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Economics

**Dictatorship fostering good economic
performance: Pinochet's Chile as a
benchmark**

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Dictatorship fostering good economic performance: Pinochet's Chile as a benchmark

1. Introduction

In this paper, we analyze the relationship between an authoritarian government, specifically a dictatorship, and the consequent economic performance of the country on which it is ruling. We do this with the intent of showing how such a political structure can foster good economic performance, creating better political and legislative conditions for macroeconomic stability than democracies often do. However, we are not going to investigate this link as a strict causal relationship between the two factors in general. Indeed, when analyzing democracy versus dictatorship, most empirical studies are not capable of identifying a positive link between GDP growth and democracy indexes. Instead, according to Schiffbauer (2010), the economic outcomes of both political regimes depend on many exogenous factors like the country's stage of development, its population, history and culture. It is hard not to agree with this, as we have many different examples of positive and negative economic outcomes under both democracies and dictatorships with similar starting conditions. Nonetheless, in this paper we will show how certain specific authoritarian political regimes can influence positively the economy of that given country, by imposing solid grounds in terms of macroeconomics and of legislature, to overcome even exogenous factors such as its history, economic history and creed.

In order to do so, we consider Pinochet's Chile as a benchmark for our analysis of how a dictatorship can foster good economic performance for a country. Notwithstanding what we just said about the impossibility of establishing a positive correlation between dictatorship and good economic performance (which is not empirically true in general), we find one in this very case. That is, we prove that there is a strong correlation between the dictatorship of General Pinochet and Chile's economic performances. In fact, the economic policies of this authoritarian government and the laws enacted by it, are the fundamental stimuli to the recent

outstanding economic data Chile can show. However, this is not enough to explain the correlation. We demonstrate that, first of all, such a dictatorship was fundamental to promulgate those reforms and laws; secondly, that only a dictatorship could have allowed the observance of those measures.

When we talk about Pinochet's Chile, we refer to the time period between 1973 and 1990, when General Augusto Pinochet Ugarte and his military government ruled Chile. The military government took power on 11 September 1973, with a military coup made by the Army, the Navy, the Air force and the Carabineros (Chilean police) together, who overthrew Allende's government after the latter had brought Chile into an economic abyss during the previous three years.

The economic reforms and laws enacted during those 17 years of authoritarian government are to be attributed in big part to the Chicago school, which is made of the so-called "Chicago Boys". Stemming from the brilliant thinking of Milton Friedman, the Chicago school of economics has turned upside down the modern economic world with its economic liberalism. The Chicago Boys, a group of Chilean students who had the chance to study at University of Chicago during those years, applied those very practical teachings to Chile.

Often referred to as the "Miracle of Chile", after Milton Friedman's words, the economic achievements of this government and the Chicago Boys have been outstanding, especially in light of the macroeconomic situation they had to inherit and overturn. We sustain that those achievement are the result of a mixture between the economic liberalism brought by the Chicago boys and Pinochet's dictatorship, which enabled their enactment and progression. In addition to the governmental support, General Pinochet also made sure those reforms, that have a very sound technical base, would not deviate from the reality of Chile's society while ensuring the strictness they needed in order to flourish.

We are going to show how and explain why this particular dictatorship has been so favorable to the economic stability and growth of Chile in the last 30 years, so that its policies and decisional resoluteness could be a model for other countries.

In the order, we will highlight the most important literature in chapter 2 and present the actual economic conditions of Chile, making a brief comparison with the other Latin-American countries, in chapter 3; we will describe and discuss Chile under Allende and his reforms in chapter 4; in chapter 5, we will talk about the Chicago

boys' history and their fundamental impact on Chile's economy; in chapter 6 we will identify and analyze in depth the major economic reforms made under Pinochet's government; in chapter 7 we will discuss how and why a political regime such a dictatorship can ensure that the right economic policies are enacted and followed; finally, we will present the short and long-term results in chapter 8, to ultimately summarize our conclusions.

2.Literary Review

Our research question is whether it exists a correlation between countries' governmental regimes and their economic performances, considering the various economic parameters. Particularly, we are interested in exploring a possible correlation between dictatorships and economic performances. We investigated this link through a vast secondary literature that presented us some different opinions and many different approaches. Through them, we were able to come to our conclusion on this research question to finally decide to develop the thesis we are presenting in this paper.

Let's start off by saying that the specific research question of whether dictatorships foster good economic growth or not, is not largely investigated in a precise and unique way. Most of the literature addresses either a comparison between democracy and dictatorship as the causes of certain economic outcomes or simply considers democracy alone. The answer can be found in the fact that, given the global political and social conditions of our recent history, demonstrating a positive correlation between democracy and favorable economic metrics would be enough to exclude a priori the political model of dictatorship as it usually hinders many liberties and rights which the 21st century citizen finds essential. On the other side, it is possible that the authors are facing some moral issues while considering a possible positive correlation between dictatorship and good economic performances. This might prevent them from objectively looking at this research question. As Gary Becker (2010) affirms, visionary leaders can accomplish more in autocratic than democratic governments because they need not heed legislative, judicial, or media constraints in promoting their agenda; on the other side, badly misguided and strong leaders can cause major damage. Mao's Great Leap Forward is one prominent and terrible example, but so too are Castro's forcing Cuba into a centrally planned government-controlled inefficient

economy. The question of whether dictatorships are effective or not is soon answered by mixed results that present us average outcomes and no correlation whatsoever. That is why Becker's words resemble much of the literature that tries to advocate such a correlation. Authors like McGuire and Olson (1996) and Shen (2007) tell us that dictators care in many cases only about their own consumption and the income of their direct offspring.

As we anticipated in our introduction, no direct and sufficient link between these two factors can be established.

That is why we turned to the main flow of investigation on this matter, which is the one that either compares democracies and dictatorship by matching similar characteristic (apart from the government, of course) or evaluates a direct correlation between democracies and positive economic outcomes. Becker (2010) again, tell us that, on average, whether democracies are more conducive than autocracies to economic growth is far from well established. Indeed, results leading to proofs of the democracy-good economy correlation are scarce and quite weak. Qureshi and Ahmed (2012) find evidence in support of a quadratic impact of democracy on per capita GDP growth (an inverted U relationship). That is, per capita GDP is found to be increasing in democracies at low levels but after a certain moderate level of democracy this relation turns negative. The same relationship is found by Barro (1996), who finds democracy to have a positive effect on growth at low levels of democracy, but as democracy rises, its impact turns negative and more political rights do not have an effect on growth. Persson and Tabellini (2008) find a positive effect of recent democratization on growth, while they had previously (2003) advocated that some of the primary goals of any democratic constitution are to limit the abuse of power by political leaders, to protect private property rights, and thus to promote economic development. Acemoglu et al. (2014) find no differential effect of democracy on economic growth by the initial level of economic development, though they show evidence that democracy is more conducive to higher GDP in countries that start out with higher levels of education. The authors also investigated the channels through which democracy affects GDP, finding results ("less clear-cut than our baseline results") that suggest that democracy contributes to future GDP by increasing investment, increasing schooling, encouraging economic reforms, improving public services and reducing social unrest. However, much of the

literature disputes even those findings, which we find poorly representative of the democracy-positive economic performance linkage. In fact, the same Barro (1996) says that with respect to government policies, the evidence indicates that the growth rate of real per capita GDP is enhanced by better maintenance of the rule of law, smaller government consumption, and lower inflation, which are all things a democracy doesn't necessarily guarantee. The author continues by saying that increases in political rights initially increase growth but tend to retard growth once a moderate level of democracy has been attained. His lesson is that "democracy is not the key to economic growth". Tavares and Wacziarg (2001) can't find a correlation between democratization and bad economic performance, which nonetheless does not lead them to the opposite relationship to be truth. Gerring et al. (2005) find that "the net effect of democracy on growth performance cross-nationally over the last five decades is negative or null." Knack and Keefer (1995) affirm that institutions that protect property rights are crucial to economic growth and to investment, without attributing them directly to democracy. Przeworski and Limongi (1993) come to conclude that they do not know whether democracy fosters or hinders economic growth, stating: "All we can offer at this moment are some educated guesses". Some authors also criticize democracy as it is more susceptible to demands of interest groups (Comeau, 2003) and subject to special interests that will use political activity to gain rents (Krueger, 1974). Democracies might also form a policies which may preserve the interests of some groups, say the wage interest of a labor union by cutting into entrepreneur's profits, but such strategies may not be growth enhancing (Gupta et al., 1998). On the other hand, according to Fidrmuc (2000), an authoritarian regime can carry out the liberalization reforms more effectively, at least in the initial stages when massive layoffs and cuts in entitlements follow liberalization. Alesina's (2010) thought probably summarizes the all issue up with few words: "Whether or not democracies grow more than authoritarian governments is an issue which has been extensively studied. The answer is clear: there is no stable correlation between democracy and growth. To put it differently there is no evidence that democracies grow more or less than authoritarian regimes. Some dictators have been "pro growth" (think of some authoritarian Asian governments), while others have destroyed their economies (think of some African dictators). I have no reason to believe that this (lack of) correlation will change in the near future. There is no way of predicting or expecting a difference between authoritarian or democratic regimes in

future growth”.

Given this literature, we abandoned the approach of researching for a general correlation between dictatorship and good economic performance or between democracy and such positive outcomes, as it is clear that no pattern can be identified. However, we have observed in these papers certain economic conditions and economic policies that can be associated to good economic outcomes and that can be found in certain governmental experiences. Persson and Tabellini (2003) call for no abuse of power and property rights, two conditions that can be present in both regimes. Acemoglu et al.(2014) state that democracies perform well starting from a certain GDP level. This could be reached also upon a period of dictatorship just like the increased investment, increased schooling, economic reforms, improved public service and reduced social unrest that they identified as fundamental conditions to enhance a country’s GDP. We have found those characteristics and many more in Pinochet’s dictatorship over Chile during the 1973-1990. While Acemoglu et al. (2014) state that democracy can also have beneficial effects on economic growth by constraining kleptomaniac dictators, reducing social conflict or preventing politically powerful groups from monopolizing lucrative economic opportunities, this is just what happened during Allende’s democracy in Chile from 1970 to 1973 and it is the situation Pinochet reverted. Pinochet’s Chile got our attention as it seemed a great example of how a dictatorship leads to good economic performance, which could be a proof for our research question. Given the obvious over-mentioned reasons why a general correlation cannot be found, we investigated the particular model of Chile for which this correlation seems to be true. We want to understand if it is indeed true (the outcomes), why (the causes), and if this model can be categorized and reproduced, given that good economic performance is not a necessary outcome for every dictatorship. Can a dictatorship foster good economic performance? If yes, how does it do that? This is our final research question.

We have decided to investigate a dictatorship because we wanted to test that it is indeed the most effective regime in establishing economic reforms, as interest group politics in democracy can lead to stagnation, gridlocks and corruption, particularly after interest groups become sufficiently organized. The strong authority of a dictator on the other side can ensure a smooth and sustained process of reforms even in the long-term. In order to investigate Chile, its governments, economic policies and economic performances we used sources that vary from Pinochet (1985) itself to

opponents as Delano and Traslaviña, who criticize the political and economical models of the regime already in 1989. We have considered testimonies of former ministers and/or Chicago Boys like Büchi (2008) and Rosende et al. (2007). But we also analyzed the works of “other” economists such as Cheyre (1986), Corbo (1998) and Edwards (2001), to understand Chile from the inside and from the outside. Moreover, we have considered the history of Chile and its historical data also with respect to other Latin-American countries, through the works of Keech (2004) and Hachette (2011), in order to make a comparison with countries that started from the same or similar point and were exposed to the same exogenous factors (international crisis mostly).

3. Today's Chile

The Chile of the present days is an example of a country in robust economic conditions. Its economic performance surpasses by far that of its neighboring countries and it is sometimes even comparable to the world most developed countries. To show this, we rely on statistics and economic data. We want to present here below the most relevant economic data, so that the reader can have a first generic opinion on the status quo of the Chilean economy. Most of the data refers to the 1990-2000 period:

- Chile's GDP growth rate has been of 6.3% per year. This rate is the highest among all Latin-American countries and it is one of the few increasing constantly over the last 40 years. The second highest is Mexico with a 3.7% rate.
- Chilean GDP per capita, US \$5000, is second only to Mexico's and Venezuela's US \$6000, if we don't consider Argentina's one for evident and unfortunately catastrophic economic conditions. Moreover, Chile's GDP per capita has been increasing at a 4.7% rate per year from 1990 to 2000, following a 1.4% increase in the 1973-1990 period.
- The yearly growth rate of gross investment in the 1990-2000 period is 8.42% and it is second only to Venezuela, but far above the 6.56% average. This rate as well, follows an extraordinary 10.42% rate in the 1973-1990 period.

- As a percentage of GDP, the investment rate is 21.04%, the highest of all.
- The inflation rate for the same 1990-2000 period is 11% and it is the lowest among the largest Latin-American economies. Argentina's one is 230% and Brazil's is 794%.
- Explaining this last data, the annual inflation rate variability is only 5.98, the lowest again and way below the 182.29 average, not to talk about Brazil's 988.14 deviation.
- Chile's commercial exchange rate as a percentage of GDP is 59% with the average being 39.2%, again the highest one and again stemming from a 1973-1990 period 50.9% rate.

Considering more social parameters and comparing them with all Latin-American countries:

- For years 1995-2000 Chile has the highest level of life expectation for men (72.8 years) and the 2nd highest for women (78.8).
- It has a 100% access to potable water for the urban population.
- It has the lowest infant mortality rate (11.5 children every 1000 born alive).
- Also, Chile ranks 3rd for lowest illiteracy, with a 4% value, lagging behind only Uruguay and Argentina.
- Its foreign public debt is the lowest among all Latin-American countries, with a 15% rate (out of the total country debt) and with the continent average being 69.2%.
- Among the public expenditures of Chile's government, social services represent a 71.3% which is second only to Uruguay's 75.8%.
- The tax rate to individuals and families in Chile is only 7%, while OECD's average is 25%.
- Moreover, Chile has a public surplus of 0.14%, which is the only surplus among the large Latin-American economies. (D. Hachette, World Bank, WDI, GDF online, UNdata, CEPALstat)

It is evident from this data, that Chile is experiencing a great period in economic terms or, as the Economist said in 2003: "Chile has perhaps the healthiest economy in

Latin America. Economic growth between 1980 and 2000 was the highest in Latin America by a substantial margin”.

More recent data shows us that:

- The yearly GDP growth from 2009 to 2013 was an average 5.3%
- The unemployment rate passed from 10% at the end of 2009 to 6.1% in February 2014
- The inflation rate is now at 3.4% after hitting a record low 0.26% in February 2010
- Real salaries have increased from 97.79 in 2009 (basis =100) to 111.5 in 2013
- Chile has a small deficit of 0.7%, after achieving two years of surplus in 2009 and in 2010
- Life expectancy level is 79 years, against OECD high-income average 80.

(Instituto nacional de estadísticas, Banco central de Chile, UNdata, World Bank)

Once again it is clear that Chile’s performances are outstanding compared to others and per se. Some data has slightly improved while some other worsened by the same amount, but the overall economic ground is very solid.

An important question has to be asked: how did Chile get here?

Today’s Chile stands out for its economic stability and macroeconomic parameters, under governments that already in 2000 were deemed as democratic, according to studies on democracy indexes by Mainwaring et al. (2001) and Vanhanen, while only Siavelis (2000) called it a “limited democracy” due to its 1981’s constitution.

However, most of the latest achievements have to be attributed with no doubt to the 1973-1990 Dictatorship. Pinochet’s regime, according to Keech (2004), was the most economically constructive of all dictatorships in Latin America. Although there still are some critics of the economic reforms and performances of the regime, the achievements of the military government are now recognized with vast consensus.

Truth is, those reforms needed a long term to come into effect and show their potential, which is what has been happening from 1990 on. That is why Chile did not

come out of the blue with its outstanding economic performances, its “miracle”. The miracle was called such in the late 70s already, and it happened again in the late 80s. Indeed, we also need to mention the fact that two great global crisis interrupted the governmental policies, twice. Nonetheless, in the long-term Chile’s economy came out stronger than ever and today’s Chile is enjoying the benefits of difficult and harsh decision and undertakings that were made 30 years ago with the goal of a long lasting economic stability for Chile and the Chilean people.

The fact that those were the right economic policies is almost undisputed. Many opponents of the regime had to recognize, years later, the effectiveness of the policies established under the dictatorship. The latest demonstration is the fact that the successors to the regime, also belonging to leftist parties, maintained basically the same policies of the military government and were able to implement new social and distributive ones only thanks to the rigidity of Pinochet’s reforms and to the Chilean people previous sacrifices.

Patricio Aylwin and Eduardo Frei Ruiz Tagle were presidents of Chile in 1990-1994 and 1994-2000 respectively and their economic program was based more or less on the same concepts that the dictatorship established: 1) Promotion of the private sector; 2) Macroeconomic stability throughout fiscal austerity and monetary discipline; 3) Open economy and competitive exchange rates. In addition to that, they have been able to spend public resources on social aspects such as health, extreme poverty, education, houses and pensions, again thanks to the great economic conditions inherited.

It’s not to say however, as we specified in our introduction, that any dictatorship would have led to these same outcomes. The two Argentine chaotic dictatorships of 1966 and 1976 did not lead to similar results. In fact (and we will explain later why), it is a particular combination of the right economic reforms and policies with an authoritarian power that makes ground for such an economic growth process.

It is visible from our data that Chile is in general performing better than any other Latin-American country and that almost any comparison would show Chile has the sounder economy. It is important however to illustrate the example of Argentina, which has gone bankrupt twice (in 1998 and a few months ago) in the last 15 years and that is described by the Economist (2014) in a descending parable.

While Chile’s generals opened up in the 1970s and pulled ahead, the Peróns built a closed economy that protected its inefficient industries. Argentina’s protectionism has

undermined Mercosur, the local trade pact. Ms. Fernández's (the current president) government does not just impose tariffs on imports, it taxes farm exports. Argentina did not build the institutions needed to protect its young democracy from its army, so the country became prone to coups. Political interference has destroyed the credibility of its statistical office and the country ranks a shoddy 106th in Transparency International's corruption index. A more specific term of comparison could be the privatization matter. Argentina made the telephone industry a legal monopoly, while monopoly was always excluded from Chilean privatization strategies. Mexico succeeded in privatizing banks, but they were strongly protected from international competition at the beginning. Buchi (2008) states that privatizations like those of Argentina and Peru have been possible, many years later, only thanks to the previous Chilean presence, which stood out as a guarantee for international offerers in a time in which Latin America was perceived as a high risk zone for the financial community. Many countries of Latin America attempted to conduct the appropriate economic reforms, but their initiatives weren't profound enough to have this reformatory impulse last in time. Argentina again, is a good example of that: after the privatization effort made (for better or worse), it moved its economic focus only on the fixed exchange rate. This was the only point of its process for reforms and it ended up in a disaster. Worth a mention is Brazil, which hasn't learnt from other countries' experience and, in fact, has been fighting with uncertain exchange rates even in the last 10 years, a plague that all other Latin-American countries dealt with many years ago. A last difference between Chile and its neighbors is in the approach used to re-equilibrate the commercial balance. The latter would adjust the exchange rate that, usually undervalued, would inhibit exportations once raised, so that the red sign on the balance would stay. Chile instead was the first to recognize, in the 80s, the importance of fiscal austerity to have net exports balance with net imports.

It goes beyond our interest to analyze in depth every Latin-American country and its economic policy in the last 40 years, but from the data we have provided and from a small precognition of their history it is clear that Chile stands out as the top performer among them. We can also say that the processes through which Chile achieved its actual status are very different from its neighbor countries, as they are indeed unique. As Rosende (2007) highlights, the "Chicago Model" was attempted also in Argentina and Uruguay, but probably didn't achieved the same results due to a lack of

governmental authority. We will analyze these factors in depth in the following three chapters, to understand the specific stages through which Chile really got here.

4. Chile under Salvador Allende

The predecessors

“The mere formal democracy remains victim of demagoguery, that has as its principal objective social justice and economic prosperity, whose effective results are substituted by loose and unattainable promises, with the only intent of an immediate electoral effect and total indifference towards a permanent progress of the whole Nation.” (Pinochet, 1979)

We start off this chapter with a citation from General Pinochet, that is not only a general description of democracy as demagoguery, but most importantly a clear picture of the preceding governments. Of course anyone might object that it is a partisan representation of the reality, or better of the history. However, we are sure any opponent of Pinochet or of its government would agree with this description of the governments that followed from 1950, which include presidents Ibañez (1952-1958), Alessandri (1958-1964), Frei (1964-1970) and Allende (1970-1973).

From Hachette's tables (2011), we derive that the most favorable period for the majority of Latin-American economies was the very same one between 1950 and 1973, when those four presidents ruled Chile. The only exceptions were Argentina and precisely Chile. Most of those countries took advantage of the benefits of the world economic boom that sparked during those years. However, not only Allende and his socialist predecessors didn't take advantage of those convenient economic conditions, they also managed to somehow worsen Chile's economic stability in such a propitious environment. As the table shows (table 1), Chile's GDP growth of 3.4% lagged well behind the average 4.8% and Mexico's 6.4%. Even though there is much more data to show the negative economic conditions in which Chile found itself under those socialist governments, the GDP is emblematic in showing Chile's underdevelopment.

