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**Milton Friedman in Chile: Shock Therapy, Economic
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Milton Friedman in Chile: Shock Therapy, Economic Freedom, and Exchange Rates

by

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Abstract

We analyze Milton Friedman's two visits to Chile, in March 1975 and November 1981. We rely on a number of sources, including Friedman's archives, press archives in Chile and the rest of the world, interviews, and the papers and recollections of some of those who accompanied Friedman during his meeting with Pinochet. Although Friedman's 1975 visit has been widely discussed, his 1981 visit has been largely neglected. However, this visit was particularly important as it preceded a severe currency and banking crisis, stemming from an overvalued fixed exchange rate. The crisis put at risk the "Chicago Boys" influence and the political and economic liberalization process. We analyze Friedman's views regarding Chile's pegged exchange rate strategy followed between 1979 and 1982, and his position on economic and political freedom.

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1. Introduction

At the end of March 1975, while Pinochet was in power, Milton Friedman visited Chile. For six days he participated in seminars, met with government officials, gave public talks, and gave several interviews to newspapers and magazines. At the time, the main economic challenge in Chile was inflation. Although it had fallen from its peak of almost 700 percent in 1973, by the end of 1974 it was still 369 percent. During a forty-five minutes meeting with Pinochet, Friedman suggested, among other measures, a sharp reduction in the rate of growth of the money supply and a drastic cut in government expenditure. Within a month he sent Pinochet a letter in which he summarized these recommendations. This visit generated much debate and scholarly attention.² More than twenty years later, Friedman felt the need to set the historical record straight. In his 1998 autobiography (with his wife Rose), he devoted a complete chapter to this polemical trip (Friedman and Friedman, 1998, Chapter 24 entitled “Chile,” pp. 397-408), plus an appendix with documents on Chile (*ibid.*, pp. 591-602).

On October 14, 1976, a year and a half after this visit, the Royal Swedish Academy of Sciences announced that Milton Friedman was the winner of that year’s *Prize in Economic Sciences in Memory of Alfred Nobel*. Ten days after the Academy announced the award, the *New York Times* published two letters by previous Nobel laureates criticizing Friedman’s alleged role as an adviser to the Pinochet regime.³ The controversy did not die after Friedman received the prize. Critics of market orientation and “neoliberalism” continued to argue that Friedman was an accomplice of Pinochet and his henchmen.

Friedman traveled to Chile a second time in November 1981, when Pinochet was still in power. In contrast to his 1975 trip, this second visit generated no international interest. In fact, even devoted followers of Friedman and his thinking are generally unaware of this voyage. This is surprising, as this visit took place a few months before the eruption of a major financial and currency crisis that resulted in a generalized collapse of Chile’s banking sector, and generated unemployment in excess of 25%.

An important question regarding Friedman and Chile is whether the success of the Chilean economy – it grew at almost 6% on average for 15 years (1986-2000) – was due to the

² See, for example, Fisher (2009), Frazer (1988, 327-64), Hammond (2003), Montes (2016) and Ruger (2011, pp. 51-7). On Chicago and Latin America, Harberger (2016) is an important source. On Friedman’s thought and policy views see Nelson (2018) and especially Cord and Hammond (2016), a recent edition with 40 chapters.

³ One was signed by George Wald and Linus Pauling, and the other by David Baltimore and Salvador Edward Luria. Although both letters were published on October 24, 1976, they were dated October 14, 1976, the same day Friedman’s Nobel Prize was announced.

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3 implementation of Friedman-inspired policies, or if, on the contrary, Chile did well in spite of the
4 policies undertaken during the early years of the military dictatorship. This question is related to
5 the deep and extremely costly currency and banking of crisis of 1982, a crisis that resulted in a
6 collapse in GDP (14% in 1983) and skyrocketing unemployment. The crisis also resulted in the
7 ousting from the government of the old guard of the Chicago Boys.⁴ According to Joseph
8 Stiglitz, this crisis was the result of fixing the exchange rate at an artificially high level, and
9 deregulating the banking sector too fast and too broadly. In an extensive interview for the 2002
10 documentary “*The Commanding Heights*” Stiglitz said:
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16 “[W]hen they [the military] followed Friedman’s prescription, Chile had a crisis;
17 the free banking experiment that was done under the intellectual leadership of that
18 free market hypothesis... [resulted in] the kind of bank boom and pause that
19 we’ve seen around the world.”
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23 From there Stiglitz went on to state that the good performance of the Chilean economy after
24 1985 was not “an example of the free market; it’s an example of a success of combining markets
25 with appropriate regulation.”⁵ Stiglitz was not the only prominent critic of Friedman’s
26 involvement in Chile. In a 2010 article titled “*Fantasies of the Chicago Boys*,” Nobel Prize
27 winner Paul Krugman argued that Chile’s rapid growth in the 1980s and 1990s was not the result
28 of Chicago-oriented policies; according to him, it was the consequence of positive external
29 conditions that triggered massive capital inflows and foreign direct investment.⁶
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34 The controversy on Friedman’s role in Chile’s economics and politics has had considerable
35 staying power and lingers until today. Scholars and public intellectuals continue to discuss his
36 legacy. For example, in a 2010 article published in the *Guardian*, Naomi Klein stated:
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39 “After the coup and the death of [President Salvador] Allende, Pinochet and his
40 Chicago Boys did their best to dismantle Chile’s public sphere, auctioning off
41 state enterprises and slashing financial and trade regulations. Enormous wealth
42 was created in this period but at a terrible cost: by the early 80s, Pinochet’s
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48 ⁴ Chicago Boys was the name given to a group of economists trained at the University of Chicago, who helped
49 design and implement the market-oriented reforms in Chile. The Chicago Boys were the premier representatives of
50 what political scientist Jorge Domínguez (1997) called “*technopols*,” or economists that became highly influential in
51 the 1970s, 1980s and 1990s in many developing and post-communist countries. Valdés (1995) provides an analysis
52 of the origins and views of the Chicago Boys.

53 ⁵ A complete transcript of Stiglitz interview may be found at:

54 http://www.pbs.org/wgbh/commandingheights/shared/minitext/int_josephstiglitz.html.

55 ⁶ *The New York Times*, March 3, 2010
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3 [Milton] Friedman-prescribed policies had caused rapid de-industrialisation, a
4 tenfold increase in unemployment and an explosion of distinctly unstable
5 shantytowns. They also led to a crisis of corruption and debt so severe that, in
6 1982, Pinochet was forced to fire his key Chicago Boy advisers and nationalise
7 several of the large deregulated financial institutions.”
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11 Other recent participants in this debate include Clark (2017, 2018), Ahumada (2019), Bockman
12 (2019), and Kedar (2019).⁷ Milton Friedman’s views on monetary policy, exchange rates and
13 fiscal “shocks” have been recently discussed by authors such as Irwin (2018) and Nelson (2018).
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17 In this paper we analyze in great detail Friedman’s two visits to Chile, and the relation between
18 his thinking and the economic policies implemented by the Chicago Boys and supported by
19 Pinochet. Our analysis differs from previous work in two important respects: First, we focus on
20 the reaction to Friedman’s visits, not only internationally, but also in Chile. This analysis is
21 based on press archives, on the memoirs and recollections of some of the key Chicago Boys, and
22 on interviews with some of the main actors, including those who were present during Friedman’s
23 meeting with Pinochet. While there have been numerous discussions on the international reaction
24 (in the United States and Europe, mostly) to Friedman’s first visit, very few authors have focused
25 on how he was received in Chile. Second, we analyze the 1981 visit, when he attended a meeting
26 of the Mont Pèlerin Society in Viña del Mar in November of that year. In this part of the paper
27 we concentrate, in particular, on what Friedman said – or failed to say – with respect to Chile’s
28 experiment with fixed exchange rates. Was he critical about the government’s experiment with
29 pegged rates, implemented in 1979? Did he ring an alarm bell regarding the dangers of such a
30 policy? Was he consistent with his view that flexible exchange rates were preferable for all type
31 of countries, including the poor ones?⁸ Answering these questions is important to evaluate the
32 extent to which Friedman’s policies affected the performance of the Chilean economy. We also
33 discuss what Friedman said on that occasion on the relation between economic and political
34 freedom.
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44 **2. Brief historical background: The Pinochet coup and the Chicago Boys**

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50 ⁷ See, also, Grandin (2006), Klein (2007). A nontrivial fraction of the recent literature on the subject consists of
51 rather biased and partisan contributions.

