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**How Ideas Affect Economic Policy in Developing Countries:
Two Case Studies from Latin America**

BY

Anil Hira

A Dissertation submitted to the Faculty of The Claremont Graduate School in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Graduate Faculty of Political Science

Claremont, California
1997

Approved by:


Dr. Thomas Rochon, Chair

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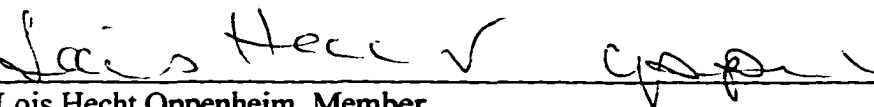
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Abstract of the Dissertation

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Anil Hira

The Claremont Graduate School: 1997

A new literature of political economy examines the importance of ideas. This literature attempts to demonstrate that the predominant interest-based theories of political economy are insufficient explanations.

This dissertation follows these leads in a more comprehensive fashion. The dissertation examines Latin American history for the role of ideas in economic policy decisions. Two models of how ideas affect economic policy decisions are offered. The first model examines development as a discourse with changing configurations of ideologies and interest groups. The second model posits the role of policy experts as ideological operators, and suggests their political relationships with other entities, such as politicians and interest groups. This model explains how ideas operate as a political variable through policy experts, and examines their interesting characteristics.

The two models are applied to several case studies. The case studies involve scrutiny of epistemic policy communities who have had a strong influence on economic policies in Latin American history. The subject of the first main case study, the Economic Commission on Latin America, was instrumental in promoting

the structuralist economic policies followed by the region from the end of World War II until the end of the 1970s. The second main case study focuses on “the Chicago Boys,” a group of highly influential economists who guided Chilean economic policies from 1973 until 1989, and whose economic model has since been copied throughout Latin America. This dissertation answers questions about how these communities were formed; the nature of their ideology; how their organization and personnel became so effective in influencing policies; and the nature of their relationships with other political actors. It also compares and contrasts groups who successfully influence economic policy with groups who are unsuccessful. An appendix to the study applies the first model to Latin American history.

The dissertation concludes by comparing this new idea-based theory of economic policy with more traditional political economy theories. It demonstrates the importance of ideas and provides a political profile of one of the most important sources and disseminators of economic ideas, economists who form tight ideologically-based communities.

I would like to dedicate this dissertation to the memory of my Father.

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Chapter 1: Ideas And Political Economy

I. Introduction

A. Objective

The objective of this study is to understand how ideas affect political economy decisions in the developing world. The objective is reached in three steps. First, we investigate whether there is a congruence between ideological changes in the discourse of development and changes in policy. Second, we examine the political relationships of the creators, promoters, and disseminators of economic policy ideas, and the role that they play in policy formation.¹ Third, we compare different expert groups, in order to delineate which characteristics separate highly influential from marginal groups. We also work on three levels: the regional (Latin America); the national (Chile); and the organizational (ECLA and the Chicago Boys). By examining expert groups on all three levels throughout history, we can arrive at a clear and consistent picture of their political importance, and, through them, the influence of ideas on economic policy.

We must begin, however, with a review of accepted political economy perspectives on economic policy before introducing an ideas-based explanation of economic policy which is clearly superior.

¹ For the definition of development which is used here, see Appendix B: Definition of Terms. An index of organizational acronyms is found in the Appendix to Chapter 5.

II. Political Economy Theories of Economic Policy Change

A. Shortcomings of Current Political Economy Approaches²

Traditional political economy approaches to explaining economic policy are important and useful, but have significant flaws in their explanations. We look in this section at the four major approaches: international-level; domestic coalitions; statist. and Marxist explanations.

The first approach focuses on international sources of change of economic policies. Marxist and dependency versions of change see the international system as an historical stage of capitalism whose relations of production and exchange dominate peripheral countries. Other political economists have focused on external causes of change as well. Some look at the distribution of power on the systemic level, such as theories of hegemonic stability, as largely determining the nature of global relations. A third group of system-level explanations emphasizes the importance of globalization and interdependence among economies of the world. A fourth approach in international relations, which has not been widely applied to economic policy change analysis, but should be mentioned, is the evolutionary approach. While evolutionary perspectives, such as modernization and world systems theories, explicitly adopt models of change, they tend to view change in either historicist or genetic terms- self-caused changes along

² This categorization scheme is partly borrowed from Eduardo Silva's dissertation, Chapter 1, "Capitalist Coalitions, Economic Policy and Regime Transitions in Latin America," in Capitalist Coalitions and Economic Policymaking in Authoritarian Chile, PhD. Dissertation: Political Science (San Diego: University of California San Diego, 1991), pp. 1-63. Silva attempts to use a combination of elements of the first three categories, with his main explanations centering around the domestic coalitions approach.

a definable trajectory or improving adaptations to a changing environment.³ In sum, one basic category of explanation sees factors external to a country as dominant in political economy decisions.

A basic problem with international level theories of economic policy formation centers around what Alexander Wendt called “the agent-structure problem”.⁴ Wendt, in the context of international relations theories, referred to two approaches which also predominate in international political economy. The first is a focus on domestic interest group rivalry as a source of economic policy change.⁵ The second is a look at conditions on the international level as the source of domestic economic policies, as in *dependencia* and world systems approaches.⁶ One obvious problem with this dichotomy is that both levels of analysis should be considered. Another harkens back to Wendt’s point. Agents on both the domestic and international level can change the structure of international relations which constrains actions. For example, the reform movement in the former Soviet Union has changed the power distribution of international relations and the potential for international military conflict. As a result, economic issues have become much more important.

³ For an overview of the evolutionary perspective, see International Studies Quarterly, vol. 40, no. 3 (September 1996). For an overview of modernization and world systems theories, see Alvin Y. So, Social Change and Development: Modernization, Dependency, and World-System Theories, Sage Library of Social Research 178, (London: Sage Publications, 1990).

⁴ Alexander Wendt, “The Agent-Structure Problem in International Relations,” International Organization, 41 (1987):335-70.

⁵ See Ronald Rogowski, Commerce and Coalitions: How Trade Affects Domestic Political Alignments (Princeton, NJ: Princeton University Press, 1989).

⁶ See Fernando Henrique Cardoso and Ernesto Faletto, Dependency and Development in Latin America, (Berkeley, CA: University of California, 1979), and Immanuel Wallerstein, Geopolitics and Geoculture: essays on the Changing World-System (New York: Cambridge University, 1991).

The more obvious shortfall with political economy models comes in two parts: the first is similar responses by countries exposed to different international constraints and the second is variations in responses by countries which are exposed to the same international factors. In the case of Third World economic liberalization, international constraints on Latin America, Africa, and Asia were different in the 1980s and 1990s, when both areas embarked upon similar adjustment programs. Even within regions, the variations among countries undertaking economic reform programs is remarkable. Let us consider that a group of countries as varied as India, Ghana, Jamaica, and Mexico, all underwent similar programs of adjustment. The size of some countries, such as India and Mexico, may have given them more power to negotiate the terms of foreign capital during the adjustment process, but the essential program of trade and exchange liberalization and fiscal tightening were similar.

One could argue that each of these adjustment processes began with the same international constraint- an international shock, such as the U.S.-led monetary tightening of 1982. Logically, therefore, any foreign exchange crisis or change of government should lead to a move towards liberalization. However, upon closer examination, we find important exceptions and variations in the general regional reaction to the same international conditions. For example, President Alan Garcia of Peru's response in 1985 to the debt crisis was to impose greater control, not greater liberalization. More significantly, when we examine the same conditions in different historical periods, we find that similar crises have led to different responses in the past. In most cases in Third World economic history, liberalization in response to crises has been partial, such as the policy moves in Chile in the 1950s to liberalize the exchange rate, but to maintain

restrictions on the trade regime. Finally, in some cases liberalization has taken place without an international (or apparent domestic) shock, such as Colombia's program which began in 1989. This patterning underlies a historically-bound nature to economic policy. That is, responses to economic crises follow historical patterns.

The second type of approach to economic policy change looks to domestic coalitions as the most important factor.⁷ This type of explanation looks at coalitions of domestic economic groups, such as "industrialists," as the source of political economic policies. They sometimes include foreign actors as allies of domestic groups. Obviously, they focus not only on the cohesiveness of domestic political economic alliances, but also on the relative strength and access to state power of each actor. The clear problem with these types of approaches lies in their inability to explain why dominant coalitions sometimes lose battles over economic policy, such as recent economic ideational throughout the Third World, which opened up previously protected and politically-entrenched domestic producers to international competition.

The third basic approach to explaining economic policy change is the state-centered approaches. This literature looks at the autonomy of the state from domestic interest groups and its ability to formulate and implement complex policy decisions. The sense of this literature is that more autonomous states will be able to impose economic costs necessary to economic adjustment and long-term growth. This approach fails to

⁷ The types of coalitions fall into two basic categories. The first is one of domestic economic groups, such as "large landowners," or "export-oriented industrialists." The second type is a domestic Marxist one- societies are divided into economic classes which fight each other over scarce resources. The latter is predominant in Latin American political economy analysis. For example, see Barbara Stallings, Class Conflict and Economic Development in Chile, 1958-78 (Stanford: Stanford University Press, 1978).

clearly explain what is the source of state capacity and autonomy from society.

Moreover, it fails to explain why states with differing institutional arrangements and insulation initiate similar policy programs, as happened when a military dictatorship in Chile, one party states in India and Mexico, and a democracy in Costa Rica all undertook the same basic program of liberalization.

The flaws of each approach are brought out by each other- each adds a necessary factor that one misses. This leads to a logical conclusion- use a combination of these factors to explain causality in economic policy. Much of the policy-oriented literature on economic adjustment,⁸ generally utilizes just such a cocktail of causality. However, the conclusions of these studies are rather unsatisfactory- they cite a variety of factors, whether international, domestic coalitional, or statist in origin, which hold in some cases but not others.

A fourth perspective, Marxist approaches, does in fact combine elements of the international structure, domestic coalitions, and the state, while resting upon the key variable of class. Marxist analyses of class, which have predominated much of the Latin American-and African-based political economy literature, far oversimplify events and causes.⁹ There are many important problems with class-dominated approaches. One is

⁸ For example, see Stephen Haggard and Robert R. Kaufman, eds. The Politics of Economic Adjustment (Princeton: Princeton University Press, 1992); Michael Michaely, Demetrius Papageorgiou, and Armeane M. Choksi, eds. Liberalizing Foreign Trade: Lessons of Experience in the Developing World (Washington, D.C.: The International Bank for Reconstruction and Development, 1991); Joan M. Nelson, ed., Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World (Princeton, N.J.: Princeton University Press, 1990); Gerald M. Meier, ed. Politics and Policy Making in Developing Countries: Perspectives on the New Political Economy (San Francisco: International Center for Economic Growth, 1991), and John Williamson, ed., The Political Economy of Policy Reform (Washington, D.C.: Institute for International Economics, 1994).

⁹ For example, see Barbara Stallings, and Maurice Zeitlin and Richard Earl Ratcliff, Landlords and Capitalists: The Dominant Class of Chile (Princeton: Princeton University Press, 1988), for example. There are scores of others which are more obtuse in claiming class warfare.

the fundamental question of how to identify classes and how they operate in conjunction with other identifying factors. Even in a relatively small country like Chile, exactly who constitutes the “upper bourgeoisie” or the “petty bourgeoisie,” or, for that matter, which are the correct classifications for the class structure is a highly ambiguous matter. That ambiguity extends to economic groups approaches- for example “export-oriented industrialists” or “efficient” or “absentee” landlords. Part of the problem is addressed by Marxist analysts, who recognize that there are links among different economic groups, for example, large agriculturalists in Latin America are also the major investors in industrialization.¹⁰ Secondly, once those classes are defined in rough form, it is exceedingly difficult to say exactly where their interests lie except in a general defense or opposition to the state. For example, which policies does an export-oriented agricultural owner who also invests in protected industry favor? The existence of such entities shows, instead, that the state has some autonomy in making decisions. Therefore, portions of the upper class hedge their bets by diversifying their holdings, even maintaining some abroad in case of domestic crisis. Clearly, these rich owners of capital do not control the state enough to ensure stable returns on their investment or to prevent a lower-class oriented president such as Allende from coming to power (in Chile in 1970). General Pinochet similarly had the leeway to take over large sectors of the banking sector in the 1982 crisis in Chile from some of his core supporters. Regardless of whether autonomy of the state comes solely from internal class and economic group divisions, or also from continually changing economic circumstances and ideas about the state, it (state autonomy) clearly is

¹⁰ *Ibid.*, esp. pp.180-5.

a factor in allowing for technocratic influence on economic policy decisions. Thirdly, the foregoing does not dismiss the importance of owners of capital or certain economic segments, but only underscores the lack of clear manifestations of the power which Marxist analysis attributes to them. This is particularly the case with centrist or hegemonic political parties. The Congress Party of India and the PRI (*Partido Revolucionario Institucional*) of Mexico, for example, have a staggering breadth of class constituencies.

Ideas can help to explain variations in reactions to international shocks; the change of domestic coalitions and the formation of unexpected new coalitions around a policy theme; how a state legitimizes economic policy packages through demonstrating capacity or expertise, thus gaining the autonomy to make difficult economic decisions; and the flexibility and adaptability of elite identities and actions in regard to economic policy. In effect, ideas work in conjunction with shocks, economic interest groups, state autonomy and capacity, and dominant elites to create and change economic policy.

As the following chapters demonstrate, economic policy changes occur within an "ideational" framework- in this case a view of how development can occur and should proceed. Ideas can help to explain variations in reactions to international shocks; the change of domestic coalitions and the formation of unexpected new coalitions around a policy theme; and how a state legitimizes economic policy packages through demonstrating capacity or expertise, thus gaining the autonomy to make difficult economic decisions. The models we present show just how ideas work in conjunction with shocks, economic interest groups, and state autonomy and capacity.

An ideas-based approach presents a truly distinctive picture of causal sources of economic policy changes. While it may acknowledge and appreciate the importance of structural, interest-group, state-centered, and evolutionary factors, it looks primarily at cognitive activity. Cognitive studies see humans, albeit constrained, as the creative and dynamic movers of policy decisions.

B. Why study development?

Within the scope of international relations, a vast number of topics could be used to test out ideas-based theories. This study looks at economic policy decisions which affect economic development, because of the importance and strong confusion regarding this topic.

The gap between economically rich and poor nations is not only ubiquitous in terms of the huge differences in standards of living between the two sets of nations, but also in terms of the organization of the international system. For the most part, decisions in the international system are dominated by rich nations, such as decisions made by the United Nations Security Council. Both the nature and the origins of this gap in power and living standards are a central axis of debate within the social sciences. There is simply no consensus on why some nations have developed to much higher economic levels than have others.¹¹

¹¹ Even among mainstream economists, for example, there are those within the neo-classical camp, who cannot explain the gap at all; and those within the "endogenous growth" camp, who look for domestic sources, such as technology and human capital.

Although the debate over development is explored in more detail later, it is, nevertheless, important at this point to note the latest development in the controversy over the economic gap between nations. While the debate was polarized in much of the 1960s and 1970s over whether the gap could shrink at all, the recent economic rise of several East Asian states has raised new questions, and modified old perspectives. The “East Asian miracle,” as it has been called, has, among other things, challenged the traditional *dependista* framework, which posited the near impossibility of full development,¹² as well as the neo-liberal paradigm’s skepticism on the role of the state.¹³ The current debate, in short, recognizes elements of cognitive difference in different regions, but does not adequately explain their role as cause, symptom, or relationship with other factors.

C. The inadequacy of traditional political economy approaches in regard to explaining Latin American economic history

International structural approaches, such as world systems or dependency, have many subtleties and a wide variety of interpretative applications. Nonetheless, they emphasize international structural conditions as being of prime importance in understanding political economy. In Latin American history, especially, external forces have been a major factor/constraint in the design of policies. However, international

¹² For an example of the dependista framework, see Celso Furtado, Accumulation and Development: The Logic of Industrial Civilization (New York: St. Martin’s Press, 1983), p.7.

¹³ Neo-liberalism is a rival paradigm based upon neo-classical economic theory and has taken hold in much of Latin America. It will be explained in depth in Chapter 4.

conditions cannot be determining if the same conditions evoke different responses or different international conditions evoke the same response.

We shall see that there are similarities in Latin American responses over certain historical periods, which lends support to at least a regional, if not an international level of analysis. However, a closer examination reveals that the nature of the response to international conditions has been, for most of the time, contentious and changing. Throughout Latin American history, for example, both inflation and exchange rate fluctuations have been a constant worry for Latin American governments. However, the "solutions" proposed to these problems have changed over time. In the early twentieth century, national governments followed a *laissez-faire* attitude towards trade, resulting in the familiar pattern of booms and busts along with commodity price movements. Over time, important domestic changes and *changes in ideas* affected Latin Americans' response to inflationary problems. One such change was the steady increase in the size and responsibility of the state. Governments attempted, during the national-populist periods of the mid-century, to initiate industrialization as a solution to dependence on agriculture. Structuralism promoted this solution to sources of inflation which were thought to be caused by inherent characteristics of the economy. By the 1980s, with the debt crisis, government itself was seen as a prime cause of inflation. The neo-liberal solution proposes a rollback of the government, but is different from the earlier *laissez-faire* type policies. For example, development of national capital markets through the creation of stock exchanges and the promotion of non-traditional exports have become important objectives of the new responses. More impressively, even the virulent critics of neo-liberals during the 1970s have adopted monetary policy as the most important tool

with which to fight inflation. Perhaps most interestingly, the level of sophistication in responses to similar economic problems has increased as national intellectual bases have developed over the past fifty years. In sum, for better or worse, ideas about development have become more technocratic and expert-oriented over time.

Policy sophistication has increased along with an ironic combination of greater opportunities (e.g. new sources of capital, such as Japan), and greater dependence on an increasingly interrelated global economy. Furthermore, responses have important national variations- there is no way to understand Mexican political economy without taking into account the changes in ideas about property rights after the Mexican Revolution, or the more socially responsible policies of Uruguay for much of the century because of Batlle, who was president in the 1920s and 1930s. In sum, international conditions, while important, fail to capture the richness of changes on the domestic level within Latin America as well as important variations in domestic responses to similar international conditions. From this brief sketch, moreover, we can see that changes in ideas have the same patterns as changes in economic policies.

The other major approaches, domestic coalitions and statist, can be challenged if similar responses occur across nations which have different domestic coalitions, state institutions, and/or levels of state autonomy. In fact, though there are significant variations in response over time, Latin America also demonstrates a regional pattern of attitudes and actions towards development. To state it more clearly, we shall see that Latin American economic policy has responded differently to the same international conditions at different historical junctures, contradicting international structural explanations. Latin American countries' economic policies have responded similarly.

however, during the same time period to different domestic interest groups, contradicting domestic coalitions and statist approaches.¹⁴ Ideas are the factor which explain this pattern.

Most, if not all, ideas in Latin America have been imported. From the beginning, with constitutionalism imitating the U.S. documents, through the periods of semi-fascistic national populism, and including the present period of the application of primarily U.S.-originated economic theories, Latin American economic policies have clearly been affected by foreign ideas and ideological fashions. Ideas are the *sine qua non* of development- which consists of a discourse about how to create a modern political

¹⁴ We demonstrate that while the current political economy theories may be adequate in understanding isolated historical events, eg. international conditions largely causing changes in political economies during the Great Depression, when viewed from a larger historical prism, they fail to consistently explain changes in economic policy paradigms. More importantly, they fail to identify *which* change is made. The same holds true for the more novel approaches which I have seen. See, for example, Kurt Weyland, "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly*, v.40, no.2, (1993):185-207. This is equally true for recent treatments of neoliberalism which acknowledge a role for ideas which is subservient to economic interest groups. In this case, by looking at isolated *countries*, these explanations are able to discount the power of ideas in a variety of international circumstances and within a variety of domestic supporting and opposing coalitional formations. For instance, Eduardo Silva, both in his dissertation and in his parallel article, "Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-88," *World Politics* 45:1(1993)526-559 argues that changes in international circumstances contribute to changes in domestic coalitions, and that ideas are utilized by dominant coalitions to support their interests. While his analysis of parallels in changes in coalitions and ideas seems on target, his causality tends to emphasize the former at the expense of the latter. I argue instead that there is a dynamic between ideas and social coalitions in which ideas can equally condition the formation and power of coalitions. Hence, Pinochet was able to move against the dominant coalitions in the 1982 crisis in favor of a more diffuse and different coalition of businessmen and middle class consumers. An article by Catherine M. Conaghan, James M. Malloy, and Luis A. Abugattas, underscores this point. In their article, "Business and the 'Boys': The Politics of Neoliberalism in the Central Andes," *Latin American Research Review*, XXV:2 (1990):3-30, they look at how the differences in the nature of the crises, state structures, and the nature of the opposition coalitions contributed to differences in policy implementations of the neoliberal program among Peru, Bolivia, and Ecuador. More importantly, they point to the differences in the ideas of the economic advisory teams and of the political leaders as important factors. In contrast with many accounts of neoliberalism in Chile, which stress the exclusionary aspects of the Pinochet regime as vital to its economic policies, Conaghan et al state categorically that it was actually the business opposition to the military regime which pushed for neoliberalism in the Central Andes states. If we simply bring both articles together, we can conclude that neoliberalism can occur in a variety of regimes- whether of a dominant authoritarian-capitalist coalition or of a capitalist coalition which opposes an authoritarian regime under a variety of international conditions. Therefore, both international coalitions and domestic coalitions can contribute to our understanding of the timing of policy change and the particularities of its implementation, but do not explain the policy program itself. The basic fact of the matter is that neoliberal ideas have spread far and wide, even beyond Latin America so that the independent importance of ideas to policies is clear.

economy. By delimiting the environmental conditions: identifying the participants and their relative weight; and understanding the content, contentions, and development of their ideological frameworks, we can understand why economic policy decisions were made.

We turn now to an overview of existing ideas-based approaches in political science, highlighting their shortcomings, with an emphasis on economic policy explanations.

III. *An Emerging literature on ideas and politics*¹⁵

A. Introduction- logical parameters

A new literature surrounding ideas and politics is emerging, which suggests that ideas may affect political decisions either independently, or in tandem with other factors, such as interests. While the precise nature and effects of abstract phenomena such as ideas may never be known, the debate over ideas and politics nevertheless has several merits.

First, the debate over the role of ideas and politics demonstrates an important division within political science, namely whether material interests predominate politics to such an extent that all other factors are negligible.¹⁶ Interestingly enough, some

¹⁵ I treat ideas in a more utilitarian sense than that used in traditional approaches to "ideology." Ideology itself is a disputed term, with definitions ranging from Marxist notions of false consciousness to postmodernist nodes of fragmentary identities, space, and cultural constructs. See Terry Eagleton, ed., *Ideology* (London: Longman Group, 1994) for an overview of more traditional approaches. In this work, I largely ignore the debate over the ultimate sources of ideas in order to concentrate on their dynamic relationships with other political variables.

¹⁶ It is also a subset of a deeper philosophical question- namely the existence of a subjective or objective reality. This paper follows the path set by George Lakoff and Mark Johnson in *Metaphors We Live By* (Chicago:

branches of classical Marxism as well as public choice and interest group theory, which disagree on other aspects of politics, seem to accept the materialist position in practice.¹⁷

A new literature, which includes the “reflectivist school” in international relations, thinks that ideas, or subjective understandings, are also important.¹⁸

Secondly, the debate has important methodological implications. Much of the current fashion of applying economic and voting theory models to political behavior enables a formalistic and mathematical approach.¹⁹ These models suppose that material

The University of Chicago Press, 1980), who state “What objectivism misses is the fact that understanding, and therefore truth, is necessarily relative to our cultural conceptual systems and that it cannot be framed in any absolute or neutral conceptual system. Objectivism also misses the fact that human conceptual systems are metaphorical in nature and involve an imaginative understanding of one kind of thing in terms of another. What subjectivism specifically misses is that our understanding, even our most imaginative understanding, is given in terms of a conceptual system that is grounded in our successful functioning in our physical and cultural environments. It also misses that fact that metaphorical understanding involves metaphorical entailment, which is an imaginative form of rationality.” See especially *ibid.*, pp.193-4.

¹⁷ The dominant approaches to political economy, according to most current textbooks, include Realism, Marxism, and Liberalism. See Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987). Realism looks at the pursuit of “power,” and the ability to achieve such power. Power is generally measured in material terms, such as the amount of resources, number of weapons, etc. Marxism sees the world as divided into economic classes, hierarchically-arranged according to material wealth and income. Liberals focus on the ability to achieve a harmony of interests in light of the economic (material) gains from cooperation. See also Jeffrey A. Frieden and David A. Lake, “Introduction,” in International Political Economy: Perspectives on Global Power and Wealth, 2nd ed., (New York: St. Martin’s Press, 1991), pp.1-16. Interest group theory is analogous to realism, with groups (not just nations) competing for resources, and forming alliances in order to gain them over other groups. A good example of this important work is Peter Gourevitch’s Politics in Hard Times: Comparative Responses to International Economic Crises (Ithaca: Cornell University Press, 1986).

¹⁸ For reviews of this literature, see John Kurt Jacobsen, “Much Ado About Ideas: The Cognitive Factor in Economic Policy,” World Politics 47 (1995):283-310, and Judith Goldstein and Robert Keohane, eds., Ideas and Foreign Policy (Ithaca: Cornell University Press, 1993).

¹⁹ For an example of using the economic idea of cost-benefit analysis in making political decisions, see Carol Wise and Manuel Pastor, “The Political Economy of Free Trade in Mexico,” International Organization, v. 48, no.3 (1994):459-480. By specifying a rational framework, and calculable and known costs and benefits, rational choice theory seeks to explain different individuals’ and groups’ behavior. While the goals could certainly include intangibles, such as nationalism, for such factors, costs and benefits are extremely difficult to calculate. One example might be Saddam Hussein’s invasion of Kuwait, which almost undoubtedly was doomed to long-term failure. Rational choice apologists might explain such actions as the result of “extremely high risk propensity” or “miscalculation of costs.” Such explanations stretch credulity. There is a vast literature which debates rational choice. See, for example, Jane J. Mansbridge, ed., Beyond Self-Interest (Chicago: University of Chicago, 1990). An interesting discussion of the limitations of rational choice is also found in David Knoke, Political Networks: The Structural Perspective (New York: Cambridge University Press, 1990). Obviously, a key attraction of the rational choice approach is its methodological soundness. An enquiry into ideas, while not as clear-cut in terms of methodology or material referents, should not be ignored on that basis alone.

interests and power can be quantified, distinct groups which possess them can be clearly identified, leading to a clear analysis of the number of possible coalitions which can politically dominate. On the other hand, this approach to politics is bound to be limited if other conditions hold, including, for example:

- the identity of group(s) changes over time, or, more simply, new groups with resources arise and previously dominant ones decline;²⁰
- political coalitions themselves change rapidly, resulting in new or dynamic configurations of power, which are unstable or change too frequently to allow for standard interest-group analysis;
- individuals, through leadership skills, and/or the effectiveness of the group's organization, can alter the balance of power of a dominant coalition, so that an organization with less material resources or membership might exert more power than another with poor leadership or organization;²¹
- both groups and individuals have multiple and shifting identities and loyalties, resulting in a web of cooperating and conflicting interests and groups;²²
- non-material interests, and more importantly, intangible interests or goals, affect political behavior in a way that makes cost-benefit analyses difficult or unstable.²³

²⁰ Alexander Wendt goes so far as to say that "identities are the basis of interests...actors...define their interests in the process of defining situations...by analogy or *de novo*. More often they have routine qualities in which they assign meanings on the basis of institutionally defined roles." I utilize this formulation to some extent in the section on how ideological frameworks change, found in Chapter 2. Alexander Wendt, "Anarchy is what states make of it: The social construction of power politics," International Organization, v.46, no.2 (Spring 1992):391-425.

²¹ Some constituencies, by nature, might also be more difficult to organize. For example, skilled labor was slow to organize and depended a great deal on charismatic leadership in the beginning of the twentieth century. The organization of unions also required changes in legislation.

²² Harrison White, in his book, Identity and Control, says that there are four important levels of identity: that of the primordial desire for security; that of an individual's face which he presents to a group; that of the mix of contradictory faces which the individual has in different groups and settings; and the attempt to weave together these contradictions in a coherent narrative. See Identity and Control: A Structural Theory of Social Action (Princeton: Princeton University Press, 1992), pp.312-4. Lawrence Grossberg, typical of modern cultural theorists, believes that individuals have multiple identities, depending on the situation in which one finds himself. Grossberg feels, nevertheless, that these identities must have a certain "coherence." See Lawrence Grossberg, We Gotta Get Out of This Place: Popular Conservatism and Postmodern Culture. (New York: Routledge, 1992), especially pp.126-7.

²³ One would expect the difficulty in calculating clear costs and benefits to arise in several situations, including those in which one has to decide between equivalent costs and/or benefits: a new enterprise is to be undertaken; a crisis in which previous actions have proved ineffective; new knowledge is presented; and intangible beliefs, such as "zealotry," are involved. One could explain martyrs, an extreme example, as accruing "benefits," through suicidal acts. While this may be true, it focuses on a cost-benefit axis which misses the essential importance

From this short but indicative list, we can see that there are a number of ways to challenge the comprehensiveness of predominant models of political economy, which see politics in terms of distinct fixed groups and their conflict over resources, whether on an international or domestic level.

This study assumes that ideas and material interests are best conceived as two ontologically different phenomena, which often, but not always, overlap. There are three basic possibilities:

- 1- ideas may diverge from interests
- 2- ideas may be neutral to, or unimportant to, interests
- 3- ideas may overlap, or converge with, interests

In practice, it is extremely difficult to separate ideas from interests. It is, nonetheless, instructive, to point out illustrative situations which demonstrate their differences. Interests can be understood as concrete political or economic gains. For a politician, for example, political interests might include getting reelected, maintaining a stable ruling coalition, and becoming a key decision-maker. A politician's economic

and character of the act- beliefs which are more important to act upon than any possible costs. These are a few examples of how a rational decision-making procedure might be difficult to implement, even assuming that people always thought in this way. There are other aspects of beliefs, however, that cost-benefit analyses miss. I suggest that examining the nature of beliefs, how they are accrued, and why they are acted upon is another important area for investigation. This study attempts to explore the stories that economists tell. An analogy is cultural myths. As Marina Warner says, "...the fictions and narratives of a society contribute as fundamentally to its character as its laws and economy and political arrangements, (and) that the dimension of the 'imaginary' is too often overlooked in the struggles to define the nature of men, of women, of children, to express exclusion and belonging." See Marina Warner, Six Myths of Our Time: Little Angels, Beautiful Monsters, Beautiful Beasts and More (New York: Vintage Books, 1994), p.xvii.

interests would include maintaining a healthy salary, procuring economic assets and investments, and obtaining education and employment for his family and cronies. Ideas, by contrast, may concern tangible and/or intangible things. We suggest that ideas are manifested in beliefs, attitudes, values, and purposive actions. That is, ideas may include things which do not exist, such as a vision of a better society. In this study, we focus attention on the interplay of ideas and interests, and regard ideas as viewpoints about politics and economics, sometimes organized into an ideology. Without delving further into philosophical debate, the central point here is that ideas may prescribe actions or behavior which are contrary to interests.

Three brief examples will clarify the three cases of the possible relationships between ideas and interests noted above. The first possibility, that ideas may diverge from interests, is seen clearly in any human enterprise that seems "sacrificial."²⁴ The costly medieval crusades in the Middle East are one example of such behavior. While it may be argued that participants were acting in their "religious" interests, there is little doubt that the enterprises were not worthwhile materially. As losses mount over time, a rival conception that participants "perceive" possible gains becomes even more implausible, as in the case of the crusades. The existence of a religion is, for most of its worshippers, a largely non-material motivation. A more modern example can be

²⁴ One could also argue that one of the central focii of this study, namely the neo-liberal revolution of ideas, demonstrates a separation of ideas from interests. The recommendations of neo-liberalism, such as to liberalize trade, to substantially reduce the size and role of the state, and to open domestic business for foreign investors and competitors, were strongly supported by international and limited domestic interests. However, the recommendations were extremely harmful to the ruling economic coalition. Nonetheless, as will be detailed in later chapters for Latin America, the ideas of neo-liberalism were not only championed by a new dominant coalition which benefited from them, but acquiesced to by the defeated dominant coalition.

garnered from the situation in Chile in 1973. While a number of Christian Democratic economists were invited to join the Pinochet government, only a few acceded. Those who refused gave up clear material gains and a steady livelihood on principle, especially after it became evident that the military government would persist over a long period. One must consider that many of these same economists became part of the semi-legal opposition, attempting to make ends meet by obtaining foreign aid, rather than active members of a ruling government, an option superior in both steady income and professional prestige. Principles (or relatively fixed ethical ideas), which are contrary to clear material interests are perhaps uncommon in political economy, but nonetheless important as inspirations.

The second possibility, that ideas may be neutral to interests, also exists. Many bureaucratic politics models, such as Allison's "standard operating procedures," envision a decision-making body which is guided only by rationality and expertise.²⁵ While the neutrality of bureaucracies' desire to continue to exist and to expand can be questioned, in fact, in some cases, ideology is unimportant to a decision. Pursuant to a military coup on September 11, 1973, General Pinochet took over the government of Chile. Pinochet did not have any set economic ideology within the conservative camp. His constituency was largely divided between a nationalistic Falange right-wing and a less authoritarian group which favored neo-liberal economic policies. To Pinochet, the latter group was chosen to guide economic policy simply because it was a more convenient ideology in

²⁵ Graham Allison, "Conceptual Models and the Cuban Missile Crisis," American Political Science Review 63 (1969):689-718.

political terms. The fact that Pinochet kept the hard-liners around throughout his tenure shows that, at least for the early part of his term, Pinochet was not a strong believer in neo-liberal economics. He was neutral to the issue, and made his decisions on the basis of his political interests alone.

The third case occurs when ideas work in a clear dynamic process with interests. This is the most common case in politics. United States' foreign policy during the Cold War contained elements of both ideas and interests. Broadly speaking, the United States defined Third World governments as friendly or unfriendly based on whether they were considered Marxist. United States policymakers believed communism to be inherently evil and a threat to Western ways of life. At the same time, the distribution of international power into two large camps with differing ideologies also dictated interest-based antagonism. The situation therefore often led to "war by proxy" between the United States and the Soviet Union, and so to an enhanced importance for Third World "pawns" or "dominoes." The language of the Cold War illustrates the importance of ideology in the struggle.

B. Existing efforts to study the problem

The issue of the role of ideas in human behavior has ancient roots. The lack of a theoretical consensus on the role of ideas, however, and the current predominance of international structure and rational interest group or individual behavior models in the social sciences has meant a contemporary lack of interest in this issue until very recently. Unlike previous psychological or cognitive studies of politics, which focused on the

individual decision-maker²⁶, the new interest in ideas seems inspired, in good part, by Thomas Kuhn's writing about paradigms in science and generally inspired by developments in critical and cultural theory.²⁷ The notions of "identity," "discourse," "reader/participant," and "subject/text" in the latter seem particularly attuned to the agent-structure problem and to the shaping of ideas in economic policies.²⁸ There are five strands to the emerging literature on ideas and political economy.

This emergence can be traced, in good part, back to Thomas Kuhn's seminal Structure of Scientific Revolutions.²⁹ Kuhn's theory of paradigmatic change challenged the traditional view of scientific knowledge as a slow and steady accumulation of understanding about the world which had its roots in the Enlightenment. Kuhn suggests, instead, that knowledge accumulates in a punctuated fashion. Over a given period, scientists work within a paradigm, or cognitive framework, which defines problems, and methods for solving them. Paradigms rest upon accepted assumptions and the ability to

²⁶ Some of the key works are: Harold D. Lasswell, Psychopathology and Politics (Chicago: University of Chicago, 1930); Herbert Simon, Models of Man: Social and Rational (New York: Wiley, 1957); Charles E. Lindblom, "The Science of Muddling Through," Public Administration Review, 19 (1959):79-88; Alexander J. George, "The 'Operational Code': A Neglected Approach to the Study of Political Leaders and Decision-Making," International Studies Quarterly, 13 (1969):190-222; John D. Steinbrunner, The Cybernetic Theory of Decision (Princeton: Princeton University Press, 1974); Robert Axelrod, ed., The Structure of Decision, (Princeton: Princeton University Press, 1976); Robert Jervis, Perception and Misperception in International Politics (Princeton: Princeton University Press, 1976); and Irving L. Janis, Groupthink: Psychological Studies of Policy Decisions and Fiascoes (Boston: Houghton Mifflin, 1982).

²⁷ Thomas Kuhn, The Structure of Scientific Revolutions, (Chicago: University of Chicago Press, 1970). A key book from cultural theory which touches on these issues is Margaret S. Archers's Culture and Agency, revised ed., (New York: Cambridge University Press, 1996).

²⁸ Anne Norton, Reflections on Political Identity (Baltimore: The Johns Hopkins Press, 1988).

²⁹ Thomas Kuhn, The Structure. I am referring here to the literature which deals specifically with problems of international political economy and development, though a parallel movement is under way in other fields, such as American politics. For an example of the latter, see Joseph M. Bessette, The Mild Voice of Reason: deliberative democracy and American national government (Chicago: University of Chicago Press, 1994). I am giving a simplistic summary of Kuhn, since that is all that is needed for this study.

convincingly solve “puzzles” better than the previous framework. Paradigms are always incomplete. In some cases, a paradigm may come to dominate a field of study. However, over time, the dominant paradigm will likely come under attack as anomalies accumulate. Only when an alternative paradigm is introduced, which better explains these anomalies, can change occur on a broad scale in the discipline. Kuhn calls such changes paradigm shifts, or “revolutions,” as opposed to “normal” science, which occurs within the parameters of a given paradigm.

Much of the new literature which addresses ideas and economic policy follows this model of paradigmatic change.³⁰ Kuhn’s model seems to be most useful in explaining anomalies of interest-group theory. For example, policies which are clearly detrimental to a state, or to key interest groups, are sometimes maintained. A common example is the maintenance of monetarist policies by Britain well into the Great Depression.³¹

Paradigm shifts may or may not be seen as policy learning. Bennett and Howlett, basing their work on Hall, for instance, see paradigm shifts as just one type of policy learning. They delineate three types of learning, which are listed here in order of the magnitude of change. The first is “government learning,” in which state officials learn process-related information that leads to changes in organizational rules and procedures.

³⁰ As might be expected, there is great controversy, including protestations by Kuhn himself, over the valid application of his model to the social sciences. For examples of applications, see Judith Goldstein, “The Political Economy of Trade: Institutions of Protection,” *American Political Science Review*, vol. 80, no.1 (1986): 180-1; Peter Hall, “Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain,” *Comparative Politics*, 25 (1993):277-83.

³¹ Stephen Blank, “Britain: the politics of foreign economic policy, the domestic economy, and the problem of pluralistic stagnation,” *International Organization*, 31 (1977):673-721

They list the second type as “lesson-drawing,” in which policy networks, or state and non-state actors united by their interest in a particular issue, learn to use new policy instruments or to use existing ones differently. An example of this might be greater insulation of central bank personnel from presidential decrees, thereby allowing for more stable monetary policies. Finally, they suggest a third type of learning, which they call “social learning.” Social learning involves “policy communities,” which are loose networks of communities of experts and other policy advisors who influence decision-making and who conduct discussions and debates over wide-ranging policy issues. Within these communities, social learning means that new ideas are being introduced.³² These new ideas may lead to a paradigm shift within the community, or a major shift in the way that the community examines an issue. An example of social learning would be the idea of “industrial policy” which has recently gained importance within policy debates. Regardless of whether major shifts in thinking about policy involve a progressive accumulation of knowledge or not, there is widespread recognition that paradigm shifts in policy are an important focal point for much of the current political economy literature.

A second strand of the new literature looks at ideas and interests as two independent, but related, sources of change and agreement. Ideas therefore should be added as an independent variable alongside interests.³³ Both Peter Hall and Kathryn

³² Colin J. Bennett and Michael Howlett. “The lessons of learning: Reconciling theories of policy learning and policy change.” *Policy Sciences*, 25 (1992):275-94.

³³ See John Ruggie. “International Regimes, transactions, and change: embedded liberalism in the postwar economic order.” *International Organization*, v.36, no.2 (1982):382. and John S. Odell. *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton: Princeton University Press, 1982).

Sikkink, for example, conclude that ideas help to explain economic policy changes, but that they can only take hold within a fertile ground of congruent interest-group, institutional, and leadership support.³⁴ This part of the literature points out that ideas do not grow and become influential within a vacuum. Rather, the timing of their adoption depends on many other factors. This would help explain how the same ideas, such as Keynesianism, are interpreted in different ways over time and space. More importantly, it points out that ideas, too, are constrained.

The third strand of the emerging literature points out that ideas reduce uncertainty.³⁵ Using the background of new institutionalism, this strand uses rational choice models to explain how ideas reduce transactions costs.³⁶ Here, ideas are viewed from an individualistic standpoint, namely, how does the individual reduce long-term uncertainty? Hinich and Munger use voting patterns to show that individual voting patterns can be understood in ideological clusters, rather than simply as a function of party or personality. This literature, while missing the important aspect of group ideology, nevertheless provides an important *raison d'être* for the emerging literature—namely, that ideas play a crucial role in all transactions.

³⁴ Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Argentina and Brazil* (Ithaca: Cornell University Press, 1991), p.xiv, and Peter A. Hall, "Conclusion: The Politics of Keynesian Ideas," in Peter A. Hall, ed. *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton: Princeton University Press, 1989), pp.369-91.

³⁵ See, for example, Young Back Choi, *Paradigms and Conventions: Uncertainty, Decision Making, and Entrepreneurship* (Ann Arbor: University of Michigan Press, 1993); Elinor Scarbrough, *Political Ideology and Voting: An Exploratory Study* (New York: Clarendon Press, 1984); and Melvin J. Hinich and Michael C. Munger, *Ideology and the Theory of Political Choice* (Ann Arbor: The University of Michigan Press, 1994).

³⁶ See, for example, Douglass C. North, *Structure and Change in Economic History* (New York: W.W. Norton and Company, 1981).

The fourth strand of the literature which discusses the role of ideas in political economy is that which discusses the effect of epistemic communities and technocrats.³⁷ While this literature may be traced to Weber's notions of the increasing bureaucratization of society, it takes a more neutral stance on experts' role than did Weber. The most important work in this regard is the Peter Haas-edited issue of International Organization of 1992, in which he and several others discuss how epistemic communities, or technological experts, have affected policy in each of its stages, and in dispersing knowledge to other communities. These "networks of knowledge-based experts" naturally play the greatest role in technical issues. Five stages of the relevance of technocrats are defined: 1- articulating cause-and-effect relationships of complex problems; 2- helping states to identify their interests; 3- framing the issues for collective debate; 4- proposing specific policies; and 5- identifying specific points for negotiation. This literature provides a crucial link between the theories of ideas in politics provided by the previous three strands, and how those ideas actually affect policy, in short, through human agents in the guise of epistemic communities.³⁸

To summarize, the theoretical literature on ideas in economic policy looks at particular aspects of how ideas affect policy and the dynamics of ideological change itself. Yet, each study to date has failed to link a comprehensive theory of political economy change with a case study. In a review article, Haggard and Simmons point out,

³⁷ See, for example, International Organization, v.46, no. 1, (1992), Merilee S. Grindle and John W. Thomas, "Policy Makers, Policy Choices, and Policy Outcomes: The Political Economy of Reform in Developing Countries," Policy Sciences, 22 (1989):213-248, and Ernst B. Haas, When Knowledge is Power: Three Models of Change in International Organizations (Los Angeles: University of California Press, 1990).

furthermore, that basic methodological problems have haunted applications of the cognitivist research agenda.³⁹ For instance, they note that cognitive approaches cannot clearly tie consensual values or knowledge to cooperative action, since the values and knowledge of actors can lead to multiple possibilities for action. Thus, cognitive theories have great difficulty in predicting behavior. That is, cognitive theories fail to specify the links between ideas and political power reflected in policy decisions. Haggard and Simmons conclude by noting "The resolution of the debate between structuralists and cognitivists will depend on tests that allow a confrontation between the two approaches without violating the epistemological tenets of either."⁴⁰

In the fifth and dominant strand of the literature, the emphasis has been on providing case studies which show the effect of ideas on policy, which interest-group and international structural theories could not explain.⁴¹ But the theory behind these dynamics remains substantially undeveloped.⁴²

This study marries the theoretical insights provided in the literature on ideas and economic policy with the epistemic communities literature within a novel political

³⁸ See, for example, Emmanuel Adler, "Brazil's Domestic Computer Industry," International Organization, 40 (1986):673-705.

³⁹ Stephan Haggard and Beth Simmons, "Theories of International Regimes," International Organization, 41 (1987):500. Similar criticisms are made by Keohane of what he calls the "reflective" approach, see "International Institutions: Two Approaches," International Studies Quarterly, v.32, (1988):392.

⁴⁰ Haggard and Simmons, pp.510-12.

⁴¹ This is the approach of the chapters in Goldstein and Keohane, Hall's Political Power of Economic Ideas, and Sikkink's Ideas and Institutions, for example, though all three works do theorize to a limited degree.

⁴² Even the few pieces which explicitly take on the problems of ideas and intellectual currents in economic policy, such as Miles Kahler's "Orthodoxy and its Alternatives: Explaining Approaches to Stabilization and Adjustment," in Joan M. Neslon, ed., Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World (Princeton: Princeton University Press, 1990), fail to go substantially beyond Peter Hall's theoretical efforts, found primarily in Political Power of Economic Ideas.

context- domestic economic policy. Moreover, the present study also makes some general theoretical suggestions, such as analyzing economic ideas over the course of history, utilizing the notion of a discourse of development, and examining the role of the legitimacy of ideas. In sum, the present study takes useful elements from a wide variety of sources as well as introducing several innovations to provide a new configuration for testing the influence and political relationships of economic epistemic communities on economic policy over time.

IV. Methodology and Goals of Proposed Study²³

A. Introduction

The study proceeds on two levels. A general historical survey of economic ideas and epistemic communities in Third World and Latin American history is conducted to show that economic policy changes can be related to changes in a configuration of economic ideologies and interest groups. To put it simply, the history of Latin American political economy is interpreted in a novel way- that is, as a series of periods in which certain ideas about development and interest group configurations correspond to the economic policies which were followed (Chapter 1 and Appendix A).

Most of the focus, however, is on the second level, which examines the specific nature and activities of those communities (Chapters 2-4). Because of the complex and context-bound nature of economic epistemic communities, the best methodological choice for studying them is the case study method. At the same time, conducting more

than one case study allows for some comparison, generalization, and specification of conclusions. This work concludes with a review of the findings about the political role of economic expert communities and the implications for international political economy theory. Appendix A details the interpretation to Latin American history using the models which are presented.

B. Defining Intellectual Actors: the role of economic epistemic communities

How can we explain the dynamic, but patterned changes in the ideas about economic policy? Though Chapter 1 demonstrates the importance of ideas in explaining Latin American economic policy decisions, it does not fully explore the creators, disseminators, and legitimizers of those ideas. As we shall see, while in past history it is generally difficult to link the creators of economic ideas with direct effects on action in Latin American history, since the 1950s, a new political actor has emerged on the scene. We call these actors "economic epistemic communities." Economic epistemic communities are organized groups of experts trained in economics who utilize this knowledge to gain a political position. The groups are defined by a common economic ideology, or perspective on economics, and, particularly, how economic development functions. In order to better understand these groups, we utilize a series of case studies.

C. The specific-level model: case studies

The study introduces a domestic-level framework by which we can understand the political role of economic epistemic communities within the policy process (Chapter 1).

⁴³ Please see Appendix B: Definition of Terms for a glossary of terms used throughout this dissertation.

We then utilize this framework to understand Chilean economic history. Chile is chosen as a central focus of study because of its dramatic shifts in economic policies in recent decades. Strongly structuralist in the 1960s, Chile became a flashpoint of international attention when Socialist Salvador Allende was elected in 1970 as President. Following a military coup in 1973, Chile embarked upon the first comprehensive and lasting neo-liberal economic adjustment program, almost a full decade before the Reagan and Thatcher revolutions set off a wave of international adoption of neo-liberal economics. Remarkably, a governing military, which by training and belief was oriented towards national and statist direction of economic policies, went against its own organizational and political instincts to embark upon a wholly untried and unproved economic program. Even more astonishing is the fact that, despite severe recessions and domestic and international pressures, including those from a strong wing of its own ruling coalition, the military not only maintained, but deepened the neo-liberal economic program in the process creating a more universal version of neo-liberalism which touches on all aspects of society. Chile is, therefore, not only the originator of applied neo-liberal economic policies, but also one of the places where neo-liberal ideas were most intensely held and contested, drawing international economic attention. While Chilean neo-liberalism was an object of intense domestic conflict during the 1970s and early 1980s, it received strong international financial support. International finance held up (and continues to do so) Chile as a universally applicable model for other developing countries at the same time as most international academicians have criticized its excesses. By contrast, neo-liberal ideas now enjoy a virtual consensus among economic advisors throughout the world. Chile, therefore, is a remarkable location from which to examine the interplay of ideas

and interests, and the battleground where an ideological hegemony was created. Chile is also the model which other Latin American nations have followed in setting up their own economic liberalization programs.⁴⁴

We analyze Chilean economic policy, with emphasis on the last four decades, demonstrating the importance of economic epistemic communities in both the decisionmaking context and process. We then look closely at two economic epistemic communities, in order to flesh out their characteristics, relationships with other political actors, and the reasons for their dominant success in influencing policy (Chapters 3 and 4). These groups have been studied before, but in political or economic histories, rather than a specific study of economic experts within a theoretical framework.⁴⁵ We rely upon in-depth interviews with members of the communities; the histories of the communities; and comparing specific communities with rival communities in order to create a profile of them. The profile gives us an idea of how such communities are organized: how they operate: the dynamics of group change and responsiveness to changes in circumstances: and, most importantly, what characteristics and factors led to their success in dominating the decision-making process. We look specifically at those distinguishing characteristics

⁴⁴ See Richard Webb, "Peru," p.373, and Enrique Iglesias, "Economic Reform: A View from Latin America," p. 494-496, both in J. Williamson, for some comments on Chilean influence in Latin American economic policy reform.

⁴⁵ For an example of a work on "the Chicago Boys," see Philip O'Brien, "Authoritarianism and the new orthodoxy: the political economy of the Chilean regime, 1973-82," in O'Brien and Paul Cammack, eds., Generals in Retreat: The crisis of military rule in Latin America (Manchester: Manchester University Press, 1985), pp.144-83. Of the two cases to be examined here, there is a strange scarcity of literature which looks at ECLA's political role. On the other hand, much has been written about "the Chicago Boys," but mostly in the context of military rule under Pinochet, rather than how the community was able to successfully wield influence.

in analyzing why rival groups *failed* to dominate the Chilean economic policy discourse and economic policy decisions (Chapter 5).

D. Basic Methodological Foundations

1. *Defining elites*⁴⁶

The methodology of this study implies a very important conclusion- that influential ideas about economic policy come predominantly from elite and well-defined groups. These groups are not classes- instead there is a much more profound structure of identity which separates them from the rest of society. In other words, this elite is not defined solely in class terms, but is best distinguished by a whole nexus of socially-differentiating characteristics. Those who have the capability to influence policy in Chile, whether from the Left, the Center, or the Right, by definition need a certain level of sophistication in order to participate in the policy discourse. This sophistication generally relates to a graduate-level education, more and more often abroad; a knowledge of world affairs which most other Chileans lack; and, though to a lesser degree than in the past, a wealthy or politically-connected family; access to the few domestic sources of

⁴⁶ As in the social movements literature, we both expect and see evidence of the suggested characteristics of cause-oriented groups. For example, members of the group are likely to have similar personal, class, and social backgrounds. The multiple common links and activities which they share solidify the group, and open it to new members who are otherwise linked. At the same time, groups which are highly insulated from contact with the rest of society are likely to fade quickly. The activities and common history of the group lend themselves to a mutual framework of the world, and, in a dialectical opposition to *other*, strengthen the intra-group ties. The development of the group depends upon sustained resource mobilization and successful linkage with, and influence upon, other social groups. See Knoke, "Social movements," pp.68-81. Nonetheless, there are several important factors which differentiate economic epistemic communities from social movements. First, the movement is united by an economic ideological framework, rather than a cause for social reform. Second, the movement here is from groups made up of individuals with elite backgrounds. Almost universally, they share wealthy and politically powerful backgrounds. They universally share elite educational backgrounds. They therefore have less of a problem with resources mobilization than a grass-roots movement. Finally, they generally work through established political channels through acceptable means, rather than pressuring a political system from the outside.

education: a professional degree, more and more often in either engineering or economics: growing up in the capital, Santiago, and being affiliated with certain *barrios* or neighborhoods where education, income level, and lifestyles are upper or upper-middle class: and a certain affiliation with the upper echelon of a political party.

Increasingly, the policy elite is becoming more technocratic. This means that traditional party leaders are being transformed into experts or are sharing power, particularly in economic issues, with experts who are loosely affiliated through their research centers with the party. In sum, the methodology of elite case studies was particularly well-suited for the case of Chile, as the policy discourse is dominated by an elite defined by a series of self-reinforcing social identities and practices.⁴⁷ There is no clear case in Chilean or Latin American history of economic paradigms coming from anyone other than an elite group of society. Foreign ideas have largely dominated the continent, but have been adapted and applied through domestic agents.

2. *The increasing importance of ideas in policy decisions*

The study also implies that economic policy decisions are highly influenced by experts. The increasing technocratisation of society is a phenomenon which many analyses have applied to⁴⁸ Latin America. In theoretical terms, we can say that the elite of

⁴⁷ In contrast with other elite ideology studies, which tend towards survey research of elite backgrounds, values, and opinions, we attempt to provide a more narrowly defined focus (the direction of economic development) and a more flavorful explanation, which takes account of personalities, individual choices, and even the dynamics between individuals. We coat the multi-level history with the notion of a dynamic discourse, of individual and group interests and ideas and identify an overall flow to this interaction. For examples of the more traditional approach, see Ronald H. Chilcote, Power and the Ruling Classes in Northeast Brazil: Juazeiro and Petrolina in Transition, (New York: Cambridge University Press, 1990), and Peter McDonough, Power and Ideology in Brazil, (Princeton, NJ: Princeton University Press, 1981).

⁴⁸ See Anil Hira, "Ideas and Economic Policy in Developing Countries: The Rise of Economists in Latin America," paper presented at the Western Political Science Association annual meeting, San Francisco, 1996:

the country increasingly uses “scientific knowledge” as a legitimizing tool for its economic policies. The growth in the importance of knowledge can be seen in the context of the process of modernization itself, as part of the dream which seems to have universal appeal. That dream, which helps to explain the spread of neo-liberal culture as well as its economic policies, consists of living a materially comfortable life, and living even better than others. The referents of the dream can be seen through the universal acceptance of capitalism and the images and practice of consumer culture.

3. *The role of economic experts in the new order*

Economic experts, then, are like the high priests of a historical period dominated by one economic ideology (or “historical-ideological period”) which can bring these benefits. They use their technical knowledge to differentiate their status and to attempt to guide this transformation. The tool of scientific knowledge gives them the position of legitimizers. From this position, they are able to place themselves in a relative position of power within elite circles as well, and to promote economic ideologies which not only suggest economic policies but legitimize their own (both the ideologies and the experts’) importance within the system.

V. *Conclusion*

This study sheds new light on how economic development policies are formed, constrained, and change. Our findings have definite policy implications on the

Veronica Montecinos and John Markoff. “Democrats and technocrats: professional economists and regime transitions in Latin America.” *Canadian Journal of Development Studies* v.14, no.1. (1993):7-22; and Patricio Silva. “Technocrats and Politics in Chile: from the Chicago Boyus to the CIEPLAN Monks.” *Journal of Latin American Studies* 23 (May 1991):385-410.

restrictions, freedom, and dynamics of economic policy-making in the Third World. More generally, it is an important step towards a comprehensive theory of the intertwined roles of ideas and interests in the politics of development, by studying how human agents transform ideas into policy. The theoretical goals which it accomplishes are two-fold: one. to demonstrate the importance of ideas in explaining economic policy; and two. to provide an ideas-based explanation of economic policy which is superior to existing theoretical approaches. We shall revisit these themes in detail in the Conclusion (Chapter 6).

Chapter 2: Historical-Ideological Periods in Political Economy: An Ideas-Based Model of Economic Policy

I. Introduction

This chapter has two sections. The first delineates the general level model which introduces the concept of “historical-ideological periods.” and then applies it to the history of Latin American political economy. It lays out the influence of ideas on economic policy on the regional level. The second section explains how ideological frameworks are constructed on a regime level, that is by a “fit” among politicians, experts, and constituencies.

