

# **Chile, capitalism and liberty for the rich**

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ca. 1998

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## Doesn't Chile prove that the free market benefits everyone?

This is a common right-wing "Libertarian" argument, one which is supported by many other supporters of "free market" capitalism. Milton Friedman, for example, stated that Pinochet "*has supported a fully free-market economy as a matter of principle. Chile is an economic miracle*" [Newsweek, Jan, 1982]. Pinochet was the figure-head of a military coup in 1973 against the democratically elected left-wing government, a coup which the CIA helped organise. Thousands of people were murdered by the forces of "law and order" during the coup and Pinochet's forces "*are conservatively estimated to have killed over 11 000 people in his first year in power.*" [P. Gunson, A. Thompson, G. Chamberlain, **The Dictionary of Contemporary Politics of South America**, Routledge, 1989, p. 228]

The installed police state's record on human rights was denounced as barbaric across the world. However, we will ignore the obvious contradiction in this "*economic miracle*", i.e. why it almost always takes authoritarian/fascistic states to introduce "economic liberty," and concentrate on the economic facts of the free-market capitalism imposed on the Chilean people.

Working on a belief in the efficiency and fairness of the free market, Pinochet desired to put the laws of supply and demand back to work, and set out to reduce the role of the state and also cut back inflation. He, and "the Chicago Boys" – a group of free-market economists – thought what had restricted Chile's growth was government intervention in the economy – which reduced competition, artificially increased wages, and led to inflation. The ultimate goal, Pinochet once said, was to make Chile "*a nation of entrepreneurs.*"

The role of the Chicago Boys cannot be understated. They had a close relationship with the military from 1972, and according to one expert had a key role in the coup:

*"In August of 1972 a group of ten economists under the leadership of de Castro began to work on the formulation of an economic programme that would replace [Allende's one]. . . In fact, the existence of the plan was essential to any attempt on the part of the armed forces to overthrow Allende as the Chilean armed forces did not have any economic plan of their own."* [Silvia Bortzutzky, "*The Chicago Boys, social security and welfare in Chile*", **The Radical Right and the Welfare State**, Howard Glennerster and James Midgley (eds.), p. 88]

It is also interesting to note that "[a]ccording to the report of the United States Senate on covert actions in Chile, the activities of these economists were financed by the Central Intelligence Agency (CIA)" [Bortzutzky, **Op. Cit.**, p. 89]

Obviously some forms of state intervention were more acceptable than others.

The actual results of the free market policies introduced by the dictatorship were far less than the "miracle" claimed by Friedman and a host of other "Libertarians." The initial effects of introducing free market policies in 1975 was a shock-induced depression which resulted in national output falling by 15 percent, wages sliding to one-third below their 1970 level and unemployment rising to 20 percent. [Elton Rayack, **Not so Free to Choose**, p. 57] This meant that, in per capita terms, Chile's GDP only increased by 1.5% per year between 1974-80. This was considerably less than the 2.3% achieved in the 1960's. The average growth in GDP was 1.5% per year between 1974 and 1982, which was lower than the average Latin American growth rate of 4.3% and lower than the 4.5% of Chile in the 1960's. Between 1970 and 1980, per capita GDP grew

by only 8%, while for Latin America as a whole, it increased by 40%. Between the years 1980 and 1982 during which all of Latin America was adversely affected by depression conditions, per capita GDP fell by 12.9 percent, compared to a fall of 4.3 percent for Latin America as a whole. [Elton Rayack, **Op. Cit.**, p. 64]

In 1982, after 7 years of free market capitalism, Chile faced yet another economic crisis which, in terms of unemployment and falling GDP was even greater than that experienced during the terrible shock treatment of 1975. Real wages dropped sharply, falling in 1983 to 14 percent below what they had been in 1970. Bankruptcies skyrocketed, as did foreign debt. [Elton Rayack, **Op. Cit.**, p. 69] By the end of 1986 Gross Domestic Product per capita barely equaled that of 1970 [Thomas Skidmore and Peter Smith, *"The Pinochet Regime"*, pp. 137-138, **Modern Latin America**, Second Edition, Oxford University Press, 1989].