52 ⁸ Friedman wrote about the superiority of flexible exchange rates for advanced nations in the 1950s. At the time,
53 however, he did not venture an opinion about the poorer nations. In later writings he argued that even poor and
54 small countries would benefit from flexibility; throughout his life he was a severe critic of the “fixed but
55 adjustable” exchange rate regime instituted at the Bretton Woods conference (see Section 4.4 of this paper).
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3 The Chicago Boys' role in the military government was initially restricted to advisers. During
4 the early months, the military gravitated towards conventional views, including protectionism
5 and control, and appointed traditional industrialists to senior government positions. As Valdés
6 (1995) has pointed out, it was only slowly that the Chicago Boys' views became dominant.⁹ This
7 gain in influence was the result of two factors: first, the original gradualist approach to solving
8 the Unidad Popular economic imbalances – and especially to eliminating inflation – did not work
9 out as anticipated, and second, in the midst of the crisis, the Chicago Boys' proposed policies
10 that appeared to be internally consistent.¹⁰
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16 Jorge Cauas, a respected Christian Democrat who had been Vice Governor of the Central Bank
17 during Frei Montalva's government, was named Minister of Finance in July, 1974. He shifted
18 gears and moved away from gradualism. The new approach was publicly announced on April 24,
19 1975, shortly after Friedman's first visit. "The National Recovery Plan", was based on major and
20 across the board cuts in government expenditures, and on a very significant reduction in the rate
21 of money creation by the Central Bank. During the next two years the economy was opened to
22 international competition, and a privatization program was put in place.¹¹ Most banks and more
23 than 500 state-owned enterprise – many of which had been expropriated during the Allende years
24 – were privatized, and many regulations were eliminated.¹² In late 1977 the program appeared to
25 be paying off. Inflation had declined to 84 percent that year, and GDP was growing at almost 10
26 percent per annum. The implementation of the Chicago Boys' economic program was neither
27 easy nor straightforward. In particular, industrialists that had benefited from decades high import
28 tariffs strongly opposed the opening up of the economy and the deregulation of business.
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36 In June, 1979 the government decided to use the exchange rate as an anchor to bring inflation
37 down to 3 to 4 percent per year. The currency was fixed at a rate of 39 pesos per dollar. Inflation,
38 however, declined more slowly than anticipated, and the real exchange rate strengthened
39 significantly. As in other stabilization attempts with exchange rate anchors, an increasingly large
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44 ⁹ The term "Chicago Boys" was coined by Carmen Tessada, director of student's affairs at the Department of
45 Economics at *Pontificia Universidad Católica de Chile*, already in the early 1960s. She worked at the Department of
46 Economics for more than 45 years and died in 2004. The Chicago program in Chile was initially supported by the US
47 government as part of the "Point Four" program of international development assistance (see Glick (1957), Hira
48 (1998) and Brender (2010)). For more details on the Chicago Boys, see Rosende (2007a, 2007b).

49 ¹⁰ These policy proposals were summarized in a document written by a group of Chicago Boys during the first half
50 of 1973. According to those who handled the document, it was heavy as a brick; since then it has been known as
51 "The Brick" – "*El Ladrillo*" in Spanish. It was published, with a foreword by Sergio de Castro, by *Centro de Estudios*
52 *Públicos* in 1992 (see de Castro, 1992).

53 ¹¹ For Chilean privatizations see Hachette and Lüders (1993) and for a critical assessment Marcel (1988).

54 ¹² Hachette y Lüders (1993, p. 3 table 1.1) account for 596 state owned companies equivalent to 39 percent of GDP
55 at the end of 1973.
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3 external deficit, which was mostly financed by short term capital inflows, developed. By mid-
4 1982, merely nine months after Friedman's second visit, the situation became untenable and the
5 government was forced to devalue the currency. A major financial crisis ensued. The economy
6 contracted by 14 percent, and unemployment exceeded the astonishing level of 25 percent.¹³
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10 The years that followed were painful and difficult. After wavering, Pinochet decided to maintain
11 the market oriented policies, and to strengthen the institutional framework of the embryonic
12 market system. By 1984 Chile had recovered from the currency collapse. Between the years
13 1984 and 1989, and as a result of the combination of a competitive currency and increased
14 productivity stemming from the reforms, Chile experienced an average rate of growth of real
15 GDP of almost seven percent per annum. Investment in capital, machinery, equipment and
16 infrastructure grew at a rapid pace.
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21 In 1990, after 17 years of dictatorship, Chile returned to democratic rule. Many members of the
22 country's new political leadership had been imprisoned and persecuted by the military, and a
23 number of them had been tortured and sent to exile. Nonetheless, the leaders of the democratic
24 political parties that formed the *Concertación* coalition recognized the success of the economic
25 policies. President Patricio Aylwin and his economic team led by Alejandro Foxley decided to
26 deepen both the economic and institutional reforms initiated by the Chicago Boys.¹⁴
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31 From a historical perspective, the overall results of the reforms are impressive: for over two
32 decades Chile's exports grew at double digit rates. Furthermore, during this period social
33 conditions improved markedly. The number of people living below the World Bank's poverty
34 line fell from 24 percent of the population in 1989 to 5 percent in 2016. There was also some
35 progress in reducing income inequality. Although the pace was rather slow, the Gini coefficient
36 declined from 0.59 in 1989 to 0.49 in 2016. The safety net was widened, and transfers to the poor
37 and the elderly increased substantially. In the second half of the 2000s efforts were made to
38 provide universal pre-school education, and to increase the number of university scholarships to
39 low income students. One way to illustrate the success of the economic reforms is to compare
40 Chile's performance with that of other Latin American countries over a relatively long period of
41 time. During 1981-85, Chile's income per capita was almost identical to that of Ecuador and
42 Costa Rica. All three countries had an income per head of \$3,670, measured in purchasing power
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52 ¹³ For details about the 1982 crisis see Edwards and Cox ([1987] 1991).

53 ¹⁴ During the dictatorship Foxley led the think tank CIEPLAN, the only opposition institute allowed to operate (on
54 the role of think tanks in Chile, see Puryear, 1994). Foxley and his colleagues were severe critics of Pinochet and his
55 policies.
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3 parity terms. More than thirty years later, in 2017, Ecuador had an income per capita of \$11,617.
4 That same year, Costa Rica's was \$17,044. And Chile's income per capita reached \$24,635.
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7 **3. Professor Friedman goes to Chile**

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9 Milton Friedman arrived in Santiago, with his wife Rose Friedman, University of Chicago
10 Professor Arnold C. Harberger, and Brazilian economist Carlos Geraldo Langoni, on Thursday,
11 March 20, 1975. They had been invited by *Fundación de Estudios Económicos BHC*, a private
12 foundation associated with the *Banco Hipotecario de Chile*, the holding company of Chile's
13 largest financial and industrial conglomerate (Friedman and Friedman, 1998, p. 398-9).¹⁵
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17 The day after their arrival, Friedman and Harberger met with Pinochet in "a meeting that
18 extended from 17:30 until 18:15 approximately" (*El Mercurio*, Saturday, March 22, 1975, cf.
19 Friedman and Friedman, 1998, p. 399).¹⁶ *El Mercurio* also reports that on Friday and Saturday
20 morning the three economists were to meet with government officials and leaders of the private
21 sector. On Saturday afternoon they would travel to Viña del Mar, visiting, on the way, some
22 recently privatized agribusiness in the area. They spent the night at the coastal resort, and on
23 Sunday, Friedman gave his first lecture at *Universidad Técnica Federico Santa María*. The
24 group returned to Santiago that same night (*El Mercurio*, Saturday, March 22, 1975).
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30 *3.1 Friedman and the Chilean press*

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32 During his visit, Friedman gave a number of interviews. The first one was published by *El*
33 *Mercurio*, Chile's most important newspaper, on Saturday, March 22, 1975. Friedman talked
34 about inflation in the US and pointed out that it was stubborn and about to re-emerge; he referred
35 to the US economic situation as one of a "retarded or continuous recession." Friedman also
36 talked about the "energy crisis." He argued that it was a temporary situation caused by the OPEC
37 cartel, and predicted that in the long run the agreement to raise prices would fail. Friedman also
38 talked about the international financial system, growth, and unemployment in the US. Towards
39 the end of the interview he addressed foreign aid policies, and pointed out that there were costs
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49 ¹⁵ One of the senior executives of *Banco Hipotecario de Chile* (BHC) was Rolf Lüders, a prominent Chicago Boy who
50 became Finance minister after the 1982 crisis and was the only Chilean who wrote a PhD thesis under Friedman's
51 supervision. *Banco Hipotecario* had been founded in 1893 and in 1975 it was controlled by Javier Vial, head of the
52 *Grupo Vial*, an important industrial and financial conglomerate that collapsed in the 1982 economic crisis
53 (disclosure: one of the authors of this paper (Edwards) worked at *Banco Hipotecario* in the mid-1970s).

