Economic Freedom and Citizen Repression
Two Sides of the Same Coin in Latin America’s Neoliberal Era

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Abstract

As the Latin American political landscape shifted in the 1970s to include several right-wing and authoritarian juntas, social and economic factors caused these regimes to turn to neoliberalism to stimulate their economies and solidify their power. Over the next three decades, neoliberalism impacted most of the region with differing degrees of penetration and longevity. It will be argued that various actors contributed to the rise of neoliberalism in Chile and Argentina, including each nation’s military, key political figures and the University of Chicago’s Economics Department. The way in which power was distributed following the coups of Chile and Argentina decisively determined the entrenchment of neoliberal policies in each nation. It was not until the 1980s debt crisis the stark divergences in neoliberalism’s effectiveness would come to light as each nation fought to recover. Finally, the region’s pattern of economic growth following the crisis will be explored to understand how the legacy of neoliberalism remains intact.

Introduction

In the 1970s, right-wing and authoritarian juntas in Latin America faced a series of challenges that weakened their grasp on power. Populations were mobilizing, threatening the traditional structures that granted regimes authority. Moreover, economic prospects looked bleak, as nations like Argentina were forced to deal with failing import substitution industrialization schemes that emptied government coffers and isolated economies (Rodríguez 2011, 6). A 1973 coup established a military regime in Chile, which facilitated an opportunity for Latin America to dabble with neoliberal policies, promoted by the United States.

Over the next three decades, neoliberalism impacted most nations in Latin America with differing degrees of penetration and longevity. The debt crisis the region experienced in the early 1980s revealed stark divergences in nations’ experiences with neoliberal policies. Chile’s pragmatic response to the crisis was successful, demonstrated by its ability to establish a stable export-oriented system. In contrast, Argentina struggled, instituting fiscal and monetary policies prematurely to address severe hyperinflation. What characterizes Latin American neoliberalism and how did the two seemingly-similar nations of Chile and Argentina end up in such different positions?

This paper will begin with an overview of the evolution of governing strategies in Latin America, imperative in understanding the rise
of neoliberalism in the region. Next, a comprehensive definition of neoliberalism as it was experienced in Latin America will be provided. Subsequently, an examination of the socio-economic and political factors that contributed to Chile and Argentina’s differing experiences with neoliberal policies will be discussed. Therefore, how power was distributed following the coups of the 1970s will be explored. Moreover, the responsibility of American economists in implementing neoliberal policies will be addressed. Finally, how each nation fared after the 1982 economic collapse will be evaluated.

The Evolution of Decision-Making in Latin America

From the offset of colonization, Latin American populations were forced into class-driven political and economic systems. These systems remained even after the Spanish and Portuguese withdrew in the nineteenth century. Fierce political conflict was evident at every level of society, demonstrated by the installation of the *encomienda* – a system whereby colonists were entrusted with the evangelization of local populations, as well given authoritarian control over native labour (Rodríguez 2011, 4). Latin America adopted a production structure based on plantation agriculture. This soon proved to be unsustainable and necessitated the importation of African slave labour to meet demand as the native population dwindled. The output-driven, labour-intensive process produced unequal income distribution that left lasting class legacies in many Latin American nations to this day.

By the mid-nineteenth century, most nations had attained *de jure* independence from their colonizers, but class power structures remained (Guerra 1994, 6). Landed elites needed not to occupy themselves with maintaining loyalties to the metropole and could focus on building political systems that maintained class relations to their benefit. Thus, elites managed to block reforms that would have established a high tax base and well-defined property rights, foundational assets in constructing liberal democracies. Blocked by elites, governments were unable to accumulate capital the necessary to fund investment in infrastructure, public goods and human capital (Ochoa 1987, 975).

During the 1930s, Chile was “controlled by families who inhabited four square blocks in central Santiago” (Bakewell 1997, 424). Although technological advancement and immigration led to urbanization throughout the region, landed elites maintained the power balance necessary to prevent political mobilization of the lower and working classes. Argentina had the only urban-based party to achieve power pre-World War One, but even it failed to challenge elites in areas of labour rights
and economic development (Rodríguez 2011, 5). The Great Depression caused a fall in world demand that pushed Latin American nations away from manufacturing goods for export markets and instead shifted production to satisfy domestic demand for previously imported goods, in a process known as import-substitution industrialization (Thorp 1984, 34). A sharp increase in the size of the workforce and continued urbanization also changed the political power structure of the working class, as urban workers employed in the manufacturing sectors began to demand protectionist policies. The political power of urban workers could no longer be suppressed.

