public Sector” must occur if the government is to curtail its financial woes.<sup>36</sup> This was not an orchestrated move to punish those receiving benefits from such programs, but instead a neo-liberal belief that the government’s budgetary responsibilities must be drastically reduced in order to eliminate monetary shortfalls.

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<sup>32</sup> Patrick Barr-Melej, *Reforming Chile: Cultural Politics, Nationalism, and the Rise of the Middle Class* (Chapel Hill: University of North Carolina Press, 2001), 63.

<sup>33</sup> Pinochet, *Chile Lights the Freedom Torch*, 27.

<sup>34</sup> Pinochet, *Chile Lights the Freedom Torch*, 28.

<sup>35</sup> Pinochet, *Chile Lights the Freedom Torch*, 28.

<sup>36</sup> Pinochet, *Chile Lights the Freedom Torch*, 30-33.

Opponents on the left, however, argued that social programs, such as social security, unemployment benefits, and medical insurance allowed financially challenged families the opportunity to enjoy the “democratic rights” granted to all Chilean citizens.<sup>37</sup> Furthermore, the social security programs created in the 1920s created a safety net for employees who earned below the minimum wage. In fact, by 1973 nearly three-quarters of all Chilean workers, professionals and laborers, were using one of the many forms of social security.<sup>38</sup>

In order to quell the voices of dissension and to offset the losses suffered by the majority of Chileans during 1972-1974, Pinochet started secondary relief programs. Even though the fiscal budget for social spending was reduced to 20 percent, a 40 percent reduction from the previous regime, Pinochet believed that “every member of the community may achieve personal satisfaction” if vital services were made available<sup>39</sup> Therefore, Pinochet and his advisors established the *Programme for Minimum Employment* (PEM), which gave displaced workers some type of work, as well as food distribution program through a partnership with the Agency for International Development of the United States.<sup>40</sup> In addition, three other social programs were created that specifically addressed the nutritional needs of “pregnant women...school children” and infants/toddlers.<sup>41</sup> Also, the *Programme for the Provision of Supplies in Shanty Towns* mandated that each

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<sup>37</sup> Salvador Allende, “The Programme of Unidad Popular,” *Chile’s Road to Socialism* (Baltimore: Penguin Books, 1973) 32 and 43.

<sup>38</sup> Joseph Collins and John Lear, *Chile’s Free-Market Miracle: A Second Look* (Oakland: Institute for Food and Development, 1995), 167-168.

<sup>39</sup> Augusto Pinochet, *Declarations of Principles of the Chilean Government*, Chilean Government Documents, 1974; Bosworth, *The Chilean Economy*, 258.

<sup>40</sup> Pinochet, *Chile Lights the Freedom Torch*, 36.

<sup>41</sup> Pinochet, *Chile Lights the Freedom Torch*, 36; Edwards and Edwards, *Economic Reforms and Labor Markets*, 140; In fact, during the Pinochet regime the infant mortality rates were 23 deaths per thousand live births compared to the 46 deaths per thousand live births experienced under Allende rule.

make-shift community in Chile received a permanent-structured “supermarket” so that each family had the opportunity to purchase “reasonably priced...provision of essential goods” close to home.<sup>42</sup> Through the creation of these programs, General Pinochet’s policies for advancing and healing Chile were inclusive, not exclusive.

In just two years, after taking control of the beleaguered nation, the newly installed plan had produced staggering successes. The most important was the elimination of the skyrocketing inflation rates. “Inflation declined precipitously [from] over 300 percent in 1974 to eighty-four percent in 1977.”<sup>43</sup> By 1978, the yearly inflation average had decreased to 48 percent.<sup>44</sup> Just twelve months later, in the later stages of 1979, the “fiscal deficit had been eliminated,” as the growth rates of the economy remained consistent at 6.5 percent.<sup>45</sup> In fact, the neo-liberal economic plan in Chile was so successful that in 1976 Friedman was awarded the Nobel Peace Prize, and in 1979 Margaret Thatcher, England’s newly elected Prime Minister, adopted many of Friedman’s philosophies to stop a nearly decade-long battle with high inflation rates.<sup>46</sup>

At the crest of his government’s economic success in 1979, Pinochet announced a long-term plan that would continue to transform Chilean society.<sup>47</sup> He referred to the plan as “the seven modernizations” which were necessary to

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<sup>42</sup> Pinochet, *Chile Lights the Freedom Torch*, 36.

<sup>43</sup> Brian Loveman, *Chile: the Legacy of Hispanic Capitalism* (New York: Oxford University Press, 2001), 269.

<sup>44</sup> Carlos Fortin, “The Failure of Repressive Monetarism: Chile, 1973-83” in *Third World Quarterly* vol. 6 no. 2, Taylor and Francis, April 1984, 313; Bosworth, *The Chilean Economy*, 34.

<sup>45</sup> Constable and Valenzuela, *A Nation of Enemies*, 188-189.

<sup>46</sup> J. Daniel Hammond, *Theory and Measurement: Causality Issues in Milton Friedman’s Monetary Economics* (Cambridge: Cambridge University Press, 1996), 193; Ebenstein, *Milton Friedman*, 191.

<sup>47</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 103.

promote and development new social institutions.<sup>48</sup> Initiated by Miguel Kast and Jose Piñera, ministers in Pinochet's economic brain-trust, the modernizations were installed to prevent any government collapse that resembled the devastation of the Allende regime. These adjustments included the "Labor Law of 1979, the social security law, along with educational, health services, agriculture sector, justice system, and administrative and regionalization reforms."<sup>49</sup>

The first adjustment was the Labor Law, or Labor Code, of 1979. This law created a widespread change in workplace relations between the laborer and employers. The greatest impact of the law was to minimize the strength of unions nationwide. The three objectives of the law included voluntary union membership, unions that were restricted to individual companies and "could not join forces" with other similar manufactures, and owners who were allowed to "impose lock-outs and temporarily lay off workers."<sup>50</sup> In effect, unions lost their power. To offset what seemed like a complete loss for workers, the government included within the law the right for each union to strike, but after thirty days each individual worker had the right to negotiate with their employer. Also, each company had to give pay raises that kept pace with inflation.<sup>51</sup> However, after sixty days of striking, individuals were considered to have resigned, which then allowed companies to hire replacement employees.<sup>52</sup>

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<sup>48</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 102; Silva, "Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks," 393.

<sup>49</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 103; Silva, "Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks," 393.

<sup>50</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 103; Constable and Valenzuela, *A Nation of Enemies*, 191.

<sup>51</sup> Alejandra Cox Edwards, "Labor Market Reforms and the Modernization of Labor Relations in Chile," *Southwestern Journal of Law and Trade in the Americas* (Fall 1999): 288-289.

<sup>52</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 104.