II. The Actors and the Discourse: General-level model

A. Historical-Ideological periods

The notion of a discourse in development, marked by distinct historical-ideological periods, is used in conjunction with Kuhn’s model of paradigmatic change to understand how the ideological frameworks behind development policies change over time. The notion of discourse is also important in showing that idea-interest group configurations of development evolve over time and may occur on regional or international levels.

During some periods of the discourse on development, there may be no role for experts, given certain conditions, such as political instability.⁴⁹ Another possibility is that experts may be a part of an unstable configuration. For example, politicians may be unable to deliver economic policies which are favorable to their constituents, or the constituencies themselves may change, in which case politicians and expert groups would also change. Certain historical periods, on the other hand, are marked by a stability among the interest groups, the politicians, and the expert groups. While the personnel may change in each of these groups, the policy outcomes remain the same because the essential relationships among the actors are stable and they maintain the same economic ideology. These periods are called "historical-ideological periods."

Historical-ideological periods are noted by stable configurations of constituencies, politicians, and epistemic communities. During these periods, there is a stable and dominant ideology and dominant political coalition of interest groups and the public.⁵⁰ In

⁴⁹ There are certainly many other ways to look at the historical relationship of intellectual-experts and political groups. For example, Jorge Graciarena states that during periods of crisis, intellectuals tend to be equally divided along political lines. During periods in which "...progress appears to be self-sustaining....specialization and fragmentary knowledge flourish." Graciarena, "Between Reality and Utopia," in *CEPAL Review* (1st half of 1978):44-5. I focus here on establishing experts' independent contributions to policy formation, in relationship to, but not synonymous with, interest groups with similar sympathies. I shall elaborate in the next chapter. The literature on the general movement towards technocracy, with its tendency to de-politicize decisions, is voluminous in nature and wide-ranging in interpretation. In Latin America, there seems to be equally wide differentiation in both theory and practice in regard to whether technocratization, in the sense of giving government experts more decision-making power, is a positive or negative phenomena. This theme will be further touched upon in the concluding chapter.

⁵⁰ By analogy, if we examine art history, there are clear fashions and path dependency. Braque can be distinguished from Picasso, for example, but both have been labeled "cubists." See Michel Seuphor, *Abstract Painting: Fifty Years of Accomplishment. From Kandinsky to the Present* (New York: Dell Publishing, 1964). In the same way, ideological frameworks may vary in the specifics of their policies from government to government or even within the same one over time. Nevertheless, the policies can be classified according to a general orientation which seems to evolve historically. I attempt to give some working criteria with which to distinguish the periods for development later in this chapter.

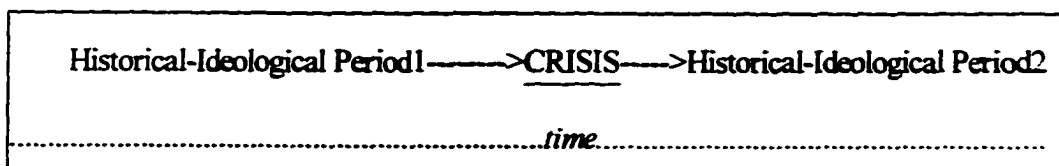
sum, development can be seen as a discourse that moves through historically-bound ideologies which are supported by dominant coalitions.

Historical-ideological periods need not be limited to nations. Since development is an object of international knowledge and study, it follows that it is an international discourse. Expertise, similarly, is developed internationally, so the epistemic communities in regard to development are likely to include foreigners and foreign constituencies.

The notion of discourse implies constant interaction, though not necessarily progressive movement. Kuhn's model points to one important source of change, namely crisis-driven change. Figure 1 below delineates a "crisis" as a foundational element of change within a discourse. Kuhn's theory of paradigmatic change in the natural sciences points out that paradigms change as anomalies accumulate. An anomaly is a phenomenon which cannot be explained by the current paradigm. When the accumulation of anomalies reaches a crisis stage, a new paradigm, if available, may come to dominate the discipline.⁵¹ The model here therefore loosely borrows two concepts from Kuhn, that of crisis-driven change and of anomalies leading to new paradigms, to explain changes in historical-ideological periods.

⁵¹ Thomas Kuhn, The Structure of Scientific Revolutions, (Chicago: University of Chicago Press, 1970).

Figure 1: Historical-Ideological periods in the discourse of development



Historical-ideological periods may also evolve into one another, or there may be some delay between the destruction of one period and the construction of a new one. Also, elements of one period may linger into another or be re-adopted at a later date. The notion here is that a crisis is one of the fundamental (and most easily noted) ways in which the dominant ideology-interest configuration changes historically. Crises, therefore, can serve as markers of the end of one historical-ideological period and the beginning of another.

In this study, an ideological framework,⁵² such as Keynesianism, has a paradoxical nature: partly abstract and subject to fluid definitions, yet also concrete in recommending or assuming certain goals and the means by which to reach them. Since knowledge about development is incomplete, economic ideologies are, by nature, abstract, and are subject to change in their interpretation and in their elements, as conditions change and knowledge and experience accumulate. There is room, therefore, for diverging interpretation even within historical-ideological periods.

⁵² In this study, an ideological framework which is linked to an arrangement of actors is akin to the way in which institutions guide behavior through analogies and classificatory language. See Mary Douglas, How Institutions Think (Syracuse: Syracuse University Press, 1986).

B. Four criteria by which to define historical-ideological periods in the discourse of development

We divide historical-ideological periods of development by proposing the following four criteria to define an ideological framework at any given time:

1-the way in which it sees the basic economic and political relationship between the First World and the Third World. as, for example, in its analysis of whether and what types of First World direct foreign investment is positive:

2-the general policy prescriptions which it provides for achieving development. such as whether and how the state should protect technologically advanced industries:

3-the short-term and long-term costs and benefits of development, and to whom they accrue. such as whether welfare subsidies are beneficial in building up human capital or whether they throw off the ability to reach balanced fiscal budgets and reduce the incentives to work:

4-which social groups are best able to lead the march to development, such as the degree to which the government should answer to popular opinion on economic decisions, and the degree to which economic and political “leaders” must be insulated from it.

These criteria are not meant to be a comprehensive categorization scheme for all theories of development. For example, a panoply of theories see the First World-Third World relationship as beneficial to the latter, but differ on other aspects. For example, some theories state that a shortage of capital is the problem for the Third World, while

others believe that development is a naturally occurring process.⁵³ Instead, the criteria here are meant to bring out *fundamentally different* orientations towards development, which would be signs of different general ideological perspectives. The criteria bring out the differences, for example, between state-led, *dependencia*, and laissez-faire models of development. The dynamic creation of new answers to these four development issues is referred to here as an ideological framework within the discourse of development. The discourse of development may have many different ongoing "conversations," but all are linked by a central concern with economic development, and how to achieve it.

For the purposes of this study, a crisis will be identified by the publicly-acclaimed failure of the current framework of economic policies to achieve their stated goals or a severe decline in material living standards. We place the condition of public knowledge within the definition of a crisis because, we are interested primarily in crises which threaten the legitimacy of an interest group-idea configuration.

Do development policies really occur in historical-ideological periods as described above? *Prima facie* evidence suggests that it does. Third World economic paradigms seem to be "regionalized," that is, they fit within regional ideological parameters. The regionalization of development frameworks suggests that a pure reference to the interplay of domestic interest groups is incomplete. For example, the political economies of Venezuela and Brazil are quite different, yet they adopted similar

⁵³ An example of the former is Theodore Schultz's work, who focuses specifically on human capital acquisition. An example of the latter is found in Sir Arthur Lewis's writing, which expects a natural movement of surplus agricultural labor to industry over the long-run. See Theodore W. Schultz, "Investment in Human Capital," American Economic Review 51 (January 1961):1-17 and W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School 22 (May 1954):139-91.

Import Substituting Industrialization (ISI) policies during approximately the same time period, the 1930s-40s. In this comparison, Venezuela has an economy which is much smaller than Brazil's; an extreme dependence on petroleum exports, while Brazil had a more diversified base; and a distinct international and regional geo-strategic position. While this might lead one to suppose the importance of international conditions and actors, exclusive focus on them ignores the important initiatives of domestic actors. For example, under Batlle in Uruguay in the 1920s, the government began to offer social services on a wide scale. International factors alone cannot explain this unique initiative in Latin America.

A brief examination of regional paradigms makes the point more clearly. Latin America had, with few exceptions, during the 1960s until the 1980s, a regional framework of ISI, and bureaucratic authoritarianism. By the late 1980s Latin American development policies, had changed, in wave-like fashion, to the current regionally held principles of democratization and neo-liberalism.⁵⁴ Socialism seemed to engulf the African continent in the 1960s and early 1970s. Meanwhile, East Asia's political economies have been marked by a moderate authoritarianism and market-conforming state intervention.

⁵⁴ Bureaucratic authoritarianism is a term derived from Guillermo O'Donnell's analysis of the changes in Latin American states in the 1960s. O'Donnell's theory rests primarily on the supposed need for the Latin American state to suppress popular sectors, depoliticize social issues, and use economic and coercive experts because of a development crisis. That crisis occurs when the political economy of a country moves from ISI1 to ISI2, which means the need for greater transnational capital. The state had to repress popular sectors in order to entice transnational capital. An excellent summary and recounting of the debate over the bureaucratic authoritarian model is found in Paul Cammack, "The political economy of contemporary military regimes in Latin America: from bureaucratic authoritarianism to restructuring," in Philip O'Brien and Paul Cammack, eds., Generals in Retreat: The crisis of military rule in Latin America (Manchester: Manchester University Press), pp.1-36. O'Donnell's original work on bureaucratic authoritarianism is found in Modernization and Bureaucratic Authoritarianism (Berkeley: Institute of International Studies, University of California, 1973).

The four criteria capture these regional differences. Latin American ISI entailed a view that the First World had a generally harmful relationship with the Third World, one in which the export prices of First World manufactures increased while those of Third World primary products decreased over time. The ISI ideology sought to correct this gap by protecting and promoting national industries relative to foreign ones. In the short-term, this would require some transfer of income from primary product exporters, especially agriculture, in order to protect “infant” industries. In the long-run the country as a whole would be able to benefit from industrialization and the higher standard of living that it entailed. In contrast to African socialism, ISI implied a long-run re-engagement with the world economy. With variations on the national level, ISI required an alliance of government, local industrial entrepreneurs, and foreign capital to provide the initial equipment and investment. We shall examine the interesting question of how this alliance gained power over the previously dominant one of agricultural exporters and political oligarchies in Appendix A on Latin American economic history which follows.

In the case of African socialism, the First World was also seen as harmful to African political economies. The policy prescriptions were disengagement from the world economy and concentration on the development of national industrial self-sufficiency. The costs were heavy taxation of agriculture and foreign imports, and the diversion of resources to the state. This meant a shortage of consumer imports, and black markets which provided them. In the long-run, however, African leaders expected to achieve a degree of economic self-sufficiency which would allow them to eschew neo-colonial imperialism. This ideology looked to the state as the leader in development. The state would set up and run industries in a way beneficial to the economy.

East Asians have been more engaged with the First World. Following Japan's lead, they see the world economy as containing export niches which they can use to their advantage. The world economy can be beneficial, then, if East Asian countries follow certain precepts. These include a suppression of organized labor, a soft authoritarian and technocratic government, export-led industrialization through domestic protection, and subsidization from consumer taxation.⁵⁵ In the short-term, the nation as a whole must sacrifice by working long hours and maintaining high productivity. In particular, labor and consumers sacrifice. The short-term benefits are an accumulation of investment, technological, and human capital which can be guided back into further export gains. In the long-term, the nation as a whole benefits as living standards rise, and the country produces increasingly higher value-added products. The state, led by a highly trained technocracy, and insulated from political pressures, enters into an alliance with domestic industrialists. Outside of Japan and Korea, many East Asian states also enter into temporary alliances with foreign multinational companies in order to procure technology and start-up capital, until a national industry is self-sufficient.

These overviews show that the four criteria are useful in differentiating general ideologies of development. The existence of regional perspectives on development over different time periods, or regional ideological frameworks, suggests that national-level explanations are inadequate. Moreover, international level explanations, such as dependency or world-systems theory, do not adequately explain why the Third World

⁵⁵ The city-states of Hong Kong and Macao, of course, differ from the norm, in following much more *laissez-faire* policies. There are also important variations in the degree and types of state intervention between East Asian and Southeast Asian countries, and within each grouping.

should have different political economies. in different regions. over distinct time periods. More specifically, neither dependency nor world systems approaches differentiate Asian development from Latin American development on a theoretical-level. Instead of highlighting differences in ideas, these theories generally rely upon an historicist approach of stages of development and modes of production to explain similarities among Third World economic classes. In their desire to fit the Third World within a Marxist framework, they over-emphasize economic factors while ignoring cultural, historical, and ideological ones. More importantly, international level analysts, in "freezing" a structure of present relations onto the future, ignore the creative possibilities that only a cognitive theory can consider. Hence dependency and world systems theories underestimate the importance of East Asian economic growth for the possibilities of development. History recognizes no such theoretical constraints. Not only can interest group coalitions change over time, but the coalitions which are dominant over a period of time can choose different policies. Those policies are packaged within ideological frameworks which provide orientation and general guidelines for economic policy decision making.

Figure 2: Examples of Historical-Ideological Periods in the Third World

<u>4 criteria by which to define historical-ideological periods</u>	Latin America	Africa	East Asia
	<u>1960-1980: ISI</u>	<u>1950-1980: Socialism</u>	<u>1950-present: State-led Capitalism</u>
<i>1-View of First World-Third World Relationship</i>	negative influence of First World can be changed into positive aid for industrialization	negative First World influence	positive- First World niches can be exploited for development
<i>2-policy prescriptions</i>	protect domestic industries and develop national markets: import capital and technology goods	promote national autonomy and state takes over key industries	move up industrial product ladder through state co-ordination and promotion of exports and limited protection: develop local capital and technology capacity
<i>3-costs and benefits of development</i>	costs to consumers, agriculture, and foreign exporters; benefits to domestic industrialists	costs to consumers, domestic industrialists, and foreign exporters; benefits to state and state cronies	costs to consumers, agriculture, and foreign exporters; benefits to state and domestic industrialists
<i>4-social groups to lead development</i>	state bureaucrats, domestic industrialists, and foreign capital and technology providers	state bureaucrats	state bureaucrats and domestic industrialists

III. Application of the general-level model to Latin America

A. Introduction

This section seeks to accomplish two things: one, to categorize Latin American history into distinct political economy periods, according to the theoretical framework just presented; and, two, to note the development of clearly influential and strongly ideological economic advisory groups over the course of time in Latin America. Beginning with Porfirio Diaz's *cientificos* in turn of the century Mexico, these advisory groups are well worth lengthy studies by themselves.

Applying these four criteria to Latin America, we find six historical periods of Latin American political economy.⁵⁶ In each of these periods, a distinct set of policies was carried out, justified in a distinct way, and promulgated by a different group in society. Naturally, in each period there were groups which opposed the policy framework, but they were unable to change the dominant policies for some time. The policies were chosen because they were beneficial to the dominant coalition. However, *economic policies choices are made from the "menu" of economic ideological frameworks which are available at a particular time in history.* This menu reflects the historical development of knowledge and consensus within the discipline of Economics. Thus, we see two virtual constants throughout Latin American historical-ideological periods. The first is we see a steady increase of state involvement in the economy, until

⁵⁶ These periods are gleaned from analysis of numerous historical accounts of Latin America. They are therefore consensual divisions recounted elsewhere. One example of a similar application is found in Gregorio Weinberg, "A historical perspective of Latin American education," *CEPAL Review* (1983):39-55. They are covered in more detail in Appendix A: Historical-Ideological Periods in Latin American Political Economy.

the 1980s, as the state became a stronger actor, which is an international historical development. The second is a steady and unabating increase in the importance and sophistication of economic epistemic communities, who become prominent throughout the region with the founding of the Economic Commission for Latin America in 1948. the subject of the next chapter.

Figure 3: Historical-Ideological Periods of Latin American Economic History

<u>Historical-Ideological Period</u>	<u>Dominant Political-Economic Groups</u>	<u>Innovative Economic Policies and Epistemic Communities</u>	<u>Dominant Economic Ideology</u>	<u>Crisis which ended period</u>
<i>Colonial (1500-1800)</i>	King and his delegates, large agricultural and mining owners		colonial mercantilism	political independence wars
<i>Independence* (1800-1870)</i>	creoles: caudillos and centralizers: Conservatives and Liberals: primary product owners: foreign investors		classical liberalism	consolidation of governments. end of civil wars
<i>1st export boom (1870-1930)</i>	primary product exporters, foreign direct investors, and exporters	Mexico- Diaz's <i>cientificos**</i>	neo-liberalism	closure of international export markets with the Great Depression and World War I and II

<u>Historical-Ideological Period</u>	<u>Dominant Political-Economic Groups</u>	<u>Innovative Economic Policies and Epistemic Communities</u>	<u>Dominant Economic Ideology</u>	<u>Crisis which ended period</u>
<i>National Populism (1930-1955)</i>	Populist dictators, organized labor, consumer goods industrialists	Mexico- ruling PRN; Peru- APRA; Uruguay- Batlle; Argentina- Peron; Vargas- Brazil	ISI1	exhaustion of easy ISI. political and inflationary crises
<i>State-led Industrialization (1955-1980)</i>	military, high tech/capital industrialists, foreign finance and capital goods exporters. U.S. aid; economists	Brazil & Peru- military-led development: Cuba- Marxist development: ECLA**	ISI2***	inflationary and debt crises
<i>Neo-liberalism (1980-present)</i>	military transition to civilian state, economists: international finance; foreign investors; industrial and primary product exporters	Pinochet- Chicago Boys**	neo-liberalism	

* The Independence period was one of upheaval, with continual political discontinuities, but a stable economic ideology, namely *laissez-faire*.

**These are the economic epistemic communities which we discuss in this dissertation, though we suggest that they exist more and more often in more places in Latin America.

***ISI2 refers to a strategic period of import substituting industrialization in which capital- and technology-intensive goods are produced domestically through government assistance. See Appendix B: Definition of Terms for further clarification of this and other terms.

IV. Economic ideas in everyday politics: the Specific-level model of the Political Role of Economic Experts

A. Introduction

This section introduces the “specific level” model which attempts to understand the role of economic experts within a historical-ideological period on a national level. The model is equally applicable to international and regional organizations, or any other situation in which experts play an important role. For the purposes of exposition, however, we shall focus on the national level here. When a historical-ideological period exists, the ideas are provided by, modified by, filtered through, and legitimized by experts. We lay out the role of experts in creating an ideological framework, which, if followed consistently over time, can help to create or end an historical-ideological period. At the end of the chapter, we examine the emergence of economic epistemic communities in Chile. In the following chapters, we then apply the model to Latin American and Chilean political economic history.

B. Relationship to historical-ideological periods (“general-level model”)

Each historical-ideological period identifies a certain configuration of interest groups, ideational brokers (in this case, economists), and policy decisionmakers. Historical-ideological periods, as described in the previous section, exist when a certain economic ideology becomes hegemonic over a sustained period of time. Within such periods, the specific-level model identifies the relationships which exist between these three main groups of actors.

C. Assumptions, actors and goals of the model

This part of the study has several theoretical assumptions. First, that the significant actors in the discourse of development can be identified, and that their roles within the discourse can be discovered. Second, that the actors act in a symbiotic fashion to create a dominant ideological framework. These frameworks include the goals, the means, costs, and the benefits of development. Third, that discourses, while continually changing, take place within identifiable parameters. In the case of development, those parameters follow the definition of development given above, in other words, how best to achieve improvements in the economy, including both economic growth and living standards for the entire entity. This section will look at fiscal, monetary and trade policies as the main data for policy orientations.

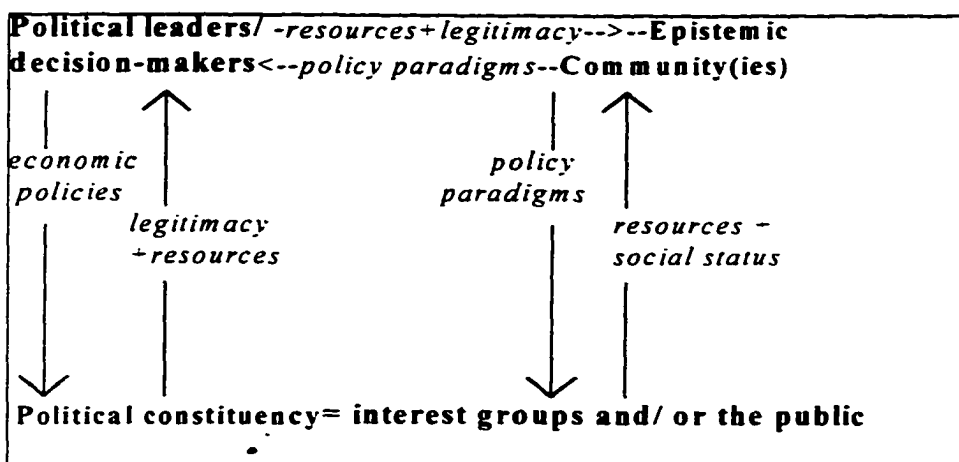
We lay out a framework for understanding development in terms of four significant actors, namely politicians, experts, interest groups and the public. With the exceptions of experts and the interest groups of international business and foreign government, the other actors are, for the most part, domestic. Experts could belong to either domestic groups or be affiliated to international organizations or other countries.⁵⁷

⁵⁷ The importance of international experts in domestic economic policies of Third World economic policies tends to rest upon two factors: 1- the development of domestic economic experts, which has generally increased everywhere over time; and 2- the dependence of the country on international financial capital. An interesting case study of the introduction of neo-liberal ideas by international experts which is more contemporary than the ECLA case study in this dissertation concerns the role of the International Monetary Fund and the World Bank in introducing economic liberalization measures to the Philippines. See Robin Broad, Unequal Alliance: The World Bank, the International Monetary Fund, and the Philippines (Los Angeles: University of California Press, 1988).

D. Relationships between expert groups and political actors

The following figure demonstrates the proposed relationship among the actors in regard to economic policies⁵⁸:

Figure 4: The Configuration of experts, politicians, and constituencies in creating development policies



The figure above posits several important relationships among the actors, which exist under certain conditions explained below. Politicians seek political support in the form of resources, such as campaign donations and legitimacy, which is acceptance and/or approval of them and of their policies from their political constituencies. These

⁵⁸ There are similar observations in the "epistemic communities" and "policy networks" literatures, among others. See Peter Haas, editor., International Organization, special edition on epistemic communities, v.46, no.1 (1992). Ernst B. Haas, When Knowledge is Power: Three Models of Change in International Organization (Los Angeles: University of California Press, 1990). The primary differences between this model and the others are: the placement of a specific time and space model within a larger historical-ideological model; the greater specificity of this model; the application of the epistemic community concept to domestic policy-making, rather than to civil servants of international organizations, as is the case in the epistemic communities literature; the acknowledgement of both formal and informal networks and relationships among experts, politicians and interest groups; the emphasis on the value of policy paradigms, rather than simply technical advice; and the specific application to development. The most important difference is the emphasis on two sources of power in these relationships: both resources and legitimacy.

constituencies consist of the public-at-large and interest groups. The interest groups in question will vary depending on the issue at hand. In the case of economic policies, they would include, for example, organized labor groups and owners of businesses. The politicians' role, in turn is to deliver favorable economic policy decisions. So far, the model is similar to interest group models. Interest groups might lobby for non-material interests, such as those against nuclear power. With regard to economic policies, they look for policies which are guided primarily by the desire for material well-being, but also, to a lesser degree, by norms such as fairness of economic distribution.

This model differentiates itself by adding a third actor, policy experts. Experts play an important political role in certain conditions. If there is political stability, which allows for the discussion and the need for legitimization of policies, experts can help any side of the debate. If the issue is complicated, experts' opinions will carry more weight than non-experts. Lastly, there must be some knowledge about the issue. Developed knowledge manifests itself in policy paradigms. The facts of the issue may be controversial, but they must constitute a body of evidence around which experts can debate. Lastly, experts may be elected, as has been the case in Latin America recently. In that case, they play both roles in the figure noted above.

Experts in the social sciences, particularly economists, have become increasingly important political players. Sociologist Veronica Montecinos suggests three possible reasons for this, which are given in the literature on the rise of technocratic elites. The first is the rise of a new ruling class, which might be interpreted as a decision- and, at least on the surface, rationale-oriented one which replaces the old Western aristocracy which ruled by tradition. The second is the development of a scientific claim to

technocratic legitimacy. This includes the belief that technical knowledge must overcome “political” decision-making which is harmful to the society. Technocrats or experts are, according to this thinking, not only better qualified to make important decisions than the rest of society by virtue of their knowledge and intelligence, but also are more “pragmatic”. Third, the demands on political leaders for understanding increasingly difficult decisions, due to the increasing complexity of society, naturally lead them to rely more heavily on experts.⁵⁹

Given these conditions, expert roles fall into three categories of possibility. First, experts might have nearly universal agreement on an issue, such as that inflation is harmful. Secondly, they might also have complete disagreement on an issue, such as which stocks are the best purchases for short-term gains. Thirdly, more often than not, experts will have some opinion on an issue which fulfills the above conditions. Giving advice is, after all, their social and self-designated role by definition (though they use that role to gain power and resources). That advice is more powerful when experts band together into groups. These groups are formed by sharing a common ideological framework or paradigm.⁶⁰ The groups often define themselves in terms of their respective stands on the debate, hence the notion of discourse as used here. Economic development issues, for the most part, are marked by some knowledge but no consensus. Development issues therefore almost always fall into the last category.

⁵⁹ Veronica Montecinos. Economics and Power: Chilean economists in government, 1958-1985 Ph.D. dissertation, Sociology. (Pittsburgh: University of Pittsburgh, 1988).

⁶⁰ I apply Kuhn’s theory of paradigmatic change to the economic sciences here. Thomas S. Kuhn, The Structure.

Experts provide policy paradigms which propose solutions, courses of action, and costs and benefits of them, to politicians. Legitimacy works in two ways in this relationship. On the one hand, experts legitimize politicians' decisions by providing them with a coherent framework for understanding the economic problems the group faces, and the solutions to them. On the other hand, politicians also legitimize experts by endowing them with importance and providing them with resources. Legitimacy generally involves two important actions in the context of Third World economic policy. The first is an explanation for past economic problems, which usually involves some vilification. The second is a raising of expectations with the presentation of a "new truth," presented as economic fact, which is a plan which will lift the nation to its rightful level of development. Experts are especially and increasingly important in the presentation of both these political actions as legitimate.⁹¹

Politicians present an ideological framework to their constituencies to explain why the policies which they favor are thereby necessary. Obviously, politicians will tend to favor expert groups which share a common orientation, and whose paradigms will tend to help them with their constituencies. Some elements of the framework may benefit only some of their constituencies, or benefit some while harming others. Politicians will also attempt to change the framework so that it is more favorable to them. At the same time,

⁹¹ Stephen Krasner points out that the general domestic weakness of Third World nations, which is related to their vulnerability to internationally-originated economic shocks, lends itself to leaders who embrace an ideology that explains this dependent situation. Stephen D. Krasner, Structural Conflict The Third World Against Global Liberalism (Los Angeles: University of California Press, 1985). Until recently, that explanation was generally a vilification of the North. At the present, neo-liberal ideology seems to focus on the vilification of domestic opponents of economic liberalization, generally describing them as "unscientific," "responsible for past failures," and even "Marxist socialist." Of course, these arguments will only have strength as long as sustained growth, and the distribution of it, occur.

there may be elements of the paradigm which they cannot change without threatening the core tenets of the framework. Also, politicians may have to accept some aspects of a paradigm which harm their position, such as accepting higher unemployment rates in order to combat inflation. They will often present these unfavorable aspects as necessary sacrifices. This universal phenomenon of politicians trying to “sell” policies which harm some shows a major source of experts’ power. The other source, of course, is simply politicians’ lack of knowledge about an issue. In short, ideological frameworks are presented by distinct groups of experts as coherent packages of policy perspectives and actions to politicians. The expert groups compete with each other for the benefits of resources and legitimacy which derives from being the chosen expert legitimating group of politicians.

Experts create these ideological frameworks by developing and “proving” how their economic policies will deliver the goods promised by politicians to their constituents. Proof consists of a body of literature, including a theoretical framework, empirical studies, and references which validate the implications. Experts usually congregate in ideological camps, called epistemic communities here, whose members share the same orientation towards an issue, that is, the same paradigm. In return, epistemic communities look primarily for increases in material and social status, and for promoting their own ideologies. The acceptance of their ideas by politicians, and, through politicians, by the public, gives them social status, resources, and legitimates their way of looking at the problem.

Because of their politically-recognized relationship with decision-makers, experts also have direct links with interest groups and the public. The latter provide resources to

favorable epistemic communities which enables them to continue their work. When the public and interest groups give attention to certain epistemic communities, for example, the policy reports of certain think tanks, those think tanks enjoy a social status of enhanced importance. Politicians will therefore most likely choose advisory groups who are known to, and favored by their constituencies.

Experts, it is crucial to repeat, need not be nationals to be a part of a relevant epistemic community which shapes development policies. Clearly, for example, the International Monetary Fund and the World Bank have greatly affected Third World development both in terms of providing material resources and their impact on the discourse of development. While focusing on a particular epistemic community, this study will also include relationships with other epistemic communities. Naturally, the focus will be on the particular communities who were especially influential during a given period of time.

E. Conclusion

The foregoing model does not claim universality of existence or of application. Instead, the model attempts to lay out a theoretical framework which explains political economy relationships which have developed only recently along with increasing technocratisation of economic policy.⁶² The model seems applicable, nonetheless, in a variety of current situations where economists figure prominently. These include the

⁶² I apply the model to Chile in this dissertation. See Anil Hira, "Ideas and economic policy in developing countries," conference paper, Western Political Science Association, March 1996, which discusses the political role of economists throughout Latin America. The paper also explains in much greater depth the reasons behind this development.

University of California, Berkeley economic advisory team to the Indonesian government; the macroeconomists leading India's recent liberalization; and the Salinas economic revolution in Mexico. In focusing on the role of experts in political economies, the model does ignore other important political actors, such as the media and the bureaucracy. The reason for this focus is not only to highlight experts' role in the political decision-making process, but also because the role of the media and bureaucracy vary widely across time and nation. In Chile, for example, the Pinochet dictatorship closed down most of the media, rendering it a weak factor. In India, meanwhile, the bureaucracy is far more important than in many other developing countries. In conclusion, the model should be seen as a limited but valuable tool.

The next section will trace the history of the various ideologies of development and corresponding coalitions of interest groups, politicians, and epistemic communities which dominated economic policy in Chile from the 1950s until 1990. The lists of actors according to their roles within the specific model will lay the foundation and set the parameters for the case study analyses to follow.

V. Application of the specific level model to postwar Chile, 1958-1990

A. Specific-level Actors in postwar Chile

1. Political decision-makers

a-President Alessandri (1958-64)

b-President Frei (1964-70)

c-President Allende (1970-73)

d-General Pinochet (1973-90)

2. External interest groups

a-the United States government

b-United States businessmen

c-international financial institutions- the International Monetary Fund (IMF) and
the World Bank (IBRD)

3. Major Political Party Groups

a-the National Party

b-the Christian Democrats

c-the Socialists

d-the Communists

4. Internal interest groups and their links to the principal political parties

a-financiers

b-industrialists

c-large agricultural landowners

d-organized labor

e-the media

f-Public (opinion)- i.e. as reflected in popular demonstrations, polls, etc.

5. Rival economic epistemic communities

a-the Christian Democrats- CIEPLAN

b-ECLA

c-socialists of various parties (who agreed on the goal of reaching socialism, but disagreed upon the means of reaching it)

d-the Chicago Boys

e-the authoritarian corporatists (*gremialistas*)

Naturally, telling a comprehensive story of each of these actors in relation to the other would be a monumental task. Instead, since our focus is on the development of economic ideas, we shall first analyze the Chilean political landscape using the specific-level model. Then, we shall turn to the two most influential epistemic economic communities who were able to successfully dominate economic policy decisions in the postwar period.

Both economic ideas and economic advisors have been prominent in Chilean governments at least since the Alessandri-Ross team in 1932. However, in the 1960s, organized *groups* of economists began to appear in Chile, with ECLA leading the way. These groups remain a potent yet so far under-analyzed political force in Latin America. The appendix to Chapter 5 lays out a map of economic interests, ideologies, and epistemic groups over time in Chile. The next section traces the beginnings of the importance of economic experts in Chile.

B. Developmental Policies in Chile: ISI2 and the Emergence of Economic Epistemic Communities in Chile (1920-1964)

1. Introduction

As in other Latin American countries during the mid-twentieth century, an urban working class, industrial capitalist, and state coalition began its consolidation of power, squeezing agriculture through its economic policies. This last partner was especially important for the consolidation of the ideology of structuralism and the emergence of economic advisors. While individuals, such as Ross, had previously been important providers of economic advice (in this case, to President Alessandri in the 1920s), the historical-ideological period of ISI2 marks the emergence of the political role of economic epistemic communities. The pioneering agency for economic expert groups in Chile was the government's production arm, CORFO ("the Chilean Development Corporation), which was the first institutional economic analysis and advisory unit in the country.

Under ISI1, the primary product surplus from exports, especially in agriculture, was thereby gradually eliminated until incentives became so reversed that Chile became a net food *importer* by the 1970s. The strategy of using agricultural surplus was not necessarily wrong, but the industries which were developed were inefficient and dependent upon state protection for the most part, and much of the surplus actually went abroad in capital flight.⁶³

⁶³ See especially Markos J. Mamalakis, The Growth and Structure of the Chilean Economy: From Independence to Allende (New Haven: Yale University Press, 1976) on this point.

2. ***The Steady Increase of State activism under Alessandri and Ibañez, 1920-38: Chile in the first stage of ISI***

The beginning of the twentieth century brought to Chile the introduction of new political movements. The Communist party gradually grew in strength, as did the middle class Radical party. Another factor in the unusual strength of the labor movement was the organization of mine workers by the 1890s.⁶⁴

Until 1920, Chilean politics, centered around a strong Parliament, was dominated by conservatives. Widespread violence, including numerous strikes, occurred amid the restrictions on political participation. In 1920, however, Arturo Alessandri was elected as a candidate of the Liberal Alliance, a coalition of the Radical and Democratic parties. Alessandri wished to implement a progressive agenda: taking state control of the banking, insurance, and nitrate industries; ensuring labor rights and separation of church and state; a progressive tax system, including introduction of an income tax; and expansion of public education. Over the several months in which votes were tallied, there were widespread rumblings of discontent, including a general strike and a massive workers' protest in Santiago in support of Alessandri, amidst the threat of a possible military coup. In response, the authorities finally decided that Alessandri had won by one electoral vote.⁶⁵

In an interesting parallel with the Allende regime, Alessandri was narrowly elected in 1920 on a coalition platform, and represented a serious threat to the

⁶⁴ *Ibid.*, pp.572-5.

⁶⁵ Robert J. Alexander, *The Tragedy of Chile*. (Westport, CT: Greenwood Press, 1978), p.11.

Conservatives. He found his legislative initiatives stalled by a conservative-controlled Parliament.

Chile's economic situation was dire. With the development of synthetic nitrates after World War I by the Germans, demand for Chile's chief export plunged, leading to widespread unemployment and the loss of the chief source of public revenues.

Alessandri was able to gain a parliamentary majority in the next election of 1924, and some parts of his legislation passed. His program was stalled, however, in controversy over a bill by the legislators to begin compensating themselves, and over military pay, related to a delay by congress in passing the budget.⁶⁶

In September, 1924, Alessandri invited General Altamirano to head his cabinet in order to assure military cooperation. Unfortunately, junior military officers who had gathered to protest their poor pay, did not disband, though their salary was increased. Alessandri then resigned from the presidency, leaving for Italy. The Congress refused to accept his resignation, but voted him permission to leave the country for six months. The military junta then closed the Congress, accepting Alessandri's resignations. With deep divisions in their ranks, the junta soon announced a return to civilian government, supporting an ultraconservative candidate, but another coup by a military faction led by Carlos Ibañez and Marmaduke Grove ensued. The new masters called for Alessandri to return and re-assume his position.⁶⁷

⁶⁶ Robert Jones Shafer, A History of Latin America (Lexington, Mass.: D.C. Heath and Company, 1978), pp.575-8.

⁶⁷ Brian Loveman, Chile: The Legacy of Hispanic Capitalism (New York: Oxford University Press, 1988), pp.217-218.

Alessandri returned in March 1925, and appointed Carlos Ibañez his war minister. He also began measures which resulted in a new Constitution, formalizing the *de facto* shift of power to the executive.⁶⁸ This period, which began in March 1925, was one in which Alessandri was able to pass much of his reform legislation by decree, since the Congress had never been re-formed after the coup. Alessandri withdrew from the presidency in October 1925, in order to protest the actions of Colonel Carlos Ibañez. Ibañez had ordered soldiers to fire upon striking workers in the northern part of the country, apparently, without Alessandri's approval. He then refused Alessandri's request that he resign.⁶⁹

Ibañez ran for president in the next election, but Emiliano Figueroa Larrain, who was supported by traditional parties, won. Figueroa Larrain was unable to execute the powers of the government with Ibañez as the Minister of the Interior. He then asked for a leave of absence from the country, leaving Ibañez in charge. Figueroa Larrain formally resigned in May 1927, upon which Ibañez had himself formally elected president.⁷⁰

By October 1925, then General Ibañez was in charge of the government. While leading a politically repressive government, Ibañez was active economically. He greatly increased government expenditures on infrastructure and education, as well as, of course, taking care of military salaries handsomely.⁷¹ Ibañez continued some of Alessandri's progressive agenda, passing new labor legislation, and increasing government

⁶⁸ Lois Hecht Oppenheim, Politics in Chile: Democracy, Authoritarianism, and the Search for Development, (San Francisco: Westview Press, 1993), p.12.

⁶⁹ Loveman, The Legacy, p.220.

⁷⁰ Ibid., p.220.

involvement in the economy. These efforts of his administration fell apart with the economic onslaught of the Great Depression.

Ibañez's government attempted to deal with the devastating economic consequences of the Great Depression, namely the almost complete deterioration of the market for nitrates and copper. The government set up the *Compania de Salitre de Chile* (COSACH) in June, 1930, to supervise nitrate production and sales, but the venture was ineffective in stabilizing world prices and in stemming the importance of foreign investment in the industry. Despite the impressive gains in infrastructure and education in the early years of his reign, Ibañez's legitimacy declined precipitously in line with world nitrate and copper prices. Besides forcing sharp declines in government spending, world economic conditions led to tax increases, large-scale unemployment, and wage reductions. Professional workers and students began a series of devastating strikes on July 22, 1931, which ended the Ibañez administration.⁷² His resignation was followed by several months of civilian attempts at rule, interspersed with military coups. The Socialist Party was born in one of these short-lived governments, namely that of General Marmaduke Grove.⁷³

The political consequences of the period of the Great Depression were a discrediting of military rule, and a return to democracy, not unlike the same phenomenon

⁷¹ Shafer, pp.577-90.

⁷² Jay Kinsbruner, *Chile: A Historical Interpretation* (San Francisco: Harper & Row, 1973), pp.127-33.

⁷³ Paul Drake, "Chile, 1930-58," in Leslie Bethell, ed., *The Cambridge History of Latin America* (New York: Cambridge University Press, 1994), v.VIII, p.278.

in many Latin American states amid economic recessions in the late 1970s and early 1980s.

Now Radical Alessandri was re-elected in 1932 as a candidate of choice by the upper class and portions of the middle class. He represented a far more palatable alternative to Socialist candidate Marmaduke Grove, thus enabling a Conservative-Radical Party alliance.⁷⁴ His economic policies were heavily influenced by Gustavo Ross, his financial advisor. The Alessandri-Ross policies were a combination of orthodoxy and selective intervention. Ross maintained monetary control by balancing the national budget, resuming payment on the foreign debt, and other actions which restored international financial confidence in Chile. At the same time, Ross directed a huge rise in nitrate production. Alessandri dissolved COSACH and replaced it with the Chilean Nitrate and Iodine Corporation. Twenty-five percent of the profits of the company went directly to the treasury. The government firm became the sole exporter for nitrates. As a result, unemployment declined, and the operations generated a budget surplus. Alessandri used some of the new revenues on social services, including education, health, and housing.⁷⁵ Ross also began a policy of promoting industrialization. He increased tariff barriers to protect manufacturing. He also forced a U.S.-owned electric company which served much of central Chile to turn over part ownership to the Chilean government.⁷⁶

⁷⁴ Alexander, p. 16.

⁷⁵ Kinsbruner, p. 134-6.

⁷⁶ Alexander, pp. 19-20.

At the same time, Alessandri used an internal security law to oppress the newly-organized Socialist and Communist parties, who were organizing workers at a rapid rate. Alessandri used martial law to suppress a series of strikes in 1936, which catalyzed the formation of the Popular Front. The Popular Front was a coalition of Communists, Radicals, Democrats, Socialists, and several other minor parties.⁷⁷ The 1938 election marked the first true show of strength of leftist parties, with the Popular Front coalition of leftist and center (Radical) parties winning the presidency behind the moderate reformist Radical, Aguirre Cerda.⁷⁸ Aguirre Cerda defeated Ross by a mere four thousand votes of the five hundred thousand cast.⁷⁹ His administration was the first in a string of center-left governments throughout the 1940s.

Alessandri and, especially, Aguirre Cerda, represent the steppingstones from ISI1 to ISI2. Aguirre Cerda's was the first Chilean government to clearly follow the structuralist goals of government-induced industrialization, as is seen below. Chile had become one of the most stable democracies in the region by the end of the ISI1 period, with peaceful elections continuing until the 1973 military coup. We organize the rest of the following sub-sections by presidential administration, which is the easiest way to expose the development of Chilean economic policy from the standpoint of economic expert groups.

⁷⁷ Kinsbruner, pp.134-6. Comprehensive coverage of the Popular Front is found in Paul W. Drake's Socialism and Populism in Chile, 1932-52 (Chicago: University of Illinois Press, 1978).

⁷⁸ Shafer, pp.579-80.

⁷⁹ Kinsbruner, p.136.

3. *Aguirre Cerda, 1938-41*

Under Aguirre Cerda, the creation of the Chilean Development Corporation (CORFO), a government agency designed specifically to engender economic development, was symptomatic of the proto-structuralist agenda, including a wider government role in the economy.⁸⁰ CORFO engendered a new respect and wider role for economic expertise and represents an embryonic first epistemic economic community in Chile. Although exports, now chiefly copper, continued to dominate the economy, the government's agenda was to take a lead in industrialization, at the expense of agriculture. The role of public investment and government direction of industrialization took off gradually but steadily.⁸¹ The government created a state electricity company in the early 1940s; took control of the oil industry and led a steel mill project, which was partly financed from abroad, in 1950.⁸² Macroeconomic policy was unsteady, however, with huge foreign debts and an antiquated regressive tax structure contributing to sky-high inflation levels.⁸³

CORFO was actually born in reaction to a devastating earthquake which took place just three months after Aguirre Cerda's inauguration. The government established it along with the *Corporacion de Reconstruccion y Auxilio* (Reconstruction and Relief

⁸⁰ I say "proto-structuralist" here because the government did not share the world view of structuralist doctrine (detailed in the next chapter), such as the deterioration of terms of trade, but did take state action to engender industrialization, which is structuralism's main means and goal.

⁸¹ Joseph Love points out, for instance, that public spending for manufacturing was less than that for (separately) agriculture, mining, energy, and public housing. Love, "Economic Ideas and Ideologies in Latin America since 1930," in Bethell, VI, p.401.

⁸² These aspects of state activism are not too dissimilar from Roosevelt's New Deal government programs, such as their rural electrification administration and the other major infrastructure projects of that era.

⁸³ Shafer, pp. 715-20.

Corporation) as vehicles through which to extend emergency disaster relief. When the latter ended, along with the need to distribute supplies, CORFO transformed itself into the key policy instrument for engendering economic development.⁴⁴

CORFO carried out the three most important government activities in its programs for the development of light and power, industry, and agriculture. In the first case, it organized a subsidiary, *the Empresa Nacional de Electricidad, S.A. (ENDESA)*, which sought to extend electricity throughout the country and to develop a national electric grid, by taking over private electric companies. In the area of petroleum development, CORFO established one subsidiary for exploration and drilling in southern Chile, and one for refining petroleum. In manufacturing, CORFO encouraged small company mergers, through providing financing, especially in the home appliance, copper, and pharmaceuticals industries. CORFO also began important industrial development projects. The first steel plant, with the help of U.S. Koppers Coke Company, began production in 1947. In agriculture, CORFO was limited in scope, helping to finance the importation of machinery, equipment, and other inputs in the agricultural sector.⁴⁵

During the Aguirre Cerda Administration, the trade union movement expanded rapidly throughout the country. At the same time, the Socialist and Communist parties were bitter rivals, which destroyed any possibility of their cooperation in the Popular Front. The Socialist Party also split into two factions in 1939, with only one staying in

⁴⁴ Alexander, p.27.

⁴⁵ *Ibid.*, pp.27-8.

the government coalition. With President Aguirre Cerda's death on November 25, 1941, there was a need for new elections.⁸⁶

4. *Juan Antonio Rios, 1942-6*

Radical Juan Antonio Rios, Aguirre Cerda's main rival within the party, narrowly won the presidency in 1942. The Popular Front of Radicals, Socialists, and Communists managed to stay together for the election. Rios' opponent, General Carlos Ibañez, was a candidate of a coalition of Conservative and Liberal party leaders. Rios served only four of the six years of his term, dying in office. His Administration took place at the height of World War II. During this period, the Socialists again split up into factions of those favoring and those opposing alliance with the Communists and with the government. Marmaduke Grove led the former faction, many of whom eventually joined the Communist Party. The latter were led by Salvador Allende, then party secretary general, and Bernardo Ibañez, both of whom strongly opposed entry into the government and merger with the Communists. The major economic event of the Rios Administration took place while the president was ill. Immediately after the war, a series of strikes took place, primarily in the mining industry. Vice President Duhalde offered concessions, which split *the Confederacion de Trabajadores de Chile* (Chilean Workers' Confederation, or CTC) into a majority Communist faction and a minority Socialist one. Rios' death in July 1946 led to another presidential election, which was held on September 4, 1946.⁸⁷

⁸⁶ *Ibid.*, pp.29-30.

⁸⁷ *Ibid.*, pp.30-1.

5. ***Gabriel Gonzalez Videla, 1946-52***

Rios was succeeded by Radical Gabriel Gonzalez Videla, who led a coalition of the Radicals, Liberals, Communists, and a small predecessor of the Christian Democrats, the *Falange Nacional*, to a narrow victory in 1946. Gonzalez Videla was able to consolidate a governing coalition through the inclusion of Liberals in his cabinet, which was odd considering the coalition thereby contained some of the more conservative as well as leftist political groups.⁴⁴

The Communist members of the coalition soon found themselves in tension with other members by attempting to use their government positions in order to win the battle over control of the labor movement from their erstwhile rivals, the Socialists. Their battles went so far as to include physical attacks on rival organizers. The Communists also favored a strong anti-U.S. foreign policy, a position with which other members of the coalition disagreed. Not surprisingly, the coalition split during the municipal elections in April 1947. The Liberals lost many seats to the Conservative party, and considered it a result of their alliance with the Communists. At the same time the Communist and Socialist parties gained, while the Radical Party lost seats. Following the elections, the Liberal and Radical party members resigned their cabinet positions. President Gonzalez Videla fired the Communist ministers, who had refused to resign. The Communists reacted hostilely, with a series of strikes by the unions they controlled. Gonzalez Videla saw these strikes as revolutionary actions, and probably feared the Communist Party's links with the Soviet Union. He reacted by passing anti-Communist legislation, called

“the Law for the Defense of Democracy,” which made the Communist Party illegal and ineligible for political offices. The majority of the Socialist Party favored the law, but a minority, led by Allende, broke with this group, forming the *Partido Socialista Popular* (Popular Socialist Party). Gonzalez Videla also passed legislation which effectively curtailed rural unionization, which had been one of the Communists’ most important activities.⁸⁹

Gonzalez Videla, through CORFO, continued government activism for industrialization. He supervised the opening of a steel and a smelting plant; opened three major hydroelectric projects, and developed petroleum resources in southern Chile. CORFO also promoted expansion of the more established industries, including pharmaceuticals, metal fabricating, textiles, and paper production.⁹⁰

6. *Carlos Ibañez, 1952-8*

In the first national election in which women could vote former dictator Ibañez was elected on a populist platform in 1952. His coalition included a small party, the *Partido Agrario Laborista* (Agrarian Labor Party), with no clear ideology; a faction of the Radical and Democratic parties; and the *Partido Socialista Popular*. Allende formed yet another splinter from the PSP group and rejoined the *Partido Socialista de Chile* (PSCh), the Socialist Party of Chile, from which he had split in 1948. Allende ran with this main grouping of Socialists, in alliance with the Communist Party. The election

⁸⁸ Alexander, pp.31-3.

⁸⁹ *Ibid.*, pp.33-5.

⁹⁰ *Ibid.*, pp.29-35.

marked the first coalition exclusively between the two main Leftist parties- the Communist and Socialist parties. Ibañez won decisively on a wave of personal popularity, which would prove short-lived.⁹¹

He engaged in highly expansionist economic policies, leading to inflation. His political repression was equally unpalatable.⁹² President Ibañez's terrible economic record led to increasingly open protests against high inflation, and half-hearted attempts at austerity measures, in part advised by United States consultants Klein and Saks. Klein and Saks played the legitimating role of an epistemic economic community and had ties to the interest groups of international finance, the U.S. government, and U.S. and Chilean businesses, but they fall far short of constituting a knowledge-based economic epistemic community, with an all-encompassing economic ideology. Klein and Saks advised the use of monetary controls to reduce inflation, and were partly successful, with the rate of inflation reducing from 38% in 1956 to 17% in 1957. Nevertheless, these significant gains on inflation were inadequate to overcome the combined opposition of the Congress, the large business group interests represented by the *Confederacion de la Produccion y el Comercio* (CPC, Confederation of Production and Trade) and the *Sociedad de Fomento Fabril* (SOFOFA, Society for Industrial Promotion), and the mobilization of organized workers. Many of these opponents, in a manner similar to the new structuralist economists' position (centered in ECLA, the United Nations' Economic Commission for Latin America), attacked the strategy of delineating purely monetary causes of inflation.

⁹¹ *Ibid.*, pp.36-39.

⁹² Shafer, pp.719-21.

The structuralists' diagnosis was that factors affecting and affected by the money supply were only symptoms of deeper causes of inflation, including: the low level of median income and the high degree of income inequality; the dangerous dependence on copper and nitrate exports; the low proportion of earnings from these exports that stayed in the country; the low level of re-invested gross product; the need to increase the industrial and technological capacity of domestic agriculture; and the need for foreign investment in areas other than mining. One of the few defenders of the mission was the newspaper, *El Mercurio*. The newspaper voiced the opinion of the minority of the business sector which favored greater market liberalism.⁹³ *El Mercurio* has ever since been a stalwart supporter of economic liberalism.

Ibañez was, nevertheless, able to carry out important economic reforms. A new statute, passed in 1955, reorganized the copper industry. The legislation simplified the tax structure of the industry, and gave incentives to copper mining companies to increase production.⁹⁴ Another part of the copper legislation gave legal recognition to the Copper Workers' Confederation, which became the only recognized national industrial union. Other important decrees established the State Bank, and the government housing program, the *Corporacion de Vivienda*. Ibañez's expansionist fiscal policy, courting of workers, and personal friendship with Argentine dictator Peron, led the Socialist and Communist parties to strengthen their organizing efforts in opposition to the government. They feared Ibañez would seize control of organized labor as had Peron. They

⁹³ Juan Gabriel Valdes, *La Escuela de Chicago: Operacion Chile* (Buenos Aires: Grupo Editorial Zeta S.A., 1989), pp. 142-4.

collaborated in uniting their unions under the Central Unica de Trabajadores de Chile (CUTCh) in December 1952, with the Communists "overrepresented" in positions in the new union.⁹⁵

The new Socialist-Communist Alliance was formalized with the creation of the *Frente de Accion Popular* (FRAP, Popular Action Front), which presented Allende as presidential candidate in the 1956 elections. FRAP included the *Partido Socialista de Chile*, the *Partido Socialista Popular*, the *Partido Comunista*, and the two factions of the Democratic Party, the *Partido Democratico del Pueblo* and the *Partido Democratico de Chile*. The PSP had by then split from the Ibañez government, eventually reuniting with the *Partido Socialista de Chile*.⁹⁶

During this period, the Christian Democratic Party (PDC) was also established from three different groups. The first was the *Falange Nacional*, which had been a youth movement of the Conservative Party in the 1930s. They were influenced by several leading Catholic thinkers in Europe, where many had studied, especially Jacques Maritain. The second group was the *Partido Conservador Social Cristiano*, which had originated in a split of the Conservative Party in 1949. This group was weak by 1957, with many members returning to the Conservative Party. The last group forming the

⁹⁴ These incentives would later be used by Allende to back his claim that copper companies had been able to make excess profits.

⁹⁵ Alexander, pp.41-3. The Communists were overrepresented because the Socialist Party was divided then. I owe this information to comments by Lois Hecht Oppenheim on an earlier draft.

⁹⁶ Alexander, pp.43-44.

PDC was the *Partido Nacional Cristiano*, which had been established in 1952 in order to support Ibañez's candidacy.⁹⁷

These parties would serve as the main axes of the Left and the Center, respectively, until the 1980s.

7. *Jorge Alessandri, 1958-64*

In time for the 1958 election, Ibañez re-legalized the Communist party. The voting franchise was also greatly extended with the elimination of the literacy requirement, and the use of a single ballot for all candidates. With these changes, rural and poor voters naturally became much more significant, and the right-wing Conservative and Liberal parties correspondingly less important.⁹⁸

Jorge Alessandri, who was related to the Arturo Alessandri, President in the 1920s and early 1930s, led a coalition of the Liberals and Conservatives. They managed to defeat Allende, the Socialist-led coalition candidate, receiving thirty two percent of the vote to Allende's twenty nine per cent in 1958. Alessandri was the president of the important paper business *Compania de Papeles y Cartones*, and came from a wealthy background. Allende's leftist support was partly siphoned off by an independent candidate, Antonio Zamorano, who received votes approximately equal in number to the margin of victory of Alessandri. The newly formed Christian Democrats' candidate, Frei, rounded out the field with twenty one percent.⁹⁹

⁹⁷ *Ibid.*, pp.44-5.

⁹⁸ *Ibid.*, pp.45-6: Veronica Montecinos cites Tomas Moulian's figures of an expansion from 800,000 voters in 1958 to 4,500,000 in 1973. see *Economists and Power*, p.34.

⁹⁹ Shafer, pp.719-21.

With the support of the Radical Party in Congress, Alessandri was able to adopt orthodox liberal economic measures, including encouraging foreign investment, keeping inflation in check with tight control of the money supply, and generally following a reliance on market forces. He also undertook tax reform. The tax reform included improved collection procedures and increased taxes on land.¹⁰⁰

These liberal economic solutions were accompanied by public spending on roads, housing, and agrarian reform. Alessandri's was also the first administration to attempt substantive public provision of housing. He directed efforts to reduce the problem of urban squatters.¹⁰¹ Under pressure from the United States' new Alliance for Progress policies, his administration passed the first Agrarian Reform law, which led to colonization and redistribution of public lands, rather than any real change in property inequality.¹⁰² While the amounts of actual land expropriated were minimal (only eleven farms with 61,620 hectares by 1963), the establishment of the law and the government-managed Agrarian Reform Corporation (CORA), helped to cement land reform as a premier political issue.¹⁰³ These reforms were one sign of the creeping importance of structuralist ideas, which would dominate in the next administration. Lois Oppenheim

¹⁰⁰ James R. Whelan, Out of the Ashes: Life, Death and Transfiguration of Democracy in Chile, 1833-1988 (Washington: Regener Gateway 1989).

¹⁰¹ Alexander, p.47.

¹⁰² Oppenheim Politics in Chile, pp.23-4.

