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Neo-liberal Economics in Pinochet's Dictatorial Regime, 1973-1989

Peter Brito

University of Miami, pjb28@miami.edu

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UNIVERSITY OF MIAMI

NEO-LIBERAL ECONOMICS IN PINOCHET'S CHILEAN DICTATORIAL
REGIME, 1973-1989

By

Peter J. Brito

A THESIS

Submitted to the Faculty
of the University of Miami
in partial fulfillment of the requirements for
the degree of Master of Arts

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REGIME, 1973-1989

Peter J. Brito

Approved:

Bruce Bagley, Ph.D.
Professor of International Studies

Bradford McGuinn, Ph.D.
Professor of International Studies

Ambler Moss, Ph.D.
Professor of International Studies

Guillermo Prado, Ph.D.
Dean of the Graduate School

BRITO, PETER J.

(M.A., International Studies)
(May 2017)

Neo-liberal Economics in Pinochet's Chilean
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This thesis studies the impact of General Pinochet's military dictatorship on Chile's economy and social classes. The free market policies pursued by the regime brought Chile to new levels of economic development despite years of GDP contraction under the previous socialist administration. These policies allowed Chile's economy to recover out of high rates of inflation, however, at the expense of civil rights. Many Chilean citizens who supported President Allende's socialist agenda, were part of his administration, or had ties to radical leftist organizations were detained, tortured, and killed. The aim of this study is to draw a balance sheet of the winners and losers under both heads of state, Allende and Pinochet. While demonstrating how the free market policies were implemented and their causal success, this study seeks to identify the social classes who benefited or lost the most as a result of the policy extolled by the head of state.

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Chapter 1

Introduction

How is it possible for economic growth to occur in a society dominated by a military dictatorship? There is an inherent contradiction in the idea that a free market can flourish in a state in which the rights of the citizenry are heavily restricted. The separation of economic policy from constitutional liberalism was prevalent after the forceful implementation of neo-liberalism in Chile after September 11, 1973. Chile is widely accepted as a successful model of neo-liberal policy despite its economic growth occurring under an authoritarian regime. Joseph Stiglitz, a prominent critic of neo-liberal economic policy, mentioned Chile's 1973 neo-liberal turn in his 2002 book *Globalization and its Discontents* as the exception of the shortcomings of unregulated markets and free trade policies in developing nations.¹

Some observers argue that Pinochet's economic policy in Chile was the catalyst for economic growth. The rebound made by the state has come to be known as the "Chilean Miracle." Others reject this argument.² Critics of Chile's neoliberal policies in the post Allende era argue that the lower classes were excluded from the benefits resulting from the economic growth. The question remains: How effective were the neo-liberal reforms adopted in Chile following the right wing 1973 military coup led by General Augusto Pinochet? Secondly, what were the impacts of Pinochet's neo-liberal reforms on human rights and the standards of living of the poorest segments of Chilean society? In order to understand the questions posed in this thesis, a historical record is presented beginning with Allende (1970) through Pinochet's departure from power (1989). The aim is to develop a balance sheet in which the winners and losers in both Allende's and Pinochet's Chile are examined.

1 Cypher, James. "Chile is Often Heralded as the Global South's Best Case for Free-Trade Economic Policies, but the Facts tell a Different Story." *Dollars and Sense*. Sept. & Oct. 2004. Web.

2 Winn, Peter. *Victims of the Chilean Miracle : Workers and Neoliberalism in the Pinochet Era, 1973-2002*. 2004. Web. Page 10

Path dependence is used to illustrate the ruptures with previous socio-economic systems in Chile.³ Both Chilean leaders, Allende and Pinochet, sought to move the state towards radically opposed visions that left consequential ruptures with socio-economic conditions inherited from previous administrations in power. Pinochet's unilateral imposition of a free market economic policy was later hailed throughout the world as the solution for states running enormous annual deficits; specifically, the Washington Consensus began prescribing neo-liberalism to former Soviet satellite states and economically challenged Latin American states. The logic was that other states experiencing economic decline, according to those promoting the Washington Consensus, can adopt neo-liberal policies and grow out of recession.

This thesis begins by briefly reviewing the Allende government's socialist policies focusing first on Allende's socialist policies and then turning to the levels of economic growth, or decline. Key economic indicators are used to illustrate the socioeconomic outcomes of his government's socialist policies in the environment of an underdeveloped state; these economic indicators such as rates of inflation, percentage of GDP growth, and changes in Chile's GNI per capita during Allende's three year presidency attempt to depict those outcomes. This thesis then turns to Pinochet's military government exploring the nature and outcomes of policies according to the indicators applied to Allende's administration. Other indicators are used to elaborate on Pinochet's neo-liberal reforms compounded with a comparison to Mexico.

This study is organized in the following fashion. In the first section, key concepts regarding neo-liberalism are presented. In the second section, the Chilean state inherited by the Allende's administration is briefly examined before continuing onto exploring Allende's three years in power. The third section explores Pinochet's neo-liberal reforms and the resulting

³ David, Paul. "Path Dependence, its Critics and the Quest for 'Historical Economics'" *Http://www-siepr.stanford.edu/workp/swp00011.pdf*. All Souls College, Oxford & Stanford University, June 2000. Web. Page 2

economic growth or decline. The fourth section includes a comparison between Chile and the world as an aggregate unit, global GDP and export statistics are compared to Chile's.⁴ The purpose is to analyze whether Chile's export oriented economy was dependent on stability within the global economy. There is also an analysis of GNI and GDP per capita changes during the Allende and Pinochet governments in this section. The fifth section comprises a comparison between Chile's and Mexico's levels of economic growth across key economic indicators from 1982 through 1989.⁵ Following the Latin American economic crisis of 1982, Mexico adopted neo-liberal economic policy as a method to reform from its debt crisis, despite the fact that it was not under military rule at the time. The last section returns to the basic questions: how did neo-liberal, free market, policies succeed in an illiberal, dictatorial society?

Method in the study of Neo-Liberal Reform

This thesis uses case study methodology to examine the effectiveness and social impacts of Pinochet's implementation of neo-liberal reform. The study examines in detail three operational indicators: the nature of policy, the economic effectiveness (growth or decline) of executive policy, and the burden imposed on Chile's middle, working, and lower classes during the military regime. The fifth section includes a comparison between two states where neo-liberal reforms were implemented, one state that was ruled by the military (Chile) and the other by a civilian government (Mexico).

4 Percentage of GDP growth and Total Merchandise exports; obtained from the World Bank Databank.

5 Chile-Mexico comparison key indicators: GDP growth (annual percentage), GDP per capita, Agriculture Raw Materials Imports (percentage of Merchandise Imports), Agriculture Raw Materials Exports (percentage of Merchandise Exports), Merchandise Imports and Merchandise Exports. Obtained from the World Bank Databank.

Chapter 2

Neo-liberal Economics and Import Substitution Industrialization

Introduction to Neo-Liberalism

Import Substitution Industrialization and Neo-liberalism

Both Import Substitution Industrialization and Neo-liberalism seek to promote trade and long term economic development. Both of these policies lie on radical extremes of the socio-political spectrum; on one side is the heavily protectionist regime and on the other is the free market policy of limited regulation. For both of these trade policies the goal is to increase growth through increasing incomes, job creation, that lead to higher levels of development. However, the central focus is rupturing from long term dependence on foreign products and shift into more advanced technological methods of producing and growing. This shift entails moving into manufacturing and industries where a higher level of technological development is required.

Import substitution industrialization focuses on applying higher tariffs on manufactured goods originating from foreign countries. These protectionist policies are meant to restrict the levels of incoming imports to permit room for domestic industries to grow and compete against foreign competitors. The purpose of ISI is to build a strong domestic industry capable of supplying goods that were formerly imported. Placing higher tariffs on imports can lead to two main benefits for the state: protects domestic jobs and insulates the economy from foreign influence, i.e. the potential dominance of policy-making by multi-national corporations. However, there are three central problems with this policy. Although there is a short term increase in job creation, historical trends have illustrated high levels of long term unemployment. As import tariffs are imposed amongst former states that participated in trade, the substituted product manufactured by the domestic industry that has been protected by protectionist state policies cannot be exported to a foreign market due to reciprocally elevated import tariffs in the former importer state. An increase in the number of states restricting imports originating from a state using ISI culminates in an effect that limits the size of the market available for the domestic industry to trade in the long term, this results in both high unemployment and economic decline if the domestic manufacturers cannot compete at the international level. Placing higher tariffs on

imports negates a state's natural comparative advantage because of the inefficiency associated with producing formerly imported goods. The lack of efficiency translates into higher prices for consumers; specialization gains are going to be lost, potential benefits of gains made abroad will also be lost.⁶

Export promotion, the other extreme, promotes free trade. Protectionism is removed in an attempt to encourage growth, income gains, and job creation for sustained long term development. For a developing economy the short term benefits can be achieved by exploiting its comparative advantage. The primary product produced in a state can be exported at increasing levels to generate increases in levels of capital. The availability of loans and greater amounts of capital can be used to invest in technological advancement. The harnessing of technology can develop domestic industry to the point at which the state can break away from dependence on imports from abroad. For example, the state can shift from being a primary exporter of agriculture into other export sectors like manufacturing. There are also three major problems that impact free trade policies. Protectionist policies from abroad can limit the total level of exports into the global market. Another substantial problem with free trade policies is the gap in income inequality. Industries are fostered to grow however there is no guarantee that growth will occur throughout the economy. Finally, the attraction of free trade and limited regulation can attract multinational corporations leading to higher levels of influence over domestic policy-making.⁷

Foreign Direct Investment

Foreign direct investment plays a significant role in economic development. FDI occurs when a global firm decides to open a branch in another part of the world. Foreign investment in a

6 "Import Substitution Industrialization." *International Relations, Know the World*. 17 Dec. 2015. Web. <<http://internationalrelations.org/import-substitution-industrialization/>>.

7 Krainara, Choen. "Export-Oriented Industrialization (EOI): Arguments for and Against What Have Been Experienced of..." *Researchgate*. Asian Institute of Technology, May 2007. Web. Page 10-12

developing country can have both positive and negative effects. A foreign firm decides on investing in a developing country for four major reasons. First, the developing country may have an abundance of natural resources that prove useful for the global corporation, regardless of where its headquarters is located. Second, the state in which the investment is taking place may be an emerging or growing market leading investors to speculate on huge potential of profits for their product; this can be a way for multinational corporations to outmaneuver import tariffs. Third, a corporation may invest in an emerging or growing market for access to cheaper labor. Finally, regulations, standards, and restrictions for businesses operating in foreign countries tend to be much lower.⁸

What are the advantages of greater levels of incoming FDI for a developing country and how does that actually lead to development? First, any investment into the economy is an injection of hard currency into the developing economy. The extra capital leads to more employment and an increase in long term potential growth in the state's aggregate supply. The increase in capital into the economy can be used to invest. Second, incoming multinational corporations can develop infrastructure for the MNCs own benefit but also to the benefit of the developing state. Third, the competition posed by MNCs producing locally presents a challenge for domestic industry. Competition is thought to improve the output of local producers in the long term benefitting both local industry and the economy in the long run. Fourth, MNCs often require higher levels of technology to operate; the developing nation benefits with the incoming transfer of technology. Finally, the developing nation can collect greater amounts of tax revenue in three ways: if job opportunities increase the potential for income tax collection increases; the potential for corporate taxes also increases as MNCs are taxed; and, the goods being sold in the developing nation can also be taxed.⁹

8 "17 Big Advantages and Disadvantages of Foreign Direct Investment." *Connect Us: Global Issues*. N.p., n.d. Web.

