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The paradoxes of the Chilean miracle

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## *The paradoxes of the Chilean miracle*

### *Abstract:*

*The end of the 'Chilean road to socialism' and the military coup put Chile in a difficult position. At that time, the adoption of urgent shock measures to rebuild the economy could be key to avoiding a civil confrontation. A team of Chilean economists, a family that shared an economic doctrine and strong personal ties, was prepared to occupy a prominent place in the history of their country. They called them the Chicago Boys. They were responsible for implementing a totally new economic model in Chile. The reforms they implemented resulted in the so-called Chilean miracle.*

*It all began to take shape 15 years earlier, with the launch of a collaboration program between the University of Chicago and the Pontificia Católica de Chile, which would allow a few dozen Chilean economists to carry out postgraduate studies in the United States. Milton Friedman, Friedrich Hayek, Ronald Coase and George Stigler, all Nobel laureates in economics, would be his professors in Chicago.*

### *Keywords:*

*Chile, Chicago Boys, Chilean miracle, social protests, free market economy, Milton Friedman.*

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## Las paradojas del milagro chileno

### Resumen:

El fin del «camino chileno al socialismo» y el golpe militar situó a Chile en una difícil posición. En ese momento, la adopción de urgentes medidas de choque para recomponer la economía podía ser clave para evitar un enfrentamiento civil. Un equipo de economistas chilenos, una familia que compartía una doctrina económica y fuertes lazos personales, estaba preparado para ocupar un destacado lugar en la historia de su país. Los llamaron los Chicago Boys. Fueron los responsables de implantar un modelo económico en Chile totalmente nuevo. Las reformas que implementaron tuvieron como resultado el llamado milagro chileno.

Todo comenzó a gestarse 15 años antes con la puesta en marcha de un programa de colaboración entre la universidad de Chicago y la Pontificia Católica de Chile que permitiría a unas decenas de economistas chilenos realizar estudios de postgrado en los Estados Unidos. Milton Friedman, Friedrich Hayek, Ronald Coase y George Stigler, todos premios Nobel de Economía, serían sus profesores en Chicago.

### Palabras clave:

Chile, Chicago Boys, milagro chileno, revueltas sociales, economía libre de mercado, Milton Friedman.

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## Chile's road to the rich countries club

Chile, with the Popular Unity coalition, has been the only country in the world where Marxism came to power through the ballot box<sup>1</sup>. President Salvador Allende, in an interview with Régis Debray in March 1971, had clearly announced his intention to lead a change of regime<sup>2</sup>. The interview reflected the government's determination to lead a process from the executive branch to establish a new constitutional order of Marxist inspiration. President Allende warned that there could be an open and frontal confrontation with those who opposed his reform of the State<sup>3</sup>.

Salvador Allende launched several ambitious and controversial reform programmes that ended up imposing state control over the national economy. Copper was nationalised without the US companies co-owning the deposits being compensated, leading to the closure of sources of financing and foreign investment in Chile<sup>4</sup>. The number of companies controlled by the State, through the Corporation for the Promotion of Production (CORFO), increased tenfold in just three years. CORFO went from having no bank to having 19 financial entities of its own, becoming a powerful state holding company. The number of state enterprises increased to two-fifths of national production. The state came to own more than four fifths of the financial sector and three fifths of the arable land<sup>5</sup>. In mid-1973, the government fixed the price of more than 3,000 products, most services and interest rates<sup>6</sup>.

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<sup>1</sup> Allende received 36.63% of the votes, compared to 35.29% for Alessandri, the right-wing candidate (only 39,175 votes apart) and 28.08% for the centre candidate of the Christian Democratic Party, Radomiro Tomic.

<sup>2</sup> "The Chilean people chose the way of revolution and we have not forgotten a fundamental principle of Marxism: the class struggle. As for the bourgeois state in the present moment, we are trying to overcome it. I have reached this position to achieve the economic and social transformation of Chile, to open the way to socialism. Our goal is an integral, scientific, Marxist socialism." Available at: <https://www.marxists.org/espanol/allende/1971/marzo16.htm>

<sup>3</sup> "There will be constant confrontation and, psychologically, we are prepared for it. Don't doubt it. If they provoke it, it will happen, but in any case, we will wait for them to provoke it. Let's be vigilant." Available at: <https://www.marxists.org/espanol/allende/1971/marzo16.htm>

<sup>4</sup> BONNEFOY, Pascale M. "The secretive negotiations of the Allende and Nixon governments on the nationalisation of copper." *Estudios Internacionales*, no. 175, 2013, Santiago de Chile. Available at: [https://scielo.conicyt.cl/scielo.php?script=sci\\_arttext&pid=S0719-37692013000200004](https://scielo.conicyt.cl/scielo.php?script=sci_arttext&pid=S0719-37692013000200004)

<sup>5</sup> If 3,564,243 hectares were expropriated during the six years of the Frei Government, 6,401,625 hectares were expropriated in the 1000 days of the Popular Unity Government. The latter figure is equivalent to 38% of the country's total agricultural area.