The Pinochet regime **did** reduce inflation, from around 500% at the time of the CIA-backed coup, to 10% by 1982. From 1983 to 87, it fluctuated between 20 and 31%. The advent of the "free market" led to reduced barriers to imports *"on the ground the quotas and tariffs protected inefficient industries and kept prices artificially high. The result was that many local firms lost out to multinational corporations. The Chilean business community, which strongly supported the coup in 1973, was badly affected."* [Skidmore and Smith, **Op. Cit.**]

However, by far the hardest group hit was the working class, particularly the urban working class. By 1976, the third year of Junta rule, real wages had fallen to 35% below their 1970 level. It was only by 1981 that they had risen to 97.3% of the 1970 level, only to fall again to 86.7% by 1983. Unemployment, excluding those on state make-work programmes, was 14.8% in 1976, falling to 11.8% by 1980 (this is still double the average 1960's level) only to rise to 20.3% by 1982. [Rayack, **Op. Cit.**, p. 65]. Unemployment (including those on government make-work programmes) had risen to a third of the labour force by mid-1983. By 1986, per capita consumption was actually 11% lower than the 1970 level. [Skidmore and Smith, **Op. Cit.**] Between 1980 and 1988, the real value of wages grew only 1.2 percent while the real value of the minimum wage declined by 28.5 percent. During this period, urban unemployment averaged 15.3 percent per year. [Silvia Bortutzky, **Op. Cit.**, p. 96] In other words, after nearly 15 years of free market capitalism, real wages had still not exceeded their 1970 levels.

The decline of domestic industry had cost thousands of better-paying jobs. The ready police repression made strikes and other forms of protest both impractical and dangerous. According to a report by the Roman Catholic Church 113 protesters had been killed during social protest against the economic crisis of the early 1980s, with several thousand detained for political activity and protests between May 1983 and mid-1984. Thousands of strikers were also fired and union leaders jailed. [Rayack, **Op. Cit.**, p. 70] The law was also changed to reflect the power property owners have over their wage slaves and the *"total overhaul of the labour law system [which] took place between 1979 and 1981. . . aimed at creating a perfect labour market, eliminating collective bargaining, allowing massive dismissal of workers, increasing the daily working hours up to twelve hours and eliminating the labour courts."* [Silvia Bortutzky, **Op. Cit.**, p. 91] Little wonder, then, that this favourable climate for business operations resulted in generous lending by international finance institutions.

One consequence of Pinochet's neo-classical monetarist policies *"was a contraction of demand, since workers and their families could afford to purchase fewer goods. The reduction in the market further threatened the business community, which started producing more goods for export and*

*less for local consumption. This posed yet another obstacle to economic growth and led to increased concentration of income and wealth in the hands of a small elite.*" [Skidmore and Smith, **Op. Cit.**]

It is the increased wealth of the elite that we see the true "miracle" of Chile. According to one expert in the Latin American neo-liberal revolutions, the elite *"had become massively wealthy under Pinochet"* and when the leader of the Christian Democratic Party returned from exile in 1989 he said that economic growth that benefited the top 10 per cent of the population had been achieved (Pinochet's official institutions agreed). [Duncan Green, **The Silent Revolution**, p. 216, Noam Chomsky, **Deterring Democracy**, p. 231] Thus the wealth created by the relatively high economic growth Chile experienced in the mid to late 1980s did **not** "trickle down" to the working class (as claimed would happen by "free market" capitalist dogma) but instead accumulated in the hands of the rich.

For example, in the last years of Pinochet's dictatorship, the richest 10 percent of the rural population saw their income rise by 90 per cent between 1987 and 1990. The share of the poorest 25 per cent fell from 11 per cent to 7 per cent. [Duncan Green, **Op. Cit.**, p. 108] The legacy of Pinochet's social inequality could still be found in 1993, with a two-tier health care system within which infant mortality is 7 per 1000 births for the richest fifth of the population and 40 per 1000 for the poorest 20 per cent. [**Ibid.**, p. 101]

Per capita consumption fell by 23% from 1972-87. The proportion of the population below the poverty line (the minimum income required for basic food and housing) increased from 20% to 44.4% from 1970 to 1987. Per capita health care spending was more than halved from 1973 to 1985, setting off explosive growth in poverty-related diseases such as typhoid, diabetes and viral hepatitis. On the other hand, while consumption for the poorest 20% of the population of Santiago dropped by 30%, it rose by 15% for the richest 20%. [Noam Chomsky, **Year 501**, pp. 190-191]