9 Ibid

What are the major limitations of FDI? First, the employment benefits may be short term. There is no guarantee that MNCs will maintain operations for long periods of time. An MNC may make tremendous levels of profits rapidly and leave the developing the state. Also, there is no guarantee that MNCs will use the labor force available in the developing country. Second, MNCs may enjoy too much power over the developing nation's policy-making process. For example, MNCs can force policy imposing lower taxes on foreign corporations. Third, MNCs may invest in labor saving technology. For example, an MNC can favor capital intensive production instead of labor intensive production which will not benefit local populations. Fourth, MNCs may strip abundant natural resources to fund projects back home and subsequently leave in short order. Fifth, the environmental costs associated with foreign investment can be very high. Foreign firms extracting raw materials can lead to resource depletion. In the process of generating higher profits, these firms enjoy relaxed restrictions allowing them to operate with little to no regard for long term local pollution problems. Finally, tax revenue collection may be lower than what was first estimated by policy-makers. Governments in foreign states can subsidize foreign firms to lure them into their market; in some cases the taxes collected from these foreign companies do not surpass the government subsidy.¹⁰

Neoliberal Reforms and the Washington Consensus

Chile, a state where neo-liberal policies had been implemented unilaterally in 1975 following the September 11, 1973 coup, was framed as an example of the potential successes of the model. The neo-liberal economic model was applied in Chile to uproot a system where the presence of the state in the domestic arena had caused drastic economic decline across social classes. Chile's ensuing recovery was attributed to an ideology based on the free market; by the 1980s, international financial organizations were co-opting Latin American states into adopting

10 Ibid

neo-liberal economic policies as a solution to the regional economic downturn. However, few states experienced Chile's successes. Since states prescribed neo-liberal economic policy did not experience Chile's rate of development, differing external and internal variables present differing levels of development across case studies.

By 1989, ten principles of neo-liberalism came to be known as the Washington Consensus. These principles were posited as the solution to states experiencing economic decline. The ten principles are:

“**Fiscal Discipline.** This was in the context of a region where almost all countries had run large deficits that led to balance of payments crises and high inflation that hit mainly the poor because the rich could park their money abroad. **Reordering Public Expenditure Priorities.** This suggested switching expenditure in a progrowth and propoor way, from things like nonmerit subsidies to basic health and education and infrastructure. It did not call for all the burden of achieving fiscal discipline to be placed on expenditure cuts; on the contrary, the intention was to be strictly neutral about the desirable size of the public sector. **Tax Reform.** The aim was a tax system that would combine a broad tax base with moderate marginal tax rates **Liberalizing Interest Rates.** Recognize the importance of accompanying financial liberalization with prudential supervision. **A Competitive Exchange Rate.** [states must either fix their currency permanently or allow it float ‘cleanly’] **Trade Liberalization.** [Moving the state toward free trade progressively] **Liberalization of Inward Foreign Direct Investment.** [Does not include capital account liberalization] **Privatization.** As noted already, this was the one area in which what originated as a neoliberal idea had won broad acceptance. We have since been made very conscious that it matters a lot how privatization is done: it can be a highly corrupt process that transfers assets to a privileged elite for a fraction of their true value, but the evidence is that it brings benefits (especially in terms of improved service coverage) when done properly, and the privatized enterprise either sells into a competitive market or is properly regulated. **Deregulation.** This focused specifically on easing barriers to entry and exit, not on abolishing regulations designed for safety or environmental reasons, or to govern prices in a non-competitive industry. **Property Rights.** This was primarily about providing the informal sector with the ability to gain property rights at acceptable cost.”¹¹

Neoliberal Reforms in Chile

Neo-liberal economic policy is meant to develop a domestic economy experiencing: high rates of inflation, an embedded corporatist structure, and the marginalization of underrepresented citizens. There are three basic market assumptions which provide the foundations for Chile's neo-liberal model: “the market as the framework of free and informed individual exchange; the

11 Williamson, John . "A Short History of the Washington Consensus ." Proc. of From the Washington Consensus towards a new Global Governance, Barcelona. Institute for International Economics, 2004. 24-25. Web.

market as the paradigm of freedom or of a free and non-coercive social organization; and the market as the focus and the objective of economic scientific accumulation.”¹² The market behaves as a social structure fomenting cooperation effectively reducing the role of coercion and deterrence formerly played by the state. The individual’s ability to freely choose between products, all of which compete for greater profit, create the conditions upon which the individual acts upon free will. For Chile during the years of 1973-1989, a free market existed within an authoritarian regime presenting a contradiction with the ideological principal of a minimalist state allowing the market to act as a facilitator for cooperation amongst individuals. Chile’s authoritarian government restricted the rights of citizens yet unregulated and freed the economy. In the attempt to ensure the foreseen success of the economic policy, the state attempted to manifest the appropriate macro-conditions. In Chile, Pinochet’s government attempted to erase the communist identity, reinvigorate the economy that had been devastated by Allende’s government, and redefine the role of the state in domestic affairs.

The military coup was widely thought to be a brief episode, ending once socio-economic stability was reinstated. Chile’s “long tradition of democratic regimes, the relative strength of a nationwide party apparatus, and the breadth of political participation with an equally broad civil society associated with it,”¹³ among other factors, “were considered to be sufficiently present as to cause a swift reverse to democracy several short years after the military coup.”¹⁴ Free market policies were viewed as the prescriptions providing the desired national development that import substitution industrialization and Allende’s reforms were unable to accomplish.

From Allende to Pinochet, the role of Chile’s government would be redefined in a few short years; both heads of state sought to implement a vision for the country based on an

12 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. Cambridge U Press, 1995. Print. Page 67

13 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. Page 95. Print.

14 Ibid

abstraction. The relevant time period are the years 1970 through 1989- the years in which Chile underwent two transitions to systems on opposite ends of the socio-political spectrum. Allende's ideological motivation led to a series of escalating reforms meant to achieve a communist state. Factions within the Chilean military rejected Allende's experiment leading to the first elected socialist President in the world to be removed from office. The ensuing military government did not provide a real alternative economic model until 1975. The implantation of the neo-liberal agenda in Chile was the first in a wave of neo-liberal reforms that spread across the world in the 1980s, reaching even the US and England. The freeing of prices, denationalization and privatization, and a new orientation towards export development were methods employed by Chile's technocrats to further the envisioned status quo. The military government's policy in the domestic arena sought to provide the desired macro-economic conditions to initiate a modernization process.

Chapter 3

The Chile Inherited by Allende

Since Chile became a sovereign country, the state played a pivotal role in social affairs. Political parties across the spectrum, and the Catholic Church, “promoted a political process and social climate marked by a pronounced egalitarian bent towards social justice, the fight against social marginalization and support for national integration.”¹⁶ As a consequence of the 1929 Great Depression, the Chilean government began to have an increased role in domestic development. The Chilean mediatory state was synthesized due to external factors like global economic crisis and the widespread adoption of welfare programs across the world.¹⁷ The Chilean government slowly became the principal agent in national development.

The state’s role arose, however, from factors that were not strictly or exclusively economic. As with the welfare state developed in Europe under the influence of Keynesian theory, the mediatory state arose from the need to reformulate the dominant coalitions as a result of the process of incorporating the organized popular sector, who acquired an important degree of influence in the political system through the political parties on the left.¹⁸

The role of the government intervention in the state economy centered on promoting trade, government as the principal driver of industrialization, and government as a significant economic entity. State intervention in the economy was widely accepted by most economic agents in Chile, including business owners, by the early 1960s. Private business abided by the complex regulations outlined by the state and primarily competed for state financing. The rising left competed with middle and upper classes of Chilean society for “shares in the power that the state was able to administer and distribute.”¹⁹

Chile incorporated import substitution industrialization while increasing the role of the state in domestic development. Different sectors of society were progressively compounded into government policy; state policy was based on improving the standards of living of its citizens and on strengthening democratic institutions. As a result, non state actors were intertwined with the

16 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. N.p.: Cambridge U Press, 1995. Print . Page 5

17 Ibid; Page 8

18 Ibid; Page 8

19 Ibid; Page 8

state's policy-making instruments. The plethora of political parties competing for power and their mutually beneficial alliances with social organizations facilitated national exposure for potential government leaders rising from the lower ranks of social organizations. However, this system of socio-political integration weakened the state because all social organizations were forced to compete for the same resources being distributed by the state. This resembled a disconnection between the diversely divided political parties and the relative degrees of democracy at the societal level as interests were usually defined by elites. By the late 1960s, the strength of the Chilean system was found in growing levels of political participation; its weakness was attributed to the "insufficient autonomy of civil society and in the latent fragility of commitment to the political regime."²⁰

By the end of the 1960s, the Chilean mediatory state was in crisis. The model had provoked onerous distribution disputes that fomented frequent inflationary issues, balance of payment problems, and friction between different societal sectors. Allende sought to overthrow the mediatory state because it served the interests of monopolistic capitalism. President Allende sought to dismantle the state from within; state institutions would serve to expand socialist participation eventually supplanting bourgeois rule with socialist government.

By 1970, the Chilean masses began to express the desire for a change in the national economic development strategy. State policy was not meeting the growing demands of important non state actors who exerted pressure through the political system. "Social inequalities had reproductive mechanisms which the political democracy could not eliminate or overcome. Combined with segmentation and exclusion, this type of substantive democratization produced a form of popular integration without a parallel ideological cooptation. This implied the

20 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. N.p.: The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. Pages 96-97. Print.

preservation of political ideologies which supported radical changes and alternatives to the capitalist system.”²¹ Critics of state policy centered on the shortfalls of the capitalist development model. These anti-capitalist criticisms, combined with the unfavorable perception of the entrenched political actors who had governed the country, polarized the political spectrum and created the conditions where the Marxist left generated mass appeal.²²

Allende’s Chile, 1970-1973

On September 4, 1970, UP representative Salvador Allende garnered 36.3% of the national vote in the presidential election. He defeated National Party representative Jorge Alessandri (34.9%) and Christian Democrat Radomiro Tomic (27.8%). President Salvador Allende was inaugurated on November 3, 1970. Less than ten days later, Allende re-establishes relations with Cuba.²³

Salvador Allende was an individual attracted to Chile’s socio-political system. He was a member of the Senate for 25 years before becoming president; however, Allende was drawn to violent causes. For example, he headed the Latin American Solidarity Organization, organized by Fidel Castro in 1968, seeking to overthrow governments considered to be exploitative.²⁴

By February 1971, Cuba and Chile had signed a \$20 million dollar trade agreement. As relations with Cuba moved forward, Chile’s voting age was lowered to 18 from 21. This change has a significant impact on the April 4th elections as the UP coalition wins 49.7% of votes in 280 municipalities against three other political parties. As more and more Marxists ascended to Congress, Allende gained momentum for his administration’s reforms. On July 11, 1971 a joint congressional session approved the nationalization of the copper, iron, steel, and nitrate

21 Ibid, Page 96

22 Ibid, Page 98

23 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Print. Pages 71-80.