On 23 August, the Supreme Court sent a letter to the President of the Republic to request protection against the continuous attacks on the judiciary and, at the same time, to demand that the President respect the principle of separation of powers and the independence of the judiciary, as established by the Constitution<sup>7</sup>. Also, on 23 August 1973, the Chamber of Deputies adopted a resolution accusing the government of not complying with the laws and violating the Constitution<sup>8</sup>.

On the other hand, the economic policies of the Popular Unity triggered an increase in the state's deficit, a rapid decrease in foreign exchange reserves, a complete fall in foreign investment, a complete shutdown of external financial flows, a default on the state's debt as a result of its insolvency and, above all, unprecedented hyperinflation resulting from the government's race to print more money. Shortages, queues, the black market, uncertainty due to price fluctuations, job insecurity and strikes have become part of everyday life for Chileans.

The end of the "Chilean road to socialism" and the military coup put Chile in a difficult position. At that time, urgent shock measures to restore the economy had the potential to be key to avoiding civil strife. A team of economists from the Pontifical Catholic University of Chile was ready to take its place in the history of their country.

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BELLISARIIO, Antonio. (2006). "The Chilean Agrarian Transformation: Agrarian Reform and Capitalist 'Partial' Counter-Agrarian Reform, 1964–1980." *Journal of Agrarian Change*. 7. John Wiley & Sons, Inc, Hoboken 2006, New Jersey. Available at: [https://www.researchgate.net/publication/229609201\\_The\\_Chilean\\_Agrarian\\_Transformation\\_Agrarian\\_Reform\\_and\\_Capitalist\\_'Partial'\\_Counter-Agrarian\\_Reform\\_1964-1980](https://www.researchgate.net/publication/229609201_The_Chilean_Agrarian_Transformation_Agrarian_Reform_and_Capitalist_'Partial'_Counter-Agrarian_Reform_1964-1980)

<sup>6</sup> COX Alejandra and EDWARDS Sebastián. "Monetarism and Liberalization. The Chilean Experiment." *University of Chicago Press*, 1987, Chicago.

<sup>7</sup> Supreme Court ruling of 23 August 1973. "Introduction: This Court wants to make you aware that it has understood its office as an attempt to submit the free criteria of the judiciary to the political needs of the government, by seeking forced interpretations for the precepts of the constitution and the laws. As long as the judiciary is not removed as such from the political charter, its independence will never be abrogated." Available at: [http://www.josepinera.org/libros/libros\\_resolucion.htm](http://www.josepinera.org/libros/libros_resolucion.htm)

<sup>8</sup> Point 5 of the Declaration stated that the government, from the beginning of its mandate, intended to subject the people to strict economic and political control by the state, in order to achieve a totalitarian system opposed to the representative and democratic system established by the Constitution. Point 6 accused the government, pointing out that the violations of the constitution that were being committed were not isolated but continuous and systematic, constituting a very serious danger to the nation and the rule of law. Available at: [https://obtienearchivo.bcn.cl/obtienearchivo?id=documentos/10221.1/13377/1/mj\\_00061.pdf](https://obtienearchivo.bcn.cl/obtienearchivo?id=documentos/10221.1/13377/1/mj_00061.pdf)

The original difference between Chile and the rest of the Ibero-American countries is undoubtedly a consequence of the peculiar changes promoted by the Chilean economists known as the Chicago Boys. Chile was the first Ibero-American country to implement a modernisation model based on neo-liberal economic policies and was also the one that did so with the greatest conviction and depth. The Chilean commitment to the economic approach of the Second Chicago School<sup>9</sup> was not imposed by anyone. It was a bold, high-risk choice that would have been impossible to implement without the urgency and circumstances of the moment<sup>10</sup>.

Initially, Chicago-educated Chilean economists were considered an extravagant curiosity in Chile. They had no influence on previous administrations. On the other hand, ECLAC's<sup>11</sup> economic recommendations were structuralist and protectionist proposals, where the great economic protagonist was the State with strong interventionist policies<sup>12</sup>. Economic liberalism was an unknown possibility in Latin America.