The second adjustment was a series of changes to the social security, starting in 1980. These adjustments “replaced a virtually broke pay-as-you-go” program that was based on the amount of money individuals paid in through their payroll.<sup>53</sup> Under the old plan, for those workers who paid the minimum amount towards retirement, the government would finance the remaining portion of their social security payments. Instead of making the government financially responsible, the new plan placed an emphasis on the individual and their employer. The most significant characteristic of this particular reform was the removal of the government from administering the plan. Instead, private companies were charged with administering social security for a nominal fee.<sup>54</sup>

Educational and health reforms followed along the same guidelines, removing the responsibility from the national government and transferring the task to local governments. Until 1979, the past regimes had followed the “Education Directive” which essentially placed the burden of education on the nation’s financial system. Now each local government throughout Chile would collect taxes and finance the education of their constituents’ children. Likewise, the health care system had been the financial responsibility of the nation in the past. Now those responsibilities reverted to private companies that had to offer choices to Chilean families for a fee, a health care system reminiscent of the one currently in place in the US.<sup>55</sup>

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<sup>53</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 105.

<sup>54</sup> Edwards and Edwards, *Economic Reforms and Labor Markets*, 105. Constable and Valenzuela, *A Nation of Enemies*, 229; Silva, “Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks”, 393.

<sup>55</sup> Constable and Valenzuela, *A Nation of Enemies*, 191.

### Bumps in the Road

Unfortunately, as the Chicago Boys continued to devise ways to reduce government expenditures and in the process increase its financial strength, the world recession of 1981 created a debt crisis that reversed many of the positive trends experienced during the Chilean Miracle.<sup>56</sup> As oil prices skyrocketed worldwide, and the price for copper declined to its lowest level since World War II, Chile's economy was negatively affected.<sup>57</sup> Both crises resulted in a downturn in the nation's economy. Numerous large foreign loans funded during the 'shock treatment' were short-term and at high interest rates.<sup>58</sup> The result was a deep recession. Large companies began to crumble under recessive conditions. The first to declare bankruptcy was the gigantic Sugar Refining Company of Viña del Mar.<sup>59</sup> The company, like many other non-regulated corporations, had become an avenue for money laundering schemes, and when the financial crisis struck, owed money to a bank that was owned and operated by the same mother company.<sup>60</sup> In other words, banks were essentially lending money to themselves. Despite an escalation of bankruptcies, 2,478 in total, Sergio de Castro and other financial leaders felt the market would correct itself in due time.<sup>61</sup> Any intervention that manipulated the economy contradicted de Castro's neo-liberal philosophies and the Pinochet economic model. According to Oppenheim, further complicating the growing tension with left-wing opponents was that any government bailout or

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<sup>56</sup> Angelo Codevilla, "Is Pinochet the Model?" (Foreign Affairs; Nov/Dec 1993), 138.

<sup>57</sup> Fortin, "The Failure of Repressive Monetarism: Chile, 1973-83," 325.

<sup>58</sup> Constable and Valenzuela, *A Nation of Enemies*, 194; Silva, *In the Name of Reason*, 155.

<sup>59</sup> Constable and Valenzuela, *A Nation of Enemies*, 194; Fortin, "The Failure of Repressive Monetarism: Chile, 1973-83," 322.

<sup>60</sup> Constable and Valenzuela, *A Nation of Enemies*, 211.

<sup>61</sup> Biglaiser, *Military Regimes*, 5; Constable and Valenzuela, *A Nation of Enemies*, 120.

assistance to the crumbling conglomerates would be viewed as a failure of the neoliberal agenda.<sup>62</sup>

Nevertheless, as the administration determinedly held to the belief of no government involvement in the economy, the financial situation plummeted towards a severe recession.<sup>63</sup> Unemployment and inflation once again increased steadily, surpassing the dismal numbers of the Allende government, while the GDP and import/exports ratios sank toward record lows.<sup>64</sup> As a consequence, by the end of 1981 rumblings of discontent began to surface nationwide as the Chicago Boys' economic team lost favor with Chileans.

#### Re-visioning the Path

In 1982, Pinochet recognized the time for change had come.<sup>65</sup> Hoping to quell the swell of dissenting voices, Sergio de Castro was relieved of his duties as Minister of Finance and leader of the economic planning team, and replaced by another disciple of free-market neoliberalism, Sergio de la Cuadra.<sup>66</sup> While maintaining a status-quo agenda, minor adjustments were employed to rescue the failing economy: the devaluing of the *escudo*, a bailout of eight banking and financial institutions, and the government takeover of privatized social security pensions.<sup>67</sup> In all, the Chilean government absorbed the losses of the at-risk loans which totaled 350 percent of commercial bank equity that had essentially left the

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<sup>62</sup> Oppenheim, *Politics in Chile*, 119

<sup>63</sup> Oppenheim, *Politics in Chile*, 119.

<sup>64</sup> Büchi Buc, "How Chile Successfully Transformed Its Economy," 1.

<sup>65</sup> Silva, *In the Name of Reason*, 156.

<sup>66</sup> Fortin, "The Failure of Repressive Monetarism: Chile, 1973-83," 323; Silva, *In the Name of Reason*, 156; Steve Stern, *Battling for Hearts and Minds: Memory Struggles in Pinochet's Chile, 1973-1988* (Durham: Duke University Press, 2006), 225.

<sup>67</sup> Stern, *Battling for Hearts and Minds*, 225; Oppenheim, *Politics in Chile*, 128.

Chilean “private financial system...bankrupt.”<sup>68</sup> Unfortunately, the downward spiral continued, and the outlawed Communist and Socialist parties regained their once-diminished strength and much needed support from the Chilean population. Citizens began openly to “stand up to Pinochet” in a series of protests, beginning with the one organized by copper mine union, which led to a National Day of Protest.<sup>69</sup>

As unemployment reached Allende-like levels, the administration cushioned the impact for low-income families by creating the *Occupational Programme for Heads of Households* (POJH), similar to the PEM created in the early years of the Pinochet regime, which guaranteed part-time work for many husbands and fathers.<sup>70</sup> Combined, the two programs provided the necessary “life-line” for many income-deprived families while the government attempted to repair the ailing economy.<sup>71</sup> However, despite the government’s continuous manipulations of the market, which contradicted their own neoliberal philosophy, the deep recession continued to linger. Nevertheless, regardless of each failure, Pinochet continued a diligent search for other economic experts who could deliver the necessary improvements to the economy.

After several appointees failed as ministers of finance, and after a continuing tidal wave of protests, Pinochet appointed Sergio Onofre Jarpa, who had run against Allende in the 1970 elections as a right wing candidate. Jarpa, the

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<sup>68</sup> Ben Richards, “Poverty and Housing in Chile: the Development of a Neo-Liberal Welfare State,” *Habitat International* 24 (1995): 517.

<sup>69</sup> Oppenheim, *Politics in Chile*, 121.

<sup>70</sup> Richards, “Poverty and Housing in Chile: the Development of a Neo-Liberal Welfare State,” 518; Oppenheim, *Politics in Chile*, 120.