54 ¹⁶ Rolf Lüders, in private correspondence dated June 15, 2015, claims that during the meeting Milton Friedman told
55 Pinochet that "economic freedom would lead to political freedom" (see section 4.3 below).
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3 associated with redistribution from rich to poor countries. In this first interview, Friedman did
4 not say anything about Chile.
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7 On Sunday, March 23, *El Mercurio* published front-page interviews with the three economists.
8 The piece pointed out that the visitors were somewhat “reluctant” to opine about Chile before the
9 seminar organized by *Fundación de Estudios Económicos BHC*. In spite of this reluctance, they
10 finally agreed to answer a few questions about the Chilean situation.
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14 Arnold Harberger pointed out that monetary policy continued to be extremely loose; in his view
15 that explained the persistence of high inflation (369% in 1974) and the delay in economic
16 recovery. Friedman was asked if Chile was “a sick country with an economic disease.” He
17 replied: “I can assure you that the patient is very strong. I think its disease is temporary and my
18 diagnosis is that the patient suffers from a virus called ‘fiscal deficit’ with monetary
19 complications.” Regarding the remedy for such illness, Friedman said that “social market
20 economy is the only medicine. Absolutely. There is no other way. There is no other long term
21 solution. No country in the world has been successful in improving its economy using any other
22 method than the free market.” Then, when asked about the social costs of stabilization, in terms
23 of unemployment, Friedman said:
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30 “Undoubtedly there are costs. But unfortunately there is no other alternative.
31 Anyway, I believe that the current situation is better than 18 months ago [at the
32 end of Allende’s government]. Possibly it could have improved more, but when
33 the patient is ill, there is no easy solution. The oxygen, in this case, would worsen
34 patient’s condition, instead of curing him. The policy of a palliative instead of
35 amputating the sick parts entails the danger of a final cost that is higher than the
36 one we are trying to avoid. The alternative that Chile faces, in my view, is a high
37 unemployment rate for a short period, or stagnation and high inflation in the
38 longer run. When one is ill, you can only choose between a major or minor evil.”
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44 Finally, the journalist asked whether the low price of copper was responsible for Chile’s
45 economic stagnation, Friedman bluntly replied: “Chilean problems are made in Chile” (*El*
46 *Mercurio*, Sunday, March 23, 1975).
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49 The seminars sponsored by *Fundación de Estudios Económicos BHC* began on Monday, March
50 24, 1975. During the first talk Langoni analyzed the reforms in Brazil.¹⁷ Harberger, who had
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54 ¹⁷ Carlos Geraldo Langoni was only 30 years old and had just finished his PhD in Economics at University of Chicago
55 in 1970 (*A Study in Economic Growth: The Brazilian Case*). By then, he was deputy chair of the School of
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3 been in Chile three times during the previous 9 months, gave his diagnostic about the Chilean
4 situation on Tuesday. On Wednesday, March 26, Friedman closed the seminar series with his
5 assessment of the Chilean economy. According to *El Mercurio* he said: “The cause of inflation is
6 always the quantity of money; this is the case in Chile.” He added that “the only way to end
7 inflation in Chile is eliminating drastically the fiscal deficit, preferably reducing public
8 spending.” And he famously argued that the country should choose a “shock treatment” like the
9 one applied in Japan and Germany after the Second World War. This meant, he explained,
10 “eliminating price and wage controls, strengthening the fiscal situation in order to eradicate the
11 fiscal deficit, and keeping a strict limit on the quantity of money.” Friedman also called for
12 “eliminating the 0’s from currency as a psychological measure, reducing public expenditure by
13 20 or 25 per cent, and suppressing all restrictive measures that hamper the emergence of a strong
14 and dynamic private sector.”¹⁸

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16 Friedman also gave interviews to two magazines (*Qué Pasa* number 206, April 3, 1975 and
17 *Ercilla* number 2070, April 4, 1975). In *Qué Pasa* the cover has a photo of Friedman playing
18 tennis at the Sheraton Hotel in Santiago. The issue’s main title is “*Raquetazos en la Política*
19 *Económica*,” which may be loosely translated as “beating up economic policy with a tennis
20 racquet.”¹⁹ The interview is preceded by an article about the visitors’ activities in Chile. The
21 piece, most probably written by Emilio Sanfuentes, one of the magazine founders, and himself a
22 Chicago Boy, opens by stating that the “experts” had met with members of the economic team,
23 members of the military, and executives of state owned companies.

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25 The reporter indicated that in Chile a “shock treatment” was already in the works. The policy, it
26 is noted, had been “developed by government experts before the trio’s visit.” Moreover, the
27 article affirmed that the “shock treatment” was going to be similar, but softer than the one
28 proposed by Friedman, Harberger and Langoni. Our analysis, based on interviews with a number
29 of Chicago Boys who participated in the formulation of policy, indicates that the “shock
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46 postgraduate studies at *Fundación Getulio Vargas* in Brazil. Later he would become President and Chairman of
47 Central Bank of Brazil from 1980 to 1983. He was invited to Chile as a way of showing to the military that policies
48 similar to those advocated by Friedman could be applied successfully in Latin America. At the time, Chilean armed
49 force’s senior officers had a great admiration for Brazil. We thank Rolf Lüders for stressing this point.

50 ¹⁸ In May 1975 the *Fundación de Estudios Económicos BHC* published a small booklet with a complete transcript of
51 Friedman’s talk (Friedman, 1975, fully reproduced in Friedman 2012, pp. 17-62). The booklet also includes the Q&A
52 session that followed the presentation. Frazer (1988), analyzing and classifying these 22 questions underlines the
53 audience’s ideological diversity and the different economic views they reflected (pp. 340-1).

54 ¹⁹ It is difficult to convey in English the exact meaning of the term “raquetazo.” In Chile it is used colloquially to
55 refer to someone so exasperated that decides to hit his opponent with a tennis racquet.
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3 treatment” policy was, indeed, already in the design stage before Friedman arrived.²⁰ This
4 contradicts the view of critics, such as Klein (2007), who have argued that the Chilean
5 government decided to implement the drastic fiscal adjustment at Friedman’s behest. When
6 Friedman mentioned the need for a massive and rapid cut in public sector expenditures in a letter
7 to Pinochet, on April 21, 1975, Pinochet replied as follows:
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11 “The valuable approaches and appraisals drawn from an analysis of the text of
12 your letter coincide for the most part with the National Recovery Plan proposed
13 by the Secretary of the Treasury, Mr. Jorge Cauas. The Plan is being fully applied
14 at the present time – a plan for which we have high expectations of advancing the
15 Chilean economy” (letter dated May 16, 1975 in Friedman and Friedman, 1998, p.
16 594)
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21 *Qué Pasa* also included an interview with Friedman. The piece opens by describing Friedman as
22 “the father of the Chicago School” and “a staunch supporter of free markets who travels around
23 the world propagating his ideas. Chile is no exception. As a physician who studies a serious
24 illness, Friedman is interested in the causes of Chilean inflation.” Friedman then declares that
25 inflation “is a subject that has always concerned me, and I was especially curious for visiting a
26 country where inflation goes through a really serious period.” A barrage of general questions
27 follows: He is asked about the Soviet Union and his opinion on the economic situation in the US
28 He is then asked about his differences with Galbraith and Samuelson, and whether “the
29 powerful” can distort the functioning of markets. Only the last two questions refer specifically to
30 Chile. Friedman defines the Chilean economy as a mixed economy that should transition towards
31 a market economy, following the example of Hong Kong, Singapore or Taiwan. Finally, the
32 journalist asked Friedman if the Chilean military regime was applying his economic ideas. He
33 said:
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41 “My impression is that the government has taken numerous measures based on
42 the economic theory of free markets. The question is whether they are sufficient,
43 or if they have covered what is necessary to correct the nature and gravity of the
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50 ²⁰ Fontaine (1988) gives a detailed reconstruction of the events before the public announcement of “The National
51 Recovery Plan.” As Milton Friedman visited Chile nearly a month before, our assessment of what actually
52 happened, on a day by day basis, did not produce any evidence of Friedman’s alleged influence. It is worth noting
53 that, in a recording done in Fiji, right after his visit to Chile, Friedman recalls that Pinochet “was sympathetically
54 attracted to the idea of a shock treatment”, but said “very little about his own or the government’s feelings”
55 (transcript can be found at Milton Friedman’s archives, Hoover Institution).
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situation. I think that when one has a serious illness, deep measures are needed to heal” (*Qué Pasa* number 206, April 3, 1975)

