

The Miracle of Chile: Capitalism by Force

How a military dictator and some unorthodox economists saved a nation

Sean F. Brown
Senior Division
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To find a dictatorship that made a country better off is rare. But Chile's Augusto Pinochet did just that. His successful economic policies eventually made Chile the richest nation in South America,¹ breaking ground for similar reform in China, Britain, America, and elsewhere.² But is economic revival worth paying any price?

Prelude: Marxism Arrives in Chile

On September 4, 1970, Chilean voters elected the first democratic Marxist government in history.³ At the height of the Cold War, the United States in particular despised this turn of events, but despite all their efforts, the left-wing Popular Unity coalition, headed by Chilean Socialist Party nominee Salvador Allende, prevailed. CIA meddling in Chilean politics stretched back at least six years prior. To help defeat the Socialists in the 1964 presidential election, the CIA directly funded roughly half of the campaign of centrist Eduardo Frei,⁴ the only viable alternative, who ultimately won with 56% of the vote.⁵ Over the next five years the CIA would spend another \$2 million on covert political action designed to strengthen anti-Marxist groups. The CIA's efforts between 1964 and 1969 were deemed "relatively successful", but at the same time, "persistent allegations that the... parties of the center and right were linked to the CIA may have played a part in undercutting popular support for them."⁶

¹ Oishimaya Sen Nag, "The Richest Countries In South America," WorldAtlas, September 28, 2017, 1, accessed February 04, 2018, <https://www.worldatlas.com/articles/the-richest-countries-in-south-america.html>.

² Robert A. Packenham and William Ratliff, "What Pinochet Did for Chile," *Hoover Digest* 2007, no. 1 (January 1, 2007): 1, January 30, 2007, accessed January 21, 2018, <https://www.hoover.org/research/what-pinochet-did-chile>.

³ "The end of Allende," *The Economist*, July 03, 2008, 1, accessed December 28, 2017, <http://www.economist.com/node/11674052>.

⁴ "Covert Action in Chile 1963-1973," Transnational Institute, August 18, 2016, 7, accessed January 12, 2018, <https://www.tni.org/en/archives/act/4113>. This is the text of a 1975 U.S. Senate investigative committee report on CIA interventions in Chile. This source is hereafter referred to as "Church", after the report's informal name, the "Church Report", so called because the chair of the committee which produced the report was Senator Frank Church (Democrat-Idaho, 1957-1981).

⁵ "Chilean Presidential Totals 1938-1970," Political Database of the Americas, June 28, 2010, 5, accessed December 29, 2017, http://pdba.georgetown.edu/Elecdata/Chile/pres_totals.html.

⁶ Church, 9.

In the 1970 presidential election, rather than throw support behind one candidate, it was decided that only “spoiling operations” would be waged, with the goal being only to bring down Popular Unity. The CIA spent between \$800,000 and \$1,000,000 on influencing the election. The “socialist bloc” also spent significant sums; Cuba was known to have supplied Allende with roughly \$350,000, and the Soviet Union added more.⁷ Private enterprise also sought to defeat Allende, supplying right-wing candidate Jorge Alessandri with roughly \$700,000 in total. The CIA did not supply any money directly to any campaign.⁸

All of these efforts were unsuccessful. On Election Day, Allende garnered 36.3% of the vote against Alessandri’s 35.8% and centrist Radomiro Tomic’s 28.0%.⁹ As no candidate secured a majority, a top-two congressional runoff was required. As an Allende presidency was considered unacceptable to the United States, and it seemed likely the Chilean Congress would support the first-place finisher, the CIA desperately worked to prevent it through whatever means necessary. After it was determined that attempting to bribe or blackmail congressmen to vote for Alessandri would not be successful, President Nixon instructed the CIA to organize a military *coup d’etat* as a last resort. Although the agency made contact with several key Chilean military officers, few plans ever got off the ground; a disorganized attempt on October 22 was quickly aborted. Congress chose Allende on October 24, and he was inaugurated on November 3.¹⁰

The Rise and Fall of the Chilean Way to Socialism

President Allende knew he had to work quickly to implement his agenda, as presidents could not serve two consecutive six-year terms. He was also pressured by Popular Unity’s more

⁷ Ibid.

⁸ Ibid.

⁹ "Chilean Presidential Totals," 6.

¹⁰ Church, 10.

radical elements, which were less dedicated to democratic socialism than to smashing capitalism immediately.¹¹ The coalition also lacked congressional majorities while facing bitter opposition,¹² so Allende had to largely rely on executive privilege rather than legislation. The new government aimed “to nationalize the commanding heights¹³ of the economy, implement a massive programme of income distribution, end the dominance of the large farms... develop popular participation in the running of the economy and the political and legal system, and pursue an independent foreign policy.”¹⁴ The government aggressively pursued nationalization, expropriation, and redistribution, especially regarding natural resources and agriculture, though some of Popular Unity’s more radical elements opposed redistribution.¹⁵ Allende called his agenda “The Chilean Way to Socialism”.

Though significant precedent for socialistic agricultural reform stretched back to 1962,¹⁶ Allende expanded and accelerated it. In total, his government expropriated 4,409 agricultural properties totaling 6.4 million hectares (15.8 million acres), while peasant revolutionaries

¹¹ Youssef Cohen, *Radicals, Reformers, and Reactionaries: The Prisoner's Dilemma and the Collapse of Democracy in Latin America* (Chicago, IL: University of Chicago Press, 1994), 102, October 17, 1994, accessed January 1, 2018, https://books.google.com/books?id=ITTTBv4UJ_kC.

¹² Richard Muir and Alan Angell, "Commentary: Salvador Allende: his role in Chilean politics," *International Journal of Epidemiology* 34, no. 4 (August 1, 2005): 737-739, 2017, accessed January 1, 2018, <https://academic.oup.com/ije/article/34/4/737/692837>. In the Senate, Popular Unity only held 36% of the seats, while in the lower house it held 38%. Popular Unity made gains in 1973, but still lacked a majority.

¹³ The “commanding heights” of an economy are often considered to be crucial sectors such as public utilities, natural resources, heavy industry, transport, large banks, as well as control over foreign and domestic trade.

¹⁴ Muir and Angell, 737-739.