<sup>71</sup> Richards, “Poverty and Housing in Chile: the Development of a Neo-Liberal Welfare State,” 518.

first civilian minister in the Pinochet cabinet, was “charge[d] with the responsibility of opening a dialog with the opposition,” to reassure business owners that the administration was conscientiously seeking an end to their financial misery.<sup>72</sup> With anti-Chicago Boy sentiment growing, Pinochet’s selection of a civilian administrator allowed additional time for market reforms to occur. In addition, Pinochet hoped improvements to the economy would create further divisions among growing left-wing political opposition.<sup>73</sup> Jarpa, opposed to the “new right” dogma of the Chicago Boys, recommended the removal of all Chicago Boy economists from positions of authority, in order to further eliminate the economic concerns of the opposing factions.<sup>74</sup> Agreeing to relinquish his steadfast defense of the Chicago Boys, Pinochet allowed Jarpa to appoint two other civilian associates.<sup>75</sup> The move, once again, proved successful for the regime, as political unrest continually diminished over the next two years.<sup>76</sup> With the neo-liberal policies pushed aside for the moment, the new financial model imposed across-the-board price controls, non-uniformed tariffs, and a greater state intervention in the economy.<sup>77</sup> While these adjustments were somewhat similar to policies of the former socialist government, Pinochet adapted his policies to meet new economic challenges and overcome obstacles that threatened national stability.

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72 Oppenheim, *Politics in Chile*, 67 and 122; Constable and Valenzuela, *A Nation of Enemies*, 198.

73 Silva, *In the Name of Reason*, 156.

74 Silva, *In the Name of Reason*, 156.

75 Biglaiser, *Military Regimes*, 14.

76 Silva, *In the Name of Reason*, 157.

77 Biglaiser, *Military Regimes*, 14.

Once the regime felt that political unrest had simmered down sufficiently, Pinochet shrewdly reverted back to a strict neo-liberal approach. In his most important and successful appointment, he named Hernán Büchi Buc as the nation's new Minister of Finance in 1985.<sup>78</sup> As a University of Colombia graduate, Büchi “was not considered a Chicago Boy in the strict sense,” an attribute that would have certainly caused a renewal of protests from the growing anti-Chicago Boy sentiment.<sup>79</sup> Nevertheless, unbeknownst to the general public, Büchi had actually collaborated with the Chicago Boys since 1975, which paved a returned to neoliberalism, albeit with a twist.<sup>80</sup> While Büchi was certainly a student of neo-liberalism, he nevertheless believed that the administration should become more flexible in its approach to government intervention. Büchi argued that government was a necessary instrument that should, on occasion, influence the economy.<sup>81</sup>

Immediately, Büchi created policies purposely designed to keep wages low and promote market growth while simultaneously cutting social expenditures from the government's growing list of financial burdens. According to Büchi, the necessary adjustments would promote and expand the restoration and strengthening of Chilean foreign trade and lending.<sup>82</sup> As Büchi had predicted, the economy steadily improved and foreign lenders opened the coffers for Chilean borrowers.<sup>83</sup> By 1987, The IMF and the Inter-American Development Bank

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<sup>78</sup> Hernán Büchi Buc will be referred to as Büchi for the remaining pages of the thesis.

<sup>79</sup> Silva, *In the Name of Reason*, 157.

<sup>80</sup> Stern, *Battling for Hearts and Minds*, 349; Silva, “Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks,” 398.

<sup>81</sup> Büchi Buc, “How Chile Successfully Transformed Its Economy,” 4.

<sup>82</sup> Constable and Valenzuela, *A Nation of Enemies*, 245.

<sup>83</sup> Stern, *Battling for Hearts and Minds*, 349.

provided over 3.8 billion US dollars to the Chilean economy, eliminating over 40 percent of the nation's outstanding foreign debt.

Other dynamic successes included a continuous decline in unemployment numbers (below 9 percent by 1989), the reduction in the inflation rate to less than 13 percent, and the increase in foreign and domestic investments.<sup>84</sup> With an emphasis on “prioritiz[ing] exports,” the import/export ratio heavily favored Chileans, who had become experts at taking their raw materials and producing more efficiently.<sup>85</sup> Finally, the last three years of Pinochet's reign witnessed an average growth rate of over seven percent in the GDP.<sup>86</sup> The second half of the Chilean Miracle was so impressive that economists who favored left-wing/socialist ideologies hailed this economic approach and “recognized [Büchi's] ability as a [economic] manager.”<sup>87</sup> After several appointments, Pinochet's relentless pursuit of an economically independent Chile had come to fruition.

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<sup>84</sup> Büchi Buc, “How Chile Successfully Transformed Its Economy,” 8; Silva, *In the Name of Reason*, 157; Constable and Valenzuela, *A Nation of Enemies*, 245.

<sup>85</sup> Collins and Lear, *Chile's Free-Market Miracle*, 34.

<sup>86</sup> Oppenheim, *Politics in Chile*, 128;

<sup>87</sup> Silva, *In the Name of Reason*, 157; Silva, “Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks,” 398.

### CHAPTER 3: THE BALANCE SHEET: THE WINNERS AND LOSERS OF THE CHILEAN MIRACLE

While conceding numerous vaunted [economic] achievements from 1973 to 1998, many workers in a wide range of sectors suffered from Chile's neoliberal "miracle."  
Paul W. Drake

The results of the economic reforms experienced in Chile, particularly the nation's stabilized inflation rate and the continued growth in GDP, were such a triumph that nations around the hemisphere began viewing the achievements as an economic model worthy of emulation.<sup>1</sup> In fact, by the end of the twentieth century, many Latin American nations had taken a more neo-liberal approach in resolving their own economic issues.<sup>2</sup> While Chile was faced with economic depression twice within an eight year period, Pinochet's economic team made the necessary adjustments and quickly revived the economy. Many foreign investors and upper middle-class and elite Chileans took advantage of the free-market reforms to expand their financial portfolios. While many profited, the larger majority of Chileans did not reap the same financial benefits. This chapter reassesses and redefines what some historians refer to as the "winners" and "losers" of the neo-liberal economic reforms of the Pinochet era, ultimately to argue that, due to substantial economic growth and the introduction of new social programs, Chileans as a whole were better off in economic terms than under the Allende regime. Certainly, while Pinochet's sixteen-year reign and neo-liberal economic plan did not favor equal distribution of wealth or guarantee one's job and income, it did, however, create new opportunities in every region of the nation.

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<sup>1</sup> Glen Biglaiser, *Military Regimes, Neoliberal Restructuring, and Economic Development: Reassessing the Chilean Case* (New York: Springer, 1999), 5.

<sup>2</sup> Kurt Weyland, "Economic Policy in Chile's New Democracy," *Journal of International Studies and World Affairs* 41 (Fall 1999): 67.

The following section describes what some authors argue were the setbacks suffered by “the losers” of Pinochet’s economic policy. In each case mentioned- mining, manufacturing, fishing, and forestry sectors- the authors focus strictly on the comparison of Pinochet’s presidency to other administrations in twentieth-century Chile. The argument made in this thesis is that juxtaposing Pinochet’s neo-liberal economic plan with others is problematic in that no other Chilean administration began with the same degree of economic devastation and/or suffered an externally created world recession in the middle of their rule. The only balanced judgment should start with the reality of an inherited 600 percent inflation, 30 percent unemployment, and isolation from the world financial networks. When the military junta assumed leadership in 1973, every single Chilean was a “loser.” Therefore, any improvements after 11 September 1973 -a job, food, housing, or transportation- created a winning scenario for legions of Chileans.