Table 1. GDP growth for Latin America, years 1900-2000 (Sources: Hachette, 2011, OECD).

| | 1900-1913 | 1923-1950 | 1950-1973 | 1973-1990 | 1990-2000 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Argentina | 6.4 | 3.0 | 3.8 | 0.3 | 4.0 |
| Brasil | 3.5 | 4.1 | 6.8 | 3.7 | 2.1 |
| Chile | 3.7 | 2.5 | 3.4 | 3.1 | 6.3 |
| Colombia | 3.9 | 3.7 | 5.2 | 4.1 | 2.8 |
| Mexico | 2.6 | 2.6 | 6.4 | 3.6 | 3.7 |
| Peru | 2.9 | 3.7 | 5.3 | 0.8 | 1.9 |
| Uruguay | n.a. | n.a. | 1.8 | 1.2 | 2.8 |
| Venezuela | 3.3 | 6.9 | 5.4 | 1.4 | 2.5 |
| AVERAGE | 3.8 | 3.8 | 4.8 | 2.3 | 3.3 |

During those years, the Government used to prevail in the economic sphere and market solutions were easily cast aside. This was a natural consequence of the scarcity of scientific, technical and practical dialogue in those governments and the mistrust of the politicians with respect to the capability of the market to solve the main economic issues. A posteriori, we can say this was a result of both political and economic ineptitude, as the right economic policies weren't even considered, either for a lack of economic knowledge or for a lack of care towards the wealth of the whole Nation. During Ibañez's government inflation took off, with rates of 56%, 71% and 84%, respectively in 1953, 1954 and 1955. The President engaged the U.S. firm

of Klein and Saks to give advice. Their recommendations anticipated the neoliberal reforms of the Pinochet regime, but of course they weren't followed. The unpopular nature of those reforms couldn't be faced by a government who based its program on socialist promises. Alessandri's administration focused on inflation stabilization, with the assumption that when prices are stable, growth and distribution issues will take care of themselves. His program did not succeed, mostly because of a crisis of the balance of payments. Inflation did drop into single digits in the first 3 years of his government, but the costs of bearing the anti-inflationary program led to a rise in strikes (very successful ones). Both the strikes and congressional politics forced the government to back down on its effort to break inflationary expectations by ending the automatic adjustment mechanisms. Frei's program was essentially based on nationalizations and an agricultural reform, which will continue and take off under Allende.

All of these governments have many points in common, like the duty tariffs on imports, that reached extremely high level. This substitution of imports, whether it is forced or not, raised high costs on multiple sides: it stopped the development of potential exports by reducing the possibility of exports diversification, therefore reducing the variability of the terms on which international exchanges could be started. At the same time, it slowed down the imports of food, raw materials and capital assets. This strategy was strong enough to limit the same industrial development that the leftist governments wanted to achieve. As Hachette (2011) commented: *"se devestia un santo para cubrir otro"*.

To solve this and other fundamental problems Chile was having, the complexity of the political interventions was not the right background to apply a rational and stable strategy made of industrialization, substitution of imports and promotion of exports. Instead, it was a good fit for "rent seeking" and corruption. There is common knowledge, from the politics of the 50s, of many examples of decrees to exempt a certain specific firm from import duties one day, and a different one the next day, while the respective commercial ships were inside the bay waiting for their specific decree before unloading the goods. This duty tariffs chaos was incentivized by rent-seeking, corruption and great inefficiencies that characterized those governments. For example, under president Ibañez, 21 automobiles constructors were installed.

However, given the potential market for cars, not even the creation of one constructor was justified and in fact the total-value-added resulted negative. Firm owners would obtain good rents to offset the risks the commercial policy implied. In the meanwhile the employment effect was very little and the technological one null (Hachette, 2011). Achieving industrialization by simply substituting imports was not enough, at the end of the 50s, to ensure macroeconomic stability and a healthy growth. The new driving force had to be industrialization based on a combination of import-export policies, but even with the right economic policies, the instability and corruption of those governments would have hampered the well functioning of proper reforms.

Salvador Allende

Allende's candidacy in 1970 brought nothing new to the table in this sense. At the elections, the narrow plurality winner was Salvador Allende, a Marxist who had been running for president since 1952. Allende's plurality was 36.3%, with Jorge Alessandri coming in second at 34.9%. Nonetheless, Congress validated his election. It was unlikely that Allende was the candidate most preferred by the Chilean electorate, though he won the election quite legally and legitimately as the leader of the party called Union Popular.

The program of U.P. (Union Popular) made its nature very explicit, which was anti-imperialist, anti-oligarchic and anti-monopolist. It focused the attention on workers in general: blue-collars, small farmers and small self-employed workers that should amount, in general, to the vast majority of national workers. The U.P. government wanted to bring Chile through a complete socialist transformation and this was going to be possible throughout two main instruments: the nationalization of the means of production and a greater popular involvement.

The structural reforms of U.P. had an ample range: a) Nationalization of the principal resources of Chile: the great copper mining, carbon, salt, iron and steel. b) Greater expansion of the "Area of Social Property" through the nationalization of the biggest industrial firms of the country. c) Intensification of the agricultural reform. d) Nationalization of the banking sector. e) Governmental control of the largest wholesalers and distributors of goods. These structural reform policies moved diametrically away from the reliance on free markets and private ownership that is

part of the neoliberal perspective that would guide the following Pinochet administration. From the neoliberal point of view, they would have adverse effects on growth, even though rapid economic growth was an explicit goal of this government. Thus, a major part of the Allende's program was based on the Marxist ideology.

To summarize, the structural reforms anticipate a takeover by the state on the control of the major means of production. In the mind of Allende and the U.P. government, with the additional resources obtained from these industries and firms the government could have planned and led the economic development in a direction that would have favored the majority of the population. What the government cared the most about was not efficiency, but control. As a testimony to this assertion, the minister of Economy Pedro Vuskovic, a few days after Allende's election, speaks: "the control by the state is projected towards the destruction of the imperialist economic base and of the dominant class, to stop the private ownership of the means of production".

Apart from the above-mentioned reforms devoted to the acquisition of the productive control by the state, the control of inflation was another real key objective for U.P., due to political and economic reasons. On the political front, Allende announced during his electoral campaign that he would have defeated inflation, criticizing the previous governments for their incapability to solve this problem. On the economic front, reducing inflation was the only way to ensure a raise in real wages. Given this result, income redistribution could have finally been achieved. However, to fight inflation we have to go back to the previous point: for Allende, the state control of the majority of productive and commercial means will be the basis for ending inflation.

Generally, the first stage of a populist program, as the one U.P. presented, exhibits very good results, as there is a simultaneous large growth with lower inflation and greater purchasing power for the workers. However, this is only the short-term. Indeed, in a secondary stage, the large demand expansion generates growing instabilities: inventories run out and foreign currency starts diminishing. All of this generates on its turn an inflationary process, capital going out and the demonetization of the whole economy. The public sector experiments high deficit to control subsidies and exchange rates. Real wages decrease and so does tax collection from the State. A third and final stage usually sees anti-inflationary adjustments that have to reduce

subsidies and real wages.

Latin-America has seen numerous populist experiences, which systematically ended in an absolute failure. According to Bitar (1979), Larrain and Meller (1990) and as we will see shortly, the macroeconomic policies of U.P. coincide precisely with those of a typical populist government. That is why we are going to be able to mirror the history of Allende's government with the general aspects described above.

An auspicious start: 1971

The economy of Chile lived one its greatest economic moments in 1971, as a result of the highly expansive economic policies. The quality of life improved considerably and the heads of U.P. perceived this first results as a complete win already.

The most important data reads:

- 1) The yearly GDP growth rate got to 8%, much greater than the previous year 3.6% and the highest since 1950.
- 2) Inflation went down from 36.1% in 1970 to 22.1% in 1971
- 3) Unemployment fell from 5.7% in 1970 to 3.8% in 1971, the lowest rate ever for Chile.
- 4) Real wages increased by 22.3%.

Regarding the distribution of income, workers with low salaries had higher wage increases with respect to workers with salaries relatively high. Minimum wages for low-salary workers increased by 39% against a 10% for the higher class.

Consequently, the differential between minimum wages for the two classes passed from 49% in 1970 to 35% in 1971. Work participation as a percentage of GDP increased from 52.2% to 61.7%. These were extraordinary results, especially for the apparently working-class focused Union Popular. These results were obtained through a combination of policies oriented to the increase of added demand.

In the meanwhile, the government was successful in controlling prices, not just to have inflation under control, but also to lower it. Two reasons explain this success. First of all, the government took direct and indirect control of the different links of the chain between production and consumption, throughout numerous institutional

changes and the intervention in the banking sector, which made possible the ease of lines of credit. Secondly, the structural reforms that expropriated many firms obliged entrepreneurs to follow the “commanded” official prices. Not doing so was going to be risky: “ entrepreneurs should think twice about violating official prices, because this government is not like the previous ones” (Vuskovic).

Getting back to real wages, the salary adjustments of the workers surpassed by far the limits established by the government. The great tradition of unions to maximize salary adjustments played its part, but it was U.P. who took the chance of gaining popularity among the workers (Meller, 1990). This behavior is an example of how, with no regards of the economic long-term stability whatsoever, but only with an eye on the political status, Allende’s control over the macroeconomic situation started slipping away. Many other warning signs at the end of the year suggest the presence of a growing economic unbalance.

The public deficit increased from 3.5% (of the GDP) in 1970 to 9.8% in 1971. Credit to the public sector increased by 124%, much more than the 90% of the credit towards the public sector of the Central Bank. This shift caused a 199% increase of M1. International reserves dropped by 59%. The commercial balance moved from a trade-surplus of US\$ 95M in 1970 to a trade-deficit of US\$90 in 1971, mostly because of the global price drop for copper. Gross investment fell to 2.3% and private investment registered -16.8%, due to contraction of the productive sector, which has its roots in real wages increase associated with strict price controls.

At the end of year 1971, many signals pointed to a substantial acceleration in the inflation rate for the following year: the large money supply, the large fiscal deficit, new adjustments of the salaries expected in January 1972, the impossibility of further contraction of private sector utilities, the exhaustion of both natural and artificial supplies, the strong contraction of international reserves and the consequent appearance of a black market for many goods. In such a situation and notwithstanding the signals, the reaction of Allende’s government was almost null. It either didn’t want to enact the unpopular reforms that should have enacted from the first moment or more simply didn’t really know what to do.

Decline and total collapse: from 1972 to 1973

As we have anticipated, what the government of U.P. should have done in such a situation was the reduction of real wages, in order to mitigate the current unbalance. However, such a measure would have ruined the socialist, revolutionary and worker-friendly image that tried to establish all along from the very first day of electoral campaign. The political matters prevailed: nor adjustments nor modifications to the economic policies were made. Many economists and areas of the government believed the continuation of expansive and distributive policies impossible. They thought that if 1971 had been the year of redistribution, 1972 had to be the year of accumulation. However, nothing was changed. On the contrary, the governing coalition was even putting conditions that were just unreasonable, given the economic situation, such as the maintaining of the distributive position achieved.

In the meanwhile, the average salaries of the public sector grew by 48%, the subsidies to public firms expanded from 4.6% to 9.5% of the GDP and the tax collection fell by 3% in both 1972 and 1973. These factors resulted in an enormous public deficit, which reached the 24.5% mark in 1972 and hit 30.5% in 1973. To satisfy the great social expectations, Allende had to finance the 60% and the 73% of this deficit (respectively for the two years) through having the Central Bank print more paper than the required amount in 1972. This resulted in a 173% increase of the currency in 1972 and a 413% increase in 1973 and, as you can already imagine, to an inflationary escalation that impaired productivity. Hyperinflation came and made Chile register rates of 260% and 605% in 1972 and 1973. There is no productive sector that could bear a monthly inflation rate increase higher than 10%. Inflation, mixed to low productivity, gave rise to a catastrophe. Households and entrepreneurs started accumulating goods, especially food, in the light of a governmental breakdown or worse, in case of State bankruptcy. The political and street violence of those days made this eventuality a very possible outcome in the minds of the Chileans. After a while, it was possible to buy primary goods only with a rationing card, awarded by the Committee of Supplies and Prices. For the entrepreneurs, the constant price rises made “later” the appropriate time for selling at a much more profitable price.

GDP growth was negative, falling to -0.1 and -4.3. Real wages dropped 11 percent and 38 percent. The buying power of workers was reduced by 23% and it took Chile 8

years to get back to the levels of 1970. The macroeconomic policies of Allende and U.P. produced disastrous outcomes, totally opposite to the initial intention of this government to eliminate inflation and give more power to the workers. As the theory suggests, this is how populist programs are doomed to end up and this is how Salvador Allende and his government took Chile with a terrible economic heritage and “succeeded” in making it even worse.

Alongside with this general macroeconomic incompetence and with the sky-high inflation rate, three more aspects (or better reforms) probably condemned Salvador Allende to the military coup of 1973:

a) Nationalization of copper mining and banks

Copper has always been a fundamental resource in the economy of Chile. In the 70s, copper represented the three fourths of all Chilean exportations. When Allende took power, the State owned the 51% of the main copper mines of the country already. The remaining percentage belonged to US companies, in particular *Anaconda Copper Company*, controlled by the families Rothchild and Rockefeller and *Kennecott*, both US firms. The companies were to be compensated, but the president was authorized to deduct “excess profits” taken over the preceding fifteen years. Under what became known as the “Allende Doctrine”, these excess profits were judged to exceed the value of the firms, so Anaconda and Kennecott were paid nothing. This is how, in July 1971 Allende’s government, with the unanimous consent of the parliament, fully nationalizes the copper mining industry. The reaction of the US government was fast: “This serious violation of international practices not only will damage Chile, but also all developing countries”. It’s easy to see that this move not only damaged the Chilean economy, but also gave rise to a US enmity that Allende would have paid dearly just a couple years later. Not only the US supported the military coup of 1973, but also Anaconda and Kennecott tried to obstruct the sale of Chilean copper on the world market (Oppenheim 1991).

Allende would also nationalize 91 more basic industries during his first year of presidency (to achieve a total that is over than 150 industries during his whole presidency), to put them under state control by the end of 1971, including twenty of the largest industrial firms in the country (Stallings 1978). The banking industry is

another great example. The government lacked the legal power to do nationalize it and recognized Congress was unlikely to give it. Therefore it simultaneously offered good prices for bank stocks while investigating banks for financial wrongdoing and labor problems. Faced with the option of selling shares at good prices or eventually ending with stocks of dubious value in troubled banks, stockholders in large numbers decided to sell (Larrain and Meller 1991).

b) Agricultural Reform

The vast majority of cultivable field of Chile were large estates owned by a few large families. Allende's government promulgated an agricultural reform by which the ownership of more than 80 hectares per person was forbidden. Following this reform, after 18 months there was not one large estate left and 60% of the agricultural land was expropriated. In this way the small farmers, throughout organized cooperatives, could replace those representatives of the greatest estate owners. The completion of this reform, which started many years earlier under Alessandri and Frei, was worth the worst Soviet property expropriation and drew the anger of the largest industries' owners on Allende.

c) Health, education and social reforms

During his 3 years of government, Allende enacted various reforms in the field of health, education and other social aspects:

- University became free of charge. The number of university students grew by 89% between 1970 y 1973. It was the first time that many humble families had the chance to see their sons and daughters acces secondary education.
- A system of scholarships for native Chilean children (especially mapuches) that had been discriminated during the previous years.
- The program of food supplements (*Programa de Suplementos Alimenticios*) was

extended to every child attending primary school and to every pregnant woman.

- Minimum pensions were increased to the double of the inflation rate.
- Installment of health centers in blue collars' blocks to guarantee at least one health center for every 40.000 inhabitants.

At a first glance, these reforms might all seem fair and appropriate. Indeed, we do not argue the social results achieved are extraordinary. However, the economic instability created by those social reforms is great. The macroeconomic populism of those reforms made up for part of the 30.5% public deficit achieved in 1973.

Inefficient nationalizations, private ownership expropriations and deficit-driving reforms added to the catastrophic macroeconomic surrounding and the hyperinflation, to put an end to U.P.'s governmental experience, which resulted in a giant failure. By mid 1973, Allende was losing control of its country. There was one union strike after another and there were rumors about a possible coup. The political center of the country, represented by the DC (Democracia Cristiana) and the right wings, only wanted the government to fall. On 11 September 1973, backed by the entirety of the military forces of Chile, General Augusto Pinochet Ugarte takes control of Chile through a military coup. Sigmund (1980) attributes much of the guilt for the *golpe* to the U.S. and the "invisible" economic block created by them. Without going into deep, we can say that the U.S.A. surely played a part in the coup, but Allende himself and its government created all the disastrous economic conditions that made it almost inevitable. Moreover it was the same government that, proving once more its political ineptitude, made an enemy out of the United States by expropriating the property of their investors, instead of creating a strong bond for future commercialization and exchanges.

Unfortunately, those wrong policies enacted from 1950 to 1970 (and made worse by Allende) would leave a deep and painful mark in the years to come. The trail of macroeconomic instability created by those governments deteriorated the economic condition of Chile in a way that, as we sustain, only very unpopular (unfortunately)

but much needed policies could have perked Chile up after such a fall. Allende and his predecessors received what is now probably unanimous criticism, as there was nothing, neither from the political nor from the economic point of view, that could have done good for the economic and social conditions of the Chilean people.

As Milton Friedman (1975) assisted Pinochet in the process of fighting inflation through his “shock” program, he highlighted the fact that this was not a growing problem, but one that rose under the socialist tendencies started more than 40 years earlier in the country and that reached its “logic and terrible peak” under the government of president Allende.

Buchi (2008) observes that after the 1982 crisis, Chile used some key instruments like public spending reductions, tributary exchanges and the pension reform in order to recover the previous savings rates and to recapitalize the private sector but it never got to the point of raising taxes on firms: “Once again it was demonstrated that the socialist impulsion to apply taxes on the firms was going to damage much more the poor than the firms in the long term.” The higher the taxes in fact, the lower the productive structure ability to reinvest and therefore the lower the jobs that can be created.

According to Keech (2004), Chile fits and indeed may even define a caricature of the limitations and the economic dangers of democracy, and of the economically constructive possibilities of authoritarian government. In fact, different programs of succeeding administrations can create a stop-go phenomenon that allows no package of policies to have a lasting effect. Secondly, effective reforms may take more than one or two electoral periods to have their effect. Thirdly, Allende inherited a recently elected Congress that was controlled by his opponents, and he faced an entrenched and unfriendly bureaucracy. Particularly, the stability of Chilean formal democracy depended on considerable political bargaining, the use of political patronage and shifting governing coalitions compliant to the continuing dominance of the landowners over the votes and the political activity of their farm work force. This dominance, in turn, depended upon maintenance of the *hacienda* system through the prevention of rural unionization and the exclusion of outside influences (Loveman, 2001).

Moreover, Loveman (2001) also disputes the democratic level of such governments, as many if not all of the democratically elected government between 1932 and 1973 resorted to emergency powers, including Alessandri, Cerda, Frei and Allende. This was a limitation on the quality of democracy in Chile in this era. Uses of regimes of exception enhanced the power of the president and reduced the power of the congress.

The economic evidence represented through the data and the literary disapproval leave us with an only possible solution to the problems Chile was facing: an authoritarian government that is aware of the right economic policies and that is not afraid or impaired to enact them. We will see in the next three chapters how Pinochet's regime, with the economic knowledge of the Chicago Boys, perfectly fits the part.

5. *Los Chicago Boys*

Although this might seem the name of a music band, the Chicago Boys are a group of Chilean economists who had the opportunity and the honor of being part of the University of Chicago (the economic department) under its golden years, the 60s. The Chicago Boys exploited the chance given to them to its fullest, by absorbing all the neoliberal knowledge they could, only to later transform it in practical teachings: the reforms and laws that changed Chile under the Pinochet regime. Before saying who the Chicago Boys were, how they became such and what their plans to improve Chile's economy were, let's briefly introduce the University of Chicago first.

In the years 50s and 60s, the economic department of the University of Chicago was living one of the best periods of its history. Waiting for the Chilean graduates there were professors like Lloyd Metzler, Gregg Lewis, Theodore Schultz, D. Gale Johnson, Milton Friedman, George Stigler, Gary Becker, Sherwin Rosen, Robert Fogel, H. G. Johnson, Robert Mundell and *dulcis in fundo* Arnold Harberger. Six of them would receive the Nobel Prize a few years later. Four more would have to wait some more time, as in the case of Merton Miller, Ronald Coase, Robert Lucas and James Heckman. In order to match the 10 Nobel Prizes obtained by the University of Chicago we need to combine all of those obtained by the professors of MIT, Harvard, Yale and Princeton together (Hachette, 2007).