¹⁵ "Le Reforma Agraria (1962-1973)," *Memoria Chilena*, 2018, 1, accessed January 01, 2018, <http://www.memoriachilena.cl/602/w3-article-3536.html>. The state’s indecision on redistribution policy helped create economic confusion in the agricultural sector, severely disrupting output.

¹⁶ *Ibid.* Agrarian Reform Law No. 15,020, passed under Jorge Alessandri’s government in 1962, was basically an eminent domain law, authorizing the State to expropriate land with compensation, which consisted of a 20% cash payment with the rest paid in bonds. The State then would redistribute the land to the peasants. In 1967, under Eduardo Frei’s government, Agrarian Reform Law No. 16,640 was passed, which prohibited anyone from owning more than 80 hectares (about 198 acres) of land. Any land in excess of the limit would be expropriated and redistributed. All land owned by corporations could also be expropriated at will. At the same time, Law No. 16,625 legalized peasant unionization. From 1967 to 1970, the Frei government seized and redistributed about 1,400 agricultural properties totaling 3.5 million hectares (about 8.65 million acres), while over 400 unions consisting of over 100,000 peasants were organized, intending to be the recipients of these expropriation efforts.

independently seized another 2,000 properties.¹⁷ Until 1967, Chile's rich copper reserves had been tapped near-exclusively by U.S.-based firms; although Allende's predecessor had already initiated a moderate copper nationalization process, he again sought to accelerate it. In a bid to circumvent previous laws which required "just compensation" be provided for expropriated assets, the government made a number of arbitrary deductions so that virtually no compensation was provided to four of the five firms affected.¹⁸ This practice resulted in widespread capital flight in all sectors.¹⁹

The government began to seize control over large portions of the economy. While the State controlled 14.2% of the economy in 1965, by 1973 it controlled 39.0% overall and almost fully owned the commanding heights.²⁰ Although the economy seemed to perform well in 1971, a sharp reversal followed,²¹ as GDP contracted 1% in 1972 and another 5% in 1973.²² What

¹⁷ Juan de Onis, "The Peasants of Chile Carry Their War Over Farm Ownership to Santiago Area," *The New York Times*, May 9, 1972, 2017, accessed January 1, 2018, <http://www.nytimes.com/1972/05/09/archives/the-peasants-of-chile-carry-their-war-over-farm-ownership-to.html>. Many peasants wanted to make deals directly with the proprietors, as they feared they would never receive back any land that the State took. By the time of the coup, almost no land had been redistributed, validating their concerns.

¹⁸ John Fleming, "The Nationalization of Chile's Large Copper Companies in Contemporary Interstate Relations," *Villanova Law Review* 18, no. 4, 593-600, accessed January 3, 2018, <https://digitalcommons.law.villanova.edu/vlr/vol18/iss4/2>. Frei's government sought to peaceably negotiate a 51% stake in all domestic copper mines producing more than 75,000 metric tons (about 82,700 U.S. tons) per year, though the State would retain the option to negotiate for the other 49% at a later date. Before nationalization, three American firms controlled over 80% of the production of nation's most important export. Fleming writes, "among the [controversial deductions] filed... were... for loans invested poorly, assets and equipment turned over in defective condition, and excessive profits."

¹⁹ Pseudoerasmus, "Did the "Invisible Blockade" against Allende's Chile work?" *Pseudoerasmus* (web log), May 21, 2015, 1, accessed January 4, 2018, <https://pseudoerasmus.com/2015/05/21/the-invisible-blockade-against-allendes-chile/>.

²⁰ *Ibid.* Besides the overall statistic, these are some of the more extreme cases of nationalization: between 1965 and 1973 the State increased its share in mining from 13% to 85%; in industry from 3% to 40%; in utilities from 25% to 100%; in transport from 24.3% to 70%; and in communications from 11.1% to 70%.

²¹ Robert Wenzel, "The Hyperinflation of Chile: Lessons for Us All," *Economic Policy Journal* (web log), August 29, 2010, 1, accessed January 9, 2018, <http://www.economicpolicyjournal.com/2010/08/hyperinflation-of-chile-lessons-for-us.html>. Wenzel writes that Allende "simultaneously froze prices of basic goods and services, and augmented wages by decree. At first, this measure worked like a charm: workers had more money, but goods and services still had the same old low prices.... They went on a shopping spree... rapidly [emptying] stores and warehouses.... Meanwhile, private companies—forced to raise worker wages while maintaining their same price structures—quickly went bankrupt...."

remained of the private sector was subjected to price controls, leading to widespread shortages and rationing. At the same time as worldwide inflation devalued the U.S. dollar, copper prices fell by 25% in 1972, dramatically reducing Chile's export earnings. Although Chile had not been agriculturally self-sufficient for decades, unpredictable land ownership policy caused agricultural output to drop nearly 43%; the government was forced to increase food imports by 375% at the expense of buying other essential goods,²³ and they tried to close the gap by printing money. Inflation became rampant; the official rate in 1973 was 286%.²⁴ Deficit spending, paid for almost exclusively by printing new money, approached a whopping 30% of GDP in 1973. Massive labor strikes plagued the country throughout Allende's presidency.²⁵

Peculiarly, Popular Unity *increased* their vote share to 44% in the March 4, 1973 parliamentary elections. Though they still lacked congressional majorities, their success despite the rotting economy was likely due to an increase in voter turnout of 738,000 from the previous election,²⁶ reflecting the rise of a new voting bloc. The left had managed to cast their socialist

²² "Chile GDP growth (annual %)," The World Bank, 2017, 1, accessed January 08, 2018, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CL>. This decline in GDP occurred despite massive increases in government spending, which is one of the four components of GDP.

²³ Pseudoerasmus, 1. These crucial goods were primarily spare parts for their industrial base, according to Church, 11: "By late 1972, the Chilean Ministry of the Economy estimated that almost one-third of the diesel trucks at Chuquicamata Copper Mine, 30 percent of the privately owned city buses, 21 percent of all taxis, and 33 percent of state-owned buses in Chile could not operate because of the lack of spare parts or tires."

²⁴ Hernán Büchi, "How Chile Successfully Transformed Its Economy," The Heritage Foundation, September 18, 2006, 1, accessed January 27, 2018, <https://www.heritage.org/international-economies/report/how-chile-successfully-transformed-its-economy>.