¹⁰³ Kinsbruner, p.152-153.

notes that the change in U.S. policy to favor structuralist reforms may have been linked to the influence of ECLA upon the Kennedy Administration.¹⁰⁴

Alessandri also established *the Empresa de Comercio Agrícola*. (ECA), to help establish industries for processing agricultural products and for stimulating commercial fishing. With the cooperation of CORFO, ECA helped to create a cellulose products industry.¹⁰⁵

Alessandri's decision-making style ran counter to that of subsequent governments. In the economic arena, he tended to have more confidence in engineers than in economists and to make decisions independently, rather than relying on economic advisors. He believed in more of a managerial or business-like approach to governing.¹⁰⁶

Though Alessandri's party fared well in the early 1960 municipal elections, by the end of that year, organized labor strikers began to protest the austerity measures. Alessandri also faltered in his application of liberal measures to control inflation. The brief successes in containing inflation gave way to a resurgence of the economic problem in 1961. While Alessandri remained personally popular throughout his presidency, by the end of it the right-wing parties had lost considerable strength.¹⁰⁷

¹⁰⁴ Oppenheim, *Politics in Chile*, p.23. This connection between the structuralist doctrines of ECLA and U.S. policies is explored in greater detail in the next chapter.

¹⁰⁵ Alexander, p.47.

¹⁰⁶ Montecinos, *Economists and Power*, pp.42-43.

¹⁰⁷ Whelan, pp.107-9.

8. Conclusion- *The rise of Chilean state and economic experts in the twentieth century (1920-1964)*

As we have seen, the steady increase in the size of the state, and the importance in the role of economic experts after the Great Depression continued in a haphazard way up to the Alessandri Administration in Chile. Alessandri relied extensively on experts for economic advice, but these advisors were not yet organized into coherent groups with clear ideologies corresponding to sets of policies. Hence, while bowing to the steady pressure of outside groups, such as ECLA on land reform, Alessandri followed a generally economically liberal policy framework, albeit in an uneven fashion. As we shall see in the next chapter, the next President, Frei, made economic issues, in good part inspired by and engineered by ECLA economists, a prominent foundation of his campaign and his policy decisions.

Chapter 3: ECLA and the structuralist ideology of development in Chile

I. Introduction

This chapter will examine the structuralist ideology of development. This set of beliefs and policies about development was intimately tied to the economic epistemic community of ECLA (known as CEPAL in Spanish)¹⁰⁸. Particular emphasis will be placed upon understanding ECLA's role in Chilean economic policy.

ECLA's doctrines have been considered the foundation of the first unique Latin American school of economic thought, known as developmentalism, or structuralism.¹⁰⁹ This chapter focuses on ECLA as an organization and its political promotion of structuralism as an ideology of development, rather than on structuralism itself. More thorough accounts of the history of structuralism are provided elsewhere,¹¹⁰ but we trace the key moments of the evolution of the ideology here. Octavio Rodriguez argues that the period of originality (of ideas) in ECLA was from 1949 until the 1960s, after which it dropped off. ECLA contributed to the promotion of Latin American economic integration; programming or planning economic development; and helped to create the

¹⁰⁸ Although ECLA has become ECLAC, to include the Caribbean in the name, I refer to it as ECLA throughout the dissertation, since the original name corresponds to the period which I discuss, and for simplicity.

¹⁰⁹ Aldo Anotonio Dadone y Luis Eugenio Di Marco, "El impacto de las ideas de Prebisch en el analisis economico moderno," in Luis Eugenio Di Marco, editor, Economia Internacional y Desarrollo: Estudios en honor de Raul Prebisch (Buenos Aires: Ediciones Depalma, 1974), pp.16-18

¹¹⁰ See Joseph Love, "Economic Ideas and Ideologies in Latin America since 1930," in Leslie Bethell, ed., The Cambridge History of Latin America (New York: Cambridge University Press, 1994), VI: Sikkink, "Development Ideas in Latin America: Paradigm Shift and the Economic Commission for Latin America," in

Inter-American Development Bank and the United Nations Conference on Trade and Development.¹¹¹

As with any study of an organizational period whose generation has largely past, we rely to a significant degree upon third party interviews and documentary sources for our understanding of the inner workings of the organization. An especially important limitation to note is the reluctance of international organization staffers to acknowledge their policy influence, and the consequent lack of records of direct ties or consultations. In fact, almost all writings on ECLA have centered on the charismatic presence of Raul Prebisch,¹¹² to the exclusion of the many other important personalities within the organization, such as Jorge Ahumada, Celso Furtado, and Fernando Henrique Cardoso. Moreover, there is very little in the way of organizational history available on ECLA. Despite these obstacles, we can reach some fairly solid conclusions about ECLA's influence in Latin America and gain important glimpses into the internal sources of its effectiveness as an organization.

The first part of the chapter will look at the historical development of ECLA thought during the period of its greatest influence; and the second part will provide a brief analysis of the doctrine itself. The third part will return to the specific-level model by looking at the ways in which ECLA influenced Latin American economic policy decision

Frederick Cooper, ed., *Development Knowledge, forthcoming*; and Rosemary Thorp, "The Latin American Economies, 1939-c.1950," in Bethell, v.VI, part I., for the best examples.

¹¹¹ Octavio Rodriguez, as cited in Joseph L. Love, "Economic Ideas and Ideologies in Latin America since 1930," in Bethell, v.VI, p.430.

¹¹² For instance, see Enrique V. Iglesias, ed. *The Legacy of Raul Prebisch*. (Washington: Inter-American Development Bank, 1994); Joseph B. Hodara, *Prebisch y la CEPAL: sustancia, trayectoria y contexto institucional*. (Mexico City: Colegio de Mexico, 1987) and Octavio Rodriguez, *La teoriaa del subdesarrollo de la CEPAL*. (Mexico City: Siglo Ventiuno, 1980). These are also the best analyses which I found on ECLA.

makers. This part will feature a special section on the ties between Chilean economic policy from 1964-1973 and ECLA's structural ideas. The fourth part will review the other important relationship of the specific level model- the ties between organized interest groups and ECLA. The final section discusses the demise of structuralism throughout Latin America by the late 1980s.

II. Historical Development of Structuralist Doctrine

A. Introduction- Historical Significance of ECLA

As recounted in detail in "Appendix A: Historical-Ideological Periods in Latin American History," the import substituting industrialization ideas which have become synonymous with ECLA actually began in the 1930s, even before ECLA existed. These policies were enforced by international conditions, namely the Great Depression and the world wars. They were furthered on the domestic front by a coalition of active governments, nascent industrialists, and their slowly organizing labor forces.

Nonetheless, it was only with the advent of ECLA that these ideas became a coherent economic doctrine. Raul Prebisch, the head of ECLA during its heyday, was able to give these policies a concrete and defensible structure. This ideological structure was needed to defend the deepening ISI2 policies which called for even greater government promotion and protection of industries and dovetailed with a nationalistic feeling among Latin American elites for greater independence from the United States. In a more general sense, ECLA helped to define "development," as both an important concept and supreme national goal in the region.

As ECLA's own ideas developed, they clearly affected the development of economic policies in Chile and throughout Latin America. Indeed, ECLA was the virtual founder of a regional identity in Latin America, spurring on the development of a regional vision of politics and economics.¹¹³ The next section therefore reviews the development of structuralism within ECLA, followed by an attempt to understand ECLA's success in influencing Latin American governments.

B. Historical Development of Structuralism within ECLA¹¹⁴

I. Origin

ECLA was founded in 1948 in Santiago, Chile with the express purpose of fostering development in Latin America. ECLA, as a commission of the United Nations, was born out of the Cold War environment of the 1950s. Like its sister regional economic commissions, ECLA was viewed with caution and even disdain by the United States and the Soviet Union, since it existed off the axis of East-West political and military competition and was distinct from the functional orientation of most of the United Nations.¹¹⁵ Moreover, the United States government preferred an organization

¹¹³ See Arnaldo Pirela, La Escuela Latinoamericana del Pensamiento Economico y Social (CEPAL- Dependencia) (Caracas: CENDES). Pirela notes that CEPAL brought, for the first time, an institution through which Latin America, *as a region*, could develop a united intellectual and policy front in contradistinction to outside powers.

¹¹⁴ I avoid lengthy discussion of formal decision-making procedures within ECLA, since they are not vital to the story. Suffice it to say that delegates from the member countries held important discussions during meetings on an annual basis in which policies and directions were discussed. See John David Edwards, Economic Ideology and Economic Integration in Latin America: The Impact of ECLA on LAFTA, Ph.D. dissertation, Government, (Charlottesville: University of Virginia, May 1974), pp.31-51 for more information.

¹¹⁵ Pierre-Michel Fontaine, Regionalism and Functionalism in International Organization: the United Nations Economic Commission for Latin America, Ph.D. dissertation, Political Science and International Relations, University of Denver, (Ann Arbor: University Microfilms, 1970), pp.1-4. This work provides a good background on the political and constitutional formation of ECLA, which are outside the scope of the present study. See also

which it could more easily dominate, such as the Organization of American States. With Latin American delegates holding fast, however, ECLA was created with the express mandate of fostering economic development in the region. The origin of ECLA, therefore, helps us to understand the organization's prime self-image as a rebel, an independent, and a fighter against a historical giant. This self-identity was not only reflected in its analysis but also permeated every aspect of the organization for the first two decades.

Albert O. Hirschman, writing in 1961, divided the history of ECLA into three historical periods. The first lasted until 1953. During this period, the structuralist ideology was developed and tested using basic economic data. The aim during the second period, from 1953 until 1958, was planning Latin American countries' economic future along structuralist lines. During the third period, from 1958 until 1961, the organization added the goal of Latin American economic integration.¹¹⁶ We could add a fourth phase, from 1961-80, in which ECLA emphasized the redistribution of income and, to a lesser degree, wealth, as another important requirement for economic development in the region. Since the mid 1980s, ECLA has entered a fifth stage¹¹⁷, in which it has ironically turned to a stance which accepts market-oriented policies, albeit

Pirela, p.49, and David H. Pollock, "Some changes in United States attitudes towards CEPAL over the past 30 years," *CEPAL Review* (2nd half of 1978):57-9.

¹¹⁵ Albert O. Hirschman, "Ideologies of Economic Development in Latin America," in Hirschman, *Latin American Issues: Essays and Comments* (New York: The Twentieth Century Fund, 1961), p.13.

¹¹⁶ *Ibid.*

¹¹⁷ For an interesting review of the recent evolution of ECLA to market-oriented policies, see Sikkink, "Development Ideas."

with softening social programs, which it calls “neo-structuralism.” These stages of development can be traced through ECLA’s major publications.

2. *Formative Years*

Latin America looked for a type of Marshall Plan assistance after supporting the allies in the war and suffering from economic problems related to the war. These conditions included shortages of capital and consumer goods; high inflation rates; high import prices; the contraction of commodities markets with the end of the war, especially a collapse of European markets; and the end of the flow of European capital to the region. Addressing these problems became the immediate justification for, and mission of, ECLA upon its formation.¹¹⁸

The primer, or, “exemplar,” in Kuhnian terms, for ECLA’s structuralist thinking was written by Raul Prebisch in 1949, who was then a consultant to ECLA. His report, The Economic Development of Latin America and its Principal Problems,¹¹⁹ provided the backbone for the structuralist ideology. The work sets out the main structuralist tenets regarding economic development in Latin America: the lack of universality of economic theories, and the corresponding need for locally-trained economists and locally-specific theories; the definition of the “center,” as the industrialized and technologically advanced countries in contradistinction with the “periphery,” which transfers a share of its progress to the center; the importance of industrialization in Latin America; the need for substitution of industrial imports in the pursuit of this goal; the desirability of integrating

¹¹⁸ Fontaine, p.90.

Latin American markets in order to achieve economies of scale, especially in terms of technology; ambivalence towards monetarist treatment of inflation; and the use of exchange rate controls to induce import substitution and reduce inflation.¹²⁰ The 1951 report, by the ECLA secretariat, entitled Theoretical and Practical Problems of Economic Growth, reinforced Prebisch's theoretical contentions, with a few modifications. Foremost among these was the emphasis on the need for internal sources of finance capital.¹²¹

The same year brought a strengthening of Latin American economies through the U.S. Korean War boom and a strengthening of ECLA institutionally. ECLA had by then achieved a strong measure of its legitimacy for its existence through its creation of the first comprehensive set of national economic statistics for Latin America,¹²² which continue to be the bedrock of ECLA publications and analysis of the region. The United Nations' Economic and Social Council (ECOSOC), decided to make the regional economic commissions permanent and to strengthen their mandates. ECLA also responded to a request by Central American governments to create a Central Coordinating Committee as a subsidiary organization. ECLA created the training center for economists, the ECLA Center for Economic Development. The institutional changes

¹¹⁹ Raul Prebisch, The Economic Development of Latin America and Its Principal Problems (New York: United Nations, 1950).

¹²⁰ Fontaine, pp.99-107.

¹²¹ Ibid., p.108.

¹²² Pollock, pp.59-60.

reflected a growing confidence in the structuralist framework, and a desire for practical application.¹²³

3. *Application of Structuralist Doctrines*

By the early 1950s, ECLA had achieved enough institutional legitimacy that it could attempt to extend the structuralist practices which had existed *de facto* in Latin America since the 1930s and which it had legitimated in its first years. The fourth annual session in 1952 marked the first manifestation of this commitment to applying doctrines.¹²⁴ Executive Secretary Prebisch's speech reinforced the need for the new emphasis on application, rather than theory. As Hirschman described, ECLA had entered the second major phase of its history- one marked by an emphasis on detailed analysis, economic planning, and specific policy recommendations. The beginning of the economic programming effort also saw the birth of its primary publication, namely An Introduction to the Technique of Programming, which was first presented by ECLA in 1953.¹²⁵

These planning efforts, combined with the emphasis on industrialization led to a practical concentration and financing of large industrial projects, many of which were later criticized as inefficient.¹²⁶ The favoring of industrialization, while not clear in Prebisch's original pronouncements, existed in practice, and meant a deterioration of agricultural productivity. ECLA's doctrine was clearly favorable to organized labor.

¹²³ Fontaine, pp.109-110.

¹²⁴ Ibid., pp.110-11.

¹²⁵ Hirschmann, "Ideologies of Economic Development," in Latin American Issues, p.17.

protected industrialists, and First World exporters of capital and intermediate goods. On the other hand, ECLA's early import bias clearly hurt both primary and secondary product exporting producers.

With the end of the Korean War in 1953, Latin American economies once again suffered an economic downturn. The 1954 Secretariat's report, International Cooperation in a Latin American Development Policy, extended the ECLA program into the arena of political and social reforms. The report was a precursor to the recommendations on the need for the redistribution of income and land, and the need for financing education, which would become fundamental to the moderate reformist governments and for the United States aid program, the Alliance for Progress, which took place in the 1960s in Latin America.¹²⁷

4. *The 1960s: ECLA promotes integration and redistribution*

In 1958, for the first time, ECLA made regional integration one of its top priorities, which it felt would increase the possibilities for industrialization. While the general principle had been present in Prebisch's 1949 manifesto, only in 1958 did ECLA actively begin to promote the goal of regional integration.¹²⁸ The changes in part reflected new contributions from the additions to the economic core of ECLA's staff, such as Mexican sociologist Jose Medina Echaverria.¹²⁹ This promotion consisted of a series of

¹²⁶ Fontaine, pp.133-76.

¹²⁷ Ibid., pp.113-22.

¹²⁸ Albert O. Hirschman, "Ideologies of Economic Development in Latin America," in A Bias for Hope: Essays on Development and Latin America. (New Haven: Yale U. Press, 1971), p.287.

¹²⁹ Celso Furtado, La Fantasia Organizada (Buenos Aires: Editorial Universitaria de Buenos Aires, 1988) p.102.

formal working groups; informal meetings among private experts; and formal agreements, culminating in the basic documents for the envisioned Latin American Free Trade Agreement. Though both ECLA and participatory governments had realized that the size of their markets presented limits to further import substituting industrialization, the agreements remained formal documents only.¹³⁰ The failure of the attempts at economic integration amid such high expectations was probably ECLA's most important mistake in judgment during the first two decades.

The move towards promotion of regional integration and redistributive goals was the last discernible major development in structural theory, though treatises along structural lines appeared in CEPAL Review for several years after Prebisch's death in 1986. The loss of intellectual and influential power is elaborated upon in the section below which describes United States-ECLA relations and may be traced in part to the adoption of several ECLA policies in the 1960s and in part to Prebisch's departure in 1963, both of which seemed to effectively halt intellectual creation in ECLA. More importantly, the new economic circumstances of the 1970s and 1980s, as well as the general transformation of attitudes among the Left and moderately left as will be described in Chapter 5, led to a general and continuing public rejection of structuralism.

5 *ECLA's political position during the 1960s in perspective*

It should be clear by now that ECLA's approach was disdained by both the Right and the Left in Latin America. The believers in conservative economics naturally opposed structuralism on the grounds that it advocated state, or bureaucratic intervention

¹³⁰ Fontaine, pp.284-93.

in the economy, which reduced market efficiency and forced redistribution, leading to a kind of state-induced socialism. While a Latin American economic perspective was not only formed but shaped by ECLA, “cepalismo,” as ECLA’s ideology came to be known, gave rise to several varieties of thought. By the early 1960s, the *dependencia* school was forming in Latin America, based on a more radical interpretation of Prebisch’s initial statements. In fact, many of the most important dependency theorists have had direct and ongoing ties to ECLA. For example, Fernando Henrique Cardoso and Enzo Faletto, authors of the seminal Dependency and Development in Latin America, wrote the piece while working for ILPES, ECLA’s training institute, between 1966 and 1967.¹³¹ By the late 1960s, the Left, inspired throughout Latin America by the Cuban Revolution and dependency analysis, was openly dissatisfied with structuralism’s lack of class analysis. The Left felt that ECLA-sponsored reforms might actually delay or reduce the possibility of socialistic revolution.¹³² On the other hand, the Left probably also drew ECLA into more strident calls for income redistribution and regulation of transnational corporations.¹³³

By the 1960s, ECLA, an avowedly economic analysis unit, had clearly expanded its vision and staff to include all aspects of development. Though these implications were present in Prebisch’s 1948 work, ECLA had obtained enough confidence to more openly expound them to the region. Thus, the center-periphery system was duplicated on a

¹³¹ Pirela, p.72. Pirela discusses more extensively the ideational connections between structuralism and dependency thought on pp.63-80.

¹³² Fernando Henrique Cardoso, “The Originality of a Copy: CEPAL and the Idea of Development,” CEPAL Review (2nd half of 1977):10-11.

national level, and redistribution became a leading issue for ECLA. The emphasis on redistribution would also lead to political backlash against ECLA when rightist militaries took over in much of Latin America, as occurred in Chile in 1973.

III. Brief Analysis of Structuralism

This section compares structuralism with the leading rival ideologies in Latin America during this time period- the dependency and neo-liberal (“monetarist”) approaches, while largely avoiding the (de)merits of the approach itself. The substantive analysis of ECLA’s approach constitutes a voluminous and continually expanding literature, and so is not considered here.¹³⁴

Like all ideologies, structuralism is defined in relation to alternative ideologies. For instance, ECLA accepts the basic notion of a world divided according to comparative advantage¹³⁵, though it believes that comparative advantage can be changed through protection from the world economy and inward transformation. Structuralism also borrows Engel’s law, which says that demand for food declines relative to that for luxuries as incomes rise, which explains the relatively declining prices for primary materials. Celso Furtado, a leading ECLA thinker, added to this basic analysis the problem of a very high propensity to import, which, he explained, meant a leakage of the

¹³³ *Ibid.*, pp.33-5. Cardoso cites Anibal Pinto and Pedro Vuskovic as the more left-leaning members of ECLA during this period. In fact, Vuskovic became part of Allende’s cabinet in 1970.

¹³⁴ The best analyses are found in Joseph B. Hodara, *Prebisch v la CEPAL: sustancia, trayectoria v contexto institucional* (Mexico City: Colegio de Mexico, 1987) and Octavio Rodriguez, *La teoria del subdesarrollo de la CEPAL* (Mexico City: Siglo Vientiuno, 1980).

¹³⁵ Gabriel Guzman, *El desarrollo latinoamericano v la CEPAL* (Barcelona: Editorial Planeta, 1976), p.349.

Keynesian income and investment multipliers.¹³⁶ This only underscored the necessity of industrialization.

Anibal Pinto wrote an essay, *Ni estabilidad, ni desarrollo* (“Neither stability nor development”), which directly challenged the IMF and the similarly monetarist Klein-Saks advisory team sent to Chile who worked for the Alessandri regime in 1960. Pinto dismissed orthodox monetarist solutions to inflation. He instead pointed to four other important factors. The first was the limited availability of food supplies, due to the demand increases from expansion of other economic sectors. The second was the instability in the ability to import, owing to brusque fluctuations in principal export prices, and a persistent overall consumptive and import demand pressure. The third was the low level of capital formation, which hurt production, and led to inflationary measures as a means for raising private and public capital. Lastly, Pinto pointed out the rigidity, instability, and regressive character of the fiscal systems in Latin America. These bottlenecks, in his view, had to be smoothed out before the problem of recurrent inflation could be solved.¹³⁷

The role of the state also distinguishes ECLA’s economic ideology from others. As Regis de Castro Andrade points out, ECLA assumes a “neutral-rational state” is possible and that such a state can make a difference in peripheral economic

¹³⁶ As noted in Love, p.423.

¹³⁷ Sofia Mendez, “Algunas reflexiones sobre Anibal Pinto,” in Victor M. Bernal Sahagun, Sergio de la Pena, Gloria Gonzalez Salazar, Arturo Guillen, and Sofia Mendez, eds., Pensamiento Latinoamericano: Cepal, R. Prebisch y A. Pinto (Mexico City: Universidad Nacional Autonoma de Mexico, 1980), pp.104-5.

development.¹³⁸ Both neo-liberalism and structuralism, therefore, support the notion that the state, led by economic experts can guide the economy accordingly. However, structuralism extends the scope of that guidance or leadership enormously beyond that of neo-liberalism, which limits policy instruments to the money supply and control of fiscal spending. The price elasticity observations of ECLA also challenged classical international economic theories that factor prices should equalize, after transportation costs.¹³⁹ The important point here is that the price of labor remained extremely low, and that of capital extremely high in the Third World.

In the present day, the mere mention of economic “planning” smacks of failing communist political economies. However, we should remember that at the time when ECLA was promoting programming and planning of economic endeavors, it was a widely accepted notion. The ideas of planning spread through the Third World through the examples of Soviet industrialization and the administration of the Marshall Plan in Europe. With the spread of Keynesian ideas in developed countries, ECLA’s version of planning was in tune with the thinking of the times. Considering United States’ policies in Japan and Europe after the Second World War reveals this gap between neo-liberal recommendations and actual experiences in planning economic reorganization.

The main contemporary empirical criticisms of structuralism were as follows. First, the terms of trade deterioration premise was highly questioned on several fronts. One was that the improved quality of industrial goods over time had not been considered.

¹³⁸ Regis de Castro Andrade, The Economics of Underdevelopment, the State and Politics in ECLA’s Doctrine (1949-64), Occasional Papers, No. 29 (Glasgow: University of Glasgow, 1979). In other words, the agent, the state, can change the structure, the international economic system.

Moreover, the introduction of new goods, and the incorporation of new technologies brought into question the study of terms of trade over long periods of time. Second, declining costs of transportation, and other transaction costs were not considered.¹⁴⁰ Third, ECLA has been widely attacked for introducing a strong anti-agricultural and anti-export bias, though defenders have argued that Prebisch had always supported both increasing agricultural productivity and exports. In any case, in practice, governments working within structural policy frameworks did in fact suffer from continuing agricultural and foreign exchange crises.

Regardless of the theoretical debate surrounding structuralism, in fact it required two elements to succeed. In the early years, Prebisch and ECLA counted on massive public international capital flows into Latin America, along the lines of the Marshall Plan, which never happened. This capital therefore came increasingly from direct foreign investment. Foreign investment from abroad could only be secured at the expense of containing the political power of labor, which became the second, if unintended outcome, of structuralist policies. This may help to explain the move to military governments by the 1960s in key Latin American countries, such as Brazil and Argentina.¹⁴¹ To be fair, under neo-liberal policies, labor rights and organization were largely wiped out.

In short, structuralist policies placed countries on a precarious ledge between the need for foreign capital and capital goods imports and the desire for redistribution. In spite of, or, perhaps in reaction to, this situation and the general atmosphere of

¹³⁹ Sergio de la Pena. "Las ideas principales de la CEPAL." in Sahagun, et al., p. 14.

¹⁴⁰ Dadone & Di Marco, pp.30-34.

polarization, ECLA began to adopt a more strident redistributive and anti-foreign direct investment stance. Redistribution became part of the Kennedy Administration's fight against communism, however, so that the international community dropped its objections to structuralism during most of the 1960s. These conditions changed, of course, when military governments took over, and more orthodox economic policies were adopted, making ECLA an expendable coalition partner.

IV. Consideration of ECLA's Influence in Latin America

A. Introduction

ECLA's influence on economic policy making in Latin America was hegemonic during the 1950s and 1960s. At first, its place as a regional center relied directly on Raul Prebisch. Prebisch was the only Latin American economist with international stature at the time.¹⁴¹ and his 1948 manifesto put ECLA on the map. In direct terms, ECLA was the only source for economic policy analysis, which it provided, along with policy recommendations in abundance to each country in the region. Naturally, the need for local data and analysis as well as the lack of trained local economists to implement the policy recommendations led to innumerable ECLA missions and training courses in Latin American countries. Secondly, and more prominently, ECLA personnel or consultants permeated Latin American governments, in many cases serving as the chief officials for economic policy during the 1950s and 1960s. ECLA staffers became Finance Ministers

¹⁴¹ Thorp. "The Latin American economies," in Bethell, v. VI., pp.134-135.

¹⁴² Celso Furtado. La Fantasia Organizada, p.51.

in Argentina, Chile and Brazil during that period, as detailed in the next section. Thirdly, and even more importantly, though difficult to trace with exactitude, is the effect of ECLA's training and education programs in ILPES (the Latin American Institute for Planning and Economic Studies), which trained an entire generation of Latin American economists. Fourthly, but not least, is the fact that ECLA was the only reliable source of statistics and policy analysis specific to the region. In recent years, new sources of statistics have arisen in the larger nations' universities and think tanks. Fifthly, ECLA's source of funding, the United Nations, provided it a bedrock of independence from both the United States and local government budgetary changes. Sixthly, ECLA was able to influence the direction of international finance (and particularly international aid) towards specific countries through ECLA's ties with the First World and the United Nations.

ECLA's position as an international organization has very important implications for its positioning as a regional leader in innovative ideas. Because it was concerned with the whole region, ECLA analysts naturally tended towards a more general analysis of economic development which could be used to understand and categorize Latin America's problems as a whole. Secondly, ECLA was in a unique position to act as a magnet for anti-imperialist and, particularly, anti-U.S. feelings which had been growing for over a century in Latin America. ECLA's organizational and political position, therefore, are important explanatory factors for the development of structuralism and its influence throughout the region.

ECLA's ideas changed in response to the growing political polarization and mobilization of the Left, as described earlier, *but also promoted* changes in economic policy along reformist lines. There can be no doubt, moreover, that ECLA doctrines were

adapted in radical form to create the school of dependency. Key theorists Cardoso, Faletto, and Furtado were ECLA staffers. ECLA highlighted the supposedly negative effects of transnational corporations in many documents, especially towards the end of the 1960s and early 1970s. ECLA's redistributive program, combined with a radical version of the center-periphery analysis of Prebisch formed the backbone of dependency thought. Though ECLA as an organization remained structuralist-reformist, therefore, the new military governments in the mid-1970s associated it with radical economic analysis.

Indirectly, ECLA's ideas dominated Latin American economic discourse, if only by sheer domination of the formation of economists and of economic publications, for at least two decades.

B. Why was ECLA successful?

1. Provision of Personnel, Policy Analyses, Training

ECLA's period of active provision of technical assistance and economists to Latin American governments can be related to its promotion of economic policy planning. Part of the turn to pragmatism in the late 1950s came from ECLA's recognition that its complicated policy analyses were unlikely to have much effect in countries which lacked technical personnel and knowledge. Besides resistance from politicians to yield authority to technical experts, ECLA's planning techniques tended to be abstract. ECLA therefore endorsed domestic legislation in Latin American countries which created planning and budgetary bureaucracies, and provided technical assistance. The technical assistance

consisted of training of personnel in planning, analysis, and budgeting and providing technical "Advisory" groups for each country.

Part of the training effort included establishing the Latin American Institute for Economic and Social Planning (ILPES) in 1962, which swallowed the Advisory groups and the ECLA Development Training Programme. While the Institute conducted advisory and research activities as well, it became, more importantly, an important ground for the development and spread of structuralist doctrines through its training programs.¹⁴³ ECLA training was instrumental in rationalizing the economic policies and in creating a technocratic core in Central American countries in the 1960s.¹⁴⁴ Literally thousands of lower and upper-level officials passed through ILPES.¹⁴⁵ Many of the most prominent government economic advisors in the region were profoundly shaped by the two year professional training course in which ECLA's view of the world was taught.

ECLA has an impressive legacy of government advisors. Among the more prominent are Celso Furtado, Brazilian economist, and advisor to Kubitschek, in 1959, and Goulart, in 1963; Venezuelan economist Enrique Tejera Paris, advisor to the Accion Democratica government which took power after Jimenez;¹⁴⁶ and Aldo Ferrer, who was appointed by General Levingston in Argentina in 1970 as Minister of Economy. Furtado

¹⁴³ Fontaine, pp.203-18.

¹⁴⁴ These are described in Gary W. Wynia, Politics and Planners: Economic Development Policy in Central America (Madison: University of Wisconsin Press, 1972). He discusses not only the importance of ECLA training in setting up tax reforms, in changing decision-making processes, in economic planning, and in development projects, among others.

¹⁴⁵ My off-the-record interviewees confirmed that a parade of the top Latin American officials concerned with economics and finance passed through ILPES courses. Celso Furtado makes the same point in La fantasia organizada, p.118.

¹⁴⁶ Fontaine, p.212.

and Ferrer were among the most prominent and trusted members of Prebisch's "kitchen cabinet." ECLA's students continue to occupy important positions, though its influence as an organization has waned. Enrique Iglesias became head of the Central Bank of Uruguay and is now the head of the IDB (Inter-American Development Bank).¹⁴⁷

2. *Diffusion of Ideas Through Grand Works, Data Monopoly, and Strong Connections*

Besides the fact that Prebisch's 1948 masterpiece was translated and published throughout the region, the steady stream of publications and the monopoly of data and policy analysis meant both increasing reliance and respect for the organization by leading sectors of Latin American societies. More important was that Prebisch was already a well-known figure throughout the region, and members of his inner circle had strong connections to their respective countries' elites. Prebisch's young henchmen were generally well-connected to their respective national elites, and so, able to diffuse structuralist thoughts through their personal channels. For example, Celso Furtado translated Prebisch's 1948 manifesto into Portuguese and had it published in the widely-read *Revista Brasileira de Economia* shortly after it was written. Moreover, the great works which Prebisch commissioned analyzing the histories of the key countries of the region from a structural point of view, such as Furtado's study of Brazil; Ferrer's of Argentina; Noyola's of Mexico and Pinto's of Chile; bridged the gap between the regional identity of the organization and its structural doctrine and national concerns and

¹⁴⁷ In fact, ECLA was one of the organizational designers of the IDB. See Diana Tussie, The Multilateral Development Banks: v.4, The Inter-American Development Bank (Boulder: Lynne Rienner, 1995), pp.2 &20.

politics. These works became classics within each nation, and spread the ideas of ECLA well-beyond academia.

ECLA also had strong ties to Latin American universities. Many ECLA staffers came from and circulated to Economics departments, thus helping to mold the next generation of economists.¹⁴⁸ Given these illustrative aspects of ECLA's influence, it is not hard to imagine how a whole generation of Latin Americans studying development problems came to see them from the structural perspective.

3. *The Enabling Organizational Atmosphere*

Like the Chicago Boys, who will be discussed in the next chapter, ECLA during its height had a very important atmosphere which lent itself to a strong solidarity among the members of the epistemic community. Members of that group, who tend to be of the same generation, were at the height of their careers in the early 1960s. They describe the collegial atmosphere of the headquarters in Santiago. ECLA was the first true Latin American meeting place, and only forum for those countries for many years. This aspect lent itself to the encouragement of a Latin American economic doctrine which followed Prebisch's original 1948 analysis of the region's development problems. Raul Prebisch was the clear charismatic leader of the group, recruiting younger economists from various parts of Latin America to develop structural doctrines. They descended upon the Santiago headquarters and engaged in friendly and impromptu debates and discussions with Prebisch seen as the open-minded but superior teacher by many. Prebisch seems to have had a unique ability to allow a certain amount of healthy dissension, which allowed

the organization and structuralism to grow, while maintaining his position as the charismatic leader and directing efforts within the direction of his vision.¹⁴⁸ Camraderie was developed because the group was of the same generation; because ECLA, their new livelihood was under continual threat of dissolution in the early years; and because their daily interactions were frequent given their small numbers.¹⁴⁹ A strong solidarity resulted among this early cadre from the feeling that they were on the vanguard of Latin American development struggles, fighting against Goliaths, such as the United States and backwards landlords.¹⁵¹ Older ECLA staffers engaged in ongoing training sessions on economics and specifically structural analysis. While the organization refuses to release the name of former students, the number and importance of later staffers, bureaucrats, and politicians is staggering. Hundreds of training missions were organized throughout the region to spread the economic doctrine and its policy analyses and prescriptions. In effect, through recruiting from the region, enabling growth within the often ambiguous parameters of structural theory, and engaging in ongoing formal and informal training and consultation throughout Latin America, ECLA also spread its way of thinking. Loyalty of the older generation staffers to structuralism is airtight. Many still utilize the basic tenets of structural analysis in their present day work.¹⁵²

¹⁴⁸ Celso Furtado. La Fantasia Organizada pp.88-90.

¹⁴⁹ For example, Celso Furtado notes that despite some friction between Prebisch and Chilean economist Jorge Ahumada that Prebisch convinced Ahumada to stay on at ECLA when he had considered leaving. Furtado. La Fantasia Organizada, p.66.

¹⁵⁰ Furtado states that the first technical staff numbered around ten. La Fantasia Organizada, p.48.

¹⁵¹ Celso Furtado, in La Fantasia Organizada, says "I was convinced that we in CEPAL had advanced upon unknown territory and that we occupied vanguard positions." my translation, p.82.

¹⁵² This paragraph is based upon a number of interviews with discussants who prefer to remain unnamed.

4. *The "Fit" of Ideas and Political Atmosphere*

ECLA had a strong direct and indirect influence in particular Latin American countries, albeit to differing degrees. Structuralist ideas undoubtedly "hit a chord" of recognition and acclaim throughout the region for their anti-imperialist and anti-Yankee implications. While these feelings had deep roots, the continuing interventions in the region, such as in Guatemala in 1954, and the unbelievable (at the time) outcome of the Cuban Revolution re-catalyzed their political power. Indeed, given the origins of the organization with strong U.S. opposition, it was a natural choice for regional hero. ECLA seemed to lose that place to more radical elements with the advent of the structuralist-inspired U.S. policies in the Alliance for Progress during the early 1960s.

ECLA was caught in the political contradictions of its own solid analysis. On the one hand, its efforts to promote regional and national autonomy were widely embraced. For instance, the Central American economic integration project of the 1960s was largely engineered by ECLA's bureaucrats. ECLA's analyses led to hopes among the smaller countries of the region that integration could easily be implemented and provided a solution to their obvious problems of market size and inadequate resources. On the other hand, ECLA's own leanings towards a leftist point of view and its role as hero of anti-imperialism led to an embrace of redistributive goals as well. This put the organization at odds, ironically enough, with many of the same nationalist elements who were very conservative in *domestic* affairs, though it preserved for a short time the organization's identity as an innovative reform leader. By the mid-1960s, as Marxist analyses became increasingly popular, ECLA found itself being challenged in its symbolic role as a

vanguard organization by elements both within and without the organization. Within the organization, more radical sub-groups, such as those led by Cardoso and Faletto, began to promote a nascent view of *dependencia*. Outside the organization, increasingly frustrated groups of intellectuals, youths, students, and workers began to look towards socialistic alternatives. Both ECLA and its governmental allies shared a vision which had become reformist rather than radical by the late 1960s, which led to the loss of the symbolic position of the both political entities.

While ECLA's presence was undoubtedly felt throughout the region, it had differing degrees of success.¹⁵³ In Argentina, for example, Prebisch was not as well-respected, and internal divisions between Peronists and anti-Peronists led to mixed feelings about Prebisch, who had resigned as Central Banker some years before. Mexico's history of suffering from U.S. intervention undoubtedly made it a good fit for structuralist rhetoric. Indeed, structuralist ideas were widely disseminated. At the same time, however, Mexico's strong economic ties to the United States and its geographical distance from ECLA headquarters in Santiago meant a weak direct organizational presence there. By contrast, ECLA's ideas had a strong resonance among the emerging Brazilian industrialists and the state. In a modified fashion, this partnership continues today in the Brazilian political economy. ECLA also had a strong presence among the Caribbean and Central American states, and inspired strong efforts at integration within those regions. Similarly, ECLA's presence in Santiago made it a key player in Chilean economic policy during the Frei and Allende administrations, to which we now turn.

¹⁵³ See Celso Furtado, La Fantasia Organizada, pp.89-90 on these points.

C. A national level example: Chilean economic policy and ECLA, 1964-73

I. *President Eduardo Frei, 1964-70*

In Chile, the traditional Liberal and Conservative parties' threw their support to the moderate Christian Democrats (PDC) in the 1964 election, in order to check the increasing strength of the Leftist parties. They successfully prevented Socialist Allende's election. The Christian Democrats also gained former Socialist Party voters who disagreed with the Socialists' alliance with the Communist Party. The next president, Frei, thereby gained fifty-six percent of the vote to Allende's thirty nine per cent. The campaign was marred by U.S. funding of anti-Left activities, which only became public knowledge some ten years later.¹⁵⁴ The heterogeneous nature of the winning group was reflected in a minority PDC position in the Congress, making it nearly impossible for him to maintain momentum once in office.

Frei campaigned on the theme of delivering a "Revolution in Liberty," which promised extensive social mobilization and economic reforms. The Frei Administration was probably the first in Chilean history to enter with a comprehensive economic and social plan and the first to ally with an epistemic community, ECLA. Frei's economic ideas had been formed prior to his candidacy and are stated in a book titled Pensamiento y Accion, ("Thought and Action"), which was published in 1958. In that book, ECLA is the clear source of many of his ideas and is used to legitimize his suggestions on the

¹⁵⁴ Lois Hecht Oppenheim, Politics in Chile: Democracy, Authoritarianism, and the Search for Development, (San Francisco: Westview Press, 1993), p.25.

Chilean economy. He refers to ECLA documents as possessing “a true spirit of research and scientific precision,” and cites them as a referential basis for his arguments.¹⁵⁵

Planning, for instance, had come into vogue under ECLA’s guidance, and the United States’ Alliance for Progress program. The Frei Administration therefore created *ODEPLAN*, (the Organization of Development and National Planning).¹⁵⁶ Frei’s subordinates in CORFO, ODEPLAN, and other government agencies concerned with development had close ties, and even personnel from ECLA.

Frei’s “Revolution in Liberty” program reflected ECLA’s new social activist and redistributive program. Former ECLA insider Jorge Ahumada became newly elected President Eduardo Frei’s chief economic advisor in November 1964. Ahumada’s goals were to achieve faster growth and income redistribution through agrarian reform, and to eliminate the structural causes of inflation. After initial success, the Frei government experienced a bevy of economic problems. First the economic growth rate fell from 6 % in 1965-6 to just 3.2% in 1967-70. The rate of investment also fell, and unemployment rose. In late 1966, the administration cut government spending in order to contain inflation, but the latter moved from 17% in 1966 to an average of 28.5% in 1967-70. This was despite continuing strong earnings in copper.¹⁵⁷ In the words of his contemporaries, Ahumada was the unifying intellectual force for the Frei economic

¹⁵⁵ Eduardo Frei, *Pensamiento y Accion* (Santiago: Editorial del Pacifico, 1958). There are multiple references to ECLA throughout the document. See, for example, pp.155-156.

¹⁵⁶ ECLA apparently had long-standing ties to CORFO, the Chilean government’s industrialization branch, which was discussed in the previous chapter. A CORFO report from 1960, for example, cites ECLA’s input in developing an economic plan for the decade. See Corporacion de Fomento de la Produccion, *Programa Nacional de Desarrollo Economico, 1961-1970* (Santiago: CORFO, 1960), p.22.

¹⁵⁷ Love, p.437.

program, so that upon his death in 1966, economic policy seemed to lose focus.¹⁵⁸ These inflationary and the resulting exchange rate problems, as described earlier, put a damper on the Frei Administration's ambitious economic goals, and led to more orthodox experiments by the end of his term.

The Christian Democrats, once in power, attempted to lure away the natural constituents for leftist parties through mobilization, organization, and reforms in order to broaden their own base. The regime formed new organizations to mobilize the lower classes, including agricultural workers, neighborhood groups, and mothers' groups. The PDC also promised to deliver to workers greater control of their companies. While the communitarian tone of these proposals extended to manufacturing and commercial businesses, actual reforms were only attempted in agriculture.¹⁵⁹ These ideas date back to the influence of the philosopher Jacques Maritain upon the founders of the Party.

Frei's economic reforms, while sound in principle, were still too tepid to please the Left, and far too progressive for the Right. His administration's policies had three basic thrusts: the first was buying out foreign owners in the copper industry and expansion of secondary importing industrialization; the second was expanding export markets by liberalizing trade with other countries; and the third was income and land redistribution. Each of these bases were reflected by and supported by ECLA policy analyses during the 1950s and 1960s. As the 1960s came to a close, ECLA publications

¹⁵⁸ Montecinos, *Economists and Power*, pp.48-9. There were several other ECLA staffers who served the Frei government. One was Eduardo Garcia D'Acuna. Garcia D'Acuna served in ODEPLAN as its first general director (1964-66) and then as its technical director (1967-70). Nonetheless, Ahumada was, without doubt, the most important of them.

¹⁵⁹ Robert J. Alexander, *The Tragedy of Chile*. (Westport, CT: Greenwood Press, 1978), p.55.

increasingly attacked the negative aspects of multinational corporations, calling for greater national control over natural resources. The second leg of ECLA's policy platform was to promote intra-Latin American integration, which it hoped would help to overcome the inefficiencies which ISI had run into in the region by the mid-1950s. The third leg, discussed earlier, was a strengthening ECLA claim that only major efforts at income and wealth redistribution could help to overcome the bottlenecks of inadequate market demand faced by Latin America.

In line with this policy package, Frei began a policy of "Chileanization" of the copper industry, which held the promise of government ownership of several mines in by far the most important source of national revenue, providing eighty-five percent of export earnings. In practice, however, the government was able to gain majority control of only one small mine, *La Exotica*, while the major ones remained under U.S. ownership. Furthermore, the funds which the government paid for ownership of the mine were not reinvested in the operation, as expected.¹⁶⁰ The terms of the deal and other, less important ones with U.S. companies for joint ventures to increase local refining and marketing, were considered as highly favorable to the U.S. companies in public opinion, including some Christian Democrats.¹⁶¹ Copper prices rose dramatically during this period, which only increased the demands for full nationalization.¹⁶²

¹⁶⁰ Oppenheim, Politics in Chile, p.26.

¹⁶¹ Alan Angell, "Chile since 1958," in Bethell, v. VIII, p.333.

¹⁶² Robert Jones Shafer, A History of Latin America (Lexington, Mass.: D.C. Heath and Company, 1978), pp.721-3.

The Frei administration also made major efforts to expand production in the steel, petrochemicals, forest products, and fishing industries. He gave the *Huachipato* steel company \$150 million to expand production, with the hope of increasing exports. The government also invested about \$200 million in petrochemicals, primarily through the state agency ENAP (*Empresa Nacional de Petroleo*). By the end of 1970, seven new plants had begun operating, with eleven others being constructed. In pulp and paper, Frei pushed for competition with the monopolistic *Compania de Papeles y Cartones*, closely associated with rival Alessandri. With the new plants, cellulose output grew from 87,000 tons in 1965 to 243,000 in 1969, including new plants. Through CORFO, the fishing industry increased production of frozen products from 1,484 to 11,717 tons between 1964 and 1968. In other areas of industry, the state was instrumental in expanding production, including electronics, sugar beet growing and processing, and the auto industry. The Frei government hoped that these non-traditional exports would reduce Chile's susceptibility to copper price swings.¹⁶³ Frei also attempted to expand the size of the Chilean market, a key ECLA issue, by participating in the Andean Group.¹⁶⁴ Despite being a key to his economic plan, regional integration was never realized. Its infeasibility at the time is perhaps ECLA's biggest analytical error during its structural period.

The redistributive effort had two parts. The first was the enactment of a new tax code, which was more progressive.¹⁶⁵ The other part was the no win situation of agrarian reform. If Frei carried out significant reform, large agriculturalists would be unhappy; if

¹⁶³ Alexander, pp.104-5. Alexander bases these figures on Frei government documents.

¹⁶⁴ *Ibid.*, pp.105-6.

he wavered, the Left and peasant classes would feel betrayed; and if he proceeded towards limited reform, neither group would be happy. Frei came up short on his own promises for agrarian reform, further undercutting his legitimacy. While Frei promised that the land program would affect 100,000 peasants' lives, only 20,000 received any land. Another redistributive program, Popular Promotion, had the same political results. Popular Promotion was designed to mobilize and organize urban squatters, thereby undercutting a huge potential of support for the Left. On the other hand, the *Ley de Sindicacion Campesina*, which was passed on April 29, 1967, gave rural workers the ability to form more independent unions, including the ability to pay their own leadership. The law led to national unionization of rural workers, a new political group which threatened established interests.¹⁶⁶ The resentment which the program created among the conservative landowners meant the end of any possibility of a future moderate-conservative coalition.¹⁶⁷

If this crossfire alone was not enough to doom his moderate platform, Frei faced a more immediate threat, dissension within his own party. By 1967, the PDC had split into three different factions. The first was led by the author of the agrarian reforms, Jacques Chonchol, which proposed a leftist direction for the party and was called "the rebels" ("los rebeldes"). The second faction, led by Frei, was called the officials ("oficialistas") and the "Freistas," who favored the moderate pace of reform currently underway. The third group, appropriately called the Third Group ("terceristas"), was led by Radomiro

¹⁶⁵ *Ibid.*, pp. 103-4.

¹⁶⁶ Alexander, pp. 90-3.

Tomic, and fell somewhere in between the first two by favoring more speedy, but, at least at first, not radical change. The party formally split under the factional pressures catalyzed by losses in municipal and congressional elections in 1969, with the rebels forming a new party, MAPU, which would join the Allende coalition in 1970.¹⁶⁸ Tomic would become the PDC candidate in the 1970 election.

Frei also created enemies in the military by his refusal to increase military spending, which he contended would interfere with more important social and economic development spending. Moreover, Frei's coalition included some strong left-wing elements, such as believers in socialism, who were naturally enemies of the Armed Forces. By then, the military was preparing itself for an expected fight with Leftist guerrillas. On October 21, 1969, General Robert Viaux, recently dismissed, led an attempted military coup.¹⁶⁹ President Frei declared a state of siege, and civilians and unions began protesting military action.¹⁷⁰ The mutinous commanders finally gave up. For the moment, at least, the military was swayed from any intentions to seize power.

Frei was equally unsuccessful in macroeconomic terms. Inflation remained above twenty percent. Frei raised taxes slightly, while continuing social spending at the same pace, mostly on education and housing. The spending only further fueled inflation.¹⁷¹ Towards the end of his term, he attempted to slow inflation through greater austerity.

¹⁶⁷ Oppenheim, Politics in Chile, p.26-7.

¹⁶⁸ MAPU stands for "Movimiento de Accion Popular Unitaria," or Movement for Unitary Popular Action. Oppenheim, Politics in Chile, pp.27-8, and Alexander, p.65.

¹⁶⁹ Lois Hecht Oppenheim stated to me that Viaux claims that the movement of tanks was simply a protest.

¹⁷⁰ Alexander, p.80.

thereby alienating the highly mobilized constituencies of the Center and the Left, such as the PDC-controlled unions.

Although Frei was heavily supported financially by the United States,¹⁷² which hoped to head off more strident leftism, his foreign policy stances demonstrated a certain degree of independence. Frei decided to treat Communist Cuba the same as any other country, ignoring both Cuban support for guerrilla movements in Latin America and U.S. hostility. Frei acquiesced to Allende's effort to help Che Guevara escape from Bolivian authorities. Finally, Chile roundly condemned the U.S. invasion of the Dominican Republic in 1965.¹⁷³

In retrospect, many Chilean analysts see the Frei period as a last gasp of a decaying system. In particular, those in the Left view Frei's experiment at moderate reform as inevitable in the sense that the economic system was in crisis and ruling classes wished to alleviate pressure without serious change. They see the culmination of a long period of economic decline and the increasing polarization of Left and Right stretching the boundaries of democratic principles and rules. The economic crisis, as seen by the Left, included increasing economic inequality in tension with slow growth rates and increasing popular political mobilization.¹⁷⁴ The Right would point to the instabilities of

¹⁷¹ Shafer, pp. 721-3, and Jay Kinsbruner, Chile: A Historical Interpretation (San Francisco: Harper & Row, 1973), pp. 155-6.

¹⁷² Chile, in fact, received the most aid of any country in the Western Hemisphere- over a billion dollars in direct, overt aid between 1962-9, according to Alan Angell. See Angell, "Chile since 1958," in Bethell, vol. VIII, p. 331.

¹⁷³ James R. Whelan, Out of the Ashes: Life, Death and Transfiguration of Democracy in Chile, 1833-1988 (Washington: Regenery Gateway 1989), pp. 172-4.

¹⁷⁴ See Manuel Antonio Garretón, The Chilean Political Process Sharon Kellum and Gilbert W. Merkx, translators, (Boston: Unwin Hyman, 1989), pp. 21-3, and Paul W. Drake, Socialism and Populism in Chile, 1932-52 (Chicago: University of Illinois Press, 1978), pp. 337-41.

monetary policy leading to inflation and exchange rate crises as well as the increased expectations created by Frei's "populist" platform.

As a result of disaffection with his Administration by the Left, the Right, and elements of his own party, the Christian Democrats lost their electoral majority in the fateful election of 1970. The end of the Frei era, more importantly for our story, was also the end of structuralism and an active and open role for ECLA in Chilean economic policy.

2. *Chile's Crisis during the Allende Years, 1970-73, and the faltering presence of ECLA*

a. **Interpretation of Allende's Economic Policy**

As noted earlier, Salvador Allende had been the most prominent Socialist leader since well before his 1970 presidential attempt. Besides running as a Presidential candidate, as a Congressman and being President of the Senate, Allende had been principally responsible for bringing the Latin American Solidarity Organization (OLAS) to Chile.¹⁷⁶

The 1970 presidential election was almost too close to call- Leftist coalition candidate Allende garnered 36.3% of the vote, while Alessandri, the candidate of the National Party, who had abandoned the Christian Democrats, won 34.9%. The Christian Democrats' candidate fared poorly, with Tomic winning only 27.8% of the vote. Allende started out, therefore, with not only a factionalized coalition party, the *Unidad Popular*

¹⁷⁶ Whelan, pp.227-8.

(UP), which included Communists, Socialists, and Radicals, but also with a highly mobilized and divided electorate.

Because no candidate had gained a majority, Allende had to wait for Congressional approval of his ascendancy to the presidency. This opened the way for the Christian Democrats to enter the process. Allende was able to reach a negotiated agreement with the Christian Democrats which sealed his hold on the presidency. The Christian Democrats secured Allende's agreement on several key points, which they called democratic pluralism. First, they demanded the maintenance of free political parties, freedom of the press, autonomy of the three branches of government, preservation of the armed forces as the sole coercive armed organization, and the free functioning of labor unions. These points were contained in a formal agreement called the Statute of Constitutional Guarantees," which sealed their vote for Allende as President.¹⁷⁶

Allende chose Pedro Vuskovic as the primary economic decision-maker, bestowing the title Minister of Economic Affairs upon him in November 1970. Vuskovic was a strong believer in structuralism, albeit a radical version. He had worked for ECLA from 1949 to 1969 before joining the Allende campaign and was an expert in economic methodology. He also had close ties to the Communists, having worked on some of their campaigns. Vuskovic was moved to the cabinet-level position of executive Vice President of the Production Development Corporation (CORFO), where he served until the coup.¹⁷⁷ The rest of Allende's economic team also heavily favored ECLA personnel.

¹⁷⁶ Alexander, pp. 125-8.

¹⁷⁷ Jacobo Schatan, "In Memory of Pedro Vuskovic," *CEPAL Review* 50 (August 1993), p.9.

including Carlos Matus. Allende's minister of mines was Max Nolf, who was also a communist.¹⁷⁸ However, the relatively conservative ECLA economists were unable to consolidate control over economic decisions over their more Leftist and politically-oriented rivals, and Allende's economic policies remained incoherent.

The Unidad Popular (UP) economic program promised nationalization of the mining industry, the financial and wholesale trade sectors including banking, large firms in distribution and strategic industrial areas, and activities relating to social and economic development, including energy, transportation, and heavy chemical and industrial supply industries. Nationalized industries would constitute just one of three "areas," or parts of the economy. The state-owned portion was called the "social area" of the economy. In the mixed area, the state would become the senior partner in joint ventures with manufacturing firms that were either subsidiaries of foreign firms or needed technology from foreign companies. The private area, which would constitute the largest number of enterprises, would consist of small businesses in the less important retail trade and artisan sectors, as well as portions of agriculture and small-scale manufacturing.¹⁷⁹

The UP program promised radical change in other aspects of the economy as well. Completing the agrarian reform set up by the law passed under Frei was a key goal.¹⁸⁰ Another was extensive funding and reform of education, with the aim of making the system more equitable. Lastly, the regime declared open hostility to the United States by

¹⁷⁸ Whelan, pp.304-6.

¹⁷⁹ *Ibid.*, p.122-3 & 146.

¹⁸⁰ Lois Susan Oppenheim, "The Quest for Unity on the Left: Allende's Chile and the Socialization of the Economy," Ph.D. dissertation, Political Science, (St. Louis: Washington University, 1980), p.177.

denouncing the Organization of American States, U.S. actions in Viet Nam, any treaties or agreements with the United States, and solidarity with Cuba.¹⁸¹

Allende's economic program, on paper, at least, was hardly communistic. The program was a socialistic and extreme extension of the Frei platform, and more indirectly, of the tenets of structuralism from the 1950s and early 1960s. For example, the UP coalition, like the Christian Democrats, favored worker self-management, but thought state protection and organization would be necessary in order to avoid one workers' enterprise from exploiting another.¹⁸² The key differences between the Frei and the Allende administrations were that the latter focused on immediate redistribution, with overall production being a secondary goal, and that the UP government had a long-term goal of constructing a socialist society.¹⁸³ Many of Allende's economic advisors assumed that the Chilean economy had a natural surplus, which could easily be redistributed more equitably. Unfortunately, they did not consider the inefficiencies and opposition which their plan for redistribution while maintaining production entailed. Most importantly, the proposals for immediate nationalization of the most lucrative and important sectors of the economy with little prospective compensation naturally crystallized strong domestic and international opposition.

While Allende had an economic plan on paper, his plan for the implementation of it was fairly blind to the basic economic problems it would have to tackle in order to

¹⁸¹ *Ibid.*, pp.123-4.

¹⁸² Oppenheim, *The Quest for Unity on the Left*, pp.327-328.

¹⁸³ *Ibid.*, pp.189-92.

succeed.¹⁸⁴ In the copper industry, for example, the government, upon taking over a number of properties, managed to alienate the existing managerial and technical workforce as well as stagnate earnings through, among other things: swelling the ranks by hiring new and unnecessary personnel; insisting on payment in local currency on the basis of the official, overvalued exchange rate; and failing to replace the managerial and technical expertise of the previous enterprises.¹⁸⁵ These problems probably explain the dramatic decline in copper production in 1973.¹⁸⁶ A dramatic drop in copper prices only exacerbated the situation.¹⁸⁷ The freefall in copper prices may have been orchestrated by the United States, though this is a disputed subject.

Though the first year went well, the simultaneity of Allende's Marxist credentials (ensuring international sanctions), program of nationalization, land reform, and wage hikes and price controls proved a disastrous combination for the Chilean economy by 1972. Capital flight began immediately, as did quick hikes in the rate of inflation. Allende's actions towards nationalization of the copper, coal, steel, and banking industries, as well as increasing state intervention in several manufacturing enterprises and a publishing company, brought down a rain of foreign and domestic opposition. There were an increasing number of strikes and anti-government violence protesting

¹⁸⁴ While this assessment is likely to be viewed as overly harsh and unfair among most Western academics, interestingly enough, it is a view (at least in the sense that Allende made great errors and lacked an economic plan) shared by all Chilean interviewees, including former ministers of Allende and progressive intellectuals.