The vision of those professors, mainly represented by Friedman and Stigler, is one of compromise with the positive science and has given birth to what is called “Chicago School”, which can be defined as a distinct version of modern neoclassical economics. The department of economy of the University of Chicago puts much focus into empirical verification and is strongly anti-keynesian, especially in the interpretation of the Great Depression. It sustains that Keynesianism does not solve inflationary issues. Milton Friedman, which has probably influenced the Chicago Boys the most, stands for almost everything that is “Marshall”, even though this anti-keynesian view attracts the critics of the politically correct. In his book *Quantity Theory of Money (1954)* he illustrates in depth the monetary face of the “Chicago School”, the economic stream of thinking of the University and later on of the Chicago Boys as well. Another part of it, as we said earlier, is the necessity of empirical demonstration of a theory, formed by opportunity costs and demand-driven prices mostly. This is what differentiates it from the Austrian School for example. Finally, a fundamental notion of the “Chicago School” is economic liberalism, associated to positivism, as Friedman (and his wife Rose) describes in his book *Free to Choose*. A common denominator of professors such as Simmons, Friedman, Stigler and Lucas was the scientific trust they put on market efficiency to allocate resources at best. At the same time, they would not rely on governments and central banks to manipulate the aggregated demand.

The story of the Chicago Boys starts the 1st of July 1955, when Arnold C. Harberger arrives in Chile with other three professors (Schultz, Rottenberg and Hamilton) to evaluate the possibility of a collaboration between the University of Chicago and the Universidad Catolica de Chile. This would have improved the level of the department of Economy and Administration of the latter, whose “economic” quality was really low. There were also rumors about scholarships awarding to study in Chicago (De Castro, 2007). In fact, in March 1956 this partnership became official. It should have lasted three years, but it was extended to 1961 and it gave out scholarships to 30 Chilean students in total. That is how Harberger and Friedman became respectively the mentor and the economic guide of the Chicago Boys and therefore of the future economic policy of Chile.

The first batch of Chilean students who had the privilege to study in Chicago, counts many Ph. D. among which we can recognize many of the Chicago Boys: Rolf Lüders,

Ricardo French-Davis, Mario Corbo, Ernesto Fontaine, Dominique Hachette, Alvaro Saieh and Sergio de Castro. Not all of them were part of the Pinochet regime, but they certainly played an economic role or had influence in Chile. More representatives of the “Chicago School” were yet to come. Some that played a major role during the dictatorship, did not graduate from Chicago but shared nonetheless that economic thinking in its entirety. It is this thinking that inspired the main reforms under which Chile went from economic disaster to economic growth. As Rosende (2007) says in fact, the different economic reforms implemented in Chile from mid 70s are usually associated with the application of the “Chicago Model”.

Apart from the more general points mentioned earlier, Milton Friedman had precise ideas on how to act to improve Chile’s condition. It was necessary to let the free market work its magic, with no restrictions and eliminating obstacles to competition. Fiscal deficit, public expenditures and money printing had to be stopped (or limited), because those are the factors that lead to a chronic inflation. Ultimately, the role of the government had to diminish considerably. Friedman himself traveled twice to Chile, in 1975 and 1981, to advise Pinochet on the free market economy. The same Harberger, or Alito as he literally was a paternal figure to the Chilean students, proposed similar things for underdeveloped countries. Cited by Rosende (2000) and Hachette (2011), Harberger advocated cost reductions for private firms, the control of inflation, the elimination of price distortion, the privatization of public companies and more openness to the international markets. All of those policies combined would have allocated great benefits to Chile and to similar countries striving for economic development. Moreover, he thought it was crucial “to modernize the judiciary system in order to eliminate endless delays, to eradicate corruption and to incorporate economic principles that will ensure property rights for all levels of society”.

Truth is, Chile already knew about many of these policies (especially those of Friedman) before the arrival of the Chicago Boys. The Klein-Saks mission started in 1955, after a governmental call for international economic help, treated more or less the same points. However, it was heard but not completely applied. President Alessandri only used exchange rate adjustments to reduce inflation, ignoring the many other suggestions. There were many doubts on this innovative policies and the government couldn’t sustain the political pressure coming from the debates the K-S mission was arising. Indeed, a profound analysis on the benefits of liberalization was

still missing, as it was missing a proper analysis of the economic situation in Chile. Only Pinochet, from 1975 on, had the political power and the intuition to fully commit to what was not just liberal economics anymore, but neoliberal ones.

From school to government

In the minds of the just-graduated Chicago Boys, and later on in the reforms of the military government, the economic thoughts developed in Chicago took very much the shape of Friedman's thinking. From the moment of their arrival in Chicago to their comeback in Chile, those young students always had an eye on how the teachings and practical demonstrations of their American professors could be applied to their home country. Many times the professors themselves were focused on giving specific insight on Chile. That is how they determined the most important characteristics of a new Chilean government direction. The main points were: liberalizing the market, fueling private initiatives, reducing the size of the State, opening the economy to the exterior, ending the governmental discretionary nature over economic decisions, looking for permanent efficiency in both the public and private sector of the economy and looking after macroeconomic equilibria.

The Chilean graduates of University of Chicago started getting together in 1972. This initiative of joining each other in economic discussions was supported by the technical departments of two parties: Democracia Cristiana and the right-wing Partido Nacional. The major representatives were Sergio Undurraga and Emilo Safuentes in the Partido Nacional and Alvaro Bardon and Andres Safuentes in the Democracia Cristiana (Delano and Traslaviña, 1989). A short consultation made evident the gravity of the economic situation. The economists made clear the a strong change of path was needed, "in case it wasn't done, every new day would be a step closer to a possible coup d'etat", Safuentes said. The economic team grew rapidly and after a few weeks it counted 36 participants, among which there were Saenz, Sergio de Castro, Juan Villarzu, Emilio y Andres Safuentes, Jorge Cauas and Alberto Baltra. All of them were Chicago Boys (see the most important ones in the Appendix, Table 2). Saenz, who was "leading" the group, decided to call together the leaders of U.P. in June 1973. Notwithstanding their stand of political enemies, those economists were ready to offer their economic support for an alternative and totally new economic program, their neoliberal one. Eduardo Frei, Sergio Jarpa, Jaime Guzman, Pablo

Rodriguez Grez and Julio Duran probably didn't like what the Chicago Boys had to say. No move was made to change the economic course of actions and this resulted in the military coup of September 11th.

As we said earlier, they were all, more or less, entangled in the economic life. Many of them had private firms, others were economic professors or researchers and others had occupied technical positions in the government. The majority of them was independent and not looking for one party, but just for the right economic reforms to prevail. Examining the economic situation of Chile under the Union Popular, their general critique focused on a low growth rate, exaggerated state control, low productive employment, high inflation, agricultural backwardness and diffused poverty in the country. The only responsible for all this was a suffocating state control (Delano and Traslaviña, 1989). That is why they were recommending an urgent process of decentralization of the economy. In fact, this state control generated the discretionary nature of the price control, the granting of inefficient subsidies and the direct control over the market. This kind of intervention was the source of serious unbalances and injustice. On the other side, the Chicago Boys strongly believed in a way out of this slump, to undertake radical changes for the economic structure in order to reaffirm a capitalistic system, the same the Marxist U.P. was opposing. For that objective, the Chicago Boys recognized they needed a strong government to enact those structural reforms. The changes to make would have taken (as they have in fact) a long time and they would have required many sacrifices from the Chilean people. Needless to say, those sacrifices could have been much lower if Allende and his predecessors hadn't brought Chile to the edge of an economic cliff. Those reforms were going to be right but unpopular and the Neoliberal economists knew that. Nonetheless, they were looking at the long-term, to give Chile macroeconomic stability for the far future. The regime Pinochet established served that function just right. As Stormansan (2001) says, the military government allowed those "non-political" economists, as they defined themselves, to develop the reforms they wanted with scarce (if not null we add) political or social restriction.

In a first moment however, the Chicago Boys were only council member or technicians dependent on the orders of the military power. The first requisite to fulfill governmental positions was loyalty, even before economic knowledge. That is why by October 1973, those well-trained economists were only covering secondary

functions. But history makes very clear that they weren't going to do only that. Valdes (1989) tells: "Under the support of the military and of Pinochet directly, a group of intellectuals installed in government institutions began a new ideological adventure. The "Chicago model", a new philosophy that introduced a "new man" that would maximize utilities in the social space created by a free and competitive market. Society wouldn't move according to political criteria, but to imperatives of economic efficiency". Indeed, things changed in 1974. The minister of Odeplan (development planification) Patricio Kelly brought into the government Miguel Kast, a brilliant Chicago boy (Delano and Traslaviña, 1989). It was Kast that made the extension of the U. Chicago - U.C. Chile and new scholarships possible. Kelly and the disciples of Friedman and Harberger began their fight to show Pinochet that the previous technicians on which the military relied were wrong. In 1975 the Chicago Boys prepared the famous "shock" treatment that minister Cauas applied later on. Many economists of the *Democracia Cristiana* were reluctant to such a shock. Although they recognized the rightness of the reforms, they wanted to enact them in a more gradual way, step by step. In the Chicago Boys' opinion though, Chile needed just a shock to get up on its feet. The director of Public Expenditures, the D.C. Juan Villarzu, didn't agree with this program and left his seat. Juan Carlos Mendez, who took his place, had the painful assignment of firing 96.000 public officials in just one year as the "Cauas Plan" called for. For this and other reasons, the support of the *Democracia Cristiana* started decreasing rapidly. But it was Pinochet himself who valued those economists much more than he valued the supporting party. Pinochet was captured by the simplicity of the expected functioning of the model and by the determination and expositive clarity of the Chicago Boys. Of course one fact that must have influenced the General was the long-term required by those reforms which, if needed, was going to be a perfect justification for a prolonged permanency of his power. But it was also a chance to eliminate the "Marxist menace", by transforming radically the economy and therefore the society. Needless to say, the solutions to inflation, international crisis and shortage of money were decisive factors. Another great influence was Sergio De Castro. According to Delano and Traslaviña (1989), he became the leader of the Chicago Boys in the first part of the dictatorship, just like Büchi would have been the leader in the post 1982 crisis. De Castro would frequently update General Pinochet on the economic condition and convince him about many new neoliberal reforms, so that he could impose himself in government assemblies. It

is reported that if necessary, De Castro would argue with Pinochet over those reforms, something that very few dared to do.

And that is how the actions of the Chicago Boys started. The 24th of April 1975, the minister of Finance Jorge Cauas announced the “shock treatment”, in spite of the D.C. opposition and of the rigidity of those measures. The same Milton Friedman approved those energetic policies their disciples were enacting: “I don’t think a policy of gradualism makes sense for Chile. I’m afraid the patient could die long before the treatment takes effect (...). I believe Chile can gain a lot if it relates the shock treatments to the problems of inflation and disorganization”. We will see in the next chapter what those shock reforms meant for Chile.

6. Reforms

Even though we have acknowledged from the chapter on Allende’s government what the economic situation of Chile was in 1973, let’s recap the most important data. In particular, inflation reached a 605% rate, fiscal deficit reached 30.5% of GDP, the GDP growth was a negative 4.3% and wages dropped by 38%. It is important to evaluate the reforms that we are going to present in the light of this data. Indeed, we consider them to be very important but also very painful for the Chilean population of that time. It is necessary to say that both these two dimensions reached high values not only because of the Chicago Boys’ new neoliberal thought but also (and in great part) because of the terrible economic situation they had to revert. If Chile hadn’t been in such bad conditions, we wouldn’t have seen such structural and deep reforms as those that we are going to explain and perhaps not even a coup followed by a dictatorship. As Sergio De Castro (1975) said: “the new economic policies implemented by the government will correct half a century of economic mistakes in Chile”.

The 21st of April 1975, a month after his arrival in Chile, Milton Friedman had his “shock program” delivered to General Pinochet, in order to advise him on the possible policies Chile could implement. It included having a new currency called “peso”;

reducing the public spending by 25% in 6 months by cutting jobs in the public sector; adjusting inflation during the public spending decrease; stop financing the Government with monetary expansion; reaching a “free-market” exchange rate; reforming laws that were obstructing efficiency and creating space for corruption and finally helping people in extreme poverty conditions. Friedman knew those reforms would have cut down job places and wages in the short-time, but still deemed them to be essential to Chile’s economy. This plan was intended to eradicate inflation in just a few months in order to create the basic conditions for the solution to the next problem: the development of an effective market economy. The elimination of inflation would have brought a rapid expansion of the capital market, which in turn would have facilitated the privatization of firms still owned by the State. The most important part was the liberalization of international exchanges, to promote competition and export expansion. This would have benefited the population on one side, as they could acquire more good at lower prices, and the country exports on the other, as Chile would not have been dependent on copper only. As we know, Friedman influenced in a major way both the Chicago Boys and their reforms. That is why we can find the recommendations he made to Pinochet in 5 turning points of the actual “shock program” conducted by Cauas and De Castro: 1) Fiscal adjustments and decentralization, starting from 1975 the Government reduced public spending by 50%; 2) Prices liberalization, only those of public services remained fixed; 3) Privatizations 4) Duty tariffs reduction from 200% to 30%; 5) Deregulation of capital accounts.

In the first period of government, the Military Junta focused on three essential points: inflation, fiscal deficit and re-establishment of basic macroeconomic balances, by using the shock program and other tools. Later on it focused on more aspects of Chile’s economy and we are going to see them in detail, one by one.

6.1 Inflation

We have talked far and wide about Chile’s inflation until 1973 and we know it is the primary objective of all Chilean governments and the first goal on the Chicago Boys list and of the “Chicago School” thought. The underlying idea to combat inflation, developed essentially by Milton Friedman and Robert Lucas, was that controlling the emission of money is as effective as fixing interest rates, although in the present days

the latter is probably preferred by most central banks. As Lüders says (2007), it is evident that inflation in Chile was a monetary matter and that it had to be solved with a precise monetary policy. However, the author continues, this is obvious for all of us only now, while previously it wasn't at all, especially in Latin America where they fought with inflation for a long time (and still are). Indeed, while Harberger, Davis and Diz were writing about inflation in Chile respectively in 1963, 1967 and 1970, the governments weren't acting at all.

What Pinochet's government did, was to trust for the first time the monetary policy approach. The fact that inflation wasn't caused by an incorrect fixation of the exchange rate went from being just an idea to being a very important reality. The government was able to fix an exchange rate once and for all (not really, as we will see later), not worrying about inflationary consequences. In fact, inflation was really caused by the amount of money that was circulating in the economy. Monetary expansion had to be stopped. Monetary restriction became the new dogma. In this way, a fiscal balance could have been obtained and inflation wasn't going to be a problem anymore. In fact, the fiscal deficit was recognized as the primary cause of inflation, as monetary expansion was used in Chile (and in many other countries) to finance the great deficit. But this "inflation tax", as Friedman called it, was too heavy to bear. Therefore Chile reduced the fiscal deficit and stopped monetary expansion and it did so simultaneously and drastically, as the future Nobel prize suggested. A tool used to achieve those results was the independency given to the Central bank, which started to have the powers to make those adjustments in order to reduce inflation.

Even though these policies might seem intuitive nowadays and almost taken for granted, it was a big change for Chile, for its economy and also for all Latin America at that time. However, we need to say setting a fixed exchange rate and reducing monetary expansion so drastically usually has its costs in the short time, which usually are recession, increased unemployment and companies' foreclosures.

Nonetheless, the Government eliminated subsidies and laid many public employees off. In 1975, as part of the shock, it accelerated size reduction of the State, limited general state expenses and began a restrictive monetary policy.

6.2 Exchange Rates

In 1954, under Alessandrini's government, there were seventeen different types of exchange rates. In 1958 they became six and at the end of the decade four, but the black market exchange rate was double the official ones.

The government acted with decision by removing the different types of exchange rates and correcting the extreme overvaluation of the currency. This "shocking" move caused a devaluation of 229% in 1973. However, it was a good move: exports increased in the short-term and a free fluctuation of the exchange rate was possible until 1979. Why so?

Foreign debt became unsustainable and a more rigid exchange rate was therefore necessary. That is why, from 1978 on, Chile imposes a fixed exchange rate to use as a nominal anchor and this is what we could call the second part of Chile's exchange rate policy under Pinochet. A fixed exchange rate would 1) establish a limit to inflation for movable goods 2) have an impact on inflationary expectations, as a radical change in the exchange policy. This measure aimed at a positive impact on exports and salaries.

However, the fixed exchange rate got to an end in 1982 when, due to the global crisis, foreign debt was at its highest levels and inflation was rising. The government found it necessary to devalue the *peso*, to face a shortage of international reserves and a banking crisis (Edwards). This third and last part intended to adjust periodically the nominal exchange rate, in order to avoid a rigid mechanism of indexation as a function of past inflation, as Fontaine suggest (1989). Also, exchange rate policies were tied to the long-term plan for eradicating inflation the Chicago Boys had drafted. Finally, the setting of precise objectives for interest rates became the central instrument used by the Central Bank to manage macroeconomic aspects and to reduce inflation.

At the end the Government succeeded, but it took it quite some time, due to the above-mentioned crisis and to the high costs imposed on the population at the beginning. That is, it lacked credibility for a long time, a fundamental aspect for the positive outcome of exchange policies and nominal anchors. Once again, the long-term advocated by the Chicago Boys for establishing the correct policies was found to

be necessary.

6.3 Constitution

The new constitution was conceived as a document that would legitimate the freedom of people first and then define a new political and economic order for Chile, based on the free private initiative and a subsidiary state (Fundacion Presidente Augusto Pinochet Ugarte, 2004). The new constitution was approved in 1980 and entered in force in 1981, to substitute the previous one established in 1925.

Its main characteristics were:

- Recovery of the state of rights, to be separated from public powers
- Individual freedoms
- Social freedoms
- Strong executive power, not opposed by previously voted senates (as it was the case with the last constitution: Allende and co. had to govern against a senate elected under a different government that came before them).
- Strong legislative and judiciary power, to defeat corruption and ensure property rights
- Regionalization

This constitution has also received critics. Delano and Traslaviña (1989) affirm that the constitution was a plan made by Pinochet to ensure his influence until 1997. The authors say that the constitution was made to satisfy the calls for democracy from the United States and from the 54.6% of Chile's voting population that in 5th October 1988 expressed its desire for elections. However, the authors advocate, there were many implications that would confer continuous power to Pinochet. He kept being head of the army, he designated senators and new ministers of the Supreme Court. Most of all, the president of the central bank was nominated by Pinochet and kept his position until 1994, while the 5 directors of the council of the CB remained until 1999. This is very important, because the decision of the council could not be the object of a veto by the Executive and the minister of Economy could only

postpone them by 15 days. Those decisions entailed monetary, credit and exchange policies as well as part of the banking system. From the authors' perspective, this was an issue, as it limited democracy. On our opinion instead, it was necessary not to waste all that had been done until that moment and not to have the fears of the Chicago Boys (of an insufficient time to see the real effects of reforms) come true.

6.4 Pensions

The reform related to pensions was an initiative of minister Piñera. Basically, it was a great privatization of pension funds, which passed from the hands of the State to those more efficient ones of private companies. Although the State put a third of the resources anyway, this reform reduced the fiscal deficit by a large margin.

With the system in force under Allende, workers were financing the provisional system without any clear linked benefit. There was no assured conformity between what was paid by the workers and what would have been received by them. On the other side, individuals and groups related to the power would receive "golden" pensions. Borzutzky (2002) defined it as a "chaotic, discriminatory, fragmented social system that protected only the most articulate groups within the urban-centered coalition". Moreover, there was no uniformity in the provisional state system: in 1973 there were 32 *Cajas de Prevision* and more than one hundred provisional regimes, that were the cause of evident unbalances in the calculation of pensions. In fact, notwithstanding the socialist face of Allende's government, those suffering from the unbalances were by far the poorest. While the golden pensions were received at even 42 years of age, some other workers would wait until 65 years. This fact is even more shocking if we think many of those workers would have been under very stressing conditions, working in the mines for example.

The provisional reform took many years to be enacted, but finally in 1981 the Decree Law 3500 created the APF (Administradora de Fondos de pensiones). The APF was administrating all the different private funds, to invest their money with different financial instruments in order to generate profits. After a few years, workers were obliged to affiliate to one of the pension funds.

Initially, the main pension funds were owned by the groups Cruzat-Larrain and Vial. After the 1983 crisis, five of them got under the control of multinational groups: AFP Provida was controlled by Bankers Trust, AFP Santa Maria by Aetna and AFP Union by AIG, all North-American. AFP El Libertador was controlled by the swiss Amindus and AFP Summa by the Arabian group led by Mahfouz (Delano and Traslaviña, 1989).

This reform, aside from pension funds privatization, brought more radical changes by introducing:

- Leveling *ope legis* of general values for compensations
- Linking compensations to contributions
- Freedom in choosing the pension fund
- Freedom in the contribution to pay
- Competition between pension funds
- Independency between the funds and the public system
- Equity
- Lower costs for affiliates and firms
- More money the pension funds could reinvest in the economy

Notwithstanding this private system, the government kept granting minimum wages to workers and subsidies to the elder without health insurance.