²⁵ Ibid. For comparison, the United States' federal deficit in 2017 was only 2.6% of GDP. Greece at its worst in 2009 only reached 15%. Note that although the United States did, per President Nixon's directive, attempt to wage economic warfare on Chile, through means such as gradually closing off the lines of credit and all but cutting off foreign aid, it was not the primary reason their economy collapsed. Although now cash had to be paid up front for its imports, Chile eventually managed to secure alternative lines of credit from Western Europe and Latin America, and although Chile had to dip into its reserves heavily, this would not have been as much of a problem if not for their damaging internal economic policies which caused inflation to eat away at tax revenue via what is known as the Olivera-Tanzi Effect. In essence, in a country with high inflation, the time delay between an actual transaction and when the taxes are collected on it will significantly hurt real revenue. Printing money to make up the shortfall makes this problem worse by further accelerating inflation.

²⁶ Chile 1973, PDF, Geneva, Switzerland: Inter-Parliamentary Union, 2017. Voter turnout increased by 25%; roughly 70% of the increase went to Allende, assuming most 1970 voters did not change their politics in 1973.

crusade as primarily ideological, rather than economic, sustaining their momentum even as the economy crumbled. Though the opposition had long sought to remove Allende by constitutional ouster, their failure to obtain supermajorities in 1973 quashed all hopes of peacefully reversing Allende's policies before the end of his term in 1976.²⁷

Although the military had so far been loyal to the government, internal sentiment generally aligned more with the opposition parties. After Popular Unity's recent electoral victories, pressure for a new coup began to build. Widespread planning occurred involving both civilian and military groups. Commander-in-Chief General Carlos Prats quashed three attempts in under four months. Evidence began mounting that the opposition parties would back a successful coup; they had adopted a hard-line anti-Marxist stance after the elections, and in mid-August, opposition legislators passed a resolution charging Popular Unity with unconstitutional behavior,²⁸ even calling for military action to stop it. As the situation escalated, General Prats resigned and was replaced by General Augusto Pinochet.²⁹

On September 11, 1973, the military struck. Although the United States had fostered great political agitation over the previous three years and quietly supported the coup, it had little to do with its execution. As the presidential palace was consumed by flames, Allende put a bullet in his own head before the military could, and dreams of the Chilean Way to Socialism died with him.³⁰ General Pinochet named himself President and dissolved Congress two days later.³¹

²⁷ Michael H. Fleet, "Chile's Democratic Road to Socialism," *The Western Political Quarterly* 26, no. 4 (December 1973): 782, accessed January 6, 2018, doi:10.2307/447149.

²⁸ According to Fleet, the opposition had actually tried to subvert legal activity by the president by curtailing his constitutional powers, effectively confirming Allende's commitment to constitutional government.

²⁹ *Ibid.*, 784.

³⁰ "Allende dies in coup," History.com, 2018, 1, accessed January 08, 2018, <http://www.history.com/this-day-in-history/allende-dies-in-coup>.

³¹ Richard Gott, "Junta general names himself as new President of Chile," *The Guardian*, 2018, 1, accessed January 20, 2018, <https://www.theguardian.com/world/1973/sep/14/chile.fromthearchive>.

Prosperity at Any Price

Assessing Pinochet's regime is difficult. In essence, he waged a crusade for prosperity at any price, replacing democratically-wrought economic ruin with brutally-imposed prosperity. During his military junta's seventeen-year rule, over 250,000 people were detained for political reasons,³² freedom of speech was curtailed³³ as a vigorous campaign was waged to repress leftist political thought,³⁴ over 3,000 people either disappeared or are known to have been killed, and some 28,000 were tortured. His secret police carried out frequent political assassinations, some even on foreign soil.³⁵ Pinochet was never fully brought to justice³⁶ for any of these abuses prior to his death. But at the same time, Pinochet's defenders insist that he "saved Chile from being transformed into a communist dictatorship and... rebuilt an economy that the leftists had left in tatters."³⁷ Additionally, on October 11, 1973, Pinochet delivered a speech rather atypical for a dictator, declaring that as soon as his economic and political goals had been accomplished,

...the Armed and Order Forces will give way to the restoration of our democracy.... A new Political Constitution of the Republic must allow the dynamic evolution that the current world demands, and permanently distance politics, sectarianism and demagoguery from national life.... In it, according to our best historical traditions, the people must be the true origin and recipient of the exercise of power.³⁸

³² "Pinochet's Chile," The Washington Post, 2000, 1, accessed January 20, 2018, <https://www.washingtonpost.com/wp-srv/inatl/longterm/pinochet/overview.htm>.

³³ Gott, 1. Only two vehemently right-wing newspapers, both published by the same company, were permitted to continue circulating after the coup, and both were often used as propaganda outlets instead of news.

³⁴ "Country Briefings: Chile," The Economist, February 24, 2007, 1, accessed January 20, 2018, <https://web.archive.org/web/20071112203321/http://economist.com:80/countries/chile/profile.cfm?folder=History%2Bin%2Bbrief>.

³⁵ Jonathan Franklin, "Pinochet directly ordered killing on US soil of Chilean diplomat, papers reveal," The Guardian, October 08, 2015, 1, accessed January 28, 2018, <https://www.theguardian.com/world/2015/oct/08/pinochet-directly-ordered-washington-killing-diplomat-documents-orlando-letelier-declassified>.

³⁶ "Augusto Pinochet: Timeline," CBC News, December 11, 2006, 1, accessed February 08, 2018, <https://web.archive.org/web/20070104162648/http://www.cbc.ca/news/background/chile/pinochet.html>.

³⁷ "Museum for dictator Pinochet draws fire," NBCNews.com, December 12, 2008, 1, accessed January 20, 2018, http://www.nbcnews.com/id/28198378/ns/travel-destination_travel/t/museum-dictator-pinochet-draws-fire/#.WmOI5KhKuUk.

³⁸ Translated from Spanish with Google Translate: Augusto Pinochet, "One month from the constitution of the governing junta," Discursos, 2018, 1, accessed January 21, 2018, <http://beersandpolitics.com/discursos/augusto-pinochet/a-un-mes-de-la-constitucion-de-la-junta-de-gobierno/1000>.