24 Whelan, James. "What Really Happened in Chile 30 Years Ago." *Wall Street Journal, Eastern Edition*(2003): 11. Web.

industries; the copper industry supplied three-fourths of Chile's foreign exchange.²⁵ In November 1971 Castro begins an elaborate tour of Chile at Allende's invitation; the tour begins on November 10 and extends through December 4th.²⁶ In his visit to Chile, Castro broadly extols the value of self-determination through violence. Castro sought to convince the Chilean lower classes of the importance of using violence to secure interests. Castro claimed that Chileans had to 'arm the spirit' for an inevitable confrontation with opposing forces. The Cuban dictator continually referenced the use of violence as a means to secure the revolutionary state.²⁷ Two of the cities visited by Castro in 1971, Antofagasta and Santiago, were later visited by General Arellano's "Caravan of Death." The Caravan of Death killed the most prominent communist leaders across the country in the days following the September 11 coup.²⁸

At the onset of Allende's election, socialist revolutionaries flocked to Chile. Their numbers swelled rapidly, reaching an estimated 15,000. The collaboration between socialist Chile and revolutionary Cuba created an opportunity for the Cuban government to benefit politically from a hemispheric partner. Cuban agents begin to enter Allende's Chile to train the lower classes for the inevitable overthrow of the bourgeoisie state. Former Cuban General Patricio de la Guardia cited in his 1989 trial in Havana his service in advancing the communist revolution in Latin America; according to his own words, this disgraced general trained clandestine military forces in Chile during Allende's administration. Further, congresses in 1965 and 1967 that were dominated by the Socialist Party declared "revolutionary violence is inevitable and legitimate. Only by destroying the bureaucratic and military apparatus of the bourgeois state can the Socialist

25 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Print. Pages 71-80.

26 Ibid

27 Harner, Tanya. "Two, Three Many Revolutions? Cuba and the Prospects for Revolutionary Change in Latin America." *Journal of Latin American Studies* (2013): Page 76. Web.

28 Verdugo, Patricia. *Chile, Pinochet, and the Caravan of Death*. North South Center Press: U of Miami, 2001. Print.

revolution be consolidated."²⁹ Two years after Allende was elected President, Allende's party proclaimed: "The bourgeois state is not suited for the construction of socialism; its destruction is necessary . . . we must conquer all power."³⁰

If there is any doubt about the participation of Cuban agents in providing military training to common Chileans for the eventual, violent overthrow of what was deemed to be a bourgeoisie state, Carlos Tato Moreno provides implicit evidence of this symbiotic relationship detrimental to the Chilean state. Found in the prologue of his book *Sobrevivientes*, an account of a Chilean exile living in Cuba recalling his family's episode with political persecution in the early period of the Pinochet dictatorship, the author mentions Cuban agents present in Chile collaborating with the most radical left militant organization in Chile at the time, the MIR. In his account, Mr Moreno is outlining a conspiracy taken up by Castro, Allende, and the MIR to militarize the radical left in Chile. He also mentions the operation was undertaken with the full knowledge and support of President Allende:

Fidel, the revolutionary government and the communist party of Cuba supported unconditionally Chile's president elect and the political parties that combined formed the Unidad Popular, and the MIR which gave its critical support to Allende's government. **With a group of Cubans in Chile, we worked to develop military solidarity.** We maintained tight relations with the President Salvador Allende, an inerasable revolutionary bond with Luis Corbalan, Carlos Altamirano, Arnoldo Camus, Coco Paredes, Samuel Riquelme, Volodia Teitelboim, Jaime Gazmuri, Oscar Garreton, Bosco Parra, Hernan del Canto, Ariel Ulloa, Anselmo Sule, Carlos Toro and many other political leaders of the Unidad Popular, parties of which Cuba offered all the help possible. It is important to emphasize that our international collaboration counted on the absolute knowledge and agreement of President Allende. With the MIR, our relations went beyond camaraderie with Miguel Enriquez, Bautista Gutierrez, Edgardo Enriquez y many other leaders from that organization.³¹

The collaboration between the MIR, a radical left militant group, and Salvador Allende occurred before Allende became president. The MIR's general secretary, Miguel Enriquez, assigned some of the MIR's most decorated guerrillas to the command of Allende before he was elected on

29 Whelan, James. "What Really Happened in Chile 30 Years Ago." *Wall Street Journal, Eastern Edition*(2003): 11. Web.

30 Ibid

31 Moreno, Carlos Tato Ayress. "Preface." *Sobrevivientes: Un Suceso Posterior al Golpe Pinochetista*. Havana: Instituto Cubano del Libro, Editorial de Ciencias Sociales, 2008. Pages XVII-VIII. Print.

September 4, 1970.³² By early 1973, radical leftist groups collaborating with the Allende administration began to organize military training schools in Santiago. The purpose of the military school was to collect intelligence and carry out missions for the radical left's politicians.³³ These radical leftist organizations participated in armed confrontations with opposing right wing organizations and police.³⁴

Apart from preparing the lower classes for a violent overthrow of the government, Allende's government directly managed and controlled agriculture through various state agencies. The centralized nature of Allende's Chile led to shared control of agriculture between three state agencies: the ECA (the Agricultural Commercial Enterprise), the SOCORA (the Society for Commercialization of the Agrarian Reform), and the ODEPA (the Office of Agricultural Planning). The ECA had monopolistic control over the importation of agricultural products like wheat; the SOCORA set prices on both imported and domestic products;³⁵ and the ODEPA ensured Chilean agriculture was "effectively isolated from any form of market forces, price and quantity incentives."³⁶

By January 1973 inflation rose to 200%; and continued its dramatic rise throughout that year.³⁷ Former President of Chile, Eduardo Frei best illustrated what Allende's Chile resembled with comments made in March 1973: "Chile is in the throes of an economic disaster -- not a crisis but a veritable catastrophe no one could foresee would happen so swiftly nor so totally. The

32 Arce, Luz. "The Inferno: A Story of Terror and Survival in Chile." The U of Wisconsin Press, 2004. Page 7. Print.

33 Ibid, page 10

34 Ibid, page 11

35 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 25. Print

36 Wisecarver, Daniel. "Economic Regulation and Deregulation in Chile, 1973-1983." *The National Economic Policies of Chile*. Greenwich: Jai Press, 1985. Page 158. Print.

37 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Pages 71-80. Print.

hatred is worse than the inflation, the shortages, the economic disaster. There is anguish in Chile." He also compared the situation to a "carnival of madness".³⁸

As the Allende administration continued forward ignoring judicial decrees and illegally seizing of private property, there was a rise in the levels of unchecked street violence. The situation in Chile continually deteriorates as copper miners at the El Teniente mine engage in an indefinite strike; a state of emergency is declared in that region on May 10, 1973.³⁹ The Supreme Court issued a unanimous statement on May 26, 1973 proclaiming the Chilean state was confronting the beginning of an "imminent breakdown of legality".⁴⁰ As a result of the copper strike, Chile suspended its copper exports on June 5th. On June 20th, thousands of doctors, teachers, and students join the miners and go on strike to voice their opposition to Allende. The next day, on June 21st, violence erupts as government opposition and Allende supporters clash during protests. Socio-political differences continue to foment dissent; on August 2, the owners of 110,000 busses and taxis join the strikes which have by this point reached the national level.⁴¹

On August 22, congress came within two votes of impeaching Allende and publically declared that the President has from the start been "bent on the conquest of total power . . . so as to implant a totalitarian system."⁴² On August 23, General Carlos Prats resigned as Defense Minister and Commander of the Army due to his political views causing a left/right polarization in the ranks of the army; General Augusto Pinochet is named Commander of the Army on August 24.⁴³

38 Whelan, James. "What Really Happened in Chile 30 Years Ago." *Wall Street Journal, Eastern Edition*(2003): Page 11. Web.

39 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Pages 71-80. Print.

40 Whelan, James. "What Really Happened in Chile 30 Years Ago." *Wall Street Journal, Eastern Edition*(2003): Page 11. Web.

41 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Pages 71-80. Print.

42 Whelan, James. "What Really Happened in Chile 30 Years Ago." *Wall Street Journal, Eastern Edition*(2003): 11. Web.

43 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Pages 71-80. Print.

Allende's socialist project faced turmoil by 1973: the capitalist characteristics of the state's political economy were assaulted and not replaced with a viable alternative; second, the ensuing political polarization meant the former center Chilean middle class experienced a process of "fascistation;" finally, Allende's political regime had lost legitimacy. As a result of these three conditions, the military coup against the democratically elected socialist president is recognized as a reactive process that sought to freeze and reverse Allende's changes to Chile's identity.⁴⁴ On September 11, 1973, the Chilean military overthrew Allende's government; in the days following the coup, thousands of Chileans disappear or are killed as the military branches struggle for control of the state. On September 13, 1973, the military junta appoints Pinochet as president and dissolves congress, temporarily ending Chile's democratic tradition. By October of 1973, all Marxist political parties are proclaimed to be illegal by the military government.⁴⁵

44 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. N.p.: The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. Page 98. Print.

45 Dorfman, Ariel. *Chile: the Other September 11*. Havana: Ocean Press, 2003. Pages 71-80. Print.

Chapter 4

Pinochet's Chile, 1973-1989

As the military began to violently impose new political power structures, neo-liberal economic policy was framed as the method to radically improve the economy. The neo-liberals argued aggressively against an enlarged, interventionist state. From their perspective, a military intervention was required to erase the role historically played by the state. The Chilean political center was constructed on the state's capability to distribute goods amongst rival social organizations. From this historical legacy of an interventionist Chilean state, the neo-liberals argued that "a society regulated fundamentally, if not exclusively, by the market should decide that the only way to achieve this was by force and in the briefest time period possible."⁴⁶

Under Allende, from 1970-73, the Chilean state nationalized production and financial sectors, expropriated estates, and installed mechanisms to control prices within the domestic economy. Under Pinochet, Chile's vast liberalization agenda was the shrinking of the state, deregulation of Chile's financial sector, and rhetorical phrases of faith in the free market's ability to solve almost any of society's problems.⁴⁷ The first focus of the military government was to control the high rates of inflation in an attempt to avoid the state experiencing hyperinflation: "the most immediate problem that faced the military junta was how to restore basic equilibrium without bringing on hyperinflation."⁴⁸ Early on, the military government officials began expressing the importance of "monetary and macro-economic stabilization policies."⁴⁹ As a result, military policy to control domestic inflation centered on correcting budget deficits and balance of trade

46 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. N.p.: Cambridge U Press, 1995. Pages 5-6. Print.

47 Ibid, Page 7

48 Ramos, Joseph. *Neoconservative Economics in the Southern Cone of Latin America, 1973-1983*. Baltimore: Johns Hopkins U Press, 1986. Page 23. Print.