¹⁸⁵ Alexander, pp.147-50.

¹⁸⁶ Between December 1972 and September 1973, copper production fell from 592.7 thousand metric tons to just 404.6. See James Whelan, p.344.

¹⁸⁷ Alan Angell, "Chile since 1958," in Bethell, v. VIII: Latin America since 1930: Spanish South America, p.344.

deteriorating economic conditions. Allende responded, in part, with the questionable strategy of inviting members of the military into his cabinet.¹⁸⁸

Allende's actions to nationalize the banking industry had similar results. The regime nationalized foreign-owned banks, while taking over domestically owned ones by purchasing the shares. The nationalization of the foreign banks only increased the international animosity which was building against the regime. In concrete terms, the foreign banks had provided important sources of credit to the country. The drying up of much of this short-term credit exacerbated the government's balance of payments problems, which were already suffering from the aforementioned efficiency problems of nationalization.¹⁸⁹ The government had counted on the public sector as a vital source of revenue.¹⁹⁰

Allende managed to alienate even more powerful interests in his actions in the agricultural sector. Allende moved swiftly to expropriate land. While the government had intended to create state and collective agriculture out of the expropriations, in actuality only a few collective farms were ever established. The government met strong peasant resistance to collectivization. Allende did create peasant cooperatives to produce agricultural machinery, extend credit, regulate markets, and communal councils. These organizations naturally angered existing peasant groups, who saw them as coercive. Meanwhile, increasing numbers of illegal land seizures further exacerbated the economic

¹⁸⁸ Shafer, pp.725-8.

¹⁸⁹ Alexander, pp.151-2.

¹⁹⁰ Mark Falcoff, Modern Chile, 1970-1989: A Critical History (New Brunswick, N.J.: Transaction, 1991), pp.63-4.

chaos in the agricultural sector. Finally, a shortage of foreign exchange reduced the adequacy and amount of agricultural machinery. Not surprisingly, with inefficient state production, and political opposition from some peasant groups and large landholders, agricultural productivity dropped drastically.¹⁹¹ There is no force greater than newly found hunger to mobilize protest.

By 1972 there was a significant balance of payments deficit and widespread shortages, reaching crisis proportions by 1973. The government reacted by rationing scarce consumer goods.¹⁹² It set up *Juntas de Abastecimiento Popular* (JAPs), which were alternative distribution systems run by UP loyalists. They naturally had the effect of further angering retailers of all sizes.¹⁹³ The government also took the often used step of cranking the currency printing press, leading to increasing inflation.¹⁹⁴

Table 1: Money Supply Growth and Fiscal Deficits During the Allende Period, 1970-73

Economic Variable	1969*	1970	1971	1972	1973
Money Supply (M1) (in thousands of pesos)	6.058	10.027	21.273	54.100	228.600
Government Budget Surplus/Deficit (in thousands of pesos)	300	-2.800	-10.000	-30.000	-84.000

Source: *International Financial Statistics Yearbook 1996*, (Washington: International Monetary Fund, 1997)

*The last year of Frei's Administration. 1969, is provided to show the sound macroeconomic situation which Allende inherited.

¹⁹¹ Alexander, pp.160-172.

¹⁹² *Ibid.*, pp.174-88.

¹⁹³ Eduardo Silva, Capitalist Coalitions and Economic Policymaking in Authoritarian Chile, 1973-1988 Ph.D. dissertation, (San Diego: University of California at San Diego, 1991), p.141

¹⁹⁴ Falcoff, pp.64-5.

The catalyzing events which rallied opposition against Allende's regime were the truckers' strikes in 1972 and 1973. Although Allende had indicated that the trucking industry, dominated by small businessmen, would remain private, the government seemed to threaten nationalization in October 1972. The original government plan covered only a few limited provinces, but the threat of expanding control of the industry was enough to stir national protests by truckers. The truckers soon acquired national support by various working groups who were unhappy with the conditions and direction of the economy. Many of these groups began sympathy strikes and organizing with the truckers. The government responded by mobilizing their supporters to continue working and to begin counter-demonstrating. Allende utilized the military in reaction to the strikes. For example, he established curfews in some provinces in November 1972, and martial law in others, both in response to the strike.¹⁹⁵ Allende also seized control of the radio stations, which had supported and spread the news of the strikes.¹⁹⁶ Since Chile relies almost exclusively on trucks to transport all goods, the shortages only worsened.

The PDC, which had engaged in negotiations with the government since its inception, walked out on them in June 1972, by which time the UP forces had finally agreed internally on some form of compromise. Though the PDC was engaged throughout the period, its sincerity was questioned by the UP. As a result, the UP felt even more compelled to speed up the implementation of its plans in order to garner

¹⁹⁵ Alexander, p.295.

¹⁹⁶ Ibid., pp.301-4.

whatever support it could for the upcoming Congressional elections.¹⁹⁷ Allende briefly invited the military to join as part of a new coalition including Socialists and Communists in November 1972. The March 1973 elections demonstrated a continuing deadlock between the government and the opposition. The government forces received a minority of the votes, with 43.4 percent (though an increase from the presidential vote), but had significant enough legislative presence to prevent censure by the majority. Increasing pressure from within the ruling coalition and the within the military itself led to the departure of the military from the cabinet on March 27th, 1973.¹⁹⁸ As can be imagined, the significance of the increase in votes for the UP is yet another point of virulent debate.

By that election, the economic shortages and strikes had reached chaotic proportions. With the shortage of fuel and spreading strikes in the miners' industries, the economy neared a standstill. The strikes met with government-supported opposition, increasingly involving violence. Allende added the opposition of the Church with his plan to consolidate and secularize the education system, though he later retreated from this position. The deteriorating situation culminated in a failed coup attempt on June 29th. While Allende managed to include the military in various cabinets thereafter, establishing control over the military insurgents was only a temporary victory.¹⁹⁹

In constitutional terms, Allende was equally questionable in his political strategy. His administration openly ignored or disavowed numerous constitutional and legislative requirements, such as disavowing the provisions of the Agrarian Reform Law by seizing

¹⁹⁷ E. Silva, Capitalist Coalitions, PhD. dissertation, pp.154-7.

¹⁹⁸ Alexander, pp.305-8.

properties under the minimal size; Allende's assertion that the chief executive had the right to decide which court order to enforce; and the use of widespread decrees. Whether constitutional or not, by 1973, the Congress, the Supreme Court, and other branches of government, such as the Comptroller General, were at odds with Allende. One of the UP factions, that led by Socialist Party leader Carlos Altamirano, was opposed to any compromise with the opposition. Altamirano made a speech on September 9th stating that he had conspired with military men against their leadership, which secured the military's animus towards the government.²⁰⁰ The speech led Allende to break off ties with several left-wing allies and to decide to submit the regime's major proposals to a plebiscite. The legal and political challenges to the regime were accompanied by increasingly violent confrontations between pro-government forces and the opposition, including many unions and right-wing terrorist groups.²⁰¹ Unfortunately, Allende never had a chance to announce his intentions on the plebiscite. On September 11, 1973, a successful coup brought an about-face to Chile's political and economic trajectory.

b. Retrospective Analysis of the Allende period²⁰²

This sub-section looks at the political discourse of explanations which surround Allende's fall from power, since these explanations have extremely important

¹⁹⁹ *Ibid.*, pp.309-28.

²⁰⁰ Altamirano's statement is in dispute by other Chilean specialists. The important point here is that whatever his exact statement, the military leadership apparently took umbrage.

²⁰¹ Alexander, pp.310-28.

²⁰² The purpose of providing this interpretation is two-fold: one, to help non-Chilean specialists to gain some perspective of the chaotic three year period, and, two, more importantly, to deliver the reactions of the various parties to the Allende experiment, which is vital to understanding subsequent Chilean political economy. It should be understood that the interpretation of such a complex and disputed period is bound to be highly personal.

ramifications for the future political economy of Chile, for structuralism, and indeed the evolution of Latin American political economy. The section also looks at the interesting questions which the Allende interlude raises for traditional political economy theories.

The primary explanations in the social science literature about the downfall of the Allende regime focus on two main reasons. The first points to the importance of external pressures, particularly from the United States. This was an extremely well-used explanation in the wake of the coup, particularly among Allende proponents, but has since faded in judgment into an important, but not decisive, factor.²⁰³ The second is that there was continual disunity and lack of agreement within the Allende coalition.²⁰⁴ Many of the splits within the coalition, such as those between the Communist Party and the Socialist Party, had long-standing historical and ideological roots.²⁰⁵ In the wake of the economic crisis which began in 1972, the coalition was split between factions who thought that the process toward socialism should accelerate (primarily the MAPU, the PS-Altamirano wing and the IC within the government and the MIR outside of it) and those who stressed the importance of economic stabilization (the PS-Allende wing, the

²⁰³ See Falcoff, pp.19-50.

²⁰⁴ This is an important reason for the participants themselves. The disunity lay within parties- diverging class origins of leadership and constituency, lack of clearly agreed upon plans of action, and inconsistent financing. See Benny Pollack and Herman Rosenkranz, Revolutionary Social Democracy: The Chilean Socialist Party (London: Frances Pinter, 1986), pp.9-72. Disunity also came from differences among parties within coalitions. Furci states that the PC, the PR and the MAPU (OC) favored a more accommodating, moderate, peaceful, and gradual path to socialism in opposition to the PS, MAPU, and the IC. See Carmelo Furci, The Chilean Communist Party and the Road to Socialism (London: Zed Books, 1984), p.129. On the same subject, see also Augusto Varas, El Partido Comunista en Chile: Estudio Multidisciplinario (Santiago: CESOC-FLACSO, 1988), esp pp.32-7 and 417-20. Oppenheim, in The Quest for Unity on the Left, also discusses the problems of allocating ministerial posts among the parties according to a quota system, pp.170-180.

²⁰⁵ Oppenheim, The Quest for Unity on the Left, p.318, and 379-381.

PC, the *Partido Radical*, and the *MAPU Obreros y Campesinos*).²⁰⁶ Of equal, if not greater, concern, was the lack of control which the government revealed in the creation of *cordones*, which were armed groups, often organized by the guerrilla group, MIR, in industrial areas, and in the undirected seizures of factories and land by workers and peasants. The *cordones* were one example of activities of the Left which occurred without the government's support but had the effect of undermining its legitimacy. These circumstances, as well as ruminations of an arming of UP supporters and the presence of Communist bloc military advisors, led to the sense of urgency among the opposition in supporting a military coup, instead of waiting until the next elections, scheduled for 1976.

A third subplot is that the Christian Democrats and the military "sold out" Popular Unity for their own pecuniary gains. In fact, the record shows that Tomic, the 1970 Christian Democratic candidate, was much closer to Allende in platform and ideology than to Nationalist Alessandri. Tomic himself said that he was open, as were major portions of the Christian Democratic Party, to accommodation with UP until 1972.²⁰⁷ One caveat to this hypothesis is that PDC leader Frei strongly opposed accommodation with the UP. With the split of the Christian Left (IC) from the PDC, and by strategy, Allende

²⁰⁶ Falcoff, pp.63-79.

²⁰⁷ See Radomiro Tomic, "Some Clarifications of Certain Historical Facts," and "Christian Democracy and the Government of the Unidad Popular," in Federico Gil, Ricardo Lagos, and Henry A. Lansberger, Chile at the Turning Point: Lessons of the Socialist Years, 1970-73, (Philadelphia: Institute for the Study of Human Issues), pp.187-191 and 209-39, respectively. A former member of Allende's cabinet, Sergio Bitar, also agrees on the possibility of a *rapprochement* between the Christian Democrats and the UP until 1972. See Sergio Bitar, Chile: Experiments in Democracy, Sam Sherman, translator, (Philadelphia: Institute for the Study of Human Issues, 1986), pp.31-32.

and UP seemed to think they would split the PDC, gaining many PDC members under their own coalition.²⁰⁸

By tradition and predisposition, the military could never be a full-fledged partner to Allende. The Chilean military has a long history of anti-communism and loyalty to constitutionality and “national order.”²⁰⁹ Therefore, the lack of control by the Allende camp in the political and economic spheres as well as the strident Marxist talk of some factions of the UP coalition certainly precluded any military neutrality in the long-run.²¹⁰

Allende took the structuralist program to a new extreme in practice, and the execution of this program clearly should baffle traditional theorists of political economy. The UP apparently went against rational choice explanations by alienating each of the most politically powerful sectors of the Chilean economy: businessmen, some elements of organized labor, the Church, the sympathetic (in good part, at least initially) opposition, and, finally, the military. Allende’s actions are equally baffling from a Marxist point of view. Traditional Marxism recognizes the levels of antagonism which a socialistic revolution would face, and so expects that revolutionary actions are necessary. Allende’s attempts to work within, and, then, to bend constitutional and institutional rules fly in the face of this expectation. One might argue that Allende thought he could accomplish his goals with the military as a passive partner, and through persuasion. Neither Allende nor the UP coalition clearly understood the strength of the opposition

²⁰⁸ Falcoff, pp.259-65.

²⁰⁹ Genaro Arriagada Herrera, El Pensamiento Político de los Militares (Santiago: Centro de Investigaciones Socioeconómicas (CISEC), 1981).

²¹⁰ Former cabinet minister Sergio Bitar states “The UP, however, lacked both a realistic analysis and a coherent policy towards the armed forces.” Bitar, Chile: Experiments, p.171.

they would face, or the precariousness of their own position. It is hard to imagine how some stalwarts of the UP expected an easy transition to socialism, yet this aspect of the strident wing's general cognitive dissonance between the realities of the situation and their hopes for socialism seems to explain their unwillingness to compromise with the more moderate wings and Allende.

In sum, Allende could not push forward either a pacific or a revolutionary approach given the origins and divisions of his coalition, and he himself seemed uncertain about the costs and benefits of strategic decisions in his maelstrom of events. The political events and intrigue seem to have overwhelmed the ability to think clearly on economic policy, and consensus on short-term economic policies simply could not be reached. For example, with the inflationary and balance of payments problems of late 1972, former cabinet minister Sergio Bitar describes the coalition's tough choices on inflationary policy. The first was to utilize monetary tightening measures, which were politically unpalatable to the coalition, and the second was to put in place the rationing system.²¹¹ The second avenue was chosen, leading to an administrative nightmare, and fueling the legitimacy of the growing opposition.

Many elements of Allende's regime thus can be described as ones in which ideology dominated calculations of interests to the extent of ignoring the probabilities of acting upon them. Among the more leftist parts of Allende's coalitions there was a naive fervor and belief in the inevitability of a socialist revolution- this without a coherent plan

²¹¹ Sergio Bitar, *Chile: Experiment*, pp.148-149.

or the solid backing of even the lower classes.²¹² This “ideological inflation” in combination with the lack of control or coordination of the UP coalition, explains the inability of the government to effectively react to any crisis, including the loss of credibility of the Christian Democrats in Allende’s ability to consummate a compromise solution.²¹³ To wit, right to the end of the regime, loose cannons in the government were openly challenging the military and “preparing for open civil war.” The threats were largely idle and suicidal in as much as the Left was in no way prepared for anything close to an armed resistance against the military. Pinochet’s military junta which came later, by contrast, carefully considered how to repress any opposition to its ideological plans. In economic terms, the UP naively thought that the monopoly rents of foreign-owned and large capitalist-owned businesses could be transferred to the state peacefully and efficiently, and that they could be run by the state with immediate efficiency.

While it is possible to contend, especially on the basis of the election results, that the political strength of the Left did not disappear,²¹⁴ there can be no doubt as to the importance of the economic crisis in hardening and legitimizing the resolve of the majority domestic and international opposition to overthrow the regime. Even many of Allende’s own advisors, in retrospect, admit the irrationality of the regime’s economic

²¹² On this last point see my discussion in Chapter 7 on the diversity of the lower classes and some segments’ support of the PDC.

²¹³ Edward Boorstein, Allende’s Chile: An Inside View (New York: International Publishers, 1977), pp.142-147, and esp.238-249. Bitar states that both the PDC and the UP were guided by “...a strong bent towards ideology and a minimal sense of pragmatism.” Bitar, Chile: Experiment, pp.230-234.

²¹⁴ Oppenheim, Politics in Chile, pp.96-7.

decisions.²¹⁵ There was certainly no real effort to contain inflation, which should have been earmarked as the number one source of economic vulnerability of the regime, particularly given declines in copper prices, the income drains of newly nationalized industries, and the loss of agricultural productivity. As Edwin Boorstein, an advisor to Allende describes, the government delayed monetary adjustment because it was unwilling to pay the short-term political costs, and "the longer the government waited to take action, the more acute the dilemma would become-the bigger the deficits and the bigger the price increases required to bring them under control."²¹⁶ One must consider the possibility that Allende was unable to perform the economic corrections in the face of the polarization of his coalition and because of the high degree of mobilization of his constituency for continued and increased fiscal benefits. In addition to the domestic opposition and anger over the worsening economic conditions, international actors such as the United States and other Latin American governments worked actively and tacitly to undermine the regime, thus exacerbating the situation. The United States, taken by surprise to some extent with the Cuban Revolution, was determined to avoid a similar event on the South American continent. In the face of this downward spiral of events, it appears that Allende had lost control over the course of events and the ability to project his political coalition forward. Perhaps he realized too late that a plebiscite or a new election offered the only slim hope for renewed legitimacy of the government.

²¹⁵ See, for example, Boorstein. The subject of retrospective assessments by the Left on the Allende years is further discussed in a later chapter on the transformation of the left during the 1970s and 1980s. This is also a good case by which to challenge the universal applicability of rational choice models.

²¹⁶ Boorstein, pp.118-25.

In hindsight, the idea and plan for “a pacific way to socialism” was itself a rational contradiction in as much as Allende only had the backing of one third of the populace for this goal and expected to reach it in short order. Brian Loveman, a leading Chile scholar, seems to agree with these general conclusions. He states,

“Whatever the full extent of United States complicity in the tragedy of September 1973, and whatever the impact of international economics, the most critical factor of all in the failure of the Allende administration was bad politics. Bad politics- the spouting of revolutionary rhetoric without the force to impose a revolutionary program-produced a politico-economic crisis. Bad politics prevented conciliation and compromise with the Christian Democrats, the small shopkeepers, the truckers, the beneficiaries of the Frei agrarian reform-in short, with all the elements of the middle strata, working class, and peasantry who had nothing to lose and much to gain by an attack on economic monopolies and foreign corporations. ...(Allende) failed also because there is no peaceful road to the socialism envisaged by Marxist-Leninists in a liberal democratic polity. By pursuing an illusion that threatened the livelihood of broad sectors of the population, President Allende’s *unidad popular* coalition set the stage for a counterrevolution that imposed upon Chile a regime of coercion, intolerance, and brutality unequalled since the era of conquest.”²¹⁷

In hindsight, it is eminently clear that any pacific way could only be followed over decades, with the steady accumulation of support from various institutions, interest groups, and the public-at-large.

²¹⁷ Brian Loveman, Chile: The Legacy of Hispanic Capitalism (New York: Oxford University Press, 1988), pp.308-309.

V. ***ECLA and Important Interest Groups***

A. **ECLA and the United States Government²¹⁸**

The United States government attitude towards ECLA and structuralism changed over time. A recent article by Sylvia Maxfield and James H. Nolt points out two important factors which were enabling conditions for structuralism.²¹⁹ First, much of the academic community concerned with the new field of development studies promoted many aspects of the later theory of structuralist development. These include Paul Rosenstein-Rodan and, later, Albert O. Hirschman. To wit, the idea of unequal terms of trade can be traced to economist Hans Singer. Secondly, and more importantly, there were important U.S. interests which led to growing U.S. support of ISI deepening. These were U.S. manufacturers of intermediate, capital, and factor resource goods. An example of the latter are chemical manufacturers. Many U.S. companies made great profits through the ISI scheme by exporting the equipment and investment which was needed to produce the finished secondary goods sought after by the policy's designers. U.S. investors, in fact, helped to sustain ISI by providing crucial foreign direct investment in manufacturing plants and equipment. ISI also made sense from the fact that the West refused, and continues to avoid, lowering its own protectionist barriers which would accelerate industrialization in the developing world.

²¹⁸ For an overview of the U.S.-ECLA relationship during the 1960s, see John David Edwards, *Economic Ideology and Economic Integration in Latin America: The Impact of ECLA on LAFTA*, Ph.D. dissertation, Government, (Charlottesville: University of Virginia, May 1974), pp.251-60.

²¹⁹ Sylvia Maxfield and James H. Nolt, "Protectionism and the Internationalization of Capital: U.S. Sponsorship of Import Substitution Industrialization in the Philippines, Turkey, and Argentina," in *International Studies Quarterly*, 34 (1990) pp.49-81.

David H. Pollock describes five basic periods of U.S.-ECLA relations.²⁰ The first was the initial U.S. opposition to the creation of ECLA, which was described earlier. The second, lasting from 1948-58, was one of conflict. On an ideological, political, and institutional level, ECLA in the early years proved a rallying point for Latin Americans who were frustrated with their economic underdevelopment and with the United States' historical and continuing hegemony over the region. Unlike in the U.S.-dominated Organization of American States, Latin Americans found in ECLA a mouthpiece for their regional concerns. ECLA's recommendations for state planning of economies and requests for much greater U.S. public funding in the region, as well as the general tone of its center-periphery analysis, naturally rankled the conservative Eisenhower Administration.

The third period is marked by a strange turn of fortunes, and Pollock dates it to between 1958 and 1963. The U.S. government was probably more inspired to change its policy stance of promoting liberal economic policies by the Cuban Revolution than by any other single event. ECLA's anti-U.S. policy proposals were suddenly legitimated by the new American foreign policy of the Kennedy Administration, much to its surprise. The United States responded with the creation of the Inter-American Development Bank in 1959, and created the Alliance for Progress program of assistance in 1961. Cardoso states that this development took much of the wind out of ECLA's sails in that it seemed to co-opt several of the organization's rallying points, such as the need for land and tax reform and the desirability of economic planning. At the same time, the more abstract

²⁰ Pollock, "Some changes in United States attitudes...." pp.57-80.

structural principles of center-periphery widening through differentiation in rates of technological progress and real wage levels was pushed aside by the newly pragmatic policies. The departure of Raul Prebisch in 1963 to become head of the new United Nations' Conference on Trade and Development undoubtedly added to the loss of dynamism within ECLA.²²¹

Pollock describes the fourth period, from 1963-73, as one of "benign neglect." With the assassination of Kennedy and the increasing involvement in Vietnam, as well as disappointments in the results of the Alliance for Progress, the United States cooled its relationship with ECLA. Moreover, the newly created IDB and the OAS became preferred instruments of influence, since the United States had more control over them, and since they had larger budgets. The fifth period described by Pollock began in 1973-78, which he calls one of "cautious reappraisal." He cites a number of high-level diplomatic visits by the United States to ECLA during the 1970s.²²² In fact, as the importance of ECLA steadily declined in the region, along with the intellectual dynamism of the organization, the United States has naturally taken less interest in ECLA, choosing instead to form closer links with the Christian Democratic and conservative economic think tanks, a fact which shall be elaborated upon in later chapters.

²²¹ Cardoso, "The originality of a copy...." p.29-31 and Pollock, pp.72-5.

²²² Pollock, pp.75-80.

B. ECLA and International Finance and Business

ECLA's posture and relationship with international finance went downhill as it moved in the direction of a more radical platform which was hostile to international investment. By the nature of its analysis, ECLA had few fans in international business circles or among North American economists. The terms of trade argument alone meant a doctrinal war between the two sides. In practice, however, the deepening of ISI meant huge profits for industrialized country businesses who found ways to take advantage of the protected markets. More importantly, protection of industrial finished goods meant a growing dependency on imports of capital and semi-finished goods from developed countries. By the end of the 1960s, nonetheless, ECLA was (perhaps unjustly) associated with the dependency arguments in the minds of many international as well domestic businessmen and international economists. Part of this was due to the high profile of Raul Prebisch as head of UNCTAD, where he applied his model to the entire Third World and began the agitations for the "new international economic order," including radical changes in the structure of the world economy to benefit the Third World.²²³ He continued to serve through the 1970s as technical secretary of the CEPAL Review. In the mid-1970s, with the development of the world capital market and the corresponding mushrooming of Latin American borrowing of international private capital, international finance became a key player in Latin American political economy.²²⁴ ECLA, associated

²²³ According to Lois Hecht Oppenheim, UNCTAD was initially housed in Santiago, so the effect of Prebisch's departure probably took hold after UNCTAD moved.

²²⁴ Though foreign investors had long been important, the early 1970s mark a critical juncture in the development of *multinational* capital.

with public sources of capital, was naturally left in a wanting political position. This decline in position was exacerbated in the ensuing 1980s as international finance became even more vital and diversified. Foreign direct investment has virtually disappeared as a contentious issue for most Latin American countries in the wave of liberal economic thinking which began during the debt crisis.

C. ECLA and Political Parties- the 1970s crisis

ECLA's ties to political parties in Chile have already been explored. However, in the 1970s, ECLA economists were caught in a newly difficult position. Since ECLA is a UN organization, it must remain ostensibly neutral to internal politics. As described previously, during the 1960s, ECLA was closely tied to the Christian Democratic Party, and its fortunes reached an apogee with the election of Frei in 1964. During the Allende years, the organization itself was divided,²²⁵ and several members left in order to participate actively in the government. Given this division, with the military coup, ECLA was thrown into an organizational freeze; several staffers who had been sympathetic towards Allende took leaves of absence. General Pinochet reacted by nurturing an alternative epistemic economic group which was more congruent to his and his coalition's interests, which will be the subject of the next chapter. ECLA therefore suffered from a grave identity crisis throughout the 1970s. By the 1980s, ECLA had moved from mere criticisms of the Pinochet government's economic policies to the beginnings of a new line of thought, called neo-structuralism, which consists of slight but significant legitimization of government intervention in the market in very limited areas.

ECLA was somewhat revived with the most recently elected Christian Democratic governments, with clear ties through personnel which it shares with the PDC government, such as Oswaldo Sunkel and Ricardo Ffrench-Davis,²²⁶ but remains only a shadow of its former self in terms of influence.

D. ECLA and domestic industrialists

Rosemary Thorp provides important insights into the success of structuralism by noting the support of domestic industrialists. First, industrialists had become frustrated with the lack of access to First World country markets. The consequent renewed emphasis on the domestic market finally gave pro-ISI industrial factions the upper hand over their neo-liberal rivals within the business community who opposed both protection and state intervention. Nonetheless, import protection through the erection of tariff barriers, and, later, multiple exchange rates, tended to occur piecemeal, rather than through sweeping protectionist legislation. Second, they agreed with ECLA on the importance of public and private capital flows. Third, the large state development agencies erected after World War II became powerful entities, and were accepted by the local business community, because of the clientelistic favors which they doled out. Fourth, "the triple alliance" which thereby developed between the state, local

²²⁵ Interview with Joseph Hodara, Santiago, Chile, September, 1996.

²²⁶ For example, Ricardo Ffrench-Davis, perhaps the most famous Christian Democratic economist, now works for ECLA, while Carlos Massad, who has consulted for ECLA and is perhaps the second most famous Christian Democratic economist, is now the Central Bank President.

industrialists, and multinationals came naturally from the benefits of access to the protected markets.²²⁷

It is difficult to remember in these neo-liberal days just how wedded industrialists were to the state in Latin America from the 1920s until the 1980s. In a 1969 study, for example, James Petras stated that over eighty per cent of Chilean industrialists favored state planning, and two-thirds of industrial managers supported 'state intervention.'²²⁸ This alliance broke down, of course, with the election of Allende and his intention to make the state an even more dominant partner. More importantly, perhaps, were the continuing balance of payments problems which accompanied ISI.

E. ECLA and domestic agriculture

As discussed in Chapter 2, structuralist policies in practice discriminated heavily against domestic agriculture. In fact, implicit taxes on agriculture were the main source of financing for the discriminatory subsidies, whether implicit or explicit, to industry.²²⁹

VI. ECLA and rival economic epistemic communities

Throughout the 1950s and a good part of the 1960s, the simple fact of the matter is that ECLA did not have any real ideological rivals within the region. The formation of ECLA was the catalyst for the rise of economics as a discipline in Latin America.²³⁰ As

²²⁷ Thorp, in Bethell, pp.137-150. The phrase "triple alliance" was coined by Peter Evans in Dependent Development (Princeton: Princeton University Press, 1979).

²²⁸ James Petras, Politics and Social Forces in Chilean Development, (Los Angeles: University of California Press, 1969), pp.64-66.

²²⁹ Ibid., p.155.

²³⁰ For elaboration on the historical rise of economics in Latin America as related to the growing importance of economic advisory groups, see Hira.

Victor Urquidi puts it, upon its formation in 1947, ECLA was faced with the dual problems of finding qualified personnel amidst a lack of any local training in economics and creating processes for collecting economic data which were equally non-existent.²³¹

Outside of the region, ECLA's novel approaches were often met with skepticism from both more conservative and more radical economists.²³² On the conservative side, the more prominent critics were Americans Gottfried Haberler and Jacob Viner.²³³ On the radical side were the academic Marxists, such as Paul Baran.

Another important factor in ECLA's dominance over the region was that it spurred a regional nationalism. Many economic statements of the first postwar decades, including those by ECLA itself, pronounce the importance of an economic perspective which touched on "uniquely" Latin American development problems. In other words, structuralism became a kind of *cause celebre* which tied in with Latin America's traditional anti-imperialist and anti-Yankeeist thought.²³⁴

By the 1960s, in congruence with the Alliance for Progress, the intellectual landscape had developed considerably. What has become known as the "heterodox" approach, which is essentially akin to structuralism, was beginning to be promoted by a few Western economists, notably Albert O. Hirschman, Gunnar Myrdal, and Ragnar

²³¹ Victor L. Urquidi, "Further Observations on Economic Research in Latin America," in Social Science in Latin America, Manuel Diegues Junior and Bryce Wood, eds., (New York: Columbia University Press, 1967), pp.142-6.

²³² For a review of academic criticism of ECLA's ideology, see John David Edwards, pp.89-99, and Hodara.

²³³ Pollock, in "Some changes in United States attitudes," also mentions Benjamin Rogge, P.T. Ellsworth, G.M. Meier, Theodore Morgan, C.M. Wright, V. Salera and Francis H. Schott. He also discusses the nature of their critiques. See p.64.

²³⁴ Cardoso, pp.7-37.

Nurkse, who began to speak of “unbalanced” growth and the need for a big push to break economic bottlenecks.

The backlash in ECLA came in the 1970s with the change in world conditions and the rise of neo-liberal economics, to which we turn next. We have seen the unusual and interesting opportunities and constraints on ECLA’s political-ideological activities, since it is an international organization. Within this unique regional position, however, there can be no doubt that ECLA as an epistemic community had a domineering influence on Latin American economic policies from its founding in 1948 until the 1980s debt crisis. In Chile, in particular, though its period of domination ended earlier, ECLA played a key role in providing the material of people, ideas, and publications, which constituted the discourse of development.

VII. *The Demise of Structuralism*

Certainly structuralist policies failed to stimulate needed modernization of the agricultural sector, including ECLA’s unheeded calls for land reform in the 1960s. Moreover, the protection imposed by structuralism tended to be “unsophisticated, unnecessarily obscure, and often particularly inefficient controls.”²³⁵ In contrast to the East Asian industrializers, Latin American countries imposed haphazard import restrictions, widely fluctuating multiple exchange rates, and imposed a variety of administrative obstacles to primary commodity exports. Each of these contrasts underscores, in turn, the lack of autonomy of the Latin American bureaucracy from

²³⁵ Ricardo Ffrench-Davis, Oscar Munoz, and Jose Gabriel Palma, “The Latin American economies, 1950-90,” in Bethell, v. VI, pp. 173-6.

particular interests, and the lack of unity of the Latin American bourgeoisie to lobby for stable policies. Clearly, the movement to national industrialization had reached limits in many of the smaller markets such as Chile by the 1960s.

In fact, by the mid-1960s, several key problems affected Latin American countries. The first was the ironic and constant need for imports of capital goods and fuel, instead of finished goods. These, along with the exchange control and protectionist policies, led to continuing foreign exchange and balance of payments crises as described in further detail in Appendix A. The same sources could explain the continuing lack of competitiveness of Latin American goods in international markets, which meant that the export of manufactures to earn foreign exchange was out of the question. Secondly, it was apparent that income inequality was increasing in the region. Third, further industrialization was leading to higher and higher technological requirements, with little ability to absorb large amounts of labor (high capital/labor ratios). Fourth was continuing lack of progress in agriculture, which exacerbated foreign exchange problems.²³⁶ Fifth, there was a growing frustration with the lack of expected success in state planning of development, leading to the questioning of the whole idea of planning, which had been a key ECLA policy.²³⁷

These problems led to the shifts in ECLA thinking of the 1960s. Foremost among these was Prebisch's hope that a protected regional Latin American market could achieve

²³⁶ Love, p.431.

²³⁷ On the crisis in planning, see Carlos A. de Mattos, "Plans versus planning in Latin American experience," CEPAL Review, no. 8 (August 1979), pp.75-90. The problems may be summed up as a naivete in what could be accomplished by planning and a lack of support or follow-through by governments. On the latter point, see

the necessary economies of scale for continuing industrialization as well as restore market discipline to highly protected national industries.²³⁸ The second area of attack was a strong promotion of income redistribution and agrarian reform. Unfortunately, no such intra-regional integration accord, even on a subregional level, came close to his lofty aspirations. Similarly, agrarian reform, especially redistribution of land remained illusory. These disappointments can be traced directly to the development of dependency theory in the mid-1960s.²³⁹

Nonetheless, the period of structuralism between 1950-80 was one of unparalleled historic growth in gross domestic product for the region. It is not the purpose of this study to judge the degree to which structuralist policies succeeded in light of the equally unprecedented opportunities for growth in the booming world markets and expansive capital availability in the 1960s and 1970s respectively. The downfall of structuralist policies, regardless of previous success, is clearly traceable to the drying up of foreign capital, and, just as importantly, to the fiscal deficits which increased over time in Latin America and reached their climax in the massive debt crisis of the 1980s.

Within ECLA itself, the organization which had tacitly approved Allende's rise to power, and had some of its own officials within the regime, became increasingly divided. As ECLA saw Allende's fortunes sink, open support for the regime quickly disappeared. ECLA itself was in crisis- though many of the top policymakers still supported Allende.

especially Gary W. Wynia, Politics and Planners. Wynia notes, in particular, the lack of consistent financial support for the problems in planning.

²³⁸ French-Davis, Munoz, and Palma, pp.209-10. This dream is ironically being achieved now in the guise of MERCOSUR and other arrangements, albeit in a context of international, not just regional liberalization.

²³⁹ See Love, pp.433-7, for elaboration on the links between dependency and structuralism.

the majority of the support staff were for military intervention. Within ECLA itself, therefore, there was a circus-like atmosphere in which some members of the organization clearly violated their neutrality by supporting the Allende regime; others shied away from any statements of their position; and another group attempted to take advantage of the status of international organization employees to profit from the sale of scarce commodities. This combination of heroic and tragic elements mixed mostly with inaction due to shock and internal division would plague ECLA as an organization until well into the 1980s.²⁴⁰

In the 1980s, a new generation of ECLA staffers, many of whom are from the United States, have taken over the organization. Their rise to prominence has been accompanied by a strong shift in doctrines towards "neo-structuralism," which will be discussed in Chapter 5. Needless to say, the older generation of economists trained under Prebisch feel alienated and even somewhat betrayed by the newcomers. Indeed, the structuralist legacy has the unfair and inaccurate label of being *the* source of Latin American economic problems during the 1960s-1980s both outside and, to a lesser extent, within the organization itself. Considering the notable advances in industrialization during the period and the continuing problems of distribution, it seems strange that ECLA has apparently taken a defensive posture in regard to its historical legacy. ECLA is, in effect, attempting to turn the page on the glory years of Raul

²⁴⁰ My understanding of this period of organizational history owes much to my interview with Joseph Hodara in Santiago in September 1996. These political aspects go a long way towards explaining ECLA's "disappearance" as a policy organization of significance in Latin America after the military coup.

Prebisch, and incorporate itself (both ideologically and politically) more easily into the predominantly liberal economic atmosphere of the 1990s.

Whether ECLA regains its footing as a coherent organization with vital policy advice remains to be seen. What is clear is that there was a natural shift in Latin America by the 1980s towards national economic advisors. With the development of new economic institutions and experts over time (and in good part thanks to ECLA's pioneering efforts in training), it is only natural that domestic advisory groups have superseded the previously weighty place of ECLA. In the larger Latin American countries, ECLA has become more a source of economic data and analysis than policy advice. Therefore, the loss of credibility of ECLA in the 1970s was accompanied by a more permanent shift in epistemic power- the development of national economic epistemic communities.

As an international organization with avowedly neutral policy values, ECLA will never be able to openly assert its importance in Latin American economic history. In fact, the unwillingness of even ECLA retirees to acknowledge or document their obvious influence in economic policy decisions was a severe limitation on this study. This limitation has another side, however, since ECLA can survive the demise of its doctrine and its close governmental allies (such as Vargas in Brazil, and Frei and Allende in Chile) as an organization. As a bureaucratic organization with international funding, ECLA can never fully enter into the actual fray of domestic politics, but it can never fully be defeated by them, either. Therefore, in addition to the political limitations, ECLA's policy advice was always limited and diffuse, a necessary condition of creating a coherent message for the region. Many of its key advisors, such as Aldo Ferrer, continue to be

prominent spokesmen on the national level. These advisors are now integrated into the national-level discourse about development which has come to dominate regional and international discourses. This is due to the natural development of policy experts and economic epistemic communities on the national level. Moreover, the continuing increase in variation in the development of Latin America's economies seems to forswear any regional organization from ever regaining the prominence of ECLA during its heyday.

We now turn to the influence of economic ideas on a national level by continuing to trace the evolution of Chilean economic policy. In 1973, a military coup was the enabling crisis for a whole new economic epistemic community to promote its ideology on the national level, as we shall see in the next chapter.

Chapter 4: “The Chicago Boys” under Pinochet

I. Introduction

This chapter will examine the rise of monetarist economic ideology in Latin America through a case study of its rise in Chile after the military coup on September 11, 1973. The rise of “the Chicago Boys” was the first case of a reinvigorated belief in market forces and anti-statist economic thought that would sweep Latin America (and much of the rest of the world, as well) in the 1980s and 1990s.

This chapter is organized as follows. First, the monetarist economic program is very briefly discussed. Second, the history of the Chilean economy from 1973-1990 is discussed. Following an overview of the history of the Chicago Boys’ tenure, the organization and members of the Chicago Boys are examined. The subsequent section lays out their relationships with other political forces, in order to test the specific-level model of the first chapter. Finally, the chapter will attempt to explain why the Chicago Boys were so effective in guiding economic policy. The chapter also discusses in passing the triumph of the Chicago Boys’ ideology over that of the rival nationalists or *duros*, many of whom worked for a Franco-type Christian corporatism. In effect, Pinochet not only chose the Chicago Boys’ neo-liberalism over the existing ideology of structuralism, which could have been managed by Christian Democratic economists, but also over alternatives from the more nationalistic elements of his own coalition. The wedding of congruent ideas and interests, and the active promotion of ideas by an economic epistemic community, the Chicago Boys, helps to explain this development.

II. The Tenets of Monetarism under the Chicago Boys

The Chicago Boys derive their philosophy from the University of Chicago's monetarist program, which stresses control of the money supply as the primary economic policy tool. The two main economists who have inspired the program are Friedrich von Hayek of the Austrian school and Milton Friedman. The Chicago program is considered *neo-liberal* because it does not advocate *laissez-faire*, or complete reliance on market forces. Rather, the state should play a role in ensuring the smooth functioning of markets, such as providing stable transaction rules.²⁴¹

A. Analysis of Chicago Boys' ideology

Ironically, the Chicago Boys' view of the state is quite similar to that of structuralists in a certain sense. They believed that a rational group of economists could make the right decisions to guide a political economy to stable development. Furthermore, the economists should be insulated from opposing political forces in order to carry out the painful reforms needed.

Of course, the Chicago Boys saw the state playing a minimalist fiscal role. Instead of being a vanguard of industrialization and redistributive projects, the Chicago Boys thought the state should limit itself to ensuring the smooth functioning of markets. This action primarily consisted of guaranteeing stable economic rules: stable monetary and exchange rate policies; a tight credit and fiscal policy when needed to keep inflation

²⁴¹ Philip O'Brien, "Authoritarianism and the new orthodoxy: the political economy of the Chilean regime, 1973-82," in O'Brien and Paul Cammack, eds., Generals in Retreat: The crisis of military rule in Latin America (Manchester: Manchester University Press, 1985), p.146.

low; encouragement of the flow of foreign and the formation of domestic capital; and most importantly, a strong faith in the sanctity and importance of property rights.

The notion of an “equal playing field” reveals a Darwinian philosophy behind the Chicago Boys’ approach.²² However, the emphasis on “fair” competition is negated by the fact that some economic organizations are always favored by inherited advantages, such as historical knowledge; economies of scale; barriers to entry, such as technological knowledge; and by manipulation of the rules to change the playing field, such as oligopolistic control of the domestic market. Moreover, the assumption of fairness in economic opportunities begs the question of whether the society shares these priorities or has others, such as redistribution of income. Of course, the “solutions” for these quandaries run the gamut of the economics literature- so we shall leave them for other discussions of political economy.

III. Historical Overview of the Chilean Political Economy under Pinochet, 1973-89

A. Political Overview

Pinochet’s reign in Chile was somewhat different from other contemporary military regimes in Latin America. First, Pinochet developed a personalistic style of ruling, in contrast to the frequent changes and rules by committee in other countries. Second, the regime rested on an apparently narrow constituency base, generally identified as large businesses and international and domestic finance.

The first actions of the junta sought to consolidate power for the Right by purging the Left. Just two days after the coup, Pinochet announced that the junta was determined to 'exterminate Marxism' from Chilean life. Immediately after the coup, the junta dissolved the Congress, and declared a state of siege which suspended all individual liberties and community-based political organizations. Numerous people were executed under military law. The new government also replaced all locally elected officials. The junta outlawed the Communist and Socialist parties; made the Communist-controlled Central Workers' Confederation illegal, and promulgated new laws which sharply curbed labor activity by reshaping labor courts and by banning industry-wide strikes. The junta also took over each of the seven campuses of the University of Chile and the two Catholic universities, replacing their rectors with military personnel. Along with this action, the military purged students, teachers, and textbooks which were deemed to be under Marxist influence. In January 1974, the government suspended all non-Marxist political parties, and, in March, elections on all levels.²⁴³ In sum, the military was effective and comprehensive in its political repression of any opposition.

Needless to say, international reaction was, and remained, almost universally hostile to the coup. Even Washington temporized on providing wholehearted support, given internal opposition to the coup, including Congressional condemnations, and

²⁴² Lois Hecht Oppenheim, Politics in Chile: Democracy, Authoritarianism, and the Search for Development, (San Francisco: Westview Press, 1993), p.153.

²⁴³ Genaro Arriagada Herrera, Pinochet: The Politics of Power, Nancy Morris, Vincent Ercolano, and Kristen A. Whitney, translators (Boston: Unwin Hyman, 1988), pp.3-11.

accusations that the Central Intelligence Agency was partly responsible for the overthrow and death of Allende.²⁴⁴

Pinochet removed the largest internal thorn in his side in 1978 when he sacked General Leigh, who had been critical of the cult of personality around Pinochet and the continuation of military rule.²⁴⁵

In the early years of the coup, the direction of economic policy was far from certain. The military was divided into groups, the *duros* and the *blandos*. The *duros*, who have also been called “*integralistas*,” had a comprehensive and religiously-oriented philosophy which was seemingly tailor-made for the military. The philosophy, which included nationalism, anti-Marxism, respect for tradition, authority, hierarchy, duty, and morality, and opposition to political parties; harkened back to Latin American governments of the 1920s and 1930s, including the Ibañez dictatorship. They blamed materialism and egoism for the deterioration in current conditions. Their corporatist solution, using Franco as an example, appealed especially to the *gremios*, professional and interest groups who had organized to promote the removal of political parties from social institutions. They asserted natural rights, including private property; the state as the embodiment of the common good; and the need for human associations free from interference with the state. Society would be organized in corporatist fashion according

²⁴⁴ James R. Whelan, Out of the Ashes: Life, Death and Transfiguration of Democracy in Chile, 1833-1988 (Washington: Regenery Gateway 1989), pp.566-7, and pp.587-96.

²⁴⁵ Ibid., p.787.

to important interest groups, with the military on top of the state apparatus. The state would harmonize these interests for nationalistic goals.²⁴⁶

Prominent *duros* included Pablo Rodriguez, a leader of *Patria y Libertad*, and Jaime Guzman, a leading *gremialista*. *Patria y Libertad*, or “Fatherland and Liberty,” had been formed after 1970 as a violent right-wing opposition group to Allende. The group had, in good part, been responsible for creating the chaos which led to Allende’s downfall. While ultimately unsuccessful in taking over the economic agenda, the *duros* became entrenched in several important areas for the government, including communications and public relations; the National Secretariat for Women; the National Secretariat of Youth; and the state-sponsored *gremios*. These last three organizations were part of the Pinochet regime’s plan to organize society along corporatist lines as an alternative to political parties, which it saw as responsible, in good part, for the national crisis during the Allende years.²⁴⁷

“The Chicago Boys,” an epistemic community of economists trained at the University of Chicago were part of the *blando*, or moderate, faction. The *blandos* were, accordingly, initially less committed to long-term military involvement and strong authoritarianism. This division among supporters of the government continued partly because Pinochet enjoyed the appearance of listening to diverse groups and the opportunity to spread his political risk.²⁴⁸

²⁴⁶ Thomas G. Sanders, “Military Government in Chile,” in Brian Loveman and Thomas M. Davies, Jr., eds., The Politics of Anti-Politics: The Military in Latin America (Lincoln: University of Nebraska Press, 1978), pp. 272-4.

²⁴⁷ Ibid., p.275.

²⁴⁸ Oppenheim, Politics in Chile, pp.20, 66, 72, 102, & 148-50.

Ironically, the state became more, not less, important as Pinochet concentrated power in the military government through purges of the left and autocratic decision-making. Pinochet's right arm was the DINA (Dirección de Investigaciones Nacionales), which was the secret police. DINA enforced the law abolishing all opposition to the regime.

Pinochet also offered two shows of his political legitimacy. First, officials revealed seventy-five per cent support for Pinochet "in the face of international aggression" in a 1978 plebiscite. Second, in 1980, officials gave the highly-disputed figure of 67 per cent in favor of the plebiscite approving the new authoritarian Constitution. Pinochet, meanwhile, was able to co-opt any internal military opposition through maintaining extremely high spending on the military, and increasing the number of generals, all through personal appointments. Unions were persecuted, and organized labor fell from 30 per cent of the labor force under Allende to just ten per cent by 1983.²⁴⁹

Several developments sidetracked the appearance of well-consolidated power by 1980. First, the continuing conflict between the *blandos* and the *duros* came to the forefront in 1980. The former wanted a lifting of the state of exception, and an effort at beginning political institutionalization, while the latter preferred maintaining the status quo, strict authoritarian rule. Secondly, the 1981-2 economic crisis led to increasing

²⁴⁹ Angell, "Chile since 1958," in Leslie Bethell, ed., The Cambridge History of Latin America (New York: Cambridge University Press, 1994), pp.368-72.

dissatisfaction among the *duros* with the Chicago Boys, leading ultimately to the sacking of Finance Minister de Castro.²⁵⁰

The *duros* won both battles in the 1980s. Pinochet had promised in a July 1977 speech that civilian rule would be gradually phased in over the next eight years. He outlined several steps, including a new Constitution, a period of mixed military and civilian rule, and, finally, in 1985, a return to civilian rule with military oversight. The Constitution, passed in 1980, included strong provisions for maintaining right-wing military rule. The new law set up a plebiscite for 1989, which would decide how long the military government would remain in power. The Constitution provided for explicit military oversight of civilian government when the civilians took over in several ways. These included military membership in an advisory National Security Council: reserved seats in the legislature; and NSC, rather than civilian presidential, control over top military appointments.²⁵¹

The political right (known here as “the nationalists”), however, split between those who favored a continuation of the regime and those who saw a return to democracy as inevitable. The latter group wanted to position themselves as a viable democratic opposition party. These differences would be partly responsible for the later split between the pro-government UDI (*Partido Union Democratica Independiente*) party and

²⁵⁰ Oppenheim, *Politics in Chile*, pp. 150 & 136. The state of exception prohibited public gatherings without official approval.

²⁵¹ *Ibid.*, pp.132-5.

the more traditional rightist parties, namely the National Union (UN) and the new National Renovation Party, in the presidential election of 1990.²⁵²

The recession of 1982 undermined the legitimacy which the Pinochet regime had cultivated on the basis of its economic performance. While opposition parties were still deeply divided, political-economic protests nevertheless began in earnest in 1983, with a series of grass-roots demonstrations. The first was a Day of National Protest which the copper miners called on May 11, 1983. Pinochet responded with token gestures of conciliation, and heavy-handed repression.²⁵³

The uniting of the political opposition for democracy, from Left to Right, is a story far too complicated for treatment here. However, Pinochet's loss in the plebiscite and the election of PDC leader Patricio Aylwin has much to do not only with political maneuverings, but also with a growing consensus after 1985 on economic policy, which will be discussed later.

Though the military, and Pinochet in particular, had designs for long-term power, they were never able to achieve the degree of legitimacy required to justify such visions. First, the regime's legitimacy was intimately tied to its origins. As it originally claimed to act to restore constitutional rule in a country with a long history of adherence to governing rules, the regime had been premised upon the idea that it was a temporary necessity.²⁵⁴ The 1980 plebiscite on the junta's new constitution is proof of the military's

²⁵² Manuel Antonio Garreton, "The Political Opposition and the Party System under the Military Regime," in Paul W. Drake and Ivan Jaksic, The Struggle for Democracy in Chile, (Lincoln, NE: University of Nebraska Press), pp.232-5.

²⁵³ Oppenheim, Politics in Chile, pp.139-40.

²⁵⁴ Augusto Varas, "The Crisis of Legitimacy of Military Rule in the 1980s," in Drake and Jaksic, pp.74-5.

desire for formal legal status. Also, the rise of the civilian Chicago Boys' neo-liberal ideology, which upon reaching its apogee in the 1979 "modernizations" extended into the political realm, gave a clear alternative to the national populist aspirations of the *duros*. The Chicago Boys' ideology, while eminently elitist and technocratic in its vision of the mechanics of economic policy, became a political vision of society which relied on the market. A market for politics could only exist in a society with free movement and competition of ideas, people, and commodities. Thus, in a strange way, Pinochet's main ideological buttress was contradictory to his continuation in power.

In sum, Pinochet's political power rested, as Arriagada points out, on three pillars. The first was his own personal power. The second was the secret police. The third was the Chicago Boys, whose economic policy we shall now examine.²⁵⁵

B. Economic Overview

1. Introduction

The military coup in 1973 brought a sea change in economic philosophy to Chile, and with it, a newly dominant epistemic economic community, the Chicago Boys. The structuralist program, in place, in part, at least since Aguirre Cerda in 1938, was completely dismantled and its policies were reversed. The overarching goal of industrialization was abandoned. The idea of structural bottlenecks and the consequent need for redistribution was similarly laid aside. The role of the state in the economy was

²⁵⁵ Arriagada, pp.18-9.

changed to one of minimal interference with market forces. Part of that role, namely the idea of protecting industries, vanished along with the activist state.

2. *Sept. 1973-April 1975: Period of mixed ideologies*

Pinochet inherited a veritable disaster of an economic situation when he took power. The first economic decisions were designed to reverse the steps of previous governments. The administration reduced tariffs, freed prices, and devalued and unified the exchange rate. The government also began to privatize state-owned enterprises. Unfortunately, however, copper prices continued to fall.²⁵⁶ Moreover, despite massive aid from the United States, Chile suffered from a shortage of international capital.²⁵⁷

The first two years of the regime were a period of consolidation for the Chicago Boys. Pinochet took over central command after an early period of decentralized decision-making. The initial participation by Christian Democrats largely faded although a few prominent economists abandoned the party to work for the regime.²⁵⁸

The first period of Pinochet's rule was led by economists Raul Saez and Fernando Leniz.²⁵⁹ Both promoted a gradual liberalization of the economy, a policy framework which was followed until 1975, when the shock therapy approach of the Chicago Boys was adopted. Although the gradual measures, such as reducing state spending and

²⁵⁶ Angell, pp.363-4.

²⁵⁷ *Ibid.*, p.364.

²⁵⁸ O'Brien, p.152.

²⁵⁹ The first economic advisory team was: Minister of Economy: Gen. Rolando Gonzalez; Finance. Contraalmirante Lorenzo Gotuzzo; Public Works, Air Force Gen. Sergio Crespo; Labor, Carabineros gen. Mario Mackay; Mining, Gen of Carabineros Arturo Yovane; Housing, Gen Arturo Viveros, and ODEPLAN, Roberto Kelly. Fernando Leniz took over the Min of Ecoy on 10/11/73. Delano and Traslaviña. La Herencia de los Chicago Boys. (Santiago: Ornitorninco, 1989), p.28.

eliminating tariffs above 200%, were put into place, inflation continued to be about 375% at the end of 1974. Moreover, the budget deficit for the central government was still at 32% of total receipts. Unemployment continued to rise, as real wages fell. A visit by Milton Friedman to the University of Chile, and a discussion with Pinochet in March 1975 sparked a shift in momentum towards the Chicago Boys. After a weekend retreat in which Saez and Cauas debated strategies, Pinochet became convinced that the Chicago Boys were his best option. He named Cauas Finance Minister in December, centralizing economic authority in his hands. He also replaced Leniz with Sergio de Castro.²⁶⁰

3. *April 1975-1977: The Chicago Boys take over and their shock treatment yields a massive recession*

The Chicago Boys' opportunity came with a sharp crisis in 1975. With declines in the price of copper and increases in the price of oil, Chile faced massive foreign exchange losses. Under these circumstances, the Chicago Boys took over in full force on April 17, 1975, and immediately applied a shock treatment to the economy. Admiral Merino, who had been appointed by Pinochet to look after economic matters, was the major influence upon Pinochet's decision to change teams.²⁶¹ He chose a new economic team consisting completely of hard-line Chicago Boy economists. Jorge Cauas became Super-Minister in charge of most key ministries, including Minister of Finance. He met almost daily with the key economic ministers: Sergio de Castro, the new Minister of the Economy; Pablo Baraona, the new President of the Central Bank, and Roberto Kelly, the

²⁶⁰ Pamela Constable and Arturo Valenzuela, *A Nation of Enemies: Chile under Pinochet* (New York: Norton, 1991), pp.170-1.

head of ODEPLAN, the state planning agency. This four-man team was largely responsible for the ensuing shock treatment.²⁶²

Delano and Traslaviña note that there was an important change in bureaucratic missions with the onset of the new team. From that point, the Finance Minister had a more important role than the Minister of Economy. The latter's role had been to plan and administer resources and to give directives to the other economic ministries and agencies. It had controlled fiscal policies, set prices and subsidies, regulated industrial and commercial activity, intervened in businesses, and doled out public credit through CORFO (la Corporacion de Fomento de la Produccion). Within a few years, the Minister of Economy's role was reduced mainly to guiding privatization.²⁶³ *The change was symbolic of a more important ideological shift from an emphasis on Keynesian fiscal policy instruments to utilizing monetary policy as the primary economic policy instrument.*

Under the shock treatment, the new economic ideologues cut real government spending by 27%, reducing the fiscal deficit from 8.9% of GDP to 2.9%. They cut tariffs from an average of 70% in mid-1974 to 33% by mid-1976. They restricted credit, by raising annual real interest rates from 49.9% to 178% by 1976. They reduced public investment by half. The measures were successful in inducing a deflationary recession. GDP fell by 15% from 1974. Industrial production fell by one quarter. Real wages also

²⁶¹ Arriagada, p.20.

²⁶² O'Brien, p.154. On April 24, 1975, Cauas announced that an emergency plan to halt inflation and spur growth would be imposed "at any cost." See Constable and Valenzuela, p.172.