The regime's economic strategy is now known as *monetarism*,³⁹ a theory that promotes minimal State intervention in the market with the exception of controlling inflation by regulating the money supply. Widely considered radically unorthodox before its successful implementation in Chile, its chief exponent was economist Milton Friedman of the University of Chicago, an institution which rapidly became the lone beacon of free-market economics in a world dominated by central planners. As markets were reined in even on the home front, from 1956-1961 a U.S. State Department-sanctioned student exchange saw about twenty-five Chilean university students receive a monetarist education in Chicago, in hopes of seeing them intellectually challenge socialist thought back home.⁴⁰

After their return to Chile, several of these students, known as the “Chicago Boys”, began developing an economic program they jestingly called *el ladrillo*—“the brick”—because of its bulk. They presented their plan to a Navy Admiral who later assisted Pinochet's coup. After a lengthy period of deliberation, Pinochet broke with dictatorial tradition and embraced the Chicago Boys' *laissez-faire*⁴¹ policy prescriptions, appointing several of them to influential cabinet positions.⁴²

In keeping with monetarist theory, the government sharply reduced the money supply by over 75% in just one month in October 1973,⁴³ hoping to put the brakes on runaway inflation.

³⁹ Monetarism is considered a branch of economic thought known as *neoliberalism*, which supports strong private property rights and extremely limited State control in the economy.

⁴⁰ Tania Opazo, "The Boys Who Got to Remake an Economy," *Slate Magazine*, January 12, 2016, 1, accessed January 21, 2018, http://www.slate.com/articles/business/moneybox/2016/01/in_chicago_boys_the_story_of_chilean_economists_who_studied_in_america_and.html.

⁴¹ French, literally meaning “let do”, used in economics to mean “let the market do what it will”.

⁴² *Ibid.*

⁴³ "Chile Money Supply M1," CEIC, 2018, 1, accessed January 28, 2018, <https://www.ceicdata.com/en/indicator/chile/money-supply-m1>.

Almost all of Allende's expropriations were returned or re-privatized,⁴⁴ with the exception of the copper mines, which were formally integrated into the state-held company Codelco in 1976.⁴⁵ But several early errors made the road less than smooth. When Pinochet repealed price controls, prices suddenly rebounded to equilibrium, rocketing inflation to over 700%, despite extreme fiscal adjustment in 1974 designed to reduce aggregate demand by slashing federal spending—in the process, reducing the budget deficit to just 0.8% of GDP—and raising taxes.⁴⁶ However, Chile's inflation was likely supply-shortage-driven cost-push rather than excess-demand-driven demand-pull, making contractionary fiscal policy a serious blunder. Though inflation was halved to about 340% by December 1975, GDP plunged 13% that year, a drop exacerbated by a further 50% fall in copper prices and a 300% increase in oil prices.⁴⁷

From 1975-1979, the government slashed tariffs from a non-uniform average of 105% to virtually a flat 10%,⁴⁸ drawing back much-needed foreign investment. From 1976-1981, Chile's GDP averaged over 7% annual growth.⁴⁹ However, although hyperinflation had been tamed, inflation still hovered around 40% by 1979.⁵⁰ Finance minister Sergio de Castro, a Chicago alumnus, departed from Milton Friedman's support of floating currency exchange rates and pegged the Chilean peso to the U.S. dollar in 1979, hoping to create an anti-inflationary anchor. Inflation finally hit single-digits in 1981 at 9.5%.⁵¹

⁴⁴ "Pinochet's rule: Repression and economic success," BBC News, January 07, 2001, 1, accessed January 28, 2018, <http://news.bbc.co.uk/2/hi/americas/63821.stm>.

⁴⁵ *Encyclopædia Britannica*, s.v. "Codelco," 2018, 1, accessed January 28, 2018, <https://www.britannica.com/topic/Codelco>.

⁴⁶ Rodrigo Caputo and Diego Saravia, *The Fiscal and Monetary History of Chile 1960-2010*, PDF, Chicago, IL: Becker Friedman Institute for Economics at the University of Chicago, April 2014.

⁴⁷ Caputo and Saravia, 2014.

⁴⁸ Sebastian Edwards and Daniel Lederman, *The Political Economy of Unilateral Trade Liberalization: The Case of Chile*, PDF, Cambridge, MA: National Bureau of Economic Research, April 1998.

⁴⁹ "Chile GDP growth," 1.

⁵⁰ "Historic inflation Chile - CPI inflation," Inflation.eu - Worldwide Inflation Data, 2018, 1, accessed January 28, 2018, <http://www.inflation.eu/inflation-rates/chile/historic-inflation/cpi-inflation-chile.aspx>.

⁵¹ Edwards and Lederman, 6-7.

On September 11, 1980, a controversial plebiscite on adopting a new, surprisingly democratically-inclined Constitution was held which, although not outright rigged, exhibited several irregularities, including a lack of safeguards against duplicate voting and that blank ballots were taken to mean “yes”. The Constitution was approved by 67% of voters⁵² and signed on October 21.⁵³ It became law on March 11, 1981.⁵⁴

But this prosperity was not to last. Although the impact of the early-1980s recession was felt worldwide, a major banking crisis in 1982 exacerbated Chile’s woes as GDP plunged 14%,⁵⁵ over 800 private sector bankruptcies occurred, and eight financial institutions were bailed out. Inflation again shot past 20%.⁵⁶ By January 1983, the government had bailed out so many banks that it now controlled a majority of the banking system.⁵⁷ Although some blame the problem on a lack of banking regulation, Joshua Hruzik of the University of Bonn argues that regulation would not have been necessary if the nation’s unintentional experiment in free banking had endured beyond 1977, writing that the course of events leading to the crisis can be best explained with the Austrian Business Cycle Theory:⁵⁸ depressed interest rates and, in this case, fixed exchange rates created large foreign and domestic credit bubbles, doomed to collapse. Hruzik argues that the 1982 crisis in no way indicates a failure of free markets.⁵⁹

⁵² "Chile 1980," Princeton University, 2018, accessed January 24, 2018, <https://www.princeton.edu/~pewcr/reports/chile1980.html>.

⁵³ *Constitution of the Republic of Chile*, PDF, Richmond, VA: University of Richmond, January 11, 2006.