6.5 Health

In 1979 the Decree Law 2575 enabled blue collar workers to access the “System of Free Election”. This means that workers could actually choose where to be treated medically and also by which doctor. Also, it was eliminated the medical discrimination created by the existence of Sermena, providing services to employees and SNS, providing them to workers. Those were certainly two important democratic changes. The D.L. also made possible for private institutions to have agreements with public hospitals to offer their services. In the same year the ministry of Health and the SNS (National Health System) were restructured, as the SNSS (National System of

Health Services) was created. It was made by 27 autonomous entities responsible for proportionating health services in specific geographical areas. All the entities were responding directly to the ministry.

In 1980 the financial part of the system was readjusted with the FONASA (National Health Fund), which has the duty to distribute the resources coming from the IRS.

In 1981 the administration of the premises for primary health services was decentralized. The municipalities themselves were responsible for them and could take decisions at a local level, by knowing the needs of the local population better. They were also able to entrust the administration to private entities not for profit. This reform took away from the government a huge administrator burden but was completed on the whole territory only in 1988.

In 1981 the Government created the ISAPRE, the private institutions for social security Health. From that moment on, the mandatory tax contributions for public health could be addressed to precise private health institutions and to even more specific health plans that they had. This was a free choice and for sure another democratic advancement with respect to the previous governments.

The Health Reform, along with the Chicago Boys' thought, aimed at increasing efficiency, growing people responsibility and freedom of choice between public and private health services. Moreover, the Government managed to diminish the IRS contribution to the Health System and created a new competitive sector from nothing, although there are critics that see this as a badly shaped system that favors companies and gives improved health services only to higher social sectors. Nonetheless, as we will see, both life expectations and infant mortality rates improved.

6.6 Education

The Government passed primary schools, secondary schools and also some technical school to the municipalities. The former stopped spending money on professors and infrastructures, the latter started collecting money from controlled local taxes that were decided centrally. Indeed, this was incentive to let private schools flourish. They

got the chance to invest in secondary education and technical-professional institutes, as the Neoliberal model advocates. Also, the Government was able to decentralize the administration of those primary and secondary schools. This fact made possible for the State to create 9 new universities and 7 professional institutes. On the other side, the privatization of secondary education and the splitting of University of Chile multiplied the educational offer on the whole territory. In 1987 there were 60 institutions for secondary education in Chile, double the amount of 1970. There were critics asserting the educational offer was going to cover less people than before. However, as we will see in the results section, diminished illiteracy rates will prove them wrong.

6.7 Labor

Pinochet said in 1981 that the new labor infrastructure established a free trade-unionism that was autonomous and apolitical, where the effective control of trade unions' organizations was given to the workers. Workers in fact, could decide the contributions to trade-unions as well as they could decide if they wanted to become affiliates to a Federation or not and to which one. Moreover, they could vote secretly and democratically their union leaders. Compared to the present days, we can say it resembles the German trade-unions system. The Decree Law that enacted all these policies was the DL 2200, replacing the old labor system in force since 1931. The latter basically favored the central role of ideology in those that were not discussions but fight between workers and employers, very close to what trade-unions are in Italy nowadays.

To change this, the new legislation introduced:

- Equal judiciary treatment for workers and employees
- Freedom of trade-unionism
- Collective bargaining is based inside each firm and considers the firm's productivity and efficiency as benefits for the workers too.
- The right to strike shall be an instrument of negotiation and not of political pressure
- Confederations of workers could be created, instead of a monopolistic trade-

union

Under this Labor reform made by minister Piñera, strikes had many limitations with respect to the previous structure. They were limited to 59 days and employers could exercise the right to *lockout*: stopping production during the same period of the strike and negotiating with replacement workers in the meanwhile. Also, the State had the right to intervene in unresolved fights as a mediator. Given the threat of exports boycott imposed by the U.S., Piñera re-established trade-unions assemblies to repair to a situation in which unionism rights were considered very limited by the international opinion.

Although some critics advocate constrained trade-unionism rights, like Delano and Traslaviña (1989), they also recognize the reform gave great flexibility to the functioning of the organizations and delivered better opportunities to create spontaneous trade-unions. Conflicts inside the companies diminished and improved negotiations allowed, sometimes (not during the 1982-1983 crisis), wage increases for those companies acting in the most dynamic sectors.

6.8 Poverty

Pinochet's government always recognized the importance of fighting poverty. For the General, helping the poor didn't pass only through increased efficiency and industrial development, but he constantly made sure there were direct subsidies for those Chilean in troubled health and economic situations. This fight was engaged in many ways: the government created the "unique subsidy" for families, subsidies for pregnant women and for malnourished children until the age of six. There were also subsidies for unemployment and special ones during crisis period, like the PEM. In other ways, the fight against poverty took the form of new homes for the poorest (D.L. 18318), which ensured drinking water, electricity, sewers and finally property rights for those families. Also the extension of primary schools and streets played an important role.

6.9 Local Governments

The empowering of local governments follows the decentralizations of education and health. The Government decided in 1980, with the D.L. 3036 on municipal taxes, to decentralize financial decisions for municipalities. Not only municipalities were now able to take financial decisions, but also it was created a Common Municipal Fund that included own municipal tax income and State redistributions. Those redistributions were made according to criteria such as the socio-economic situation, the number of inhabitants and other factors. In this way, the Government wanted to eliminate the differences between rich and poor districts by making a question of Neoliberal efficiency once again. Moreover, each municipality had its own Municipal Secretariat for Planning and Coordinating that would delegate major works and services to private companies, ensuring efficiency, competition and financial stability and control.

6.10 Exports, Privatizations and Finance

Openness. The first step towards the openness of Chile's economy to the outside economic world was an action on the *aranceles*, what we call duty tariffs on imports. As we have seen already, under Allende those rates were unbelievably high. According to Hachette (2011), those tariffs were slowing down the development of potential exports and did not assign productive resources to those sectors with higher social profitability. In turn, the possibility of export diversification was reduced as well as the imports of food, raw materials and capital goods, therefore slowing down the whole economic growth of Chile.

Pinochet's Government reacts quickly and peremptorily in 1974. Tariffs between 220% and 750% fell to a unique tax of 160%. Those between 35% and 215% fell by 5-65 percentage points, while the tariffs below 30% remained unchanged. Estimations for 1974 register the average taxation to have fallen down from 105% to 57%. The second step of this process of openness brought all tariffs down to 10%-35% in 1977, with a two years delay. The third step was completed in 1979, when average duty

tariffs reached 10%. Of course, during the 1982-1983 debt crisis they were fluctuations and the tariffs were raised to 35%, but only to later fall back to 11% without even getting close to the rates of the past. It was clear that industrialization by a simple substitution of imports was no longer sufficient. The new way had to be a surge of import-export substitutions.

Moreover, the Government enacted the D.L. 600, the statute for foreign investors (clear guidelines and rules some developed countries don't even have right now, see Italy). This decree had the important task of challenging the previous prejudices that socialism had created against a foreign and apparently usurper capitalism. The previous Governments believed in an almost closed economy, but Pinochet's Chile was definitely going the opposite way. For this reason, to revert the socialist and well-rooted economic theories, Sergio de Castro had Chile exit the *Pacto Andino* in the search for more than regional integration, as Fontaine (2008) tells us. Under this pact, foreign investment was discriminated, inefficient and restrictive, with an evident intention to promote regional technological development, domestic savings and the *Andina* national industry, as Hachette tells us (2011). That is why Chile went another way.

It was clear to Büchi (2008) and his colleagues that foreign capitals wouldn't just "invade" a country but that openness was a long-term process, as China, Cuba and other third world countries would have realized. Indeed, it took many years after the D.L. 600 before foreign investors entered Chile. It is important to understand that without foreign investment, there is a need for either large expenditures of internal savings or for a large debt that is going to need to be repaid. This problem indeed arose in 1982 with the foreign debt crisis. With earlier openness to foreign investors, the Government could have avoided this shame that cost it its sovereignty far more than the presence of foreign companies (as the leftist advocated).

Privatizations. Allende's government left a heavy weight of 70% of Chile's firms nationalized and unionized. The solution of Pinochet's Government was neither a direct total privatization nor a forward-looking healing process. Instead, it was a hybrid. Some of those firms were given back to their proprietors. Others were auctioned to incentivize foreign capital. Some others were re-organized first, due to agency problems between the management and the government. For those, a strong

judiciary act stated that all expenses were to be approved by the government, a measure that anticipates by 40 years the actual “Stability Pact” of Italy.

In 1981 Hernan Büchi, who had just become minister of ODEPLAN (the ministry for social development), started a second wave of privatizations, that was different from the one of 1975 in the sense that the main idea was to create some kind of “popular capitalism”. The two major objectives were decentralizing property while distributing it and giving future stability to the capitalistic system through workers’ competition. Between 1985 and 1988, thirty State companies were privatized for an amount close to \$2.8 billion. Some of those were considered strategic, like CAP, Enaex, Entel, Iansa and Soquimich, as they involve mining, telecommunications and natural resources. In 1986 and 1987 CORFO, a governmental organization that promotes economic growth in Chile, received \$500 million from the sale of companies to privates.

Finance. One of the objectives that were central to both the Chicago Boys and Pinochet was fiscal balance, which was considered to be one of the key points in order to achieve macroeconomic stability and to balance the State finances. We have talked already about fiscal budgeting in the paragraph regarding inflation, as it is an important instrument to achieve both results of parity (or surplus) and of controlled inflation. It is also a very powerful tool to re-establish the commercial balance and it is something Chile understood in the 80s long before his neighbors, who acted in this direction only at the end of the century. Shortly, what Chile did to reduce the fiscal deficit was an abrupt stop to monetary expansion, which brought outstanding results in the immediate, having the 27.7% deficit on 1973 drop to only 2.9% in 1975 already. The next step to secure Chile’s finances was to find those resources the Government wouldn’t have provided anymore somewhere else. Pinochet and the Chicago Boys tried to do so through the above-mentioned privatizations and export openness.

Moreover, with this goal in mind, special attention was put into *Foreign Investment*, as the D.L. 600 ensures that foreign investors are subject to no discrimination whatsoever with respect to national competitors. Instead, there are a few advantages for foreign investors that the Government designed specifically to attract a much needed foreign capital. Foreign investors in fact are exempt from paying taxes on

profits as long as they are repaying foreign debt. Indeed, the so called chapter XIX, allows foreigners to buy Chilean bonds belonging to external debt at a discounted price from what it was its nominal price, but only after authorization of the Central Bank. In this way Chile attracts foreign investors and incentivizes them to help the country recover from its high foreign debt. Investors using chapter XIX can bring profits “back home” only starting from the fifth year of production in Chile. In this way the Government could recover in the short-time and get prepared in different ways for the future repayment of debt. The use of this legislation was centered on the most dynamic sectors, such as mining, fruit farming, fishing, forestry and services. The D.L. 600 and chapter XIX attracted major international groups as *Bankers Trust*, *B.A.T.*, *Bin Mahfouz*, *Bond*, *Carter Holt Harvey*, *Citicorp*, *Schmidheiny*. Their presence at the time was much discussed, while nowadays the importance of foreign investment is well recognized also by opposition governments.

Central bank independency is another part of the greater task of administrating Chile’s financial resources. The new Organic Constitutional Law of the Central Bank was created in 1980, but only came into force in 1989. Article 97 (from the Fundamental Chart) states that the Central Bank will be an autonomous entity, with its own assets and with a technical character, whose composition, organization and functions are determined by the Organic Constitutional Law. Article 98 states that the Central Bank can only carry out operations with financial institutions, either public or private, without financing in any way (direct or indirect) any public expenditure, unless in the special case of a war.

The mission of the Central Bank was to grant currency stability and regulate the normal functioning of internal and external payments. This was a radical change for Chile, given the autonomy and tasks assigned to the CB. More in general, its independence is something not every country shares even in the present days. Chile went from nationalized banks under Allende to free independency under Pinochet. Banks wouldn’t have been anymore only ATMs of the CB and be subject to political pressures, but they started their own process of privatization, independency and growth.

Besides the advantages in controlling inflation, a more autonomous Central Bank could have guaranteed a regular flow and administration of foreign capitals. Among

the objectives of the CB, there was that of advancing quickly and deeply with regards to Chile's openness to foreign capitals, liberalization of investments and Chilean positioning in foreign markets. Therefore, by making the Central Banks independent, Pinochet's Government made sure there were no influences on public expenditures and that the capitals market could function regularly in order to promote investments of any kind.

6.11 Taxes

The precise objectives of the reform are summarized in a document the minister of Finance Cauas presented at the inauguration symposium for the analysis of tax reforms the 31st December 1974. Decree Law number 824 states that "the aim was to achieve a fair, simple and efficient tax system. Fair means above all equity [...], simple, to be no obstacle to productive and social incentives and efficient to promote the best use of the resources for a larger total welfare of the entire population". Cauas comments: "Taxation should be conceived as the basic mechanism to achieve effective equality before the law on economic issues and to provide a country's inhabitants with the necessary equal opportunities". As we said already, there was a jungle of laws created by previous governments that had to be crossed. In particular, different taxation regimes were applied to different companies. The work of Ffrench-Davis on the economic policies of Chile during the period 1952-1970 shows a concern of every administration towards the modification of the tax system (Cheyre).

The tax reform of the Pinochet's government included many changes. The first was a monetary correction mechanism. Its aim was to correct distortions caused by inflation in determining the tax base and the amount payable in different period of time. These adjustments influenced corporate taxation as well, as the previous legislation allowed the revaluation of the sole fixed assets. Instead, the new provision made possible the readjustment of also shareholders' equity, current assets and liabilities. In this way, companies would have paid taxes only on the real increase in equity during the period in question. Moreover, the reform made sure that the same rates applied to every business, so that there wouldn't be no different regimes no more, unlike in the previous governments. This process involved banks, airlines, insurance companies,

telecommunication and many more. The average rate, valid for all sectors, dropped from 40%-35% to 17% in the first year and to 10% in the second year of Pinochet's government. When it comes to individual income taxation, the tax base and the amounts paid would be expressed in real terms. Following that, it was created a "taxation unit" that had to be updated periodically and according to the variations in the CPI. We can observe from the tables the general drop in individual income taxes after the reform, precisely in 1975 (Table 4) and 1981 (Table 5).

Table 3. SINGLE TAX SCALE FOR WORKERS: SYSTEM IN FORCE PRIOR TO REFORM (Source: Cheyre)

| Taxable amount (in subsistence wages) ²⁰ | Rate | |
|--|-------------------------------|----------------------------------|
| | March 1974 % ²¹ | December 1974 % ²² |
| 0 - 1 | Exempt | Exempt |
| 1 - 2 | 3.5 | 3.5 |
| 2 - 5 | 10 | 10 |
| 5 - 10 | 15 | 15 |
| 10 - 15 | 20 | 20 |
| 15 - 20 | 30 | 30 |
| 20 - 30 | 40 | 40 |
| 30 - 40 | 45 | 45 |
| 40 - 50 | 50 | 55 |
| 50 - 60 | 55 | 65 |
| 60 - 80 | 60 | 70 |
| 80 and higher | 65 | 80 |

Table 4. SINGLE TAX SCALE FOR WORKERS: SYSTEM IN FORCE AFER THE REFORM IN 1975

| Taxable amount (in tax units) ²⁴ | Rate % |
|--|-----------|
| 0 - 1 | Exempt |
| 1 - 2 | 3,5 |
| 2 - 5 | 10 |
| 5 - 10 | 15 |
| 10 - 15 | 20 |
| 15 - 20 | 30 |
| 20 - 40 | 40 |
| 40 - 80 | 50 |
| 80 and higher | 60 |

Table 5. SINGLE TAX SCALE FOR WORKERS: SYSTEM IN FORCE AFER THE REFORM IN 1981

| Taxable amount (in tax units) ²⁶ | Rate % |
|--|-----------|
| 0 - 10 | Exempt |
| 10 - 25 | 8 |
| 25 - 40 | 13 |
| 40 - 55 | 18 |
| 55 - 70 | 28 |
| 70 - 85 | 38 |
| 85 - 100 | 48 |
| 100 and higher | 58 |

Under the Decree Law number 825, passed in December 1974, the Value added Tax (VAT) decreased from 24% to 20%. The advantage brought by this decree is that tax is paid only on the value added corresponding to each stage of the production process, therefore avoiding a cumulative effect of the sales tax which stimulated vertical integration for firms (Cheyre).

6.12 Industries

Agriculture. According to FAO statistics, the 5.7% of Chilean territory is arable land. As we have seen in the chapter about Allende's government, the previous President expropriated most of those lands without a fair compensation. Worse than that, those territories weren't actually redistributed as the leftist claimed, instead they were controlled by associations of politicians usually, as a further demonstration of Chile's corruption under Allende. The agricultural production of 1973 went back to the same levels of 1936. The first thing that the military government did was giving those lands back to their legitimate proprietors. However, this wasn't enough: the scheme established by Allende made sure the State could have an exclusive right over seeds sales and could subsidy fertilizers, in order to determine production levels, varieties and most of all a distorted market price. It is easy to comprehend why we listed it as one of the reforms that cost Allende his government.

The new reform went back to proprietorship. To ensure a free market it decided to fix,

from time to time, prudent price ranges with the help of subsidies. Intervention was contemplated only in the event of extraordinary international conditions. The aim was achieving controlled fluctuations in between the expectations from seeding and the actual harvest results, based on the prices of the last five years. It took only a few years for agriculture to be completely free. The capability of the Chilean government to negotiate agreements of free exchange with the largest world producer, instead of closing in with deals like Mercosur and the Pacto Andino, gave a great incentive to many Chilean farmers, who had a chance to export their excellences: fruit, flowers and wine for example. The modernization of the agricultural sector was based once more on liberalization and openness to the international environment. Duty tariffs were lowered and regulations relaxed to open the way to multinationals and strong Chilean groups.

To respond to the 1982-1983 crisis, the Government reacted enacting the *Reforma Agraria* and the *Controriforma*, it sold State territories good for forestry purposes, expanded the fruit activities and auctioned State rural properties. In addition to this, the Government modified the law on regularization of territories in order to allow a smooth process of entitlement of natural reserves, by also recognizing legal property for those owned by *machupes* (indigenous population). Between 1979 and 1981 21.000 rural territories were regularized.

Mining. The economic situation regarding the mining industry has always been a hot topic in Chile and his nationalization in 1971 is another factor that cost Allende his Presidential seat. Allende closed the doors to foreign companies while development was going down. The first thing that Pinochet's government did was making agreements with those companies that had been expropriated, in order to accumulate the needed capital to re-start industry development and to show a commitment towards foreign investors. The Government enacted the Constitutional Organic Law over Mining Licenses, with which the property of mining companies went back to the private sphere. The Mining Code established precise definitions and boundaries for the mining industry that applied to both national and foreign companies, with incentives to attract foreign capital.

Electricity. Between 1974 and 1978 the Government started a process of rationalization and normalization of the electricity sector, in which there was a strong

presence of the State along with political pressure on price fixation and inefficient taxation. In 1978 it started a re-organization phase focused on decentralization, efficiency, expertise and private participation. The Government was very cautious in privatizing this sector insomuch as it took 10 years to complete the privatization process. New guidelines, rules and private control allowed electric companies to restore their financial situation. Also, competition was enhanced and efficiency on the global scale reflected in lower prices for consumers. Finally, the coverage of services increased.

Telecommunication. The general Law of telecommunications of 1982 ensured a free and no discriminatory access to the development of telecommunication services for the country. Prices were set on companies' behalf but the Government reserved its right to intervene for stopping monopoly situations. In 1974 a process of normalization of the greatest State companies (CTC and Entel) started, culminating in privatizations in 1985. In 1981 the two first private telephone companies, CMET and Manquehe, bore. Also, people were allowed to transfer their telephone contracts among themselves. This established an important property right that was going to let the market find its own solution to the problem of scarcity of existing telephones lines. Finally, in the need of capital, in 1985 the Government opened the telecommunication industry to foreign companies as well.

Transports. In 1973 the largest Chilean harbors were suffering from intense traffic congestions. The cause of this inefficiency can be found in the low productivity of the port labor sector, the outcome of a monopoly. In 1981 the Government enacted the D.L. 18.032, posing an end to monopolistic labor in the port sector and opening the port labor market to any labor force of the country. To take advantage of this work force, labor shifts were increased to three, so that all the infrastructures could be exploited, leading to efficiency and effectiveness. Also, naval companies could work under any flag.

Regarding the air transport, in 1978 the Government established free tariffs for cargo air transport between Chile and other countries. In 1979 the access to the whole air transport market was made free as well as the tariffs. In 1981 the D.L. 18.063 defined the guidelines for negotiation with other countries' authorities for the air transport rights of Chile, in order to seek openness in the air transport market ("Open Skies"

policy). Those policies favored higher frequency of travel, lower costs and larger coverage.

Tariffs became free also for taxi and buses.

Finally, railway transport opened to private participation, especially in the maintenance and repair of equipment and infrastructures.