#### Economic Losers, Social Victims

Constable and Valenzuela assert that while the Pinochet economic model of neo-liberalism made significant financial gains, it was nevertheless their free-market agenda that reduced the average living standards and increased the gap between the rich and poor.<sup>3</sup> As the top 40 percent of Chilean society enjoyed an increase in their net worth and the middle 20 percent maintained their status, the remaining 40 percent of society witnessed a steady decrease in their GDP per capita as extreme poverty increased two-fold.<sup>4</sup> The lower-middle and poverty-

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<sup>3</sup> Pamela Constable and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet* (New York: W. W. Norton, 1991), 231.

<sup>4</sup> Joseph Collins and John Lear, *Chile’s Free-Market Miracle: A Second Look* (Oakland: Institute for Food and Development, 1995), 7.

stricken classes lost jobs, savings, and, most often, their properties as a result of unregulated neo-liberal economic policies. For those who did not possess the means to invest in the new free-market economy, the only ‘miracle’ was finding steady employment and having the wherewithal to afford basic necessities. Many scholars of Chile under Pinochet-such as Peter Winn, Heidi Tinsman, Thomas Miller Klubock, and Rachel Schurman- argue that these groups were the “victims” of the Chilean Miracle.<sup>5</sup>

As Pinochet divested the nation of the failing properties and businesses that Allende had nationalized, combined with of a massive influx of foreign investors, a fierce level of competition developed within Chile. Due to reduced tariffs, a standard 10 percent rate by 1979, the marketplace was flooded with commodities from foreign importers.<sup>6</sup> Simultaneously, Pinochet froze the value of the *escudo*, thus Chileans experienced an increase in their purchasing power. Basic necessities like food, clothes, and rent/mortgage, among others became more affordable. However, due to reduced import duties and the strengthening of the *escudo*, foreign products became more enticing and desirable to consumers, as record sales occurred. Consequently, Chilean companies, especially in the domestic manufacturing industry, absorbed steady losses because their products cost more.<sup>7</sup> As a result, a severe reduction in sales, widespread lay-offs, and a steady decrease in wages followed nationwide. Chilean labor wages and social spending sank to

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<sup>5</sup> Peter Winn, ed., *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 1.

<sup>6</sup> Barry P. Bosworth, Rudiger Dornbusch, and Raul Labán, eds., *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institute, 1994), 4-5; Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile* (New York: Cambridge University Press, 1995), 21-22; Collins and Lear, *Chile's Free-Market Miracle*, 62; Peter Winn, “No Miracle for Us”: The Textile Industry in the Pinochet Era, 1973-1998, in *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004),127.

<sup>7</sup> Collins and Lear, *Chile's Free-Market Miracle*, 63.

“63 percent of their 1970 levels.”<sup>8</sup> The largest portion of Chilean society, the poor, suffered a prolonged period of “disintegration of the family and the daily oppression of problems like overcrowding and debt.”<sup>9</sup> From the northern-most areas to the southern section of Chile, the poorer communities suffered losses unequalled by any other segment of Chilean society.

The mining industry, in the northern regions of Chile, witnessed massive lay-offs and the elimination of worker benefits that were once considered the best in the nation.<sup>10</sup> Prior to the military junta, miners from El Teniente, Chile’s largest copper mine, enjoyed higher wages than most Chileans and belonged to the strongest unions. Moreover, according to historian Thomas Klubock, the Anaconda and Kennecott mines, formerly owned by American investors, had built and provided their miners with “housing projects, . . . incentives and benefits that established . . . stable families and working-class neighborhoods.”<sup>11</sup> These neighborhoods, greatly enhanced by Allende’s election victory, made up a well-defined community with significant influence in Chilean politics. However, with implementation of neo-liberal reforms and the 1979 Labor Code, the unions were disbanded, government assistance ceased, thousands of jobs were lost, and across-the-board wage reductions went into effect. In fact, by 1983, workers had both lost their free medical benefits and suffered a nearly 33 percent cut in wages; workers now had to pay 50 percent of their medical costs. With the reduction in

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<sup>8</sup> Constable and Valenzuela, *A Nation of Enemies*, 223.

<sup>9</sup> Constable and Valenzuela, *A Nation of Enemies*, 225.

<sup>10</sup> Thomas Miller Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998” in *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 210.

<sup>11</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 210.

pay and the weakening of the union, workers could no longer afford medical expenses for themselves and or their families, and took out loans from the company in order to cover medical costs.<sup>12</sup> The argument surrounding this author's perspective is that these mining workers were losers of an exploitative capitalistic society that was encourage by the *junta*. What Klubock fails to mention is that each of these companies, which had been nationalized by the Allende administration, could no longer afford to pay extra expenses because the government was financially insolvent. Those benefits fiscally doomed the government, no matter what administration was in office. Pinochet was simply balancing a budget strapped with enormous deficits.

The manufacturing sector also suffered enormous reductions that equaled, and in some cases surpassed, those endured by the mining community. In the past, prior to Pinochet's economic reforms, the textile factories had enjoyed government protection and employed thousands of laborers due to the high demand for their product. However, as foreign competition grew, textiles factories were forced to lower the price of their products in order to compete.<sup>13</sup> When a large number of companies complained that the lower tariffs created an unfair advantage for their new competition, they were thus labeled as "whiny, pessimistic, and inefficient" by government officials.<sup>14</sup> Unfortunately, even as companies reduced the prices for their products, Chileans still preferred novel foreign products. In turn, the diminished sales meant reduced profits and the eventual reduction in the number of necessary employees. By 1982, imported

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<sup>12</sup> Klubock, "Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998," 217-218.

<sup>13</sup> Winn, "No Miracle for Us," 128; Collins and Lear, *Chile's Free-Market Miracle*, 63.

<sup>14</sup> Constable and Valenzuela, *A Nation of Enemies*, 203.

textiles products accounted for over 30 percent of the Chilean market, leaving a smaller share of the market for the hundreds of Chilean textile plants that employed the largest number of citizens.<sup>15</sup> Therefore, textile laborers witnessed reductions in wages, benefits, and living standards that eventually had families surviving on a meager diet of “bread, tea, and onions.”<sup>16</sup> In one particular case, seamstresses were paid by the piece instead of an hourly wage, which meant that in order to maintain their same income each women had to sew twenty dresses each day.<sup>17</sup> Furthermore, during the most profitable years of the first economic boom, between 1979 and 1982, nearly 20 percent of manufacturing companies went bankrupt and employment was reduced by nearly 25 percent.<sup>18</sup>

After the world recession of 1981-82, the situation for Chilean manufacturing only worsened. More than 800 companies were either bankrupt or struggling to survive, fivefold the number experienced in the aftermath of Allende’s failed economy.<sup>19</sup> In all, over 2,000 companies, ranging from privately owned small businesses to large corporations, were insolvent by the end of the recession. The manufacturing workforce was reduced by over half a million jobs.<sup>20</sup> Many of the unemployed skilled workers turned to unskilled labor for their source of income. According to Constable and Valenzuela, there were so many men turning to taxi driving that “one could hail a cab on any corner of Santiago.”<sup>21</sup>

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<sup>15</sup> Winn, “No Miracle for Us,” 127-129.