⁵⁴ “Chile 1980,” 1.

⁵⁵ Edwards and Lederman, 7.

⁵⁶ “Historic inflation Chile,” 1.

⁵⁷ Joshua Hruzik, "Causes of the Chilean Financial Crisis in the 1980's," *The Bonn Journal of Economics* IV, no. 2 (December 2015): 33-47, January 17, 2016, accessed January 31, 2018, <https://www.bje.uni-bonn.de/download-the-latest-issue-1/volume-iv-2-december-2015/causes-of-the-chilean-financial-crisis-in-the-19802019s/view>.

⁵⁸ The Austrian Business Cycle Theory asserts that the business cycle is an artificially-induced phenomenon stemming from the fixing or depressing of interest rates by a nation’s central bank. See Murray N. Rothbard, *Economic Depressions: Their Cause and Cure* (Lansing, MI: Constitutional Alliance, 1969), 1-27, June 25, 2012, accessed January 31, 2018, <https://mises.org/library/economic-depressions-their-cause-and-cure>.

⁵⁹ Hruzik, 36-37, 43.

Regardless of its cause, the crisis almost derailed the Great Monetarist Experiment.⁶⁰

Pinochet dismissed and replaced his entire cabinet, including the Chicago Boys.⁶¹ Besides having bailed out a majority of the banking system, tariffs were raised to 35% in March 1983.⁶²

However, inappropriately lax banking regulations⁶³ were strengthened with vigor.⁶⁴

As the economy began recovering, Chile returned to neoliberalism. Under the tenure of finance minister Hernán Büchi, appointed in January 1985, tariffs were reduced to 15%. Subsequent governments cut them to 11%, then 6%.⁶⁵ Recovery was slow, however, and full output was only achieved in 1989.⁶⁶ Despite the existence of Codelco, private mining was still permitted; as the price of copper rose in 1987-1988, foreign investment began pouring in. Today, private mining both outproduces and undercuts Codelco.⁶⁷ GDP grew for fourteen straight years, starting in 1984.⁶⁸ Inflation fell as the economy stabilized, re-entering single-digits in 1994.⁶⁹ Since 1987, the percentage of the population in poverty fell nearly 75%.⁷⁰

In 1988, it came time for a constitutionally-mandated democratic transition. Although Congress was to be reconstituted no matter what, a plebiscite had to be held for voters to approve or reject the military government's selection for President: Pinochet. Rejection would trigger a civilian election in accordance with the constitution. Expecting the "yes" side to easily prevail,

⁶⁰ Büchi, 1.

⁶¹ "Chile's cabinet resigns," United Press International, 2018, 1, accessed February 01, 2018, <https://www.upi.com/Archives/1982/08/26/Chiles-cabinet-resigns/5674399182400/>.

⁶² Edwards and Lederman, 7-8.

⁶³ Hruzik, 36-37.

⁶⁴ Packenham and Ratliff, 1.

⁶⁵ Büchi, 1.

⁶⁶ *Debt Crisis and Recovery, 1982-89*, PDF, Santiago, Chile: CIEPLAN, 2018.

⁶⁷ Büchi, 1.

⁶⁸ "Chile GDP growth," 1.

⁶⁹ "Historic inflation Chile," 1.

⁷⁰ "Chile Poverty headcount ratio at national poverty lines (% of population)," The World Bank, 2015, 1, accessed February 08, 2018, <https://data.worldbank.org/indicator/SI.POV.NAHC?locations=CL>.

the regime went out of its way to make the process as fair and free as possible, as a demonstration of Pinochet's legitimacy. But Pinochet had overestimated his chances among a culturally democratic population and against a massive seventeen-party coalition. When voters went to the polls on October 5, 1988, only 43% marked approval. Although Pinochet was left fuming, the military was unwilling to interfere with the constitutional democratization process.⁷¹

Over Pinochet's objections,⁷² a package of fifty-four reforms, removing most of the Constitution's residually authoritarian provisions, was approved by referendum on July 30, 1989 with an overwhelming 85% majority.⁷³ On Election Day, December 14, 1989, democratic candidate Patricio Aylwin received over 55% of the vote against finance minister Büchi and independent Francisco Javier Errázuriz.⁷⁴ Although Pinochet remained Commander-in-Chief until 1998, he never again held political office. On March 11, 1990, President-elect Aylwin's inauguration officially ended the era of dictatorial rule in Chile.⁷⁵ Despite controversy surrounding Pinochet's legacy, his free-market reforms have stood the test of time. Determining whether the ends justified the means will be left up to the reader.

⁷¹ Pamela Constable and Arturo Valenzuela, "Chile's Return to Democracy," *Foreign Affairs* 68, no. 5 (Winter 1989): 169-186, accessed February 2, 2018, doi:10.2307/20044206.

⁷² Ibid.

⁷³ "Chile 1989," Princeton University, 2018, accessed February 2, 2018, <https://www.princeton.edu/~pewcr/reports/chile1989.html>.

⁷⁴ Alan Angell and Benny Pollack, "The Chilean Elections of 1989 and the Politics of the Transition to Democracy," *Bulletin of Latin American Research* 9, no. 1 (1990): 1-23, accessed February 2, 2018, doi:10.2307/3338214.

⁷⁵ *Encyclopædia Britannica*, s.v. "Augusto Pinochet," 2018, 1, accessed February 2, 2018, <https://www.britannica.com/biography/Augusto-Pinochet>.

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<https://www.heritage.org/international-economies/report/how-chile-successfully-transformed-its-economy>.

Written by Pinochet's last finance minister, Hernán Büchi (1985-1989), this article provided a comprehensive overview of the economic conditions in Chile and the remedies undertaken. It provides a unique perspective from the man who was in charge of implementing mild neoliberal economic reforms which are often, perhaps erroneously or dishonestly, the ones credited for the miracle as opposed to the more radical market-freeing steps taken from 1975-1981.

Chile 1973. PDF. Geneva, Switzerland: Inter-Parliamentary Union, 2017.

This short document gives vote totals and voter turnout rates for the politically significant 1973 Chilean parliamentary elections, in which the opposition parties failing to gain supermajorities resulted in the perceived need for violence to depose Allende.