²⁶³ Delano and Traslaviña, p.161.

fell, dipping to 62.9% of their 1970 value by 1975. Unemployment rose from 9.7% at the beginning of the year to 18.7% at year's end.²⁶⁴ The new team also instituted a wide-ranging tax reform, including the introduction of a value added tax. The tax reforms had net regressive effects on income.²⁶⁵

Table 2: Private Consumption and Investment Before and After the Shock Treatment

	1973**	1974	1975	1976	1977	1978	1979	1980
Private Consumption*	927	5,742	25,941	88,669	210	347	546	760
Investment*	147	1,559	6,271	17,068	38	72	115	179
Interest Rate*	n/a	n/a	n/a	n/a	163.15	86.13	62.11	47.14

Source: *International Financial Statistics Yearbook 1996*. (Washington: International Monetary Fund, 1997)

n/a= not available

*Units are millions of pesos except for interest rate, which is annual %. I use Gross Fixed Capital Investment here to show long-term domestic confidence in the economy and the effect of the interest rate on borrowing. The interest rate given is the lending rate.

**I include the last year of Allende's Administration (until September 1973) as a starting point.

This first period was one of economic hardship for most of the nation. As a result, the government created the Minimum Employment Program (Programa de Empleo Minimo, or PEM), which offered free medical care and a nominal wage in exchange for public work. By 1976, the program had expanded to cover more than 210,000 people.²⁶⁶

²⁶⁴ Angell, pp.364-5.

²⁶⁵ Robert J. Alexander, *The Tragedy of Chile*. (Westport, CT: Greenwood Press, 1978), p.419.

²⁶⁶ Constable and Valenzuela, p.224.

4. *First Economic Boom and Extension of the Model, 1977-June 81*

On December 28, 1976, de Castro replaced Cauas as Minister of Finance.²⁶⁷ The new Minister of Finance legitimized the economic costs of unemployment, bankruptcies, and public spending as necessary costs of stabilization.²⁶⁸ In 1977, the cabinet became dominated by civilians for the first time. The following year, in 1977, civilian Sergio Fernandez was made Minister of the Interior, leading to a Cabinet of twelve civilians and only five military officers.²⁶⁹ De Castro instituted a fixed exchange rate in 1979, which would become a strong point of contention.

By the late 1970s, the economy experienced a boom, which was fueled in part by a real estate speculation boom, which the government encouraged by shifting lower class residents to outlying areas of Santiago (thereby raising land prices), and by eliminating the capital gains tax.²⁷⁰

In 1979, the Chicago Boys, in the midst of their apparent success, further extended the model.²⁷¹ The new set of reforms, which became known as "The Seven

²⁶⁷ Besides Minister of Finance Sergio de Castro, the new team was solidly of the Chicago group. Baraona left the position of head of the Central Bank to take de Castro's old place as the Minister of Economy. The vice-president of the Central Bank, Alvaro Bardon, then moved up to the presidency of that institution. His immediate subordinate, Sergio De La Cuadra, then moved from the third position to become Vice-President of the Bank. Arriagada, p.28.

²⁶⁸ Veronica Montecinos, Economics and Power: Chilean economists in government, 1958-1985 Ph.D. dissertation, Sociology, (Pittsburgh: University of Pittsburgh, 1988), p.63.

²⁶⁹ Arriagada, p.28.

²⁷⁰ Oppenheim, Politics in Chile, p.131.

²⁷¹ Pilar Vergara and Tomas Moulian, in Auge y Caída del Neoliberalismo en Chile, (Santiago: FLACSO, 1985), divides the Pinochet years into ideological progressions of neoliberalism spreading from economic to global conceptions. The first phase, for her, is from the coup until April 1975, when the regimes discourse is one of "relative indifferentiation or eclecticism." The second is from April 1975 until December 1978, during which neoliberal ideas predominate in economic questions. This phase marks the triumph of neoliberalism of gremialist and nationalist ideologies. The third is from December 1978 until the middle of 1981, and is a period of expansion of neoliberalism to political and social questions. The last phase according to her is the defeat of the neoliberal project. Obviously, this last pronouncement was far too hasty. See pp.12-13.

Modernizations.” were designed to affect social, not just economic changes. Pinochet formalized the new ideas with his speech on September 11, 1979.²⁷² Academic Jose Piñera and his colleagues had promoted a new political vision which Pinochet took as his own. Piñera believed that the traditional political viewpoints of democracy and egalitarian socialism could be replaced by a consumer’s choice-led polity. This view sees economic freedoms as the basis for a political system in which voters would vote for parties which maximized their economic interests, and leave aside appeals to ideology. Piñera stated, ‘It wasn’t hard to convince Pinochet, because he felt he was making history....He wanted to be ahead of Reagan and Thatcher.’²⁷³ Pinochet announced his conversion to the new vision in his 1979 speech, in which he declared “the seven modernizations.” These modernizations included ambitious plans for seven key areas: labor, social security, education, health, justice, agriculture, and regional administration. Each was designed to maximize consumer choice.

The reforms of labor code were carried out under Jose Piñera, by now Minister of Labor. The new code attempted to treat labor as a commodity no different from any other factor of production. The reversal of the ban on strikes and labor unions, in place since 1973,²⁷⁴ was one of the first actions. However, the new labor code prevented large unions from organizing by banning closed shops, allowing for negotiations only on the factory level, banning national and large-size unions, and allowing easy formation of new unions. Moreover, strikes were limited to sixty days, during which time temporary replacements

²⁷² Oppenheim, *Politics in Chile*, p.131.

²⁷³ Constable and Valenzuela, pp.190-1.

could be used. Finally, unions were unable to associate with any political parties. Labor leaders with greater political aspirations were otherwise harassed.²⁷⁵

Other “structural” market reforms were extended to social security, education, health, agriculture, justice, and public administration.²⁷⁶ State health insurance was supplanted by private health maintenance organizations called *Instituciones de Salud Previsional* (ISAPRES).²⁷⁷

In each of these areas, a recurring rhetorical theme was decentralization of control. In practice, Pinochet directly hired mayors, and underfunded social programs, so the real aim was to weaken these parts of the public sector. The eventual plan was to privatize each of the systems. The social security system was privatized, with individuals choosing where to invest their individual retirement accounts. Similar changes took place in health and education, in which state funding was drastically cut, services were deregulated and partly privatized, and control was nominally decentralized. An effort was also made to decentralize revenues to the municipal level. The result in each case was a reduction in the role of the state in the economy and an impressive increase in the efficiency of the sector. However, Oppenheim notes an increase in the disparity of access to social services as well.²⁷⁸

The state’s privatization program was equally vigorous. In 1973, the state, through its agency CORFO (Corporacion de Fomento de la Produccion), owned some

²⁷⁴ Oppenheim, *Politics in Chile*, p.132.

²⁷⁵ *Ibid.*, pp.156-7.

²⁷⁶ *Ibid.*, p.132.

²⁷⁷ Constable and Valenzuela, p.191.

three hundred enterprises. By 1980, CORFO owned only twenty-four. Other agencies controlled other businesses, primarily in the copper and petroleum industries. Under the circumstances of the recession and extremely tight credit, only large private conglomerates with access to lower interest rate foreign funds were able to purchase the privatized industries. The net effect was a subsidization by the state to large private interests who were able to raise the cash to buy the assets, (since the number of buyers was restricted by access to international credit). Alejandro Foxley, of CIEPLAN, contended that the average sale was subsidized by about 30 per cent of the firm's value. Many of the government sales went to the large conglomerates, including those controlled by Edwards, Manuel Cruzat, and Javier Vial, with whom the Chicago Boys had close connections.²⁷⁹ Nevertheless, the government (though in contradiction to the Chicago Boys' ideology), retained several "strategic" assets, including CODELCO, the copper corporation. Total revenues of state corporations remained at twenty five per cent of GDP by 1982. It appears that elements of the military were able to resist the Chicago Boys on this finer point.²⁸⁰

In short, the new Chilean economy had a strong concentration of wealth amid high rates of growth. Large conglomerates came to dominate the banking, financial, industrial, and agricultural export sectors. Two groups, Cruzat-Larrain and the Javier Vial, dominated the private banking system until the recession of 1982. Companies made major profits simply through interest arbitrage, given the extremely high domestic

²⁷⁸ Oppenheim, *Politics in Chile*, pp.156-62.

²⁷⁹ Constable and Valenzuela, pp.191-192.

borrowing rates.²⁸¹ Moreover, the two largest groups controlled 75% of the market for the newly privatized social security funds, because workers had more faith in placing their money in these larger groups.²⁸²

The widespread economic euphoria of the period may have led directly to voters' approval of the 1980 Constitution.

5. *June 1981-1985: Recession, and adjustment of the model*

The beginning of the decade of the 1980s was marked by even greater confidence among the Chicago Boys and Pinochet of the validity of the neo-liberal model, with incredible promises of short-term wealth gains for the nation.²⁸³ In political terms, the regime seemed to enjoy a new level of legitimacy in 1980. Civilian participation in the government reached a peak, with civilians controlling all of the economic ministries: ODEPLAN, the national planning ministry; and the social ministries of Labor, Mining, Agriculture, and Education. In 1980, the regime had the full confidence of the business sector, both internationally and at home. It was under these circumstances that the new Constitution passed.²⁸⁴

²⁸⁰ Angell, p.365.

²⁸¹ Angell, pp.365-6.

²⁸² Alejandro Foxley, Latin American Experiments in Neoconservative Economics (Los Angeles: University of California Press, 1988), pp.106-7.

²⁸³ De Castro promised in May 1980 that by the end of the 1980s Chile would be 'a developed country with a per capita gross domestic product of thirty-five hundred dollars annually,' which was far above the global average. Jose Piñera, Minister of Labor, added that 'In 1990, Chile will be a developed country.' Pinochet went even further, pledging the creation of one million new jobs, nine hundred thousand new homes, and that one in seven Chileans would own an automobile and a telephone, and one in five would own a television by 1989, the Constitutionally-set end of his term. Abridged quote from Arriagada, p.40. Pinochet quote from p.44.

²⁸⁴ Arriagada, pp.42-3.

In macroeconomic terms, (namely: high growth rates; gradual control of inflation, the fiscal deficit, and the balance-of-payments; and boosting non-traditional exports): the regime indeed had spectacular economic successes up to 1980, but the economic plan faltered in other areas. One pressing problem was a huge foreign debt, 84% of which was borrowed from foreign banks. Much of the borrowed funds went to speculative ventures and/or consumption. Confidence was on such a level as to lead to more than four billion dollars of loans without government guarantee in 1981 alone, equaling 40% of the total amount of similar loans made between 1974 and 1981.²⁸⁵ Certainly, the international banking community had taken the cue of the World Bank and the International Monetary Fund, who painted Chile as a true economic miracle.²⁸⁶

6. *The Banking Crisis*

The signaling crisis for the ensuing recession came in May 1981, with the collapse of the sugar monopoly (CRAV). The owners of the CRAV had bet millions that the price of sugar would rise, but it did not. The bankruptcy of CRAV revealed mismanagement in other areas of the company, including having acquired a massive internal debt from banks partly controlled by CRAV and uncontrolled international operations. The Minister of the Economy, Sergio de Castro, launched an investigation into other conglomerates, known as economic groups. Similarly speculative enterprises also began to fall apart with the U.S.-induced world liquidity crunch in 1982.²⁸⁷

²⁸⁵ *Ibid.*, pp.41 & 50.

²⁸⁶ *Ibid.*, p.51.

²⁸⁷ O'Brien, pp.157-8.

In November 1981, the first signs of the banking crisis appeared as the government took over four banks and four financial institutions. The government underplayed the importance of the move.²⁸⁸ Publication of the remaining banks' annual performances for 1981 revealed the seriousness of the infirmity. Profits had deteriorated, with some banks showing losses. Defaulted loans equaled an appalling 2.3% of total loans. In 1982, the government moved to take over two more banks, Banco Austral and Banco de Fomento de Bio-Bio. In early July, 1982, the government moved even further by announcing that it would buy the banking system's defaulted and high-risk loans. This step, like previous interventions, was painted as 'inevitable' by the government. By October 31st, the financial system, including the Central Bank's holdings, but not those of the Banco del Estado, had ten percent of its holdings in default. The banking crisis reached its apex. The government liquidated three banks: Financiera CIGA, Banco Hipotecario de Chile, and Banco Unido de Fomento. The government also appointed new directors for five others: Banco de Chile, the most important commercial bank; Banco de Santiago, the second most important; Banco de Concepcion, the fifth most important; Banco Internacional, and Banco Colocadora Nacional de Valores.²⁸⁹

In April 1982, Pinochet asked de Castro to resign, placing generals Frez and Danus in the regime's top economic posts. Danus immediately announced an eighteen

²⁸⁸ Arriagada, p.51.

²⁸⁹ Arriagada notes that 0.4 per cent is considered a sharp deterioration in the United States, pp.50-2.

per cent devaluation. Pinochet chose Rolf Luders of the Vial group in August 1982, making him head of both Finance and Economy.²⁹⁰

By the end of 1982, Chile's banks were in full-fledged crisis. While deposed Minister de Castro advocated allowing them to go bankrupt and informing foreign banks that they had made bad loans, Pinochet and Luders were far more pragmatic. Luders had the state take over the majority of the banks, reorganizing the debt so as to maintain as many as were viable.²⁹¹ Luders' preliminary study of Chile's private banks concluded that at least \$2.5 billion in debts, equal to ten per cent of the GNP, were uncollectible. Concluding that it would be "immoral" for the government to re-secure the big conglomerates, he proposed saving the system by intervention. He suggested allowing the larger, indebted ones to fail and rescuing the smaller ones.²⁹²

Luders announced his plan on January 13th, 1983. He sternly criticized the conglomerates and announced the state intervention into many of the largest banks. He said that three institutions, which had debts three times the size of their assets, would be liquidated. Five would be taken over, and two would be placed under observation. Numerous enterprises linked to the banks were also affected.²⁹³

In January 1983, the government took over nine key financial institutions, including those of two of the most important economic groups, Vial and Cruzat-Larrain. Luders then sent nine telegrams to the foreign private banks with outstanding loans

²⁹⁰ Constable and Valenzuela, p.195.

²⁹¹ O'Brien, p.160.

²⁹² Constable and Valenzuela, p.196.

²⁹³ Ibid., p.196.

informing them that the money had been lost as the enterprises had gone bankrupt. Not surprisingly, the foreign banks responded by cutting off all credit. The Chilean government, within days, rescinded, guaranteeing the foreign loans. Luders then sought IMF short-term financing. The latest fiasco was enough, however, to induce Pinochet to replace him.²⁹⁴ Luders' actions against the banks stunned the business community, especially considering the close ties that the Chicago Boys had had with businessmen. Luders had been an integral part of the Vial empire, which he then dismantled. Former advisors Bardon and Baraona headed two of the banks in which the government intervened.²⁹⁵ By mid-1983, only seven of nineteen commercial banks, and eight of twenty-two investment banks and financial intermediaries (*bancos de fomento* and *financieras*) remained in private hands.²⁹⁶

7. *The Devaluation Crisis*

More importantly, the Chicago Boys had adopted a fixed exchange rate in mid-1979 in order to reduce inflation by stabilizing capital flows and interest arbitrage.²⁹⁷ By locking in the price of the dollar, the economists also hoped to align the economy to global inflation rates, since importation was relatively easy. Unfortunately, the exchange rate was heavily overvalued, leading to a period of easy spending of dollars.²⁹⁸ As a

²⁹⁴ O'Brien, p.160.

²⁹⁵ Constable and Valenzuela, p.197.

²⁹⁶ Arriagada, p.53.

²⁹⁷ De Castro was the chief architect of this policy, although both he and economist Ricardo Ffrench-Davis had advocated regular devaluations to the Alessandri Administration in the early 1960s. See David E. Hojman, Chile: The Political Economy of Development and Democracy in the 1990s (Pittsburgh: University of Pittsburgh Press, 1993), p.25.

²⁹⁸ Arriagada, p.41.

result, the Chilean economy naturally suffered a severe balance-of-payments problem as imports flooded the economy. The government was thereby forced into a series of devaluations exceeding 70% between June and October 1982. Real interest rates thereby soared, drastically reducing domestic investment. With the ensuing recession, a number of bankruptcies swept the economy.²⁹⁹

The 1982 recession hit the lower income levels especially hard, as unemployment rose to more than thirty percent.³⁰⁰ De Castro further alienated labor by abolishing the inflationary indexation of wages, though those of the armed forces remained intact. More importantly, he managed to raise the ire of the financial groups which he had helped to create. The centerpiece of the problem was the need to protect the fixed exchange rate. In the face of rising international interest rates, this required a parallel action domestically. As a result, domestic production nose-dived, and unemployment went from ten per cent in June 1981 to nineteen per cent in March 1982. Another irritant to businessmen was the jailing of several officers of the banks which failed in November 1982.³⁰¹

When Luders was appointed, he took immediate action. He eased credit and the money supply, while allowing for easy conversion of the peso. Not surprisingly, there was a run on the peso, and Chile's foreign exchange reserves rapidly deteriorated.³⁰²

²⁹⁹ Angell, pp.366-7.

³⁰⁰ Ibid., p.368.

³⁰¹ O'Brien, p.158.

³⁰² Ibid., p.159.

The recession deeply affected the nation, with government minimum employment programs employing half a million by March 1983.³⁰³ Probably as a natural part of the business cycle, the economy made a recovery in 1984, with GNP growing by six per cent. as the new economic team instituted expansionary measures.³⁰⁴

Nonetheless, new Minister of Finance Escobar, in his criticisms of the Chicago Boys, raised the ire of the military leaders and of the business community. His advocacy of confrontation with the IMF and of raising taxes scared the business community and the junta. The business community and the junta were afraid of a cut-off of international finance and of a return to state-led policies, should Pinochet fall. Moreover, the economic team itself was divided internally.³⁰⁵ Pinochet therefore made another switch, this time choosing Hernan Buchi as the Minister of Finance.

8. *Second Economic Boom, 1985-9*

In 1985 the economic approach was more systematically modified under new Finance Minister Hernan Buchi. Buchi was appointed in February 1985, and guided the economy to sustained recovery until he resigned in order to run for the presidency in 1989. Growth rates between 1985-89 averaged 7.2%. The economic recovery helped the regime to recover the support of its core business constituency.³⁰⁶

³⁰³ Constable and Valenzuela, p.224.

³⁰⁴ *Ibid.*, p.212.

³⁰⁵ Constable and Valenzuela, pp.212-3.

³⁰⁶ Oppenheim, *Politics in Chile*, pp.150-1. The recovery was probably part of an upswing of the business cycle as well. The relief was not evenly distributed, as, for example, wages failed to recover 1980 levels. Also James Petras and Fernando Ignacio Leiva with Henry Veltmeyer, *Democracy and Poverty in Chile: The Limits of Electoral Politics* (San Francisco: Westview Press, 1994), p.30.

While still a Chicago Boy, Buchi was more pragmatic than his predecessors. He did not hesitate to use the state to enhance the free market. He moved to more tightly regulate business and banking, and developed price support systems for agricultural staples such as wheat.³⁰⁷ More importantly, he restricted capital flows. Buchi was highly effective in reuniting the large business groups with the Pinochet regime. He employed price protection and special credits for traditional agriculture, which helped large landowners. He also placed tariff surcharges on subsidized imports, which helped local industrialists, especially in textiles and footwear.³⁰⁸ Buchi brought like-minded advisors into the government and had appealing personal qualities. Like the highly popular bureaucrat Miguel Kast, Buchi set an example of austerity and hard work.³⁰⁹

In 1983, Chile had come close to defaulting on the \$19 billion foreign debt, but within a year Buchi had reestablished Chile's credibility with the banks and signed a \$1.9 billion refinancing deal. He also lowered the debt by pioneering creative mechanisms such as "debt-equity swaps," in which the state traded chunks of discounted debt to banks or foreign capital owners in exchange for investment in Chile. The international financial agencies were soon convinced of the strength of the program. The World Bank approved more than \$1.2 billion in loans between 1985 and 1987 alone.³¹⁰

Perhaps Buchi's most important modification of the program was the promotion of exports, borne out of the shortage of foreign exchange. With the recovery of

³⁰⁷ Constable and Valenzuela, p.214.

³⁰⁸ Eduardo Silva, "The Political Economy of Chile's Regime Transition," in Paul W. Drake and Ivan Jaksic, revised ed., p. 115.

³⁰⁹ Constable and Valenzuela, p.214.

international financial capital inflows, this sector of the Chilean economy began to emerge. The traditional mining and manufacturing sectors were augmented with new dynamic economic sectors in (Northern Hemisphere winter) fruits, timber and furniture making, financial services, and information technology.³¹¹

Buchi's team also revived the privatization plans which had began in the 1970s. He sold off firms that had been taken over in 1983 and profitable public enterprises, including the telephone company (Entel), various electric utilities, the national sugar refinery (Iansa), and Pacific Steel.³¹²

The government attempted to avoid some of the economic concentration of de Castro's term. The government announced a plan for "popular capitalism," which involved issuing shares of stock in public corporations and, in some cases, giving their employees the chance to purchase them. The regime also encouraged foreign investment through relaxed rules on joint ventures and debt-for-equity swaps.³¹³

Economic concentration, however, was only moderated, though it did change ownership. The old conglomerates of Vial and Cruzat were replaced by new ones. These included one headed by Anacleto Angelini, who, with a group of New Zealand investors, bought Copec and thirty-six affiliated firms. Another major one was CMPC, the massive

³¹⁰ ibid., p.214.

³¹¹ ibid., p.215.

³¹² ibid., p.216.

³¹³ ibid., p.217.

timber and paper company which was owned by Eliodoro Matte Ossa. and headed by former President Alessandri.³¹⁴

A nationalistic reaction occurred in regard to the new policies encouraging foreign investment. Raul Saez and Orlando Saenz formed the Committee to Defend the National Heritage. which attacked the new policies on these grounds, but to no avail.³¹⁵ The old economic nationalism of the *duros* has increasingly less power in Chile, perhaps because there is greater appreciation among both elites and the public-at-large of the benefits of international consumer capitalism.

9. *Continuation or Revision of Neo-liberal policies under the new civilian Christian Democratic governments?, 1989-?*

The new Aylwin Administration adopted the basic tenets of neo-liberalism while increasing the emphasis on international competitiveness. Without going into the details of the policy decisions that were made, the Aylwin Administration was largely successful in preserving the neo-liberal model with a few modifications. First, the new emphasis was on international competitiveness. Second, the Administration was able to reach an agreement with Chilean Labor through a series of agreements in which unions agreed to the government's overall goal of export competitiveness. Third, the new government made some efforts at social spending, albeit within strict fiscal bounds. In regard to the latter, needless to say, Aylwin's efforts have been fairly controversial in regard to their

³¹⁴ *Ibid.*, p.217.

³¹⁵ *Ibid.*, p.217.

effectiveness. Many of the poverty programs center around an entrepreneurial empowerment of lower classes à la Hernan de Soto.³¹⁶

IV. Analysis of the Chicago Boys' economic performance

The Pinochet regime benefited from legacies of the previous three administrations. All had engaged in land reform and industrial expropriations, reducing the power of the business elite, and giving the state more room in which to operate. In addition, Frei's massive tree-planting program led to timber exports in the 1980s. Moreover, Allende's nationalization of copper also gave the regime critical revenues.³¹⁷ More importantly, the export diversification which was accelerated by the Pinochet regime may have been occurring at an evolutionary pace from at least the Frei period, when such initiatives began to be considered.

The key focus of the Chicago Boys was on inflation. Although they were successful in steadily reducing inflation throughout the 1970s, interest rates were re-ignited in the financial crisis which began in 1981. The crisis showed that the Chicago Boys had miscalculated in some areas. As Joseph Ramos points out, there are several factors which help to explain why demand for credit remained unusually high, despite heavy capital inflows. First, under the privatization scheme, large companies had borrowed heavily. Second, a sharp upward revaluation of assets occurred in the euphoria of the late 1970s boom, leading to greater ability and desire to borrow. Third, Chile

³¹⁶ Petras, Leiva, and Veltmeyer, pp.104-35; and Joseph Collins and John Lear, Chile's Free-Market Miracle: A Second Look (Oakland: Institute for Food and Development Policy, 1995), pp.261-68.

³¹⁷ Constable and Valenzuela, p.186.

began to borrow heavily from domestic, rather than international, sources to finance its public enterprises. Fourth, import liberalization led to increases in demand for consumer credit. Fifth, there were expectations that interest rates would continue to decline over the long-run, leading borrowers to use adjustable rate long-term loans. Sixth, there were also expectations that income would continue to increase, leading to greater borrowing on the premise of greater future ability to pay.³¹⁸

At the same time, domestic savings and investment did not adequately respond to the higher interest rates. The reduction in public sector investment was only partially compensated for by private sector investment, partly because of the aforementioned consumption boom, including purchases of consumer durables which necessitated consumer borrowing. The consumption binge was further fueled by the repressed demand from years of controlled credit under previous structural administrations, which had funneled credit into public spending.³¹⁹ By the early 1980s, as interest rates increased to high levels, the simultaneous drying up of worldwide liquidity and demand with the new United States' monetary policies punctured the economic miracle. As the exchange rate became unserviceable, foreign capital inflows dried up and the bubble of asset prices burst.

High unemployment rates during the recession of the 1980s led to the important modifications under Finance Minister Buchi, as described earlier. These modifications allowed for greater regulation of capital flows. However, the real origins of the sustained

³¹⁸ Joseph Ramos, Neoconservative Economics in the Southern Cone in Latin America, 1973-83 (Baltimore: The Johns Hopkins University Press, 1986), pp. 158-61.

³¹⁹ Ibid., pp. 161-73.

high growth rates of the Chilean economy lay in the supervised privatization of the pension system, which raised national savings by incredible proportions and the surprising and largely unexpected growth of non-traditional exports. The Chicago Boys can really only take credit for the pension system, since the latter was more of a necessary reaction to an external constraint. Still, without the macroeconomic balance which they established, none of these other beneficial developments would have been possible.

V. *Organization and Personnel of the Chicago Boys*

A. *Who were the Chicago Boys?*

The Chicago Boys established close relationships with each other as a group during the university reform debates of the mid-1960s, which took place at Catholic University in Santiago, though most knew each other well before then. The Catholic University had an association with the University of Chicago beginning in 1955, which allowed for the postgraduate training of a large number of the more talented Chilean students in Chicago.³²⁰ Between 1955 and 1963, the U.S. Agency for International Development (AID) had financed the exchange as a method to fight against the spread of ECLA's ideas. Thereafter, with AID doing an about-face on structuralism, Chilean businessmen continued the financing.³²¹ Sergio de Castro, the main economic advisor to

³²⁰ For an account of the origins of the Chicago-Catholic University connection, see Delano and Traslaviña, pp. 11-16. Actually, Chicago had attempted to begin the connection with the University of Chile first, which rejected it.

³²¹ O'Brien, p. 145.

Pinochet during the 1970s, was a longtime dean of the Economics department at Catholic University.³²²

Several others were professors at Catholic University's Economics Department during the 1960s. At that time, battles were being fought over the elections of the student body executive positions. In 1967, leftists won the presidency of the student body known as the FEUC (Student Federation of the Catholic University). Students pressed for and got rid of the Rector, among other demands. During the protests, students occupied all buildings, except for that of economics. Sergio de Castro, who would become the head of the Chicago Boys group, was the only member of the University Board who firmly and publicly resisted university reform giving students more power. Although the reforms were ultimately a victory for the left, and the group of economists in Catholic University were not actively involved,³²³ the challenge of the event seems to have brought them together.

The Chicago Boys had early and multiple ties to the Christian Democratic economists, which developed over time. Around 1966, De Castro and Baraona discovered sociologist Emilio Sanfuentes Vergara and decided to sponsor him for a postgraduate fellow of Economics at Chicago. Besides being the brother of economist Andres Sanfuentes, a prominent Christian Democrat economist, he had professional ties among the political center and center-right party operatives. The group of center-right operatives included right wing party members Manuel Cruzat, Cristian Zegers, Joaquin

³²² Constable and Valenzuela. p.167.

³²³ Arturo Fontaine Aldunate. Los Economistas v el Presidente Pinochet (Santiago: Zig-Zag. 1988). p.30.

Villarino, Hermogenes Perez de Arce, and Sergio Undurraga, who had been friends and in contact since childhood.³²⁴ Emilio Sanfuentes later served as bridge between the Chicago Boys and the right wing political groups, who predictably had close ties to the military. He also was extremely important in the diffusion of the ideas of the Chicago Boys through the press, including his journal *Que Pasa*, which came out weekly.

From the middle of 1971 until September 1973, the technical committees of the PDC (the Christian Democratic Party), which is in the center, were exceptionally active, especially in the economic area. Under the responsibility of the technical department of the party, they produced periodic economic reports. Their parliamentarians used these to criticize the Allende regime's economic policies. Deputy, and later Senator, Jose Musalem, played a role in the vanguard of this attack, and was aided by Christian Democrats Alvaro Bardon, Senator Andres Sanfuentes, Jose Luis Zabala, and Juan Villarzu.³²⁵ These early ties to the center, including personal relationships and common attacks on Allende's economic policies, would later lead to defections to the Chicago Boys once they came into power. Prominent Christian Democrats became part of the Chicago Boys group, including Jorge Cauas, chief of economic policy in 1975-76, and Alvaro Bardon, who would become not only an important minister but one of the most ardent supporters of the monetarist ideology.

Arturo Fontaine notes that the other significant conservative group of Pinochet's cabinet had similar roots. Jaime Guzman Errazuriz, then 21 and in Catholic University's

³²⁴ *Ibid.*, p.31.

³²⁵ *Ibid.*, p.35.

Law School, organized the university *gremialistas* in 1968. This particular group favored corporatism in general, and was dedicated to removing political party activity from the university in particular. Guzman was elected president of the Law Center in 1967 but lost (with 40% of the FEUC votes) the university-wide student presidential election of 1968. In 1969, however, the *gremialistas* won the presidency with Ernesto Illnes. They would maintain the presidency of the FEUC during the whole Allende period, and for several years afterwards. Economists such as Miguel Kast, Felipe Lamarca, Juan Carlos Mendez and Ernesto Illanes were important *gremialistas*.³²⁶ The *gremialistas* wanted to take politics out of the universities, but, ironically, if not unexpectedly, had to become politically involved in order to accomplish this goal. They developed a Christian-libertarian type of philosophy based on individual rights and freedom from state intervention in all aspects of life. As Guzman and the others interacted with the Chicago Boys, especially in the early years of the fight against their common enemy Allende, a fascinating hybridization of ideas took hold.³²⁷

The Chicago Boys, were, by nature, character, and training, non-political. In fact, they had the general view that politics was the source of economic problems, and so shared a latent distrust of any political group. This helps to explain, in good part, their ability to overlook the human rights abuses under the government they served. Those who did not support the persecution of the Left as such simply saw it as a political problem out of their purview. The *gremialistas* gave a political face to the economists'

³²⁶ *Ibid.*, p.30.

³²⁷ My understanding of the interaction between the Chicago Boys and the *gremialistas* depends greatly upon an interview with Angel Soto, in Santiago, Chile, in October, 1996.

plan. This hybridization placed the complementary ideas of individual freedom of the *gremialistas* in combination with the market freedom of the Chicago Boys. And the result was nothing less than the astounding scope (encompassing all aspects of society) of the neo-liberal vision which became apparent only with the seven modernizations speech in 1979. While the seven modernizations deal only with economic aspects, they were “sold” to the public within a far-reaching social and political vision of how Chilean society should operate. Those reforms as well as the 1980 Constitution fight were the first concrete manifestation of this hybridization process which had much deeper roots.

The Chicago Boys were also extremely capable in spreading their ideas. According to an interview with Chicago Boy Emilio Sanfuentes, in 1980, “we set out to win elite opinion to our positions; and to do this we concentrated on the quality media.” Even before Allende’s victory in 1970, the Chicago Boys had been able to obtain media access. They wrote the important Economic Page in the major newspaper *El Mercurio*.³²⁸ This was an amazing development considering their original non-political character.

That character changed notably in 1970, when the Chicago Boys began preparing the economic program for conservative presidential candidate, Jorge Alessandri.³²⁹ They established a think tank, the CESEC, (*el Centro de Estudios Socioeconomicos*, or Center for Socio-economic Studies) which was used by the conservative Alessandri campaign to draw up its economic platform in 1970, though it was opposed by other elements of the

³²⁸ O’Brien, pp. 145-6.

³²⁹ Several of my interviewees stated that as President during the 1950s, Alessandri had consulted with the Chicago Boys for advice during the foreign exchange crisis, but had rejected their advice.

campaign.³³⁰ CESEC was directed by Emilio Sanfuentes, with De Castro and Baraona as active participants. CESEC released economic information, and its members served as consultants to the private sector.³³¹ The fight within the Alessandri campaign evoked memories of his flirtation with monetarist policies during the 1950s, when he was president, and his decision to follow a mixed (or “pragmatic” policy). The Right had been dominated by large agriculturalists and businessmen who wanted stable macroeconomic policies but continued protection from foreign competition. The Chicago Boys represented the new “Right,” a political group which follows their economic model for an open economy and believes in a corresponding opening of society. The Chicago Boys’ victory for control of the Alessandri campaign therefore marked the ascendancy of this new force for the Right.³³²

These new political ties of the Chicago Boys were soon formalized. Oscar Saenz was another key figure in bringing the group together. Under Saenz’s guidance, they produced an important document known as “the brick.” Saenz was the president of SOFOFA (*Sociedad de Fomento Fabril*), the main manufacturers’ organization. In September 1971, three months after taking this position he says that SOFOFA invited a group of leading businessmen to a two day seminar in the O’Higgins hotel in Viña del Mar. SOFOFA suggested there that the businessmen create a war plan against the UP (Allende’s coalition), which they feared would socialize and ruin the economy. The

³³⁰ O’Brien, p.146. The journal HOY reports that Alessandri had a rival group of economic advisors, which included businessmen Helios Piquer and Pierre Lehmann, and economists Jose Luis Federici, Carlos Hurtado and Juan Braun. See “La historia no contada de los chicanos boys.” HOY, v.19:29.

³³¹ Delano and Traslaviña, p.22.

meeting led to the formation of three working groups, an intelligence, a media, and a technical assessment and economic studies group. Saenz hired PN (Partido Nacional or National Party) economist Sergio Undurraga to coordinate the latter group. Undurraga was to collaborate with PDC (Partido Democratico Cristiano, or Christian Democratic Party) economist Alvaro Bardon in his work. In 1972, meetings of the personnel of the technical advisory departments of two political parties, the right-wing National Party (PN), represented by Sergio Undurraga and Emilio Sanfuentes, and the Christian Democratic Party (PDC), led by Alvaro Bardon and Andres Sanfuentes, began the coalescing process which would draw members of both parties. Many of them would form a stronger Chicago Boys community ready for political power. The group began meeting every fifteen days without involving political parties.³³³ The group ended up having 36 members, with Saenz as president. De Castro, Juan Villarzu, Emilio and Andres Sanfuentes, Jorge Cauas, and Alberto Baltra were also members. In the early part of its work, the group requested special studies from third parties, and sponsored discussions with the *gremialistas* and UP politicians. In June 1973, Saenz presented findings of the group to a meeting of opposing politicians, which he had called. Attendees included Eduardo Frei of the PDC, Sergio Onofre Jarpa of the PN, Jaime Guzman, the *gremialista* leader from the PN, Pablo Rodriguez Grez (of the ultra-right group, *Patria y Libertad*) and Julio Duran.³³⁴

³³² The division in the Right continues- with the political parties *Renovacion Nacional* generally representing the old wing and *Union Democratica Independiente* representing the new wing, including free marketeers.

³³³ Delano and Trasvina, p.23 and HOY, "La historia no contada," p.29.

³³⁴ Delano and Trasvina, pp.24-5.

The study group of economists from the two parties developed a key document which would guide all subsequent policy and became known as “the brick” (“*el ladrillo*”), probably named for its appearance. *El ladrillo* is a short and comprehensive (economistic) guideline for economic policies which served as the reference, almost a bible, for subsequent extensions of the macroeconomic reforms, including the seven modernizations. Roberto Kelly, a Navy officer with close ties to the private sector, was the key messenger and coordinator of the group which published the brick. Kelly sent Admiral Jose Toribio Merino, a key figure in the military coup, a copy of “the brick.”³³⁵

In July 1974, this group started to influence policy through the appointment of finance minister Jorge Cauas. In April 1975, Sergio de Castro, a devotee of monetarism, was appointed to the Economics Ministry, thus ensuring the hegemony of neo-liberalism.³³⁶ Roberto Kelly, was appointed head of ODEPLAN (the National Planning Agency) in 1975. He recruited numerous Chicago Boys and *gremialistas* for that agency. His staff was responsible for conducting numerous critical cost-benefit analyses and audits on development projects, thereby becoming well acquainted with the breadth of government’s fiscal activity. The most famous of the group was Miguel Kast, whose efforts at poverty reduction and government efficiency helped him to recruit many students and friends to the agency. Kast became something of a martyr to the right-wing upon his death in 1983.³³⁷ A number of important Chicago Boys ended up working for ODEPLAN, including Ernesto Silva, Juan Carlos Mendez, Arsenio Molina, Maria Teresa

³³⁵ Interview with Roberto Kelly, November 1996, Santiago, Chile.

³³⁶ Angell, pp.362-3.

Infante, Sergio de la Cuadra, Alvaro Donoso, Martin Costabla, Julio Dittborn, Cristian Larroulet, Ricardo Silva, Jorge Selume, Joaquin Lavin, and Alvaro Vial. Finance Minister, Hernan Buchi, also worked there.³³⁸

Kelly claims that he enabled the Chicago Boys' dominance over economic policy in two ways, both of which undoubtedly rested upon his close personal relationship with General Pinochet.³³⁹ The first was that through ODEPLAN, he managed to control the budget for all investment projects of other government ministries by forcing them to meet with ODEPLAN approval. The second was that he was able to place ODEPLAN representatives in each of the government ministries and in the new regional government offices. This network, of course, gave both him and his Chicago Boy followers not only excellent and complete information on the government, but allowed them to develop a wide range of experience and a more global vision of the economy than any rival group.

VI. *Political Relationships of the Chicago Boys with Politicians, Interest Groups, and the Public*

A. *Relationship with Pinochet and the Military*

Dictator Pinochet was quite successful in keeping the Chicago Boys' personal political ambitions in check. First, he maintained military personnel in the ministries which were headed by Chicago Boys, who were civilians. These officers kept a watchful eye on the civilian heads, and intervened in decision-making. Second, these military

³³⁷ Constable and Valenzuela, p.187.

³³⁸ Delano and Traslaviña, p.29.

³³⁹ Interview with Roberto Kelly, November 1996. Santiago Chile.

bureaucrats served as spies for Pinochet, providing Pinochet with inside information on the bureaucracy. Third, Pinochet kept bureaucrats insecure in their status. Even cabinet-level ministers served at Pinochet's behest, and could be fired at a moment's notice. Fourth, Pinochet kept the various arms of the bureaucracy separated. By controlling the flow of information, few bureaucrats in one wing knew what was happening in others. Finally, Pinochet co-opted political challengers with appointments, often as ambassadors.³⁴⁰

Why did the military officers not resent the growing influence of the Chicago Boys over ministries which they originally headed? Pinochet used similar carrot and stick tactics with his military appointees. Most military officers were denied cabinet-level positions in the more important justice, finance, and interior ministries. Military men were also rotated out of bureaucratic positions after one or two years. Military personnel were anxious to return to the barracks, as promotions were based on military field work, not bureaucratic service.³⁴¹

Pinochet's respect and trust of the Chicago Boys, however, gave that group a much wider ability to present challenging opinions. Pinochet apparently was impressed enough both with their loyalty and their scientific knowledge to allow them much greater freedom to operate.³⁴² Pinochet was willing to give the team some insulation from public opinion.

³⁴⁰ Constable and Valenzuela, pp.80-82.

³⁴¹ *Ibid.*, pp.85-6.

³⁴² *Ibid.*, p.82.

This leaves us with a still bigger question- how could a group of free market economists gain the support of nationalistic, and state-oriented military men? One must consider how many non-apparent characteristics they had in common. The first is a predilection against the rough and tumble, compromising aspects of politics. The military, by nature, wants clear, short, easily implemented, and all-encompassing solutions to current problems. The Chicago Boys had not only the answers the military could appreciate, but were the only group with a concise *plan* which provided a clear and lasting diagnosis, plan, and vision of a way to prosperity. As a group, they shared the military's disgust with politicians and, particularly, the recent politics of Chile. Secondly, the plan called for sacrifice against political enemies, a cornerstone of the military ethic. Thirdly, the Chicago Boys, once they developed with the *gremialistas* a broader vision of a society with minimal political institutions- including a much smaller role for the mutually odious political parties, provided Pinochet with the *weltauschaung* which could legitimate his dreams of de-politicization. The neo-liberal vision is simple, and apparently empowering of the individual- it sees the individual as a consumer who simply chooses among political choices, given certain constraints and opportunity costs of the choices. Fourthly, the Chicago Boys have an incredible faith in their vision- which they see as nationalistic. The Chicago ideology became one not only of liberation from politics, but also of moving the country forward. Fifthly, the early economic boom in the late 1970s strengthened their arguments that their plan was succeeding. Sixthly, many of the Chicago Boys came from politically conservative backgrounds, which fit the military leaders' vision of Chile. All of these factors help to explain the staying power of the marriage between the two groups.

The Chicago Boys, in turn, made their greatest policy compromises in regard to the military. The military ran several factories, including those producing bricks, tools, fishing boats, and small planes, which they used as an additional income source. Also, their salaries and pensions increased during their stay in power. They were able to earmark a percentage of the earnings from the government-owned copper company for themselves.³⁴³

B. Rival Advisory Groups to Pinochet

Particularly in the early years of their influence, rival political groups within the government limited the ability of the Chicago Boys to spread their power beyond the realm of macroeconomic policy.

Conservative party leaders were important in shaping policy early on. General Cesar Benavides, the minister of the Interior, formally admitted as much in 1976. He announced that the government was consulting the Asesoría Política (ASEP) for political advice on sensitive issues. ASEP was a small group consisting of former National Party and Radical Democracy leaders, including former senators Francisco Bulnes and Angel Faivovich and lawyers Hugo Rosende and Miguel Schweitzer. ASEP reported to General Covarrubias and General Escauriaza until civilians were appointed as ministers of Justice and Interior in 1978. In 1978, ASEP reported to Interior Minister Sergio Fernandez.³⁴⁴

The nationalists, or *duros*, though ever-present in the Pinochet government, were never able to gain the upper hand on the *blandos*. Their main leader was Pablo

³⁴³ Delano and Traslaviña, pp.19-20.

Rodriguez Grez, who was the founder and former leader of the ultra-right Fatherland and Liberty (*Patria y Libertad*) movement, which had helped to bring down Allende's Popular Unity government (UP). The nationalists were a powerful group within the secret police. The *duros* waited anxiously for the demise of the Chicago Boys; they were partly responsible for economic adjustments during the recession of the early 1980s. However, the group had limited civilian support, and was feared by others in the regime as having fascist pretensions.³⁴⁵ Pinochet chose to go with the more economically prudent Chicago Boys, while keeping the nationalists in the wings.

The most important rival group within the government, as alluded to previously, was the *gremialistas*. The most important civilian adviser during the early years was Jaime Guzman, who had been an exceptional young constitutional law professor from Catholic University, and part of the *gremialista* movement there. The *gremialistas* favored a Spanish Franco corporatist model, where organized occupational groups would be represented, rather than political parties. Guzman started as a close advisor to General Leigh, and enjoyed ready access to Pinochet until Leigh's ouster in 1978. Guzman served as a speechwriter and advisor on appointments, and was responsible for drafting some of the principal documents of the regime. Guzman's style was to work behind the scenes. Valenzuela notes that Guzman underwent an important change in philosophy during his service. His previous worldview had been based on Thomism, but under the influence of the Chicago Boys, Guzman came to embrace von Hayek's visions of society.

³⁴⁴ Arturo Valenzuela, "The Military in Power: The Consolidation of One-Man Rule," in Drake and Ivan Jaksic, p.44.

³⁴⁵ *Ibid.*, p.46.

Guzman thereby abandoned his corporatist beliefs in favor of neo-liberalism, becoming one of the most important defenders of the doctrine against *duro*, or hard-line nationalist onslaughts.³⁴⁶ Guzman's personal evolution was key in creating a new *welauschaung* for Chilean society. He led the Chicago Boys to embrace the logical political consequences of their economic model. The *gremialistas* and the Chicago Boys' alliance was key in creating the neo-liberal hegemony of ideas within the regime by the end of the 1970s.

In sum, when we consider all the relevant factors, the triumph of neo-liberalism had both political and ideological components within the regime. The *duros* were relegated to the confines of continuing the persecution of the Left through DINA, the secret police. Without underestimating the devastating results for human rights, that role was relatively minor in terms of creating lasting impressions on ideology and culture.

C. Relationship with the United States Government

The Pinochet regime received mixed signals from the United States. While the Nixon Administration wholeheartedly supported the coup, United States policy grew more antagonistic after Carter was elected. Several Democratic congressman, notably Senators Kennedy and Harkin, railed continually against the regime's human rights abuses. These criticisms undoubtedly gained new momentum when DINA was connected with the assassination of former Allende ambassador Orlando Letelier in Washington on September 21st, 1976. The act provided enough momentum for Harkin to pass his legislation banning all non-humanitarian aid to governments which consistently

³⁴⁶ *Ibid.*, p.45.

violated human rights. The election of Carter in November 1976 led the U.S. to begin voting for United Nations' resolutions condemning Chile for human rights violations.³⁴⁷

The Reagan Administration was naturally more forgiving of the regime, at first favoring a gradual approach to democratic transition. With the 1981-2 recession, however, and the state of siege which reacted to mass economic protests, the U.S. government once again began to pressure the regime on human rights violations. The U.S. was instrumental in conditioning vital World Bank credit approval upon a lifting of the state of siege in the late 1980s.³⁴⁸

D. Relationship with International Finance

Rolf Luders, a Chicago Boy and one time Finance Minister, said of the late 1970s economic boom. "It was a period of euphoria. We were convinced we were on our way to becoming another Korea or Taiwan: we felt rich, we wanted to consume, we took on great debts....The support of the International Monetary Fund and the World Bank were crucial to us. They were very enthusiastic because our team thought the way they did; we were following their prescriptions more closely than any other country."³⁴⁹ The international financial institutions were, without a doubt, vital and consistent supporters of the regime and its economic reforms. They served not only as sources of funds, but as key legitimizers of the economic model and the regime internationally, and have been the key messengers/creators of the story of the Chilean "miracle," helping to spread the neo-

³⁴⁷ Constable and Valenzuela. p.106.

³⁴⁸ Carlos Portales. "External Factors and the Authoritarian Regime." in Drake and Jaksic. pp.257-61.

³⁴⁹ Constable and Valenzuela. p.193.

liberal revolution throughout the Third World. By the late 1970s, private international banks were a second important source of capital flows and are crucial to the current economic boom.

E. Relationships with the political parties

The PN, or National Party, which represented the right, voluntarily disbanded following the coup in 1973. Many former members became officials in the new government.

The opposition political parties were highly divided in the 1970s, in good part due to the continuing repression of the military government. The PDC became the main opposition group to the military. The Communist Party (PC) was highly persecuted and illegal, though it retained some organization. It called for a broad front of the opposition which both the PDC and the PS rejected. The Socialist Party underwent a "profound division" in 1979, further weakening it.³⁵⁰ Socialists found themselves within innumerable factions.

The 1980 Constitution, with its promise of long-term military rule, led to some changes among the political parties. The PDC slowly began to resolve differences stemming from the death of former President Eduardo Frei and the exile of other leaders. The new leadership moved towards conciliatory opposition with the leftist parties. The PC became more extremist, moving from a gradualist position to one promoting immediate armed struggle and revolution. The PS factions in general moved closer to the center in its ideology, attempting to move away from its identification with orthodox

Marxism. More importantly, the PS factions were able to unite into two main groups. Despite the growing mobilizations by all opposition groups in light of the 1981-2 economic crisis and attempts by the Church to unite them, the political parties were unable to form a cohesive opposition alliance.³⁵¹

The 1988 plebiscite, however, changed the dynamic of the opposition. For the first time, with the notable exception of the PC, the opposition was able to form a common front capable of threatening the regime. Rallying around the “no” vote, the opposition parties were able to overcome the various internal squabbles and legal obstacles to defeat Pinochet.

The UDI, the Independent Democratic Union, which was formed after 1983 by several *gremialista* intellectuals and Chicago Boys, worked for the “yes” side. The UDI sought an alliance with the AN, the National Advance, a descendent of the ultra-rightist and nationalist “Fatherland and Liberty” movement. The more traditional Right worked for the “no” vote, supporting an end to Pinochet’s continuation in power. It was represented by two main groups, the National Union (UN) and the National Party. The Right as a whole attempted to reunite as the RN, or National Renovation, but the UDI was expelled from the group because of its ties to the government. In sum, the Right was divided between those supporting the yes and those the no vote.³⁵² Many of the Chicago Boys remain active within UDI today.

³⁵⁰ Manuel Antonio Garretón, in Drake and Jaksic, revised ed., p.215.

³⁵¹ *Ibid.*, pp.217-22. Although the opposition groups formed an umbrella co-ordinating organization in 1983, without the participation of the PDC, it did not have much capacity for changing Chilean politics.

³⁵² *Ibid.*, p.233.

F. Relationship with Domestic Economic Interest Groups, including Businessmen

As mentioned previously, the Chicago Boys had a close but dynamic relationship with domestic businesses. In many cases, the policies which they chose, consistent with their ideology, were damaging to corporate interests. Their initial shock treatment policies sent hundreds of businesses into sudden bankruptcy. Their taking over of several major banks in the wake of the 1981-2 recession was equally unpopular, and led to a changing of the personnel in the advisory teams.

For the most part, their policies favored the limited sector of large businesses and wealthy entrepreneurs. Their policies had negative impacts on small and medium-size businesses and entrepreneurs, who had difficulty securing the international capital necessary for adjusting to the newly open competition with imports. The boom years of the late 1970s muffled much of this criticism. With the onset of the 1981 recession, however, business interests seemed divided. Small and medium-sized entrepreneurs publicly criticized what it saw as the dependence on foreign credit, the lack of productive investment, and the loss of much of the country's agricultural and industrial base. They began to organize actions, including strikes, suspension of debt payments, and conventions including opposition unions. The CPC (Corporacion para la Promocion de Comercio), representing big business, sided with the government's interpretation that automatic adjustments would indeed solve the immediate financial crisis.³⁵³

³⁵³ Guillermo Campero, "Entrepreneurs under the Military Regime," in Drake and Jaksic, pp.134-58.

The Chicago Boys also had close personal ties to many of the conglomerates that benefited from their economic policies, such as the Vial and Cruzat group. Many of the Chicago Boys, upon leaving government, have found themselves in high income positions within those companies.

While a compelling case can be made that the Chicago Boys and Pinochet not only created the internationalist conglomerates as a base of support and source of economic growth, but were subservient to it, this explanation seems to break down with the takeover of key banks in the wake of the 1982 crisis. Other treatments of that period suggest that a "radical neo-liberal" coalition was replaced after the crisis by a "pragmatic" one, in which domestic businessmen and agriculture were more represented and protected.¹⁵⁴

While compelling, the foregoing historical sections as well as the overall continuity of ideas in the historical-ideological periods which have been laid out support my thesis that a domestic coalitions approach is an incomplete explanation. Moreover, the "radical" neo-liberal strategy has gained legitimacy and support from a significant proportion of the population, as demonstrated by the support given to Pinochet with the 1980 Constitution and, more importantly, the ubiquitous cultural adoption of individuality as conceived by the neo-liberals. Current Chilean society is highly consumptive; anti-or non-political; correspondingly distrustful of the old levers of politics, the political parties; and accepts, in large part, the neo-liberal model as the

¹⁵⁴ This is the case made excellently by Eduardo Silva in his dissertation, Capitalist Coalitions and Economic Policy making in Authoritarian Chile, 1973-1988. PhD. dissertation, Political Science. (San Diego, University of California San Diego, 1991).

necessary and capable vehicle for economic prosperity and social tranquillity. The continuation of (modified) neo-liberal policies with the Aylwin and Frei (II) Administrations shows that ideas as well as coalitions matter. These themes shall be revisited in the chapters which follow.

G. Relationships with other epistemic communities

Jeffrey Puryear's book, Thinking Democracy,³⁵⁵ discusses the transformation of the Left and Center amid the mushrooming of internationally-funded opposition think tanks. Nevertheless, with the military in control of all means of communications, the universities, and political activity, there was virtually no public resistance to the Chicago Boys' economic model until the 1983, when the recession brought out a crescendo of opposition pronouncements.

The work for those pronouncements had been built up in a series of critical reviews by exiles, and at home, most prominently by CIEPLAN, the PDC economic think tank which received generous American foundation funding. CIEPLAN's main criticism was in terms of the inequality of the model. Its economists also contended that the economic growth of the model was unsustainable. According to our interviews, CIEPLAN economists were taken aback when the economy recovered under Buchi in 1985.³⁵⁶ The growth of non-traditional exports and the investment boom from abroad and

³⁵⁵ Jeffrey M. Puryear, Thinking Politics: Intellectuals and Democracy in Chile, 1973-1988 (Baltimore: The Johns Hopkins Press, 1994).

³⁵⁶ Interviews with Oscar Munoz Goma, September, 1996, and Patricio Meller, October, 1996, both in Santiago, Chile.

at home due to the pension reform transformed CIEPLAN into a supporter of the economic model.

Since the Left was illegal until shortly before the 1989 plebiscite, when the Party for the Promotion of Democracy (PPD), which includes PS members, was granted legality, there was almost no public discourse on the benefits and problems of the economy. Those discussions were important outside of Chile by exiles, and within Chile by the small groups of opposition economists who met. But within the country, Pinochet had the monopoly on the means of communication and used it to dominate the direction of the discourse.

In sum, the only one real rival epistemic group, CIEPLAN, had virtually no access to public discourse, no connections with the government, and provided only a critique of the model, but no alternative model.

VII. Why were the Chicago Boys so effective in guiding economic policies?

A. Introduction

Certainly part of the Chicago Boys' appeal was their comprehensive program of economic reform which fit with conservative elements' interests. Though they were from the softer political view of the *blando* camp, their program partly justified authoritarianism, which was needed to fight back populism and other forces which might derail a return to the market. In line with allowing the market to work, reducing the size of the public sector would eliminate the principal aim and tool for populist reformers, as well as another political threat in the once powerful bureaucracy. Moreover, a return to

the market was beneficial to the private businessmen who were the primary supporters of the coup. Opening up the economy would ensure international support and aid for the regime, as well as make the economy more competitive. More importantly, the position of organized labor, associated with opposition leftist parties, would be undercut by lowering the wage rate and limiting the bargaining position of unions. The above measures would combine to reduce inflation. Finally, the neo-liberal solution required less management or expertise than a government-led economy, since the market was relied upon to do most of the work.³⁵⁷

Jose Piñera, former Minister of Labor and of Social Security under Pinochet, suggests four sources of the Chicago Boys' success. The first is a coherent and unified economic team. He reasons that the economic pain of an adjustment can only be withstood if economic advisors in the government are unified. Second, he highlights the importance of the element of surprise in instituting the early shock treatment. This allowed the Pinochet government to avoid strong lobbying by previously protected sectors. Third, is the need for the economic team itself to "sell" the economic package to the public at large via the media. Fourth, and lastly, in this case, is the need for "real leaders, rather than politicians." This last claim reveals a common perception among economists (which they share with the military) that politicians are obstructive actors to the political economy, in general.³⁵⁸ The following are a few other factors.

³⁵⁷ Angell, p.363.

³⁵⁸ Jose Piñera, "Political Economy of Chilean Reform," in John Williamson, ed., The Political Economy of Policy Reform (Washington: Institute for International Economics, 1994), pp.225-9.

B. Early Preparation, Organization, and Alliances with Businessmen

When the coup occurred on September 11, 1973, the Chicago Boys were ready with an economic plan. "The brick" was printed that night by sympathetic businessman Agustin Edwards, on his equipment in the Lord Cochrane publishing house. The brick was delivered early the next morning to every military official in the new government. The brick had been a part of a long-term effort, under the auspices of the National Party and SOFOFA, with funding from foreign corporations, to create a 'war plan' to destabilize the Allende coalition and to outline policies for a 'replacement government.'³⁵⁹

The group used the newspaper *El Mercurio*, owned by Agustin Edwards, first to publicly attack the Allende government and then to spread the gospel of neo-liberalism. Edwards was a yachtsman and had informal contacts with navy officials through an informal association known as the Naval Fraternity of the Pacific. One of his managers was Roberto Kelly, who was one of the first to report to Admiral Merino after the coup. Merino reportedly asked Kelly for names of economists.³⁶⁰

In sum, the Chicago Boys successfully positioned themselves and their ideas in alignment with the coalition which would take over the Allende government.