The impact on individuals extended beyond purely financial considerations, with the Chilean labour force *"once accustomed to secure, unionised jobs [before Pinochet] . . . [being turned] into a nation of anxious individualists . . . [with] over half of all visits to Chile's public health system involv[ing] psychological ailments, mainly depression. 'The repression isn't physical any more, it's economic - feeding your family, educating your child,' says Maria Pena, who works in a fishmeal factory in Concepcion. 'I feel real anxiety about the future', she adds, 'They can chuck us out at any time. You can't think five years ahead. If you've got money you can get an education and health care; money is everything here now.'"* [Duncan Green, **Op. Cit.**, p. 96]

Little wonder, then, that *"adjustment has created an atomised society, where increased stress and individualism have damaged its traditionally strong and caring community life. . . suicides have increased threefold between 1970 and 1991 and the number of alcoholics has quadrupled in the last 30 years . . . [and] family breakdowns are increasing, while opinion polls show the current crime wave to be the most widely condemned aspect of life in the new Chile. 'Relationships are changing,' says Betty Bizamar, a 26-year-old trade union leader. 'People use each other, spend less time with their family. All they talk about is money, things. True friendship is difficult now.'"* [**Ibid.**, p. 166]

The experiment with free market capitalism also had serious impacts for Chile's environment. The capital city of Santiago became one of *"the most polluted cities in the world"* due the free reign of market forces. [Nathaniel Nash, cited by Noam Chomsky, **Year 501**, p. 190] With no environmental regulation there is general environmental ruin and water supplies have severe pollution problems. [Noam Chomsky, **Ibid.**]

Since Chile has become a democracy (with the armed forces still holding considerable influence) some movement towards economic reforms have begun and been very successful. Increased

social spending on health, education and poverty relief has lifted over a million Chileans out of poverty between 1987 and 1992. In even the neo-liberal tiger has had to move away from free market policies and the Chilean government has had to intervene into the economy in order to start putting back together the society ripped apart by market forces and authoritarian government.

So, for all but the tiny elite at the top, the Pinochet regime of "economic liberty" was a nightmare. Economic "liberty" only seemed to benefit one group in society, an obvious "miracle." For the vast majority, the "miracle" of economic "liberty" resulted, as it usually does, in increased poverty, pollution, crime and social alienation. The irony is that many right-wing "libertarians" point to it as a model of the benefits of the free market.

## **But didn't Pinochet's Chile prove that "economic freedom is an indispensable means toward the achievement of political freedom"?**

Pinochet did introduce free-market capitalism, but this meant real liberty only for the rich. For the working class, "economic liberty" did not exist, as they did not manage their own work nor control their workplaces and lived under a fascist state.

As far as political liberty goes, it was only re-introduced once it was certain that it could not be used by ordinary people. As Cathy Scheider notes, "economic liberty" has resulted in most Chileans having *"little contact with other workers or with their neighbours, and only limited time with their family. Their exposure to political or labour organisations is minimal. . . they lack either the political resources or the disposition to confront the state. The fragmentation of opposition communities has accomplished what brute military repression could not. It has transformed Chile, both culturally and politically, from a country of active participatory grassroots communities, to a land of disconnected, apolitical individuals. The cumulative impact of this change is such that we are unlikely to see any concerted challenge to the current ideology in the near future"* [**Report on the Americas (NACLA) XXVI**, 4/4/93].

In such circumstances, political liberty can be re-introduced, as no one is in a position to effectively use it. In addition, Chileans live with the memory that challenging the state in the near past resulted in a fascist dictatorship murdering thousands (if not tens of thousands) of people as well as repeated and persistent violations of human rights by the junta, not to mention the existence of "anti-Marxist" death squads – for example in 1986 *"Amnesty International accused the Chilean government of employing death squads."* [P. Gunson, A. Thompson, G. Chamberlain, **The Dictionary of Contemporary Politics of South America**, Routledge, 1989, p. 86]

These facts that would have a strongly deterrent effect on people contemplating the use of political liberty to actually **change** the status quo in ways that the military and economic elites did not approve of. In addition, it would make free speech, striking and other forms of social action almost impossible, thus protecting and increasing the power, wealth and authority of the employer over their wage slaves.