The Chicago Boys had their chance before anyone else. Meanwhile, in Europe, the 1973 oil crisis was dealt with by Keynesian economic policies that ended up leading to the coexistence of high unemployment rates, inflation above double digits and generalised falls in production. Whereas, in the United States, the same macroeconomic effects were present that ended up being deemed stagflation. While in Latin America more regulations were adopted, at the same time expansive monetary policies were applied, the origin of the hyperinflation crises of the 80s. Chile was taking a new economic approach, as opposed to everything the rest of the world was doing

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<sup>9</sup> The most prominent economists of the Second Chicago School are Milton Friedman, Nobel Prize in Economics in 1976, George Stigler, Nobel Prize in Economics in 1982, Ronald Coase, Nobel Prize in Economics in 1991 and Aaron Director.

<sup>10</sup> Friedrich Hayek, winner of the Noble Prize for Economics, after his visit to Chile in 1977, responded to criticism of the implementation of the Economic Recovery Programme in Chile and the initial social and economic cost of the ensuing shock therapy by saying that: "With a government that is willing to move the country forward without complexes, popularity commitments or political expectations, this cost is a necessary evil that will quickly be overcome. The effort this country is making is an example to the world." Available at: [https://www.cepchile.cl/cep/site/docs/20160304/20160304101209/rev137\\_BCaldwell-LMontes.pdf](https://www.cepchile.cl/cep/site/docs/20160304/20160304101209/rev137_BCaldwell-LMontes.pdf)

<sup>11</sup> The Economic Commission for Latin America and the Caribbean (ECLAC) is the United Nations agency responsible for promoting economic and social development in the region. Created in 1948, ECLAC is dedicated to economic research.

<sup>12</sup> MONTES, Leónidas. Milton Friedman and his visit to Chile. Available at: <https://www.cepchile.cl/milton-friedman-y-sus-visit-a-chile/cep/2016-05-04/150454.html>

and would continue to do until the early 80s. Chile became a veritable laboratory for such prominent economists as Milton Friedman, George Stigler, Friedrich Hayek, Ronald Coase and Robert Lucas, all of whom were Nobel Prize winners in economics<sup>13</sup>.

When the Chicago School was still marginal and not yet widely known, the Chilean government began to implement its proposals, based on economic thinking polarised by the efficiency of markets in the distribution of resources and in the setting of prices<sup>14</sup>. Later, both the US presidents, Nixon and Reagan, and the British prime minister, Margaret Thatcher, would have as advisors the Chicago economics professors, especially Milton Friedman.

The awarding of the Nobel Prize in Economics to Milton Friedman in 1974 and to Friedrich Hayek in 1976 encouraged Margaret Thatcher to propose a liberal shift in her party's economic policies in order to promote the renewal of its ideas, intellectual foundations and the programmatic axes of the British right.

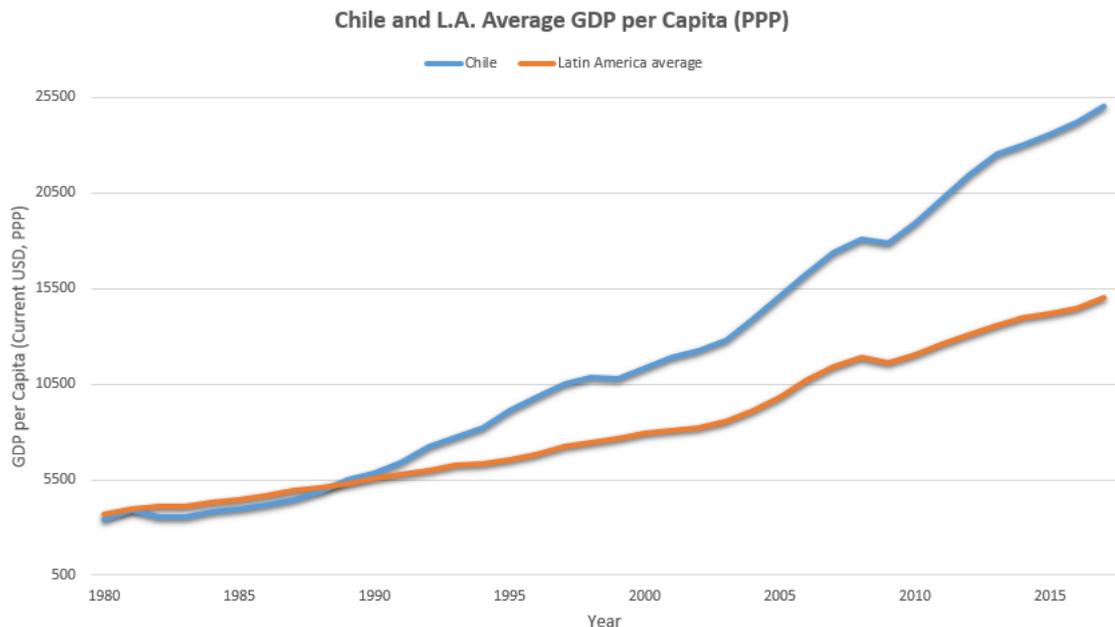
Six years before the Iron Lady's electoral victory, the Chicago Boys applied the neoliberal economic theory in Chile that would later be adopted by the United Kingdom. During the 20 years of the *Concertación de Partidos por la Democrática* government, both the Christian Democrats and the Socialists gave continuity to a liberal economic model that had worked successfully. After the *Concertación*, both Sebastián Piñera and Michelle Bachelet maintained the foundations of liberal change.