C. Elimination of Christian Democrats as a possible advisory group

The Chicago Boys also acted quickly to counteract other contenders among the supporters of the coup. One potential contender was the Christian Democratic Party. In fact, Admiral Lorenzo Gottuzo, who became the new finance minister, contacted former

³⁵⁹ Constable and Valenzuela. pp.166-7.

³⁶⁰ Ibid., p.167.

Frei Finance Minister Sergio Molina, asking him to become his chief aide. By the time Molina arrived, however, Gottuzo had changed his mind, apparently because Molina was considered (probably mistakenly) too close to the Chicago Boys. Christian Democrats opposed the regime because of the lack of a timetable for the return to democracy, and the increasing human rights abuses. By mid-1974, the Christian Democrats had formally split with the military regime, and pulled out their members serving in the government. A few Christian Democrat economists, such as Alvaro Bardon and Jorge Cauas, however, left their party, and became converts of the Chicago Boys' ideology.³⁶¹

D. Weathering the reaction of affected businesses

What happened to (protectionist) business interests? Business interests were represented by Rafael Cumsille, head of the Small Business Council, and were strong supporters of the coup. They asked for a price freeze. The big business organization, *Confederacion de Produccion y Comercio* (CPC), also approached the military regime with offers of advice. The junta rejected both proposals, according to Arturo Valenzuela, in part because the military wanted to be seen as promoting national, rather than particular interests. Valenzuela also notes that Pinochet and his colleagues were impressed by the "brilliance and technical wizardry" of the Chicago Boys, and particularly de Castro, as well as their arrogance. Valenzuela also points out that the Chicago Boys, with no clear social or political ties, were perfect for a military seeking greater autonomy from social and interest group pressures.³⁶²

³⁶¹ *Ibid.*, p.169.

³⁶² Valenzuela in Drake and Jaksic, pp.56-9.

As might be expected, small and medium-sized businesses tend to favor more state protection and to suspect large businesses of being too powerful in the economy. Large businessmen, by contrast, tend to come from wealthier backgrounds and favor a liberal economy. The unity which the two groups displayed in the face of the threat of Allende soon dissolved under military rule. Small and medium-sized businessmen expected an institutionalized system of influence with state protection, and were naturally hostile to the neo-liberal reforms which began in 1975. They held their protest behind closed doors, however, in order to express unity with the military government in a time of economic crisis and, after 1978, because the economy was beginning to prosper. This situation of quiet grumbling changed into open protest with the 1981 financial crisis. Many of the small-businessmen, naturally dependent upon national banks for loans, refused to send their payments, and began preparing for a national strike. They became openly critical of the Chicago Boys and national economic policies in a series of strong proclamations.³⁶³

The CPC, fearing political instability and the disruption of business activities represented by the growing mobilizations of various groups, stood fast by the government until 1982. In July 1982, new heads of CPC and SOFOFA were elected who staked out a more independent course. These organizations began to accuse the Chicago Boys of 'excessive dogmatism,' and began to suggest their own solutions. They reached an internal consensus on these solutions in documents which they began to publish in 1983. The government responded finally with the appointments of Sergio Onofre Jarpa, a

³⁶³ Campero in Drake and Jaksic, pp. 131-8.

representative of the traditional Right, as minister of the interior in 1983 and the change in economic policy direction represented by Buchi. Jarpa had been president of the Democratic Confederation which had united political party opposition in 1972 and had close ties to small entrepreneurs. As recounted above, Buchi both stabilized the situation and took measures to aid the entrepreneurial sector.³⁶⁴

As mentioned previously, the Chicago Boys' success was also due to their "scientific and non-partisan" approach, which appealed to the military's self-image as the most advanced and capable institution of the nation. Their detached and austere backgrounds reinforced the military's and Pinochet's own approach to patriotic sacrifice. Moreover, the self-described revolutionary nature of their thorough approach to economics appealed to Pinochet's sense of history. Like most leaders, Pinochet wanted his reign to be an historical watershed of a positive turnaround for Chile.³⁶⁵

E. Ability to draw the confidence of international lenders

Undoubtedly, the junta also promoted the Chicago Boys because of their appeal to international finance. Seven of the nine finance ministers who would serve Pinochet held advanced degrees from the United States.³⁶⁶ Several of the members had or would later work for international financial institutions, such as the World Bank. Following the shock therapy period, they were largely successful. Many of Chile's foreign loans were refinanced. The decline in official U.S. government aid after the Congressional ban in

³⁶⁴ *Ibid.*, pp.139-40.

³⁶⁵ Constable and Valenzuela. p.171.

³⁶⁶ *Ibid.*, p.171.

1976 was more than made up for by international lending institutions. The World Bank and the Inter-American Development Bank made forty-six loans between 1976-86 to Chile, totaling over \$3.1 billion.³⁶⁷

F. Elimination of Organized Labor

The Chicago Boys' free market policies included strong repression of labor, eliminating the backbone of Allende's support according to the junta's political design. On the day of the coup, the junta had actually declared reassurances with workers, promising forgiveness for 'mistaken' allies of Allende.³⁶⁸ The junta's promises were nothing more than rhetorical exercises. Indeed, the first Labor Minister, Diaz, seemed to be sympathetic. He created labor mediation panels and asked union officials to comment on proposed legislation. Some anti-Marxist labor leaders collaborated early on with the government.³⁶⁹

The armed forces cracked down immediately on organized labor. In November 1973, the regime disbanded the important national labor federation, the *Central Unico de Trabajadores* (CUT). In December, it suspended all union elections and ordered vacant posts to be filled by senior company workers, in order of starting date and alphabetically by last name. In 1975, under the new Chicago Boys team, the government further curtailed workers' rights. They banned strikes in areas important to 'economic stability'

³⁶⁷ Ibid., p.172.

³⁶⁸ Ibid., p.226.

³⁶⁹ Ibid., p.226.

and suspended collective bargaining indefinitely. These actions led a group of centrist labor leaders to form a dissident organization called the Group of Ten in late 1975.³⁷⁰

The government countered by creating a pro-government union, which, naturally, never gained the confidence of the rank-and-file. In mid-1978, widespread signs of labor unrest led to harsh government reaction. The workers at the *Chuquicamata* mine boycotted mess halls after failing in their bid for wage increases. Authorities declared a local state of siege and banished seventy two of the leaders to mountain villages, calling them communists.³⁷¹

A plea from the AFL-CIO to the government for expanded labor rights in May 1978 had seemed to fall on deaf ears. However, five months later, on October 27th, the government announced that union elections would be held the next week, and that a new set of laws which freed unions from obligatory dues and affiliation with labor federations would be in effect. The new leaders had to be approved by the Labor Ministry and forswear any affiliation with political parties. The tepid new leadership began forming ties with the leftist and Christian Democratic leadership, though no new and significant initiatives were taken.³⁷²

In November 1981, the Regional Inter-American Labor Organization, responding to pleas by the Group of Ten, organized a boycott of cargo from Chile, Cuba and Nicaragua. Though the regime denounced that boycott as "a plot by the American union leaders and the Carter Administration," newly appointed Labor Minister Piñera

³⁷⁰ *Ibid.*, pp.226-7.

³⁷¹ *Ibid.*, pp.277-8.

developed a new plan which provided an interesting mix of reforms and new restrictions. The *Plan Laboral*, as it was called, was part of the seven modernizations. The code had been devised by Piñera in 1979 around the theme of freedom of choice for each laborer. The general idea was to limit any organizing activity to the individual factory level, thus preventing the creation of large unions and undercutting labor solidarity. Along with these discouragements of organizations, unions could not be affiliated with any political party.³⁷³ It legalized strikes up to sixty days, but allowed for replacement workers in thirty days. Workers striking beyond sixty days were considered to have quit. Unapproved union meetings were legalized, but employers could dismiss anyone as necessary. The law was soon amended to further aid employers. Labor courts were dissolved, reducing workers' access to legal redress. Employers were now allowed to offer new contracts at less than the minimum wages and without the benefits gained in previous negotiations. Severance benefits were lowered, maximum hourly shifts increased from eight to twelve hours, and piecework rates were legalized. Other occupational benefits protecting workers were also lifted. The ensuing recession fed support for a new and more radical labor organization, the National Union Coordinator, (*Coordinadora Nacional Sindical*, or CNS), which had distanced itself from the Group of Ten after 1978. Its leader, Manuel Bustos, was jailed in 1981.³⁷⁴ The result was that national labor organizers were pushed underground.³⁷⁵

³⁷² *Ibid.*, p.228.

³⁷³ Oppenheim, *Politics in Chile*, pp.156-157.

³⁷⁴ Constable and Valenzuela, p.229.

³⁷⁵ Oppenheim, *Politics in Chile*, p.157.

The strongest show of labor organization came with the May 11th, 1983 strike organized by Rodolfo Seguel, the head of the Confederation of Copper Workers (CTC). Also participating were five Centrist and Leftist unions who had joined together in The National Workers' Command (CNT). Their strike paralyzed the capital and began a five month wave of demonstrations.³⁷⁶ The regime responded with renewed repression

Despite their best efforts, labor leaders were never able to summon such demonstrations again. Labor remained weak and disorganized, with each worker working for his own survival. The economic recovery by 1985 had taken any steam out of a renascent labor movement. By that year, only 18 per cent of all workers were unionized, and fewer than three hundred strikes were held, in strong contrast to 1970 figures of 36 per cent and over seventeen hundred strikes, respectively.³⁷⁷

VIII. Conclusion

The multiple factors of the Chicago Boys' success add up to an amazing testimony of how they were able to change the course of history throughout the world in the promotion of neo-liberalism. They developed an ideologically homogeneous group, and were able to form political alliances with the interest group actors who opposed the Allende regime. They became known to the winning political coalition as the only group with a coherent and well-organized solution to the leftist trajectory of the nation. At the same time, they were able to defeat rival epistemic communities; serve the political alliance by taking apart organized labor; and eventually gain the confidence of

³⁷⁶ Constable and Valenzuela, p.242. and Oppenheim, Politics in Chile, p.185.

³⁷⁷ Constable and Valenzuela, pp.242-3.

international finance through maintaining highly unpopular macroeconomic reforms. At the same time, the Chicago Boys showed they had a political base independent of their political allies. They maintained a highly intelligent strategy of limiting economic concessions to the military; promoting exports while maintaining the confidence of international finance; and developing the state's regulatory capacity of domestic businesses but weathering the temporary disaffection of affected enterprises. In sum, the Chicago Boys' ideas are a vital piece of any explanation of Chilean economic policy, and, in conjunction with international developments and an understanding of domestic coalitions, provide a fairly complete understanding of changes in economic policy.

If we recall the specific level model, we see that it provides an excellent map of the Chicago Boys' political position and relationships within the economic policymaking process. First, their relationship with interest groups including international finance and domestic businesses was one of mutual benefits. The Chicago Boys benefited by gaining political support, and some personal economic gains, such as lucrative positions upon retirement from the government. They provided an expert legitimacy and a coherent plan which put in place stable macroeconomic policies, which benefited foreign and domestic capital: liberalized trade which helped foreign and domestic exporters and importers, particularly of primary materials; and rolled back state involvement in the economy, again benefiting domestic and international business and finance. The Chicago Boys relationship with the military was also mutually beneficial. They received a place of national prestige and political power, as they moved from being obscure and low-paid academics to occupying the top government economic positions as their ideas and advice became the economic gospel of the land, and they, the high priests. In return, they

legitimized and helped to shape the military agenda of de-politicization; drastically reducing the size of the state; and, through personal contacts and international recognition of their congruent ideology, helped to secure strong international financial support of the regime. While not the focus of this chapter, the Chilean military's contacts with its constituents were typical of any political enterprise- in return for political support and legitimacy, the military endorsed policies which were beneficial to its domestic allies.

Although extremely opposed to the substance of the ideas of the *cepalinos* (those who work for CEPAL), the story of the Chicago Boys' epistemological dominance has striking theoretical parallels, which shall be revisited in the penultimate chapter. Before examining what makes epistemic economic groups successful, the next chapter will provide a very brief overview of potential rivals to both groups in order to answer the equally important and parallel question- what characterizes groups who fail to dominate the discourse?

Chapter 5: Rival Economic Epistemic Groups in Chile, 1950-1990

I. Introduction

We have examined the ideological and organizational histories and the political relationships of the two epistemic communities, ECLA (from the late 1950s until 1970) and the Chicago Boys (from 1975 until 1989), which dominated Chilean economic policy during most of the last 30 years. Now we turn to the necessary complement- namely what happened to their rivals? Without going through the full exercise of similarly tracing the substance and organization of these other groups, we shall try to point to some reasons for their failure to achieve dominance. These observations will be crucial to drawing conclusions about the specific-level model laid out in Chapter 1 and the characteristics of both successful and unsuccessful epistemic economic communities in the final chapters.

II. Alternatives to Structuralism (Alternative Political Economy Paradigms in Chile in the 1950s and 1960s)

A. Corporatist Visions: *Gremialismo* and Christian communitarianism

1. The *Gremialistas*

In the previous chapter, we recounted the story of *gremialismo* and its combination with the neo-classical economic Chicago Boys' thought during the Pinochet years. Here, we turn to the roots of *gremialismo* in order to explain why it failed to dominate the political economy discourse in Chile during the 1960s.

Gremialismo as a corporatist ideology arose in Chile in the 1930s, about the same time as a short-lived Nazi movement appeared. The Nazi or fascist movement was repressed after they failed in their attempt to assassinate President Alessandri in 1932. Corporatism, however, gained in attractiveness among the more devoutly Catholic as well as some segments of the business community. Corporatist ideas were spread through the journal *Estudios*. That journal laid out a corporate vision which would “supersede” the problems of political party wrangling through a corporatist scheme based upon *gremios*, or small units of employees, workers, or craftsmen. The idea was supported early on by the large landowners’ association (SNA), and the small business association (CPC).³⁷⁸

Among the more prominent *gremialista* leaders just prior to the Pinochet coup were Raul Silva Espejo, who was an editorial writer for *El Mercurio*, and Jaime Guzman, a young lawyer from Catholic University. More important to the movement and reflective of its constituency were small business leaders such as Leon Villarin and Rafael Cumsille. The former was an ex-Socialist and leader of the truck drivers’ union, and the latter was the leader of the retailers’ association.³⁷⁹

Entrepreneurs, generally owners of small and medium size businesses, constituted the core membership of the *gremialistas*. According to Campero, Chilean entrepreneurs are organized into two main groups, or *gremios empresariales*: the Council of Small and Medium-Sized Business (CPME), and the Confederation of Production and Commerce (CPC). The CPME, apparently, contains a more diverse membership, and so is somewhat

³⁷⁸ Phillip O’Brien and Jackie Roddick, Chile: The Pinochet Decade: The Rise and Fall of the Chicago Boys (London: Latin American Bureau, 1983), pp. 20-21.

³⁷⁹ Ibid., pp.35-6.

weaker. The CPC contains larger entrepreneurs, including the important SOFOFA, which represents industry and the National Agricultural Society (SNA). The CPC was a key opposition group to Allende. The membership of both groups share a common ideology contained by four important principles. The first is defense of private property. The second is free enterprise. The third is a negative view of political parties and their influence over the economy. The fourth is that democracy must be protected from its "enemies," especially communists, by the military.³⁸⁰

The corporatist ideas of the *gremialistas* fit quite naturally with the extreme nationalist faction of Pinochet's supporters. The latter group included members of the National Party and more strident groups, such as *Patria y Libertad* and small Francoist groups.³⁸¹ The role of the business sectors during the Pinochet years was recounted in detail in the last chapter. Suffice it to say that the Chicago Boys led the implementation of policies which were generally favorable to large business interests, with important exceptions. Small businesses benefited from macroeconomic policies but felt slighted in other policies. The large conglomerates who had been favored earlier suffered from government takeover or involvement by their financial companies in the 1981-1982 recession. With the exception of a short period in the aftermath of the takeover, however, the business sector faced the prospect of an independent, if friendly, economic policymaking process.

³⁸⁰ Guillermo Campero. "Entrepreneurs under the Military Regime." in Paul W. Drake and Ivan Jaksic. The Struggle for Democracy in Chile. (Lincoln, NE: University of Nebraska Press). p.130.

³⁸¹ O'Brien and Roddick, p.36.

In a sense, however, *gremialismo* did not fail- in many ideological aspects. it succeeded as a source of core elements (particularly in the aspects of property rights and limiting the role of the state) of the current neo-liberal reality. On the other hand, the image of a corporatist society with direct negotiations between small businessmen`s and professional groups and the government has been largely abandoned in favor of a more individualistic, consumer-oriented model.

2. *Christian Democratic communitarianism*

From at least the late 1950s the PDC has followed a dominant Christian humanist philosophy along European lines. One of its primary referents was the work of Christian philosopher Jacques Maritain. Maritain espoused a version of natural law and human rights which become known through the Gospel. Men find their dignity through their work, so that there should be no leisure class. More importantly, for our purposes, Maritain refers to a `system of joint ownership and of joint management (which) will replace the wage system....`³⁸²

By 1970, large portions of the Christian Democrats agreed with the basic UP (*Unidad Popular*) idea of a mixed economy (one with partial state ownership) as part of a self-labeled scheme of socialism. Where the Christian Democrats (DCs) differed, however, was in an emphasis on decentralized decision-making in economic policy in a democratic political system.³⁸³ They pointed to the economic difficulties of the centrally

³⁸² Donald Arthur Gallagher. "Introduction." in Jacques Maritain. Christianity and Democracy and The Rights of Man and Natural Law. Doris C. Anon. translator (San Francisco: Ignatius Press. 1943). pp.vii-xlix.

³⁸³ The factions who agreed with UP went on to form the new parties of MAPU and the IC, which became UP partners.

planned Eastern bloc states, such as Bulgaria, as evidence of the superiority of their alternative. They used Yugoslavia as an example of a worker-led system towards which Chile could move.³⁸⁴

These communitarian ideas were later seen by the Christian Democrats as vague and ill-defined and this change of perspective corresponded with the transformation of the ideas of the party in the 1980s, as discussed later in this chapter.

3. *The Failure of a Corporatist vision of Political Economy in Chile*

Corporatism has important attractive elements as a vision of society for Chile. First and foremost is an affiliation with European and Christian cultural references. The second is a subconsciously analogous appeal to the "immoral" effects of political organizations, that is, corporatism as an ideology has the normative stance that direct negotiations between groups which are organized professionally or out of some (Christian) social spirit result in a "purer" and superior politics.

The communitarian component of the first Frei government's "Revolution in Liberty" did have some success in swaying labor groups into the PDC and in mobilizing previously marginalized groups, such as agricultural workers, neighborhood groups, and mothers' groups. The PDC also made gains in organized labor unions.³⁸⁵ Yet, the mobilization of these groups may actually have served to further radicalize the PDC and to distance it from a compromise with its more conservative elements in 1970.

³⁸⁴ Alejandro Foxley, ed., Chile: búsqueda de un nuevo socialismo (Santiago: Ediciones Nueva Universidad, 1971), esp. pp.138-69.

³⁸⁵ Robert J. Alexander, The Tragedy of Chile (Westport, CT: Greenwood Press, 1978), p.55.

Moreover, no real concrete steps toward a communitarian re-organization of society were taken.

Why? Because both *gremialista* and Christian corporatism were embedded in inherently political groups. In a sense, it was a paradoxical stance for them to fight politically for the wiping out of political (rather than functional or communitarian) groups. More importantly, perhaps, is the fact that both groups lacked a comprehensive plan for the political economy. While both movements had specific components in which the theory was applied (the university reform efforts of the *gremialistas* and the communitarian groups and humanitarian legitimizing discourse of the PDC), none had a *plan* of political economy policies which clearly provided solutions for pressing problems of the day. Though the PDC talked about workers' self-management, for example, it had very little idea of how to implement such organizations, short of a vague reference to a Yugoslavian model. In this sense, both types of communitarianism are *underdeveloped* ideologies, especially in regard to economic policy, in stark contrast to both structuralism and neo-liberalism. While clearly influential, therefore, communitarianism could not, for lack of ideological as well as political characteristics, become a hegemonic ideology of economic relations.

B. Radical (Leftist) Alternatives to ECLA during the 1950s and 1960s

1. Introduction

This section examines the radical Left perspectives on development, with a focus on explaining why they never succeeded in achieving large-scale support in Chile for their political economic proposal. We will concentrate on the two major parties of the

Left, the PC (Communist Party) and the PS (Socialist Party), since they were the only groups capable of wielding strong influence on policies, and on the period in question, the 1950s and 1960s.³⁸⁶

2. *The Historical Failure of Left Radicalism in Chile*

As discussed further in Appendix A, which provides a background on Latin American political economy, Marxist thought was one of a number of different strands of thought which were introduced to Latin America from Europe at the turn of this century. In Chile, the famous labor organizer Luis Recabarren became the most prominent Communist leader. Recaberran also marks the beginning of a close association between organized Labor and the Left. Central to this dynamic was the heated and ongoing rivalry between the Communist and Socialist Parties for hegemonic control of the labor movement.³⁸⁷

The main leftist organizations have been the Communist and Socialist Parties. Like many of its compatriot parties internationally, the Communist Party of Chile has tended to fluctuate between two strategic approaches of Comintern leaders in the Soviet Union- that of revolutionary activities, and that of a combination with centrist parties in order to gain access to power through elections.

There have been two historical differences between the Communist and the Socialist Parties in Chile. The first is that the former had ties to the Soviet Union, while

³⁸⁶ For a review of other leftist parties, particularly those in the so-called "Christian Left," see Carlos Bascunan Edwards, *La Izquierda Sin Allende* (Santiago: Grupo Editorial Planeta, 1990).

³⁸⁷ Brief historical summaries of the Communist and Socialist Parties of Chile can be found in Bascunan Edwards.

the second was a purely national party, identifying itself as a purely Latin American effort. The second is that the Communists traditionally followed a more accommodationist strategy, seeking electoral alliance with centrist or bourgeois parties, while the Socialists tended to be more radical in their desire for quick and, if necessary, violent Marxist revolution.³⁸⁸

In 1935, one side of this dyad came from a Comintern directive. In that year, Communist parties around the world were instructed to pursue a “popular front” strategy. In 1936, the Communist Party of Chile was able to form a popular front with the Radicals, Socialists, Democrats, Democratic Socialists, and the new Confederation of Chilean Workers (CTCh).³⁸⁹ The Front made steady gains in Congressional elections, and succeeded in electing Radical Aguirre Cerda in 1938. With Aguirre Cerda’s death in 1941, the Front officially ended.

The 1940s were marked by increasing labor activism and the competition between the Socialist and Communist parties for the allegiance of the Labor movement. With the election of Radical Gonzalez Videla in 1946, heavy repression of the Communists began. By 1948, the Communist Party was banned by the Congress. Partly as a result, the Socialist Party became more powerful in politics. In 1953, a new central labor union, CUTCH, was created. In the 1956 election, Salvador Allende, the Socialist candidate of the new FRAP leftist coalition, came close to winning the Presidential election. The new

³⁸⁸ An excellent though brief summary of the backgrounds of the parties in UP’s coalitions can be found in Mark Falcoff, *Modern Chile, 1970-1989: A Critical History* (New Brunswick, NJ: Transaction, 1991), pp.26-51.

³⁸⁹ Robert Jones Shafer, *A History of Latin America* (Lexington, Mass: D.C. Heath and Company, 1978), pp.579-80.

gains for the Left were matched by a reaction by the conservatives to collaborate with the Christian Democrats for the 1964 election.

With the triumph of the UP coalition in 1970, the various forces of the Left were faced with familiar problems: how to maintain unity after the defeat of a common enemy and which revolutionary strategy to follow, gradual or by sudden violence. The PC consistently favored a more gradualist approach towards socialism and believed strongly in the need for accommodation with bourgeois forces, namely the PDC. The PC argued that the PDC was closer in alignment to the UP's goals and that attacking it would only strengthen its opposition to the government. The PC also opposed Allende's inclusion of the military (albeit less than the Socialists) and the provocations of other leftist parties, principally the MIR to enlisted men to rise against their commanders in the "cause of the people."³⁹⁰

In contrast with the PC, the PS had a long history of diverging leadership and factions within the party. On the eve of the UP government, there seemed to be two main factions- the more radical one led by Carlos Altamirano and a more moderate wing, which included Allende and Clodomiro Almeyda. The main differences were that the former were more predisposed to violent struggle and a hard-line stance towards opposition parties. The PS in general, however, had a much more radical (in the just stated sense) stance than the PC, leading to continual disagreements on strategy within

³⁹⁰ Bascunan Edwards, pp.27-34.

the UP.³⁹¹ During the UP term, a number of radical pronouncements by Altamirano and others in this fashion placed Allende's ability to lead the governing coalition into severe doubt. In particular, this wing by 1972 began to reject Allende's attempts to maintain Constitutional decorum. Together with the MAPU branch led by Garretón and the MIR guerrilla group (outside of the UP), the PS became one of the most radicalized groups in the country.³⁹² In short, the factionalization of the UP, especially once in power, was a strong contributing factor to their inability to create a hegemonic influence over discourse.

3. *Conclusion: Factionalization and Lack of Pragmatism of the Left*

The divisions of the radical alternatives in both ideological and political terms continued after the military coup in 1973. The coup and the subsequent repression, of course, wiped out radicalism as a viable political option in Chile for the rest of the 1970s and the 1980s. However, as we shall see later in this chapter, the historical identification of the Allende period was one of abysmal failure. This historical judgement together with the transformation of the Left led to the present state of affairs in Chile- where radicalism has virtually no political support. In retrospect, there is no reason why a "peaceful way to socialism," albeit one which involved compromise with the socialistically-oriented DCs of 1970, and which eschewed open conflicts with other powerful elements, such as forming a suicidal pact with the Soviet Union, could not have

³⁹¹ Jorge Tapia Videla, "The Difficult Road to Socialism," in Federico G. Gil; Ricardo E. Lagos; and Henry A. Landsberger, eds., Chile at the Turning Point: Lessons of the Socialist Years, 1970-1973, translated by John S. Gitlitz. (Philadelphia: Institute for the Study of Human Issues, 1979), pp.26-8.

³⁹² Bascunan Edwards, pp.67-70.

at least been started during Allende's term. This path was negated by Allende's attempt to accommodate the more extreme elements of the Leftist coalition. The project was one of 25-50 years, not six. In any case, the radical vision for Chile was not only highly divided, but thoroughly unrealistic as applied to Chile during the Allende administration. This brings up the fatal flaw of many Marxist theories historically held by the Left in Latin America- their convincing negative analysis without providing a clear and positive alternative plan to liberal economic models. While the repression in the aftermath of the coup was important in decimating the Left, even under peaceful conditions since 1989, the Left remains without an alternative political economy model. This fatal flaw and the inability of the Chilean Left to unite explain in good part the transformation of the Left during the 1980s, to which we now turn.

III. The emergence of neo-structuralism as an alternative development paradigm in the 1980s

A. Introduction

In 1989, Pinochet stepped down from power. While criticism about his political rule abounded across the political spectrum, there were mixed feelings about his economic accomplishments. Particularly interesting was the morphalaxis of both the Left and the Center.³⁹³

³⁹³ Patricio Silva, "Technocrats and Politics in Chile: from the Chicago Boys to the CIEPLAN Monks," *Journal of Latin American Studies*, 23:385-410 and Jeffrey M. Puryear, *Thinking Politics: Intellectuals and Democracy in Chile, 1973-1988* (Baltimore: The Johns Hopkins University Press, 1994).

The Christian Democrats, in particular, have undergone a remarkable transformation since the days when they split along proto-socialist and centrist lines before Allende's election. The original vision of the Christian Democratic leaders was one of communitarianism³⁹⁴ and worker ownership, though in practical terms it was poorly fleshed out. The harsh rhetoric used against neo-liberalism in the 1970s was toned down considerably when it came time for them to accede to power.³⁹⁵ The Christian Democrats seem more or less to have accepted the neo-liberal view of the importance of the money supply. At the same time, they have attempted to differentiate themselves from the Chicago Boys by emphasizing social programs, which are, nevertheless, secondary to the basic neo-liberal macroeconomic recipe.

The following section introduces the historical context of the origins of neo-structuralism and then examines the new doctrines which appeared in ECLA publications by the mid-1980s under the label, "neo-structuralism."³⁹⁶ We shall then provide some explanation of the ideological transformation of the Christian Democrats, the Socialists, and ECLA itself over the period of the last few decades.

³⁹⁴ Lois Hecht Oppenheim, Politics in Chile: Democracy, Authoritarianism, and the Search for Development (San Francisco: Westview Press, 1993), p.16.

³⁹⁵ After the death of party leader Eduardo Frei(I), the PDC developed into the two factions. The *chascones*, or "long-hairs" favored an alliance with leftist parties and a movement towards social democracy. The *guatones*, or "fat bellies" preferred an alliance with the right and accept an open capitalist system. See Michael Fleet, The Rise and Fall of Chilean Christian Democracy (Princeton: Princeton University Press, 1985), pp.199-201. Interestingly enough, the Party has followed the former's alliance with the Left, and the latter's recommendations of conservative economic policies.

³⁹⁶ The acceptance of certain neo-liberal principles- in particular, the need for monetary and fiscal control to avoid inflation and the need to promote competitive exports, is now ubiquitous in ECLAC documents. For example, see Strengthening Development: The interplay of macro- and microeconomics, ECLAC report, July 1996. United Nations document E/LC/G.18981 Rev.7-P.

B. The importance of external events in the creation of neo-structuralism in the 1980s

The hallmark of the arrival of the neo-structural model came with the earth-shattering events of the debt crisis of the 1980s. In addition to the success of the Chilean model in suppressing the endemic problem of inflation, Latin American economists, along with their counterparts in Western academic circles, finally began to publicly notice the East Asian miracle. The interest in East Asia's high sustained growth rates with equity flew in the face of Latin American's left-leaning economists, many of whom had begun to see growth and equity as tradeoffs. By the mid- to late-1980s, even ECLA, which had been the proponent not only of ISI, but also of the need for a unique Latin American development paradigm, took notice of East Asia in a series of published reports comparing the two regions.³⁹⁷

The lessons of East Asia to Latin Americans centered on the need for export promotion, and emphasis on "non-traditional" exports (with the notable exclusion of the postwar measures to improve equity, such as land reform). Some echoes of interest in industrial policy have also surfaced in regard to East Asia. The lessons of the Chilean model and their own historical experiences were that strict monetarist policies were relatively successful in controlling inflation. The neoliberal model as well as the intellectual influences of the multilateral banks also pushed Latin American governments to declare the need to promote higher levels of savings. Historical reflection on economic

³⁹⁷ Sebastian Edwards, "The Emergence of a New Latin American Consensus," in Crisis and Reform in Latin America: From Despair to Hope. (Washington: The International Bank for Reconstruction and Development, 1995), pp.41-58.

problems during ISI2 and the multilateral institutions, furthermore, led to a renewed focus on agricultural activity, albeit in more value-added products, such as wine. Each of these measures, particularly making macroeconomic stability the number one priority, left little of the original structuralist platform. The only significant plank remaining from structuralism is a dedication to income redistribution through social welfare spending, but only after assuring fiscal and monetary balance. The emergence of neo-structuralist ideas fits neatly with the needs for Latin American economies to reassure international finance. The next section examines in more detail the ideas behind neo-structuralism.

C. **What is neo-structuralism?**³⁹⁸

Neo-structuralism as a new doctrine seems to be the joint construction of several members from both CIEPLAN and ECLA. It is interesting to note that neo-structuralism seems to be dialectically defined in relation to neo-liberalism, just as structuralism was with modernization theories.

Six features distinguish neo-structuralism. First, neo-structuralists harken back to the possibility of structural disequilibria, or bottlenecks. Second, they call for some state involvement in the economy to prevent gross concentration of resources. However, while

³⁹⁸ This section is based on the following materials:

-from the CEPAL Review:

Sergio Bitar. "Neo-Conservatism versus neo-structuralism in Latin America." CEPAL Review, no.34 (April 1988):45-62.

"ECLAC and neoliberalism: an interview with Fernando Fajnzylber." 52 (April 1994):205-8.

Ricardo French-Davis. "An outline of a Neo-Structuralist Approach." 34 (April 1988): pp.37-44.

Joseph Ramos. "Growth, crises and strategic turnarounds." 50 (Aug. 1993):.63-79, and "Can growth and equity go hand in hand." 56 (Aug. 1995):13-24.

Oswaldo Sunkel and Gustavo Zuleta. "Neo-structuralism versus neo-liberalism in the 1990s." 42 (December 1990):35-51.

it is not completely clear in just which activities the state should be involved. there is some repudiation of the level of and type of involvement under structuralism. Neo-structuralists refer to intervention which serves basic needs and which favors small and infant producers. They also call for limited state activity in the external sector to promote certain industries and to reduce external instability through the use of subsidies, a crawling peg exchange rate mechanism, regulation of capital movements, and selective opening up to foreign investment. Moreover, there seems to be a good deal of backing away from the planning platform of structuralism.

Third, they call for international competitiveness of industries. There is an emphasis on industrialized exports, including promotion of high technology and "pioneering" industries, in contrast to the ideas and practice of structuralism. In short, the same industries are promoted as under structuralism, but a new emphasis on exports and international competitiveness is added.

Fourth, they emphasize the need for increased savings, but through increasing medium and lower class savings, rather than incentives to the upper classes or large business. Fifth, neo-structuralists recognize the improvement of agricultural productivity as a priority, which some admit was neglected under structuralism. Last, they contrast themselves from neo-liberalism in supporting more accommodating policies for labor.

D. Is neo-structuralism really different- from neo-liberalism?

In political terms at least, neo-structuralists draw a distinct line between their philosophy and that of neo-liberalism. It is important to note that they identify the latter

with "the Washington consensus,"³⁹⁹ the IMF, and the World Bank, which certainly brings to the fore the latent anti-Western hostility of Latin Americans, especially in their references to the debt crisis. They also point to small and medium sized countries in Europe and East Asia as examples of the need for state intervention, echoing one branch of the academic literature on International Political Economy.⁴⁰⁰

On the other hand, the Left has obviously changed its position on economics in several key areas in the direction of the neo-liberal paradigm. The first is the abandonment of the state as the main force for industrialization. The state's role as owner of state owned enterprises is completely renounced. Under neo-structuralism, the state is seen rather as a correction for market failures. The second is the positive view of insertion and competition within the global market, and the need for continual improvements in efficiency along the way. The third is the acknowledgment of the pre-eminence of macroeconomic stability. The fourth is a tacit acknowledgment of the scheme of insulating top economic policy advisors from open political competition, thus extending the Chicago Boys' and Pinochet's successful "de-politicization" of economic policy.

While neo-structuralists therefore differ in emphasis, in ideological terms, neo-structuralism is neither a complete nor a distinct alternative to neo-liberalism.

³⁹⁹ "The Washington consensus" refers to the widespread agreement among the U.S. policy community concerned with Latin America that economic liberalization measures were the answer to Latin America's economic stagnation during the 1980s. See John Williamson, The Political Economy of Policy Reform (Washington: Institute for International Economics, 1994).

⁴⁰⁰ Sergio Bitar, "Neo-Conservatism versus neo-structuralism," pp.50-3.

IV. Possible explanations for the transformation of the Left in the 1980s: the movement towards neo-structuralism

A. History of the Transformation of the Chilean Left after 1973⁴⁰¹

What seems like extreme behavior now was actually quite typical of the radical tone of the times internationally in the late 1960s. Besides the leftist-oriented movements in the United States related to American involvement in Viet Nam, there were student riots in Paris, and "the Prague Spring" in Czechoslovakia, to name just a few examples. With the transformation of the Eastern bloc and China into market-based economies, and in most cases at least nominally democratic systems from 1989 on, the international context is completely different. Particularly because of the Chilean Left's strong international ties both before and after the 1973 coup, keeping these international cultural changes in mind helps us to understand the parallel changes in the Chilean Left's ideology and strategy.

For the Chilean Left, more importantly, there is some consensus that mistakes were made by the Allende government. Retrospective writings tend to see movement to violence by elements of the UP as both against the spirit of the constitutionally-elected government and Chilean politics in general, and as unlikely to succeed in the face of an overwhelmingly superior authority in the military. More importantly, several state that short-term economic stability was overlooked in the euphoria of the first year of

⁴⁰¹ Petras, Leiva, and Veltmeyer have offered the only review of the Left which explicitly discusses economic ideologies of the current democratic government. They tend to take a more class- and self-interested view of the Left and Center's change in economic ideas. James Petras and Fernando Ignacio Leiva with Henry Veltmeyer, Democracy and Poverty in Chile: The Limits of Electoral Politics (San Francisco: Westview Press, 1994).

economic growth and in the ambitions of the Left in general. Another angle on this economic theme is that the Allende government fueled consumption in the first year, whereas a focus on maintaining productivity while transferring ownership would have been the better course.

Manuel Antonio Garreton has provided perhaps the most insightful analyses of the Popular Unity experiment from a leftist point of view which go beyond the more obvious problems of internal incoherence of the UP and external pressure from the U.S. He notes first that the UP had a naive notion of power- "as something that can be 'physically possessed,' rather than as a complex social relationship that materializes in various parts of society. This conception tended to confuse a social project with a political project for taking power and to subordinate the former to the latter." The UP tended to view society in abstract and theoretical terms, particularly those of "economistic categories," ignoring the importance of a carefully delineated national plan which adequately considered social, political, and cultural dimensions. The UP therefore had a difficult time in dealing with the various social actors which would contest its rule. In regard to the military, the middle sectors, and the diversified popular sectors, the UP demonstrated the shortsightedness of this dogmatic approach. Garreton thinks that the UP believed that redistribution of assets alone would be enough to win over these sectors, when in fact they desired an identity within the larger socio-cultural project. The UP similarly misread the military's governing norms, thinking that it would remain wedded to protection of the Constitution. Their incoherent policy resulted in attempts to simultaneously co-opt and undermine the armed forces, leading the latter to unify in the face of the perceived threat to internal cohesion. Finally, the UP misunderstood the

popular sectors which were supposed to be its backbone of support. Those sectors were quite heterogeneous and geared towards the satisfaction of short-term desires, rather than a “unifiable” force ready to work for a socialist ideal. More importantly, these sectors had been the least organized politically, so that the UP’s attempt to mobilize them was not accompanied by adequate political co-ordination of them. Furthermore, the popular sectors had a relatively low capability to affect the economic system.⁴⁰² In sum, the combination of the change in international climate, meditations on the fall of the Allende government, and the exile experience opened the way for new ideas among much of the Chilean left, as well as the PDC. This change obviously follows the Kuhnian pattern of paradigm change after crisis, except that, in this case, the crisis is one of real events as well as of intellectual discourse.

After the coup, the PC in the 1970s attempted to build an “anti-Fascist” coalition of the Left with the PS to oppose the regime, while maintaining support for terrorist groups.⁴⁰³ Until 1980, the PC also attempted to form alliances of opposition with the Catholic Church and the PDC.⁴⁰⁴ In 1980, the PC moved resolutely alongside the MIR, the Almeyda faction of the Socialist Party, and others among the Left who openly espoused violence against the government. The PC also had informal ties with the FPMR (*Frente Popular Manuel Rodríguez*), which was responsible for a series of well-

⁴⁰² Manuel Antonio Garretón, The Chilean Political Process Sharon Kellum and Gilbert W. Merkx, translators. (Boston: Unwin Hyman, 1989), pp.24-33.

⁴⁰³ An excellent history of the PC is found in Carmelo Furci, The Chilean Communist Party and the Road to Socialism (London: Zed Books, 1984). On pp.165-8, he discusses the important decision to adopt violence as an acceptable means of overthrowing Pinochet. Also see Augusto Varas, ed., El Partido Comunista en Chile: Estudio Multidisciplinario (Santiago: CESOC-FLACSO, 1988).

⁴⁰⁴ Bascunan Edwards, pp.38-46.

publicized terrorist attacks during the 1980s.⁴⁰⁵ The PC was divided for the first time in history over the strategy it should use to confront the dictatorship, especially after *perestroika* took hold in the Soviet Union in the late 1980s.⁴⁰⁶ The decision to follow a violent path amid the worldwide decline in the power of Communist ideals may prove the beginning of the demise of the PC as a significant party, and has forced the PS to change its ideology. The PC, for example, was excluded from the democratic coalition which confronted Pinochet in the 1988 Plebiscite on the timing of a return to democracy. The PC also divided, losing several important figures.⁴⁰⁷

Not surprisingly, the PS became even more fracticallized after the coup.⁴⁰⁸ Many of the PS's most prominent leaders were either put in jail or went into exile. PS members had two main reflections on the UP experience which came to represent the two main factions of the party after the coup.⁴⁰⁹ The first was one shared by Vuskovic and Almeyda, that the UP had been too soft in its attempts to find a pacific way to socialism. This group places a great deal of blame on imperialist U.S. forces in addition to domestic

⁴⁰⁵ *Ibid.*, pp.51-55.

⁴⁰⁶ Manuel A. Garretón, "La Renovación del Socialismo," in Ricardo Nunez, editor, Socialismo: 10 Años de Renovación: 1979-89: De la Convergencia a la Unidad Socialista, vol. 1. (Santiago: Las Ediciones del Ornitorninco, 1991), pp.17-23.

⁴⁰⁷ This last fact was related to me by Lois Hecht Oppenheim in her comments on this chapter.

⁴⁰⁸ Further information on Leftist factions and their platforms can be found in Reinhard Friedmann, Jorge Pozo B., and Felipe Pozo R., 1964-1988: La Política Chilena de la A a la Z (Santiago: Melquiades, 1988).

⁴⁰⁹ A review of the development of the PS factions after the coup is found in Benny Pollack and Herman Rosenkranz, Revolutionary Social Democracy: The Chilean Socialist Party (London: Frances Pinter, 1986), pp.186-208.

opposition for the downfall of the Allende government. They believe the UP should have realized the necessity of force to defeat the opposition.⁴¹⁰

The second main group of leaders had rather more hand-wringing assessments.⁴¹¹ This group included Altamirano, and is now led by Jorge Arrate and Ricardo Lagos. They lament the UP's inability to reach accommodation with the PDC, and look to internal divisions within the government as one of the primary causes for the failure of the regime. They also regret the lack of an early plebiscite to confirm the juridical and constitutional changes proposed by the UP. More importantly, they see the internal divisions of the UP as having led to incoherence in economic policy and a vulnerable weakness in the face of its enemies, including the military. Additionally, they talk about the naïveté which UP members had towards the degree of opposition, and regarding the speed at which their socialist transformation could take place.⁴¹² As mentioned, factions of the PS, in alliance with the PC, strongly opposed the military regime, and deemed it fascist until 1979.

The Altamirano faction, meanwhile, which favored socialism within democratic parameters, supported the broad democratic fronts with the PDC and other opposition parties to the military regime. Nevertheless, the several factions of the former party had

⁴¹⁰ For example, see Gonzalo Martner, El Gobierno del Presidente Salvador Allende, 1970-1973: Una evaluación (Concepcion, Chile: Ediciones Literatura Americana Reunida, 1988), esp. p.314.

⁴¹¹ See, for example, Sergio Bitar, Chile Para Todos (Santiago: Grupo Editorial Planeta, 1988), especially pp.44-53 and Clodomiro Almeyda Medina, "The Foreign Policy of the Unidad Popular Government," in Gil, Lagos, and Landsberger, pp.96-103.

⁴¹² The renovated Socialists discuss at length the "ideological inflation" and naive idealism as strong contributing factors to the downfall of the UP. In a series of interviews, Carlos Altamirano, one of the more strident of these idealists, at least in his rhetoric while in office with the UP, goes as far as equating it with the literary description of elements of Latin American literature which is known as "magical realism." That literary movement

reunited into a newly unified PS by 1983, though the Almeyda faction maintained its coherence within the new party. The Altamirano faction includes several prominent intellectuals, such as Manuel Garretón, and has become known as the group of “renovated socialists.”⁴¹³

The renovated Socialists, now including most of the more prominent members of the Party, call for four major changes in the historic identity of the party based on their interpretations of the UP government and on their assessment of the new political situation. The first is an unfailing allegiance to democratic practices, which they see as the cornerstone of their ability to act as a party. They therefore reject all notions of a violent path to Socialism, which was contemplated by them during the UP government and was followed by the PC during the 1980s. An important implication is a rejection of the necessity of a revolutionary and overpowering state, which is directly related to their experience under the dictatorship.⁴¹⁴ The second is a rejection of the “ideological tradition of the Chilean Left,” which they now interpret as inflated and unrealistic. They do not see revolution or an overnight movement to socialism through the actions of a revolutionary vanguard, but instead present it as a democratic option to be fought over in elections. They therefore do not believe that socialism will be a permanent change once established, but can see the possibility of alternations in power between socialists and other forms of government. They recognize the hegemonic inclinations and the

became known at the same time as the strange politics which are a prelude to the transformation discussed here, the 1960s. Patricia Politzer, *Altamirano* (Santiago: Grupo Editorial Zeta, 1990), pp.122-3.

⁴¹³ Bascunan Edwards, pp.75-103.

⁴¹⁴ This follows directly from their experience with the loss of political rights during the dictatorship. See Ricardo Lagos' quote in Pollack and Rosekranz, pp.180-181.

inefficiencies of a dominant State. Third, the renovated Socialists seek to reinforce their identity as a political party which addresses Chilean problems on a national level, rather than (adhering to) "abstract principles." Fourth, they recognize the necessity of forming alliances with other political parties, since the Socialists do not command a majority.⁴¹⁵ Part of the renovated socialists are now located in a sister party, the *Partido Por la Democracia* (PPD), which is headed by Ricardo Lagos, a long time Socialist, and shares the same principles.⁴¹⁶

In sum, perhaps the most significant event in recent Chilean history is the transformation of the Left after the military coup. While certain factions have continued to follow Marxist-Leninist principles, the majority of the Socialist Party has accepted the importance of key neo-liberal concepts, particularly the need for monetary stability and economic growth. They were convinced by their education and reflection abroad (as exiles)⁴¹⁷, as well as the successes of the neo-liberal model in creating economic growth.⁴¹⁸ They now look to Western European socialism as the model, rather to than the former Eastern European communist states. The new Left is also now conscious of the new

⁴¹⁵ See Grupo de la Convergencia Socialista, "Respuesta a la carta de Unidad e integracion del socialismo," and Ricardo Nunez, Carta Abierta a los dirigentes y militantes de la izquierda chilena," in Nunez, vol.1, pp.188-190 and pp.226-234; and Jorge Arrate, "Rescate y Renovacion: la tarea de los Socialistas," Manuel Antonio Garretón, "Socialismo Renovado y Democracia," Tomas Moulian, "Sobre la Teoria de la Renovacion," Ernesto Tironi, "La Segunda Renovacion," in Nunez, vol.2, pp.31-51; pp.52-100; pp.100-112; pp.125-137.

⁴¹⁶ Ricardo Lagos, "Chile. Tarea de Todos," in Nunez, vol. 1, pp.200-05.

⁴¹⁷ In an extremely interesting discussion, Carlos Altamirano, one of the most stridently leftist officials of the Allende government, discusses his intellectual change in becoming a supporter of a Western European socialist and a firm supporter of democratic values. Among other reasons, he refers to his time spent in East Germany as disillusioning, in terms of the lack of intellectual liberty, human and political rights repression, and economic backwardness there. He says the experience there made him slowly reject a "mechanistic" view of the world, one in which good and bad are clearly defined, and in which capitalistic societies are "perverse." See Politzer, pp.145-82, esp. 150-6.

⁴¹⁸ Alex Fernandez Jilberto, "Internationalization and Social Democratization in Chile," in Menno Vellinga, ed., Social Democracy in Latin America: Prospects for Change, (Boulder: Westview Press, 1993), pp.179-218.

issues brought to the forefront by non-governmental organizations, such as environmental degradation and the role of women. The PS as a whole broke with the PC in renouncing violence in the 1980s, in a curious reversal of historical positions.⁴¹⁹ The PC has more recently also renounced violence, though it has not yet regained credibility as a party. Moreover, the effects of the neo-liberal model, the declining price of copper and the conscious and partly successful efforts of the Chilean government to diversify exports away from dependence on copper have considerably weakened organized miners, who were the backbone constituency and political strength of the PS and the PC. Finally, the fall of the Soviet empire accelerated a revolution in Marxist intellectual thinking, leading to an incredibly diverse and hybrid series of new propositions within the Left internationally.⁴²⁰

Dependency, the most comprehensive and influential radical economic theory in Latin America, combined the widely accepted notions of structuralism into the only intellectually-fashionable world of Marxist analysis. To be sure, the dyadic nature of structuralist analysis and its substantive focus on gaps between developed and underdeveloped nations lent itself nicely for this transfiguration. On the other hand, structuralism was always about a strategy to move out of underdevelopment, not a rejection of the whole capitalist system. Dependency is, therefore, a most interesting case

⁴¹⁹ Ricardo Lagos, *Democracia para Chile: Proposiciones de Un Socialista* (Santiago: Peheun, 1985), esp. pp.184-6. An excellent summary of the Chilean left since the coup, including the change of positions on violence by the PS and PC is found in Brian Loveman, "The Political Left in Chile, 1973-1990," in Barry Carr and Steve Ellner, eds., *The Latin American Left: From the Fall of Allende to Perestroika* (San Francisco: Westview Press, 1993), pp.23-40. On p.36, Loveman points out that the PC has also spawned a renovated group, which is opposed to the new platform of violent change.

⁴²⁰ Dick Parker, "Trade Union Struggle and the Left," and Ronald H. Chilcote, "Left Political Ideology and Practice," in Carr and Ellner, pp. 208-10 and 175-77, respectively.

of the hybridization of ideas over time to accommodate events or intellectual climates. In this case, the seeming failures of structuralism and Allende's radical experiments seemed to leave only two alternatives: structuralism and radical political economic policies are either inherently flawed, or international and domestic power structures would not (and will not) allow them to succeed, or both.

B. The Rise of new Intellectual groups

After the coup in 1973, the Left lost its ability to operate in Chilean politics. Many who were not repressed became intellectuals-in-exile, continuing their education abroad. At home, intellectuals were purged from universities and party-based research groups were wiped out. Many found refuge in centers funded by international organizations, the Catholic Church, and, later, international foundation-funded domestic research centers.⁴²¹ The latter constituted new centers of intellectual life, which had been previously located exclusively in Chilean universities. The new centers tended to be much more focused on pragmatic policy analyses, in contrast to the work of universities.⁴²² More importantly, from a political standpoint, was the limited space for intellectual development and expression under the dictatorship. The common opposition to the regime created a gradual and increasing spirit of compromise among the Christian Democrats and the Left. This "cooperation by necessity" extended even to a physical

⁴²¹ For details on the transformations of specific centers, and individual intellectuals' specific affiliations, see the detailed account of Jeffrey M. Puryear, Thinking Politics: Intellectuals and Democracy in Chile, 1973-1988, (Baltimore: The Johns Hopkins Press, 1994).

⁴²² Ibid., p.49.

necessity, as the Church often served as the meeting place for opposition leaders.⁴²³

Another important aspect of the transition period was the lack of access to public media.

Therefore, the new centers produced publications for their own group of intellectual

colleagues. Because their activity was tolerated, however, ex-politicians tended to

converge in the centers⁴²⁴, creating a newly homogenized form of intellectual-politician.

Once those opposing the dictatorship found that intellectual dissent was the one avenue of opposition which was openly tolerated, the number of centers and their activities mushroomed.

In sum, the characteristics differentiating the centers from the universities and their tendency to channel political activity from the political parties into more technical and policy-oriented debates is one reason for the huge differences between Chilean political discourse in the polarized 1960s and the more technocratic present.⁴²⁵

Intellectuals had another interesting effect on politics in Chile. As described by Puryear, in the mid-1980s, they began importing political polling techniques from abroad, which ushered in new styles of media campaigning.⁴²⁶

We now turn to another interesting story of transformation, this time examining how structuralists became neo-structuralists. The basic question is, *how could the same individuals who were at one time convinced of structuralism, legitimize a complete change in worldview and identity?*

⁴²³ *Ibid.*, pp.44-6.

⁴²⁴ *Ibid.*, pp.57-8.

⁴²⁵ See also Marcelo Charlin, Empirical Sociology, Political Agents and Democratization: Elite vs. Public Politics in Chile, 1980-1990 (North York, Ontario: York University, 1991), pp.13-34.

C. Legitimizing the Ideological Transformation

Perhaps the most instructive way of examining the emergence of a new ideology is to understand how it is first legitimized. In the case of neo-structuralism, proponents need to explain how structuralism was incorrect in important aspects while not negating the supposed triumph of its heyday, when it was supported by their institutions.⁴²⁷

Secondly, they have to differentiate neo-structuralism enough from structuralism to show that it provided solutions to these flaws without attacking the premises of an inegalitarian international distribution of wealth and income, since they believe that this basic analysis of structuralism is correct. Third, they have to show how neo-liberalism failed in the same or other equally vital issues, and is therefore not a viable alternative. They have not yet succeeded in these three endeavors, which is part of the reason for the failure of neo-structuralism to become a hegemonic economic ideology.

Ffrench-Davis, in an article for CEPAL Review in 1988, explained structuralism's two flaws. The first was a problem of inadequate attention to short-term macroeconomic balances, in regard to both monetary liquidity and fiscal deficits. The second was "weak" thinking in regard to medium-term policies for linking national development objectives with planning. In this case, he notes that structuralist planning was still ahead of neoliberalism, which ignored it altogether. He goes on to point out other areas which structuralism underestimated: regulating foreign trade; defining the objectives of and

⁴²⁶ Puryear, pp. 130-58.

⁴²⁷ The most obvious explanation is that it was the right policy paradigm for the 1930s through the 1950s because of international conditions- the Great Depression, etc. but that its usefulness waned as conditions changed in the 1960s. This is the argument of Joseph Ramos in "Growth, crises and strategic turnarounds," pp. 63-79.

regulating public enterprises; promoting investment; creating productive jobs. controlling foreign investment and organizing the financial system. Why did structuralist policies fail in so many economic categories? Interestingly, Ffrench-Davis blames neo-classical economics for its “focus on the examination of extreme positions (e.g. arbitrary protectionism versus totally free trade). This, of course, discouraged structuralism from seeking constructive contributions to policy making and co-optable inputs from the orthodox approach.” So, he sees the previous period of development discourse as one of extremes, and abstract in nature. Neo-liberalism was not only overly theoretical, but also unrealistic. This is a common criticism among Christian Democrats of the Pinochet period policies, but interestingly enough, does not criticize the basic tenets of the policies themselves. Indeed, Ffrench-Davis goes on to say that while “noteworthy contributions” were made by the primary ECLA thinkers, “no systematic effort was made to formulate economic policies to go along with the structuralist analysis of the situation.”⁴²⁸

Neo-structuralists argue that their paradigm is not only more realistic and equitable, but also more open and flexible than that of the doctrinaire neo-liberals. This thread of argument reflects the ongoing criticism of the Chicago Boys by the Christian Democrats and, more broadly, of the exclusionary character of the whole military coup.

Another method of analyzing a new doctrine is to look at the transformation of paradigms within the affected communities.⁴²⁹ In the previous section, we covered the

⁴²⁸ Ricardo Ffrench-Davis. “An outline of a Neo-Structuralist Approach.” pp.38-9.

⁴²⁹ See also P. Silva, pp.399-400 and Alejandro Foxley, in “After Authoritarianism: Political Alternatives.” Kellogg Institute Working Paper 40- May 1985. (Notre Dame: University of Notre Dame, 1985), characterizes the mood of the PDC in the late 1960s as moving towards more radical solutions than those under Frei. He suggests in particular that the self-management ideas of the radical wing of the Party, which were based on the Yugoslavian

ways in which events changed the Center and the Left's thinking about economic policy. A related transformation which may indirectly have transformed the left is what Patricio Silva calls the "technocratisation" of the opposition.⁴³⁰ As Jeffrey Puryear points out, after the military coup, amid widespread repression, the universities and government offices were purged of Left and Center-Left thinkers. This led many of these middle and upper class outcasts to leave for exile and study abroad. Many also adapted by procuring funding from American and European foundations, which thereby were able to shape their agendas.⁴³¹ While abroad, the exiled Chileans often completed higher professional degrees, a natural outcome considering their inability to become involved in politics. Undoubtedly, some socialization of the Left took place, particularly at relatively conservative American universities where many ended up. Moreover, the Christian Democrats were the natural allies of the American liberal foundations, such as the Ford Foundation. Given the fact that they were also the only opposition openly allowed under Pinochet, and their endorsement by the Church, it is no surprise that they have become the dominant political party. Furthermore, the Christian Democrats were protected by the Catholic Church, which founded the *Academia de Humanismo Cristiano* (AHC) in 1975, which ensured the legal status of their research centers. The Christian Democratic economists had formed the *Centro de Estudios y Planificación Nacional* (CEPLAN) in 1970 within Catholic University as a rival to the Chicago Boys, who were within the

experience, involved poor and false analyses of Yugoslavia and of the reaction of Chilean businessmen and landowners.