Summary

To summarize all the achievements, we can look at the claims of General Pinochet. On the 10th anniversary of his government (11 September 1983), Pinochet looks back at those reforms that he considers fundamental for the future economic growth of Chile, dividing them for sectors. We write them down as he lists them in his speech, giving them the same indexation we gave above to those reforms. They are: 5) Health sector, the decrease of infant mortality and poor nutrition indexes, the increase in life expectation, the increased participation of privates in the industry; 6) Education sector, the decrease of illiteracy, a higher reach of basic education facilities; 3) Justice sector, more attention to minors and new courts built; 7) Labor sector, the “Labor Plan”, reforms on collective bargaining, uniform subsidies for the families, family subsidies for minors and pregnant women in poverty conditions; 4) Pensions sector, the major reform; 12) Production sector, growth of mining, fishing and forestry sectors, increase in commerce and services; 10) Exports: increase in non-traditional exports and more openness to foreign markets; 8) Fight against extreme poverty; 12) Empowerment and hand-over of agricultural soils’ property; 1) Defeat of inflation

These are the main interventions, summed up, that Pinochet claims in his speech, in that order. While we have proved above the veracity of these reforms and the different levels of intervention, we are going to verify later in this paper the results. It is important to notice that these are the reforms the Government identifies at the end of 1983. During that period of crisis and afterwards, more influential reforms (that we have described) were done, for example on taxation, privatization, the new constitution and reparatory exchange rate policies. It is interesting to check however, how the claims of a dictator are mirrored by objective facts, while its powers and

military control could give him, on the contrary, the faculty of speaking demagogically, something the previous “democratic” Governments did profoundly.

7. The Dictatorship

It is not by chance that this chapter comes after all the economic reforms made by the military government. We place it here in order to cast no doubts on the fact that the above-mentioned proclamations made by Augusto Ugarte Pinochet weren't just demagogy, but promises fully kept. If we haven't shown already all the results of those reforms maintained by a strong government (we highlighted the good economic conditions of *Today's Chile* in chapter 2), we nevertheless know all the reforms that were made under the conduction of Pinochet's government. The reader is well aware of the fact that, agreeing or not with them, weighted and precise economic actions were taken by Pinochet in order to have Chile back on its feet and growing. This is already a proof of effectiveness by this dictatorship and we hope it helps the reader in approaching this chapter with interest and not skepticism, as it could have otherwise resulted by stating dictatorship's advantages first and the changes undertaken then. Compared to the previous Chilean governments, but also to many present ones, making so many and profound changes for the stability of a country can be considered already a positive result.

This chapter is crucial for the understanding of the thesis supported in this paper. Indeed, we want to show how dictatorship can foster good economic performance, but we need to make a very important point clear (once again): we are not saying any democracy will bring good economic results to a certain country. In fact, as we said in our introduction, most of the studies on such matter (Sirowy and Inkeles 1990, Przeworski and Limongi 1993, Kurzman et al. 2002, Schiffbauer 2010) are unable to find a correlation between a dictatorial political regime and favorable economic outcomes. Instead, there are many different and sometimes opposite examples of the economic effects caused by the above-mentioned type of government. The author itself, before writing this paper, researched for a linkage between these two factors but

found out very soon that no such correlation could be found. We concluded, as other authors did before, that it is impossible to say a priori that a dictatorship will foster economic growth. The same is true for democracy, although the latter shows a stronger trend in the recent years. It is possible however, to identify some particular dictatorial regimes that have spurred excellent economic performances. Chile is one of them and it is the perfect example of how a linkage between the two things is not necessary but can be sufficient. We chose Chile because it represents the brilliant development of the economic neoliberal thought of Milton Friedman and the Chicago Boys, that was able not only to foster economic growth, but also to create it from the ruins of Marxism. Those economic ideas and reforms needed a strong government in order to flourish, just like a dictatorship needs excellent economic thoughts and actions to be successful. Both Pinochet and the Chicago boys made Chile prosper and get to the point where it finds itself nowadays, but these very two factors were and are necessarily linked. That is why we can identify a correlation between dictatorship and good economic performance. Anticipating our conclusion, we can say dictatorship has to go along with economic reforms that are useful for a country's growth and population. Moreover, although it cannot be a merit, we chose Chile because the Chilean dictatorship made far less victims than many other dictatorships of the 20th century. We are going to explain in this chapter why such a governmental model has been so effective. Probably none of those radical reforms and laws could have been promulgated without a dictatorship, just like their enactment and observance could only have been kept by the same political regime. The inabilities of Allende and his predecessors are already a proof of this.

The main reasons why a dictatorship can foster good economic performance are essentially four: under a dictatorship there is no need for macroeconomic populism; there is no opposition to reforms by parties and/or citizens; there is the possibility of a long-term political stability needed for long-term measures to show their results and finally corruption can be easily eliminated. We will show below why they can be so important and how Chile's dictatorship achieved them. We will then conclude with a reflection on authority, which is the basis of a dictatorship. One sure fact, as the reader will probably realize, is that the economic advancements made by Pinochet's dictatorship cannot be separated from the political system under which they were fostered.

Macroeconomic populism is not needed. Macroeconomic populism, which is usual in democracies, can do great damage to a country. Politicians might promote public expenditure programs that create unsustainable deficits, leading to high inflation and hampering long-term conditions. Also, once in office and before elections, they could enact similar reforms with the only aim of ingratiating electoral consensus. Dictatorships instead don't have the need of convincing or persuading anyone with political campaigns or promises, nor before elections nor while governing. Looking at our example, among the good things that democracies can do and promise, there are the rule of law and property rights, whose expropriation is usually associated with dictatorship. We have seen on the contrary that such an event occurred during the said democracy of Allende. Moreover, there were high top marginal tax rates, which are sometimes considered a violation of property rights as they are a deterrent to economic activity. Pinochet's dictatorship on the contrary restored property rights and lowered marginal taxes, although it had to raise them again in particular situations. While doing this, the Government had no obligation to make false promises or to honor them, but it could just do what it felt it was best, without being accountable for it.

However, Juan Andres Fontaine (2007), one of the Chicago Boys, reports two interesting beliefs of two of his professors at University of Chicago on the possibility of enacting the radical reforms the neoliberal thought envisaged. He tells us that George Stigler, one of the key leaders of the Chicago School of Economics along with Friedman, was absolutely skeptical about the capability of economists to convince politicians to enact the right economic policies. The reason is explained by Larry Sjaastad who, talking about Latin-American countries, questions how would it be possible that countries prone to inflationary excess would undertake measures (though correct ones) creating large social costs in the short-run, like bankruptcies and unemployment. They probably did not take into account or did not want to suggest the option of a dictatorship, as the solution is contained in dictatorship itself. Pinochet's government didn't need to explain or justify the actions it was taking and could just act without caring about political or social repercussions.

Dictatorship can overcome political/popular opposition. Uruguay is a clear example of the difficulties that Governments face in making what is best for the country. At the beginning of the 90s Uruguayans voted against a privatization plan with a plebiscite. How come? Wasn't the foreign-debt crisis enough? Were leaders to explain the real advantages of privatizations missing? We believe this is the case. There are many "ghosts" hunting people's thoughts about the economic reforms that should be undertaken. In many cases, the population is not aware and can't be aware (it requires advanced technical expertise) of all benefits and drawbacks of certain policies. Moreover, if we look at the specific, it is probable that people would not agree with such a neoliberal program, that requires sacrifices in the immediate. As it is normal, populations do not tend to look to long-term economic growth of their country but only to what they will have in their wallet tomorrow. It is not easy for political leaders and parties to switch to market economies, especially if they have a long story of criticism against them. That is why Bolivia, Ecuador and Venezuela are still talking about redistribution without creating real wealth first. That is why a strong leadership is needed in order to enact the proper reforms that are necessary to a country. This point is crucial to the thesis we support: the citizens of a country do not have the economic knowledge to decide what is best for them and that is the reason why a dictatorship can be the solution to this problem. People will care only about their short-term condition and choose the political parties that claim to satisfy those requests. The results will be either an economic disaster or the government lying to its electorate, as it realizes those policies cannot be supported and that short-term goals must be part of a long-term process. Worse than that, political parties could have known this all along, practicing therefore a cheap macroeconomic populism, which is what is happening also in many developed countries in the present. Since citizens don't know what is necessary for the development of a country, there is the need for a strong government that dictates what is to be done, even if that is not approved or liked by the majority of the country. As Pinochet said: "It cannot be expected that everything a government realizes has the unanimous approval of the whole society". As it happens in the case of Chile, with the implementation of market economies, the right reforms are at first very costly to enact as they involve bankruptcies and layoffs, if not a recession. However, by having a clear picture of the long-term objectives, a strong Government can oblige the country to stick with that, in case the real

advantages are not understood. In Chile, this has been done through dictatorial power and sometimes (although deplorable) even through the help of tanks in the streets to stop protests. We all, as citizens, would probably prefer a democracy which ensures us freedom of speech and protest, but the truth is that, many times, such a political regime makes development impossible. If everyone is allowed to express his different opinion and block reforms, there is no advancement whatsoever. It is also true although, that if we give all the powers to an incompetent leader, he will bring the whole country down. Uruguay, Brazil, Bolivia, Paraguay and Argentina experienced dictatorships as well during the 20th century, but of course their economic results are very different from Chile's ones. This is a reason why we can't say dictatorship is good a priori, but we can definitely say that Pinochet's dictatorship was fundamental to develop the unpopular (at first) neoliberal economies that brought Chile to its actual prosperous economic position. It was a dictatorship not looking at the benefits of a single class, like the political class for many democracies, but it was centered on the wealth of Chile and of its society entirely.

Büchi (2008) said that the Chilean process of modernization, apart from social reforms, was made possible by a change in the public opinion and in the thought of society. It was a distinct revolution, because it was made in the name of freedom and not to raise walls but to tear them down, on the contrary of what other revolutions did in other Latin-American countries. Indeed, the process started by reforms can only go through if the same ones are accepted by the society. As Büchi continues, one of the worst errors in Latin-American political experiences was to think that it was enough to change laws in order to change the economic reality. Pinochet understood that the greatness of a country has deep roots in work, education and people's creativity and not in its institutions. Constitutions and laws are of scarce utility if they contrast the perceptions and feelings of the society. The result of this would be not only no conformity by the population but also a juridical distortion of the principles supposed to be in force.

But all of this takes time and understanding what the government was doing took a long time for the Chilean population. Public opinion, thought and culture could be hard to change. It is a process that requires a long term. The contrast between those factors and the newly enacted neoliberal reforms created protests in the case of Chile. That is why a strong power was needed in order to impose such changes to the

population. Delano and Traslaviña (1989) as well, affirm that the reforms made by the Chicago Boys could only have been possible under a dictatorial regime and a loss of influence of the unions, as they weren't obliged to let people know what they were doing and they could ignore people's perceptions and opinions about those reforms, as no democratic elections would have subverted their actions.

Dictatorship allows long-term decisions. Democracies tend not to be good for reforms that take a very long time to have effect, as it was the case for Chile. They create a stop-go phenomenon that allows no lasting effects for policies.

Büchi (2007), states: "if our experience would have been cut off, our successors would have had much more difficulties in completing the process of reconstruction and modernization of Chile". Also Keech (2004) sustains that the authoritarian government along with its reforms made the economic conditions inherited by the new democracy of the 90s favorable. The new authorities of Chile, from 1990 onwards, continued administrating the country with almost the same model established under the regime, without making major changes to the economic and social reforms, even though they insulted it for a long time while at the opposition, probably only because of populist convenience. Once in charge, they had to realize there was not a better way of having Chile recover and develop. Their only task became to maintain the status achieved and they had the responsibility of protecting Chile's stability. That is, they had to continue ensuring the long-term vision of the Chicago Boys was kept.

One of the main goals of the Government, while enacting such reforms, was perseverance. It was a daily goal that lied at the basis of economic success. The Chicago Boys, as they convinced Pinochet, strongly believed a radical economic transformation was not a matter of *one shot*. Many shots were needed as well as many battles. In the whole process of liberalization of the economy, they knew Chile was going to bump into many obstacles, either from the inside or the outside. But it was necessary to keep the model going, while fostering production as wells as protecting the poor. The direction could not be changed and faith in this revolutionary neoliberal

model was key to a positive outcome that would have only showed in the long-term. Dictatorship, with the powers it has, can make sure such faith exists, by imposing it to the population until they do not develop it themselves.

However, it hasn't been easy for the neoliberal stream of thought to explain what looks as the contradiction of free market and non-free government co-existence. Therefore, the minds of this economic thought, the cited professors of University of Chicago, found as an explanation the need of eradicating the socialist economics that were corroding Chile (Delano and Traslaviña, 1989). The Chicago Boys on the other side, were well aware of the importance of authority to enact their reforms and see them succeed in the long-term. In fact, they expressly asked for it. Keech (2004) tells us the Chilean experiment shows us the importance of time: those policies would have probably been rejected if evaluated after a 4/6 years presidential term and that is another reason why a dictatorship can prove to be better than a democracy in carrying out efficient and long lasting economic reforms. The Chicago Boys also knew this dictatorship had the scope of creating the basis for economic freedom, that would be the first pillar for future political freedom. Denying personal freedoms and oppositions in the meanwhile was a cost Chile had to bear.

Friedman on the contrary, the "godfather" of many Chicago Boys, thought it was dangerous to say that a certain economic model could only be applied by a strong form of government. Instead, he believed that a democracy could fully develop any kind of economic model (Troncoso 2006). He believed that market freedom and political freedom could co-exist in harmony. Taking into account Chile's example, we have to disagree with the Nobel prize winner. It is true that democracy and neoliberalism can co-exist. However, we strongly believe this is not always the case. As for Chile, another democracy would have not resolved the chaos reigning in the country. Immediate and strong actions were to be taken and only an authoritarian government can do so. The need for a dictatorship is probably most prominent in situation of crisis, but we can assure that democracy is certainly not always the best fit. As Pinochet (1981) said: "The authoritarian character opposes the lack of decisions, political ambiguity and the absence of energies to face difficulties. The people, especially in moments of crisis, need an effective authority that conducts and realizes measures that identify with the interests of the great majority". Moreover, we affirm this need is present also in the years following an eventual crisis. As we said

earlier, long-term stability has to be kept and a dictatorship can make sure this happens much better than a democracy can, assuming the majority of the population is not able to recognize the global and long lasting advantages of neoliberal reforms.

Dictatorship avoids rent seeking. The phenomenon of rent seeking is often found in democracies, as a democracy can protect the rights of certain interest groups to block constructive change or to secure special benefits for their members. Rent seeking is a severe issue that affects many governments, but it can involve both democracies and dictatorships. In our case, Chile suffered much from corruption, but only until 1973 as the Military Junta expressed total disgust for it and focused on eliminating it. Corruption is indeed a central point in the reliability of a country, not just from a moral point of view but also from an economic one. The corruption index is one of the most valuable investment decision-making criteria.

A good country has a low corruption index: development and quality of a country are strictly connected and joined to this. A corrupted and slow system of sentences in the court of justice shows a not efficient judiciary system and a political incapacity to tackle problems and solve them.

One of the goals of Pinochet's regime was to re-organize the system and make the application and the respect of the law effective, reducing corruption and therefore improving Chile's image and reliability.

Besides the changes in the constitutions and in many laws, Pinochet's government established the idea of an apolitical society, in which the State should intervene only for the strictly necessary (such as eliminating corruption for example). This was necessary not to favor any group or sector in particular, as it was the case before 1973. Prices, supplies, subsidies and duty tariffs under Allende were set according to favoritism, bribery and inter-personal relationships. An apolitical society would ensure the disappearance of those kinds of corruption, as the above-mentioned features would have been decided only with regards to economic effectiveness and efficiency. Indeed, transforming the economy of a country requires that the reforms are not intended to satisfy a specific group, party or government. Correct and efficient economic policies have to be devoted to the wellness of the whole country. This has

to be absorbed by both the authorities and the population, so that future political parties can put their efforts on maintaining the adequate reforms in place, instead of filling their campaigns of ideologies. Good politics should be part of the culture of a country. Another thing that Pinochet's dictatorship tried to do was exactly this: making those reforms part of Chile's culture, also throughout the new Constitution. At first however, the regime found it necessary to impose this culture, as it was innovative and not completely understood. This broader goal included eradicating rent seeking from the Chilean culture.

One more thing that dictatorship allowed in Chile was the reforming of the Constitution in 1980. It changed two very important features of it that allowed economic stability. One was the restrictions imposed on the credits the Central Bank could make to the financial sector, in order to reduce inflation. The second one was limiting State expenditures, along with requiring a special quorum for the creation of a public enterprise. A dictatorship was needed because Pinochet violated many principles of the 1925 Constitution before reforming it. But actually, the formation of the Constitution had no political opposition: the Constitution itself was approved in a plebiscite on September 11, 1980.

Authority is key to dictatorship. The concept of authority is very important in this matter. We said a dictatorship is crucial in making reforms and maintaining them to foster good economic performance, but we can go even deeper. As a CEO can influence the outcomes of a whole company, so can do a single leader inside a dictatorship. General Pinochet has been very influential for the enactment of the Chicago Boys reforms. In fact, those reforms created fuss even inside the Military Junta: we know the Air Forces, and in particular General Leigh, weren't convinced at all by the new economic model. Pinochet's support to those reforms and the ability of the Chicago Boys in convincing him, is what really made the difference in the establishment of this game-changing economic model. As the Chicago Boy Joaquin Lavín said in 1989, appointing General Pinochet: "The true author of this silent revolution, the true author of this emerging society, the true author, President, is you". Truth to be told, while it was an economic revolution, this process was not really silent, since the Government had to tear down a few protests along the way, using

violence as well. However, the concept we underline is that it takes a firm and decisive lead in order to achieve something so radical and long lasting. Also, it is interesting to cite two particular events in which the lead of General Pinochet was determinant. In 1985 Hernan Büchi tried to eliminate family subsidies, but Pinochet blocked this move. Again a few months later, Büchi tried to eliminate minimum salaries, but Pinochet himself, once more, stopped this reform. This is important if we consider the linkage between dictatorship and neoliberalism: at times a good lead is more important than economic equations that might not consider the social aspects of reforms. A good lead, in our opinion, definitely looks at the needs of society, putting them before precise economic goals at times. It is purposeful to consider Pinochet's assertion: "I am not fighting for me. I am a man that is 67 years old and therefore all that I do is for the young, for this Chilean future". When a dictatorship has this objective and the right means, as Chile has its Chicago Boys with their reforms, it is hard to find a better way of government.

But, there is indeed a drawback. Pinochet's dictatorship, like many others, had to be respected in order to establish its authority. That is why 2279 persons were killed between September 11, 1973 and March 11, 1990 by the regime. Two thirds of them were killed during 1973 and 1974. Keech (2004) sustained that those killings were not necessary, as there was no guerrilla or social chaos of any sort and that the Government could have obtained the same results without this kind of violence. On the other side, Steve Stern of the University of Wisconsin and Remmer (1989) asserted that violating human rights was "necessary for economic reform". In this paper we do not intend to make an evaluation of the trade-off involving economic performances and human lives, but we remark the fact that denying any kind of opposition in any possible way led this dictatorship to be so effective as it was in carrying out the intended economic reforms. It is therefore interesting to conclude with another quote from General Pinochet himself, which shows how economic freedom for the markets and for the people of Chile was far more important to the Government than the right of speech or of opposition in order to achieve the final objective of real freedom:

"Human rights are not respected if demagoguery is fostered or tolerated, impeding

the basic economic and social development by which the citizens of a country can achieve a respectable salary, which is an essential right of all people”.

8. Results

We get to the chapter that is finally dedicated to prove good economic performance is indeed the outcome of Pinochet’s dictatorship and Chicago Boys’ reforms. This is a natural demonstration that we need to present in order to validate our thesis, but it would not be crucial for every economist. Indeed, those convinced about the capabilities of neoliberal economics would trust our thesis even without looking at the results. Instead, they would only rely on the reforms planned and on an authoritarian form of government. However, this reliance or trust goes against the principles of a proper economic research. Just like Pinochet did for Chile, we must take ideologies out of this paper and take into account only the appropriate tangible results. As the neoliberal professors of University of Chicago did, we will rely on normative economics: costs and benefits of policies have to be weighted before persuading politicians to take them on, as Harberger advocated.

As we have demonstrated already, the results we will take into account are necessarily linked to the 1973-1990 government of General Pinochet and its Military Junta. The results that we will consider have a long time range. It is evident that those results of the same time period in which the dictatorship ruled Chile are the immediate effects of the reforms we have described. We also know that those reforms took a long time to show what at the beginning were only potential outcomes and we know Pinochet’s successors did not make major changes to the economic structure of the country. So we can definitely say that most of the results of today’s Chile (that we have seen at the beginning) belong to the actions taken by this dictatorship as well. Following the same concept, it is fundamental to consider that also the reforms made by Allende and his predecessors had a huge impact on Chile at the time of the dictatorship. As we have seen, the impact the latter had was absolutely negative for Chile’s economy. We don’t calculate in this paper the exact weight in terms of economic conditions of those deplorable measures, but it can be inferred from the statistics we have provided earlier

in this paper that their impact was enormous. Without going too far in distance and in time, we can see how countries with similar economic conditions to those created by Allende (and those before him) suffered and/or are still suffering. Some of them have defaulted, Argentina did so twice in the last 30 years. Chile, on the contrary, stands on a very good position. Pinochet's government and the Chicago Boys were able, together, to revert the terrible situation in which Allende left Chile. They did so notwithstanding the two important global crisis (oil crisis in 1973-1974 and foreign debt crisis in 1982) that hampered the great plans of both the economists and the militaries. Therefore, while analyzing the results achieved by this dictatorship, the reader should always be aware of this and bear in mind that this very particular government did not start from a normal position of economic balance. Instead, we can say it started with a big handicap. This fact, in our opinion, justifies the great sacrifices the neoliberal policies required the Chileans at the beginning. In the light of these facts, we feel what have been done by this government was even more extraordinary. However, a point has to be made: if Chile hadn't found itself in such a crisis in 1973, we probably wouldn't have seen nor neoliberal economics nor a dictatorship.