The second magazine interview, in *Ercilla*, is titled “*Los Consejos del Profesor*” (“The advices of the Professor”). Friedman asserts that the two challenges for Chile are inflation control and the establishment of a social market economy. The article summarizes the advice that Friedman allegedly gave to Pinochet during their meeting. According to the story, the advice could be summarized in three main components: (1) Just worry about the domestic situation and fix the economy, so international investors will find a good soil to sow. (2) Chile is like a patient with a heart disease. No matter what is the temperature of the house, the disease will remain. Copper price can go up or down, but heart disease will continue. And (3), with annual inflation of 400% no capital will flow into the country. The problem must be solved rapidly. This is like cutting a dog’s tail. You cut it at once or suffering is prolonged. If inflation is stopped drastically, suffering will last three months before the economy takes off.

He also talked about free competition in labor market, free trade, the elimination of price controls and privatizations.

3.2 Friedman’s academic lectures

Friedman gave an academic lecture on inflation and monetary policy at *Escuela de Negocios de Valparaíso*.²¹ In addition, he gave a polemical talk on economic and political freedom at the two most important Chilean universities. In spite of the interest and controversy they generated at the time, they were barely mentioned in the press. *El Mercurio* very briefly reports that on Tuesday March 25, Milton Friedman lectured on “The Fragility of Freedom” at Universidad de Chile (*El Mercurio*, Wednesday 26, 1975). The same lecture was given at *Universidad Católica de Chile* on Thursday, March 26. Only *La Segunda* reported that “in one of the central parts of his exposition he referred to the condition that economic freedom imposes upon political liberty, quoting historical examples.” It was also reported that Friedman answered questions from the public (*La Segunda*, March 26, 1975).

In “*Two Lucky People*,” Friedman recalls both of these talks:

²¹ According to people who attended this lecture, he talked about inflation, monetary policy and the role of Central Banks. This lecture took place at *Escuela de Negocios de Valparaíso* in Viña del Mar, a private Business School associated to *Universidad Técnica Federico Santa María*. Friedman’s relationship with Pedro Ibáñez Ojeda, member of Mont Pèlerin Society since 1969, and President of *Fundación Adolfo Ibáñez* that ran *Escuela de Negocios de Valparaíso*, most probably influenced this trip to Viña del Mar. Friedman was awarded an Academic Honorary Fellowship at *Escuela de Negocios de Valparaíso*.

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3 “I departed from the main theme of all the other talks which had to do with
4 inflation and talked on the fragility of freedom, emphasizing the rareness of free
5 societies... and the role in the destruction of a free society that was played by the
6 emergence of the welfare state. The general line I was taking – which was that
7 their present difficulties were due almost entirely to the forty-year trend toward
8 collectivism, socialism and the welfare state, that this was a course which would
9 hurt people not help them, and that it was a course that would lead to coercion
10 rather than freedom – was, from their reaction, obviously almost completely new
11 to them. There was an attitude of shock that pervaded both groups of students at
12 hearing such a talk” (Friedman and Friedman 1998, p. 400).²²
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19 The scant attention these two lectures received from the press is not surprising, given the
20 political context. Chile’s media was under severe censorship by the military. Critical opinions
21 were labeled as being “communist ideas,” and those who criticized the government risked being
22 sent to jail.
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26 In the three available versions of the “The Fragility of Freedom” lecture,²³ Milton Friedman
27 affirmed that freedom is usually under siege; it is a fragile condition. In the first written version
28 of the lecture, published in *Encounter*, he used Chile as an example of this fragility:
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31 “There was first, the Allende regime with its threat of a left-wing dictatorship; and
32 then a counterrevolution with the military taking over and a military junta
33 established, which also is very far indeed from a free society. It, too, is an
34 authoritarian society which denies the liberties and freedoms of the people in the
35 sense in which Anglo-Saxon democrats conceive them” (Friedman, 1976, p. 9).
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39 This was an old theme in Friedman’s writings. Already in “Capitalism and Freedom” (1962) he
40 argued that “[e]conomic freedom is also an indispensable means toward the achievement of
41 political freedom... The kind of economic organization that provides economic freedom directly,
42 namely, competitive capitalism, also promotes political freedom because it separates economic
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48 ²² It is worth underlining that this recollection is the same that Friedman recorded in Fiji immediately after his visit
49 to Chile.

50 ²³ Milton Friedman recalls that he “later gave essentially the same lecture under the title ‘The Fragility of Freedom’
51 at Brigham Young University in December 1975, and published a revised transcript as ‘The Line We Dare Not Cross’
52 in *Encounter*, November 1976, pp. 8-14. An excerpt was also published as ‘The Path We Dare Not Take’ in *Reader’s*
53 *Digest*, March, 1977, pp. 110-15” (Friedman and Friedman 1998, p. 631, note 7). However, a year after his visit to
54 Chile, Friedman also gave this lecture at the University of Cape Town in March 22, 1976 (published as Friedman
55 1976, pp. 3-10).
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3 power from political power and in this way enables the one to offset the other” (Friedman 1962,
4 pp. 8-9).

7 3.3 International reactions after his visit

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9 In the months that followed, little was said in Chile about Friedman’s visit. This contrasted
10 sharply with the situation in the US and rest of the world, where it continued to attract the
11 attention of reporters, analysts, and defenders of human rights. Most of these articles made two
12 points: First, the Chilean Junta was following a script written by Friedman, and second, these
13 policies were imposing on the people generalized suffering and hunger. In September 1975, on
14 the second anniversary of the coup, the *New York Times* published an editorial that mentioned
15 Chile was following Friedman’s policies. In its medullar part it said:
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21 “But after many months of applying Prof. Milton Friedman’s monetary theories
22 and harsh austerity programs, unemployment hovers around 20 per cent, industrial
23 production fell off sharply for the first half of the year, foreign investment
24 remains at a trickle and a fantastic inflation rate has only recently shown signs of
25 slackening. There is unquestionably a worldwide Marxist campaign to blacken the
26 junta and exalt the chaotic Allende regime, much of it carried on by governments
27 even more oppressive than the one headed by Pinochet” (“Two years of
28 Pinochet”, September 22, 1975).
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33 Within a broader political context, the editorial makes two key points: First, up to that moment,
34 the Chicago Boys’ policies had not generated the expected economic results. Inflation and
35 unemployment continued to be extremely high, and output had shrunk considerably. Second, and
36 perhaps more important, it suggests that there was an international campaign aimed at
37 discrediting Friedman and his ideas, by linking him to the repressive Pinochet regime.²⁴ These
38 attacks responded, to a large extent, to the fact that Friedman had been traveling around the
39 world presenting his ideas about economic policy and economic freedom.
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44 Ten days later, Anthony Lewis wrote in the *New York Times* a column about torture and
45 repression in Chile. Once again Friedman and his economic ideas are mentioned and linked to
46 human rights abuses:
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54 ²⁴ The *New York Times* editorial criticizes the Chilean government for denying access to a UN human rights
55 commission arguing that the commission would act as a Soviet plot.
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3 “[B]ut the repression may also be related to an economic policy that could not be
4 imposed on a free society... The Chilean junta’s economic policy is based on the
5 ideas of Milton Friedman, the conservative American economist, and his Chicago
6 School. Friedman himself has visited Santiago and is believed to have suggested
7 the junta’s draconian program to end inflation” (“For Which We Stand: II”,
8 October 2, 1975)
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13 On October 3, 1975, the student newspaper at the University of Chicago (the *Chicago Maroon*),
14 published a reply from Friedman addressed to an “unnamed professor,” who in a letter dated
15 June 6 1975, and copied to 17 prominent academics, had used strong words to criticize his visit
16 to Chile.²⁵ It turned out that the professor was Gerhard Tintner, a German-American
17 econometrician, who ended his letter to Friedman as follows: “No doubt, you have hanging over
18 your desk a hand signed photo of General Pinochet... May I suggest you replace the copy with
19 the original. I shall be very happy to send you, free of charge, a picture of this misunderstood
20 libertarian defender of capitalism, Adolf Hitler.”²⁶
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26 In his reply, Friedman accused Tintner of having a “curious double standard.” He pointed out
27 that his visits to the Soviet Union and Yugoslavia did not elicit any reaction. Friedman writes: “I
28 approve of none of these authoritarian regimes – neither the Communist regimes of Russia and
29 Yugoslavia nor the military juntas of Chile and Brazil” (Friedman and Friedman, 1998, pp. 595-
30 6). Then he analyzes the situation with Allende, and asserts that:
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34 “My impression is that the Allende regime offered Chile only bad choices: either
35 communist totalitarianism or a military junta. Neither is desirable and had I been a
36 Chilean citizen, I would if possible have opposed both... As between the two
37 evils, there is at least one thing to be said of the military junta -- there is more
38 chance of a return to a democratic society. There is no example so far as I know
39 of a communist totalitarianism developing into a liberal democratic society... The
40 reason for the difference is not superior merit or demerit of the generals versus the
41 commissars. It is rather the difference a totalitarian philosophy and society and a
42 dictatorial one. Despicable though the latter is, it at least leaves more room for
43 individual initiative and for a private sphere of life... to restore democracy hinges
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53 ²⁵ Friedman’s letter to the *Chicago Maroon* was reprinted by the *Wall Street Journal* on October 27, 1975 (see
54 Friedman and Friedman, 1998, pp. 595-6).