Thus, charismatic, middle-class politicians recognized an opening in their journey to power: all it would take was the support of a newly-established, politically empowered urban class. The success of these leaders depended on their ability to navigate an interlocking system of clientelism and political patronage (Malloy 1977, 129). Militaries grew in importance as they were called upon to protect fragile power structures that populist leaders had carefully constructed. One such leader, Juan Perón, was able to successfully exploit shared interests with the Argentine army, necessary to maintain control over a population growing tired of the failures of import substitution industrialization. By the 1950s, one thing was clear to politicians seeking power in Latin American nations: military support was key to regime survival.

**Defining Neoliberalism and its Emergence in Chile and Argentina**

Neoliberalism is the term utilized to describe the twentieth century resurgence of *laissez-faire* economic liberalism developed in nineteenth-century Europe. In the latter half of the twentieth century, the neoliberal project was identified with a set of prescriptive development policies issued by the so-called “Washington Consensus” institutions including the World Bank and the International Monetary Fund (Harvey 2005, 15). These policies sought to retrench the state’s role, privatise assets and cut government expenditures. Neoliberal theorists believed society was best served by maximum market freedom and limited state intervention. According to neoliberal thinkers, the government should maintain macroeconomic stability, provide public infrastructure, enforce contracts and contribute to the development of institutions designed to improve market conditions (Wade 1990).

Key sectors of national militaries identified the state as the cause for market failures that led to civil unrest, and stunted growth. The State was accused of clientelism, inefficient public spending, high inflation
and unsustainable macroeconomic conditions. With the influence of American propaganda and promise of military support, these key sectors of the military became empowered to topple what they believed to be ineffective state apparatuses. The coups Chile and Argentina experienced during the 1970s and the military regimes established possessed the same aim: end social unrest and economic stagnation by imposing market relationships as the predominant form of social organization and governance (Taylor 2006, 22). Both regimes sought to carry out an ‘ideological cleansing’ of existing political movements, especially Argentina, where populism and the political mobilization of the masses had become deeply entrenched (20).

The US supported both coups in conjunction with ruling elites who saw dictatorial regimes as a way to re-establish class power structures and protect their personal privileges. Both coups occurred in contexts of class conflict, including revenge-driven violence, left-wing guerrillas as well as labour union mobilization (Taylor 1998, 81). Once in power, the military dictatorships in Chile and Argentina opened their economies to foreign markets, dissolved key institutions of governance, and banned political parties. Neoliberal policies and the dissolution of political institutions they entailed offered to military regimes an effective way to ‘govern from a distance,’ providing them the ability to disarm social forces and establish order without appearing to compromise individual autonomy, another key tenet of neoliberalism (Fridman 2010, 271).

**Status of the Junta: Post-Coup State and Society Dynamics**

Following the 1973 coup, the Chilean military established a tripartite, corporatist power-sharing arrangement in which government was distributed evenly across military branches. Renovation of the bombed La Moneda Palace had not even commenced before General Augusto Pinochet imposed his authority over the military, arguing short-term political stability required a firm hand. Pinochet won the nickname ‘sultan,’ due to his capacity to concentrate power and ensure a pyramidal form of allegiance (Cavallo 1988, 242). Pinochet designed an environment where all sectors of the military were guided by common objectives: repress opposition, eliminate political participation of civil society, and restructure political institutions. Military units moved to ‘clean-up’ neighbourhoods identified as strongholds of ‘the left,’ labour unions and political parties were offered the choice to voluntarily dissolve or forcibly ‘recess’ and in 1980 a new constitution was drafted which legitimized military authority in all aspects of governance (Rodríguez
Argentina’s military had a more difficult time reorganizing following their 1976 coup due to factional divisions between the *Colorados* and the *Azules*, two military factions which who differed in their beliefs about the role Peronist policies should play in the new governance structure (Canello 2004, 239). Fragmentation within the establishment limited its ability to suppress violence between sectors of the population still loyal to Peronist Argentina. *El Proceso de Reorganización Nacional*, the official name of the Argentine dictatorship, was described as ‘feudal’ due to the internal disputes regarding all decisions made regarding political and economic policy (Cavallo 1988, 241). Because each armed force had the ability to veto ministerial decisions, few of the structural policies necessary to centralize power passed (Boisard 2010, 112).

**The Impact of the Chicago Boys on Neoliberal Penetration**

In the mid-1970s, the University of Chicago’s Economics Department signed exchange agreements with several universities in Latin America where students received training in US neoclassical economics. The most notable of these universities were The School of Economics of Pontificia Universidad Catolica (PUC) in Chile and the University of Cuyo in Mendoza, Argentina (Undurraga 2015, 17). The University of Chicago economists involved in the entrenchment of neoliberal capitalism in Latin America were known as the ‘Chicago Boys’.