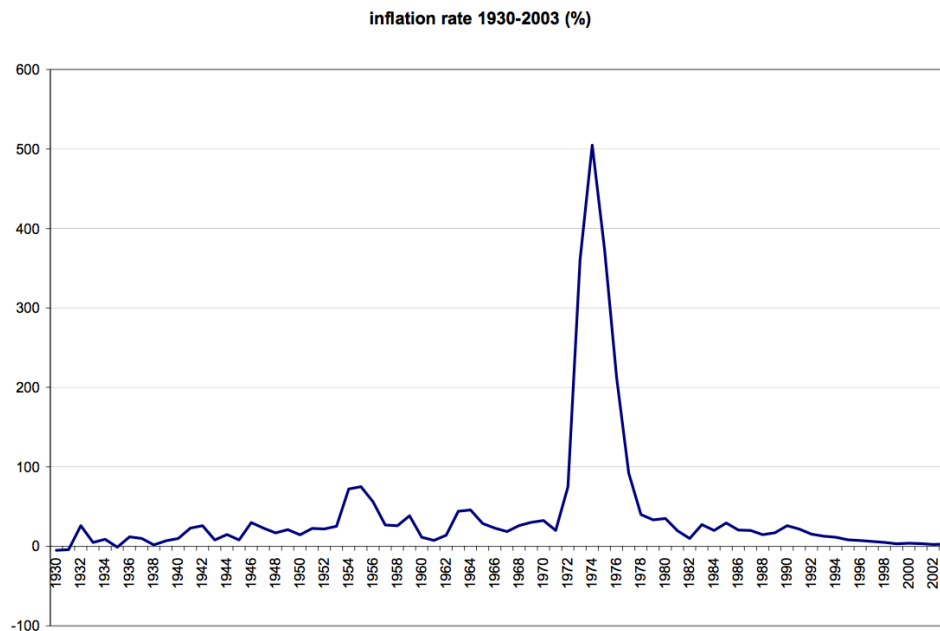
We will start with a list of very practical and sector-specific results, to show in a clear and unmistakable way where Chile got under this government. We will end up with a more broad evaluation of results that affected the future political, social and cultural aspects of today's Chile. Most of the data collected comes from Chile's CB and from World Bank data, different sources are otherwise specified.

8.1 Inflation. Francesco Rosende (2008) tells us that thanks to the reforms enacted for limiting money emissions and public expenditures, but also thanks to the credibility the economic group of the Chicago Boys was obtaining, inflation went down from 343.5% in 1975 to 31.2% in 1980 and finally 9.5% in 1981.

Juan Andres Fontaine (2008) highlights how in 1980 the 30% (ish) inflation rate achieved was still not satisfying, but also states:” Considering more than 25 years of perseverance, I observe now in Chile a 3% inflation rate and I can't stop thinking about how right our Chicago professors were when they strictly insisted that inflation

was key to development”.

Figure 1 by Keech (2004)



More accurate data (Figure 2) tell us that Pinochet “left” Chile with a 24% rate of inflation in 1990, but from that moment on, things only got better for Chile in both terms of inflation and general economic situation. Right now the inflation rate is close to 4% and it is still higher than those of power countries or set of countries like China (2.5%), U.S. (1.5%) and Europe (0.7%), but it is still better than Brazil’s 6.5%, Argentina’s 10.9% and Uruguay’s 9.7%, not to consider Venezuela’s 57.3%. The result achieved by Chile in terms of inflation is very good compared to other countries while it’s outstanding compared to Chile’s historical inflation rate (Figure 1). Moreover, from both tables we can see how this low level of inflation has been quite steady during the last 20 years and free of major fluctuations.

Figure 2 (Source: www.tradingeconomics.com, National Institute of Statistics, Chile)



Three are the factors that were important in helping Chile achieve such reductions in the inflation rate: the first one was the creation of an independent Central Bank that would stay behind this main objective, as Corbo (1998) says. The second one is the restrictive monetary policy we much talked about and the foreign exchange intervention policies that helped Chile recover during and after the crisis. The third factor is a higher rate of labor productivity (another result of this dictatorship), which resulted in lower growth rates of unit cost of labor. We believe the first reason was the most important one. Just like in the present days, credibility is a major factor for monetary policies to work effectively as they shape inflation expectations. The new independent face of the CB the dictatorship created but also the strength of the dictatorship itself and the inflexible economic direction it took enhanced this credibility so much that Chile finally has inflation under control and under the limit, after more than half a century of chaotic major fluctuations.

8.2 Health. As we anticipated when talking about health reforms, both rates of infant mortality and of life expectancy improved (see Appendix, Table 6). The rate of infant mortality lowered from 6.5% in 1973 to 1.8% in 1988 and is now of 1.5%. Life expectancy at birth increased from 65.7 years in 1973 to 71.5 years in 1988; reports for the period 1995-2000 show a 72.8 years expectation for men (the highest in Latin-America) and 78.8 years for women (2nd highest after Costa Rica). These results were

achieved notwithstanding the substantial decrease in public expenditures devoted to the health sector: from 1973 to 1988, total public expenditures went from \$283.6 to \$138.5 and the amount per capita went from \$28.8 to \$10.9 (Table 7). This means that the creation of a private health sector improved on one side the health care level for those who could afford it; on the other side it let the Government focus its limited resources on those who really were in need: the poorest. The creation of a private system probably stimulated workers as well, creating a new economic culture for which those who worked more and better would deserve and afford better services.

Table 7. (Source: Central Bank, Delano and Traslaviña, 1989)

| Cuadro N° 4 Evolución del gasto fiscal en salud (millones de dólares de 1976) | | |
|---|--------|-----------------------|
| Años | Montos | Dólares per cápita |
| 1973 | 283,6 | 28,8 |
| 1974 | 220,0 | 21,9 |
| 1975 | 159,7 | 15,7 |
| 1976 | 134,3 | 13,0 |
| 1977 | 154,6 | 14,7 |
| 1978 | 161,3 | 15,0 |
| 1979 | 152,9 | 14,0 |
| 1980 | 196,8 | 17,7 |
| 1981 | 208,2 | 18,4 |
| 1982 | 196,9 | 17,4 |
| 1983 | 162,6 | 13,9 |
| 1984 | 160,7 | 13,5 |
| 1985 | 144,0 | 11,9 |
| 1986 | 134,0 | 10,9 |
| 1987 | 132,7 | 10,6 |
| 1988 | 138,5 | 10,9 |

Fuente: Banco Central

8.3 Education. Education changed radically and was part of the privatization stream of thought and actions of the Chicago Boys and the government. After only five years of Pinochet's government, average education time increased from 4.5 to 8.7 years. Private entities created so many secondary schools that their number in 1988 was triple that of 1973. In the same year higher education institutions were 60 and there were 157.000 alumni, double the number of 1970. The government stopped managing the school system: municipalities would administrate primary, secondary and some technical schools on one side, earning a few tax money from it; private schools could flourish on the other. Delano and Traslaviña (1989) report that the literacy rate for people older than 15 increased from 89% in 1970 to 94% in 1987

according to Central Bank estimations. In 2000 this rate was an even better 95.9% for men and 95.6% for women, ranking Chile third after Uruguay and Argentina among all Latin-American countries. All these results were achieved notwithstanding the large reduction in fiscal expenditures devoted to education: from a 65.7% contribution in 1970 the Government was financing only up to 48.3% in 1987. This was another demonstration that improvement was a matter of efficiency in the education sector as well.

8.4 Employment / Unemployment. Employment is a metric that does not see improvements among the many positive results of Pinochet's government. Exporters probably found very advantageous the cheap labor costs resulting from lower salaries, but lower employment was the result of many factors. 1) The reduction of the size of the State was a primary cause of it: more than 200.000 public workers were laid off. 2) Hachette (2011) tells us that technologic growth tends to increase the natural rate of unemployment. Many sectors didn't adapt rapidly to the needed changes also in human resources, just like newly educated workers weren't still enough as the education process had begun simultaneously. 3) A lower investment rate is another cause of unemployment. Hachette (2002) shows us that this rate was 13.2% on average during the period 1973-1990, much lower than the previous 20.5% (1950-1973) but also of the future 21.4% (1990-2000). Chile would improve much more and much faster in the long run also in this sector. The participation rate, workforce to population, has slightly improved since 1970, going from 34% to 38.4%. The primary causes giving raise to these factors are the Chicago Boys' measures and the two international crisis that occurred in 1975 and in 1982-1983. The latter, in particular, obliged the Government to create the PEM and the POJH, two programs to guarantee minimum employment to the Chilean. PEM would guarantee 86.4 pesos per person, half of the minimum salary of that time and it involved 126.000 people in 1975 and more of 350.000 after 1983. Unemployment increased from 4% in 1973 (a rather acceptable rate generally) to 14.9% in 1975 and 25% in 1982, to cut back into the 10% margin only in 1988. Following this trend, black market labor increased from 18% in 1970 to 27% in 1982. Labor is most probably the sector that suffered the most from the radical measures taken by Pinochet's government and its economic

outcomes have a very profound social impact. However, it should be no surprise that good results came after a long time of endurance. Labor especially, needed the adjustment of many other economic variables before flourishing back. As Corbo (1998) writes, unemployment was a record low 5.1% in 1998, while statistics show this rate has been between 5% and 12% from 1990 until 2014, reaching 6.5% in the first quarter of this year.

Figure 3.



8.5 Poverty. The fight against poverty has always been central to Pinochet's government. The same cannot be said about Allende's government, when the false redistribution promises ended up in favoritism of any sort towards the highest social class and the political one. In 1970 the 21% of all Chilean people was living in misery: 2 million people were poor. This rate decreased to 14.4% (2012) but only after a long time, thanks to minimum subsidies for families, unemployment subsidies, special crisis programs (PEM and POHJ), nutrition subsidies for pregnant women and children during the dictatorship but also thanks to the latest economic growth. Poverty goes also through health, and we now from our paragraph on health that the rate of infant mortality lowered from 6.5% in 1973 to 1.8% in 1988, reaching 1.5% in the present days. Life expectancy at birth increased from 65.7 years in 1973 to 71.5 years in 1988, while reports for the period 1995-2000 show 72.8 and 78.8 years expectations for men and women respectively. Drinking water was covering only the 66.5% of urban Chilean territory in 1970. This rate increased to 90% in 1980 already and got to 98.2% in 1980, to cover the totality of the urban territory. In rural areas,

access to drinking water increased from 34.3% in 1970 to 79.9% in 1990 and it now covers the 91% of rural territory.

8.6 Exports and Duty tariffs. In 1970 the 35.5% of the GDP was dependent on imports and exports. In 1988 the commercial balance was influencing GDP for its 52% (Delano and Traslaviña, 1989). It is clear that the Chicago Boys succeeded in their plan of economic and consumptive freedom. In fact, beside the obvious economic advantages that the openness to the exterior brought, this change created social liberties as well. People were able to choose where and with whom they would make business and from whom they would buy something on a much bigger scale. From 1976 to 1981, exports augmented by 81%, reaching \$3951.5M. In 1990 total exports amounted to \$8631.1M, while data for 2000 reports \$18425.3M. These results were achieved also through the differentiation of exports, which saw copper exports decrease from 67% to 57% in the 1976-1981 period, making space for agricultural products, cellulose, wood and fishing. Looking at Table 8, we can see how nowadays mining accounts for only 16.1% of total exports for Chile, while intermediary goods have taken a leading role with their 51.2% share. The exit from the *Pacto Andino* was fundamental to achieve such results, as Chile decided to direct its exports not only to its neighboring countries but prominently to the U.S., Europe and Japan for a much larger reach.

Table 8. Compositions of Exports for year 2000 (% of total) (Sources: Hachette 2011, CEPAL)

| Country | Agriculture, forestry and fishing | Mining | Food, drinks and tobacco | Commodity goods (non-durable) | Intermediary goods | Metallurgical industry |
|------------------|--|---------------|---------------------------------|--------------------------------------|---------------------------|-------------------------------|
| Argentina | 20.5 | 14.0 | 24.7 | 6.2 | 20.7 | 13.9 |
| Bolivia | 7.6 | 28.7 | 21.7 | 9.5 | 17.5 | 14.9 |
| Brazil | 10.3 | 6.8 | 13.9 | 8.0 | 30.5 | 30.4 |
| Chile | 17.3 | 16.1 | 9.8 | 2.1 | 51.2 | 3.5 |

| | | | | | | |
|-------------------|------------|-------------|------------|------------|-------------|-------------|
| Colombia | 18.3 | 37.2 | 5.4 | 10.2 | 23.5 | 5.5 |
| Costa Rica | 24.7 | 0.1 | 8.2 | 10.0 | 13.2 | 43.8 |
| Ecuador | 31.1 | 43.5 | 9.8 | 1.9 | 11.2 | 2.5 |
| Guatemala | 43.0 | 6.2 | 16.7 | 6.0 | 23.4 | 4.7 |
| Honduras | 57.1 | 4.3 | 9.1 | 6.0 | 19.3 | 4.1 |
| Mexico | 2.9 | 9.3 | 2.1 | 10.9 | 10.1 | 64.7 |
| Nicaragua | 61.7 | - | 23.7 | 1.9 | 11.8 | 0.9 |
| Paraguay | 48.0 | 0.1 | 26.5 | 11.6 | 13.0 | 0.8 |
| Peru | 8.0 | 13.3 | 17.9 | 11.3 | 48.0 | 1.4 |
| Uruguay | 12.0 | 0.1 | 38.0 | 24.5 | 16.4 | 9.0 |
| Venezuela | 0.7 | 59.8 | 0.8 | 0.3 | 36.8 | 1.6 |
| AVERAGE | 8.4 | 15.7 | 7.3 | 8.5 | 20.5 | 39.5 |

In order to integrate the commercial balance with imports, starting from the basic raw materials needed to foster internal productivity the Government realized the urgency of lowering duty tariffs on imports. As we have seen in the paragraph about reforms, Pinochet's Government lowered the *aranceles* abruptly. According to Fontaine (2007), the average tariff decreased from 90% in 1974 to 10% in 1979 already to beat the expectations. During the 1982-1983 debt crisis tariffs were raised to 35%, only to later fall back to 11% without even getting close to the rates of the past, as for 2007 the average tariff was 2%.

8.7 Industries. *Agriculture* has always been one of the strongest industries for Chile. The first thing that Pinochet's government did to restore it was giving those

lands expropriated by Allende back, then it eliminated fixed prices of favor towards specific owners, among the many actions taken to invigorate agriculture. General Pinochet claims in 1982 the incorporation of 680 thousands hectares of woods, 25 thousands hectares of fruit trees and 480 thousands hectares for stockbreeding. However, the very high indebtedness of farmers to buy supplies gave rise to a small agricultural crisis in 1980-1981, which flowed into the larger foreign debt crisis of 1982-1983. During this period, 350.000 hectares were left without sowing and this is what made the Chilean government enact the *Reforma Agraria* and the *Contrarreforma* we talked about in the reforms' paragraph. In 1973 imports for food amounted to \$511M. After only two years, this number dropped to \$361M. In 1973 fruit-farming exports accounted for \$18M, while in 1992 they reached \$982M. Including related industries, we can see that forestry exports went from \$6M in 1973 to \$420M in 1992, while cellulose and paper exports increased from \$30M to \$685M in the same period.

The *Mining* sector has seen a decreasing role from 1973 on, as a process of industries diversification started in Chile. Still we can certainly make a point about efficiency: the state-owned Codelco had progressively much less shares in this industry and the great majority of the mining activity was left to private (and mostly foreign) companies. That is why, notwithstanding its lower role in the total industry production of Chile, mining production has been nonetheless important and increasing. Its symbol is copper production, which increased from nearly 800 tons in 1973 to 1700 tons in 1990, reaching 4700 tons in 2000 as a result of a steep and continuous growth.

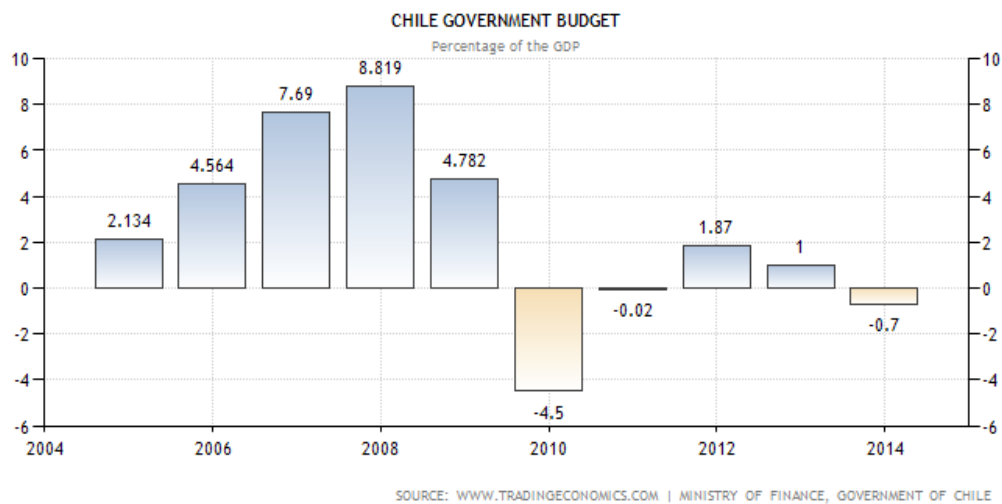
The results achieved by the Government in the *Fishing* industry are not considered as a full triumph by Büchi (2008), one of the Chicago Boys who influenced Pinochet's government actions the most. Diversification of products was achieved, just like competition was enhanced, also thanks to the openness to the exterior. The value of fishing exports in 1992 was close to \$1300M, while in 1973 this value was only \$5M. However, there is an issue of property, as Büchi notices: "when goods are not scarce, the lack of property definitions probably does not bring any major problem. However, when there is a risk of extension of those goods, which is what happens in the fishing industry with certain species, the problem can be serious." The absence of precise property definitions is seen by the former Minister of Economy as a governmental

fault (especially with respect to all the efforts posed to the property matter during the dictatorship) that could give rise to irrationalities in the system. Nonetheless, fishing grew by 33.6% in 1976 already and maintained a 14% growth rate for the five following years.

The *Telecommunications* sector, before the reforms made under the regime, was suffering from a massive State intervention that controlled prices, enabled technological under-development and filled the sector with norms and prohibitions. Pinochet liberalized this sector, to open to the telephone market, create competition and most of all let different companies share infrastructure, thus avoiding a legal monopoly. Moreover, tariffs could be reorganized and clear (but also hidden) subsidies were stopped. This intervention made technologic advancement possible for Chile, which was pioneer in Latin-America in modernizing this sector.

8.8 Fiscal Deficit and Public expenditures. Reducing the fiscal deficit was one of the first if not the very first objective of the regime. We have seen the many measures taken, like laying off public employees, privatizing many sectors or stop administrating education. In only two years, from 1973 to 1973 and thank to the shock treatment that the *Cauas Plan* involved, Chile's fiscal deficit passed from 27.7% to only 2.9% of the GDP. Although this had negative social repercussions (that we have taken into account previously) in the short-term, this result was outstanding and it allowed, by reducing public expenditures by a half, to stimulate the economy without creating additional deficit. This balance is something Chile was able to maintain throughout the years, as we can see from Figure 4, which shows us also a few years of government budget surplus, like the 0.14% in 2000, the 4.5% in 2010 or the expected 0.7% for this year. Moreover, notwithstanding the large reductions in public expenditures, Chile's government still advocates the 71.3% of those expenditures to social services (data for 2000, Hachette, 2011).

Figure 4.



8.9 Foreign debt. This has been a problematic point for Pinochet’s dictatorship. In fact, when in 1977 an *imports boom* created a commercial unbalance of \$230M, the private sector responded by requesting debt. International banks granted large loans to private groups, but the situation went beyond their control. Foreign Chilean debt went from \$9.3B in 1975 to \$16.3B in 1981 (Delano and Traslaviña, 1989), culminating in the international foreign debt crisis which affected mostly Latin-America and that made Chile live some terrible years due to this reckless wave of indebtedness. Although the Government avoided the negative effects of this crisis, from which “only” the private sector suffered, actions were to be taken. Chile enacted *chapter XIX* and *chapter XVIII* to decrease foreign debt as we have seen before. The first one allows foreigners to buy foreign-debt Chilean bonds with a discount on their nominal value. The second envisaged a governmental help in taking on the debt. *Chapter XIX* decreased foreign debt by \$2.7B from 1985 to 1989, *chapter XVIII* by \$2.4B in the same period. In total, under the administration of Büchi foreign debt was reduced by \$8.1B, thanks to measures other than the “chapters” and at the end of 1989 what was left of foreign debt was distributed between the government (\$4.2B) and the private sphere (\$3.8B).