The Chicago School model has solid technical support behind it, but it cannot be completely dissociated from its ideological component, which emphasises the freedom of choice of economic agents and the subsidiary role of the state. The success of this risky venture can be attested to by Chile's entry into the OECD in 1993, during the presidency of the Christian Democrat Patricio Aylwin Azócar, when it became the first South American country to be accepted into this organisation.

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<sup>13</sup> Available at: <https://repositorio.udd.cl/bitstream/handle/11447/519/wp40.pdf?sequence=1&isAllowed=y>  
George Stigler and his influence on Chile's economic transformation CRISTIÁN LARROULET VIGNAU\*. Available at: [https://www.jstor.org/stable/2504050?read-now=1&seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/2504050?read-now=1&seq=1#page_scan_tab_contents)

<sup>14</sup> "In the mid-60s at Harvard, economics professors regarded Milton Friedman as a right-wing American crank. He was considered an outcast until they started listening to him." Available at: [https://fundacionfaes.org/file\\_upload/publication/pdf/20130425153404milton-friedman-un-economista-liberal.pdf](https://fundacionfaes.org/file_upload/publication/pdf/20130425153404milton-friedman-un-economista-liberal.pdf)



**Figure 1. Comparative evolution of GDP per capita with purchasing power parity, in 2015 dollars, of Chile with the rest of Latin America.** Source. International Monetary Fund, October 2015.

## The Chicago Boys

Arnold Harberger was one of the founders of the Chicago School. His academic reputation is mainly due to his contributions to economic studies related to the loss of economic efficiency. The prestige of his contributions to economic science was fully recognised when he called the welfare losses generated by economic distortions the Harberger Triangle<sup>15</sup>. He has been director of the Economics Department at the University of Chicago, the American Economic Association, the Western Economic Association, and has served as president or active member of many other academic organisations. Harberger accumulated awards during his life as an economist. One of the titles he is credited with, possibly the one that has had the most impact, is the 'father' of the Chicago Boys.

<sup>15</sup> Harberger's triangle measures the loss of efficiency, in a supply and demand chart, caused by public interventions.

Arnold Harberger married a Chilean economics student, Anita Valjalo, whom he met at the University of Chicago where he taught. His relationship with his wife and his Chilean student friends in the United States allowed him to learn Spanish fluently and feel attracted to the economic reality of Chile. In 1956, he wrote a memo on the Chilean economy that accurately diagnosed the economic situation at the time. Shortly before that, he had managed to set up a collaboration programme between his university, supported by the United States Development Agency, and the Pontifical Catholic University of Chile (PUC), which would enable some twenty economists from the PUC to take a postgraduate course at the University of Chicago. This small select group of Chilean economists would form the family that would later become known as the Chicago Boys.

Chilean students, who completed their postgraduate studies at the University of Chicago in the late 50s and early 60s, could not have imagined that they would be responsible for reorienting their country's economy after the 11 September 1973 coup. Over time, their mission would be to implement the economic model in Chile that they had learned in the United States. A neoliberal model with a monetarist and neoclassical orientation, at that time completely new.

Affection for Chile and his Chilean students made Harberger and his wife, Anita Valjalo, the parents of a real family, where very strong personal ties of close friendship were forged. Harberger always defended his disciples, in spite of the serious inconveniences caused to him by doing so.

Arnold Harberger, Milton Friedman, Friedrich Hayek and George Stigler, all professors at the University of Chicago, were harshly attacked for understanding that they were collaborating with General Pinochet's<sup>16</sup> dictatorship. None of them really did anything other than teach economics and provide advice.