<sup>16</sup> Winn, “No Miracle for Us,” 131.

<sup>17</sup> Collins and Lear, *Chile’s Free-Market Miracle*, 81.

<sup>18</sup> Collins and Lear, *Chile’s Free-Market Miracle*, 73.

<sup>19</sup> Constable and Valenzuela, *A Nation of Enemies*, 208.

<sup>20</sup> Constable and Valenzuela, *A Nation of Enemies*, 203.

<sup>21</sup> Constable and Valenzuela, *A Nation of Enemies*, 209.

In the southern portion of the nation, employment in the fishing industry offered a new opportunity for many displaced Chileans. In the past, the fishing sector provided a food source that was strictly sold to the Chilean population due to high costs for shipping to international markets. However, with the large reduction in tariffs, shipping Chilean “aquaculture” to other markets became a viable venture. In the first decade of seafood-processing, business owners made enormous profits, but shared very little with the employees.<sup>22</sup> According to Rachel Schurman, the jobs were really glorified temporary positions, in that the work load consistently depended on the amount of seafood needed by various vendors.<sup>23</sup> Schurman notes that while the jobs provided a much needed relief to financially troubled families, the workplace was reminiscent of the deplorable and unsafe conditions experienced by workers during the industrial revolution.<sup>24</sup> Workers toiled long hours for minimal pay, the plants were unsanitary, and individuals were terminated without cause. Fishermen, who went out to sea every day, were paid for their catch. If they had an unproductive day, they received no compensation for their efforts. From 1973-1983, the fishing industry experienced overwhelming successes. However, the lack of restrictions concerning the amount of each species caught allowed for over-fishing and eventually reduced the number of fish and crustaceans available. In fact, had it not been for the emergence of a growing market in salmon, thousands of Chile’s fishermen would have been unemployed.<sup>25</sup>

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<sup>22</sup> Rachel Schurman, “Shuckers, Sorters, Headers, and Gutters: Labor in the Fisheries Sector,” in *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 300 and 319.

<sup>23</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 299.

<sup>24</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 299.

<sup>25</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 300-301.

According to Heidi Tinsman, the peasantry also suffered “dire and dramatic consequences” with the elimination of the agrarian reform initiated by Alessandri, Frei, and Allende.<sup>26</sup> The loss of wages experienced by farm laborers surpassed all other professions in that their income fell far below the minimum wage guidelines established by the Pinochet administration.<sup>27</sup> In fact, many of the workers who maintained steady employment were paid less than one dollar per day, hardly enough to afford respectable housing, food, or medical care. As a result, many “squatter settlements” were established throughout the countryside.<sup>28</sup> During the first decade of military rule, *campesinos* worked most of the day when crops were in season, performing tasks that were only temporary. While seasonal work was available, there was no “security, overtime pay, or vacation” extended to laborers.<sup>29</sup> Even though farm laborers struggled during the economic transition, employment opportunities still existed.

In the heavily wooded areas of the southern-central portion of the nation, the forestry industry, under Pinochet, flourished at record pace. According to Thomas Miller Klubock, in 1973, during the initial surge of the forestry industry, smaller land and forestry business owners filled a vital role in joint ventures with the state and established the growth in wood-based products.<sup>30</sup> However, Klubock notes that by 1984, the three major corporations, Cruzat-Larraín, Matte-Alessandri, and Vial, had effectively choked out smaller businesses and controlled

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<sup>26</sup> Heidi Tinsman, “More Than Victims: Women Agriculture Workers and Social Change in Chile,” in *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002* (Durham: Duke University Press, 2004), 261.

<sup>27</sup> Tinsman, “More Than Victims,” 262.

<sup>28</sup> Tinsman, “More Than Victims,” 262.

<sup>29</sup> Tinsman, “More Than Victims,” 263.

<sup>30</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 349.

all aspects of the paper and wood market.<sup>31</sup> Simultaneously, thousands of landowners were expelled from their estates, small plots of lands were absorbed, and male workers were required to work for low wages while receiving no extra benefits.<sup>32</sup> Even medium-sized land owners, who could not compete with the per-piece price system, were forced to sell their lands and terminate their employees. This situation was a direct result of government incentives that rewarded these corporations for expanding their land holding and production capacities.<sup>33</sup> Exasperating the situation further were the deliberate and unmonitored tactics of corporations to eliminate peasant communities established in forest regions. Roads entering and exiting the forest, the only routes leading to the previously established communities, became off limits to local inhabitants. In addition, community members were outlawed from entering the local forests to collect mushrooms, seeds and cones, and the firewood that was needed for daily chores that included a heat source. Also, forestry companies cut off the community water supply, which made subsistence agriculture practically impossible, thus starving the locals off the land.<sup>34</sup> As a result, the often-unregulated forestry corporations confiscated lands given or sold to the peasantry during Pinochet's reallocation of agriculture landholdings. Workers were now consistently forced to move from

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<sup>31</sup> Klubock, "Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998," 349.

<sup>32</sup> Klubock, "Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998," 351.

<sup>33</sup> Klubock, "Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998," 351.

<sup>34</sup> Klubock, "Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998," 352-353.

employer to employer and region to region on a “monthly basis,” which isolated them from their families and communities.<sup>35</sup>

According to Tinsman, one of the most profound changes in Chilean society was the large scale introduction of women into the workforce. While women gained greater autonomy by entering the workforce, the family unit suffered greatly. Tinsman argues that this break in tradition roles drastically altered and impacted the relationships within Chilean households. Domestic violence reached alarming heights as the dominating male role was profoundly challenged.<sup>36</sup> Chilean men were uncomfortable being at home and were crushed by this role reversal.<sup>37</sup> Consequently, male abandonment of the family increased significantly as the number of households headed by women increased by over 30 percent.<sup>38</sup> Moreover, with many families surviving on one income, often part-time or below minimum wage, it became necessary for multiple families to “squeeze” into one home with their relatives. By 1983, a national census found that nearly one million Chileans were sleeping “four or more per bedroom.”<sup>39</sup>

Finally, as if losing the opportunity for permanent work with respectable wages was not enough, the government’s reduction of expenditures in the health care and services sector also had an alarming effect on the poor. While the investment in prenatal care and infant medical services increased 78 percent between 1974 and 1983, care for the elderly and the chronically ill greatly diminished. Additionally, expenses for the maintenance, upgrades, and new

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<sup>35</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 369.

<sup>36</sup> Tinsman, “More Than Victims,” 277.

<sup>37</sup> Constable and Valenzuela, *A Nation of Enemies*, 225.

<sup>38</sup> Tinsman, “More Than Victims,” 277.