49 Constable, Pamela, and Arturo Valenzuela. *A Nation of Enemies: Chile under Pinochet*. New York and London: WW Norton and Company, 1991. Page 68. Print.

policies “that had been provoked by the collapse in the price of copper and the trebling of oil prices.”⁵⁰ The regime’s reactive economic policy centered on four economic methods:

To free virtually all prices, in this way ending shortage, black markets and repressed inflation. (2) To devalue the exchange rate by approximately twenty times its shadow value of late 1969 (in short, by an amount equal to the increase in the supply of money since the last period of ‘normalcy’, (3) To control wages by demobilizing labor unions, a bastion of UP support, and by changing the readjustments of inflation) to looking ‘forward’ (adjusting in accordance with the programmed inflation for 1974). (4) To follow a restrictive monetary policy to reduce the fiscal deficit.⁵¹

Despite the military’s efforts, by “1975, the economy was being buffeted by unfavorable international trends (higher prices for imported oil, lower prices for exported copper), unemployment which exceeded 14%, a decline in real wages, and inflation which continued to grow at a rate of over 300 percent.”⁵²

The crisis the military was reacting to impacted policy-making in multiple ways. First, the progression of Allende’s socialist project, and its rupture with capitalism, had caused the military to concentrate on economic policy that controlled inflation and ensured fiscal stability. This focus immediately neglected Chile’s reinsertion into the international trade economy. Second, the progression of Chile’s socialist policies also contributed to the “intensity, scale, and duration” of the military regime due to the vision of redefining the Chilean state. Bringing legitimacy to the military regime were the capitalist classes that were threatened under Allende’s government.

One of the elements relating to the original crisis which permitted the consolidation of a hegemonic nucleus was the feeling among economically dominant sectors of having lived through a definitive threat to their existence during the UP government. In the face of this threat, their main aims had been the recovery of their confiscated privileges and assets, and the establishment of political conditions capable of reversing the situation and of avoiding its repetition. Even certain productive sectors, especially those linked with import substitution, industrialization and agriculture, which would be severely affected by the economic model implemented and consolidated from 1975, held the view that there could be nothing worse than what had happened in the UP period. Moreover, their hopes were initially confirmed when the military government

50 Larraine, Felipe. "The Economic Challenges of Democratic Development." *In the Struggle for Democracy in Chile 1982-1990*. Lincoln: U of Nebraska Press, 1991. Page 12. Print.

51 Ramos, Joseph. *Neoconservative Economics in the Southern Cone of Latin America, 1973-1983*. Baltimore: Johns Hopkins U Press, 1986. Page 23. Print.

52 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 318. Print.

authorized a wholesale return of properties which had been nationalized or taken over by the state under UP.⁵³

Fourth, the military's hierarchy provided a disciplined chain of command that facilitated and enabled rule from a single leader. Pinochet's personalization was a process occurring in stages. "Pinochet, remaining as commander in Chief of the Army, moved from chief of the government junta to head of state and then president of the republic, a move consummated with a referendum in September 1980."⁵⁴

The military takeover radically redefined state institutions. SOCORA was abolished and the ECA was forced to work within new regional limitations.⁵⁵ At the same time, the military regime sought to convince both the Chilean public and private sectors that "a freely functioning market for these goods could in fact lead to effective, perhaps even more desirable results."⁵⁶ As the agencies that dominated the state under Allende were weakened or abolished, Pinochet invested political capital in the SNA (the National Society of Agriculture) – an organization made up of landed elites that declined in influence during Allende's government.⁵⁷ The military regime's alignment with the SNA forecasted the new corporatist system constructed by Pinochet and its ability to subordinate economic organizations to the state.⁵⁸

The peasants, who had gained the most from Allende's government, were marginalized by the state. Peasant leaders who were critical of state policy disappeared. "The military

53 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. Page 100. Print.

54 Ibid, Page 101

55 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 25. Print.

56 Wisecarver, Daniel. "Economic Regulation and Deregulation in Chile, 1973-1983." *The National Economic Policies of Chile*. Greenwich: Jai Press, 1985. Page 159. Print.

57 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 26. Print.

58 Wright, Thomas. *Landowners and Reform in Chile: The Sociedad Nacional de Agricultura, 1919-1940*. Urbana: U of Illinois Press, 1982. Pages 197-198. Print.

government classified the formulation of sectoral demands as an ‘illegitimate act’, directed against the ‘general interest’ of the nation”⁵⁹ and fully removed state consideration for the well being of its lowest classes.⁶⁰ In the arena created by the Pinochet regime, peasants did not have “neither the security of the pervious landlord system, nor the land from the reform period. The new owners turned them off the land and hired seasonal workers.”⁶¹ Labor unions would remain illegal in Chile until 1979 and weak thereafter. Forcing the unions to abide by the framework laid out by the state, the new labor plan sought “to reduce to a minimum the bargaining power of the unions.”⁶² Because of the strict parameters set for negotiation by the military government, the labor unions eventually “changed their structures to conform to the labor plan.”⁶³ The state forced the labor unions to accept the terms of conditions for legalization, thus, forcing the labor unions to implicitly accept the new structural changes limiting the power of the labor unions within the state.

Pinochet’s repressive instruments grew alongside the power he accrued. In June 1974, Pinochet created the National Intelligence Directorate (DINA) with the sole purpose of oppressing dissent. DINA later became the Central Office of Information (CNI) in August of 1977. At the same time, Pinochet purged contemporary military officers who had aided him in the coup and appointed new officers who were only loyal to him. “In summary, the personalization of Pinochet’s leadership had been achieved through force, control of the repressive apparatus, and

59 Silva, Patricio. "State, Politics, and Peasant Unions." *Journal of Latin American Studies* (1988): 433-52. Web. Page 439

60 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 27-28. Print.

61 Petras, James. "Chile's Exploited Farm Workers." *The Christian Science Monitor* (1989): Page 18. Web.

62 Silva, Patricio. "State, Politics, and Peasant Unions." *Journal of Latin American Studies* (1988): 433-52. Web. Page 442

63 Ibid, Page 443

juridico-institutional formulae, all based on the internal cohesion than on any agreement on a common political project.”⁶⁴

By the late 1970s, two significant social forces broke into the public conscience. On one hand, female family members of those who disappeared became emotional symbols of the methods used by the military regime that caused permanent family ruptures. The cruelty of military rule, and the unilateral imposition of cover stories that avoided the state’s admittance of human rights violations, was exposed. The other social force was comprised of priests, civil rights lawyers, social workers, journalists, political persecution survivors, and Christians; this coalition was shocked by the widespread violence used by the military. These social actors worked through legal petitions, journalism, education, and peaceful civil disobedience; for example, hunger strikes or events where individuals chained themselves to symbolic buildings.⁶⁵

Pinochet’s Neo-liberal Project

The distribution of resources, where formerly controlled by the state, was now the market’s prerogative. Economic policy sought “the enthronement of market principles in all spheres of society; the cutting back of the state’s regulatory and redistributive role, although preserving a vertical and authoritarian decision making system; and the atomization and segmentation of social demands, obstructing the creation of unified social organizations, even those of a corporatist character.”⁶⁶ The middle and capitalist classes that were threatened under Allende “identified fully with a regime that they perceived as the only alternative to a definitive

64 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. 101. Print.

65 Stern, Steve. *Battling for the Hearts and Minds: Memory Struggles in Pinochet's Chile, 1973-1988*. Durham and London: Duke U Press, 2006. Print. Book Two of the Trilogy: The Memory Box of Pinochet's Chile. Page 263.

66 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. N.p.: The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. 102. Print.

threat, or they were completely absorbed with the effort of adaptation required by the economic model. Therefore, until 1980, debate within the armed forces and the regime's social base was lacking significant substance.”⁶⁷⁶⁸

Shock Therapy: The Brick, El Ladrillo 1975-1982

The macro-economic plan employed three general tactics: liberalizing both prices and the domestic market, opening up the domestic market to foreign trade and foreign financing operations, and the drastic reduction of state presence in the domestic economy. These theoretical ideas were based on the neo-liberal assumption of the market as an entity that is capable of correcting itself after economic downturns. The neo-liberal model was viewed as the method to provide Chile with the advanced economic development that would grow domestic companies and enable them to compete with industrialized nations and multi-national organizations within the international economy.⁶⁹

The state's economic policy came to be known as *The Shock Treatment*. This set of draconian policies included “sharp cuts in fiscal expenditures, new taxes, a tight monetary policy, and increased rates for public enterprises.”⁷⁰ The military hierarchy faulted the economic crisis on the policies of the previous government. The Shock Treatment that was presented by the “Chicago Boys” in 1975 aimed at eliminating “inflation and institutional barriers to economic growth quickly and dramatically through intensification of the stabilization program already in place and the addition of new more radical policies.”⁷¹ Two years after taking power, Pinochet's regime still viewed inflation as a present threat:

67 Ibid, Page 103

68 Ibid, Page 102-103

69 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. N.p.: Cambridge U Press, 1995. Page 21. Print.

70 Remmer, Karen. *Military Rule in Latin America*. Boston: Unwim Hyman, 1989. Page 156. Print.

71 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 318. Print.

An integral part of this program consisted in a package of monetary and fiscal policies designed to bring inflation under control. By imposing strict monetarist course—reducing domestic credit and public expenditure—fiscal accounts were balanced by 1975; this was maintained thereafter.⁷²

Economic hardship was rampant during Pinochet's first two years. About 80,000 state employees were laid off while unemployment increased throughout the labor sectors; industrial output decreased by 25% in 1975. Yet, inflation decreased from 300% in 1974 to 84% in 1977; the continued deficit spending was also under control by the end of 1975.⁷³ In this environment where the state is as diminished as possible, the government generated revenue through a process of domestic tax adjustments- new income taxes were introduced.⁷⁴

Not only did inflation decline from 340.7% in 1975 to 174.3% in 1976, but the economy's growth rate, which had been -12.9% in 1975, grew to 3.5% in 1976, on its way to 9.9% in 1977. Exports rebounded and imports declined, and the commercial balance, which had been a staggering \$643 million in 1975, dropped to \$34 million in 1976.⁷⁵

The large levels of foreign capital entering Chile, compounded with a more favorable business environment created by lower tariffs for multi-national corporations and no state intervention in the economy, led to an increase in exports; predominantly in the agricultural sector. The state attempted to fully adopt export oriented development and “thus tariff reductions, elimination of non-tariff barriers, liberalization of trade flows, and exchange rate policy were all used to convert the Chilean economy into an open one.”⁷⁶ Creating the conditions for an open economy with an export oriented development strategy was the first macro phase of the neo-liberal economic plan.

72 Schneider, Antonio. "Supply-side Economics in a Small Economy: the Chilean Case." *Free Market Conservatism: A Critique of Theory and Practice*. London: George Allen and Unwin, 1984. 209-28. Page 211. Print.

73 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 319. Print.

74 Remmer, Karen. *Military Rule in Latin America*. Boston: Unwim Hyman, 1989. Page 156. Print.

75 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 14. Print.

76 Barham, Bradford. "Nontraditional Agricultural Exports in Latin America." *Latin American Research Review* (1992): 43-82. Page 62. Web.

The state encouraged foreign investment in Chile by lifting restrictions and guaranteeing access to foreign exchange in the event an investor decided to withdraw assets.⁷⁷ The state's new economic regime gave national treatment to foreign capital operating in any economic sector.⁷⁸ "In the financial services and banking sectors, of 19 banks in which the government was the major stockholder in 1973 only four were still held by CORFO in 1977 and by early 1981 only two remained."⁷⁹

The convergence of Chile's macro-economic policy with low wages created the conditions for an impressive increase in exports. During the 1970-1980 period total Chilean exports tripled. "Mining exports were up 189% during this time, agricultural exports increased 2,151% and manufacturers increased 1,155%."⁸⁰ The higher levels of exports demonstrated to Chilean officials the importance of domestic industry on national development: "normalizing for the price of copper, total exports rose from 15% of GDP in 1970 to 18% in 1977;"⁸¹ during the period of 1970-1980 copper exports increased 156%.⁸² The export sectors experiencing the most growth were "nontraditional exports, which expanded from 232.4 million in 1970 to 986.2 million in 1980."⁸³

From the years of 1973-1980, the state eliminated almost all controls on prices. By 1974, the domestic financial market was opened and private financial organizations, other than banks, were allowed to begin operating. The state then reintegrated banks that had been nationalized

77 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. N.p.: Cambridge U Press, 1995. Page 23. Print.