⁴³⁰ P. Silva, pp.400-402.

⁴³¹ Puryear, Thinking Politics.

same university. In 1976, CEPLAN broke its links with Catholic University and became a private institute which we know now as CIEPLAN (*Corporacion de Investigaciones Economicas para America Latina*). The “CIEPLAN monks,” as they came to be known, produced their own reports criticizing the government and published articles in the Church-owned journal *Mensaje*. Once *Hoy* became the first authorized opposition publication, they had their own medium. Many of the CIEPLAN monks have come to occupy important positions within the new Christian Democratic government. These include: Alejandro Foxley; Pablo Piñera; Andres Velasco; Jose Pablo Arellano; Javier Etcheverry; Manuel Marfan; Ernesto Tironi; Ricardo Ffrench-Davis; and Nicolas Flano.⁴³² In fact, Foxley is now the president of the Christian Democratic Party and is a likely candidate to be the next President.

It is equally intriguing to trace the transformation of the critique of CIEPLAN during the 1970s and 1980s. For most of the period, the Christian Democratic economists there were strongly critical of the military regime’s economic policies, mostly hammering the model on the issue of mal-distribution of income. They also argued that the Chicago Boys’ model was unsustainable. Their critique reached cacophonous proportions with the 1982 financial crisis, when they published a book which compiled many of these critical essays and was called *Trayectoria de una Critica* (“Trajectory of a Critique”). With the arrival of Buchi in 1985, CIEPLAN’s critique disappeared. CIEPLAN economists state that the more flexible approach of the new Finance Minister

⁴³² P. Silva, pp.402–408.

and the renewal of impressive growth rates which were then sustained convinced them that the Chicago Boys' model only needed to be modified, rather than shelved.⁴³³

V. Conclusion- Failures of Ideological Dominance

The viable alternative ideologies in regard to political economy had either inherent or application-related flaws. They lacked a pragmatic economic policy plan: they came up against powerful dominant interest groups and politicians; and some were faced with internal ideological and political contradictions. More importantly, paradigms which in former times seemed potentially viable alternatives have become outdated in the current discourse. These old paradigms no longer seem to address current problems with reasonable tools. In the right time and place, and with the successful elements and conditions, however, Chile could have taken any of a number of different historical trajectories. If President Frei had accelerated his late 1960s adjustments to structuralism, which were suggested by some elements of CEPAL, towards greater macroeconomic control of inflation, selective trade liberalization, and export promotion, structuralism could have preserved a strong element of government intervention in the economy à la East Asia. There is no doubt, also, that Chile in 1970 would have been capable of gradual and peaceful movement towards a moderate Western European type socialism, had Allende's coalition made different choices. The Christian Democrats would have provided an important structural support for laying such foundations. A corporatist system of the Francoist type was a clear option for the natural leanings of the Chilean

⁴³³ CIEPLAN reports and interviews with Oscar Munoz Goma and Patricio Meller, 9/96 and 10/96, respectively, in Santiago, Chile.

military and in line with the personal beliefs of Dictator Pinochet. In short, countries always have choices, albeit conditioned ones. One of the most important conditions as laid out by this dissertation is the presence of at least one successful economic epistemic community which can map out and guide an economic policy framework which provides overall coherence to a dominant economic coalition and projects the trajectory of the country's development decisions and plans.

In present-day Chile, political differences run along generational and social issue fault lines with a diversity of post-modern social cause-oriented movements, such as the environment and abortion. The old spectrum of Left and Right is now only a subsidiary political axis, at best.⁴³⁴

⁴³⁴ Even academics on the Left whom I interviewed agree on the marginalization of the Left and the absence of any substantive political economy critique. Manuel Antonio Garreton, a famous "renovated Socialist" and sociologist from FLACSO, during a discussion with me on alternative economic policy models, simply stated "There is no other (viable, possible) model." Garreton was exceptional in holding that the renovated Left, nonetheless, did matter.

Appendix to Chapter 5: Application of the Specific level Model: Economic Policy Paradigms, Epistemic Communities and Major Interest Groups in Chile, 1950-90

I. Introduction

We can now elaborate the links between the specific level model actors introduced at the end of Chapter 1. This appendix is provided to demonstrate two things. The first is a left-right axis view of Chilean economic policy paradigms along chronological lines of their appearance and dominance of Chilean politics. The second is to show the links of the specific-level model in Chile- the relationships between economic epistemic communities, politicians, and interest groups. We include the links between these primary actors with two important secondary ones- publishing houses and academic centers, which, as we have seen, are important tools for economic epistemic communities.

II. Brief review of the role of ideas in Chilean economic history

In the case of Chile, one could argue that the move towards government protection of manufacturing, which is the marker of a move towards the second stage of ISI, began with the tariff barriers erected by the first Alessandri Administration. Moreover, the involvement of the state has been instrumental in the industrialization and development of the Chilean economy. As stated previously, economic periods are not usually marked by distinct ideologies, but often have elements of different economic

programs. Only in long-term historical view, therefore, can the shifts in ideological-economic values be clearly seen. In the case of Chile, the values of economic nationalism, represented by increasing attempts to control the main resources of the country, nitrates and copper, extended at least from 1938 through the early 1970s period.

Both economic ideas and economic advisors have been prominent in Chilean governments at least since the Alessandri-Ross team in 1932. However, in the 1960s, organized *groups* of economists began to appear in Chile, with ECLA leading the way. These groups remain a potent yet so far under-analyzed political force in Latin America.

The case of Chile brings out important points about the general-level model. We saw that while the general historical outlines of the previous chapter corresponded to Chile, there were important variations. The precise movement of one historical-ideological period into another is difficult to determine on a more detailed level, as was true, for example, in the movement from ISI1 to ISI2 in Chile. Secondly, ideological frameworks which have weak political backing over long periods of time, such as socialism in Chile, can gain momentum as predominant ideologies are perceived as failing to deliver expected economic conditions. Thirdly, ideological frameworks which become dominant after the 1950s are closely related to tightly knit epistemic communities which have charismatic leaders who are dedicated to their beliefs. Fourthly, those communities need to have favorable circumstances for their ideas, but also must have cultivated the political clout to transfer their ideas to political actors. Finally, there is a genuine discourse about development in which ideas matter- ideas about development are debated in earnest on their intellectual merits among epistemic communities, and by their corresponding political allies.

III. Organizations: Abbreviations

- CEP= Centro de Estudios Publicos
- CIEPLAN= Centro de Investigaciones Economicas para Latinoamerica
- CPC= Confederacion de Produccion y Comercio
- CPME= Concilio de Pequeños y Medios Empresariales
- CEP= Centro de Estudios Publicos
- CUT= Central Unitaria de Trabajadores
- ECLA(C)= United Nations Economic Commission for Latin America (& Caribbean)
- FLACSO= Facultad Latinoamericana de Ciencias Sociales (set up by UN in 50s)
- IC= Christian Left
- IDB= Inter-American Development Bank
- ILD= Instituto de Libertad y Desarrollo
- IMF= International Monetary Fund
- MAPU= Movement for Popular Unitary Action
- MIR= Movimiento de la Izquierda Radical
- PC= Partido Comunista
- PDC= Partido Democrático Cristiano (members are DCs)
- PET= Programa de Economía del Trabajo
- PN= Partido Nacional
- PREALC= Program del Empleo para America Latina y el Caribe
- PS= Partido Socialista
- RN= Partido Renovacion Nacional
- SNA= Sociedad Nacional de Agricultura
- SOFOFA= Sociedad de Fomento Fabril
- U.= University
- UDI= Partido Union Democratica Independiente
- WB= World Bank

Figure 5: The Economic policy paradigms and the political relationships of the specific-level model in postwar Chile

Economic Policy Paradigm- historical links to political actors

(from Left to Right)

(political-ideological dominance over Chilean economic policy & time period noted in bold)

(period of dominance of ideas within political actor noted in parentheses below each one)

<u>Type of Group</u>	Radical Dependency *	Structuralist (1964-1970)	Neo-Structuralist (1989-present)	Neo-Liberal (1975-1989)	Authoritarian Corporatist-Economic Nationalist
<u>Political Party</u>	PS (until late 1980s) PC radical DCs. e.g. MAPU & IC	Christian Democrat (PDC) (1950s-70s)	PDC (1980s-present) PS (late 1980s-90s)	RN (parts. from late 1970s) UDI (late 1980s-1990s)	RN (parts)
<u>Head of State or President</u>	*Allende (70-3)	Gonzalez Videla (46-52) Ibañez (52-c.55) Frei (64-70) *Allende (70-73)	Aylwin (90-96) Frei II(96-)	Pinochet (73-89)	

<u>Type of Group</u>	Radical Dependency *	Structuralist (1964-1970)	Neo-Structuralist (1989-present)	Neo-Liberal (1975-1989)	Authoritarian Corporatist-Economic Nationalist
<u>Major University</u> (Economics Departments)		U. de Chile (50s-80s) impt US intellectuals	U. de Chile (80s-)	U. Catolica U. of Chicago	
<u>Think Tank/Policy Organization</u>	FLACSO (early 1970s) PET	ECLAC (50s-70s) CIEPLAN (70s-mid-80s)	ECLAC (80s-90s) CIEPLAN (mid 80s-90s) FLACSO (80s-90s)	CEP (80s-90s) ILD (80s-90s)	
<u>Business or Labor Organization</u>	CUT (central L union)	ILO/PREALC		SOFOFA (main business orgzn) CPC SNA	CPME <i>gremialistas</i>

<u>Type of Group</u>	Radical Dependency *	Structuralist (1964-1970)	Neo-Structuralist (1989-present)	Neo-Liberal (1975-1989)	Authoritarian Corporatist-Economic Nationalist
<u>Other Organization</u>	guerrilla groups, e.g. MIR	Catholic Church (50s-80s) U.S. Govt (Kennedy Admin)	Catholic Church (80s-90s)	military (parts) U.S. Govt. (all other times) IDB. WB. IMF (=Washington consensus) International private companies & finance	military (parts)
<u>Major Publications</u>		ECLA stats & studies (1950s-present)	CIEPLAN docs: ECLAC docs (1980s-): <i>La Segunda: La Tercera</i>	<i>El Mercurio:</i> <i>Que Pasa:</i> <i>Estudios Publicos:</i> <i>Estrategia</i>	

*I consider Allende's economic policy to be largely incoherent because it was influenced by both radicals and structuralists. Unless otherwise noted, the affiliations with economic paradigms are for the entire postwar period in Chile.

We shall now turn to a final analysis which brings together the elements of success and failure of epistemic economic groups based upon the case studies presented in these last three chapters.

Chapter 6: Epistemic Communities- What makes them successful

I. Introduction

This section creates a broad comparison of the Chilean economic epistemic communities in order: first, to suggest identifying characteristics; second, to suggest from the two successful cases commonalties which may explain their success; and third, from the alternative cases, to test whether those characteristics are absent in groups which failed to achieve hegemonic influence over economic policy discourse.

II. The characteristics of successful economic epistemic communities⁴³⁵

What are the characteristics of successful groups? The intensive study of two cases with completely different ideas yields a surprising number of commonalties. The lack of at least some of these characteristics similarly explains why other groups may have failed to dominate policy discourse. More importantly, these characteristics which describe economic epistemic communities should be the foundation of any complete theory of political economy.

A. A strong leader

In both the case of ECLA (a.k.a. CEPAL) and the Chicago Boys, a strong and charismatic leader with unshakable faith in his ideas, though always willing to debate

⁴³⁵ Joseph Hodara called CEPAL "a sociological sect," whose organizational control comes from "internalized and shared normative values," and a charismatic leadership that administers "significant symbols and

others on these issues (which made them stronger); a fierce will to convince or outwit rivals in applying the ideas; a dedication to teaching and disseminating the ideas; and a personality which magnetized others into following the ideas. In the case of Prebisch, who Hodara calls a classic “*caudillo*,”⁴³⁶ CEPAL revolved around his ability to move the organization as a unified cause. By contrast, de Castro seems to be more of a retractive personality, less charismatic in an open sense, but leading by example and faith in his judgment. The faith of both in their ideas is astounding. Even Prebisch’s more recent writings echo his ideas of 30 years before, even taking them to new extremes in terms of dependency. De Castro, meanwhile, refused to compromise his market principles in his determination to let banks simply go bankrupt during the 1982 financial crisis.

B. Definition of the group as dedicated to a cause

The faith and personal characteristics of the leader alone are not enough to ensure a uniformity and solidarity of the organization’s actions which are essential to dominance of the discourse over time. The solidarity of both successful groups essentially revolved around a positive doctrine, to be sure, but also depended upon defining clear and overwhelming enemies. In the case of CEPAL, from the beginning, the enemy was inherent not only in the implications of structural doctrine, but also in the origins of the organization itself. The United States was singled out as the most important obstacle to development, and its steady opposition to Prebisch’s analysis, from the call for a Marshall Plan for Latin America to the new international economic order, helped to rally CEPAL.

instruments” which lead to a normative and emotional involvement. See in Joseph B. Hodara, Prebisch y la CEPAL: sustancia, trayectoria y contexto institucional (Mexico City: Colegio de Mexico, 1987), p.34.

to unite Latin American governments behind it, and to explain the problems of structuralism in its application. During the brief years of the Alliance for Progress, when the Kennedy Administration softened the U.S. position on CEPAL, the organization lost much of its momentum- it made very few innovative propositions after the 1950s. Moreover, CEPAL, by the late 1960s, found itself internally divided and undercut by a more extreme mutation of its own vision- dependency theory. Dependency theory, therefore, took out the vanguard of the opposition position from CEPAL, and placed it in a doctrinal and political limbo. CEPAL would attempt to recover its neutral political status, but still suffered the consequences of being identified with the Left.

The Chicago Boys share a similar story. They were young academic rebels to the existing ideological domination of structuralism. With the opportunity to study in Chicago, they were able to provide an alternative view of economic policy which was largely ignored throughout the 1960s. Still, their role as outsiders, even within the conservative wing, cemented their solidarity and the strength of their attachment to the doctrine. Like the cepalinos, they developed strong personal bonds through years of frequent and friendly interactions as well as mutual interests, though their ties, in many cases, extended to childhood. Even within the Pinochet government, they were an extraordinarily close-knit group, in good part because their economic policies were continuously questioned both from within and from outside (internationally as well as domestically) the government. Still, their unshakable attachment to the plan, even through the early years of massive recession, is remarkable.

⁴³⁶ Ibid., p.32.

The tight links of a group attest to its strength in the face of adversity. As we discussed in the introductory chapter, in both cases, members came from wealthy elite Latin American backgrounds. They also shared embedded political prejudices before meeting each other, so that each epistemic community was organized through self-selection. However, the Chicago Boys were all Chileans, and most had known each other years before the epistemic community formed. This difference might help to explain the stronger unity which the Chicago Boys share in their perspectives on economics. ECLA staffers from the Prebisch era, while sharing the same structural view of the world, have individual differences based upon their diverse experiences of their own country's economy.

C. **Doctrine and Ability to Expand Beyond Political Issues**

Both groups, as alluded to above, had an unquestionable faith in a relatively short and easily understandable set of economic principles which made up their *weltaunschaung*. Each group had a worshipped document, or bible, which contained these principles, and which guides and categorizes all actions of the group and its members.

In the case of CEPAL, these principles are clearly laid out in Prebisch's 1948 manifesto. As Hodara points out,⁴³⁷ there are innumerable logical and empirical flaws with Prebisch's analysis- but no real modification or criticism was seriously brokered in CEPAL until a new ideological regime came into place in the late 1980s (and which still

⁴³⁷ See Hodara.

uses the cloak of legitimacy of the old regime by calling the new doctrine “neo-structuralism”).

In the case of the Chicago Boys, the doctrine which can be traced to all subsequent actions, including the seven modernizations, was “the brick,” *el ladrillo*. *El ladrillo*, of course, was based upon the textbooks and living doctrinaires of Friedman, Harberger, and, to a lesser extent, Schultz, who had served as mentors to them; made personal visits supporting and legitimizing their policies; and generally served as the embodiments of scientific legitimacy. Even after the banking crisis and the modifications to the model by Buchi, the Chicago Boys have retained a strong sense of doctrinaire loyalty. Buchi himself recently wrote a retrospective book which is more extreme in its neo-liberal interpretations than his actions as Minister of Finance!⁴³⁸ Bardon and Baraona have written similar accounts.

In both cases, the ability to move beyond economics was key to the group’s success in other spheres. Prebisch’s original manifesto had wide-ranging implications outside of economics, but it was only in the early 1960s, when ECLA was strongly established, that they were pressed forward by the organization. Like the Chicago Boys’ expansion of neo-liberalism during the seven modernizations, structuralism became not just an economic doctrine but a *weltauschaung* which diagnosed the political, economic, and social problems of the day and prescribed coherent solutions. Even today, ECLA’s

⁴³⁸ Hernan Buchi Buc. La Transformacion economica de Chile: Del Etatismo a la Libertad Economica (Santiago: Grupo Editorial Norma, 1993).

staff includes not just economists, but political scientists and sociologists.⁴³⁹ The Chicago Boys, meanwhile, adopted the Christian libertarian attitudes of the *gremialistas*, resulting in a potent mix of liberal economics and libertarian politics. Their vision of applying the doctrines of reliance on market forces in economics to politics was bolstered in the 1980s by the rise in American political science of similar approaches to political analysis.⁴⁴⁰ The Chicago Boys' wide-ranging vision therefore became not only universally applicable, but also seemed to be current with "advances in scientific thinking."

Finally, both ideologies have a beautiful and attractive simplicity. They not only jived with the progressive or conservative impulses of their respective times, but they were easy to grasp. This aspect of generality also means that both doctrines are impossible to definitively refute. Both seemed to use economic history and/or current events to bolster their relevance and accuracy. For example, structuralism resounded with historical U.S. imperialism in Latin America, and the recent experiences of successful industrialization with the help of governments. Similarly, the Chicago Boys used the UP economic failure as an obvious "lesson" to bolster their claims that government had a very limited role in economic affairs. At the same time, however, this same reliance on events can turn on a doctrine and its followers. In the case of ECLA, the problems with the balance of payments, the association with radical ideas, and the failure to reach the industrialized nations status implicitly promised by structuralism were

⁴³⁹ A few examples are political scientists Isaac Cohen, who heads the Washington office, and Barbara Stallings, now a major division head at the ECLA headquarters in Santiago. A quick glance at any copy of CEPAL Review reveals the breadth of the analysis beyond economics- including historical and sociological articles as well.

key to the organization's fall from grace. The Chicago Boys' promises of market-led growth similarly fell flat in the early recession of the 1980s, but their modified model has had successful results since then. This success, rather than any logical or empirical argument, is the most important foundation for the lasting power of neo-liberal ideas. In the next economic crisis, therefore, the current neo-liberal consensus will once again be tested.

D. Weakness of rivals

In both cases, there was a lack of a policy alternative and a corresponding lack of viable alternative economic policy groups. In the case of CEPAL, the organization enjoyed a monopoly of innovation- they were the first true economic policy group in the region. Despite the lack of acceptance of *cepalino* doctrines in U.S. academic circles, they were clearly hegemonic in Latin American economic policy discourse.

The Chicago Boys, meanwhile, achieved hegemony partly because of the circumstances of Chilean political repression. The only viable alternative economic group with any voice at all was CIEPLAN. The repression alone, however, cannot explain their success. The fact of the matter is that none of the erstwhile opponents- whether in exile or at home- provided any semblance of positive alternatives to the economic models. The excessive hand wringing of the Allende debacle instead led to a most ironic conclusion- the wholesale adoption by the opposition of large portions of the model, particularly amid its apparent success in the late 1980s.

⁴⁴⁰ An example is what is called "the new political economy," such as the work of Robert Bates, which employs economic principles to analyze the politics of economic policy. See James E. Alt and Kenneth A. Shepsle, eds., Perspectives on Positive Political Economy (New York: Cambridge University Press, 1990).

E. The importance of followers

In each case, an important coterie of followers surrounded each leader. In both cases, these disciples developed strong personal influence of their own. While the sample was too small to verify, strong impressionistic evidence suggests that ideas are strongly tied to cohort groups. What can be verified here is that groups who receive similar education almost universally tend to share those ideas for the rest of their lives, with amazing similarities.

In the case of CEPAL, Prebisch's ability to influence *the region*, when Latin America had never felt any historical solidarity since Independence, was directly related to his ability to capture the imagination of rising young national stars. While CEPAL was then "the only game in town," the adherence of the young economists to structuralism, and, indeed, their elaborations of the model, ensured its long duration and its application to their respective countries. One can scarcely underestimate the importance of Ahumada in Chile, Furtado and Cardoso in Brazil, and Ferrer in Argentina, for example, and one cannot imagine that importance existing without the important biographical tie to CEPAL. These young disciples were equally important in continuing and extending Prebisch's analysis and the continuation of his doctrine within the organization long after his departure.

In the case of the Chicago Boys, de Castro and Ernesto Fontaine, among the first group of students who studied at Chicago, were the leaders of the young group that went to Chicago and then solidified itself into the Chicago Boys. The original group created new generations of Chicago Boys with their own charisma, such as Buchi and Miguel

Kast, who, working from their own interpretations perpetuated the life of the economic doctrine. The enthusiasm, the youth, and the novelty of the Chicago Boys, like that of ECLA before it, cannot be discounted as major factors in their appeal to politicians as a “new” way of solving long-standing problems.

Interviews with key members of both camps revealed the astounding staying power of the doctrines.⁴⁴¹ Even decades after leaving the organization, *cepalinos* of the structuralist school had unbelievably similar responses and stories to past and present phenomena. The Chicago Boys, though out of power now, and diffused in a number of businesses, universities and think tanks, have an equally impressive degree of virtual similitude in attitudes, beliefs, analyses, and explanations about economics (and, for that matter many other aspects of politics and sociology).

F. Hegemony of education and means of communication

Both groups also share two other important characteristics. CEPAL was the first economic organization in the region and trained literally thousands of higher- and lower-level officials. Many young and rising technocratic stars underwent a two year orientation course which shaped their views of economic policy. CEPAL also conducted on-site training courses and dominated economic literature. Through these efforts, it was both literally and figuratively able to dominate an entire generation of Latin American economists.⁴⁴²

⁴⁴¹ See Appendix C: “Interview Notes and List of Interviewees” for further details on this topic.

⁴⁴² CEPAL refuses to give a public list of its students. I was told by an anonymous interviewee that the training arm, ILPES, literally trained thousands of public officials, including many of the most important policy advisors, throughout the 1960s and much of the 1970s. The idea was to catch rising young stars with a substantive

The Chicago Boys' success in perpetuating their ideas, particularly in convincing the opposition of their strength, cannot be understood apart from the influence of the dominant national newspaper, *El Mercurio*. *El Mercurio* has since stimulated a host of imitators who embody the free market ideology, but it was the original promoter of free market policies, dating back at least to the 1958 Alessandri Administration.⁴³ The Chicago Boys were also sophisticated in using other means of communication to sell their policies. There seems little doubt that the televised appearances of Minister Jose Piñera Echenique had strong appeal in convincing the populace of the benefits of the seven modernizations. Obviously, the political repression of the dictatorship gave the Chicago Boys a clear monopoly over communication, but their ability to convince has continued well beyond that monopoly. This ability relates in part to their talent at marketing and presenting their ideas in simple but apparently scientific packaging (such as modern graphs, appeal to apparent logic and progress, etc.). Furthermore, through the continuing covenant with Chicago, they have added new generations of economists and businessmen to their ranks. Moreover, they have been able to seize the status of top Economics Department in the country, and one of the top in the region, at Catholic University, which they control. Their influence, as mentioned before, has been so pervasive as to inspire the opposition epistemic communities to attempt to adopt both their sophisticated appeal and their ideas. One example is the once-dominant Economics Department of the University of Chile, which was once the center of structuralist ideas, but now espouses and promotes

two year course, including an inundation with the structural perspective which would shape their perspective throughout their career.

⁴³ Interview with Angel Soto, October, 1996, in Santiago, Chile.

pro-free market and pro-business ideas. Many of the Chicago Boys also now serve as consultants to Latin American governments.

G. Opportunities, readiness, and political support

In both cases, the groups were able to take advantage of situational opportunities and use them to their advantage. They were organizationally and doctrinally prepared to take advantage of these opportunities. More importantly, they were able to marshal the support of important political groups in promoting their agenda.

CEPAL legitimized and extended existing doctrines at a critical juncture. In the years just after World War II, structuralism provided a vitally needed map for economic policy in Latin America. CEPAL had the backing of national government and business leaders, but also showed a remarkable independence from the interest groups with which it was aligned. Although formally it relied upon member governments, CEPAL clearly had the initiative of a dominating ideational organization in the region. Through the domination of its ideas, and through carefully diplomatic pronouncements of them, it was able to promote causes with strong enemies both internationally and domestically, such as national control of major industries (against the wishes of U.S. business and the U.S. government) and agrarian reform (against the wishes of large agriculture and many politicians).

The Chicago Boys more clearly took advantage of an enabling crisis. With the chaos of Allende, they were the only group within the country with a clear economic plan. That this plan was congruent to the interests and style of the military did not, however, assure its success. Therefore, a simple correlation between crisis and policy

change, popular among the case studies literature of economic crises, does not seem to generally hold in light of this case. Clearly, domestic agriculture and businessmen were strongly against opening up the Chilean economy. The Chicago Boys also had to live with the international criticism of the regime. Certainly, the one area where they were forced to compromise was with the military budget and the military's insistence on national control of copper. Nonetheless, they conquered domestic economic resistance with unforeseeable ease.

H. The Importance of Political Positioning

It is important to also recount the significant differences between the political position of ECLA and that of the Chicago Boys. As we discussed, ECLA was constrained from taking an active political posture in domestic politics. While it could speak for Latin America as a region, its ties to particular governments had to be hidden from political sight. ECLA could therefore never play the role of ally to, and champion of, particular governments. As we saw in the case of Allende, this proved to be both ECLA's undoing and its saving grace. ECLA was, indeed, responsible for many of the ideas of reform and dependency throughout the region in the 1960s. Its wide-ranging analysis, touching on political, social, and cultural, as well as economic aspects of development policies were instrumental in shaping the discourse of Latin American development. More importantly, ECLA had long and wide reach in diffusing its ideas throughout the region, shaping elite attitudes for over a generation. Though several of its members assumed important positions in their governments, however, ECLA was never in a position to take responsibility for, or directly shape, policy decisions. ECLA's

association with the Left by the new military governments therefore confined it to secondary status, but its survival as an organization was assured by this very aspect of supposed neutrality.

By the 1970s (and earlier in some countries, like Brazil), national level epistemic communities had arisen as a new generation of the elite traveled to the United States to study Economics. With the new military governments, and, more importantly, the debt crisis, these new political operators were able to offer an overwhelming alternative to ECLA. Politicians naturally prefer domestic groups, such as the Chicago Boys, because their fortunes are intertwined. The Chicago Boys' grip on power took place in a domestic vacuum of economic advice, but their lasting impression on Chilean political economy came with the apparent success of their economic policies, and the lack of viable alternative economic epistemic communities. Moreover, they have perpetuated their ideas through the domination of national institutions of policy discourse, such as the newspaper, *El Mercurio* and control of the leading economics department at Catholic University. In the present, the proliferation and increasing policy sophistication on the policy level suggest that international organizations will be highly limited in their roles. They are more likely to predominate in those issue-areas in which national level epistemic communities have not yet developed. This may be the case, for example, in some matters of the environment, or for smaller countries with less developed educational systems. In economics, the large countries of the region are already dominated by politicians with links to economic epistemic communities. The two are now mutually dependent.

III. Why some groups fail to shape the economic policy discourse

If the above characteristics correctly denote successful groups, those same characteristics should be absent in groups which fail. In the case of Chile, there were three possible alternative groups who could have influenced policy- the Communists, the Socialists, and the Christian Democrats. The Communists and the Socialists were strongly repressed after the coup- this repression is one major factor in explaining their internal fragmentation, weakness, and overall lack of economic response to neo-liberalism. The other is the weakness of their economic epistemic communities. Leftist think tanks such as PET (*Programa de Empleo y Trabajo*), while providing important critiques of neo-liberalism during the military dictatorship, could not identify an alternative vision for the Chilean political economy.

The Christian Democratic economists at CIEPLAN did provide a critical response to neo-liberalism, with a continuous diatribe against the inequities of the Chicago Boys' model throughout the 1970s and 1980s. During this period, CIEPLAN seemed to have a charismatic leader in Alejandro Foxley. However, they never provided a positive doctrine or substantially alternative vision to a free market society. With the end of the dictatorship, both the current Christian Democrats and the "renovated" Socialists who dominate the Socialist Party and its sister party, the PPD, have been convinced of the optimality of the current system. While they call for some modification for greater redistribution, they do not promote any substantial changes in the neo-liberal model which might affect economic growth. The Communist Party, after flirting with the idea of armed struggle, meanwhile, seems on the verge of irrelevance in Chilean politics due

to its lack of a distinctive, viable, realistic, or appealing message and the rejection of it as a viable political party by the PDC and much of the public.

Clearly, the military repression and re-structuring of the economy struck hard at the core constituency of the PS and the PC- organized labor. Without this constituency and with the change in ideas on the Left, socialism is no longer a viable political goal. Moreover, a fear of a return of the military de-limits any radical open challenge to the current political economy. However, it is also clear that almost all former socialists are now free-trading capitalists. This brings us to an interesting point in history, where there is an apparent consensus on economic models in Chile, an unthinkable phenomenon just ten years ago.

IV. Conclusion: Summary Characteristics of Chilean Economic Epistemic Communities

Figure 6 below summarizes the characteristics of success against some of the groups studied.

Figure 6: Characteristics and Chilean Economic Epistemic Communities

Economic Epistemic Community (yes/no has(d) characteristic)

Characteristics	ECLA structuralists (1950-1970)	Chicago Boys (1973-1989)	gremialistas	Christian communitarians	military/<i>duro</i> nationalists	Radical Alternatives: PS (until mid-1980s), PC	Neo-structuralists of ECLA, PDC (from mid-1980s)	CIEPLAN
a-strong leader	yes	yes	yes	yes	no	no	no	yes
b-group defined by clear cause	yes	yes	yes	yes	yes	yes	no	yes
c-well-developed doctrine	yes	yes	no	no	no	no	no	no
d-weakness of rivals	yes	yes	no	no	yes	no	yes*	no
e-faithful followers	yes	yes	yes	yes	yes	yes	yes	no
f-dominance of education, communication	yes	yes	no	no	no	no	no	no
g-opportunities, readiness, and political support	yes	yes	yes	no	no	no	yes	no

*As I pointed out earlier, neo-structuralism does not yet have a clearly distinct doctrine or cause. However, it has been nominally successful as a set of policies (rather than an ideology), for two reasons: 1- its adoption of the successful elements of the neo-liberal strategy; 2- the association of neo-liberalism with the unpopular political aspects of the military government.

The above characteristics suggest that expert groups who are capable of cultivating the capabilities which they imply can achieve a dominant influence in a society, given the correct circumstances. Those circumstances are the existence of a potentially dominant coalition which (overall) benefits from and can embrace the ideology; and a “fit” within the historical stage of economic development discourse. To clarify this last condition, let us state clearly that, within the present discourse, it is virtually unthinkable for a country other than a city-state to return to the *laissez-faire* policies typical of minimalist governments throughout the world at the beginning of this century. Besides having the backing of an epistemic community, a successful ideology must reflect the historical accumulation of policy knowledge and sophistication. In sum, a potentially hegemonic ideology must seem to answer today’s problems with today’s level of sophistication. These suggestive conclusions beg for a re-examination of their implications for political economy theory. We now turn to this task in the final chapter.

Chapter 7: Conclusion: Theoretical Perspectives on the Role of Ideas in Political Economy

I. *Can Traditional Perspectives on Political Economy Explain Latin American and Chilean Economic Policy Change?*

We are now prepared to place the foregoing information and analyses in theoretical perspective. Although we have proven that theoretical explanations which incorporate ideas *can* be made in regard to political economy, we have not examined them in contrast to the leading theories of international political economy in explaining phenomena. In other words, ideational explanations may be useful, but how do they compare to other, more accepted explanations? We return to consideration of the three alternative perspectives on political economy introduced at the beginning of this document: the international structural; domestic coalitions, and statist approaches.

First, these approaches do contribute to our understanding of political economy. As we shall see from Appendix A on Latin American economic history, there are clear policy reverberations from international shocks, such as the Great Depression and the debt crisis. However, policy responses to similar situations, such as inflation, balance of payments crises, and general frustration at the rate of development, also have a clear historical trajectory- the increasing technification of decision-making and the corresponding rise in the political role and importance of economic experts. Moreover, distinct historical periods in which a developed economic ideology guides policy responses can easily be identified. Nonetheless, the choice of policy is constrained not

only by the sophistication of economic policy analysis, but also by the international distribution of power. There can be no doubting that Latin American countries have an economically dependent relationship with foreign capital and foreign markets. We can conclude that while international conditions constrain policy decisions and may catalyze policy changes, they are an insufficient explanation for explaining the substance, trajectory, and the domestic political coalitions behind a policy decision.

Likewise, there is no dismissing the importance of domestic coalitions. We have seen from the chapters on Latin America and Chile that there are important variations in policy responses to the same international conditions. For example, Chilean economic policy in recent times, has reflected the relationship between business and the government, moving from a mildly confrontational reformist (Frei I) to a hostile (Allende) to a friendly one (Pinochet). The domestic political coalitions add an essential element to any explanation. Yet domestic coalitions fail to explain the timing of changes in coalitions and how certain ideas which may not have the backing of economically dominant groups, such as radical versions of structuralism, or socialism in Chile, nevertheless have real possibilities for achieving ideological dominance. More importantly, we have shown that Latin American nations have responded with similar economic policy during historical periods despite a wide diversity of political coalitions and oppositions (see Appendix A).

Chilean economic policy discourse, particularly in recent times, also has a clearly class-oriented nature to it. There is no question that the *Unidad Popular* government sought to benefit lower class Chileans in contrast to the National Party's platform of maintaining economic institutions intact for upper class members. But Marxist analyses

of class, which have predominated the literature examining the Allende period, far oversimplify events and causes.⁴⁴⁴

There are many important problems with class-dominated approaches. One is the fundamental question of how to identify classes and how they operate in conjunction with other identifying factors. Even in a relatively small country like Chile, exactly who constitutes the “upper bourgeoisie” or the “petty bourgeoisie,” or, for that matter, which are the correct classifications for the class structure is a highly ambiguous matter. That ambiguity extends to economic groups approaches- for example “export-oriented industrialists” or “efficient” or “absentee” landlords. Part of the problem is addressed by Marxist analysts, who recognize that there are links among different economic groups, for example, large agriculturalists in Latin America are often also the major investors in industrialization.⁴⁴⁵ Secondly, once those classes are defined in rough form, it is exceedingly difficult to say exactly where their interests lie except in a general defense or opposition to the state. For example, which policies would a capital owner with interests in both export-oriented agriculture and protected industry (a logical hedge against changes in government policy) favor? The existence of such entities shows, instead, that the state has some autonomy in making decisions. Therefore, portions of the upper class hedge their bets by diversifying their holdings, even maintaining some abroad in case of domestic crisis. Clearly, these rich owners of capital do not control the state enough to

⁴⁴⁴ See Barbara Stallings, *Class Conflict and Economic Development in Chile, 1958-73* (Stanford, CA: Stanford University, 1978), and Maurice Zeitlin and Richard Earl Ratcliff, *Landlords and Capitalists: The Dominant Class of Chile* (Princeton: Princeton University Press, 1988), for example. There are scores of others which are more obtuse in claiming class warfare.

⁴⁴⁵ Zeitlin and Ratcliff, esp. pp.180-5.

ensure stable returns on their investment or to prevent a lower-class oriented President such as Allende from coming to power. Pinochet had the leeway to take over large sectors of the banking sector in the 1982 crisis from some of his core supporters. Regardless of whether autonomy of the state comes solely from internal class and economic group divisions, or also from continually changing economic circumstances and ideas about the state, it (state autonomy) clearly is a factor in allowing for technocratic influence on economic policy decisions.

Thirdly, the foregoing does not dismiss the importance of owners of capital or certain economic segments, but only underscores the lack of clear manifestations of the power which Marxist analysis attributes to them. In other words, these analyses fail to identify clear instruments of power of the dominant classes. In the case of Chile, the *Partido Nacional* (PN) was thought to represent conservative and rich classes, the *Partido Democratico Cristiano* (PDC) as a middle class bridge torn between allying with conservatives and popular elements; and the *Partido Social* (PS) and *Partido Comunista* (PC), who represent the lower classes, particularly organized labor. In fact, there is no such clear delineation of political affiliation by class in the case of Chile, even in the highly polarized period of the 1960s and 1970s. Michael Fleet drives home this point clearly in his analysis of class and occupational affiliations with Chilean political parties. He notes, first of all, that the PDC had significant support among organized labor which contended with the UP parties. Second, especially after the UP manifested itself as a threat to all owners of property and business, small or “petty bourgeois” businessmen and professionals who were considered part of the lower classes were among the strongest opponents of the Allende regime. In fact, a large part of the reason for the lack of unity

within the UP in terms of ideas or strategy was the diverse nature of its lower class constituencies. Finally, the PDC, which has been accused from the Right of enabling the UP's ascent to power and from the Left of betraying the revolution, was not a mere instrument of the bourgeoisie. It had its own preferences, which meant, at that time, a more socialistic and communitarian political economy than the Right, but one which respected private property. The ill-defined nature of this ideological framework, in good part, explains the decline and splits within the Christian Democrats.⁴⁴⁰ More importantly, the PDC, now back in power, seems to have reached some consensus on a neo-structural approach to development of "growth with equity," as discussed in Chapter 5.

The state itself might be seen as a contending group for power, or a power broker among domestic groups, whether economic interest or class-based. Clearly in the case of Latin America, however, approaches which rely solely on statist explanations, such as institutional arrangements or state capacity again fall short. In the case of Chile, CORFO, the development agency, played a key role in initiating industrialization. Indeed, in recent times, the state has led the successful campaign to develop non-traditional exports. Moreover, Pinochet's ruling style and concentration of power are inevitably linked with

⁴⁴⁰ Michael Fleet, The Rise and Fall of Chilean Christian Democracy (Princeton: Princeton University Press, 1985), esp. pp.91-100, 115-118, 227-231, 38-21. Several other authors also make the point that, based on survey data, support for the Left may have peaked in the 1964 election, and by 1970 was shifting to the Right and to the Center. See Mark Falcoff, Modern Chile, 1970-1989: A Critical History (New Brunswick, N.J.: Transaction, 1991). In his doctoral dissertation, Marcelo Charlin states that support for the three poles was roughly consistent and equal throughout the 1958-73 period, though in intellectual elite circles, there was a strong *perception* that the Left was gaining strength. He also contends that intellectual elites dominated Chilean politics until the late 1980s, when political surveys indicated a movement towards more popular participation in politics. There seems to be some evidence in this regard- in the 1960s, for example, the universities served as the main sources of political recruitment and the formation of loyalty through student political groups. Most, if not all, political party leaders across the board came from such backgrounds. Through survey data, Charlin also makes the interesting observation that the Left was overwhelmingly supported by intellectuals, and to a lesser extent those with virtually no education! See Marcelo Charlin, "Empirical Sociology: Political Agents and Democratization," (North York, Ontario: York University, 1991), esp pp.v., 71-87, and 292-323.

the ability of the Chicago Boys to withstand the initial recessions in order to sustain their macroeconomic reform program. More importantly, the same insulation allowed them to liberalize the trade regime with much greater ease than a democratically-elected government. Despite these important factors, statist explanations fall short in recognizing the international conditions, the domestic coalitions, and, most pointedly, the ideology of each administration and its opposition which took office in Chile.

In examining rivalries among economic groups in Latin American, and particularly in Chilean history, we cannot ignore the affiliation of these groups with certain ideas of national development. The ideas and the groups become mutually self-defining. Nevertheless, though these projects have increased in sophistication of analysis over time, they have never completely united or dominated any particular class. Even in the most polarized times, members of different classes and occupations support the same political parties. In the case of Chile, the National Party has been associated with large business groups and with a market-based development worldview; the PDC's worldview now has the state intervening only to compensate for, or diffuse the effect of, market failures; and the PS and PC favor greater state involvement in the economy for redistribution. Over time, each of these groups has evolved into their current positions- and an understanding of the evolution of the discourse of ideas is essential to explain the transformation.

All of these problems contribute to an even more fundamental deficiency with the traditional perspectives- how to explain fundamental changes over time. These approaches cannot explain why dominant political coalitions lose power. One way to explain such change is to look to exogenous variables, such as international crises. This

explanation certainly seems to fit with the move towards import substitution in the 1930s. Still, an explanation that pretends to be theoretical must attempt to apply itself to a variety of situations. In the case of the move from primary product export orientation to ISI2, for example, there was a clear change in overall development strategy and in the distribution of costs and benefits of policy. Some coalitional theorists attempt to explain these changes as benefiting the same capitalistic class, which merely moved their resources from agriculture to industry. But, unless national development- clearly an ideological phenomenon- mattered, why would they undergo the costs of moving resources? If industry became more lucrative, agriculture became less so, and both tendencies were reinforced by government policies. A more important transformation is the move from ISI2 to neo-liberalism. In this case, those employed by the State and in protected industries and agriculture all lost as countries opened themselves up to foreign competition in both sectors. This loss of power by those benefiting from economic policies cannot be understood without acknowledging a change in thinking about development, and in particular, a loss of faith in the ability of the State to create national development.

II. The Improvements of the Idea-Based Framework of this Dissertation

Now, let us turn to what the line of argument in this work can contribute. In the Chapter 1, the introductory chapter, we saw that ideas in a historical pattern are a fundamental component of political economy and that ideas betray the traditional national and international level of analysis dichotomy. We also saw that ideas have a close but independently significant relationship with interests. In Chapter 2, we introduced two

models for understanding changes in economic policy periods as the change in idea-interest group configurations, which we called “historical-ideological periods.” The second model mapped out the political relationships of economic epistemic communities, which have become more and more important over time throughout the world. Epistemic communities are now key political players in economic policy on the national level in every major country. In the example of Chile, we saw how economic expert groups became key players starting in the 1950s and the multiple ways in which they influenced the policy decisionmaking process. We saw that they not only are independent of interest groups, but also can catalyze, reinforce, or diminish political coalitions. Thus, the two models together capture the two types of economic policy change- one, a generally crisis-induced evolution which seeks to find solutions to the problems of development; and two, the increasing policy sophistication and reliance on economic expert groups, with mixed results.

In Chapters 3 and 4, we examined on the organizational level the historical development, ideology, and political rise and fall of two economic epistemic communities, ECLA and the Chicago Boys. Through these chapters, we developed a working profile of economic epistemic communities and the characteristics of their success. In Chapter 5, we continued to develop the profile of epistemic communities by focusing specifically on why other epistemic communities failed to dominate the development policy discourse in Chile. We presented the combined findings of the comparison and contrast of the case studies and reached conclusions in the Chapter 6. The eight characteristics of successful communities were presented in a summary table.

In Chapter 7, the final chapter, we have reviewed the implications of epistemic communities for political economy theories. We can summarize this final exercise by saying that international political economy, involving above all the exchange of goods and services, can be likened to a busy freeway scene. Traditional theoretical approaches to political economy can describe the roads on which (international level analyses) and the vehicles in which (domestic coalitions, statist, and Marxist analyses) economic policy decisions move. The fuel of the vehicle, however, consists not only of the pursuit of resources but also a pursuit of ideas as laid out by an ideological road map written by economic experts. And only a comprehensive ideas-based approach which incorporates these elements, such as the one proposed here, includes the most important elements of all, the driver of the vehicle and his changing vision over time.

III. *A Final Thought on Ethics and Ideology*

A final point on economic epistemic communities leads us to appreciate the incredibly wide scope of the influence of both groups in all aspects of society, particularly in the case of the Chicago Boys. Both groups were able to influence the attitudes, ideas, beliefs, perspectives, language, and social practices of an entire generation of Latin Americans.

The case studies point out the importance of hegemony for stability. Indeed it was the very lack of a hegemonic group which can be directly traced to the chaos of Allende's economic and political decisions. While that hegemony always has repressive aspects, creating or enabling economic and political losers, only stability creates the capacity for national economic growth. A review of the recent history of Latin America

suggests that in stable hegemonic periods- whether of the late 19th century primary product export boom; the incipient industrialization of the Great Depression and world war years; or the current neo-liberal variety- Latin American economies can experience rapid growth. Hegemony not only seems to create conditions, but is conditioned itself by historical and external factors. Both hegemonic epistemic communities in our study created an aura of progressive realization, based, in fact, upon increasing policy sophistication. While we may be skeptical about their claims of "enlightenment," both nonetheless tackled Latin American political economy problems in ways that seemed new, intelligent, creative, and in tune with the times. Secondly, both were created as products of, and took advantage of, domestic and international conditions. These conditions included the sympathetic attitude of the United States towards Latin American social reformers in the wake of the Cuban Revolution and the importance of ensuring private international capital flows in the current period. Perhaps what is most remarkable of all is that in the circumstances of an ever-changing reality and the need for creative but organized and coherent reactions to it, a hegemony of groups linked to ideologies ever becomes constructed.

In our first case study, CEPAL initially capitalized upon and formalized in economic terms the long-standing Latin American resentment of the United States. It both reflected and promoted a *zeitgeist*, or "spirit of the age," in which social equity issues on both a domestic and international scale became almost as important as economic growth issues. It helped to raise a whole new ethical "awareness" about the relationship and existence of the Third World with the First World and contributed the vital lexicon of those ideas in terms such as "core and periphery" and "technological

underdevelopment.” CEPAL helped to form an entire generation of economists who developed a faith in the possibilities for the state to lead development. Some of them, to be sure, when faced with the economic stagnation of the end of the 1960s, developed dependency as a separate school. While the practical applications of its policy can be questioned, its presence upon the regional stage as a key creator-actor cannot. One can see the residual effects of this period in Latin American culture today, with intellectual criticisms of North American cultural hegemony, and a generation of Latin American authors who lean towards the left.

This small current of anti-imperialist thought has been now overwhelmed by the waterfall of neo-liberalism which has swept through Latin America⁴⁴⁷. Latin America is a region famous for inheriting the rigid social-economic-political hierarchy of Spanish colonialism. Yet today Latin American society is increasingly individual- and consumer-oriented, with an increasingly pervasive belief that a free market system is an inevitable and optimal economic choice. These beliefs clearly harken to the neo-liberal transformation of values and ideas ushered in by the Chicago Boys’ apparent economic success. While Chile is a stronghold of neo-liberal ideology, the language of politics and economics throughout the region has changed. The most striking feature is the absence of any class-based analysis, which was so prevalent just two decades ago. A second, and less apparent feature, is the ubiquitous retreat of the state from economic life. Latin

⁴⁴⁷ All of the interviewees agreed that the neo-liberal (whether of the orthodox or modified variety) model had achieved success in Chile. None could even suggest an alternative political economy model which would be viable. And all participants agreed that there was a widespread consensus on the superiority of the neo-liberal model, and an acceptance across political, social, and economic lines. Only the development of ideas can explain the remarkable transformation of a Chile on the brink of civil war in 1970 to a bastion, and even, exporter, of neo-liberal ideas and policies, scarcely two decades later.

Americans share in international cultural trends in another aspect- a pervasive distrust of politics and politicians. The resulting self-image of society is one which is clearly wedded to the neo-liberal ideals of individuals who receive adequate opportunities to choose their own careers, their government, and social interactions. Individuals therefore, with both good and bad results, are much more responsible now for what happens to them. Social structures and conflict are ignored or downplayed, and international constraints are taken as a given within which society can still develop. In other words, international and domestic structures are mutually self-reinforcing with ideas. For example, the present government, including Socialists, is convinced of the market's superiority to state management, but also uses the rhetoric of market ideology to reassure foreign investors in order to sustain capital flows.⁴⁴⁸

There can be nothing more foolhardy than attempting to judge or categorize the "spirit of the age" in which one is living. Nonetheless, the contradictions between the ideals (and expectations) and the reality of neo-liberalism can only lead us to speculate what will happen to economic doctrine at the next critical juncture. One place to look is at young economic intellectuals.

⁴⁴⁸ This aspect of a dual level of ideational rhetoric which is useful and a reality which is much more flexible was pointed out to me by several interviewees, but most clearly by Richard Bieschlowky. For example, despite the market rhetoric, state intervention is in good part responsible for Chile's export boom through promoting non-traditional exports, such as fruit, furniture, and commercial fisheries. I would like to thank Oswaldo Sunkel Weil for pointing out the work of *Fundacion Chile* in promoting the latter industries. Sunkel, interview, October, 1996 in Santiago, Chile.

Appendix A.: Historical-Ideological Periods of Latin American Political Economy

I. Introduction

This appendix provides a suggestive framework for understanding the commonly accepted periodization of Latin American political economy from the perspective of a dynamic change in ideas-interest group configurations (called “the general level model”) which was laid out in Chapter 2. The appendix supports the basic assertions of the general level model and suggests a wealth of other case studies by which we can further test the specific level model. While the periods and interest groups are commonly identified by Latin American economic histories, we add an unusual emphasis on ideas and changes in them. We also explain the dynamics of period change by using a unique framework of ideas and interests. We shall fly through Latin American history (with greater focus on modern periods), since better treatments are found elsewhere, in order to focus almost exclusively on the importance of idea-interest group configurations.

II. Colonial Period (1500-1800)

The colonial period may be thought of as a period of economic oppression for Latin America, rather than one of conscientious development. Nevertheless, there was a distinct and historically significant political economy. The colonial Latin American political economy was characterized by authoritarian, centralized control by colonial

authorities who carried out mercantilist policies⁴⁴⁹; a limited number of primary product exports, which were either minerals or agricultural products; large concentrations of wealth, generally in the form of large agricultural estates; in most places, a large group of indigenous peons and/or slaves; and a corresponding lack of manufacturing and technological base. *Figure 7* below applies our criteria to the period.

Figure 7: The Colonial Historical-Ideological Period

1. View of relationship between 1st and 3rd Worlds	colonial mercantilism- colonial economies subservient to mother country
2. General policy prescriptions for development	economic specialization within the colonial system
3. Costs and benefits, and their distribution	costs- creoles. African slaves. indigenous peoples; benefits to colonial rulers and <i>peninsulares</i>
4. Social groups to lead development	the Crown and peninsulares ⁴⁵⁰

⁴⁴⁹ Mercantilism refers to a set of economic policies designed to maximize domestic earnings at the expense of one's trading partner, by promoting exports to the partner while restricting imports from him.

⁴⁵⁰ "Peninsulares," are elites born in Spain, as opposed to creoles, who were elites born in America.

III. Latin America in the Age of Liberalism and Independence (1800-1870)

A. Liberals versus Conservatives

Latin America's development, from the beginning, was intimately tied to events in Europe. The development of liberal ideas in Europe and the liberal revolutions in the wake of the Napoleonic Wars were directly responsible for the political and economic trajectory of Latin America in the turbulent nineteenth century.

The creoles were an instrumental group for liberal ideas because of their dissatisfaction with the colonial status quo. Where *peninsulares* held political office, creoles were excluded. Creoles desired political equality with Spaniards, freer economic trade with Europe, and the institution of new liberal ideas of political rights, voting, and representation for the middle class; and separation of Church and State. As would be expected, some traditional creoles fought as conservatives against the liberal movement. This schism between liberals and conservatives continued to be a prominent feature of the Latin American political landscape, albeit in modified form, through the nineteenth century. Although the Bourbon dynasty, which replaced the Hapsburgs in 1700 as rulers of Spain,⁴⁵¹ made several administrative reforms, they did not adequately address growing Creole unhappiness with the colonial status quo.⁴⁵²

⁴⁵¹ There was a change in ideology with the change in dynasties, with the Bourbons being influenced by the ideas of the Enlightenment. For a background on Spanish economic ideologies, see Marjori Grice-Hutchinson, Early Economic Thought in Spain: 1177-1740 (Boston: George Allen and Unwin, 1978). The Bourbons also initiated administrative, political, and military reforms in Spanish America in the nineteenth century, but these reforms were equally inadequate. For example, the intendency system was introduced in 1764, placing new officials on a municipal level. The effect, however, was to increase resentment by the local creole population of monarchic

B. Inspiration from the Enlightenment

By the eighteenth century, the ideas of the Enlightenment had begun to seep into Spanish America. These ideas were spread by the constant interchange of people between Latin America and Europe.⁴⁵³ The Enlightenment essentially held reason as a guiding force for showing man how best to make decisions and form a just society. While fashionable in the eighteenth century, liberal political ideas were rarely supported in practice. In fact, most creoles in the eighteenth century were more concerned with the need for greater economic freedoms than for political independence.⁴⁵⁴

The French Revolution and the subsequent Napoleonic Wars were the catalyst for the new independence movements in Latin America, beginning with Haiti in 1789. Napoleon forced Spain to ally with France, thus placing an enduring burden on Spain for resources in the ensuing wars. This burden, for example, led directly to the seizure of Church property.⁴⁵⁵ More importantly, Napoleonic rule led by default to local decision-making by the creoles in Latin America while Spain was occupied.

C. The Early Years of Independence

The acceptance of liberal values by the early 1800s among some portions of the political elite led to calls for changes in the political system. Republican governments

interference. The increases in taxing efficiency and the expropriation of Church property, in 1752 and 1804, respectively, were also unpopular. In the latter case, while liberal creoles supported civil supremacy, they also suffered the loss of several large loans borrowed from the Church, which were liquidated by the Crown. See Robert Jones Shafer, A History of Latin America (Lexington, MA: D.C. Heath and Company, 1978), pp.286-7.

⁴⁵² Ibid., pp.81 & 286.

⁴⁵³ Ibid., pp.284-5.

⁴⁵⁴ Ibid., pp.293-5.

⁴⁵⁵ Ibid., pp.299-300.

were set up, and nobility was abolished.⁴⁵⁶ At the same time, however, economic power continued to be concentrated in the hands of a small wealthy class, who were allied with the newly formed military in resisting social change

As the new governments faltered under open political challenges, an era of *caudillismo* or personal military rule, spread across Spanish America. Unlike Brazil, which had a continuous monarchy until 1889, the vacuum of colonial power in Spanish America was filled by military leaders and their clients. Before too long, many of the liberal constitutions were amended to allow for military seizure of power in the event of a crisis. Military caudillos often shared power with regional counterparts, given the inadequacy of transportation during this period.⁴⁵⁷ The polarization of the rural and urban areas favored the large landowners in the early years of the nineteenth century.

The political axis of conservatism and liberalism became more defined over time. The issues dividing them were Conservative opposition to broad enfranchisement, free speech, decentralized government, and general education; Conservative opposition to the separation of Church and state; and Liberal support for greater tariff reduction and less government activity in the economy.⁴⁵⁸

Both Liberals and Conservatives supported a low-level of government involvement in the economy by modern standards, however. There were few taxes on the property of large landholders. Most government revenue centered on trade taxes, thus

⁴⁵⁶ *Ibid.*, pp.357.

⁴⁵⁷ *Ibid.*, pp.359-61.

⁴⁵⁸ *Ibid.*, p.363.

leading to unstable levies. By the late nineteenth century, as exports began yielding sizable revenues, development projects of considerable size were first implemented, including infrastructure projects.⁴⁵⁹ Exports were generally concentrated in agricultural products, and led to the development of related industries, such as financial houses for export loans, railways, and shipping. Other sectors of the economy, including manufacturing, were very slow to develop, since economic policies, such as maintaining low tariffs, were geared toward the dominant exporters. The result was a lack of protection for infant industries and an inadequately developed local financial system.⁴⁶⁰ In sum, a liberal system of economic policies was set up to benefit the large landowners.⁴⁶¹ By contrast, the conservatives' plan for the concentration of political power in a central government became well-cemented in practice in contradistinction to the liberals' desire for federalism.⁴⁶²

Despite political independence, the nineteenth century is also correctly perceived as an age of imperial intervention in Latin America. The European powers, as well as the United States, protected and expanded their economic interests through military intervention on numerous occasions during this period.⁴⁶³ While Britain and France, to a lesser extent, dominated Latin American economies in the early nineteenth century, by the latter part of the century, the United States had substantial economic interests in the

⁴⁵⁹ *Ibid.*, p.364.