<sup>39</sup> Constable and Valenzuela, *A Nation of Enemies*, 235.

medical equipment for hospitals decreased by over 90 percent during the same period.<sup>40</sup> By the mid-1980s the government spending on health care services had been reduced by over 50 percent to a paltry \$134 million for a nation of over fourteen million people.<sup>41</sup> The vast services once provided for the masses during Allende's term were all but eliminated. In effect, in order to receive medical care, the individual had to pay for the services rendered by the medical provider. Unfortunately, with families unable to earn enough money to pay for rent, food, or the electricity bill, a visit to the doctor's office was almost impossible.

#### The Obvious Winners

As the doors of Chile opened in 1975 to legions of foreign investors, billions of dollars circulated through the Chilean economy. The IMF, the World Bank, and the Inter-American Development Bank issued loans to cover the debts of the Allende regime. These financial institutions issued nearly fifty loans totaling over \$3 billion.<sup>42</sup> What followed was a period of "easy money" for Chileans in all segments of society.<sup>43</sup> This massive influx of capital, coupled with Pinochet's removal of burdensome trade tariffs, led to an almost-overnight reversal of the negative import-export trends suffered during Allende's socialist democracy government. Chileans were "enticed" by the first credit card in the nation's long history, and within twelve months several thousand Diner's Club cards had been issued.<sup>44</sup> For the first time, Chilean families, through easy access to credit, were able to purchase foreign goods such as electronics, televisions, Mercedes Benz and

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<sup>40</sup> Constable and Valenzuela, *A Nation of Enemies*, 233.

<sup>41</sup> Constable and Valenzuela, *A Nation of Enemies*, 233.

<sup>42</sup> Constable and Valenzuela, *A Nation of Enemies*, 172.

<sup>43</sup> Collins and Lear, *Chile's Free-Market Miracle*, 31.

<sup>44</sup> Constable and Valenzuela, *A Nation of Enemies*, 204.

other vehicles.<sup>45</sup> In the words of Constable and Valenzuela, when foreign products flooded the market, it became a “moment of fantasy for the laborer, the office worker, the housewife, the student, even the retiree who gazes in the display window.”<sup>46</sup> Chileans with the necessary capital, especially the middle and upper class, were able to enjoy increased spending, credit-lines, and a variety of selections in their shopping ventures.

The new economic approach of the government also transformed the Chilean state. In the first six years, as a means for cutting the fiscal deficit and lowering the staggering inflation rate, government spending was reduced to just over one-fourth of the nation’s GDP.<sup>47</sup> During this same period, the number of government employees shrank from 360,000 to 290,000, and public employment was reduced from 700,000 to 550,000.<sup>48</sup> Simultaneously, all past methods used by the government to regulate the economy were eliminated as it became mandatory that all universities, television stations, and other government subsidiaries become self-sufficient.<sup>49</sup> In fact, once the government divested more than four hundred companies, returned nearly 40 percent of all expropriated lands, many of which were returned to the original owners or small farmers, and reduced the expenses of many other government programs, the nation’s fiscal deficits were eliminated.<sup>50</sup>

Corporations purchased during Pinochet’s sell-off, like the aforementioned Cruzat and Vial conglomerates, experienced a capital wind-fall of massive

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<sup>45</sup> Collins and Lear, *Chile’s Free-Market Miracle*, 31.

<sup>46</sup> Constable and Valenzuela, *A Nation of Enemies*, 204.

<sup>47</sup> Valdés, *Pinochet’s Economists*, 23.

<sup>48</sup> Constable and Valenzuela, *A Nation of Enemies*, 189; Valdés, *Pinochet’s Economists*, 23.

<sup>49</sup> Valdés, *Pinochet’s Economists*, 23.

<sup>50</sup> Constable and Valenzuela, *A Nation of Enemies*, 189; Valdés, *Pinochet’s Economists*, 21-24.

proportions. By 1979, the Vial Empire was worth more than \$436 million and the Cruzat enterprises were worth \$1 billion. Other investors took advantage of the 86 percent sell-off of the banking system and the sale of another additional 110 firms previously operated by the *Corporación de Fomento de la Producción* (CORFO). Investors bought each of the firms at a reduced cost, or they had their previously expropriated companies returned at no cost, which allowed the company owners to start their business ventures with little or no debt whatsoever.<sup>51</sup> Having assumed a company with very little overhead, with the exception of labor costs, owners enjoyed maximum profits.

As James Petras and Fernando Ignacio Leiva have observed, due to significant economic improvements, “large majorities in the upper and upper-middle-class” enjoyed financial success.<sup>52</sup> Given the ability to purchase private businesses, and with inflation decreasing exponentially, consumption by households showed growth for the richest 40 percent of society.<sup>53</sup> As the value of money increased, so too did the buying power of those possessing currency or credit, allowing the elite classes to multiply their investments.

One of the most successful ventures was the fishing industry. From 1973-1990 fish-processing plants sprung up nationwide as Chilean investors took advantage of the free-market economic plan. The instantaneous profits earned by investors were similar to “winning the lottery.”<sup>54</sup> One plant owner recouped his initial investment of nearly a quarter-of-a-million dollars in one week’s time,

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<sup>51</sup> Valdés, *Pinochet’s Economists*, 21.

<sup>52</sup> James Petras and Fernando Ignacio Leiva with Henry Veltmeyer, *Democracy and Poverty in Chile: The Limits to Electoral Politics* (Boulder: Westview Press, 1994), 2.

<sup>53</sup> Carlos Fortin, “The Failure of Repressive Monetarism: Chile, 1973-83” *Third World Quarterly* vol. 6 no. 2, Taylor and Francis, April 1984, 319.

<sup>54</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 307.

while others noted more than 50 percent return is less than one year.<sup>55</sup> Prior to the military junta there were only seventy-five processing plants in Chile, by the end of the Pinochet regime there were over four hundred. With the growth in the number of fisheries came the employment for over “32,000 people...as clam shuckers and sorters and fish headers and gutters... [as well as] fishermen.” While fisheries increased at a phenomenal rate, so too did the shellfish sector. In the same period that fish-processing plants increased by over 400 percent, shellfish plants increased by 800 percent.<sup>56</sup> Consequently, by 1989, the demand for fishermen to haul in the necessary catch expanded four-fold and employees inside the plants increased by 1,000 percent.<sup>57</sup>

While the fishing industry showed significant improvement, the Pinochet administration faced the challenges of re-energizing the agrarian sector, which had, according to Antonio Bellisario, had been paralyzed by the chaos that reigned during the last two years of the Allende presidency.<sup>58</sup> As a result of Allende’s failing economy, an “enormous amount of unproductive farmland” remained in the possession of the Chilean government.<sup>59</sup> Pinochet’s counter-agrarian policy was to return more than 1,700 farms to their original owners and to establish corporations that could produce at higher levels in order to match the neo-liberal plan for an export-driven market.<sup>60</sup>

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<sup>55</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 307.

<sup>56</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 303.

<sup>57</sup> Schurman, “Shuckers, Sorters, Headers, and Gutters,” 303.

<sup>58</sup> Antonio Bellisario, “The Chilean Agrarian Transformation: Agrarian Reform and Capitalist ‘Partial’ Counter-Agrarian Reform, 1964-1980,” *Journal of Agrarian Change* 7 (January 2007): 16.