"Chile GDP growth (annual %)." The World Bank. 2017. Accessed January 8, 2018.
<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CL>.

The World Bank provides significant macroeconomic data for almost any country stretching back several decades. Of great use in this paper was GDP and GDP percent growth data from 1970 onwards.

"Chile Poverty headcount ratio at national poverty lines (% of population)." The World Bank. 2015. Accessed February 08, 2018.
<https://data.worldbank.org/indicator/SI.POV.NAHC?locations=CL>.

This is more useful data from the World Bank. The latest data only goes up to 2015, but since 1987, when their data begins and coincidentally, about when the economic miracle really "took off", poverty fell from 45.1% to 11.7%, nearly a 75% drop.

"Chilean Presidential Totals 1938-1970." Political Database of the Americas. June 28, 2010. Accessed December 29, 2017.
http://pdba.georgetown.edu/Elecdata/Chile/pres_totals.html.

This source is merely a table that shows the vote totals and percentages for the main candidates in Chilean presidential elections, held every six years without interruption from 1938-1970. Used in this paper were the results from 1964 and 1970.

"Chile's cabinet resigns." United Press International. 2018. Accessed February 01, 2018. <https://www.upi.com/Archives/1982/08/26/Chiles-cabinet-resigns/5674399182400/>.

This article, written on August 28, 1982, provided information about the firing of the entirety of Pinochet's cabinet in the midst of the banking crisis.

Constable, Pamela, and Arturo Valenzuela. "Chile's Return to Democracy." *Foreign Affairs* 68, no. 5 (Winter 1989): 169-86. Accessed February 2, 2018. doi:10.2307/20044206.

This article, published several months before Chile's first civilian president since 1973 had even assumed office, provided a comprehensive analysis of how and why Chile managed to transition back to democracy comparatively smoothly.

Constitution of the Republic of Chile. PDF. Richmond, VA: University of Richmond, January 11, 2006.

This is the complete text of the 1980 Constitution of Chile, translated into English. It explicitly espoused democratic principles and provided for a return to democracy in 1988, which was duly carried out. Though much lengthier than the United States Constitution, it guarantees many of the same fundamental freedoms. While the Pinochet regime was in power, however, the document was only considered to be transitionally—not fully—in effect, which allowed the dictator to continue unilaterally implementing his economic program until his term expired and he was supplanted by a democratically-elected successor.

"Covert Action in Chile 1963-1973." Transnational Institute. August 18, 2016. Accessed January 12, 2018. <https://www.tni.org/en/archives/act/4113>.

This document, reprinted by the Transnational Institute, is the complete text of the report generated by the Senate "Church Committee", so named because it was headed by Senator Frank Church (D-Idaho), in its 1975 investigation of covert activities carried out by U.S. intelligence agencies. It covers almost all the then-known details relating to CIA intervention in Chilean politics.

de Onis, Juan. "The Peasants of Chile Carry Their War Over Farm Ownership to Santiago Area." *The New York Times*. May 9, 1972. 2017. Accessed January 1, 2018. <http://www.nytimes.com/1972/05/09/archives/the-peasants-of-chile-carry-their-war-over-farm-ownership-to.html>.

Written by a reporter working in Chile in 1972, this article was published at the height of the widespread peasant land occupations that occurred under the Allende government. It gives a more immediate, firsthand account of how Popular Unity's inability to come to a consensus on whether to collectivize or redistribute expropriated properties was a large factor behind the occupations.

Gott, Richard. "Junta general names himself as new President of Chile." *The Guardian*. 2018. Accessed January 20, 2018. <https://www.theguardian.com/world/1973/sep/14/chile.fromthearchive>.

This article, published on September 14, 1973, describes in great detail the political situation in Chile just three days after the coup, based on the little information which was known at the time. Chile had not completely fallen to the junta just yet; it took roughly a week for them to firmly cement their control over the entire country. As such, bombings and violence were still commonplace as left-wing resistance was put down.

"Historic inflation Chile - CPI inflation." *Inflation.eu - Worldwide Inflation Data*. 2018. Accessed January 28, 2018. <http://www.inflation.eu/inflation-rates/chile/historic-inflation/cpi-inflation-chile.aspx>.

This site provided data on the inflation rate in Chile from 1971 to 2017, which was helpful in analyzing the effects of monetarist policy on the country's economy.

Pinochet, Augusto. "One month from the constitution of the governing junta." *Discursos*. 2018. Accessed January 21, 2018. <http://beersandpolitics.com/discursos/augusto-pinochet/a-un-mes-de-la-constitucion-de-la-junta-de-gobierno/1000>.

One month after the coup, on October 11, 1973, dictator Augusto Pinochet delivered a speech in which he affirmed his eventual desire to transition Chile back to a democracy. He did not fail to follow through, although it did require some coaxing from his fellow generals. In 1980, his government produced and enacted a new Constitution which still governs Chile to this day, and in 1988, his government held—and lost—a referendum on whether or not he would be allowed to continue his dictatorship. The government, although somewhat begrudgingly, accepted the result of both the referendum and the subsequent election, and power transitioned quite peacefully to President-elect Aylwin.

Secondary Sources:

"Allende dies in coup." *History.com*. 2018. Accessed January 08, 2018. <http://www.history.com/this-day-in-history/allende-dies-in-coup>.

This article provided a thorough overview of Allende's life and presidency, but of most use in this paper was its description of how the president died. Communists across the globe fantasized for years after the coup that Allende had been cut down by a hail of bullets in a defiant struggle against the armed forces, when in truth he died much less gloriously, having instead committed suicide with an AK-47 rifle given to him by Fidel Castro. This rumor circulated because most people doubted the official reports from 1973 which declared his death a suicide, since there might have been political motives behind the diagnosis, but a post-dictatorship 1990 exhumation and autopsy which revealed that the president indeed died from a single bullet which shattered his skull.

Angell, Alan, and Benny Pollack. "The Chilean Elections of 1989 and the Politics of the Transition to Democracy." *Bulletin of Latin American Research* 9, no. 1 (1990): 1-23. Accessed February 2, 2018. doi:10.2307/3338214.

This article provided a useful analysis of the 1989 election. Interestingly, although Pinochet attempted to gerrymander districts in his favor, as well as make use of a complex voting system designed to give minority parties too much representation, the opposition still won majorities in both congressional chambers as well as the presidency.