78 Ibid, Page 21

79 Ibid, Page 23

80 Goma, Oscar. "Crisis and Industrial Reorganization in Chile." *Journal of Inter-American Studies and World Affairs* (1989): 169-92. Page 177. Web.

81 Foxley, Alejandro. *Latin American Experiments in Neoconservative Economics*. Berkeley: U of California Press, 1983. Page 72. Print

82 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 23. Print.

83 Foxley, Alejandro. *Latin American Experiments in Neoconservative Economics*. Berkeley: U of California Press, 1983. Page 73. Print

under Allende into the private sector. After the Chicago Boys gained a foothold on economic policy making in 1975, the State Corporation for the Promotion of Production liquidated 86% of its entire bank stock into the private sector.⁸⁴ The liberalization of prices forced organizations formerly owned by the state, like universities, to be self-sufficient.⁸⁵

Denationalization affected all productive activities, including mineral deposits, urban property owned by public utilities, and even companies that had been setup at government initiative some thirty or more years previously, for example, the Pacific Steel Company (CAP). These activities were turned over to the private sector, which would become the main and eventually (this was the end objective) sole producer. Import substitution industrialization was condemned as exhausted and artificial. The Chilean economy would henceforth concentrate on activities which offered comparative advantages in the world market. Therefore, industrialization was rejected in favor of activities such as mining, agriculture, forestry, and fishing. Government officials declared that within the scope of economic activities which exist in Chile, none are forbidden to private enterprise; conversely the government is precluded from participation in almost all productive activities.⁸⁶

The public sector was reduced to meet three objectives: the overall reduction of the public sector, diminish the government's regulatory role in the domestic economy, and eliminate the conception of state responsibility in furthering national development. As a result, total government spending was decreased from 40% to 26% of GDP during the period of 1973 through 1979. The reductions, originally intended to achieve fiscal balance and lower inflation, continued even after fiscal balance was accomplished. The total number of state employees decreased by nearly 20% in less than four years; decreasing from 360,000 in 1974 to 290,000 in 1978.⁸⁷

The macro-economic plan displayed a "rupture with the gradualist policies of the first phase of military rule."⁸⁸ Attributed to the military regime's economic policy, inflation levels were low by 1978, "the fiscal deficit disappeared, the balance of payments displayed a growing

84 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. N.p.: Cambridge U Press, 1995. Page 21. Print.

85 Ibid, Page 23

86 Ibid, Page 24

87 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. N.p.: Cambridge U Press, 1995. Page 23. Print.

88 Remmer, Karen. *Military Rule in Latin America*. Boston: Unwim Hyman, 1989. Page 157. Print.

surplus, and the economy in general (especially the export sector) showed a vigorous dynamism.”⁸⁹

The neo-liberal economic policies were meant to increase economic development to a point where the radical left ideology would become insignificant.⁹⁰ The conditions of economic depression inherited by Pinochet were, by 1979, suppressed and the Chilean economy proved to be resilient:

The recession which followed the implementation of the shock treatment soon gave way to an economic resurgence, reflected in improved international prices for Chilean products, increases in agricultural, industrial, and mining exports, and large inflows of foreign investment and loans. A rush of financial and real estate speculation generated enthusiasm in elite circles in Santiago, Valparaiso and other urban centers.⁹¹ Four years of economic growth at an average of 7.5% growth per year followed the imposition of the shock treatment.⁹²

With the heightened confidence of their economic accomplishments, Pinochet and the Chicago Boys sought to re-craft social aspects of the Chilean state in 1979. The state intended to restructure social and economic life through the policy known as the *Seven Modernizations*:⁹³

The introduction of new labor legislation; the transformation of the social security system; the municipalization of education; the privatization of health care; the internationalization of agriculture; the transformation of the judiciary; and the decentralization and regionalization of government administration.⁹⁴

Chile's Neo-liberal Reforms, 1982-1989

When Mexico defaulted on its national debt in 1982, Latin America was engulfed in an economic crisis that spread to almost every country. Economic development throughout the

89 Silva, Patricio. "State, Politics, and Peasant Unions." *Journal of Latin American Studies* (1988): 433-52. Page 395. Web.

90 Valenzuela, Arturo. "The Military in Power: Consolidation of One-Man Rule." *The Struggle for Democracy in Chile, 1982-1990* (1991): 21-72. Page 57. Web.

91 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 326. Print.

92 Larraine, Felipe. "The Economic Challenges of Democratic Development." *In the Struggle for Democracy in Chile 1982-1990*. Lincoln: U of Nebraska Press, 1991. Page 12. Page 279. Print.

93 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 20. Print.

94 Silva, Patricio. "State, Politics, and Peasant Unions." *Journal of Latin American Studies* (1988): 433-52. Page 395. Web.

region would halt for nearly a decade: "Growth ceased and what was proclaimed by some to be a temporary balance-of-payments adjustment turned into the region's longest period of negative development in the 20th century."⁹⁵ Despite some earlier economic successes and reactive reforms, Chile's economy plunged into recession. The Chilean peso was devalued vis-à-vis the dollar from 39-to-1 to 47-to-1 in June of 1982.⁹⁶ Yet, these measures would not freeze the permeating crisis:

The economic authorities expected a 'one-shot' effect on the price level to restore the competitiveness of domestic production as it was absorbed over the next two or three months. A twenty per cent devaluation was expected to generate an inflation rate of fifteen per cent, and to encourage activity led by export sectors and domestic manufacture. Greater liquidity and a higher inflation rate were expected to ease real interest rates and relieve monetary pressures. Instead, the economy went straight into a spin of instability.⁹⁷

According to neo-liberal economic theory, the economic crisis should have been allowed to correct itself. Eventually, economic stability would have occurred through market forces.⁹⁸

However, the military regime did not allow this to occur. The characteristics of an export driven economy remained, but, the state intervened in the private sector; a major contradiction against neo-liberal principals.⁹⁹ The economic recovery plan of the early 1980s was based upon:

Export expansion and imported capital allowed unemployment to drop to 'only' ten percent in 1987. As the value of exports climbed to over \$4 billion and the country achieved a trade balance of approximately \$1 billion, enthusiastic government policy-makers reaffirmed the validity of the export-driven model of economic growth.¹⁰⁰

The 1982 economic crisis that spread throughout Latin America stimulates an economic policy adjustment in Chile which could be seen as a break from original neo-liberal policies put forward in 1975. The first, more radical, phase is marked by high levels of repression and

95 Fishlow, Albert. "Latin America Transformed: An Accounting." *New Perspectives Quarterly* (1993): 19-26. Page 20. Web.

96 Schneider, Antonio. "Supply-side Economics in a Small Economy: the Chilean Case." *Free Market Conservatism: A Critique of Theory and Practice*. London: George Allen and Unwin, 1984. 209-28. Page 223. Print.

97 Ibid, Page 223

98 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 345. Print.

99 Drake, Paul, and Ivan Jaksic. "Introduction: Transformation and Transition." *The Struggle for Democracy in Chile, 1982-1990*. Lincoln: U of Nebraska Press, 1991. 1-20. Page 6. Print.

100 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 364. Print.

violence that sought to neutralize any opposition to the military regime. The high level of state sponsored violence was viewed as an instrument the military regime used in order to implement and see through all of the policies the state viewed as corrective.

The economic crisis brought forth several changes designed to sustain stability in Chile. “For example, the government raised import tariffs on products in vulnerable industries, intervened in several major banks in order to keep them from failing, and established huge make work programs to keep Chileans off of unemployment.”¹⁰¹ The original neo-liberal ideals implemented in 1975 changed; however, Chile largely remained a free market economy.¹⁰²

Chile’s vulnerability to the effects of the 1982 economic crisis was blamed on monetary policy. The Chilean currency was pegged to the American dollar and was vulnerable to fluctuations in international demand for hard currency.¹⁰³ Up until this point exports had increased since the military coup, however, a trade imbalance ensued. Then, in 1982 “the economy plunged into a new recession, this time aggravated by the heavy indebtedness of the private sector and by the productive weakness which characterized the non-exporting industrial sector apart from the effect of the capital losses (in US dollars) of debtors.”¹⁰⁴

The shortcomings of the neo-liberal model in Chile from 1973 through 1982 were associated with the increases in foreign trade and poor financial policies. The financial policies enabled Chile’s foreign debt to grow almost 60% per year with foreign banks for the years 1977 through 1981; that amount is double the average for the rest of Latin America. The substantial

101 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 49. Print.

102 Ibid, Page 49

103 Remmer, Karen. *Military Rule in Latin America*. Boston: Unwim Hyman, 1989. Page 163. Print.

104 Goma, Oscar. "Crisis and Industrial Reorganization in Chile." *Journal of Inter-American Studies and World Affairs* (1989): 169-92. Page 177. Web.

rise in debt at the national level discouraged the formation of capital rather than supporting it.

There are five main reasons associated with this fact:¹⁰⁵

the rapid and indiscriminate liberalization of imports, particularly of consumer goods; the exchange rate appreciation; the continued high real domestic interest rate; the absolute freedom for the market to decide about the volume and use of both foreign and domestic financing and the difficulty of identifying comparative market advantages or opportunities for productive investment within market conditions determined by the implementation of an extremist model, which was implemented during so many years only because of the authoritarian framework.¹⁰⁶

The large amounts of foreign loans being granted to Chilean firms from the period of 1977 through 1981 meant that the net capital inflows allowed for the formation of large cash reserves despite a growing deficit. The inflow of cash occurred within the import sector of non essential consumer goods.¹⁰⁷ This permitted Chilean firms to appear as if large amounts of capital were available increasing the value of the business when in reality these firms were growing in amounts of debt per year. The Latin American financial crisis caused many of these non-profitable businesses into bankruptcies. “In 1981 the total debt service reached 71% of exports of goods and services, and in 1982 rose to 88%; that is three times the debt service rationed in the first half of the seventies.”¹⁰⁸ In 1982, Chile’s economy saw a 14% contraction in GDP. From the time of the economic downturn in the early eighties, the growth of the Chilean economy has corresponded with appropriate measures taken to lower the foreign debt problem.¹⁰⁹ The economic downturn caused widespread criticism of the country’s leadership.

Pinochet responded to criticism by dismissing and appointing new economists to his cabinet. However, a newer generation of Chicago trained economists were installed in the vacant positions. This new generation of Chilean economists continued to dominate both political and economic spheres of the state. Altogether, Chilean economic policy was appropriated by a

105 Karlsson, Weine. *The Debt Crisis in Latin America*. Stockholm: Institute of Latin American Studies Monographs, 1986. Page 126. Print.