8.10 The 1982-1983 crisis. This paragraph does not really represent a sector or area from which we could observe the economic results of Pinochet's government. However, it is a period that on a side results from the measures of the Chicago Boys and on the other one fosters new economic action that will produce newer results, which are included in the other paragraphs. It is important to say that the crisis itself and what originates from it in terms of results and new measures were not solely dependent on the dictatorship and its economists.

In 1981 already, there were pressures on the exchange rate, which was fixed at 39 pesos per dollar, due to an inflation (decreasing nonetheless) that was hampering internal costs of production. Returns for exporters were becoming much less attractive. This year is the only one, from 1975, in which exports did not increase in Chile and foreign credit was never that high. In 1982 the debate was to either devalue the exchange rate or lower salaries. The peso was devaluated by 18% and the crisis hit rock bottom, since stabilizing the economy throughout the exchange rate is never a good policy, as we described above and as the Chicago Boys believed. But Pinochet refused to lower salaries, directly at least. In the middle of 1982, when credits stopped flowing, what was a private problem became a public one as well: the financial system didn't possess adequate legal instruments to regulate such a situation or to adjust unbalances. The State couldn't be left aside, as banks were missing regulations even to declare bankruptcy or to distribute the last resources to depositors. Two were the causes of Chile's crisis: a strong external shock and its interaction with a fixed exchange rate. There is no doubt that the Government underestimated this shock in 1982 and got wrong on the exchange rate, but it cannot take all the blame either, as the 80s are remembered like the foreign debt crisis decade in which all Latin-American countries, one by one, went down. Pinochet refused to lower nominal salaries, but the recovery of Chile passed inevitably from their decrease: between 1982 and 1984 salaries fell by 10.7% in real terms, as a result of the devaluation. Chile and its workers paid this in terms of unemployment, which touched 23.5% in 1984, as we have seen previously. Also the GDP fell by 14% in 1982. The devaluation allowed the Government to change relative prices and modify those laws regarding the indexation of salaries, to make the Chilean economy more flexible.

According to Büchi, if the economy could have positively reacted to the external shock as a textbook dictates, three things were to happen: 1) Salaries and internal relative prices would have adjusted themselves. 2) Private debts would have transformed in private patrimonies, to let foreign creditors recover their loans. 3) Chilean depositors would have born the loss of their deposits. None of this occurred, as Chile wasn't ready to bear the first point and didn't have financial laws to regulate the last two points. Only in 1985 Chile reacted by making indexation more flexible and introducing financial legislations. Recovery was painful, as unemployment increased, GDP lowered and salaries did as well, but it was faster and more effective than other Latin-American countries.

This crisis shows how, apart from the mistake in keeping a fixed exchange rate (the intensity and duration of the external shock wasn't predicted by any country), the lack of authority and strength in lowering salaries right away in 1982 hampered Chile's economic situation more than it could have been. The dictatorship stopped acted like one for a moment and Chile suffered from this. Nonetheless Chile recovered quickly, thanks to Minister Escobar Cerda. Cerda, in 1984, devaluated the *peso* again by 24% and raised duty tariffs from 20% to 35% in order to reduce internal spending, moderate household consumption and direct once again production to its export function.

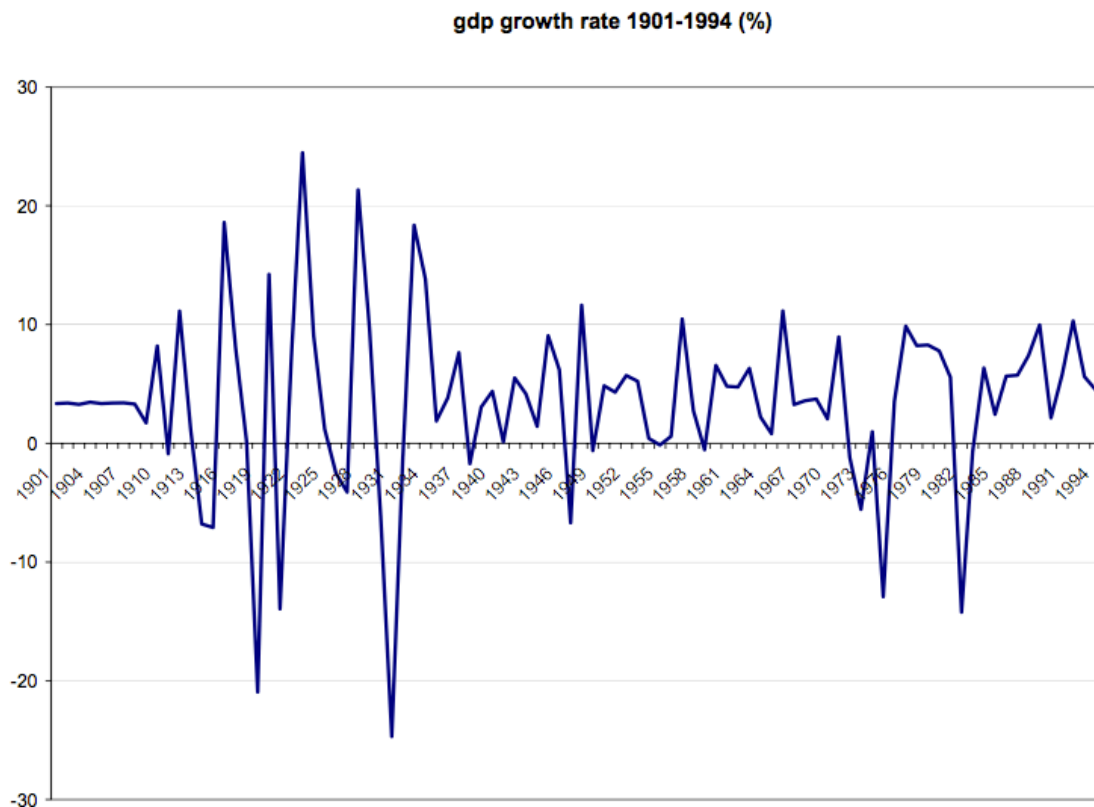
8.11 Corruption. There is not much to add to what we said already about corruption. Corruption indexes are one of the primary criteria a foreign investor looks at before deciding whether to make a large and long-term investment or not in a new country. Allende's government and those ones preceding it allowed corruption in many different forms and sectors, granting special subsidies and therefore creating huge inefficiencies, to the point in which those levels of corruption are recognized by any author and any political party. Pinochet instead focused on fighting corruption by trying to establish a new morale and culture throughout means of law, creating a free and fair market at every side of the economy and avoiding any kind of distortion. The first data available goes back only to 1995, but shows already that Pinochet's policies had their effects, as Chile ranks 14th among 41 countries and it is 1st in Latin-America (1995 TI Corruption Index).

Table 9. 1995 TI Corruption Index

| Country | Score | Surveys | Variance |
|--------------------|--------------|----------------|-----------------|
| New Zealand | 9.55 | 4 | 0.07 |
| Denmark | 9.32 | 4 | 0.01 |
| Singapore | 9.26 | 7 | 0.21 |
| Finland | 9.12 | 4 | 0.07 |
| Canada | 8.87 | 4 | 0.44 |
| Sweden | 8.87 | 4 | 0.11 |
| Australia | 8.80 | 4 | 0.54 |
| Switzerland | 8.76 | 4 | 0.52 |
| The Netherlands | 8.69 | 4 | 0.63 |
| Norway | 8.61 | 4 | 0.78 |
| Ireland | 8.57 | 4 | 0.61 |
| United Kingdom | 8.57 | 4 | 0.17 |
| Germany | 8.14 | 4 | 0.63 |
| Chile | 7.94 | 3 | 0.97 |
| USA | 7.79 | 4 | 1.67 |
| Austria | 7.13 | 4 | 0.36 |
| Hong Kong | 7.12 | 7 | 0.48 |
| France | 7.00 | 4 | 3.32 |
| Belgium/Luxembourg | 6.85 | 4 | 3.08 |
| Japan | 6.72 | 7 | 2.73 |
| South Africa | 5.62 | 4 | 2.35 |
| Portugal | 5.56 | 4 | 0.66 |
| Malaysia | 5.28 | 7 | 0.36 |
| Argentina | 5.24 | 2 | 5.86 |
| Taiwan | 5.08 | 7 | 1.03 |
| Spain | 4.35 | 4 | 2.57 |
| South Korea | 4.29 | 7 | 1.29 |
| Hungary | 4.12 | 3 | 0.69 |
| Turkey | 4.10 | 4 | 1.33 |
| Greece | 4.04 | 4 | 1.65 |
| Colombia | 3.44 | 2 | 1.12 |
| Mexico | 3.18 | 4 | 0.06 |
| Italy | 2.99 | 4 | 6.92 |
| Thailand | 2.79 | 7 | 1.69 |
| India | 2.78 | 5 | 1.63 |
| Philippines | 2.77 | 5 | 1.13 |
| Brazil | 2.70 | 4 | 3.11 |
| Venezuela | 2.66 | 4 | 3.18 |

8.12 Gross Domestic Product. We talk about GDP at the end of this chapter on results, because the factors influencing GDP are multiple. From industrialization and growth of exports to improved health and education, passing through lower fiscal expenditures and corruption. Probably every reform enacted by the Chicago Boys and every results achieved has influenced the Gross Domestic Product (*Producto Interno Bruto* in Spanish, or PIB) of Chile. With regards to GDP, data speaks for itself. We have gather it from different sources and time periods to reconstruct a uniform picture for the reader. Highlighting the difference between Pinochet and his predecessors, opposed to a GDP growth rate of 1.9% in the 1961-1970 period, data for the period between 1976 and 1981 shows us a 6.8% rate. Between 1982 and 1990 the average growth rate was 2.3% notwithstanding a 13.6% fall in 1982 due to the crisis. In the same period GDP growth rate peaked to 10% in 1989, its highest moment of full recovery from the crisis. Finally, there is 4.2% growth rate from 1991 to 2004, (see figure 5,figure 6 and table 10 in the Appendix).

Figure 5.



When it comes to GDP per capita, Chile registers \$5000 per person, in line with the world average and lagging only behind Argentina (\$8000), Mexico (\$6000) and Uruguay (\$6000) by a short margin in Latin-America. GDP per capita enjoyed a steady growth rate over the years: from 1.2% per year in the 1950-1973 period it increased to 1.4% per year between 1973 and 1990, to an higher increase of 4.7% per year between 1990 and 2000.

Table 11 GDP per capita growth for Latin America (Sources: Hachette 2011, OECD 1900-2000)

| | 1900-1913 | 1913-1950 | 1950-1973 | 1973-1990 | 1990-2000 |
|------------------|------------|------------|------------|------------|------------|
| Argentina | 2.5 | 0.7 | 2.1 | -1.1 | 2.7 |
| Brazil | 1.4 | 1.9 | 3.8 | 1.2 | 0.8 |
| Chile | 2.4 | 1.0 | 1.2 | 1.4 | 4.7 |
| Colombia | 1.9 | 1.4 | 2.3 | 2.0 | 0.9 |
| Mexico | 1.8 | 1.0 | 3.1 | 1.0 | 2.0 |
| Peru | 1.9 | 2.1 | 2.5 | -1.6 | 0.0 |
| Uruguay | - | - | 0.8 | 0.6 | 2.1 |
| Venezuela | 2.3 | 5.3 | 1.6 | -1.6 | 0.3 |
| AVERAGE | 2.0 | 1.9 | 2.2 | 0.2 | 1.7 |

The model persists

As Büchi (2008) writes, “*el modelo permanece*”, the model persists. This means that the model created by Pinochet and the Chicago Boys wasn’t changed pretty much and that, as a consequence, positive results kept on coming and improving. Alejandro Foxley, Minister of Finances in 1990-1994, said it was necessary to open even more the economy, reducing Chile’s risk and negotiating commercial agreements. Indeed Chile signed new agreements of free trade with the U.S. in 2004, with the E.U. in 2003 and with China in 2005, following this path. It is undisputable although, that this

path of externalization was initiated in 1973 and maintained during the foreign debt crisis by Pinochet's regime. This is true not only for the matter of openness to foreign economies but for the economic situation of Chile in general as well. Pinochet left Chile in 1990 with private foreign investments greater by 26% with respect to the previous year, recording one of the highest rates of the last 20 years, as it was of \$1.2B. GDP annual growth rate was close to 5%, the inflation rate was 14%, the unemployment rate 7% and the trade balance positive. Poverty was reduced while health and education levels improved. As we know from the chapter on *today's Chile* and from the results we have just seen, this data represents not just a positive but temporary situation that is part of a short-term plan. Instead, it shows what Pinochet's government achieved or started achieving as a result of a very long-term program that was intended and that has succeeded in bringing economic stability to Chile for many years to come. What was left to the *Concertacion* party of Patricio Aylwin and to Chile as a whole on the 11th of March 1990 was a machine well prepared and fully tuned to race at the most of its potential. Pinochet restored Chile once from the terrible economic situation inherited by Allende and his predecessors and twice from the 1982-1983 crisis created by an external shock (and also some governmental mistakes). More than that the dictatorship, alongside with the Chicago Boys, created all the prerequisites needed to achieve good economic performances in the long-run and started achieving many of them while it was still in force.

Conclusions

We have said in chapter 7, about Pinochet's regime, that the dictatorship *has* been effective in imposing the authority that is needed to lead a country throughout a deep and complicated process of reforms and transformations. To conclude this paper we want to say a dictatorship *can* be effective in achieving such results. This shouldn't be interpreted as a backward step with respect to the analysis we have conducted. Indeed, we have demonstrated the results of Pinochet's regime during the 1973-1990 period but also beyond that time period. We have showed how the reforms, inspired by the innovative neoliberal thought of the Chicago Boys, had a specific design and the intended objectives that we identify in Chile's economic results. We have made clear how the dictatorship instituted by the *Junta Militar* and the leadership and authority of

General Pinochet are strictly and necessarily linked to the achievement of these results. At the same time we have expressed our belief that the combination of these two factors was determinant: nor Pinochet's leadership nor the Chicago Boys, alone, would have resulted in such outcomes.

When we say this model *can* be effective we mean that first, it could fail and secondly and most importantly that it could be reproduced somewhere else. About the first one we have talked thoroughly in our introduction and when considering the advantages of Pinochet's dictatorship. The essence of our reasoning is that the dictatorship-economic policies model doesn't always work, because sometimes the right economic policies aren't put in place or because the dictatorship is not focused or not able to enact them. The opposite considerations can be made when we say this model could be reproduced. Are we suggesting that some countries should adopt a dictatorial regime of government to guide the right economic policies needed for long-term economic and social stability? Yes, we are. We recognize the provocative sound of this statement. Dictatorships are almost always associated with dictatorship's victims and protests repressed in blood, so it is no surprise if our reader has turned up his nose while reading this. However, this will also depend on where our reader is from. China, for example, is not a free country at all. "The Chinese Communist Party has broken the democratic world's monopoly on economic progress" (Freedom House, The Economist). Yet, no country is opposing China or the fact that they sentence people to death for what would be considered a minor violation in the Western world or for obliging its people not to give birth to a second child. Why? Because we are all dependent on China from an economic point of view. Another example is Russia, who is now being opposed for invading Ukraine, but was not contested before when Putin was sending people in exile or more generally ruling Russia to his liking. There could also be mentioned some violations of supposed democracies (they guarantee "elections"), like recent Brazil's and Venezuela's squads using violence against pacific protesters.

When questioning some Chinese economists, you could find Professor Zhang Weiwei of Fudan University arguing that democracy is destroying the West, and particularly America, because it institutionalizes gridlock and trivializes decision-making. Or Professor Yu Keping of Beijing University, arguing that democracy makes simple things "overly complicated and frivolous" and allows "certain sweet-talking

politicians to mislead the people” (The Economist). This is exactly our point. Democracies often create gridlocks, deadlocks, complications and frivolousness. Dictatorship, authority, does not. In 1981 PATCO, the American air service union, declared a strike that involved 13000 air traffic operators: more than half of all United States air traffic stopped. President Ronald Reagan ordered them to return to work within 48 hours, otherwise they would have been forfeited. Two days later, Reagan fired 11345 striking air traffic controllers and substituted them with military operators. Former President of UK Margaret Thatcher, started in 1979 a neoliberal process of reforms similar to that of Pinochet, in which she needed to overcome inflation and low productivity rates, among other things. This inevitably brought unemployment up in the short-term, but UK was able to stand its ground by opposing labor protests and strikes, to guarantee long-term performances. Both actions, although unpopular, haven’t been condemned as dictatorial. They probably would have under Pinochet because of a different label of the government. The institutionalization of Chile was overtaken not by a coup, but by an uninterrupted sequence of small transgressions and weaknesses occurred under Allende that hampered the sense of Chile’s legality. Dictatorship, in Chile, brought order and guaranteed a stable economic path, two things many Western developed countries cannot achieve nowadays. Is dictatorship a more suitable mean to promote liberalism and wealth in its western meaning? The right policies could be implemented in democracy as well, but when there’s political chaos and a terrible economic situation, a dictatorship may be the way out. Recalling Italy’s recent past, an administrative government was nominated by the President of the Republic (no elections) to rule as it thought it would be more appropriate for the country. Is it much different from the authority a dictatorship has?

Of course, we are not making trade-offs here: once you value even one single life repressed by an authoritarian government more important than the overall stability of a country, the model tumbles down.

However, we have widely answered our research question of whether a dictatorship can foster good economic performance and how it can do so and we have demonstrated that although this is not always true, it is indeed possible under the conditions we have highlighted. The right economic policies are known by now. They are very unpopular and we know a mindful and forward-looking dictatorship like Pinochet’s one has succeeded in ignoring their unpopularity and has succeeded in

making this model flourish notwithstanding the oppositions. A limitation to our thesis is that a violent dictatorship can probably not be supported by populations nowadays, at least in the most developed countries, so that the model that we have identified as effective and efficient in carrying out performances, might not be exactly reproducible. But on the other side, populations don't know what is best for them or don't want to bear the short-term effects of the right economic measures. Given the previous literature that highlights no general correlation between a governmental regime and good economic performance and given what we have demonstrated, we believe further research should go in a different direction. It should be clear by now that there is no correlation in general but that there can be in specific cases. And the most effective regime to achieve good economic performances, is the dictatorial one, especially in conditions of economic crisis. Further research should explore new dictatorial structures of government that could be applied to the present days, in order to establish the political authority needed for a decisive process of reforms without upsetting the people of those countries. A modern dictatorship could be created, for example, by imposing an administrative government on the basis of the long-term policies needed to achieve economic stability, where neither political parties nor the people can make oppositions, at least until the intended results are achieved and can be shown to them or until a certain term expires.

Shall we consider such a model for those countries that still need to exit an economic crisis?