"Augusto Pinochet." *Encyclopædia Britannica*. 2018. Accessed February 2, 2018. <https://www.britannica.com/biography/Augusto-Pinochet>.

This encyclopedia provided some useful information about what happened to Pinochet after he left office.

"Augusto Pinochet: Timeline." CBC News. December 11, 2006. Accessed February 08, 2018. <https://web.archive.org/web/20070104162648/http://www.cbc.ca/news/background/chile/pinochet.html>.

This article, written the day after Pinochet died on December 10, 2006, provided a timeline of significant events in Pinochet's life. It heavily focuses on the recent developments that came after Pinochet stepped down, all the way up to the date of his death.

Caputo, Rodrigo, and Diego Saravia. *The Fiscal and Monetary History of Chile 1960-2010*. PDF. Chicago, IL: Becker Friedman Institute for Economics at the University of Chicago, April 2014.

This article provided a good source of data on the Chilean crash of 1975, which seems rather isolated and unexplained at first glance. Although the article does not explicitly say so, the policies it outlines that Pinochet's government took appear to be a textbook definition of contractionary fiscal policy. Given the nature of the inflation that Allende's policies induced, contractionary fiscal policy resulted in predictable outcomes.

"Chile 1980." Princeton University. 2018. Accessed January 24, 2018. <https://www.princeton.edu/~pcwcr/reports/chile1980.html>.

This document provided a concise, thorough overview of the process taken by the Pinochet regime to compose and pass the surprisingly democratically-inclined Chilean Constitution of 1980, which is still in force today.

"Chile 1989." Princeton University. 2018. Accessed February 2, 2018. <https://www.princeton.edu/~pcwcr/reports/chile1989.html>.

This document provided a concise overview of the steps taken to transition Chile back to a democracy in 1989.

"Chile Money Supply M1." CEIC. 2018. Accessed January 28, 2018.
<https://www.ceicdata.com/en/indicator/chile/money-supply-m1>.

This source provided a graph of the money supply in Chile over the years. As a key component of monetarism involves controlling the money supply, this data was important to conducting an analysis of monetarist policy.

"Codelco." Encyclopædia Britannica. 2018. Accessed January 28, 2018.
<https://www.britannica.com/topic/Codelco>.

This source provided information on the Chilean state-owned copper company Codelco.

Cohen, Youssef. *Radicals, Reformers, and Reactionaries: The Prisoner's Dilemma and the Collapse of Democracy in Latin America*. Chicago, IL: University of Chicago Press, 1994. October 17, 1994. Accessed January 1, 2018.
https://books.google.com/books?id=ITTTBv4UJ_kC.

Written just four years after Chile's return to democracy in 1990, this book's section on Chile helped reveal a few reasons why Allende seemed to be in such a hurry to accomplish his agenda. It explores the schisms within Popular Unity between hard-line revolutionaries and moderate socialists, which is part of what pressured Allende into unreasonably quick and disruptive action.

"Country Briefings: Chile." The Economist. February 24, 2007. Accessed January 20, 2018.
<https://web.archive.org/web/20071112203321/http://economist.com:80/countries/chile/pr ofile.cfm?folder=History%2Bin%2Bbrief>.

This article provided a brief but comprehensive history of Chile from roughly 1810 up to late 2006, shortly before this article was written. Particularly of use were its sections on Chilean socialism and the military junta.

Debt Crisis and Recovery, 1982-89. PDF. Santiago, Chile: CIEPLAN, 2018.

This document provided useful charts and data on Chile's economic crisis and recovery, particularly the figures on page 135.

Edwards, Sebastian, and Daniel Lederman. *The Political Economy of Unilateral Trade Liberalization: The Case of Chile*. PDF. Cambridge, MA: National Bureau of Economic Research, April 1998.

This paper provided an excellent source of information and analysis on Chile's "five stages" of economic reform. Of particular use in this paper was analysis on Chile's departure from neoliberalism.

Fleet, Michael H. "Chile's Democratic Road to Socialism." *The Western Political Quarterly* 26, no. 4 (December 1973): 782-84. Accessed January 6, 2018. doi:10.2307/447149.

This journal article, written just three months after the coup, thoroughly explores the political climate during Allende's presidency. It was greatly helpful in explaining the primary causes of the coup, and it makes plain that the catalyst was almost completely homegrown rather than injected by the United States.

Fleming, John. "The Nationalization of Chile's Large Copper Companies in Contemporary Interstate Relations." *Villanova Law Review* 18, no. 4: 593-600. Accessed January 3, 2018. <https://digitalcommons.law.villanova.edu/vlr/vol18/iss4/2>.

Written in March 1973, six months before the coup, the article describes the nationalization process Chile employed against American copper mining companies. It puts into perspective the ludicrousness of many of the deductions made against the companies in attempt to circumvent international expropriation compensation norms, describing how many companies' assets even ended up being assessed at negative values after deductions were made. The article indicates that it was written with the assistance of officials at the Chilean Embassy in Washington.

Franklin, Jonathan. "Pinochet directly ordered killing on US soil of Chilean diplomat, papers reveal." *The Guardian*. October 08, 2015. Accessed January 28, 2018. <https://www.theguardian.com/world/2015/oct/08/pinochet-directly-ordered-washington-killing-diplomat-documents-orlando-letelier-declassified>.

This source provided an example of one of the killings carried out by Pinochet's secret police. Exiled Ambassador to the United States under Allende, Orlando Letelier, was assassinated by a car bomb in Washington, D.C. in 1976, in one of the most egregious examples of Pinochet's cruelty toward anyone even remotely sympathetic to or involved with the previous government.

Hruzik, Joshua. "Causes of the Chilean Financial Crisis in the 1980's." *The Bonn Journal of Economics* IV, no. 2 (December 2015): 33-47. January 17, 2016. Accessed January 31, 2018. <https://www.bje.uni-bonn.de/download-the-latest-issue-1/volume-iv-2-december-2015/causes-of-the-chilean-financial-crisis-in-the-19802019s/view>.