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<sup>16</sup> Milton Friedman won the Nobel Prize in Economics in 1976, Friedrich Hayek won the Nobel Prize in Economics in 1974, and George Stigler won the Nobel Prize in Economics in 1982. Milton Friedman and Frederich Hayek are possibly, along with John Maynard Keynes, the most influential economists of the 20th century. Available at: <https://www.dineroenimagen.com/2016-09-02/77437>

Criticism and accusations were particularly strong and prolonged against Friedman, who was blamed for inspiring the Economic Recovery Programme, which began in 1975. However, Friedman had nothing to do with a project that was designed by Chilean economists. Jorge Cauas, then Minister of Finance and Doctor from Columbia University, and some Chicagos Boys were responsible for setting up a new model<sup>17</sup>. The University of Chicago professors did not participate in the decision-making or planning of the economic programmes that were implemented in Chile<sup>18</sup>. However, the Chilean miracle was a reality that they had inspired.

Jorge Cauas, in the Government's Economic Recovery Programme, announced that things were not going to be easy, but also that the objective could be achieved. "The so-called economic miracles are not like that. They are solely the result of work and savings made within the framework of a coherent economic policy. They usually occur after situations of acute citizen sacrifice."

Years later, Finance Minister Hernán Büchi noted that no miracle had occurred in Chile. Miracles are a direct intervention of the will of the Almighty and have no explanation. The country's change "was a programme"<sup>19</sup>. José Piñera Echenique, brother of President Sebastián Piñera, defined the transformation of the country as "the power of an idea", the idea of freedom<sup>20</sup>.

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<sup>17</sup> VALDÉS, Juan Gabriel. "Pinochet's Economists: The Chicago Boys in Chile." *Cambridge University Press*, 1995, Cambridge.

<sup>18</sup> The ceremony for the awarding of the Nobel Prize to Milton Friedman was interrupted to protest against his collaboration with the dictatorship. It was the first time in the history of the prize that these events took place. Outside, dozens of demonstrators were shouting against Friedman, neoliberalism and Pinochet. The experience marked Friedman so much that he even dedicated a chapter in his memoirs to Chile, highlighting the double standard that exists. Nobody criticised his visits to China and other countries with authoritarian regimes, where he also met their leaders and made recommendations, as he had done in 1975 in Chile.

<sup>19</sup> BÜCHI, Hernán. *The economic transformation of Chile. The model of progress*. El Mercurio/Aguilar, 2008, Santiago de Chile.

<sup>20</sup> PIÑERA José. "Chile, the Power of an Idea" essay in the book edited by Barry Levine from several authors, including Vargas Llosa, *The Neoliberal Challenge. The End of Third Worldism in Latin America*, Norma publishing house, 1991, Barcelona. Available at: [http://www.josepinera.org/articulos/articulos\\_chile\\_poderdeunaidea.htm](http://www.josepinera.org/articulos/articulos_chile_poderdeunaidea.htm)

## Freedom is indivisible

According to the liberal view, freedom is indivisible and therefore an authoritarian system is not compatible with economic freedom for long. Economic liberalism in this way would only be a first step towards a political process of transition to democracy. From this point of view, if a dictatorship existed at the same time as the free market, it would end up destroying it.

From the liberal conviction, the main problem facing a political system that aspires to respect personal freedom and individual rights is the concentration of power in a few hands. Maintaining freedom, therefore, requires the dispersal of power through an order of *cheques and balances*. In this sense, the free market constitutes a broader mechanism, outside the political sphere, of control and balance of power that will promote a dynamic of decentralisation of decision-making first in the markets, then in the institutions and, finally, in the public space<sup>21</sup>.

During his controversial visit to Chile in 1975, Friedman met with President Pinochet. A few days later, at the University of Chile and the Pontifical Catholic University of Chile, he gave a talk open to the public, entitled *The Fragility of Freedom*. To the students, professors and the public that decided to attend the conferences, Friedman made his argument that economic freedom is a necessary condition for political freedom. At that time, the participants were not yet ready to hear this idea without it strongly impacting them. Friedman's approach was too innovative for the time. Of course, the Chilean press did not give much coverage to the message launched at these conferences<sup>22</sup>.

Over time, for Milton Friedman, the real miracle of Chile was not its economic take-off. The real miracle was that an authoritarian military junta accepted so much risk and adopted such a broad free-market economic model as proposed by the University of Chicago's Department of Economics<sup>23</sup>.