The Chicago Boys had a pre-established relationship with Jaime Guzman, one of Pinochet’s closest advisors, gaining the technocrat’s direct access to Chile’s dictatorship (Gárate 2017). The Chicago Boys’ takeover of Chilean economic policy hit hard and fast in 1975, convinced implementing their policies by force would prevent further unrest (Clark 2017, 1353). Policies were designed to reconstruct a powerful capitalist elite capable of ‘exercising its hegemony over the state and civil society’ (1355). The Chicago Boys were instrumental in drafting the 1980 constitution, which placed limits on the power of domestic institutions and transferred economic policymaking authority to the military (L. Clark 1988, 81). Pinochet’s ministers were given resources to experiment with creating markets in housing, health, pensions, and education. A ‘cleansing operation’ was carried out in public universities, replacing traditional economic scholars with Chicago-style neoliberal economists (Möckeberg 2005, 154). In a 2007 interview, Chilean economist Ricardo Ffrench-Davis, who studied under the Chicago Boys in the 1960s, described Chile’s neoliberalism as ‘much more intense
than in Argentina, Mexico or Brazil. Seventeen years of Pinochet, the takeover of public universities and the purge of economic faculties were crucial for the conversion of the business associations to neoliberalism’ (Ffrench-Davis 2007, 48).

In Argentina, the University of Cuyo and other institutions that embraced Chicago economics were not as intellectually or politically relevant as the PUC, leaving them less attractive to US economists (Fridman 2010, 278). Additionally, neoliberal policies were not embraced until Minister of the Economy José Alfredo Martínez de Hoz settled into office in the late 1970s (Undurraga 2015, 17). Persistent differences across the private sector and fragmentation within the Junta prevented the full implementation of his plans. While Martínez de Hoz sought to slash government spending and remove power from political institutions, the Junta borrowed money from abroad to fund public works and social welfare spending. Martínez de Hoz recognized his policy objectives were overly ambitious for the decentralized political system in which he was operating. Thus, he scaled back and concentrated on trade, exchange rate manipulation and financial policies (Novaro 2006, 94). Meanwhile, he let go of the structural conditions necessary for the Chicago Boys to operate in. The Junta’s failure to provide de Hoz the resources and authority he required to effectively implement neoliberal policies directly contributed to its decline in the early 1980s.

Post-Economic Collapse: Chile Persevered

Decades of uncontrolled borrowing from international creditors for industrialisation led many Latin American countries to reach a point where foreign debts exceeded earning power in what is known as La Década Perdida, or “The Lost Decade” of the 1980s. Economic growth stagnated, unemployment rose to unimaginable levels, and inflation reduced the buying power of the middle class. Most nations, including Argentina, were forced to adopt export-oriented industrialization strategies in-line with neoliberal policies advocated by international institutions in the 1970s. Chile, who had most embraced neoliberalism and represented the quintessential Chicago Boys experiment, was one of two nations to adopt reformist policies following the 1982 crisis, leading it out of the recession badly beaten, but able to fight another day.

The 1982 banking crisis in Chile produced major social costs, including a 13.6% decline in GDP and a 25% rise in unemployment (Kurtz 2001, 13). Popular protests were easily suppressed by the Pinochet regime. The regime promoted a series of state interventions that deviated from Chicago policies, including tariff increases and selective export
incentives, the regulation of financial markets and the state takeover of collapsed private banks. Policymakers from the regime experienced ‘institutional learning’ during the 1980s, allowing for the loosening of ideological commitments to neoliberalism in favour of pragmatic approaches that would allow Chile to recover (Montero 1993, 38). Chile placed copper mining, the key national industry, into state hands (Undurraga 2015, 22). It provided state subsidies to non-traditional export industries such as fishing and forestry, which contributed to a significant increase in exports that devalued the exchange rate. By the 1990s, the average yearly growth rate centred 7 percent (Morley 1999, 24). Under Pinochet, Chile’s macroeconomic policy remained far more stable than that of any other country in the region.

Military rule ended in 1990 and two decades under the Concertación, a coalition of centre-left parties, began. A practical approach to neoliberalism dictated economic policy during this period, while the policy was tempered to promote greater social equality. The Concertación aimed to counterbalance governmental unpopularity accumulated during the dictatorship by introducing social policies like labour and tax reforms (Han 2012, 45). Despite persisting structural inequalities, improved material conditions brought by capitalist modernization helped the government maintain popular support for the neoliberal model. The quality of housing, infrastructure and education improved dramatically under the Concertación. By the turn of the century, Chile’s expansion of its credit market effectively democratized consumption across new sectors, creating a new class of consumers. While Chile’s reformist response to the 1980s crisis developed the economy and improved standard of living well into the turn of the century, Argentina faced a different reality (Olavarria-Gambi 2010, 118).