55 ²⁶ Box 34, folder 12, the Hoover Institution.
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3 critically on the success of the regime in improving the economic situation and
4 eliminating inflation” (ibid., p. 595).
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7 Friedman continues the letter by referring to his two talks on ‘The Fragility of Freedom.’ He
8 writes: “I explicitly characterized the existing regime as unfree, talked about the difficulty of
9 maintaining a free society, the role of free markets and free enterprise in doing so, and the
10 urgency of establishing those preconditions for freedom. There was no advance or ex post
11 censorship, the audiences were large and enthusiastic, and I received no subsequent criticism.
12 Could I have done that in the Soviet Union? Or, more to the point, in the communist regime
13 Allende was seeking, or Castro’s Cuba?” (ibid., pp. 595-6).
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18 He finishes his letter as follows:
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21 “Let me stress again. I do not approve or condone the regimes in Chile, Brazil,
22 Yugoslavia, or Russia. I had nothing to do with their establishment. I would
23 fervently wish their replacement by free democratic societies. I do not regard
24 visiting any of them as an endorsement. I do not regard learning from their
25 experience as immoral. I do not regard giving advice on economic policy as
26 immoral if the conditions seem to me to be such that economic improvement
27 would contribute both to the well-being of the ordinary people and to the chance
28 of movement toward a political free society.” (ibid., pp. 596).
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33 On October 27, 1975, the day Friedman’s letter to Gerhard Tintner was reprinted in the *Wall*
34 *Street Journal*, a group of students at Chicago created a “Commission of Inquiry on the
35 Friedman/Harberger Issue” (Friedman and Friedman, 1998, p. 402). Soon after, student protests
36 began at the University of Chicago. Though the protests included such things as picketing the
37 apartment house where he and Rose lived, they were small and, according to the Friedmans, “...
38 they were not very serious. However, they were the first of many during the next five years or
39 so” (ibid., p. 402).
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44 A front page *New York Times* article on November 4, 1975, pointed out that in Chile there was
45 generalized “suffering” as a result of the “shock” policies put in place to eliminate inflation.
46 According to the reporter, 45 thousand government employees had been fired. The policies, the
47 reporter stated, had been designed by a group of economists who followed “the theories of Prof.
48 Milton Friedman.” The article underlined that “even Gen. Augusto Pinochet, president of the
49 military government concedes that the ‘social cost’ of his shock treatment is greater than he
50 expected.” In spite of being harsh, the story pointed out, the policies were making some progress:
51 “The monthly inflation rate has been sliced in half – from 20% in June to 9.2% in September...”
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3 The *Washington Post* published an article along the same lines on November 28, 1975.
4 According to this story, although the Friedman-inspired program had reduced inflation
5 significantly, conditions were “still grim for the poor.”
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9 At the end of November 1975, the *New York Times* foreign correspondent C. L. Sulzberger
10 published a long story on Chile and the military regime. The article was entitled “The worst of
11 both worlds” and included fragments of an interview with Pinochet; it also recognized that the
12 economic policies of the socialist government had been a major failure. Sulzberger opened with
13 a historical account of the Unidad Popular government: “Economically Chile was left a shambles
14 by Mr. Allende.” The military regime was described as “plain old-fashioned dictatorship helped
15 along by five secret police forces.” Regarding the junta’s economic policy and its attempt to stop
16 inflation through a shock treatment, the correspondent wrote: “It is often said that the monetarist
17 theories of Prof. Milton Friedman and his acolytes are the mode.” Regime critics, he added,
18 claimed that these policies were responsible for a 23% rate of unemployment and for the fact that
19 hunger was common. When interviewed, Pinochet rejected the idea that his economic policies
20 were based on Friedman’s dictates, declaring: “The Friedman philosophy cannot be applied
21 effectively here although many of his suggestions to us were interesting.”
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29 André Gunder Frank, a Marxist economist who graduated with a Ph.D. from Chicago in 1957,
30 played an important role in the campaign against Friedman and Harberger. Frank, one of the
31 most important scholars in the dependency theory school, taught at Universidad de Chile’s
32 *Centro de Estudios Socio Económicos* (CESO) during the Allende years. His thesis about the
33 “underdevelopment of development” was very influential in the left during the late 1960s and
34 early 1970s. Even before Friedman’s visit, in August 1974, Frank had already written his first
35 long open letter criticizing Harberger’s involvement with Chile. On April 1976, Frank wrote his
36 second open letter, this time mainly directed against Friedman. He claimed that “the new policies
37 were implemented by Pinochet as equilibrium on the point of a bayonet” and that “Pinochet gave
38 the Chicago Boys free reign over economic policy” (both letters are republished in Frank, 1976).
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44 As protests and demonstrations against Friedman somehow dwindled, on September 21, 1976,
45 Orlando Letelier was brutally assassinated in Washington DC. Letelier had been Allende’s
46 Ambassador to the US and held three different cabinet positions during the last four months of
47 Allende’s government. A bomb planted in his car killed him and Ronni Moffitt, his colleague at
48 the Institute for Policy Studies. Moffitt’s husband, Michael, was seriously injured. This crime
49 attracted worldwide attention and censure, especially as the involvement of DINA, Pinochet’s
50 secret police, was suspected and then confirmed.
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3 Only three weeks before the assassination, on August 28, 1976, Letelier had published an essay
4 in *The Nation*, entitled “*The ‘Chicago Boys’ in Chile: Economics ‘Freedom’s’ Awful Toll*”
5 (Letelier, 1976). This essay was widely reproduced and talked about after the brutal crime. It
6 contained a severe criticism of Friedman and the Chicago Boys economic policies, labeling
7 Friedman as “the intellectual architect and unofficial adviser for the team of economists now
8 running the Chilean economy” (ibid., p. 137). In the article Friedman is portrayed as the
9 promoter of the “shock treatment” (ibid., 138).²⁷

14 Then, three weeks after Letelier’s assassination, on October 14, 1976, it was announced that
15 Friedman had been awarded the Nobel Prize. The Prize generated an instantaneous reaction and
16 criticism by many prominent members of the international scholarly community. When
17 Friedman arrived in December 1976 in Sweden, there were multiple organized demonstrations.²⁸
18 During the ceremony a protester dressed in black tie stood up and shouted “Down with
19 capitalism, freedom for Chile” while Friedman was receiving the award. Vocal protests at his
20 speaking appearances would recur over the next few years.