106 Ibid, Page 126

107 Ibid, Page 127

108 Ibid, Page 127

109 Ibid, Page 126

Chicago trained economists for nearly seventeen years. Changes made to the original neo-liberal plan served to maintain the military in power and conform to the concurrently changing global economy.¹¹⁰

As the economic crisis worsened, state involvement in the economy became inevitable. “Due to financial insolvency, the economic conglomerates became disorganized, a situation which provoked the state to intervene (to the dismay of some) in the financial system in order to avoid generalized bankruptcy.”¹¹¹ The government intervened “in (take over management and operations of) the largest private banks, in the country, assumed responsibility for privately contracted debt, and being a public rescue of the mangled private sector.”¹¹² The state’s takeover of the largest financial institutions of the country prevented, in the short term, a “financial run, which would certainly have taken place upon the inevitable bankruptcy of any of one Chile’s major firms.”¹¹³ The state entered other sectors of the economy, other than the financial sector, by “adopting price and subsidy policies for sugar-beet growers, imposing new tariffs on specific goods, granting energy subsidies to certain agricultural and mining entities, and establishing two huge make-work programs to ease the effects of rising unemployment.”¹¹⁴ Along with energy subsidies, the Chilean agriculture sector saw “a system of price bands established,” that reduced “the short-term gaps between international and domestic prices” thus protecting “local farmers from dumping.”¹¹⁵

110 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. Cambridge U Press, 1995. Page 10-11. Print.

111 Goma, Oscar. "Crisis and Industrial Reorganization in Chile." *Journal of Inter-American Studies and World Affairs* (1989): 169-92. Page 178. Web.

112 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 346. Print.

113 Ramos, Joseph. *Neoconservative Economics in the Southern Cone of Latin America, 1973-1983*. Baltimore: Johns Hopkins U Press, 1986. Page 23. Print.

114 Loveman, Brian. *The Legacy of Hispanic Capitalism*. New York: Oxford U Press, 1988. Page 346. Print.

115 Hojman, Ann. "Latin American Agricultural Performance in the Debt Crisis: Salvation of Stagnation." *Latin American Perspectives* (1990): 57-75. Page 48. Web.

The re-institutionalization of state subsidies was accompanied with high tariffs on specific imported goods. As a response to the crisis, total government spending as a percentage of GDP increased dramatically from 1981 through 1983: 23.7%, 29%, and 28.4%.¹¹⁶ Before the Latin American economic crisis, Chile's economic strategy focused on attacking macro-economic elements such as inflation and lowering tariffs on imports. By 1979, the military regime had cut tariffs on all imports to 10%; when the economic crisis of the early 1980s arrived in Chile, domestic groups lobbied the government for protectionist policies that protected Chilean industry from competing domestically with cheaper imports. By 1983, tariffs on imports reached 24.4% doubling from the previous year. Tariffs on imports would peak at 27.4% in 1985 and would not be lowered to 15% until 1988.¹¹⁷

The regime's inability to prevent economic recession at the expense of civil rights fomented political pressures rising from the Chilean masses. The state now intervened in the private sector, "socioeconomic crises intensified, and rather than offering a medium or long term solution, the regime's actions seemed directed to nothing more than simple survival."¹¹⁸ State action was increased in nearly all social realms.¹¹⁹ Second, the bloc that supported Pinochet, comprised of upper and middle classes, disintegrated and each began to exert pressure independently on the state. The rise of these independent actors "from the capitalist class and from sectors of the middle classes undermined the apparent unity of the dominant bloc. This development is extremely significant for democratization because such forces are capable through their impact on the armed forces of provoking important crises and changes, even if they cannot

116 Remmer, Karen. *Military Rule in Latin America*. Boston: Unwim Hyman, 1989. Page 172. Print.

117 Valdes, Juan Gabriel. *Pinochet's Economists: The Chicago School in Chile*. Cambridge U Press, 1995. Page 37-41. Print.

118 Garreton, Manuel Antonio. "The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy." *Transitions from Authoritarian Rule: Latin America*. 4th ed. N.p.: The Johns Hopkins U Press: The Woodrow Wilson International Center for Scholars, 1986. Page 112. Print.

119 Ibid, Page 112

ensure that all transformations will be democratic.”¹²⁰ Third, the weaker leadership role of the regime also disaggregated the unitary state. The large financial institutions built by the state blamed the economic crisis on state policy. Finally, the rupture of the class bloc and the rupture of the alliance between the private sectors and the state, would eventually isolate Pinochet; however, he was still viewed as the national leader as outlined in the 1981 constitution.¹²¹

Chile’s rupture of regime support peaks in May 1983, although signs of discontent were evident before 1983. This eruption against military rule began a struggle for control of the streets.¹²² Despite the dictatorship’s efforts, massive street protests took place almost on a monthly basis from May 1983 through October 1984. The state was forced to declare a state of siege in November 1984 that made social organization more difficult and increased the risk associated with opposing the government. However, a second cycle of protests practiced by a committed opposing group began in September 1985 through July 1986.¹²³ “Yet as we also say the regime institutionalized itself and seemed capable of containing such pressures.”¹²⁴

The process of economic recovery began in 1983, as exports began to outperform imports for the first time ever.¹²⁵ The process of economic recovery continued into 1984; “in that year, real GDP, the GDP growth rate, and manufacturing all increased, while unemployment dropped appreciably. The GDP growth rate bottomed out in 1982, at a negative 14.1%, but it was growing again (at 6.3%) two years later.”¹²⁶ By 1986, Chile’s economic recovery sustained as the

120 Ibid, Page 112

121 Garreton, Manuel Antonio. *The Political Evolution of the Chilean Military Regime and Problems in the Transition to Democracy*. In ‘Transitions from Authoritarian Rule: Latin America’, 4th ed. Guillermo O’Donnel,

122 Stern, Steve. *Battling for the Hearts and Minds: Memory Struggles in Pinochet's Chile, 1973-1988*. Durham and London: Duke U Press, 2006. Page 253. Print. Book Two of the Trilog: The Memory Box of Pinochet's Chile.

123 Ibid, Page 253

124 Ibid, Page 253

125 Horsfall, Edward. *Chilean Economic Model: An Examination of Policies Implemented in Chile from 1973-1989*. Page 46. Print.

126 Ibid, Page 48

international trade climate improved. Chile's economic recovery is attributed to increase in global trade, and lower interest rates at the global level also.¹²⁷ Chile's export oriented economic development strategy positioned Chile in an advantageous position for economic development within favorable global trade conditions. "There were also considerable changes in the make-up of Chile's GDP from the beginning to the end of this period of time. A return to stabilization is indicated by the growth of most sectors of the economy."¹²⁸ However, the export oriented strategy proved to be a liability when considering external factors like global economic turmoil.

The export oriented economy extraordinarily increased the number of Chilean exports over time. But, the Latin American economic crisis caused the state to refashion its economic policy in a turbulent economic environment. However, "in just four years time, from 1986 through 1989, total exports nearly doubled from \$4.1 billion to \$8.1 billion."¹²⁹ Some agricultural export sectors, like fresh fruit, did not experience a drastic decrease in demand relative to other export sectors.

Despite solid macro-economic gains as a result of neo-liberal economic policy, the social costs paid by Chilean society were high. "The total counted by the Chilean state, 38 years after the coup, was 38,254 victims of political imprisonment and torture. More than 5,000 are detained in just two days: 11 to 13 September 1973. The great majority, 67% (more than 18,000) become victims between the coup and December 31 of the same year."¹³⁰ According to the findings published by the Chilean state on the human rights violations of the Pinochet regime, The Valech Report 2011, 19% of all detainees are tortured from 1974 through 1977; 13% of detainees are tortured from 1978 through the end of the dictatorship. The investigation finds that the institution

127 Larraine, Felipe. "The Economic Challenges of Democratic Development." *In the Struggle for Democracy in Chile 1982-1990*. Lincoln: U of Nebraska Press, 1991. Page 281. Print.

128 Price Waterhouse. *Doing Business in Chile*. Price Waterhouse World Firm Limited. 1990. Pg 2

129 "Doing Business in Chile." *Price Waterhouse World Firm Limited* 1990. Page 6. Print.

130 Leighton, Pablo. *40 Years are Nothing: History and Memory of the 1973 Coup d'Etat in Uruguay and Chile*. Newcastle: Cambridge Scholars Publishing, 2015. Page 60. Print.

with the greatest number of unlawful detention and torture is the general police, the Carabineros, and not DINA. "The Valech Report shows other figures that reveal a type of subjectivity in the victims of this violent repression: almost a third of tortured victims do not have any political affiliation; over 63% are militants who do not play any leading roles; and close to 58% are less than 30 years old at the time of detention. Lastly, more than a third of all victims are tortured using electric shocks, a method that leaves no evident marks on the bodies and that is used from the day of the coup and throughout the whole dictatorship."¹³¹ The report estimates that the regime executes an estimated 2,300 people, detained and tortured more than 38,000, and caused the disappearance of more than 1,000 individuals.¹³²

What would have occurred if the military had not overthrown the government?

According to the first elected president in the post Pinochet era, Patricio Aylwin, - "Chile would have had to mourn the deaths of hundreds of thousands killed at the hands of Red brigades." The idea of civil war was not an idea only present in the minds of those opposing Allende. Volodia Teitelboim, the Chief Ideologue of the Communist Party, who regularly endorsed violence on radio broadcasts, expressed a few months before the coup that if civil war erupted in Chile, "it probably would signify immense loss of human lives, between half a million and one million."¹³³

131 Ibid, Page 60

132 Ibid, Page 78

133 Whelan, James. "What Really Happened in Chile 30 Years Ago." *Wall Street Journal, Eastern Edition*(2003): 11. Web.

Chapter 5

An Economic Comparison of Chile and the World from 1970 through 1989

Introduction to Economic Indicators

The factors representing Chile and the world as an aggregate unit used in this comparison are: percentage of GDP growth¹³⁴ and total merchandise exports¹³⁵. Each of these factors were gathered for Chile and the world as an aggregate unit. The purpose is to analyze whether Chile's export oriented economy was dependent on stability within the global economy.

Annual GDP Growth (annual percentage)

World: GDP Growth (annual percentage)			Chile: GDP Growth (annual percentage)		
1970 – 3.9	1978 – 4.2	1986 – 3.2	1970 – 2.1	1978 – 7.5	1986 – 5.6
1971 – 4.1	1979 – 4.1	1987 – 3.6	1971 – 9	1979 – 8.7	1987 – 6.6
1972 – 5.6	1980 – 1.8	1988 – 4.7	1972 – -0.8	1980 – 8.1	1988 – 7.3
1973 – 6.4	1981 – 2.1	1989 – 3.8	1973 – -4.9	1981 – 4.7	1989 – 10.6
1974 – 1.7	1982 – 0.4		1974 – 2.5	1982 – -10.3	
1975 – 0.7	1983 – 2.7		1975 – -11.4	1983 – -3.8	
1976 – 5.2	1984 – 4.6		1976 – 3.4	1984 – 8	
1977 – 4	1985 – 3.8		1977 – 8.7	1985 – 7.1	

The global economy's percentage of GDP growth fluctuated by few tenths of a percent for the majority of the period of 1970 through 1989. However, there are years in which change in the international economy is illustrated by a drop of full percentage points from one year to the next; these periods express economic instability within the international economy. During this period, the year registering the highest percentage of GDP growth for the international economy was 1973 at 6.4%. The global economy declined and registered the largest gap of negative growth for the period under question the very next year with a rate of 1.7%, a difference of 4.7%.

However, the 1975 percentage of GDP growth was not the lowest statistic of percentage of GDP growth in the data to determine the state of the global economy. The year with the lowest rate of

134 The percentage growth of GDP is defined as the “annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2005 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.”