This article provided an excellent and concise overview of the causes of the Chilean financial crisis in 1982, presenting a perhaps novel explanation using the Austrian Business Cycle Theory. Although the crisis coincided with a worldwide recession which affected almost every nation, Chile was among the hardest hit of all.

"Le Reforma Agraria (1962-1973)." Memoria Chilena, 2018. Accessed January 1, 2018.
<http://www.memoriachilena.cl/602/w3-article-3536.html>.

Memoria Chilena, run by the Chilean Ministry of Education and the National Library of Chile, here provides an excellent overview of the radical agrarian reform that took place in Chile from 1962 to 1973, even listing specific pieces of legislation. It revealed that the legal framework and precedent for Allende's disastrous land reform initiative was actually set up by the previous two governments, both of which were, oddly, vehemently backed by the United States.

Muir, Richard, and Alan Angell. "Commentary: Salvador Allende: his role in Chilean politics." *International Journal of Epidemiology* 34, no. 1 (August 1, 2005): 737-39. Accessed January 1, 2018. <https://academic.oup.com/ije/article/34/4/737/692837>.

Although at face value it may seem odd to use an article out of an epidemiology journal to discuss politics, the reason Allende earned a place in the journal was because he started his career as a physician. The journal provided useful insights on why it was difficult for Popular Unity to accomplish much of its agenda without ambitiously pushing the boundaries of constitutionality. Note that Alan Angell also wrote for the *Bulletin of Latin American Research*; see above, Angell and Pollack, doi:10.2307/3338214.

"Museum for dictator Pinochet draws fire." *NBCNews.com*. December 12, 2008. Accessed January 20, 2018.
http://www.nbcnews.com/id/28198378/ns/travel-destination_travel/t/museum-dictator-pinochet-draws-fire/#.WmOI5KhKuUk.

This article helped highlight the polarization that still exists within Chilean society over the perceived costs and benefits of Pinochet's dictatorship. It also conveniently provided figures for how many citizens were killed or tortured by the regime.

Nag, Oishimaya Sen. "The Richest Countries In South America." *WorldAtlas*. September 28, 2017. Accessed February 04, 2018.
<https://www.worldatlas.com/articles/the-richest-countries-in-south-america.html>.

This article provided useful data and analysis on the relative wealth of South American countries. Chile takes the top spot with a GDP per capita of nearly \$24,000, which, although it only ranks 55th in the world, is nothing to sneeze at considering its relatively recent development.

Opazo, Tania. "The Boys Who Got to Remake an Economy." *Slate Magazine*. January 12, 2016. Accessed January 21, 2018.
http://www.slate.com/articles/business/moneybox/2016/01/in_chicago_boys_the_story_of_chilean_economists_who_studied_in_america_and.html.

This article provided an overview of how the Miracle of Chile was made possible: twenty-five young Chilean economics students were brought to Chicago for an economics education which was heavily slanted in favor of free markets, the “Chicago Boys” returned to Chile armed with Friedman’s monetarist theory, and later helped Pinochet curb the rampant inflation and revitalize the binned economy he inherited at the start of his rule.

Rothbard, Murray N. *Economic Depressions: Their Cause and Cure*. Lansing, MI: Constitutional Alliance, 1969. June 25, 2012. Accessed January 31, 2018. <https://mises.org/library/economic-depressions-their-cause-and-cure>.

This article, originally published as a mini-book and widely circulated in that form, gives a concise explanation of the Austrian Business Cycle Theory, and it clearly breaks down why Rothbard believes other, competing theories to be fallacious or inconsistent.

"The end of Allende." *The Economist*. July 03, 2008. Accessed December 28, 2017. <http://www.economist.com/node/11674052>.

This article provided a general overview, albeit from a clearly capitalist perspective, of the economic and political conditions leading up to the Chilean coup of 1973. It was originally written on September 15, 1973, just four days after the coup occurred.

Packenham, Robert A., and William Ratliff. "What Pinochet Did for Chile." *Hoover Digest* 2007, no. 1 (January 1, 2007). January 30, 2007. Accessed January 21, 2018. <https://www.hoover.org/research/what-pinochet-did-chile>.

This article provided insights on why Chile’s early turn towards markets was impactful. Without Pinochet, Chile’s economy would have been utterly trashed, and there would have been no precedent for Xiaoping’s China, Thatcher’s Britain, and Reagan’s America.

"Pinochet's Chile." *The Washington Post*. 2000. Accessed January 20, 2018. <https://www.washingtonpost.com/wp-srv/inatl/longterm/pinochet/overview.htm>.

This article included information about the number of political detainees under Pinochet, as well as more information on the secret police assassination of Orlando Letelier.

"Pinochet's rule: Repression and economic success." *BBC News*. January 07, 2001. Accessed January 28, 2018. <http://news.bbc.co.uk/2/hi/americas/63821.stm>.

This article gave another concise overview of Pinochet’s rule. Of particular use was its information on the re-privatization of expropriated property. It also reveals another part of Pinochet’s “light side”, as the article included a quote from the dictator alleging that he aimed to “to make Chile not a nation of proletarians, but a nation of entrepreneurs.”

Pseudoerasmus. "Did the "Invisible Blockade" against Allende's Chile work?" Pseudoerasmus (web log), May 21, 2015. Accessed January 4, 2018.
<https://pseudoerasmus.com/2015/05/21/the-invisible-blockade-against-allendes-chile/>.

Pseudoerasmus, an economic history blogger from the Sakha Republic, Russia, published this thorough overview of the economic conditions in Chile under Allende. The article dispels common myths that the United States' intervention in Chile was somehow chiefly responsible for its economic woes, establishing that the blame falls squarely on Popular Unity's homespun macroeconomic mismanagement.

Wenzel, Robert. "The Hyperinflation of Chile: Lessons for Us All." Economic Policy Journal (web log), August 29, 2010. Accessed January 9, 2018.
<http://www.economicpolicyjournal.com/2010/08/hyperinflation-of-chile-lessons-for-us.html>.

This blog article helped provide insight to why it seemed that the economy temporarily boomed in 1971 but then suddenly crashed from 1972-1973. Essentially, it comes down to this: workers' decree-augmented wages initially significantly increased aggregate demand, creating an inflationary gap, but soon after, aggregate supply precipitously fell, reversing into a recessionary gap, triggering massive inflation, and binning the economy.