25 Friedman’s award generated a heated discussion on the possible political angles of the prize.²⁹
26 For example, on May 31, 1977, the *New York Times* published an article by Leonard Silk entitled
27 “Nobel Award in Economics: Should Prize Be Abolished?” It begins summarizing the whole
28 situation:
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32 “The award of the Nobel Memorial Prize in Economic Science to Prof. Milton
33 Friedman of the University of Chicago last October provoked a storm of criticism
34 over Professor Friedman’s right-wing politics, focused particularly on his
35 willingness to give advice to the central bank and the post-Allende Government in
36 Chile. This storm has been followed by a blast from an earlier Nobel Laureate,
37 Prof. Gunnar Myrdal.”
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42 To sum up, the initial uproar against Friedman visit to Chile was exacerbated by the
43 assassination of Allende’s Minister and US Ambassador, Orlando Letelier by an agent of the
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47 ²⁷ Letelier incorrectly refers to “the last known visit of Messrs. Friedman and Harberger to Chile” (ibid., 140), and
48 quotes André Gunder Frank “Second Open Letter to Milton Friedman and Arnold Harberger” (ibid. p. 142). Only
49 Hammond (2003, p. 142) has detected the former mistake.

50 ²⁸ The *Chilekommittén* - Sweden received some 30,000 Chilean exiles - promoted the protests against Friedman
51 through public letters and pamphlets (Friedman and Friedman, 1998, p. 447).

52 ²⁹ Four days after the awards ceremony, Gunnar Myrdal –who was awarded, jointly with Friedrich Hayek, the
53 Nobel Prize in 1974 – published a piece in the Swedish newspaper *Dagens Nyheter* arguing that the Prize was
54 political. An English translation appeared in *Challenge* (volume March-April 1977). For more details on this
55 episode, see Caldwell and Montes (2015, p. 275)
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3 military dictatorship. These events intensified the many demonstrations and reactions against
4 Friedman. The 1975 visit to Chile became an intense and cumbersome unintended episode in his
5 public life, and the Nobel Prize was overshadowed by criticism.³⁰
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8 **4. Friedman's 1981 visit**

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11 At the end of 1976, Finance Minister Jorge Cauas resigned and Sergio de Castro, the most
12 prominent and emblematic Chicago Boy, assumed this powerful position. With his appointment,
13 the influence and control of the Chicago Boys became consolidated. Almost immediately de
14 Castro withdrew Chile from the Andean Pact – a trade agreement with Colombia, Peru, Bolivia,
15 Venezuela, and Ecuador – and drastically slashed import tariffs to uniform 10%.³¹ Opening up
16 the economy to international competition was another fundamental principle of the Chicago
17 school. These policies had been promoted through the years not only by Friedman, but also by
18 other members of the faculty, including Jacob Viner in the 1930s and Harry Johnson in the 1960s
19 and 70s.³²
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25 In early 1978, with inflation still at 80% per annum, the exchange rate became the most
26 important anti-inflation tool. A policy of pre-announcing a declining rate of the devaluation of
27 the peso for up to a year was introduced as a form of guiding inflationary expectations and
28 introducing discipline on tradable goods prices. The initial rate of devaluation was deliberately
29 set below the ongoing rate of inflation. During the first three months of this new policy, the
30 annualized rate of devaluation of the peso with respect to the dollar was 20%, while inflation ran
31 at a 43% annualized rate. The economic authorities believed that this mechanism would generate
32 a rapid convergence of domestic inflation to international inflation. This exchange rate scheme,
33 known as “*the tablita*,” was supported by tight monetary and fiscal policies (Edwards and Cox,
34 [1987] 1991, Chapter 3).
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45 ³⁰ Schliesser (2010, pp. 183-4) goes as far as to suggest that the content of Friedman's Nobel lecture reflects
46 Letelier's accusation so “the aims of the Nobel lecture can be best understood in the context of the furor over
47 Friedman's association with the Chicago Boys' activity in Pinochet's Chile”.

48 ³¹ During Allende's government “the average nominal import tariff was 105% with tariffs ranging from nil for some
49 inputs and ‘essential’ consumer goods to 750% for goods considered as ‘luxuries’” (Corbo, 1993, p. 2) and “[at] the
50 end of 1973 the average import tariff in Chile was 94%. In June 1979 it was 10% and covered all imported items,
51 except cars” (Foxley 1980, p. 23).

52 ³² Mario Corbo, who obtained his Phd in Economics from Chicago University in 1974, in 1969 had already
53 translated and published in Spanish Harry Johnson's *Economic Policies Toward Less Developed Countries* (1967).
54 On the “Chicago school,” see Van Horn (2009, 2011), Ross (2010), Hammond (2013), Mirowski and Stapleford
55 (2011), and Irwin (2015, 2018).
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3 In June 1979, with annual inflation standing at 35%, the government put an end to the
4 preannounced rate of the devaluation, and pegged the exchange rate at 39 pesos per dollar. At
5 first it was announced that this fixed rate would last until February 1980. A few weeks before
6 that date, however, it was decided to maintain the fixed exchange rate “forever.” As Friedman
7 would point out later, fixing the peso to the dollar generated a serious problem, since at around
8 that time the US dollar strengthened significantly in the international currency markets. This
9 meant that the peso, which was pegged to the dollar, strengthen relative to other currencies in the
10 global marketplace. Between the third quarter of 1979 and the second quarter of 1982, the
11 multilateral, trade-weighted, nominal exchange rate with respect to a basket of currencies
12 appreciated by more than 30% (Edwards and Cox [1987] 1991, p. 39).

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19 Larry Sjaastad, a University of Chicago professor, and a frequent visitor to Chile, was a strong
20 supporter and promoter of the fixed exchange rate scheme. Based on the then-popular “monetary
21 approach to the balance of payments” he believed that purchasing power parity held in the short
22 run, and that fixed exchange rates would provide almost instantaneous discipline and allow for
23 rapid and low price stabilization. He explained the exchange rate-based program as follows:
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27 “The rationale... was that once economic agents understood, or inferred, that the
28 equilibrium between the prices of tradables and nontraded (home) good is neither
29 random nor arbitrary, a change in the price of tradable goods will cause a revision
30 of expectations concerning the equilibrium price of home goods. Under such
31 circumstances, excess supply would not be required to drive down inflation; the
32 change can occur spontaneously, as it were.” (Sjaastad, 1983, p. 12)
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37 Every month between June 1979 and June 1982 domestic inflation exceeded international
38 inflation. This contributed further to real (as opposed to nominal) exchange rate appreciation. As
39 a result, an increasingly large current account deficit developed: it was almost 6% of GDP in
40 1980, it climbed to 8% in 1981 and reached the staggering figure of 16% of GDP in 1982. These
41 deficits were largely financed with short-term, dollar-denominated, bank loans and other forms
42 of speculative capital. At the time very few people made the point that having a fixed exchange
43 rate run counter to what Milton Friedman had espoused since at least the late 1940s. Friedman
44 had historically been a supporter of floating, market determined, exchange rates. Indeed, for a
45 long time he was a lonely voice regarding this issue.
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51 In late 1981, at the time of Friedman’s second visit, a number of Chilean economists had become
52 increasingly concerned about the large (and growing) external imbalances. Some of them
53 believed that the peso had to be devalued in order for the country to regain competitiveness. And
54 a small group advocated transitioning to a market determined exchange rate regime.
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4.1 *The Mont Pèlerin Society Meeting*

On October 27, 1981, *El Mercurio* announced that Milton Friedman would attend the 1981 Regional Meeting of the Mont Pèlerin Society to be held in November 15-19, in Viña del Mar.³³ Friedman, accompanied by his wife Rose, arrived in Chile on Sunday, November 15 for another six days visit. After landing in Santiago, Friedman made a few statements related to the global economy. Asked about a global slump, he declared that “there is no recession in the world.” He said that there were different conditions in different countries; the idea of a worldwide recession was meaningless. His statement - “there is no recession in the world” - was expediently published in the front page of *El Mercurio* (Monday 16, 1981). On Tuesday, when asked about the Chilean economy, Friedman apologized for not answering. He said that he “did not know enough about the Chilean economic situation” (*La Tercera*, Wednesday 18, 1981). One day later, at a press conference, he appeared guarded, and gave the impression that he was still affected by the bad publicity stemming from his first trip. He said:

“I would like you to understand why I am in Chile. I am here to attend the Regional Meeting of the Mont Pèlerin Society, of which I have been founding member for 34 years. I am not here to give advice, neither to analyze Chile’s policies. I believe this country has been notably successful during the last years without my advice and I believe it will continue to be successful” (*Ercilla*, November 25, 1981, p. 21)

Even if he initially tried to avoid talking about Chile, he ended up doing so. When asked the inevitable question of the benefits of the fixed exchange rate in Chile, Friedman replied that by fixing the exchange rate the government was imposing a constraint on money creation. That is, he answered the question in an indirect way: instead of tackling it openly, he pointed out that a truly fixed rate – by which he meant an irrevocably fixed one – acted as a limitation on monetary policy, in a way similar to the gold standard.