The social reaction to the economic crisis as well as Argentina’s demoralizing defeat in the 1982 Falklands War was massive, leading to the discrediting of the Junta, and doubts as to its ability to bring Argentina out of crippling debt and poverty. Raul Alfonsin was democratically elected in 1983 by a fed-up population in search of prosecution of the Junta and the restoration of justice (Undurraga 2015, 20). Alfonsin increased government spending and raised wages in an attempt to stimulate consumption, despite a chronic inflation rate that exceeded more than 1000% annually (King 2010, 10). Between 1983 and 1987, Argentina was placed under three separate austerity programmes supervised by the IMF and by 1988 the IMF refused to continue lending (De Beaufort Wijnfolds 2003, 101). The collapse of public enterprises during the late 1980s led to privatization throughout the nation.
In 1989, Peronist Carlos Menem was elected to power and proposed drastic reforms to deal with the hyperinflation crisis, decimating all aspects of Argentine state and society. The threat of losing control of his government led Menem to embrace the Washington Consensus. In 1991, Argentina adopted the Convertibility Plan, which required every peso issued by the Central Bank to be backed by an equal amount of US dollars in its coffers (King 2010, 10). The Menem Administration hoped to establish both domestic and international credibility and limit the amount of local control over monetary and fiscal policy. The Convertibility Plan succeeded in raising output and achieving a rapid reduction in inflation and interest rates. However, in the late 1980s, Argentina opened its financial markets to short-term investments, making it vulnerable to the volatility of the international financial market. National industries previously accustomed to tariff barriers and protection could no longer compete. Unemployment soared, poverty became increasingly visible, and in 2001 Argentina defaulted on 132$ billion USD (Levy 2007, 23). In 2002, 57.5% of Argentinians were living under the poverty line (Fernández Valdovinos 2005, 2). Argentina’s experience with seemingly-forced globalization became representative of the ‘black holes’ down which nations would disappear if they could not survive under the new rules of the international marketplace (Munck 2003, 501).

Final Remarks

Pinochet’s ability to concentrate power and organize his military through the use of common goals enabled him to implement neoliberal policies in Chile. The political and institutional conditions of the time welcomed American neoliberal economists into the nation, who privatized firms and developed a class of capitalist elites who would maintain the system. Comparatively, Argentina’s post-coup experience was less streamlined; the disorganized military in conflict with itself was unable to focus on anything beyond attempting to curb unrest. The Chicago Boys weren’t as attracted to Argentina, leaving Finance Minister Martínez de Hoz to transition the unstable nation to neoliberalism alone. The fragmented Junta prevented him from implementing structural changes necessary to reap the benefits of neoliberal policies. Instead, he contributed to economic conditions that made Argentina far worse off as the debt crisis hit (Fridman 2010, 285).

The 1980s crisis impacted Argentina and Chile in the short-run quite similarly, however, what differentiated the two nations was their ability to recover. Chile faced high unemployment and sharp decreases
in GDP, so it instituted pragmatic reformist policies. The nationalization of key industries and protection offered to several non-traditional export industries allowed Chilean growth to soar heading into the 1990s. The Concertación worked to pay off the costs of dictatorship through social reforms and the development of public goods. Argentina fared differently following the crisis. A democratic government quickly came into rule but was not ready to pay the transitional costs Chile eventually did due to their experiences under the dictatorship. Neoliberal policies of austerity forced by the IMF throughout the 1980s led to uncontrollable inflation, which Menem was able to reduce with the introduction of the Convertibility Plan. Unfortunately, this was too little too late. Argentina’s decision to open its economy prematurely resulted in its defaulting in 2001.

While Chile’s economy experienced dramatic growth following the crisis and leading into the twenty-first century, grave inequalities endure as a result of the class structures which continue to dominate Chilean politics (Nef 2003, 19). Latin America possesses some of the world’s highest inflation rates and remains the most unequal region in the world (Munoz 2013). There exists extreme inequality in the distribution of political and economic power, which fuels policy instability and biases policies in favour of economically elite groups, further entrenching this inequality. Rent-seeking practices persist, contributing to the poor institutional decision-making structure inherited from colonial times. Meanwhile, the region’s abundance of natural resources continues to be allocated inefficiently, due to poorly defined property rights (Rodríguez 2011, 13). Chilean economist Orlando Letelier, who was brutally murdered under the Pinochet regime, wrote near his death, ‘repression for the majorities and economic freedom for small privileged groups are in Chile two sides of the same coin’ (Letelier 2016). Significant growth in Chile associated with neoliberalism has come at the cost of the oppression of many. Neoliberalism sowed seeds of inequality and uneven growth into Latin America, leaving a lasting legacy that nations will need to commit energy to overcome.

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