135 Total “merchandise exports show the f.o.b. value of goods provided to the rest of the world valued in current U.S. dollars. Exports are recorded as the cost of the goods delivered to the frontier of the exporting country for shipment - the free on board (f.o.b.) value.” World Bank.

<http://databank.worldbank.org/data/reports.aspx?source=2&country=CHL&series=&period=>. 16/04/2016

growth was 1982 with 0.4%. The significance of the lowest growth rate becomes apparent when analyzing the years prior. When accounted for in a block of years, increases or decreases of full percentage points illustrate either stability, growth, or decline in an environment where capitalist states interact. Beginning to slowly recover to levels sustained in the early 1970s (hovering around 4% growth) after the decline experienced in 1974 and 1975, by 1979 the international economy's percentage of GDP growth was stable. Accounting for the years of 1980 through 1983 a significant downward trend can be observed. When analyzing the larger setting that is the international economy, the 1982 Latin American economic crisis was an international recession causing significant contractions within international trade. The worst of the negative growth occurred from 1981 into 1982 with a total loss of 1.7% of GDP growth. The international economy remained relatively stable growing around 4% per year through the years of 1984 through 1987, finally reaching 4.7% in 1988 for the first time since 1976. Finally, the 3.8% of GDP growth registered in 1989 was less than the 1970 statistic of 3.9%.

Chile's GDP growth percentage fluctuated sporadically between positive and negative growth during the period of 1970 through 1989. During 1973, the year with the highest global GDP percentage growth rate, Chile's GDP growth rate percentage was negative 4.9%. While the international economy registers the largest decline in percentage of GDP growth from 1973 through 1974, Chile's economy rebounds to positive growth achieving 2.5% growth. However, with the international instability experienced in the year 1975, Chile's percentage of GDP growth contracts to negative 11.4%, the lowest statistic for Chile occurring in the period. The same year the lowest statistic for percentage of GDP growth for the international economy was registered, 1982 with .4% growth, Chile experiences a sharp decline experiencing a negative 10.3% contraction. During the period of increasing international economic stability from 1976 through 1979, Chile's GDP growth rate increases from 3.4% in 1976 to 8.7% the following year. The growth rate remains above 7% until 1981 where the growth rate is reduced by almost half from

8.1% in 1980 to 4.7% growth in 1981. The Latin American economic recession impacted Chile harshly, dropping the percentage of GDP growth for the year of 1982 to negative 10.3%. Chile's growth rate remained negative into 1983 at negative 3.8% before finally rebounding to 8% in 1984. From 1984 through 1988 Chile's GDP grows modestly until reaching a growth rate of 10.6% in 1989. Aside from the statistic for 1973, Chile's percentage of GDP growth is facilitated by a stable international economy. Chile's percentage of GDP growth, and contractions, occurs alongside the global economy for the period under review. The 1973 anomaly may be explained by hyperinflation caused by Allende's policies and his subsequent overthrow.

Merchandise Exports

World: Merchandise Exports (Current US Billions)			Chile: Merchandise Exports (Current US \$ Billions)		
1970 – 305	1978 – 1,272	1986 – 2,083	1970 – 1.24	1978 – 2.47	1986 – 4.1
1971 – 342	1979 – 1,621	1987 – 2,458	1971 – .99	1979 – 3.89	1987 – 5.2
1972 – 405	1980 – 1,986	1988 – 2,816	1972 – .85	1980 – 4.7	1988 – 7.05
1973 – 563	1981 – 1,953	1989 – 3,055	1973 – 1.2	1981 – 3.8	1989 – 8.08
1974 – 823	1982 – 1,812		1974 – 2.48	1982 – 3.7	
1975 – 852	1983 – 1,767		1975 – 1.55	1983 – 3.8	
1976 – 965	1984 – 1,881		1976 – 2.08	1984 – 3.65	
1977 – 1,096	1985 – 1,902		1977 – 2.19	1985 – 3.8	

Global merchandise exports increased dramatically during the period from 1970 through 1989 from \$305 billion dollars to \$3,055 billion dollars. For 1973, the year registering the highest percentage for global GDP growth, global merchandise exports were a total of \$563 billion. Despite the contraction in the global economy from the period of 1974-1975, global merchandise exports continued to increase into 1975 at \$852 billion, up from \$823 billion in 1974. Global merchandise exports did not experience a decline until 1981, decreasing from \$1,986 billion in 1980 to \$1,953 billion in 1981. The international decline demonstrated through the decline in percentage of GDP growth from the years of 1980 through 1983 is also illustrated by a slight drop in total merchandise exports on the global market. A precipitous decline can be observed

beginning in the year 1980 through 1983. As soon as 1984 global merchandise exports began to rebound reaching \$1,881 billion. For the remainder of the period, global merchandise exports continued to grow reaching \$3,055 billion in 1989.

Chile's merchandise exports also grew extraordinarily during the period 1970 through 1989; beginning in 1970 with \$1.24 billion in total merchandise exports and ending in 1989 with \$8.08 billion. Despite a troubled domestic economy in 1973, Chile's total merchandise exports grew alongside the global economy. The international economic decline from 1974 to 1975 is reflected in the near \$1 billion loss in total merchandise exports. With the beginning of the Shock Treatment in 1975, Chile's merchandise exports began to steadily climb, experiencing stable growth through the years 1976 through 1980. The drop in global merchandise exports during the period 1980 through 1983 is also reflected in Chile's merchandise exports as these exports dropped from \$4.7 billion in 1980 to \$3.8 billion in 1981; dropping further to \$3.7 billion dollars in merchandise exports in 1982. Despite an increase to \$3.8 billion in 1983, Chile's merchandise exports fell to \$3.65 billion in 1984. As the international economy began to stabilize in 1984, Chile's merchandise exports rose the following year to its pre-recession level of \$3.8 billion. Merchandise exports continued to grow into the second half of the 1980s, growing parallel to global merchandise exports, reaching \$8.08 billion in 1989.

Chile's GNI and GDP per capita in 1970, 1973, and 1989

To determine whether Pinochet's economic policy had an impact on Chilean citizens, the GDP per capita¹³⁶ and GNI per capita¹³⁷ in 1970 is compared to the figures in 1973 and 1989.¹³⁸

136 GDP per capita is defined as the "gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant local currency."

137 The GNI per capita (Atlas) coefficient is "the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in current U.S. dollars. GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies, although an alternative rate is used when the official exchange rate is

The purpose is to analyze an increase or decrease in capital available to Chileans in 1989 that may have been more than or less than the capital available to Chileans in 1970 or 1973. The increase in access to wealth for the average Chilean reflects improved living standards, economic growth, and improved economic conditions overall. Increases or decreases in these statistics are assumed to be a result of Pinochet's economic policy.

GNI per Capita, Atlas Method (Current US \$ in Trillions)	
1970	860
1973	1,320
1989	2,100
GDP per Capita, (Current US \$ in Trillions)	
1970	939.3
1973	1,624
1989	2,195

Pinochet and his economic team sought to economically develop Chile to the point of eroding the appeal of the radical left. The authoritarian regime framed the domestic restrictions of civil liberties as a necessary condition to grow the state's economy. Analyzing the data above, both sets of statistics see increases resembling economic changes in the lives of Chilean citizens. The GNI per capita figure rises significantly from 1970-1973, beginning at 860 and rising to 1,320; the statistic closes the period at 2,100 in 1989. The GDP per capita statistic also shows a

judged to diverge by an exceptionally large margin from the rate actually applied in international transactions. To smooth fluctuations in prices and exchange rates, a special Atlas method of conversion is used by the World Bank. This applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country, and through 2000, the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States). From 2001, these countries include the Euro area, Japan, the United Kingdom, and the United States.”

138 World Bank.

<http://databank.worldbank.org/data/reports.aspx?source=2&country=CHL&series=&period=>. 16/04/2016

remarkable increase during this period; rising from 939 in 1970 to 1,624 in 1973. From the years 1973 through 1989, the GDP per capita also increases, although not as sharply as the GNI per capita, from 1,624 to 2,195. These figures present evidence supporting the notion of neo-liberalism as an effective tool used to develop Chile's domestic economy.

Chapter 6

An Economic Comparison of Chile and Mexico from 1982 Through 1989

Annual Percentage of GDP Growth

% of GDP Growth (Annual percentage)		
	Mexico	Chile
1982	-0.6	-10.3
1983	-4.2	-3.8
1984	3.6	8
1985	2.6	7.1
1986	-3.8	5.6
1987	1.9	6.6
1988	1.2	7.3
1989	4.2	10.6

The 1982 Latin American economic crisis causes Chile's GDP growth percentage to fall to -10.3%. Mexico, the state that precipitated the economic crisis, experienced -0.6% drop of GDP growth that same year. Overall, Chile's average percentage of GDP growth during the 1982-1989 period was 3.89%. Mexico's average percentage of GDP growth through the period was 0.61%. Chile's technocratic elite appear to have been able to enable the state to respond resiliently to external economic crisis in comparison to Mexico's fluctuations, and overall low average, in the annual percentage of GDP growth during this period.

Annual Percentage of GDP per Capita Growth

GDP per Capita Growth (Annual percentage)		
	Mexico	Chile
1982	-2.8	-11.6
1983	-6.2	-5.2
1984	1.4	6.3
1985	0.5	5.5
1986	-5.7	3.9
1987	-0.2	4.9
1988	-0.8	5.5
1989	2.1	8.7

At the onset of the economic crisis, both states experienced a drop into negative percentages of GDP per capita. For Mexico, the percentage of GDP per capita dropped to -2.8% in 1982. For Chile, it was a staggering -11.6%. Mexico registered a negative average percentage

of GDP per capita, -1.46% during this period. Chile's average percentage of GDP per capita was calculated at 2.25% during the same period. Both of these states had neo-liberal economic policy in place after 1982, yet, economic indicators are demonstrating Chile was able to persevere and quickly begin growing again shortly after being impacted by the regional economic crisis.

Mexico, on the other hand, struggled as its average percentage of GDP per capita was stagnant throughout the period. Thus far, Chile's average percentage of annual GDP growth and its average for the annual percentage of GDP per capita growth far exceed Mexico's respective data.

Imports of Raw Material (% of Merchandise Imports) and Exports of Raw Materials (% of Merchandise Exports)

Agricultural Raw Materials Imports (percentage of Merchandise Imports)			Agricultural Raw Materials Exports (percentage of Merchandise Exports)		
	Mexico	Chile		Mexico	Chile
1982	3	1.3	1982	1.2	9.3
1983	3.7	2.9	1983	3.9	8.3
1984	4.1	3.2	1984	1.3	10.1
1985	4.1	3.1	1985	0.9	8.4
1986	4	3.5	1986	1.2	9.8
1987	6.6	3.3	1987	1.4	10.9
1988	5.2	3.1	1988	1.8	9.7
1989	4.4	2.5	1989	2	8

Chile imported lower levels of raw materials than Mexico through the 1982-1989 period. Chile's raw material imports (as percentage of merchandise imports) average's 2.87%; a relatively low amount compared to Mexico's 4.39%. Chile's average for agricultural raw materials exports (9.31%) is greater than Mexico's (1.34%). This comparison suggests Chile was able to efficiently develop and sustain a competitive agricultural sector relative to Mexico.