He was then asked about the benefits of the government bailing out weak financial institutions – something that had recently happened.³⁴ Friedman answered that it made sense to do it, as long

³³ Around 250 people attended the meeting. James Buchanan, Gordon Tullock, Arnold Harberger, Arthur Shenfield, Rose Friedman, Larry Sjaastad and Gottfried Dietze, among others, presented papers. The Meeting was promoted by Pedro Ibáñez Ojeda who was member of Mont Pèlerin Society since 1969 (for more details, see Caldwell and Montes 2015, pp. 288-90). The main papers of the Mont Pèlerin Society Meeting, including Friedman’s, were translated into Spanish and published in *Revista de Estudios Públicos*, volume 6, 1982.

³⁴ Two big banks (*Banco de Talca* and *Banco Español Chile*), four financial institutions (*Compañía General Financiera*, *Financiera de Capitales*, *Financiera Sur* and *Financiera Cash*) and two small banks (*Banco de Linares* and

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3 as the goal was to protect small depositors, but not shareholders. When asked about salaries –
4 Chile had just implemented a policy of full backward-looking indexation for public sector wages
5 – Friedman said that he endorsed a free market for salaries. When asked about protection and
6 subsidies for agriculture, he replied that the agricultural sector should be treated as any other
7 activity, without special treatment (*Ercilla*, November 25, 1981, p. 21, see also *La Segunda*,
8 Wednesday 18 and *El Mercurio*, Thursday 19, 1981).

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13 The Mont Pèlerin Society Meeting opened with a reception and dinner on Sunday, November 15.
14 On Thursday, November 19, the conference began with a participant celebrating the fact that the
15 military government in Chile had promoted the implementation of a free market economy. *La*
16 *Segunda* reported that Friedman spoke up, and argued that the same reforms could be
17 implemented under a constitutional or parliamentary democracy (*La Tercera*, Friday 20, 1981).
18 It was reported that he received an ovation from the participants (*La Segunda* Thursday 19, 1981
19 and see also *Hoy*, November 25, 1981, p. 27).³⁵

20 21 22 23 24 4.2 The fixed exchange rate issue

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27 Before tackling the “exchange rate” discussion during Friedman’s 1981 visit, it is useful to step
28 back, and return to his 1975 trip, as this will provide the right perspective and the adequate
29 context for the analysis.

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32 During Friedman’s first visit, the exchange rate was not an important policy topic. It was taken
33 as a given that with a three digits rate of inflation Chile could not have a completely fixed
34 exchange rate. At the same time, most analysts – including officials at the International Monetary
35 Fund – thought that Chile or any other developing country did not have the institutional capacity
36 to adopt a truly market-determined exchange rate regime. The crawling peg was considered, by
37 most experts, to be the natural answer to the exchange rate question. The challenge, of course,
38 was to determine the rate of the crawl in a way that, at almost every moment, the actual exchange
39 rate was close to its “equilibrium” value.

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44 In Friedman’s main lecture in 1975, the term “exchange rate” did not come up even once. He
45 talked about monetary policy, the fiscal deficit, the inflation tax, the merits of a “social market”
46 economy, shock adjustment, and the experiences of Germany and Japan after World War II. But
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51 *Banco de Fomento de Valparaíso*) had been taken over by the authorities on November 2, 1981 for taking
52 “excessive risks.”

53 ³⁵ According to the program, the first session on Thursday morning was chaired by Donald Kemmerer, and
54 participants were Rose Friedman, Wolfgang Frickhoffer and Carlos Cáceres, who was dean of *Escuela de Negocios*
55 *de Valparaíso*. Then Milton Friedman’s session followed.

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3 during his speech he did not say one word about currencies or exchange rates.³⁶ The exchange
4 rate issue was brought up briefly during the questions and answers period. In his reply to a
5 question on the connection between the degree of openness of the economy and monopoly
6 power, Friedman intimated that, in his view, the authorities took into account market forces
7 when determining the (sliding) value of foreign currency. He said: “If the exchange rate
8 corresponds to a *market rate* – as is the *current policy of the government* –, what would be the
9 results [of a policy that opened trade fully]?”³⁷ He answered his own question by stating that
10 under those circumstances an increase in the demand for foreign currency would lead to a
11 depreciation of the peso.
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17 The exchange rate was again raised in a question regarding the generalized indexation system
18 that existed in Chile at the time. A participant asked whether periodic and frequent adjustments
19 of prices, wages and the exchange rate could contribute to inflation by creating a “vicious
20 circle.” In his answer Friedman dismissed the circularity argument, and insisted that the source
21 of Chile’s very rapid inflation was the printing of money to finance a fiscal deficit that amounted
22 to 10% of GDP. He then defended indexation as a form of facilitating the signing of contracts in
23 an environment of rapidly rising prices.³⁸
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28 A third (and last) exchange rate-related question focused on the effects of the “mini
29 devaluations” on costs and companies’ profits. Friedman answered as follows:
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31 [M]ini devaluations... don’t result in higher real costs. They are simply a
32 response to price increases... If prices in Chile increase by 10% each month, then
33 it is necessary to devalue in 10% in order to maintain a stable *real* value of
34 foreign currency... And you already know the story: if you try to maintain a low
35 price for foreign exchange, there would simply be a need to ration it. What
36 happens then? Everyone would want to buy it [foreign exchange]. How would
37 you decide who is allowed to buy [dollars]?³⁹
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42 To summarize, during his 1975 visit Friedman defended the sliding parity (crawling peg) regime,
43 and explained that if inflation was high, fixing the rate would necessarily result in disequilibrium
44 and rationing. He also praised, implicitly, the fact that the government was trying to maintain the
45 official exchange rate close to its equilibrium value.
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³⁶ See Friedman (1975, 2012).

53 ³⁷ Ibid, p. 49. This is Question 9 (emphasis added).

54 ³⁸ Ibid. p. 54. Question 12.

55 ³⁹ Ibid. p. 57. Question 56 (emphasis in the original).
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3 When Friedman arrived in Chile for his second visit, in November 1981, the fixed exchange rate
4 experiment was entering its third year (as noted, the strictly fixed rate at 39 pesos per US dollar
5 began in June 1979). At the time there were clear strains and difficulties; the real exchange rate
6 had appreciated significantly, as anticipated by a number of analysts. However, there had been
7 no need to ration foreign exchange. The very large and growing current account deficit was
8 financed with ample monies coming from abroad, in the form of syndicated bank loans.
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12 Before he ever visited Chile, Friedman had given lectures and written articles and memoranda on
13 exchange rates in developing countries. In a number of these lectures – including the 1972
14 Horowitz Lectures in Israel –, he indicated that the “fixed but adjustable rates system” instituted
15 at the Bretton Woods Conference was a deficient and unstable regime that invited speculation
16 and tended to result in massive devaluation crises (Friedman, 1973). In his opinion, there were
17 only two good options for the developing countries: the first was a flexible, market-based regime
18 with a flexible exchange rate (in India he recommended using foreign exchange auctions); the
19 second was a system of “unified” monies, where the small country irrevocably tied its currency
20 to that of a large and stable trading partner. In most of his presentations and writings he
21 explained that a unified currencies regime would only be credible if the small developing country
22 abolished its central bank. Only then would economic agents believe that the domestic currency
23 was truly tied and unified with that of an advanced nation (as in Panama and Hong Kong).
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31 In November 1981, when Friedman arrived in Santiago, Chile did not have either of his two
32 preferred exchange rate regimes. For all practical purposes, it had a “fixed but adjustable” regime
33 fully consistent with the Bretton Woods principles. This was the type of regime that Friedman
34 had criticized time and again. Chile had a Central Bank – the governor at the time was Sergio de
35 la Cuadra, a prominent Chicago Boy –, and the military had never considered abolishing it, or
36 granting it political independence. Moreover, and as already mentioned, in November 1981 the
37 real exchange rate was clearly overvalued, a situation that Friedman had predicted in 1975, when
38 he argued that with a high rate of ongoing inflation it was unwise to fix the exchange rate.
39 Furthermore, in 1979 the military had approved a new Labor Law that automatically indexed
40 public sector wages to past inflation. This introduced significant rigidities in the economy, and
41 eliminated the possibility of adjusting the real exchange rate through domestic disinflation. In
42 fact, with declining inflation, this backward looking indexation regime automatically raised real
43 wages, independently of productivity gains.
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3 On Friday, November 20, 1981 the newspaper *La Segunda* partially reproduced Friedman's
4 Mont Pelerin presentation.⁴⁰ According to the article, Friedman refrained from openly
5 questioning Chile's pegged exchange rate policy. He did not endorse it, but did not criticize it
6 either. He explained the difference between temporary currency pegs á la Bretton Woods, and
7 irrevocable pegs with unified currencies. Friedman stated that he endorsed the latter, and
8 mentioned the dangers of the former, but failed to spell out clearly that Chile had opted for what
9 he had long considered to be a dangerously unstable regime. Neither did he mention that in his
10 opinion a requirement for adopting a credible "unified" currency regime was to abolish the
11 Central Bank, and in that way eliminate the possibility of discretionary monetary policy. What he
12 did say was that Chile, by pegging its currency to the US dollar, had opted for an "intermediate
13 solution". Chile, he added, had "lived three or four years of extraordinary economic success, but
14 could lose credibility." (*La Segunda*, November 20, 1981).
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21 Friedman also noted that it mattered with respect to which nation the local currency was fixed.
22 The reason was that under a durable, irrevocable and credible peg, the monetary policy of the
23 reference country would be imported. He recalled that when Australia decided to adopt a fixed
24 exchange rate regime, he recommended a peg with respect to the Japanese yen.⁴¹ This for two
25 reasons: first, because Japan was Australia's most important trade partner, and second, because
26 Japan's monetary policy had been, during the previous 8 years, more stable and prudent than that
27 of the United States. Given that the US was Chile's main trading partner, pegging the peso to the
28 dollar would, in principle, make some sense. However, Chile would have to accept what it
29 implied in terms of monetary policy.⁴²
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35 To summarize, during his 1981 visit, Friedman was not openly critical about the fixed exchange
36 rate policy in Chile. He didn't endorse it, but he didn't disapprove of it either. He covered
37 himself by making a distinction between hard and soft pegs, and by saying that since Chile had
38 opted for fixity, it had to make sure that its system resulted in a credible hard peg.
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45 ⁴⁰ Friedman himself shared his presentation with *La Segunda* and authorized its full publication, but nothing on
46 what he said about economic and political freedom was published.