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<sup>21</sup> Friedman on Capitalism and Freedom. "It is important to emphasize that economic arrangements play a dual role in the promotion of a free society. On the one hand, "freedom" in economic arrangements is itself a component of freedom broadly understood, so "economic freedom" is an end to a believer in freedom. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom." Available at: <https://oll.libertyfund.org/pages/friedman-on-capitalism-and-freedom>

<sup>22</sup> Available at: <http://revistasantiago.cl/historia/el-viaje-que-milton-friedman-no-pudo-olvidar/>

<sup>23</sup> PIÑERA, José; CASTRO de, Sergio; KAISER, Axel; BELLOLIO Jaime and SOTO, Ángel. "A legacy of freedom. Milton Friedman in Chile" promoted by Instituto Democracia y Mercado /Atlas Economic

It is certainly not the same to dictate an economic doctrine as to transform it into an economic recovery plan for a country or to conduct such a programme to achieve the objectives set. The Chicago Boys were responsible for transforming a doctrine into a plan and a plan into coordinated actions to overcome the difficult economic situation. They knew the risk they were taking and were warned about it<sup>24</sup>.

To carry out such a broad transformation required the assumption that shock therapy was necessary. In order to start improving, it was necessary to start making things worse.

In difficult times, the Chicago Boys team always stood together. They shared responsibility and each one, from his position, took care of doing what he deemed to be correct. Never was a bad piece of information used to discredit another colleague, whether he was a minister or the head of an important institution, such as the Bank of Chile. They acted according to a shared project without seeking personal success. Mutual support was key to sustaining the course of a difficult journey. Disaffection might have been a temptation where one might have expected to fall into an internal struggle for power, but none of them allowed themselves to be dominated by it.

Years later, as a candidate for the presidency of Peru, Nobel Prize winner Mario Vargas Llosa held an interview with Margaret Thatcher and asked her for advice. She recommended that, in order to drive the changes she intended to lead in Peru, she would need to surround herself with a group of people who were fully identified with liberal ideas. “Because, when it comes to resisting the pressures that come with facing up to vested interests, the first defections always occur in one’s own ranks<sup>25</sup>.” She experienced this very soon after, when she was overturned not by the opposition, but by

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Research Foundation/Fundación para el Progreso, on the 100th anniversary of Milton Friedman’s birth, 2012. Santiago de Chile.

<sup>24</sup> ARANCIBI, Patricia and BARLAT, Francisco. *Sergio de Castro. The architect of the Chilean economic model*. American Library, 2007, Santiago de Chile.

The Minister Director of the National Planning Office, retired Navy Captain Roberto Kelly Vásquez proposed Jorge Cauas as Minister of Finance and head of the recovery programme. Kelly warned Cauas, before he accepted the role, of the danger of taking on the mission he was given. “We have proposed for you to be the driver of this plan. I want to know if you are ready to accept it because you are going to risk your life: If you do badly, you will be shot by the military and if you do well, you will be killed by the communists.

<sup>25</sup> Available at: [https://elpais.com/diario/1990/12/02/opinion/660092408\\_850215.html](https://elpais.com/diario/1990/12/02/opinion/660092408_850215.html)

Geoffrey Howe of the Conservative Party<sup>26</sup>. There were no defectors in the Chicago Boys. They closed ranks like a phalanx, protecting each other with their shields and attacking together with their intellectual capacities and convictions like spears.

### Chile before the revolts

In 2019, Chile's macroeconomic data was still envied by most. A public debt of 25.36% of GDP, a public deficit of 1.47% and growth of 2.8% in the third quarter, with an unemployment rate of 7.2%, could allow President Salvador Piñera to consider his country's economy, before the revolts, as a true Latin American oasis. By comparing its accounts with those of the rest of Latin America, we could discover a differential advantage that could be said to be Chile's "nirvana".

However, this does not say everything. In Latin America, in general, although it has been growing for decades, the percentage of public expenditure is substantially lower than that sustained by the EU countries. The size of the public sector in European countries can be up to twice that of some countries in the region. The effect is inevitably reflected in a reduction of the state's capacity to use fiscal policy and social spending as instruments of wealth redistribution.

The assessment of inequality in Chile can only be addressed in the context of Ibero-America, the most unequal region in the world. If we compare Chile's data with those of the Latin American countries, using the Gini index, its position is very remarkable in terms of income distribution. Chile is ahead of Mexico, Brazil and Colombia in terms of equal distribution. Only two countries, Uruguay and El Salvador, improve the Chilean indicator<sup>27</sup>. Using the income ratio between the richest and poorest 10%, another

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<sup>26</sup> Available at: <https://explicitoonline.com/mario-vargas-llosa-pocos-politicos-me-han-producido-el-respeto-que-he-sentido-por-la-gran-dama-margaret-thatcher/>

<sup>27</sup> The Gini index estimates income distribution with a coefficient ranging from 0 (absolute equality) to 1 (absolute inequality). Chile has a Gini index of 0.454, according to ECLAC data. The Latin American average is 0.47 and Mexico's index 0.504, Colombia's 0.511 and Brazil's 0.539. Only Uruguay 0.3 and El Salvador 0.399 stand apart from Chile on an equal footing.