<sup>59</sup> Bellisario, “The Chilean Agrarian Transformation,” 16.

<sup>60</sup> Bellisario, “The Chilean Agrarian Transformation,” 18.

Bellisario asserts that Pinochet's agrarian reform was to redistribute the land in five sectors. First, co-operatives were allocated 11 percent of Allende's expropriate land. Second, family agricultural units received more than 21 percent. Third, nearly 7,700 families received enough land to build new homes. Fourth, more than 8 percent of the land was sold directly to low-income families at a significantly reduced price. Lastly, the remaining portion of expropriated land was returned to more than 500 families that had originally owned the property.<sup>61</sup> Any remaining lands were sold to public institutions like the armed force, the National Forestry Corporation (CONAF) and the National Development Corporation (CORFO). In the end, the largest recipients of land were the agriculture laborers throughout Chile, who received over 41 percent for personal use.<sup>62</sup> With the redistribution completed, Chileans began producing agricultural products at record pace. Consequently, export sales increased for fruits and vegetables as the nation became "one of the world's leading" exporters of agricultural products.<sup>63</sup> These agricultural advances are somewhat shocking, considering that less than 3 percent of the nation is arable.<sup>64</sup> In fact, over two million tons of produce are exported to over 70 different countries each year.<sup>65</sup>

One of the most remarkable gains was the increase in exports of grapes and wine. In a short period of time, Chile was recognized as having "some of the best wines in the world."<sup>66</sup> According to Veronica Gould Stoddart, Chile had become

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<sup>61</sup> Bellisario, "The Chilean Agrarian Transformation," 21-22.

<sup>62</sup> Bellisario, "The Chilean Agrarian Transformation," 23-28.

<sup>63</sup> Neilan M. Kuntz, "Chile's Rural Heritage," *Americas* 61 (September/October 2009): 36.

<sup>64</sup> Kuntz, "Chile's Rural Heritage," 36.

<sup>65</sup> Kuntz, "Chile's Rural Heritage," 38.

<sup>66</sup> Kuntz, "Chile's Rural Heritage," 35.

on the world's largest exporters of wine, and was recognized for their excellence in production when Chilean wine won the "best in show" for a cabernet sauvignon at the 1980 International Wine and Spirit Competition in Bristol, England.<sup>67</sup> In addition, other Chilean wines were judged second best at the VinExpo 99, which was hosted by France.<sup>68</sup> Wine production reached "156 million gallons" by the end of 1979, representing an "increase of 48 percent from 1970." At the end of Pinochet's first decade as president, Chile had become the largest exporter of wine in Latin America, as production increased by over 40 percent and sales eclipsed \$21 million. The rise in popularity and demand for Chilean wines simultaneously witnessed wide-spread employment opportunity for the citizenry. Stoddart asserts that by the end of the 1970's, "370,000 people" were working at over "thirty thousand vineyards" that used over "271,000 acres" of the Chilean central valley.<sup>69</sup>

The job opportunities for women also increased in the agricultural regions throughout the nation. Chilean employers believed that women were suited for their particular job classifications in that they had "nimble fingers and docile temperaments," unlike male laborers.<sup>70</sup> They filled jobs in the field as well as the processing plants performing tasks that ranged from "cleaning, weighing, [and] packing" to "pruning and staking."<sup>71</sup> Flourishing employment opportunities meant increased agency for the female members in Chilean households. No longer was

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<sup>67</sup> Veronica Gould Stoddart, "The Noble Wines of Chile," *Americas* 33 (August 1981): 36.

<sup>68</sup> Kuntz, "Chile's Rural Heritage," 35.

<sup>69</sup> Stoddart, "The Noble Wines of Chile," 36.

<sup>70</sup> Tinsman, "More Than Victims," 263.

<sup>71</sup> Tinsman, "More Than Victims," 263.

the head-of-household an “exclusively masculine identity,” but instead a shared role among families that required both male and female to work.<sup>72</sup>

Prior to the neo-liberal regime of Pinochet, the forestry sector in Chile had always remained insignificant in comparison to other non-traditional exports. Surprisingly, even after the free-market ideology invited new investment opportunities, growth was still “very modest” until the late 1970s.<sup>73</sup> It was this lack of interest from foreign investors that actually permitted local Chilean lumber companies time to grow and stabilize their holdings. The *Compania Manufacturera de Papeles y Carones* (CMPC), after it had recovered from the severe losses experienced under Allende’s rule, built “five new paper plants between 1978 and 1980.”<sup>74</sup> Other Chilean investors purchased large portions of existing Chilean forests. Three large corporations, “Cruzat-Larraín, Matte-Alessandri, and Vial” purchased the lion’s share of southern-central lands that produced “cellulose, paper, fiber board, particle board, plywood, and lumber.”<sup>75</sup> In fact, it was not until 1985 that foreign investors illustrated an interest in Chilean forestry production. Since that time, the Chilean companies that have entered into partnerships with international corporations have experienced profound economic growth. Production advances, as a result of these joint ventures, have led to a massive increase in “Radiata Pine” growth in Southern Chile, wood chips, and other types of paper products.<sup>76</sup> Following the export diversity plan of Büchi,

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<sup>72</sup> Tinsman, “More Than Victims,” 272.

<sup>73</sup> R. N. Gwynne, “Direct Foreign Investment and Non-traditional Growth in Chile: the Case of the Forestry Sector,” *Bulletin of Latin American Research* 15 (1996): 347.

<sup>74</sup> Gwynne, “Direct Foreign Investment and Non-traditional Growth in Chile” 347.

<sup>75</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 349.

<sup>76</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 373.

exports for the forest sector had increased to “\$362.2 million” by 1983 in comparison to “\$42.5 million” during Allende’s reign.<sup>77</sup> By the end of the Pinochet era, export values in the forestry sector had reached a record “\$771.2 million” and were continuing to grow.<sup>78</sup>

### Conclusion

At the end of his sixteen-year reign, the neo-liberal free-market economic plan of Pinochet’s administration increased the wealth of both the top 40 percent in Chilean society and an endless number of foreign investors, while protecting the status of the middle class. The export-driven market flourished throughout the 2,400 mile long nation. The northern sections experienced phenomenal growth in mineral exports, the central section became an agricultural giant in worldwide distribution, and the southern section witnessed profound growth in forests and paper products. Combined, the multiple successes of Pinochet’s neo-liberal economic agenda included the creation of thousands of new jobs in various industries throughout the country and an enormous growth in specialized exports. On the other hand, Chileans from the lower middle- and working-class segments of society experienced a reduction in their GDP per capita, the relocating of families, and a reduction in social programs. Even though some authors argue that the poverty-stricken masses did not enjoy the financial achievements experienced by others, there was however an improved economy that provided an opportunity that far surpassed the economic devastation of Allende’s administration.

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<sup>77</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 349.

<sup>78</sup> Klubock, “Labor, Land, and Environmental Change in the Forestry Sector in Chile, 1973-1998,” 373.