Appendix

Table 1. GDP growth for Latin America, years 1900-2000 (Sources: Hachette, 2011, OECD).

| | 1900-1913 | 1923-1950 | 1950-1973 | 1973-1990 | 1990-2000 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Argentina | 6.4 | 3.0 | 3.8 | 0.3 | 4.0 |
| Brasil | 3.5 | 4.1 | 6.8 | 3.7 | 2.1 |
| Chile | 3.7 | 2.5 | 3.4 | 3.1 | 6.3 |
| Colombia | 3.9 | 3.7 | 5.2 | 4.1 | 2.8 |
| Mexico | 2.6 | 2.6 | 6.4 | 3.6 | 3.7 |
| Peru | 2.9 | 3.7 | 5.3 | 0.8 | 1.9 |
| Uruguay | n.a. | n.a. | 1.8 | 1.2 | 2.8 |
| Venezuela | 3.3 | 6.9 | 5.4 | 1.4 | 2.5 |
| AVERAGE | 3.8 | 3.8 | 4.8 | 2.3 | 3.3 |

Table 2. The Chicago Boys who had key roles in Pinochet's Government (Source: Delano and Traslaviña, 1989)

| <i>Name</i> | <i>Government activity</i> | <i>University chair</i> |
|------------------|---|-----------------------------------|
| Sergio De Castro | -Council member, M. of Economics -Minister of Economy -Minister of Finances | Professor at U. Catolica de Chile |

| | | |
|---------------------|--|--|
| Pablo Baraona | <ul style="list-style-type: none"> -Council member, M. of Agriculture -President of Central Bank -Minister of Economy -Minister of Mining | Professor at U. Catolica de Chile |
| Alvaro Bardon | <ul style="list-style-type: none"> -Public servant at Corfo -President of Central Bank -Deputy secretary of Economy -President of State Bank | Director of Economics department at U. Catolica de Chile |
| Rolf Lüders | Minister of both Finances and Economy | Professor at U. Catolica de Chile |
| Sergio de la Cuadra | <ul style="list-style-type: none"> -President of Central Bank -Minister of Finances | Professor at U. Catolica de Chile |
| Carlos Caceres | <ul style="list-style-type: none"> - President of Central Bank -Minister of Finances -Minister of Internal affairs | Director of the business school of Valparaiso A.Ibañez |
| Jorge Cauas | <ul style="list-style-type: none"> -Vice president of Central Bank - Minister of Finances | Professor at U. Catolica de Chile |
| Cristian Larroulet | <ul style="list-style-type: none"> -Assessor at Odeplan -Chief of staff, M. of Finances | Professor at U. Catolica de Chile |

| | | |
|--------------------------|--|---|
| Martin Costabal | Budgeting director | Professor at U. Catolica de Chile |
| Jorge Selume | Budgeting director | Professor at Economics dep. At U. Catolica de Chile |
| Andres Sanfuentes | Assessor at Central Bank and at direction of budgeting | Professor at Economics dep. At U. Catolica de Chile |
| Jose Luiz Zabala | Chief of studies dep. At Central Bank | none |
| Juan Carlos Mendez | Budgeting director | none |
| Alvaro Donoso | Minister of Odeplan | Professor at U. Catolica de Chile |
| Alvaro Vial | Director of National Institute of Statistics (INE) | Professor at U. Catolica de Chile |
| Jose Piñera Echenique | -Minister of Labor -Minister of Mining | Professor at U. Catolica de Chile |
| Felipe Lamarca | Director of Internal taxes service | none |
| Hernan Büchi | -Superintendent of banks -Deputy secretary of Health -Minister-director of Odeplan -Minister of Finances | Professor of engineering at U. Catolica de Chile |

| | | |
|----------------------|--|---|
| Alvaro Saieh | -Assessor in central Bank | Professor and director of the Economics dep. At U. Catolica de Chile |
| Juan Villarzu | Budgeting director | none |
| Joaquin Lavin | Assessor at Odeplan | -Chairman of Economics faculty of U. de Concepcion - Professor at U. Catolica de Chile |
| Ricardo Silva | Chief of national accounts of the Central Bank | none |
| Juan Andres Fontaine | Manager of studies of the Central Bank | none |
| Julio Dittborn | Deputy director of Odeplan | Chairman of Economics faculty at U. Diego Portales |
| Maria Teresa Infante | -Assessor of Odeplan -Deputy secretary of Financial estimations -Minister of Labor | Professor at U. Catolica de Chile |
| Miguel Kast | -Minister-director of Odeplan -Minister of Labor -Vice president of Central Bank | Professor at U. Catolica de Chile |

Table 3. SINGLE TAX SCALE FOR WORKERS: SYSTEM IN FORCE PRIOR TO REFORM (Source: Cheyre)

| Taxable amount (in subsistence wages) ²⁰ | Rate | |
|--|-------------------------------|----------------------------------|
| | March 1974 % ²¹ | December 1974 % ²² |
| 0 - 1 | Exempt | Exempt |
| 1 - 2 | 3.5 | 3.5 |
| 2 - 5 | 10 | 10 |
| 5 - 10 | 15 | 15 |
| 10 - 15 | 20 | 20 |
| 15 - 20 | 30 | 30 |
| 20 - 30 | 40 | 40 |
| 30 - 40 | 45 | 45 |
| 40 - 50 | 50 | 55 |
| 50 - 60 | 55 | 65 |
| 60 - 80 | 60 | 70 |
| 80 and higher | 65 | 80 |

Table 4. SINGLE TAX SCALE FOR WORKERS: SYSTEM IN FORCE AFTER THE REFORM IN 1975

| Taxable amount (in tax units) ²⁴ | Rate % |
|--|-----------|
| 0 - 1 | Exempt |
| 1 - 2 | 3,5 |
| 2 - 5 | 10 |
| 5 - 10 | 15 |
| 10 - 15 | 20 |
| 15 - 20 | 30 |
| 20 - 40 | 40 |
| 40 - 80 | 50 |
| 80 and higher | 60 |

Table 5. SINGLE TAX SCALE FOR WORKERS: SYSTEM IN FORCE AFER THE REFORM IN 1981

| Taxable amount (in tax units) ²⁶ | Rate % |
|--|-----------|
| 0 - 10 | Exempt |
| 10 - 25 | 8 |
| 25 - 40 | 13 |
| 40 - 55 | 18 |
| 55 - 70 | 28 |
| 70 - 85 | 38 |
| 85 - 100 | 48 |
| 100 and higher | 58 |

Table 6. Social indexes (Sources: Hachette 2011, UNdata, Cepalstat)

| Country | Life expectancy at birth for <i>males</i> (years) 1995-2000 | Life expectancy at birth for <i>females</i> (years) 1995-2000 | Infant mortality (dead infants for 1000 infants born alive) 1995-2000 |
|-----------------|--|--|--|
| Argentina | 69.7 | 77.0 | 21.8 |
| Bolivia | 60.1 | 64.0 | 66.7 |
| Brazil | 65.7 | 73.3 | 34.1 |
| Chile | 72.8 | 78.8 | 11.5 |
| Colombia | 66.5 | 74.2 | 24.0 |
| Costa Rica | 75.0 | 79.7 | 11.8 |
| Rep. Dominicana | 67.3 | 73.1 | 41.3 |
| Ecuador | 69.7 | 75.1 | 33.3 |
| El Salvador | 66.5 | 72.5 | 32.0 |
| Guatemala | 62.9 | 70.0 | 45.5 |
| Haiti | 55.2 | 58.7 | 70.3 |

| | | | |
|------------------|------|------|------|
| Honduras | 67.5 | 72.3 | 35.4 |
| Jamaica | 70.2 | 74.4 | 15.5 |
| Mexico | 71.3 | 76.1 | 27.7 |
| Nicaragua | 65.9 | 71.1 | 33.6 |
| Panama | 71.3 | 76.4 | 23.7 |
| Paraguay | 67.2 | 71.7 | 39.2 |
| Peru | 66.0 | 70.9 | 38.8 |
| Uruguay | 70.5 | 78.0 | 15.6 |
| Venezuela | 69.3 | 75.2 | 20.7 |
| AVERAGE | 67.5 | 73.1 | 32.1 |

Table 7. (Source: Central Bank, Delano and Traslaviña, 1989)

| Cuadro N° 4 Evolución del gasto fiscal en salud (millones de dólares de 1976) | | |
|---|--------|-----------------------|
| Años | Montos | Dólares per cápita |
| 1973 | 283,6 | 28,8 |
| 1974 | 220,0 | 21,9 |
| 1975 | 159,7 | 15,7 |
| 1976 | 134,3 | 13,0 |
| 1977 | 154,6 | 14,7 |
| 1978 | 161,3 | 15,0 |
| 1979 | 152,9 | 14,0 |
| 1980 | 196,8 | 17,7 |
| 1981 | 208,2 | 18,4 |
| 1982 | 196,9 | 17,4 |
| 1983 | 162,6 | 13,9 |
| 1984 | 160,7 | 13,5 |
| 1985 | 144,0 | 11,9 |
| 1986 | 134,0 | 10,9 |
| 1987 | 132,7 | 10,6 |
| 1988 | 138,5 | 10,9 |

Fuente: Banco Central

Table 8. Compositions of Exports for year 2000 (% of total) (Sources: Hachette 2011, CEPAL)

| Country | Agriculture, forestry and fishing | Mining | Food, drinks and tobacco | Commodity goods (non-durable) | Intermediary goods | Metallurgical industry |
|-------------------|-----------------------------------|--------|--------------------------|-------------------------------|--------------------|------------------------|
| Argentina | 20.5 | 14.0 | 24.7 | 6.2 | 20.7 | 13.9 |
| Bolivia | 7.6 | 28.7 | 21.7 | 9.5 | 17.5 | 14.9 |
| Brazil | 10.3 | 6.8 | 13.9 | 8.0 | 30.5 | 30.4 |
| Chile | 17.3 | 16.1 | 9.8 | 2.1 | 51.2 | 3.5 |
| Colombia | 18.3 | 37.2 | 5.4 | 10.2 | 23.5 | 5.5 |
| Costa Rica | 24.7 | 0.1 | 8.2 | 10.0 | 13.2 | 43.8 |
| Ecuador | 31.1 | 43.5 | 9.8 | 1.9 | 11.2 | 2.5 |
| Guatemala | 43.0 | 6.2 | 16.7 | 6.0 | 23.4 | 4.7 |
| Honduras | 57.1 | 4.3 | 9.1 | 6.0 | 19.3 | 4.1 |
| Mexico | 2.9 | 9.3 | 2.1 | 10.9 | 10.1 | 64.7 |
| Nicaragua | 61.7 | - | 23.7 | 1.9 | 11.8 | 0.9 |
| Paraguay | 48.0 | 0.1 | 26.5 | 11.6 | 13.0 | 0.8 |
| Peru | 8.0 | 13.3 | 17.9 | 11.3 | 48.0 | 1.4 |
| Uruguay | 12.0 | 0.1 | 38.0 | 24.5 | 16.4 | 9.0 |
| Venezuela | 0.7 | 59.8 | 0.8 | 0.3 | 36.8 | 1.6 |
| AVERAGE | 8.4 | 15.7 | 7.3 | 8.5 | 20.5 | 39.5 |

Table 9. 1995 TI Corruption Index

| Country | Score | Surveys | Variance |
|--------------------|--------------|----------------|-----------------|
| New Zealand | 9.55 | 4 | 0.07 |
| Denmark | 9.32 | 4 | 0.01 |
| Singapore | 9.26 | 7 | 0.21 |
| Finland | 9.12 | 4 | 0.07 |
| Canada | 8.87 | 4 | 0.44 |
| Sweden | 8.87 | 4 | 0.11 |
| Australia | 8.80 | 4 | 0.54 |
| Switzerland | 8.76 | 4 | 0.52 |
| The Netherlands | 8.69 | 4 | 0.63 |
| Norway | 8.61 | 4 | 0.78 |
| Ireland | 8.57 | 4 | 0.61 |
| United Kingdom | 8.57 | 4 | 0.17 |
| Germany | 8.14 | 4 | 0.63 |
| Chile | 7.94 | 3 | 0.97 |
| USA | 7.79 | 4 | 1.67 |
| Austria | 7.13 | 4 | 0.36 |
| Hong Kong | 7.12 | 7 | 0.48 |
| France | 7.00 | 4 | 3.32 |
| Belgium/Luxembourg | 6.85 | 4 | 3.08 |
| Japan | 6.72 | 7 | 2.73 |
| South Africa | 5.62 | 4 | 2.35 |
| Portugal | 5.56 | 4 | 0.66 |
| Malaysia | 5.28 | 7 | 0.36 |
| Argentina | 5.24 | 2 | 5.86 |
| Taiwan | 5.08 | 7 | 1.03 |
| Spain | 4.35 | 4 | 2.57 |
| South Korea | 4.29 | 7 | 1.29 |
| Hungary | 4.12 | 3 | 0.69 |
| Turkey | 4.10 | 4 | 1.33 |
| Greece | 4.04 | 4 | 1.65 |
| Colombia | 3.44 | 2 | 1.12 |
| Mexico | 3.18 | 4 | 0.06 |
| Italy | 2.99 | 4 | 6.92 |
| Thailand | 2.79 | 7 | 1.69 |
| India | 2.78 | 5 | 1.63 |
| Philippines | 2.77 | 5 | 1.13 |
| Brazil | 2.70 | 4 | 3.11 |
| Venezuela | 2.66 | 4 | 3.18 |

Table 10. GDP and correlated indexes (% of GDP) (Sources: Rosende 2007, H. Beyer and R. Vergara, 2002)

| Period | GDP growth | Productivity | Contribution to labor growth (%) | Capital |
|-----------|------------|--------------|----------------------------------|---------|
| 1976-1980 | 6.8 | 3.7 | 2.3 | 0.8 |
| 1981-1985 | -0.1 | -2.2 | 1.2 | 0.9 |
| 1986-1990 | 6.8 | 2.3 | 2.5 | 2.0 |
| 1991-1995 | 8.7 | 3.7 | 1.5 | 3.5 |
| 1996-2000 | 4.1 | 0.1 | 0.5 | 3.6 |
| 1998-2001 | 2.4 | -0.6 | 0.1 | 2.8 |

Table 11 GDP per capita growth for Latin America (Sources: Hachette 2011, OECD 1900-2000)

| | 1900-1913 | 1913-1950 | 1950-1973 | 1973-1990 | 1990-2000 |
|-----------|-----------|-----------|-----------|-----------|-----------|
| Argentina | 2.5 | 0.7 | 2.1 | -1.1 | 2.7 |
| Brazil | 1.4 | 1.9 | 3.8 | 1.2 | 0.8 |
| Chile | 2.4 | 1.0 | 1.2 | 1.4 | 4.7 |
| Colombia | 1.9 | 1.4 | 2.3 | 2.0 | 0.9 |
| Mexico | 1.8 | 1.0 | 3.1 | 1.0 | 2.0 |
| Peru | 1.9 | 2.1 | 2.5 | -1.6 | 0.0 |
| Uruguay | - | - | 0.8 | 0.6 | 2.1 |
| Venezuela | 2.3 | 5.3 | 1.6 | -1.6 | 0.3 |
| AVERAGE | 2.0 | 1.9 | 2.2 | 0.2 | 1.7 |

Figure 1 by Keech (2004)

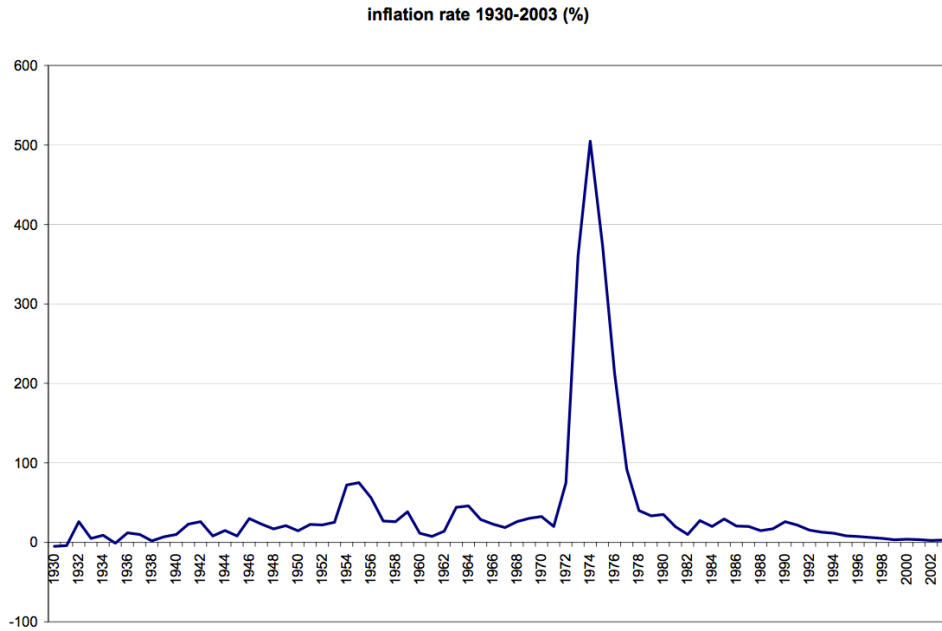


Figure 2 (Source: www.tradingeconomics.com, National Institute of Statistics, Chile)



Figure 3.



Figure 4.

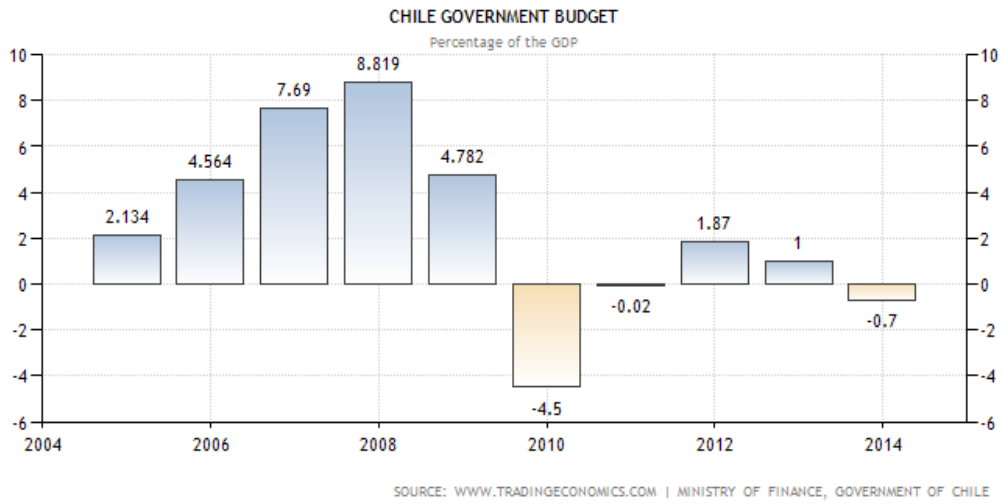


Figure 5.

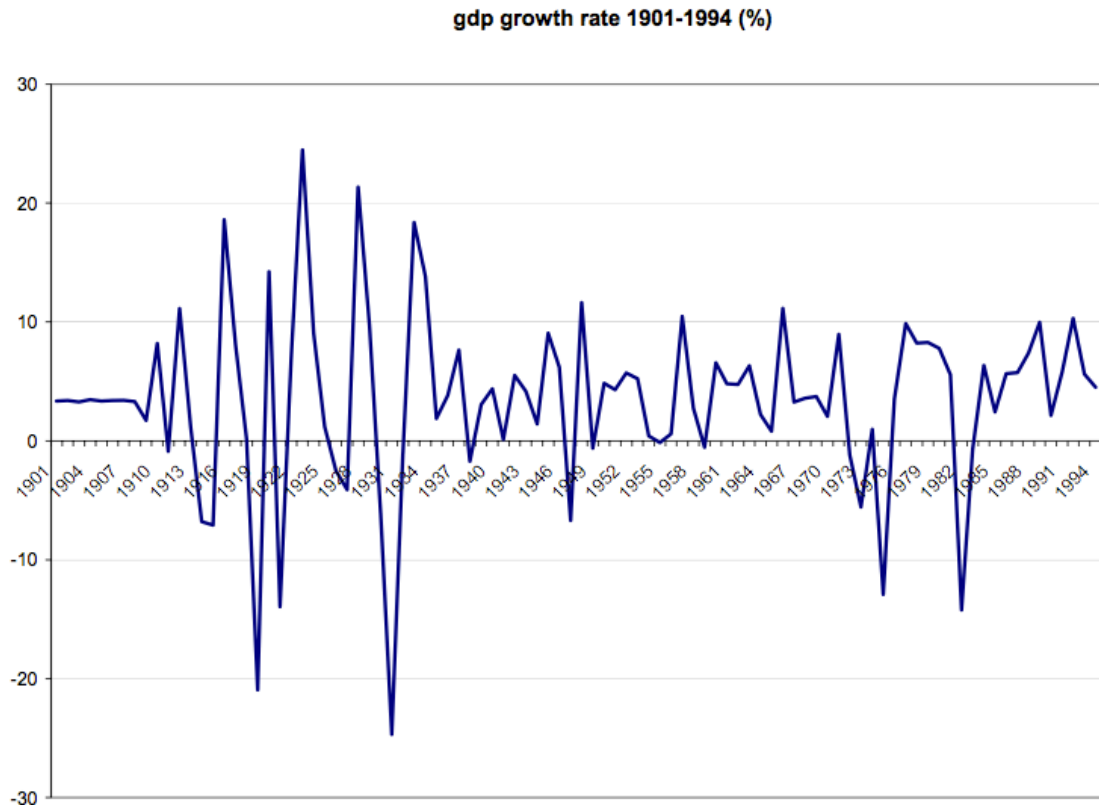
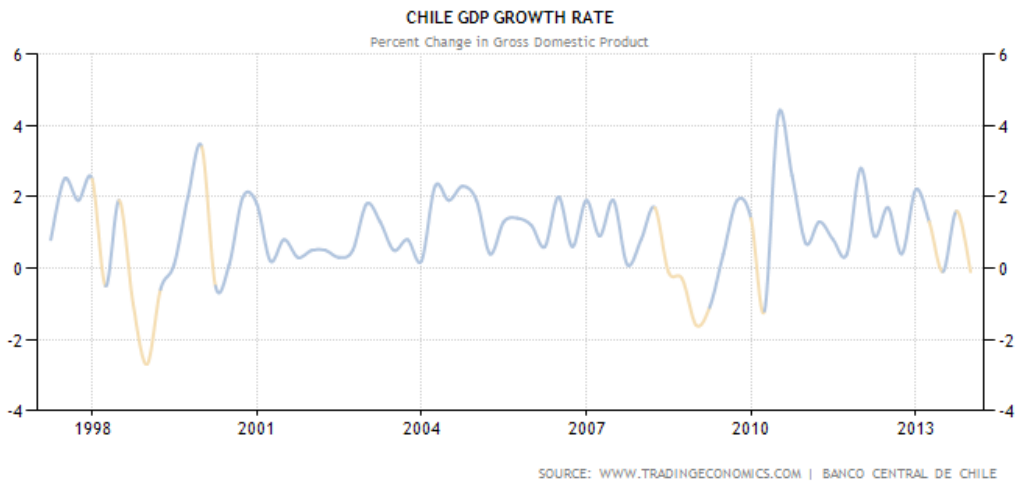


Figure 6.



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