Available at: [https://repositorio.cepal.org/bitstream/handle/11362/44395/11/S1900051\\_es.pdf](https://repositorio.cepal.org/bitstream/handle/11362/44395/11/S1900051_es.pdf)

common indicator for measuring inequality, the Chilean position once again stands out as the third largest in Latin America<sup>28</sup>.

However, inequality in terms of wealth is much greater than in terms of income. This phenomenon is replicated throughout Latin America. In Chile, the Gini index of total assets –physical and financial– which measures wealth distribution, reaches a value of around 0.72, much higher than that obtained for income distribution. The notable difference can be explained by analysing the distribution of heritage which, in Chile, is highly concentrated<sup>29</sup>.

Furthermore, an important issue that may be the basis for much reticence is the inequality of opportunity. Social divide marks the fate, to a large extent, of future generations. The impossibility of access to basic services or the impossibility of social advancement mortgages the future of work and the family. This situation leads to a certain frustration with the future, which can be more painful than frustration with the present, as it limits the hope of prosperity. When heredity and family position are very relevant to determine one's horizon, irritation and indignation are multiplied. The rejection of the culture of privilege that blocks the possibility of prosperity inevitably translates into a discourse of challenge to the established model.

Another element that provokes rejection is uncertainty. The privatisation of some services, such as health or pensions, can make it difficult to respond politically to social demands for improvements in the quality and scope of benefits.

Criticisms of the poor functioning of the National Health Fund (FONASA), which targets 80% of the workforce, relate to the insufficient number of hospitals and specialists, poor primary care and waiting lists that have increased in recent years. The other 20% of the population receiving health care through ISAPRE's private system is also dissatisfied with the price increases in health plans, insufficient coverage and problems in getting to a health centre<sup>30</sup>. Sebastián Piñera himself acknowledged the situation in 2018<sup>31</sup>.

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<sup>28</sup> In Uruguay, the upper stratum earns 11.8 times more than the lower stratum; in El Salvador, 13.8 times more; and in Chile, 17.6 times more. The Latin American average is 22.5 times higher.

<sup>29</sup> Half of the least favoured families account for only 2.1% of the country's net wealth, while the richest 10% account for two thirds.

<sup>30</sup> Available at: <https://www.bbc.com/mundo/noticias-america-latina-50124583>

<sup>31</sup> "More than three-quarters of citizens are dissatisfied with government management of health and there are good reasons for this. There is a strong feeling of lack of protection against serious diseases. None of

Pension Fund Administrators (AFPs)<sup>32</sup> are heavily criticised for not meeting the expectations of Chileans. Different groups have expressed criticism that the model is not capable of providing adequate pensions. Virtually 80% of pensions are below the minimum wage<sup>33</sup>. In comparative terms, in Spain, 52% of retirement pensions are below the minimum wage.

If we look at the countries of Latin America as a reference, we find that only half of the workers contribute to some kind of pension system. Uruguay and Chile are the two countries with the highest proportion of workers paying contributions for retirement, some 30 percentage points above the average<sup>34</sup>.

Despite all this, there is a social malaise in Chile that has taken root in significant sectors of the population and will inevitably increase. First the prolonged social upheavals that began in October and then the pandemic generated by COVID-19 has led to a significant deterioration in the Chilean macroeconomic situation. The government has announced stimulus plans to counteract the fall in demand caused by COVID-19 and a fiscal deficit about seven times higher than in previous years is taken for granted. The government's forecast, as a result of the fall in revenue and the increase in government expenditure, will increase government debt by more than 15 points<sup>35</sup>. In any case, Chile will continue to be one of the least indebted countries in the world and in the OECD.

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the health insurances are fully meeting their objective and there are important shortcomings to be addressed." Available at: <https://www.minsal.cl/programa-de-salud-del-presidente-sebastian-pinera-una-cirugia-mayor-a-la-salud/>

<sup>32</sup> Private financial institutions that manage the funds of individual pension savings accounts.