## CONCLUSION: WHO WAS RESPONSIBLE FOR THE CHILEAN MIRACLE?

By the end of [the 1980's], Pinochet's Chile had become a widely touted model of economic reforms for the rest of the continent.

Pamela Constable and Arturo Valenzuela

Today, Chile is a leader...advancing more rapidly than ever before.

Joaquín Lavín

Twenty-four years after the presidency of Augusto Pinochet, Chile proudly stands as an economic success. However, scholars and other observers have often undervalued or ignored the economic achievements of Pinochet's government. This view is partly due to the heavy-handed and brutal tactics employed by the Chilean military to suppress social unrest. Nevertheless, my research was specifically focused on the economic conditions that Pinochet and his administration faced from the onset of *junta* rule through the various economic successes and crises experienced during the subsequent sixteen years. Initially faced with devastating inflation and expanding unemployment, Pinochet and his economic brain trust based their fiscal policies on the economic philosophies of Milton Friedman and Alan Harberger, of the University of Chicago in Illinois. Incorporating the advice of these experts into his policy decisions, Pinochet's administration rebuilt a devastated Chilean economy and stabilized the nation.

The 1970 election of Salvador Allende Gossens resulted from the hopes of millions of Chileans who believed, as did Allende, that the Chilean government was responsible for providing employment, housing, and medical services to its citizens. Therefore, upon taking office, Allende and his political party, the Unidad Popular, expropriated corporations, provided national health care, and accelerated the confiscation of land through the Agrarian Reform Act. However, the policies

of Allende's socialist regime had dire consequences in that much of the reallocated land and seized corporations were either owned by right-wing Chileans or by foreign investors, which in turn caused a great deal of dismay and resentment. Almost immediately after Allende began restructuring the Chilean political and economic landscape, his agenda was challenged by domestic opponents and the United States, as each began either to externally sabotage or internally attack the structures of socialism in Chile.

While the first eighteen months of Allende's presidency produced much-needed relief for the poorest members of Chilean society, it was the second half of his three-year term that fostered a devastated economy and significant social upheaval. From the CIA's attempt to destabilize the Chilean government, to Richard Nixon's threatening stance towards a socialist Chile, the presidency of Allende was under significant pressure. Simultaneously, political opposition from right-wing supporters created social havoc in the form of transportation and food shortage strikes. Most notably, Allende's own political alliance, the Unidad Popular, was divided over the speed and efficiency with which Allende should adhere to a more strict socialist doctrine. At a point when most of Chilean society was erupting in protest, the military leadership orchestrated a coup that ended Chile's experiment with socialism.

Preceding the seizure of power by Pinochet and the junta, Chile was financially crippled and desperate for a savior. The economic crisis was so severe that a short-term plan could not sufficiently alleviate Chile's suffering. After the coup, Pinochet followed his advisors' recommendation and invited Milton Friedman, one of the world's leading economic minds, to address the new government. After an several in-depth lectures to the administration and area

universities, Pinochet began recruiting some of Friedman's former students, The Chicago Boys, as his economic brain trust.

Pinochet appointed the Chicago Boys to key government positions that were specifically responsible for the economy. They immediately advocated a free-market approach that encouraged foreign investment, called for the adoption of sweeping tax reforms, reduced tariffs and government expenditures, and, most importantly, discouraged government intervention in the private sector. Simultaneously, western banking institutions began lending Chile the necessary funds to cover past-due loans incurred by the Allende administration. Pinochet's first group of Chicago Boy economists, who comprised a large majority of his cabinet, spear-headed a jump-start of the economy. The Chilean economy miraculously rebounded, experiencing continued growth in the nation's GDP and a vast reduction in the inflation rate. As a result, economists worldwide hailed the efforts of Pinochet and his economic brain trust.

Unfortunately, the economic improvements in Chile could not withstand the world-wide recession of 1981. After experiencing economic conditions that resembled the last eighteen months of the Allende presidency, Pinochet once again made the decision to change his leading economic advisor. With the appointment of Hernán Büchi, as Minister of Finance, the Chilean economy experienced another miraculous recovery. Over the next six years the Chilean economy continued to improve as foreign investment flooded Chile's economic landscape. By 1989, the last year of Pinochet's presidency, unemployment had fallen below 10 percent, inflation was less than 13 percent, the import/export ratios heavily favored Chile, the GDP showed consistent strong annual growth, and the nation's foreign debt was nearly eliminated. In other words, the fiscal condition of Chile was far removed from the devastation Pinochet had inherited.

Even though the neo-liberal reforms were successful, many scholars have highlighted the fact that while the top 40 percent of the Chilean populace received significant financial benefits, the lower 40 percent were losers. However, this study has shown that Pinochet, while cutting Chile's social spending and utilizing the support of the United States, created programs to aid Chilean families who suffered during the transition, increased employment opportunities through the encouragement of foreign investment, and provided health care at a reduced cost for millions. In addition, Pinochet's neo-liberal economy policies re-established relationships with lending institutions and other countries, promoted an influx of foreign investors that created thousands of new jobs in an expanding market, and completely reversed the nation's import/export ratios.

Even though Pinochet is rightly vilified for the numerous atrocities committed against the Chilean population during his reign, the economic successes experienced during that same period were miraculous. Pinochet exhibited an uncanny ability to make correct decisions concerning the economy and his economic brain trust. First, Pinochet made the decision to listen to Milton Friedman, one of the world's leading economic minds, and then follow his economic advice. Second, Pinochet recruited the trained economic students from the University of Chicago in Illinois to become the nation's neo-liberal economic brain trust. Then, in the early 1980s, when Chile suffered another economic recession, Pinochet appointed a new Minister of Finance, Hernan Büchi, to make the necessary adjustments to Chile's economic approach and once again resuscitate the economy. Finally, in the making of an export-driven free market, Pinochet allowed national corporations the opportunity to manufacture new product lines from Chilean resources as a means of expanding the products for foreign purchases (wines and tree products). Throughout Pinochet's sixteen-year

reign, with the exception of the world recession, in 1981-82, Chile's economy continued to improve.

While Pinochet eventually left office after the Chilean nation voted for a return to democracy in 1988, many of the neo-liberal, free-market economic reforms established during his period in power have remained virtually intact.<sup>1</sup> In fact, Chile elected two socialist presidents, in 2000 and 2006, and neither one of them made any measureable change to Pinochet's economic policies.<sup>2</sup>

Therefore, to imply or argue that the neo-liberal economic successes experienced during Pinochet's reign were an "anomaly," or occurred "merely by chance," is incorrect. The evidence shows that Pinochet's decisive leadership and decision-making processes were in fact instrumental in the prolonged record of Chilean economic success. Hence, it can be argued that Pinochet was responsible for the "Chilean Miracle."

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<sup>1</sup> Kurt Weyland, "Economic Policy in Chile's New Democracy," *Journal of Interamerican Studies and World Affairs*; Fall 1999, 75.

<sup>2</sup> Lois Hecht Oppenheim, *Politics in Chile: Socialism, Authoritarianism, and Market Democracy* (Boulder: Westview Press, 2007), 169.

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