⁴⁶⁰ *Ibid.*, pp.373-6.

⁴⁶¹ Tulio Halperin Donghi, *The Contemporary History of Latin America*, John Charles Chasteen, ed. and trans. (Durham: Duke University Press, 1993), p.118.

⁴⁶² Shafer, p.365.

⁴⁶³ *Ibid.*, p.368-9.

region. Europe also dominated intellectual life during the latter part of the nineteenth century. The Latin American upper class frequented European countries for study, especially France. In the latter part of the nineteenth century, the ideas of positivism and progress began to creep into Latin America.⁴⁶⁴

D. Summary of 19th century political economy

Because of the conflict between the conservatives and the liberals, we cannot clearly stipulate one historical-ideological framework for this period. By the end of the century, however, a period of liberal economic policies favoring primary product producers, particularly agriculture, began to emerge.

Figure 8: Historical-Ideological Factionalisation during 19th century

1. Relationship between 1st and 3rd Worlds	neo-colonialism- concentration on export of primary products, in exchange for manufactures
2. General policy prescriptions for development	political independence and, for liberals, free markets, for conservatives, free markets with a modicum of government intervention and control of resources
3. Costs and benefits, and their distribution	costs- would-be industrialists, agrarian workers; benefits- large agricultural landowners
4. Social groups to lead development	creoles- continuous conflict between liberal and conservative factions

⁴⁶⁴ *Ibid.*, pp.379-80.

IV. *Export Boom and Early National Development, 1870-1930: Latin America's First Age of Liberal Economics*

A. Introduction

For Latin America, the beginnings of this century were marked by the steady development of a politically active middle class and labor unions, which would become important factors by the 1930s. Liberalism continued its ascent over conservatism. Even though centralization had won out over liberal-supported federalism, and the military still played a political role; suffrage increased, and states increasingly moved towards rejection of a defined political role for the Church.⁴⁶⁵ The state also began to play an active role in the economy, as government officials, for the first time, discussed aspirations of national development.

The early period of this century was also a time of economic boom for many of the countries who invested government revenues towards increasing production and reducing the transportation costs of their exports. Foreign investors were the major suppliers of capital for this period, and so were the primary owners of important economic stock, such as the railways.⁴⁶⁶

The period was the first one in which population increased rapidly, along with increasing urbanization. The population increase, along with the increasing earnings

⁴⁶⁵ *Ibid.*, pp.503-4.

from exports, led to the creation of a viable middle class for the first time.⁴⁶⁷ The middle class tended, in typical fashion, to identify with the upper class, rather than with the other emerging social actor- the urban lower class. The first significant middle-class parties, such as the Radical party in Argentina, appeared at this time. The elite-ruled system continued to predominate, nevertheless, especially in rural areas, where large landholders were all-powerful. Only in Mexico, after its seven year revolution (1910-1917), was there any significant land reform.

The role of the government in society increased dramatically in this era, partly out of necessity, given the increasingly complex economic interactions of the growing economies, and partly to deliver new social and economic goods to the emerging middle class. For example, literacy rates in most countries shot up as the state took on the role of primary educator.⁴⁶⁸ The beginnings of a role for the bureaucracy also developed.⁴⁶⁹ A growth in bureaucracy should be expected at this time for at least two reasons: 1-the consolidation of patronistic governments who wanted to help their loyal followers and cronies after the periods of civil wars; and 2-the growth in revenues from the export boom and the need for infrastructure projects to aid government growth. Bureaucracies were an important new source of middle-class jobs. The public role in the economy was limited, of course, by the continuing predominance of primary product exports in the

⁴⁶⁶ *Ibid.*, pp.496-9.

⁴⁶⁷ In Argentina, for example, the middle class was considered to be one third of the population by 1930.

⁴⁶⁸ Shafer, p.502.

⁴⁶⁹ For example, Karen Remmer traces the growth of the Chilean bureaucracy from around the 1890s. The Chilean Ministry of the Interior was established in 1888. See Karen L. Remmer, Party Competition in Argentina

economies, and dependence on unreliable and insufficient and unsteady trade taxes as the primary sources of revenue.⁴⁷⁰ Economic policy, therefore, remained primarily of *laissez-faire* orientation, despite growing resentment of foreign investors.

The period reached a crashing end as the world economic market collapsed, with the onset of the Great Depression. This shock from outside would completely and forever change Latin America's political economy.

B. Summary of early 20th century political economy

This period marked the ascendancy of liberal economic doctrines and national prosperity through exports of primary products. The First World, with its extensive foreign investment and monopolization of trade, was seen as a benefactor to Latin American economies. At the same time, foreign control of Latin American economies continued to increase along with their growth in size. Foreign companies and investors, and national capitalists in primary production (generally mining and agriculture) reaped most of the benefits of the economic policies. Infrastructure increased impressively, but was generally controlled by foreigners. Nascent industries were unable to compete with foreign products, and, in general, the state remained a weak economic force. While many of the countries experienced an economic boom, the benefits of it were unevenly distributed, with the majority of the public sharing few of the profits. Finally, the beneficiaries of the economic policies worked in tandem with the liberally-inspired and

and Chile: Political Recruitment and Public Policy, 1890-1930 (Lincoln: University of Nebraska Press, 1984), pp.141-151.

⁴⁷⁰ Shafer, pp.505-6.

sometimes democratically elected leaders of the day, such as Sarmiento in Argentina, Juarez in Mexico, Pedro II in Brazil, and Montt in Chile.

The beginnings of a middle class, amidst a general boom in population, and the start of an organized labor force, would portend great changes with the shock of the Great Depression. Along with the emergence of the mass public, there was, in limited cases, also that of economic epistemic communities, such as the *cientificos* of the Diaz regime in Mexico.

Figure 9: Historical-Ideological Period of early 20th century Liberalism

1. Relationship between 1 st and 3 rd Worlds	1st world seen as a beneficial source of investment and trade; 3rd World as a prosperous primary product exporter
2. General policy prescriptions for development	<i>laissez-faire</i> - free trade
3. Costs and benefits, and their distribution	costs to nascent industries, agrarian workers; benefits to primary product owners
4. Social groups to lead development	large agricultural and mining interests

C. Intellectuals and Economics emerge in the early 20th century

With the enlargement of the educational system, universities began to acquire an increasingly political character. The establishment of university 'autonomy,' or freedom from outside interference, was extremely important in this regard. Latin America's close

ties to Europe meant the importation of European ideas. Social Darwinism, positivism, fascism, anarchism, socialism, and, by 1920, even Communism, all made their appearance in Latin America, though only the first three, which appealed to the educated ruling class, had much concrete political impact during this time period.⁴⁷¹ Positivism made a deep impression on the Latin American militaries, who later used it to justify their own political actions.⁴⁷²

According to Albert O. Hirschman, the period from independence to the First World War was marked intellectually by a series of self-recriminations and references to inherent character flaws as the reason for Latin America's backwardness, rampant in Latin American literature at the time.⁴⁷³ These trends reverberated with the ideas of social Darwinism and later, with early modernization theories in the 1950s and early 1960s, which saw developing societies as culturally backward.

The period included the first clear economic epistemic community in Mexican dictator Diaz's *cientificos*. They were the first organized group of economists in Latin American history to have an active and independent political agenda. They were well ahead of their time in this sense and in the theoretically-inspired nature of their economic policies.

⁴⁷¹ *Ibid.*, pp.502-4.

⁴⁷² For example, the military in Brazil was, in fact, led by an intellectual, Benjamin Constant, to overturn the monarchy in 1889. Constant was inspired by the Federalists of the United States, such as Hamilton, Jefferson, and Madison, and was a member of one of the numerous national Republican clubs which began to appear around 1870 in Brazil. John A. Crow, *The Epic of Latin America* 4th ed. (Los Angeles: University of California Press, 1992), pp.553-58.

⁴⁷³ Albert O. Hirschman, "Ideologies of Economic Development in Latin America," in *A Bias for Hope: Essays on Development and Latin America* (New Haven: Yale University Press, 1971), pp.271-6.

1. Diaz's Cientificos: Quasi Neo-Liberal Economics in the early twentieth century

The Diaz regime, which began in 1876, is one of the most interesting periods to study for Latin American political economy, because of the extremity of the economic ideology in use; the degree of political involvement of the epistemic community; and the striking similarities with the Salinas' reforms, legitimization, and accompanying problems. While hardly liberal politically, Diaz's Mexico may be the most extreme case of economic liberalism in history.⁴⁷⁴ Diaz followed laissez-faire economic policies very closely during his thirty year reign. As a result of the massive amounts of foreign investment in the period, infrastructure in Mexico, particularly in railways and mining, dramatically improved. Especially important was Diaz, revocation of state ownership of the subsoil rights, which opened up the way for foreign ownership of mines.⁴⁷⁵

While the regime was ideologically supported by superficial claims to be creating a synthesis of its Indian and Spanish heritages, the more interesting ideological claims were in the economic realm.⁴⁷⁶ The *cientificos*, or "scientists,"⁴⁷⁷ were a small elite, closely related to the government, who, believing strongly in the ideas of positivism and

⁴⁷⁴ Diaz, nevertheless, based his legitimacy, in part, on creating an image of himself as the heir apparent to Benito Juarez, including building up the myth of Juarez through national monuments. Diaz then explained that he was the pragmatic heir of Juarez. See Colin A. MacLachlan and William H. Beezley, El Gran Pueblo: A History of Greater Mexico (Englewood Cliffs, NJ:1994), pp. 92-93.

⁴⁷⁵ Shafer, pp.451-2.

⁴⁷⁶ Donghi notes that the top political ideologue of the regime, Justo Sierra, presented this vision of a true mestizo nation, but that it was contradicted by repressive acts against Indians, including supporting the augmentation of large landholdings with communal lands. See p.181.

⁴⁷⁷ The best detailed recounting of the people who made up the *cientificos*, which I have found is Carleton Beals, Porfirio Diaz: Dictator of Mexico (Philadelphia: J.B. Lippincott Company, 1932).

social evolution, laid out plans for Mexico's economic development.⁴⁷⁸ Nineteenth century Latin American positivists, in general, believed in an elitist system of governance, by the most "naturally fit" for rule, and in their own dreams and plans for progress. The most prominent of the Diaz group was Jose Ives Limantour, minister of finance in the early 1890s, who increased federal revenues ten-fold. The regime followed an orthodox liberal policy of balanced budgets, courtship of foreign capital, and encouragement of trade. Infrastructure, which was dominated by foreign investors, also increased dramatically during the Porfiriato.⁴⁷⁹ At the same time, these economic gains were accompanied by the presently familiar costs of economic liberalism. Increasing relative income differentials, in addition to the class presumptions of the regime, created resentment and division throughout Mexico. The regime was strongly anti-labor, suppressing wages and labor organization. During this period, the increasing industrialization of the northern regions, due in good part to their proximity to the United States, also created the uneven regional development which now divides Mexico, and the workers' slums which are reflected by the *maquiladora* workers of the present. While infrastructure increased rapidly, the coming of the railroads increased land prices and seizures. Mexico under Diaz also re-acquired a strong dependency on mineral exports, leading to fluctuations in economic earnings according to world prices of the exports. Important sectors of the economy, such as transportation and minerals, were owned by

⁴⁷⁸ The *cientificos* were primarily influenced by Comte and Darwin. Some of them also believed in the natural superiority of whites, which might explain some of the zealous celebrating natives, *indigenismo*, which part of the cultural legitimacy of the Mexican Revolution. See Michael C. Meyer and William L. Sherman, The Course of Mexican History, 2nd ed., (NY: Oxford University Press, 1983), pp. 455-7, for some discussion of the intellectual roots of the *cientificos*.

foreigners, creating a nationalistic resentment and divisions within the elite. While the investment climate improved for domestic industry, Mexican industrialists were forced to import advanced technologies, and technicians, given the country's lack of technical and educational resources. The corruption and cronyism of the Diaz regime was also notoriously responsible for creating deep resentments against it. Finally, Diaz presided over the beginnings of a population explosion and accompanying urbanization which would serve to heighten the wealth differentials.⁴⁸⁰ The costly economic gains were, unfortunately, in good part, wiped out by the ensuing revolution, which commenced in 1910.

Although the *cientificos* had plans for political activity as a party, they were never able to organize themselves well enough to gain political power in their own right, in part due to Diaz's own suspicions of the group.⁴⁸¹ The *cientificos* nevertheless had strong support from economic sectors which benefited their policies, such as financiers, landowners, and the bureaucracy. Diaz, nevertheless, chose a member of the group, Ramon Corral, to be his nominal candidate for the 1910 election.⁴⁸²

Several rebellions against Diaz led to a *cientifico* compromise with one of the rebels, Madero, in 1911, by which Diaz was forced to leave the country. The *cientificos* agreed to support the newly elected President, Madero, in return for his help with other

⁴⁷⁹ Shafer, pp.546-8.

⁴⁸⁰ Part of this discussion is from Ramon Eduardo Ruiz, Triumph and Tragedy: A History of the Mexican People (New York: W.W. Norton & Co., 1992), pp.276-83.

⁴⁸¹ Shafer, pp.546-8.

Díaz regime rivals and cabinet positions. Madero was, nevertheless, unable to pacify the country, with the Zapatista rebellion continuing to inflame the southern Mexico. When Madero turned against the *científicos* in 1912, they attempted a failed *coup d'état*, with Díaz's nephew, Félix at the head, later that year. Another coup attempt, in February 1913, this time with a *científico*-sponsored general at the head, also failed, after much bloodshed. Amid the chaos, regime general Huerta was able to seize power. With the backing of the army, which opposed a new petroleum tax, Huerta took power, assassinating the Madero brothers. Huerta declared himself president, and selected several *científicos* for his cabinet. Rebellions continued, however, throughout Mexico. In a bid to increase his own personal power base, Huerta purged the remaining *científicos* by the Fall of 1913, ending their political role forever. Huerta would not last much longer.⁴⁸³

The story of the *científicos* serves as a model for understanding the role of economic epistemic communities which became prominent in the region only in the 1950s. As we saw in previous chapters, where the *científicos* failed, their modern protégés have succeeded in becoming successful political actors which utilize their own expert knowledge to wield power over economic policy.

⁴⁸² Friedrich Katz, "Mexico: Restored Republic and Porfiriato, 1867-1910," in Leslie Bethell, ed., The Cambridge History of Latin America vol. V., 1870-1930. (New York: Cambridge U. Press, 1986, p.69.

⁴⁸³ Edwin Williamson, The Penguin History of Latin America, (NY:Allan Lane The Penguin Press, 1992), pp.381-7.

V. The Age of National Populism amid a Changing World Economy: The Beginnings of National Industry Through Import Substitution, 1930-55

A. ISI takes hold

The export-led era was forcibly ended when world trade abruptly shut down with the commencement of the Great Depression and, subsequently, World War II. Besides losing export markets, their main source of wealth, Latin American economies also lost their sources of finished goods, necessitating domestic industrial production. Latin American governments became increasingly active in the economy in promoting the cause of industrialization, as well as attempting to maintain economic activity.⁴⁸⁴

This period of early industrialization probably accelerated an inevitable, but necessary shift in Latin American economies due to the changing nature of the world economy.⁴⁸⁵ As if to follow Engel's law, as European incomes increased, and families became smaller, European demand for primary goods declined. At the same time, supply markets became more competitive, which was heightened by the high tariff barriers which agricultural exports faced in developed countries. These trends would continue.

⁴⁸⁴ In an interview I conducted in September, 1996, Chilean economist Humberto Vega stated that this increased government activity was also influenced by the German institutionalist school, whose thoughts were beginning to be disseminated at that time.

⁴⁸⁵ Clearly, industrialization began long before the Great Depression period. Stimulation from the export boom at the turn of the century had already led, notes Bulmer-Thomas, to the beginnings of import substitution. With the First World War, however, primary commodities became much more valuable to the warring industrial powers. The Great Depression led to the first conscious efforts at industrialization and self-sufficiency in manufactures. Victor Bulmer-Thomas, "The Latin American economies, 1929-39," in Leslie Bethell, v. VI, *Latin America since 1930: Economy, Society and Politics: Part I Economy and Society* (New York: Cambridge University Press, 1994), pp.65-115.

generally, over the course of the century. The parallel trend, of course, was skyrocketing demand for manufactured goods.⁴⁸⁶

The period has been described as the first phase of import substituting industrialization (ISI1) during which consumer goods begin to be manufactured domestically.⁴⁸⁷ ISI1 typically began with consumer products, such as processed food and textiles, with few technological requirements, and extended next to light electrical industry, relying in the latter phase on foreign capital which had been received before the Crash of 1929. World War II brought the beginnings of the second phase of import substitution (ISI2)- the move towards production of heavy industry, capital goods, and consumer durables. Unfortunately, the lack of available capital equipment and investment in the world market meant that Latin American industries emerged from the war period as mere infants. Moreover, the sudden move to industrialization created a new level of conflict between the old regional centers of export production and the rapidly growing urban jungles.⁴⁸⁸

This new economic configuration was reflected by a shift in the relative national power of political interest groups- from a dominant rural oligarchy toward the state, urban industrializers, and, to a lesser extent, organized labor. Government involvement in economic activity would increase steadily until the debt crisis of the 1980s. The goal of economic development, latent in Latin American history, now was openly adopted by the

⁴⁸⁶ E. Williamson, pp.319-21.

⁴⁸⁷ See Stephan Haggard, Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries (Ithaca: Cornell University Press, 1990).

state.⁴⁸⁹ As Lois Oppenheim discusses in regard to Chile, the subsequent history of the region is one of conflicts over which development model to adopt, given the frequent failure of the ensuing economic experiments.⁴⁹⁰

With few exceptions, this period of Latin American history can be described as one of populist dictatorships. They attempted to legitimize themselves to a wider constituency for the first time, using mass communication and more popular elections, as suffrage spread to the middle and lower classes. The new nationalist populism correspondingly justified government actions which asserted economic independence. National populism tended to be personified. The new populist dictators took pains to cultivate a broad following, in contrast to the "back room" oligarchical politics of the past. Leaders such as Vargas in Brazil, Peron in Argentina, and Cardenas in Mexico not only organized the labor sectors of their economies, but began the first serious programs which promoted domestic industry. The first steps in their plans generally included nationalization of foreign-owned industries, such as petroleum in Mexico. These leaders were able, over time, to create two parts of Cardoso and Faletto's triple alliance- the state, organized industrial capitalists and workers.⁴⁹¹ Foreign companies would form the third

⁴⁸⁸ Donghi, pp.212-4.

⁴⁸⁹ While economic goals were a part of political groups' ambitions throughout Latin American history, an active state role, even in Mexico, which had undergone a socioeconomic revolution, came in fact only after the first World War. See Donghi, pp.274-6.

⁴⁹⁰ Lois Hecht Oppenheim, "An Overview of Chilean Politics," in Politics in Chile: Democracy, Authoritarianism, and the Search for Development (San Francisco: Westview Press), pp.3-32.

⁴⁹¹ Fernando Henrique Cardoso, and Enzo Faletto, Dependency and Development in Latin America (Berkeley: University of California Press, 1979).

side of the triangle in a later period. The alliance was one which provided mutual benefits to the three partners within the framework of ISI.

The period was also one in which not only the mass public, but also bureaucracies and leftist parties, began to wield real influence over economic policy. In Chile, for example, as in other Latin American countries, an urban working class, industrial capitalist, and state coalition began its consolidation of power, squeezing agriculture through its economic policies from at least the Aguirre Cerda presidential administration in 1938. The primary product surplus from exports, especially in agriculture, was thereby gradually eliminated until incentives became so reversed that Chile became a net food *importer* by the 1970s. The strategy of using agricultural surplus was not inherently mistaken, but the capital was usually not invested efficiently. The industries which were developed were inefficient and dependent upon state protection, for the most part, and much of the capital surplus ended up abroad in capital flight.⁴⁹²

B. Summary of the Age of Populist Nationalism

Latin American economic development, while being marked ostensibly by region-wide changes in economic policy after the Great Depression, actually was the culmination of many different trends which had begun much earlier. On the technological side, the development of mass communications both enabled and necessitated national leaders to legitimize their positions to a wider audience. That wider audience increasingly included a growing middle class of consumers. Perhaps the most

well-organized sector of the middle class was organized labor, which, at this time, worked in alliance with national capitalists and, increasingly, the state, to support the initial import protecting policies. The growing strength of the state, and particularly state bureaucracies, would lead to new coalitions and policies in later periods. In a sense, the economic shock of the closure of world markets seems to have opened the way for these trends to finally manifest themselves in the Latin American political economy.

Many of the countries in the region enjoyed regular elections, with the military serving only as a guarantor of peace for civilian rule. With the rise of "the communist menace," and economic faltering on the part of many of the civilian regimes by the late 1950s, however, the military took over the reins in many cases.

The First World, and particularly direct foreign investment, was seen as a negative influence in Latin American economies, leading to widespread nationalizations, such as Mexico's takeover of its oil industry in 1938. In line with this economic nationalism, the liberal economic policies of the previous period were reversed, and replaced with increasing state intervention, including protection. The new policies benefited new groups, namely national industry, organized industrial labor, and the state bureaucracy, with the rural landed elite now becoming losers in the new formulation. Organized labor, while never an equal partner in decisionmaking, was an equal partner in sharing the benefits of economic policies. The other partners, the state and industrial capitalists, became the new social leaders of development.

⁴⁹² See especially Markos J. Mamalakis, The Growth and Structure of the Chilean Economy: From

This period may be the most explosive one for economic experiments in Latin America. In many ways, the changes in political economy were a reverberation of the monumental economic changes ushered in by the Mexican Revolution which had taken place some twenty years before. That event had popularized notions of large-scale land reforms, national subsoil rights, and an interesting strain of anti-Yankee cultural activity, often depicting previously conquered indigenous groups as heroic and noble, rather than as savages to be civilized. While the middle class grew throughout the continent, in most cases, it was unable to reach hegemonic status, which, in turn, led to a variety of unstable dictator-labor-middle class industrialist pacts described heretofore. One exception may have been Uruguay, whose development towards a social welfare state early in this century defies easy categorization.⁴⁹³

Independence to Allende (New Haven: Yale University Press, 1976), on this point.

⁴⁹³ Shafer, pp.580-7.

Figure 10: Historical-Ideological Period of National Populism

1. View of Relationship with the 1st World	negative, need for seizing national assets from foreign owners
2. General policy prescriptions for development	control of foreign investment, protection of "easy" industrialization and development of domestic market
3. Costs and benefits, and their distribution	costs- to primary product owners; benefits to 1st stage ISI industrializers and their labor force
4. Social groups to lead development	populist dictators, state bureaucracy and industrialists

VI. The Communist Threat, ISI2, and the Rise of Economic Advisors, 1955-80

A. Introduction

In the middle of the 1950s, a new age of leftist political operations set in motion a cycle of military rule repressing the left, and centrist rule attempting to compromise with it. The cycle generally ended by the beginning of the 1970s with harsh military dictatorships constructed across Latin America for the express purpose of preventing Communist revolutions inspired by the Cuban Revolution of 1959. The Cuban Revolution brought to the forefront anti-United States feelings which had been present in Latin America for some time. At the same time, Latin American regimes were strongly influenced by American advice and resources for economic "medication" to end the

perceived radical threat. The result was a mostly failed attempt, at moderate economic reform, which pleased neither of the political extremes. The stalemate created by polarization was ended by crushing repression from conservative elements and the military throughout Latin America by the mid-1970s.

Given the common threat of communism, the new United States policy, and that of international institutions, was to make new efforts at regional development which led increasingly towards development planning. The prevailing wisdom by the 1960s was that economic development would undercut the lower class bases for Communism. In some cases, such as Guatemala in 1954 and the Dominican Republic in 1965, the U.S. directly intervened to prevent leftist governments from taking power, but in most cases, the influence was indirect through economically-administered incentives and punishments.

B. From fighting Communism to economic transformation

The latter part of the period (beginning in the mid-1960s) is understood by some Latin American analysts as bureaucratic-authoritarianism. Guillermo O'Donnell, who coined the phrase, explained that Latin American militaries overturned the populist governments of the previous era in order to reduce the wage pressures which organized labor had put on the economies. Those wage pressures supposedly prevented the ability to move to second stage import substitution, which required a higher rate of

reinvestment.⁴⁹⁴ In hindsight, it is not at all clear that the military-technocratic governments were inevitable. First, the diagnosis of wage pressures leading to military governments is misguided, since the military took power to thwart communism, not to transform the economy. Second, the same economic policies could have been followed by democratic governments, who have had the ability to enforce a wide range of economic policies throughout Latin American history.

Furthermore, with the major exceptions of Brazil and Mexico, most countries in this period failed to record the economic growth rates which were thought necessary to reinforce the middle class. The period was one of frequent macroeconomic instability, which carried over in good part to the 1970s, when the solution of greater government intervention became ever more frequent. However, as demonstrated in the case of Chile, macroeconomic policy remained unsteady, so that the greater government interventions simply made economic matters worse. Nonetheless, the turn to greater intervention in the 1960s demonstrates the ability of states to change economic strategy, falsifying the theme of the inevitability of the shrinking of the state which runs through most explanations for the neo-liberal revolution of the 1980s. A look to East Asia, moreover, demonstrates that governments can intervene in economies while maintaining macroeconomic healthiness. The point is that *the type, and not simply the degree*, of government intervention is important.

⁴⁹⁴ Guillermo O'Donnell, Modernization and Bureaucratic Authoritarianism (Berkeley: Institute of International Studies, University of California, 1973).

Some analysts, with good reason as well as hindsight, believe that the move towards a second stage of import-substituting industrialization was inherently doomed to failure by several obvious economic factors.⁴⁹⁵ These include the continuation of balance of trade problems, since the need to import finished manufactures was now replaced by the need to import the capital goods, particularly given continuing technological advances by developed countries' industries. In line with this problem was the need to have heavy foreign involvement in the initial stages to finance, set up, and run the capital goods-producing factories. Secondly, the limited size of domestic markets meant inefficient scales of production. The result was the typical developing country dualistic economy of a small pocket of highly developed industries, few local owners, and heavy state and foreign participation, all surrounded by a sea of poverty and restiveness. Therefore, only the consummation of a viable Latin American regional market or adoption of the "market-conforming" and export-oriented process of import substitution could have preserved continued industrialization with direct government direction.

While we can state that most governments of the major states in the region attempted to reach an ISI2 stage, their specific strategies varied greatly. Brazil and Mexico followed a more traditional structuralist line of wedding the state with nascent industrialists of finished goods. Argentina and Chile both experienced brief neo-liberal experiments in the postwar period, with more extended ones in the 1970s. Peru had a notably left-leaning military government during the late 1960s, and Chile, as has been

⁴⁹⁵ Thomas E. Skidmore and Peter H. Smith, *Modern Latin America* (New York: Oxford University Press, 1989), pp.56-7.

discussed, had a brief socialist administration. In short, Latin American economies were entering a new period of sophistication when newly trained national policy elites were replacing the regional advice of ECLA and their economic trajectories grew increasingly divergent.

Perhaps one of the more far-reaching applications of the structural approach was the Brazilian military government's combination of monetary correction, including inflation indexation, with strong fiscal activism. The Brazilian bureaucracy, inspiring O'Donnell's term "bureaucratic-authoritarianism," undertook large-scale and high-risk projects in several areas, leading to state domination of the oil, steel, energy, and some parts of the transportation industries. The state mollified private capitalists' displeasure with the policies by spreading around private contracts. More importantly, the success in terms of overall, if inequitable, economic growth, inspired other Latin American militaries to adopt similarly active economic agendas, which they also used to legitimize their rule, such as that which took power in Peru in 1968.

The boom in oil prices during the 1970s helped Latin American countries which produced petroleum, such as Venezuela and Mexico, to finance government spending, while others relied more heavily on the vastly increased private capital markets to borrow at low but flexible interest rates for the same purposes. The Brazilian military government, in particular, adopted an increasingly active state policy for the second phase of import substitution. By the 1970s, most countries in the region, in attempting to gain the foreign exchange needed for the new sky-high oil prices and in adopting similar policies of state-led growth, borrowed heavily from the emerging world capital market.

The Mexican government, which actually enjoyed the benefits of higher oil prices, still borrowed heavily while engaging in high cost and low productive efficiency state development projects and social spending. By the end of the 1970s, it was apparent that the military rulers in general were as or more incompetent in economic matters than their civilian counterparts, and that the Leftist threat had been contained.

C. Summary of the ISI2 Period of Latin American History

This period of Latin American political economy is best characterized as the peak of state intervention in the economy and the beginning of the demise of organized labor. In terms of the thinking in development theory, throughout academia a consensus was reached that careful economic planning could lead a country to development. Moreover, the Alliance for Progress program of the United States ensured a steady flow of aid and technical advisors. In the early years of the period, amid a booming world economy, the economic community began to speak of the 'Brazilian' and 'Mexican' miracles. By the 1970s, despite the rise in oil prices, heavy state involvement continued to increase, relying now upon borrowed petrodollars. The borrowing ironically paid for, in part, the rise in petroleum expenditures after the price shock. With the huge increases in world interest rates in the early 1980s, the boondoggles of the era of state intervention became apparent. The liquidity crisis created a window of opportunity ripe for the return of liberal economic doctrines.

During this period of structuralist thinking, the First World was seen as a partner in national industrialization. In effect, Latin American states expected only temporarily to rely upon imports of First World technologies, capital goods imports, and intermediate

goods, until their import substitution phase was complete. Secondary import substitution policies meant protection of those same industries which the military governments had decided to champion, through a continuing effective taxation on agriculture. Overvalued exchange rates, borrowing heavily on world capital markets, and price subsidies which benefited urban workers were typical of this scheme. The costs to primary product producers became very heavy, and continuing nationalizations within the region led to a decline in activity and in export earnings. Pressures for social reform were held in check by nominal attempts at reform; co-optation of agitators through selective social spending; and, above all, repression of radical movements by the military. The military governments not only took on the mantle of the champion of political stability and anti-communism, but, in most cases, that of economic leaders. With this new legitimacy of economic expertise and government activation, authoritarian regimes, such as that of Brazil and Mexico, built strong bases of support among the middle and upper classes presiding in urban areas during the 1960s. The change in the world economic conditions and the economic crises of the 1980s would lead ironically to middle-class rejection of these regimes, and the faltering of this legitimating pillar of continued military rule.

Figure 11: Historical-Ideological Period of ISI2

1. View of 1st World	beneficial if conditional, i.e., 1 st world provides finance and capital goods for industrialization, but protection from 1 st world imports is needed
2. General policy prescriptions for development	state-led development, directing protected industrialization
3. Costs and benefits, and their distribution	costs-primary product owners; labor; foreign owners and manufacturers of finished goods; organized labor; benefits-foreign investors and exporters of capital goods; the state, including technocrats, owners of industry
4. Social groups to lead development	state politicians, the military, economists, and barons of industry

VII. The Debt Crisis and the Move to Neo-liberalism, 1980-present

A. Introduction

The golden age of government spending for social stability came to a screeching halt with the sudden increases in interest rates in the early 1980s, reflecting the new United States' monetary policy. Given the huge debt burdens incurred, and a steady deterioration of commodity prices, most Latin American countries, and the military regimes in charge of them, found themselves in severe economic and political crisis. The solution for the military regimes was simple: to abdicate responsibility for the economic

mess by handing over the reins of government to democratic regimes. More importantly, the threat of Communism had faded from the societies, and what remained of the Left had moderated its political position, opening the way for a more peaceful and acceptable centrist rule.

The 1980s also marked the rise and popular acceptance of technocrats throughout Latin America to make economic decisions, particularly in instituting the monetarist policies needed to survive the debt-induced austerity of the period. Many of the new politicians in the period had technical degrees. For example, Miguel de la Madrid, who began a monetarist and fiscal tightening upon election to the presidency of Mexico in 1982, was a graduate of Harvard Business School. His successor, Carlos Salinas de Gortari, an economist, also emphasized his technical rather than political abilities, which, to some, echoed the *científicos* of the Diaz regime. Former Finance Minister and economist Domingo Cavallo of Argentina has become a celebrity at home, and is a clear possibility for a future presidential candidate. Former Finance Minister economist Alejandro Foxley is now the head of the Christian Democratic Party, which is the leading political party in Chile at the moment. He is also a likely presidential candidate in the future. Certainly, the fervor for technocracy has only increased throughout the continent, symbolized by the election of Fujimori in Peru on a technocratic platform based on economic competence.⁴⁹⁶ Latin American analysts cannot explain the election of a previously unknown person, Fujimori, over a favored and well-known figure in conventional terms because they neglect the importance of the rise of economic issues

and of economic advisory groups. Across the world, politicians portray themselves as “outsiders,” in order to take advantage of general public unhappiness. In Latin America, these outsiders also carry the image of ushering in a new period of economic expertise.

B. Democratic Transitions and the New Regional Paradigm of Neo-liberalism, 1990-1995

By the 1990s debt burdens meant the inability to maintain government spending, so Latin American nations shopped for a new economic policy framework which would be able to finally overcome the Hobson’s choice of economic growth versus reducing inequity through social spending and the parallel choice of being acceptable to international creditors and the elite, versus being acceptable to the enlarged but economically suffering middle class. The far Left had been largely wiped out by political repression and ideological moderation. Moreover, by this time, the “East Asian miracle” of fantastic and sustained economic growth rates could no longer be ignored. The miracle has been widely ascribed (particularly by international organizations) to following sound macroeconomic policies.⁴⁹⁷ The rise to political power of U.S.-trained

⁴⁹⁶ Donghi, see above section for discussion of Diaz regime, pp.372-3.

⁴⁹⁷ Most World Bank and International Monetary Fund publications emphasize macroeconomic stability as the most important factor to economic growth. They also place trade liberalization and fiscal austerity as priorities for their market-dominated vision of political economy. For two among many examples, see World Development Report 1988 (New York: Oxford University Press, 1988), which focuses on public finance and World Development Report 1991: The Challenge of Development (Oxford University Press, 1991). The most incredible aspect of these easy recipe books for economic development is their failure to address the ubiquitous role of the public sector in East Asia. The World Bank finally recognized this error after many academic publications filled this gap, such as Chalmers Johnson, Alice Amsden, and Robert Wade. So, the World Bank published The East Asian Miracle: Economic Growth and Public Policy (Oxford University Press, 1993) in which it acknowledges a *very limited* role for public policy in East Asia in addition to the usual macroeconomic recipes. They also contend that there were both positive and strongly negative results from East Asian public policies. They claim that the positive benefits are almost impossible to apply elsewhere.

Latin American economists and the success of the monetarist policies of Chile are additional factors in laying out the basis for a new political economy. Given the failure of Communism, the Left was also now largely persuaded of the need for a capitalistic system, although there is great objection as to the degree to which government spending on social services should decline. For example, a leader from the leftist Peronist Party, Menem, was the first to succeed in cementing the new monetarism in Argentina.

From Mexico to Brazil, businessmen and economists have risen to power as leaders on expressly economic platforms. Carlos Salinas set the precedent for courting international capital by setting tight monetary policies for Mexico. In each case, economists with their own popular following have come to the forefront on economic policy, such as Foxley in Chile, Aspe in Mexico, and Cavallo in Argentina. The economic policymakers largely followed the same economic recipe of tight monetarism and liberalization of trade and investment.

C. Summary of the Debt Crisis, the Democratic Transition, and the Revival of Liberal Economic Policies

Interestingly enough, the intellectually and culturally popular anti-foreign sentiments which reflected the historical trajectory of Latin American political economy and dominated most of this century, have largely disappeared with the rise of a new, and more technocratic leadership. Also, though Latin American economies continue to diverge from one another, they have arrived at a regional policy consensus because of the combination of external pressure and the rise of the neo-liberal paradigm. Certainly, Latin America had few economic choices given the harsh liquidity situation of the early

1980s. Still, given the history recounted, the return to an embrace of foreign investment, including ownership of industries, a reliance on primary product exports, and the retreat of the state from economic and social activism, must remain a surprising twist of circumstances indeed.

During this period, the attitude towards the First World was one of restrained invitation, as Latin America sought to relieve its capital crunch through a renewal of foreign investment. The policies concentrated on monetary and fiscal restraint, which consequently added to the slowdown in the economies, although they restored some semblance of stability to the investment climate. The slowdown in economic growth and the accompanying cuts in fiscal subsidization were and are being felt particularly by the middle and lower classes. While foreign investors and local industrialists gained from an improved investment climate, the breaking down of state revenues could only accelerate the decline in state involvement in the economy. The state bureaucracy as a whole declined precipitously in importance. At the same time, echoing much of the new political economy literature, a new appreciation has grown for the need for 'insulation' of economic advisors among some political economists.⁴⁹⁸ In some cases, the economic advisors, such as Foxley and Cavallo, became almost as important and well-known in the wider political arena as their leaders in selling economic policies to the wider public.

⁴⁹⁸ I refer here to the numerous writings on "state capacity," "state autonomy," and "bureaucratic insulation." For example, see Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, Bringing the State Back In (New York: Cambridge University Press, 1985), and Stephan Haggard and Robert Kaufman, eds. The Politics of Economic Adjustment (Princeton: Princeton University Press, 1992).

The new leadership of Latin America is increasingly filled with 'technopols.' who are elected politicians with technical backgrounds.⁴⁹⁹ It remains to be seen, of course, whether that stability will translate into a higher long-run plane of economic development. The recent economic quagmire in Mexico has raised some warning flags, particularly in regard to the stability of investment flows. On the other hand, given that Mexico largely acts as the prism through which the United States' political and economic communities view Latin America, its current economic rebound bodes well for the immediate future.

The precedent for this period of renewed economic liberalism was undoubtedly inspired by the neo-liberal economic policies which began when the military took over in Chile in September, 1973, ending the widespread chaos of the Allende years.⁵⁰⁰ The Pinochet regime marked the rise of an overt group of technocrats who made economic decisions and openly vie for political support of their economic programs (mainly through the political party UDI), for the first time since Diaz's *cientificos* formed their own political party. The "Chicago Boys" in Chile under Pinochet soon inspired counterparts in other countries of Latin America.

⁴⁹⁹ See John Williamson, The Political Economy of Policy Reform (Washington: Institute for International Economics, 1994) and Anil Hira, "Ideas and Economic Policy in Developing Countries: The Rise of Economists in Latin America," paper presented at Western Political Science Association annual meeting, San Francisco, March 1996, for further documentation and analysis on this phenomenon.

⁵⁰⁰ Shafer, pp.725-8.

Figure 12: Historical-Ideological Period of Neoliberalism

1. Relationship between 1st World and 3rd World	beneficial-1 st world provides financial and direct investment and export earnings for development
2. General policy prescriptions for development	capital accumulation through exports: neo-liberalism
3. Costs and benefits, and their distribution	costs-because of massive reductions in govt. spending: protected industries: fiscal policy economists, most state bureaucrats, labor, middle class beneficiaries. Leftist parties; benefits- to macro-policy economists, primary product and industrial exporters: international and domestic finance
4. Social groups to lead development	money supply economists, politicians, local finance and industrial capitalists

VIII. Conclusion: Contribution of Ideas in Latin American Political Economy History

Latin American history can be understood as a complex framework of trajectories along coalitional and ideational levels, which are punctuated by domestic and/or international crises. Except for parts of the nineteenth century, which was marked by contentious exchange between liberal and conservative perspectives, Latin American history has consisted of periods of hegemonic ideas and corresponding political bases of support in regard to how to develop. This chapter shows that distinct periods of historical

perspectives on development can be seen when examining the evolution of the region over long periods of time. We have established that ideologies of development exist in Latin America and that they change over long historical periods.

International-level, domestic coalitions, statist, and Marxist explanations cannot tell us what reaction will follow a change in international conditions. Rather, there is a progressive sophistication and trajectory to economic policy decisions in Latin American history which can only be explained by looking at changes in ideology. Moreover, we have seen that not all historical-ideological periods have been ushered in by crises, and that not all periods can be explained by changes in dominant coalitions. For example, the movement from the *laissez-faire* policies of the early nineteenth century to the active promotion of primary exports, such as the infrastructure building of the Diaz regime by the end of the century, reflected an idea that export growth was the key to development, rather than a choice forced by an international crisis. Furthermore, the movement from ISI1 to ISI2 had more to do with a new idea of national development, since the dominant coalition of state, foreign capital, and industrialists, remained basically the same from the interwar years. Finally, countries which did not face the same international conditions made the same choices as other countries. The same is true for changes in governments within countries. Colombia did not face the same debt crisis as many of her Latin American neighbors in the 1980s, yet has nonetheless adopted strong neo-liberal measures. As we saw see in more detail in Chapter 4, even though the civilian democratic regime which took over in Chile in 1989 did not face the same capital shortage crisis as the military regime in 1973, it continued to promote the same neo-liberal policies, even with a complete change in the institutional framework of the state.

Looking at Latin American political economy from an interest-group-ideological framework from a long-term perspective helps to better explain Latin American economic policy choices. In effect, each period of Latin American economic history has been dominated by coalitions of interests as laid out in the tables above. While an interest group model yields fruitful results in understanding the economic policies of each period of Latin American history as a reflection of the dominant coalition, it does not explain how those coalitions changed. Changes in ideas through distinctive historical-ideological periods add just such dynamism. More simply, the dominant views of development which developed over time have guided the adoption of certain policy sets at certain times.

Theories of political economy are not powerless, serving only to reflect and legitimize material interests. The changes in theories accompany new configurations of interests because they both enable and constrain the policymakers who hold them. For example, the rising economic nationalism marked by Cardenas' seizure of Mexican oil fields occurred throughout the continent, allowing ruling elites to increase state involvement in the economy, almost exclusively to the detriment of foreign investors. This occurred even in places where a more efficient economic solution for the state would have been simply to renegotiate the terms of operation for the foreign companies. Instead, nationalism led to the creation of generally much more inefficient state-run enterprises, in industries in which they had no expertise, and so, ended up relying upon foreign expertise, capital, and equipment imports to run their own companies. Most major policy changes seem to be beckoned by the aftermath of profound crises.

We have also seen that both modernization and dependency theories have some merits in their arguments. Latin America may be best described as experiencing “dependent development,” or a progressive development shaped by the strong influence of external elements. More importantly, each phase of Latin American political economy can be understood as an alliance between interest groups who increasingly utilized, were constrained by, and guided by, economic doctrines. In the 1950s, for example, the move by the state-foreign capital-industrialist coalition to ISI2 was backed up by a new economic ideology, structuralism, which was examined in detail in the chapter on ECLA. In recent times, neo-liberal economic ideas have benefited a dominant coalition of private foreign and domestic capital and exporters, but have limited their ability to maintain arrangements which benefit their particularistic interests. As we saw in Chapter 4, on the Chilean group, “the Chicago boys,” the Chilean government intervened in a 1982 financial crisis to the detriment of the strongest members of domestic business. Finally, Diaz’s *cientificos* group of economic advisors provided us an early example of the many groups in Latin American history which have been intimately tied to specific economic theories, and acted upon them politically. In sum, the dynamic configurations of the alignments in domestic coalitions parallel and are often tied to the rise of new economic ideas, and are often marked by political and/or economic crises.

Appendix B: Definition of Terms

I. Introduction

In order to increase the specificity of the phenomena to be studied, vocabulary which is used in various ways in social science practice is purposefully narrowed here. The definitions given below constitute one of the common meanings of the terms, and are selected on the basis of their relevance to the study.

Before the terms are presented, a short summary of the models is in order. In the general model, the focus is on historical-ideological periods of the development discourse in Latin American history. These are periods which can be identified by a dominant development ideology. That ideology is held, promoted, and put in practice by a group of economic experts, who, as a group, constitute an epistemic community. The specific level model is illustrated by case studies of two such communities, the "Chicago Boys" and ECLA, in order to examine their effectiveness in influencing economic policies, and their relationships with other political actors.

II. Terms

The "*Chicago Boys*" refers to the group of economists, mostly trained at the University of Chicago, appointed by Pinochet in Chile from 1973, and in power until 1989. These economists put in place the monetarist model of economics which later spread throughout Latin America. By monetarist model, I refer to a school of economic thought which places primary emphasis upon monetary, rather than fiscal policy as tools of adjustment, with wide-ranging implications.

A *crisis* is an indefinite period of time, when there is a breakdown in the dominant economic ideology-interest configuration, which results from a publicly known failure in

the economic policy. The failure will stem from a shortcoming of the current framework of economic policies to achieve their stated goals or a severe decline in material living standards, which, in any case, is a central goal of any development framework. A crisis may, of course, result from a variety of conditions and events.

Development is the process by which a country increases its economic well-being over time. There is, of course, no consensus on either the best means or the possibility of reaching that goal. Furthermore, a wide variety of indicators of development have been offered, many of which can be classified along an axis of economic growth and economic equity measures.⁵⁰¹ As a formal concept of political economy, development dates from the post-World War II era with the wave of decolonialization and the evident backwardness of the new nations. Nevertheless, development as an idea, has existed at least from the nineteenth century, when, for example, Latin American nations and Japan began to attempt to reach First World economic standards of living and strength.

Discourse is a term from critical theory which, in this context, refers to a subjective framing of an issue which helps those who participate in the debate define themselves in terms of it; and helps to define the terms of the debate, in particular, the conceptual vocabulary, material referents, and the stakes involved. It also includes the literature and other evidence which traces and expounds the debate. Discourse is considered here in the context of development. The discourse of development refers to the debate over how to develop, who takes part in the debate, and how the debate changes over time. The main actors in the development debate are politicians, epistemic communities, the public, and economic interest groups.

Economic Commission on Latin America (ECLA) or, in Spanish, *CEPAL*, is the organization founded by the United Nations in Santiago in 1948, with the express purpose of studying, recommending, and promoting economic development for the region. Its employees bear the convenient Spanish moniker of *cepalinos*. ECLA came to

⁵⁰¹ International institutions, such as the World Bank, tend to emphasize the former indicators, such as rate of change in gross domestic production, while others, look more closely at indicators of social well-being, such as the United Nations Development Program's "Human Development Report". The latter emphasizes measures such as literacy, health, and education levels.

have a profound effect on the choice of economic policies soon after its inception, particularly through the structuralist ideology which its head, Raul Prebisch, pushed successfully until the late 1970s.

Epistemic communities are groups of experts who agree with each other on the nature, goal, and/or solution of a political or economic issue. Epistemic communities, as used here, are more than just “think tanks” which house scholars with similar general orientations or methodology. Nor are they “policy communities” which are diffuse groups of experts who agree on a policy goal, but not necessarily on the diagnosis or the solution. Epistemic communities are, by contrast, distinctly organized groups of experts who agree on both the diagnosis and the solution. They lobby as a group to have these views accepted and acted upon by decision makers. These communities also seek to legitimize their shared opinion among political constituencies and to increase the material resources available to them. Epistemic communities rely on material and political support from their political constituencies to promote their opinion on the issue.

An *expert* is someone who is acknowledged by others as having greater knowledge about a particular political or economic issue than most of the public does. An expert’s opinion, therefore, has greater legitimacy among both politicians and the public, than does the opinion of non-experts. Experts often disagree, of course, on the nature, goal, and solution of a policy problem. The groups of differing camps on an issue may fall into epistemic communities. These camps are differentiated, in short, by distinct ideologies with regard to a political or economic issue.

An *Historical-ideological period* is a period in the discourse of development which is marked by a stable configuration of interests among politicians, experts, and constituents, and by a dominant ideological framework, or orientation.

Hegemony refers to the predominance of some actor, idea, or phenomenon in the political economy.

An *idea* is a thought which defines a problem, goal, or solution to a policy question.

An *ideological framework* is an ideology applied to a public policy problem. In this study, the policy problem is the meaning and best means of development.

Ideological frameworks also often utilize specific methodologies to buttress their analysis.

An *ideology* is a set of ideas, which, combined together, form a coherent perspective on, or approach to, the nature of a political or economic problem, goal, or solution. An ideology may hinge on just one of these. For example, advocates of industrial policy might agree that the state must intervene to develop technologically advanced products, while disagreeing on whether the lack of human capital, lateness in beginning industrialization, or the externalities of technology themselves require such interventions. An ideology forms a package of ideas which form a perspective, but may contain either internal contradictions (either logical or in terms of “trade-offs”), or be faced with contradictions in attempting to apply them.

Import Substituting Industrialization I (ISI1) is a set of policies designed to begin the process of industrialization, which will lead to development, through protection of, and promotion of, the domestic production of non-durable consumer goods. Domestic production thereby takes the place of imports. These goods have low technology and capital input requirements, and therefore, the policy mix is often referred to as the “easy” phase of import substitution.

ISI2 is the second phase of import substitution, this time with the goal of substituting domestic production of durable, capital-intensive, and high technology goods. In Latin America, ISI was intimately linked with ECLA’s structuralist ideology.

An *interest group* is a well-organized group with members and economic resources which attempts to influence politicians for beneficial political action on an issue or on a set of issues. “Well-organized” refers to characteristics such as a leadership group, an agenda and decision-making process which the group follows, and members and/or personnel who spend part of their time working exclusively for the group.

An *issue* is a political or economic matter which is in contention among different groups in a society. Politicians must decide where to stand on the issue.

Legitimacy refers to the need for some group or individual, or their opinions or actions, to be accepted by another without conflict. Most often, it refers to the need of politicians to be accepted by a plurality of the public. That acceptance translates into

both material and intangible support, or the lack of support for opponents. The latter is often manifested in a kind of tacit acceptance of the political status quo. Legitimacy, where noted, may also refer to particular policies which can be similarly tested for acceptance.

Liberal economics, monetarism, neo-liberalism are three economic ideologies based on classical economic premises, primarily those of Smith and Ricardo. Traditional liberal economics proposed a *laissez-faire* attitude towards government and the economy. This line of thinking advises countries to reduce government intervention in the economy to the bare minimum- perhaps only for national defense and ensuring the smooth functioning of the market. Monetarism is a modern variant of liberal economics. In terms of developing countries, monetarism advises: opening national resources and businesses to foreign investment; allowing for trade without restrictions; ensuring minimal fiscal expenditures and balanced budgets; and utilizing the money supply to control inflation, stabilize interest rates, and responding to large fluctuations of the exchange rate with adjustments in the money supply. In contrast to other ideologies, monetarism proposes reliance on market forces, rather than (inefficient) government, for development. Unlike pure liberalism, however, under monetarism the government intervenes regularly to ensure macroeconomic stability. The main policy instrument is control of the money supply. Recent monetarist policies, typical of the Pinochet regime, are more widely known as “neo-liberalism.” Neo-liberalism also often entails wide-ranging political applications of liberal economics-based thinking, such as emphasizing the importance of property rights; promoting market-oriented solutions to the public sector; and decentralization.

A *paradigm* is a set of ideas which is accepted among a group of intellectuals and/or academics. The term is derived from Thomas Kuhn’s work on the nature of scientific progress.⁵⁰² A *policy paradigm* applies Kuhn’s concept to politics. In this regard, a policy paradigm would mean an intellectually popular idea-set which relates to a public policy question, such as the public choice paradigm, which attempts to apply

⁵⁰² Kuhn, The Structure of Scientific Revolutions (Chicago: University of Chicago Press, 1970).

economic analysis of economic markets to political behavior. Paradigms help to define “puzzles,” or problems, analytical instruments, and (preliminary) solutions to the puzzles.

Political constituencies are the public and interest groups.

A *politician* is a public official who is a decision-maker and responsive to the public either via elections or through other manifestations of public acceptance of him as a leader. Naturally, a politician could also have expertise, but politicians usually rely on a contingent of expert advisors. Politicians are linked to political constituencies, upon whom they primarily rely for both resource and symbolic support.

The *public* refers to individuals in a society who are not members of well-organized groups with regard to a particular debate. For example, those who protest gasoline taxes may organize for a temporary march, but are not affiliated with an anti-gasoline tax group. Until such a group is formed, those protesters are considered part of the public.

Structuralism is used in two ways here. The first, found mainly in the first and last chapters, refers to a type of theoretical perspective on international relations which sees international level explanations as the most important determinant of international political economy. The second which is used throughout the rest of the dissertation, refers to an economic ideology which ECLA promoted in Latin America from the 1950s until the 1970s. Structuralism is discussed in detail in the chapter on ECLA, but in brief, views development in a neo-dependency way. That is, structuralism holds that Third World countries are backward because of their position in the World economy as primary product producers. Primary products are those with little value-added, such as agricultural products, or raw or partly refined minerals. Structuralism posits that the prices for primary products not only fluctuate greatly over the short-run, but, more importantly, decline over the long-term relative to manufactures. Therefore, Third World countries suffer both short-term economic crises and long-term declines in income. Moreover, there are “bottlenecks” in Third World economies, such as underdeveloped financial systems which pose obstacles to industrialization. Reaching First World economic levels therefore requires the protection and promotion of domestic industry.

also known as import substitution, and the smoothing out of structural bottlenecks through government-induced reforms.

Weltauschaung or worldview, refers to meta-level perspectives held by people. These are the ways in which people explain the general order and process of the world and its subjects and objects. For instance a rational materialist is more likely to focus on concrete cause-and-effect relationships than is a pure relativist.

Appendix C: Interview Notes and List of Interviewees

1. Substantive and Methodological Notes:

All interviews were conducted in Santiago, Chile, between August and November, 1996 with the exceptions noted by (*). The interview questions were standard, though additional questions were tailored for each interviewee. Maximum effort was made to make the questions open-ended, so that the interviewees could tell their own story. The **three basic questions** asked of each of the interviewees were:

- 1- What was their explanation of Chilean economic policy changes since the 1950s;
- 2- How they explained the development of their own ideas about economic policy and how those ideas changed over time;
- 3- How they could explain the changes in the opposition towards the free market model over time, and particularly in the transformation of the ideas of the Left.

The interviews were especially fruitful in clarifying and uncovering historical facts and perspectives; in providing a contextual feel for the positions of various groups in Chilean society and how they changed over time; and, in providing a **profile of economists and economic policy groups**. In regard to the last aspect, there were some surprising and interesting findings which are summarized here (see also Chapter 6):

- *1- There was a remarkable degree of similarity in the answers and attitudes of economists of the same school (e.g. structuralist cepalinos or Chicago Boy economists), even when they had been separated from close personal or organizational contact for more than a decade. This means that once economists achieve a worldview, they are very unlikely to change it. Worldviews are very strong and flexible to changing circumstances.*
- *2- Most pointed to their education as the source of their perspective. Their educational backgrounds do indeed match up with their worldviews. For*

example, cepalinos who were trained by CEPAL in the early 1960s are easily distinguished by worldview from many of the present employees who were trained in the United States more recently. This is not to say that those who receive the same education think alike. For example, some Chicago-trained economists are less orthodox than the Chicago Boys. Rather, an economist's worldview is highly shaped by his youthful experiences, especially education, and in general does not change much after his post-graduate education. Rather than linking worldviews by age cohorts, education seems to be a better predictor.

- *3-All interviewees agreed on the importance of ideas in economic policy and on the role of the media in shaping general attitudes towards economic policy.*
- *4-All of the interviewees agreed that the free market model had achieved some success in economic growth. None could cite an alternative political economy model which would be viable for Chile. All also agreed that there was a general consensus throughout the country, among all classes, that the current free market model was efficient and was the best for Chile. A few, nonetheless, predicted problems in the future, such as unfulfilled expectations, and that there were small pockets of opposition to the economic model.*

II.. List of Interviewees

*some interviewees are not listed because of a desire for anonymity or because the interview yielded less significant information.

A. Those affiliated with CEPAL

Bieschlowsky, Ricardo

Boisier, Sergio

Di Fillippo, Armando

Faletto Verne, Ernesto

Ffrench-Davis, Ricardo

Gana, Eduardo

Hodara, Joseph

Hopenhayan, Benjamin

Lahera, Eugenio

Merinho, Claudio

Mortimore, Michael

Nunez del Prado, Arturo

Ramos, Joseph

Rodriguez, Octavio

Sunkel Weil, Oswaldo

B. Those affiliated with the Chicago Boys

Baraona, Pablo

Cauas, Jorge

Corbo, Vittorio

Fontaine, Ernesto

Kelly, Roberto

Larroulet, Cristian

Luders, Rolf

Piñera Echenique, Jose

C. Those affiliated with CIEPLAN

Ffrench-Davis, Ricardo

Meller, Patricio

Munoz Goma, Oscar

D. Others

Caputo, Orlando

Garreton, Manuel Antonio

Grunwald, Joseph

Leiva, Fernando

Moulian, Tomas

Sanfuentes, Andres

Soto, Angel

Vega, Humberto

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