<sup>33</sup> Available at: [https://www.65ymas.com/economia/pensiones/cual-es-pension-maxima-minima-en-chile\\_17224\\_102.html](https://www.65ymas.com/economia/pensiones/cual-es-pension-maxima-minima-en-chile_17224_102.html)

<sup>34</sup> Available at: <https://publications.iadb.org/publications/spanish/document/Panorama-de-las-Pensiones-Am%C3%A9rica-Latina-y-el-Caribe.pdf> y [https://repositorio.cepal.org/bitstream/handle/11362/44851/4/S1900521\\_es.pdf](https://repositorio.cepal.org/bitstream/handle/11362/44851/4/S1900521_es.pdf)

<sup>35</sup> Available at: <https://www.pauta.cl/economia/bloomberg/chile-no-aumentara-venta-de-deuda-en-2020-pese-a-mayor-gasto>

The Central Bank of Chile's monetary policy report in September indicated that the economy would contract between 4.5 and 5.5% in 2020, correcting its earlier forecasts of higher falls in output. Meanwhile, ECLAC and the IMF predict that the fall in Latin America's GDP will be double that of Chile, if its Central Bank's estimates are met<sup>36</sup>.

But the social malaise has nothing to do with the country's privileged position vis-à-vis the rest of the continent. It has more to do with perceptions of abandonment or insecurity in the face of the possibility of impoverishment, excessive inequality, lack of opportunities, the halting of pending reforms and mistrust of institutions and political parties.

## Conclusions

The military coup of 11 September 1973 could have been one of many in Ibero-America. It could have entered history through pain and sorrow to stay in history through more pain and sorrow. However, the Chicagos Boys, a group of Chilean economists with postgraduate degrees from the University of Chicago, designed and implemented the Economic Recovery Programme that made it possible to implement a change in the economic model.

Paradoxically, the advocates of a degree of economic freedom unparalleled in the world at the time used the temporary and exceptional control of the military dictatorship to bring about the greatest deconcentration of economic and social power in all Ibero-America. Taking the lead over the rest of the world, Chile consolidated a neoliberal economic project that has enabled the country to become a model of success, not only for Ibero-America. In its day, Chile was compared to the "Asian Dragons" due to its spectacular results.

In a short time, the progress made in the economy consolidated the possibilities of a peaceful political transition in Chile. The principle announced by Milton Friedman had been fulfilled. Economic freedom is inevitably related to political freedom. The result of the 1988 plebiscite closed the door to a new military presidential term and allowed

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<sup>36</sup> Available at: <https://www.cepal.org/es/comunicados/contraccion-la-actividad-economica-la-region-se-profundiza-causa-la-pandemia-caera-91> y <https://home.kpmg/content/dam/kpmg/co/sac/pdf/2020/08/una-revision-del-impacto-de-covid-19-en-america-del-sur.pdf>

democratic presidential elections to be held. The result was the victory of the Christian Democrat, representative of the *Concertación*, Patricio Aylwin.

Chile has reached an enviable regime, politically democratic and with a free market economy in which the State plays a subsidiary role. However, a high percentage of the population was dissatisfied with the “model” in the surveys, and is seeking to reform the existing system.

The revolts, which began on 18 October 2019, and President Piñera’s surprising proposal for constitutional change reflect tensions that are not measured by economic indicators. Failure seems to teach more than success.

The key to the Chilean miracle and peaceful political change was the team of economists known as the Chicago Boys who, from outside the dictatorship’s establishment, proved that economic freedom works, not only to increase the country’s wealth, but also to gradually transform society and its aspirations.

Teaching and training teams, ready to take responsibility for the necessary changes from a solid theoretical preparation and a practical adaptation capacity, is a human capital, an immaterial resource, at the disposal of the nation that can make the difference between success and failure.

In the case of Ibero-America, and in others, governments tend to be weak coalitions of different political families, each with its own rhythm and agenda. However, the presence and weight of the Chicago Boys in governments and in the management of key institutions, such as the Bank of Chile, made it possible to sustain the course of a programme for as long as necessary to obtain the expected results, despite the initial negative impact and the difficulties, inertia, interests and resistance they had to overcome.

None of the ministers of economy or finance felt helpless and abandoned in the difficult moments. The group always sought mutual support to achieve common goals. The concurrence of efforts sustained by shared convictions, a spirit of service to the nation and personal relationships made it possible to resolve an unsolvable problem in many governments, the internal fracture.

The Chicago Boys' inner strength is a result of their graduate studies at the University of Chicago, led by some of the world's top economists. It was not only what they learned and the power of the ideas they adopted, but also the strength of the personal relationships they forged. "The Chilean liberal revolution came around because there was a team in power that exercised leadership in society by being willing to make reforms that, at least initially, were widely unpopular. Ultimately, this is what moral courage in politics is all about<sup>37</sup>."

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IEEE Analyst

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<sup>37</sup> PIÑERA, José. "Chile, the power of an idea" essay in the book edited by Barry Levine from various authors, including Vargas Llosa. *The Neoliberal Challenge. The End of Third Worldism in Latin America*. Norma publishing house, 1991, Barcelona.