

How 'Chicago boys' wrecked Chile

by Mark Sonnenblick

In mid-1973, Leon Vilarin organized Chile's famous "truckers' strike," which helped topple the elected regime of Salvador Allende. Today, Vilarin—still head of the national truck owners' syndicate—complains bitterly, "228 of our members are in jail for debts and 11 have committed suicide. An economic crisis has become a moral crisis because people are losing everything." Vilarin, along with most of Chile's former capitalist class, are cursing economist Milton Friedman, the author of their destruction.

Immediately after the Sept. 11, 1973 coup against President Allende, Chicago monetarist Milton Friedman and his local protégés, known in Chile as "los Chicago Boys," outlined a program for "saving the Chilean economy from chaos." Friedman's program, like Chairman Mao's, consisted of "seven reforms" to dismantle all agencies of state intervention in the economy and turn Chile into a model of "free enterprise and free trade." Their program, which easily won approval from the International Monetary Fund (IMF), mandated massive tax increases, the elimination of tariff protection for national industry, large devaluations, free-floating prices, and wages frozen by dictatorial police powers.

Milton Friedman assured *Business Week* magazine Nov. 26, 1979 that Chile "will be regarded as one of the economic miracles of the twentieth century." What kind of miracle?

Savage reductions in real wages and the opening of floodgates to imported goods caused Chile's manufacturing output to decline in 1974 and then fall another 27 percent in 1975. Friedman then recommended the firing of 25 percent of public employees; the dictatorship complied. Manufacturers closed their plants and found profits importing luxuries for the few oligarchic consumers. The president of the Agricultural Producers Association, which also had helped make the 1973 coup, noted bitterly in 1979, "Tens of thousands of small and medium-sized farmers who produce wheat, rice, corn, and sugar beets are ruined" by imports from countries where farm labor is better paid and more productive.

A bankers' paradise

For bankers, Chile was nothing less than the "economic miracle" which the City of London's Institutional Investor baptized it in 1979. It paid debt on time, gave away the industries built up by the Chilean taxpayers to foreign speculators at a fraction of their true value, and sold the nation's rich underground mineral deposits to the same foreigners for

similarly ridiculous low prices.

The economy has not been "stabilized"; it has been *destroyed* by the "structural reforms" imposed by Friedman and his associates. Rather than "cleaning out inefficiency," have markedly reduced the productive efficiency of the economy; resource allocation is increasingly irrational.

University of Chile surveys found a remarkable shift in the deployment of the labor force between 1973 and 1977. Productive workers in industry, agriculture, and mining fell from 30.4 to 26.9 percent of the employed population; those in useful services such as transport, construction, and education fell comparably. In contrast, the percentage of those paid for totally non-productive jobs, paper-pushing in the burgeoning banking area and other such services, rose from 34.4 to 53.7 percent of the labor force.

The shift out of production has been accompanied by trade deficits which have expanded exponentially since 1977. In 1981 Chile's trade deficits was equal to 62 percent of its total exports; probably the world's worst performance.

The bubble bursts

The Friedman "success story" has been propped up only by massive infusions of foreign loans from the bankers most interested in promoting it. When "spendthrift" Allende was killed in 1973, he left a total foreign debt of just over \$3 billion, only about \$600 million more than what he had started with three years earlier. Even with Pinochet's "miracle" shelling out more than half of the country's export income for debt service, Chile's debt has now blossomed to \$17 billion. In contrast to the \$200 million debt service paid in 1973, Chile has to pay *\$4.7 billion this year*. Chile, more bankrupt than ever, is again seeking an \$800 million bailout from the IMF.

During the last year, even the fantasy of "economic success" has been punctured by waves of bankruptcies and new rounds of unemployment. Domestic consumption is down 30 percent. Textile companies have fired 41 percent of their labor force since 1980; metal-working firms have cut payrolls by about 50 percent.

The record bankruptcies of the long-looted productive sector during 1982 were so severe that even the banks which had run the blood letting were threatened with bad debts equal to almost their entire capital and reserves. Chile's monetary authorities have attempted one policy shift after another in an attempt to prevent the oligarchy's banks from crumbling and keep Gen. Augusto Pinochet in the saddle.

Pinochet is desperately trying to get out from under the wreckage left by Milton Friedman, and he is using government intervention to do it.

Over the past eight months, three economy ministers have tried to contain the collapse with massive devaluations, cuts in real wages, increases in tax levels, and government intervention in support of the flagging banks. There is yet no end in sight to the collapse. The prospects are for more truck owners to be in jail, as Milton Friedman's experiment turns into an economic, as well as political, nightmare.