Although Mexico's agricultural sector performed poorly during the period in question, perhaps other sectors perform better. The relationship above can be questioned if Mexico's total merchandise exports and merchandise imports are enormous amounts relative to Chile. These

hypothetical sectors outperforming agriculture may be principal drivers of private enterprise facilitating macro-economic development within the national arena.

Merchandise Imports and Merchandise Exports

Merchandise Imports (Current US\$ Billions)			Merchandise Exports (Current US\$ Billions)		
	Mexico	Chile		Mexico	Chile
1982	17,742	3,989	1982	24,055	3,705
1983	12,476	3,085	1983	25,953	3,830
1984	16,691	3,574	1984	29,101	3,650
1985	19,116	3,072	1985	26,757	3,804
1986	17,573	3,436	1986	21,804	4,191
1987	19,697	4,396	1987	27,600	5,224
1988	29,402	5,292	1988	30,691	7,052
1989	36,400	7,144	1989	35,171	8,080

When comparing merchandise imports (at current US\$), Chile's economic standing is clear. Even with economic development throughout the period, the regime was not able to grow to Mexico's economic levels. The data presented frames Mexico as a far more developed economy relative to Chile. The average for Mexico's merchandise imports (current US\$) is \$21.14 billion; Chile's average is \$3.7 billion. Mexico's average for merchandise exports is also significantly greater than Chilean amounts: \$27.64 billion versus \$4.94 billion. Through this period Mexico's total average for merchandise exports was five times greater than Chile's. Mexico's total average for merchandise imports was almost six times Chile's average. At the outset of the Latin American economic crisis, these two states were at very different stages of economic development. Mexico was a state with far more economic resources than Chile.

Chapter 7

Conclusion

In 1970, a radical leftist was elected in Chile with 36.3% of the national vote. The socialist leader polarized the state through the confiscation of private property, encouraged organized leftist militant groups, and began reforms that intended to drive the state toward socialism. These rapid reforms presented a critical juncture in Chilean history. Allende's policies began a rupture with Chile's long tradition of democratic culture, values, and stability.

Under Allende's government, inflation increased to unprecedented levels. The ensuing economic crisis in Allende's Chile makes it difficult to conclusively ascertain a main beneficiary of the leftist agenda. These arguments are difficult to defend as inflation in Chile was rampant and impacted everyone the same. The economic difficulties did not discriminate between social classes. In the three years that Allende ruled Chile, the "socioeconomic aspirations" of the lower classes did not materialize and any labor law reform, in the context of the contemporary economic crisis, was not going to be the solution to the problem of hyperinflation. It is difficult to gauge any beneficiaries of policy in Allende's Chile. The socialist aim of Allende's government concerned the dominant state in the hemisphere. The US, led by Nixon and Kissinger, strongly opposed Allende's political goals. Once Allende began to nationalize foreign assets in Chile, the US began to deny loans to Allende's regime.¹³⁹

US officials are thought to have been involved in the September 11, 1973 coup. In a memorandum for Henry Kissinger, US officials outline possible US foreign policy against Allende's Chile. US strategy against Chile includes an overthrow of the government by a coup.¹⁴⁰ A few years later, on October 20, 1976, US officials launched and supported a program where assassinations of leftist agents living across the world began. This document mentions Operation Condor in which Latin American intelligence agencies collaborated with US agents in waging a

139 Crimmins, John Hugh. Memorandum for Mr Henry Kissinger. December 4, 1970. Ad Hoc Interagency Working Group on Chile. US Department of State.

<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc20.pdf>

140 Ibid

covert war against communists, socialists, and Marxists. The document clearly mentions the assassination of targets as a goal of the operation.¹⁴¹

Pinochet's coup dismissed Chile's constitution and initiated a period of dictatorship in which human rights were overlooked in favor of a national vision held by military leaders and free market economists. In Pinochet's arena, political parties and labor unions were banned. The successes of Pinochet's policies were largely experienced by Chilean businesses. These groups with access to large amounts of capital were the main beneficiaries of protectionist policies which in turn made these agents highly influential on the formation of state policy.¹⁴² In the political climate created by Pinochet, the losers were the labor classes who were forced to burden an unbalanced "share of the benefits from the economic growth and productivity increases that their labor produced."¹⁴³ Further, "they have had to bear a disproportionate share of the costs of this restructuring in their wages, working conditions, job quality, and labor relations."¹⁴⁴ Negative impacts on Chile's lower classes were not restricted to wage growth for the lower classes. The cultural impacts on Chile's labor classes have resulted in negative "worker sociability, lifestyles, and organizations."¹⁴⁵ Furthermore, Chile's lower classes were largely the victims of Pinochet's repression. "Their [labor class] socioeconomic aspirations were postponed in the interest of not jeopardizing the transition and their expectations of labor law reform were sacrificed on the same altar."¹⁴⁶

In the short period in which Chile was governed by the democratically elected Salvador Allende, the state's real GDP shrunk by 5.6%; hyperinflation impacted the domestic economy

141 Scherrer, Robert. FBI, Operation Condor Cable. September 28, 1976.

<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc23.pdf>

142 Jones, Geoffrey, and Andrea Lluch. *The Impact of Globalization on Argentina and Chile: Business Enterprises and Entrepreneurship*. Northampton and Cheltenham: Edward Elgar Publishing, 2015. Page 254-255. Print.

143 Winn, Peter. *Victims of the Chilean Miracle : Workers and Neoliberalism in the Pinochet Era, 1973-2002*. 2004. Page 10. Web.

144 Ibid, Page 10

145 Ibid, Page 10

146 Ibid, Page 10

from the early to mid 1970s, reaching 505% in 1974. In the decades since, inflation fell averaging around 20% per year until 1990. Inflation has continued to decrease, declining to less than 10% for the years of 1995-1998 and has been registered at less than 4% for the years of 1999-2007. Some scholars attribute the economic successes in Chile to the application and continuity of the export oriented strategy adapted under Pinochet. Even after Pinochet's exit from power, the state has kept neo-liberal economic policy in place despite opposing parties rising to power portraying the state of Chile as a unitary, economic actor.¹⁴⁷

The General's government instituted radical change in the economic policy of the state leading to a change in the relationship between the state and national business. Radical changes centered on privatization, financial liberalization, and economic deregulation. The rise of privatization was one of the most recognizable changes. In 1973, the year Pinochet secured power, the state controlled over 500 companies accounting for 40% of Chile's gross production value. By 1975, the state controlled eight of the ten largest companies in Chile. Pinochet's economic team attempted to reduce the state's deficit through privatization and return to the private sector most of the businesses Allende's government had confiscated. In the years of 1974 through 1978 the assets and stocks of 197 businesses were auctioned, ignoring laws that prevented wealthy individuals or corporations to purchase more than 5% of shares; this deliberate action in ignoring the law resulted in the emergence of powerful business elites who exploited the circumstances. However, the state's low import tariff rate of 10% that was in effect until 1979 forced business elites to compete with already established international business companies. For example, large businesses began investing in infrastructure and new technologies.¹⁴⁸

The 1980 debt crisis that spread throughout Latin America led to the widespread adoption of neo-liberal economic policy across the region. These states adopted neo-liberal economic

147 Jones, Geoffrey, and Andrea Lluch. *The Impact of Globalization on Argentina and Chile: Business Enterprises and Entrepreneurship*. Northampton and Cheltenham: Edward Elgar Publishing, 2015. Page 252. Print.

148 Ibid, Page 255-256

policy without military coups, without the dissolution of leftist political parties and organizations, and without dictatorships. However, many of these states did not experience the success of the ‘Chilean Miracle’ due to institutional instability. In exchange for loans, the IMF forced Latin American states to adopt austerity plans. The austerity programs cut aid to state sponsored social programs. Austerity measures mostly affected the poor. Apart from shortages in state sponsored welfare programs in states with high levels of debt, urban wages were 20-40% lower than 1980 levels.¹⁴⁹ The lack of spending on social welfare led to the widespread unpopularity of neo-liberal economics in the region.

Doctrine, however, dictated strongly that government subsidies should go, and on these the IMF was not willing to bow to political realities, much to the discomfiture of a number of finance ministers, who, upon implementing subsidy cuts on popular consumption items, had their tenure cut by popular demand.¹⁵⁰

This gave rise to power of leaders with differing views for national economic development and extinguished the possibility of long term success. Outside of Latin America, examples where fixed neo-liberal economic policy developed and industrialized nations are South Korea, Taiwan, Hong Kong, and Singapore. However, the success of export oriented economic policy must be tailored to the particular state, yet, the generalities of beneficial neo-liberal policy across states lie in macro-economic stability and investment in education.¹⁵¹

The Latin American economic crisis forced the Chile’s economic model to adapt to external events. Economic growth had begun to slow since the late 70s, but the worst years were 1981-1982. Imports were flooding the Chilean market and businesses were struggling with

149 Felix, David. “Latin America's Debt Crisis.” *World Policy Journal*, vol. 7, no. 4, 1990, pp. 733–771., www.jstor.org/stable/40209191. Pg 733

150 Ibid, Page 749

151 Preston, Lewis. *The East Asian Miracle: Economic Growth and Public Policy*. Published for the World Bank, Oxford University Press. 1993. Pg V-VI

competition. As a result, many businesses were forced into bankruptcy. The state was forced into action. The idea was to further grow the export sector while devaluing Chile's currency.¹⁵²

The government made further adjustments after 1982, reinstating some tariffs, enforcing stringent regulations on the financial system, implicitly nationalizing private debt, renegotiating Chile's sovereign debt with banks, and providing massive financial support to private firms via with banks, and providing massive financial support to private firms via subsidies. In 1985, a second privatization wave began. Pinochet's government chose to complete the nation's transition to an open economy, based on private sector development, foreign debt conversion into national assets, and increased contributions to pension funds. Chile's financial system had grown more diversified since the crisis and the private capital market played a key role in funding Chilean companies.¹⁵³

The legacy of the Pinochet dictatorship culminated in a new constitution in which immunity was provided to those who kidnapped, tortured, and murdered individuals associated with the radical left. In the post Pinochet era, the government has focused on social issues such as poverty reduction and social justice. The export oriented economic policy has largely remained intact since Pinochet's exit from power. Chile's business sector blossomed as legitimate international non-state actors that started making foreign direct investments abroad in the late 1980s. These businesses contributed to significant levels of investments in electricity, manufacturing, and retailing. Globalization created new opportunities for Chilean firms as regional economic conditions created demand. By 2012, Chile had become the third largest foreign direct investor in Latin America behind Brazil and Mexico.¹⁵⁴ Chile's continued economic growth in the post Pinochet era is attributed to policy continuity and institutional stability enabling business to invest and grow. In 2013, Chile was named the best country in Latin America to do business by the World Bank. Also in 2013, *Transparency International* ranked

152 Jones, Geoffrey, and Andrea Lluch. *The Impact of Globalization on Argentina and Chile: Business Enterprises and Entrepreneurship*. Northampton and Cheltenham: Edward Elgar Publishing, 2015. Page 257. Print.

153 Jones, Geoffrey, and Andrea Lluch. *The Impact of Globalization on Argentina and Chile: Business Enterprises and Entrepreneurship*. Northampton and Cheltenham: Edward Elgar Publishing, 2015. Page 257. Print.

154 Ibid, Page 258-260

Chile number 22 in the Corruption Perception Index; this ranking was the second highest in Latin America behind Uruguay. That same year, the US was ranked 19.¹⁵⁵

155 Ibid, Page 260-266

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