As Kropotkin pointed out years ago, *"freedom of press... and all the rest, are only respected if the people do not make use of them against the privileged classes. But the day the people begin to take advantage of them to undermine those privileges, then the so-called liberties will be cast overboard."* [**Words of a Rebel**, p. 42]

Chile is a classic example of this.

Moreover, it is interesting to note that the leading expert of the Chilean "economic miracle" (to use Milton Friedman's words) did not consider that political liberty could lead to "economic liberty" (i.e. free market capitalism). According to Sergio de Castro, the architect of the economic programme Pinochet imposed, fascism was required to introduce "economic liberty" because:

*"it provided a lasting regime; it gave the authorities a degree of efficiency that it was not possible to obtain in a democratic regime; and it made possible the application of a model developed by experts and that did not depend upon the social reactions produced by its implementation."* [quoted by Silvia Bortzutzky, "The Chicago Boys, social security and welfare in Chile", **The Radical Right and the Welfare State**, Howard Glennerster and James Midgley (eds.), p. 90]

In other words, fascism was an ideal political environment to introduce "economic liberty" **because** it had destroyed political liberty. Perhaps we should conclude that the denial of political liberty is both necessary and sufficient in order to create (and preserve) "free market" capitalism? And perhaps to create a police state in order to control industrial disputes, social protest, unions, political associations, and so on, is no more than to introduce the minimum force necessary to ensure that the ground rules the capitalist market requires for its operation are observed?

As Brian Barry argues in relation to the Thatcher regime in Britain which was also heavily influenced by the ideas of "free market" capitalists like Milton Friedman and Hayek, perhaps it is:

*"Some observers claim to have found something paradoxical in the fact that the Thatcher regime combines liberal individualist rhetoric with authoritarian action. But there is no paradox at all. Even under the most repressive conditions . . . people seek to act collectively in order to improve things for themselves, and it requires an enormous exercise of brutal power to fragment these efforts at organisation and to force people to pursue their interests individually. . . left to themselves, people will inevitably tend to pursue their interests through collective action - in trade unions, tenants' associations, community organisations and local government. Only the pretty ruthless exercise of central power can defeat these tendencies: hence the common association between individualism and authoritarianism, well exemplified in the fact that the countries held up as models by the free-marketers are, without exception, authoritarian regimes."* ["The Continuing Relevance of Socialism", in **Thatcherism**, edited Robert Skidelsky, p. 146]

Little wonder, then, that Pinochet's regime was marked by authoritarianism, terror and rule by savants. Indeed, "[t]he Chicago-trained economists emphasised the scientific nature of their programme and the need to replace politics by economics and the politicians by economists. Thus, the decisions made were not the result of the will of the authority, but they were determined by their scientific knowledge. The use of the scientific knowledge, in turn, would reduce the power of government since decisions will be made by technocrats and by the individuals in the private sector." [Silvia Borzutzky, **Op. Cit.**, p. 90]

Of course, turning authority over to technocrats and private power does not change its nature - only who has it. Pinochet's regime saw a marked shift of governmental power away from protection of individual rights to a protection of capital and property rather than an abolition

of that power altogether. As would be expected, only the wealthy benefited. The working class were subjected to attempts to create a "perfect labour market" - and only terror can turn people into the atomised commodities such a market requires.

Perhaps when looking over the nightmare of Pinochet's regime we should ponder these words of Bakunin in which he indicates the negative effects of running society by means of science books and "experts":

*"human science is always and necessarily imperfect. . . were we to force the practical life of men - collective as well as individual - into rigorous and exclusive conformity with the latest data of science, we would thus condemn society as well as individuals to suffer martyrdom on a Procrustean bed, which would soon dislocate and stifle them, since life is always an infinitely greater thing than science."* [**The Political Philosophy of Bakunin**, ed. G.P. Maximov, p. 79]

The Chilean experience of rule by free market ideologues prove Bakunin's points beyond doubt. Chilean society was forced onto the Procrustean bed by the use of terror and life was forced to conform to the assumptions found in economics textbooks. And as we proved above, only those with power or wealth did well out the experiment.



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