47 ⁴¹ Australia, since 1931 had its exchange rate pegged to the British pound, then in 1973 changed the pegging to the
48 US dollar, but in 1976 began using a crawling peg until free rate flotation was established in 1983. Friedman visited
49 Australia in 1975, right after Chile, and then came back in 1981 (two private visits followed in 1994 and 2005).

50 ⁴² It is interesting to note that even before the exchange rate-based stabilization program was fully unveiled in
51 February 1978, Allan Meltzer recommended that Chile adopted a flexible exchange rate, supported by a rule-
52 based monetary policy. On April 22, 1977, *El Mercurio* informed that Professor Allan Meltzer from Carnegie-Mellon
53 would visit Santiago, invited by the *Fundación de Estudios Económicos BHC*, the same think tank that had invited
54 Friedman in 1975. A few days later, on April 27, 1977, *El Mercurio* reported that Meltzer, who was described as
55 broadly agreeing with Milton Friedman's views, had recommended that Chile adopted a flexible exchange rate.
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3 In many ways this ambiguity and evasiveness is surprising, and is not consistent with Friedman's
4 usual bluntness and directness. At this point, one can only speculate about his motives. A
5 possible explanation is that after meeting privately with the Chicago Boys' authorities – possibly
6 with Central Bank President, Sergio de la Cuadra –, he realized that the government would not or
7 could not alter its exchange rate policy; introducing flexibility was out of the question. Thus,
8 under those circumstances it would make little sense for him to criticize the exchange rate anchor
9 openly. In fact, planting doubts about the sustainability and desirability of the fixed rate could
10 have triggered major speculative moves, and even a major currency crisis. Milton Friedman
11 opted for circumspection and silence.

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17 Seven months after Friedman's second visit, and in spite of his reluctance to criticize the policy
18 openly, Chile could not defend herself from a massive speculative attack. On June 15 1982, the
19 peso was devalued. The crisis that followed was one of the deepest ever faced by a Latin
20 American nation.⁴³

21 22 23 4.3. Friedman on economic and political freedom in 1981

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26 Before traveling to Chile, Friedman had been in Peru, where journalist José Rodríguez Elizondo,
27 interviewed him for Peru's most important weekly magazine (*Caretas* 673, November 16,
28 1981).⁴⁴ Once Friedman returned to Chicago, he and Rodríguez Elizondo – a member of Chile's
29 communist party, who had been exiled in East Germany between 1973 and 1976 - maintained an
30 interesting correspondence. When Rodríguez Elizondo sent him a copy of the magazine issue
31 with the interview, Friedman sent him a thank you note stating:

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36 "I write, however, not merely to say thanks, but also to pass on some views about
37 the situation as I found it in Chile. On the basis of what I found there I felt
38 impelled to say while I was in Chile, in a press conference with the news media,
39 that Chile would not retain its present economic freedom unless it ended the
40 military form of government and did establish a more democratic government.
41 That, as you will realize, did not take a great deal of courage in the present
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47 ⁴³ In the years to come Friedman would come back several times to the issue of the fixed exchange rate in Chile.
48 For example, he compared Chile and Israel, and explained that while in Chile the policy had led to a severe crisis, in
49 Israel it had been successful (Friedman, 1992). He also came back to this issue in 2001, during a debate with Robert
50 Mundell, one of the staunchest supporters of fixed exchange rates (Friedman and Mundell, 2001). Friedman said
51 that Chile's 1979 "hard peg" policy was "disastrous" as a consequence of the strengthening of the US dollar in
52 1980-81.

53 ⁴⁴ A year earlier, Rodríguez Elizondo had interviewed Paul Samuelson who was quite critical of Friedman.
54 Samuelson referred to Chile as a kind of "fascist capitalism" and warned Peruvians that if they followed Friedman
55 policies "a generation or Peruvians would starve" (*Caretas* 611, August 18, 1980).

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3 situation in Chile since the military government has announced its intention to
4 terminate its hold and to return the country to a more democratic form of
5 government, and hence I was able to precede my remarks by saying that I applaud
6 the government for announcing that intention and I trust very much that that will
7 in fact be carried out because otherwise the economic freedom could not be
8 retained. I also on the way back on the plane wrote a *Newsweek* column [“Free
9 Markets and the Generals”, *Newsweek*, January 25, 1982] along that theme that I
10 plan to complete and publish sometime in the not too distant future... the kind of
11 economic freedom that Chile enjoys goes fundamentally against the basic
12 instincts of a military government. The military is organized from the top down in
13 a hierarchical fashion; a free economy is organized from the bottom up with no
14 lasting hierarchy. I know of no other military government which has supported
15 over any long period a free economy. I suspect this one will not either if it stays in
16 power, and sooner or later it will revert to type”⁴⁵

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19 This letter is interesting for at least two reasons. First, when using the term “courage” he seems
20 to have his first visit in mind, implying that in 1975 it took courage to address those issues, but
21 not in 1981. And second, because he insists on the relationship between economic and political
22 freedom in the Chilean case. In fact, Friedman published the column about Chile in *Newsweek*
23 (“Free Markets and the Generals”, *Newsweek*, January 25, 1982, p. 59) with the same arguments
24 he had shared with Rodríguez Elizondo. The column closes as follows:

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35 “Chile is currently having serious difficulties... This temporary setback will likely
36 be surmounted. But I predict that the free-market policy will not last unless the
37 military government is replaced by a civilian government dedicated to political
38 liberty - as the junta has announced is its intention. Otherwise, sooner or later -
39 and probably sooner rather than later - economic freedom will succumb to the
40 authoritarian character of the military... I have long argued that economic
41 freedom is a necessary but not sufficient condition for political freedom. I have
42 become persuaded that this generalization, while true, is misleading unless
43 accompanied by the proposition that political freedom in turn is a necessary
44 condition for the long-term maintenance of economic freedom” (ibid.)

45 Letter from Friedman to Rodríguez Elizondo, December 18, 1981 (the letter has been facilitated by José Rodríguez Elizondo).

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3 In this column Friedman evinces he is aware of the difficult economic situation and the political
4 challenges faced by the possible transition to democracy.⁴⁶ Friedman had consistently
5 emphasized economic freedom as an indispensable means toward the achievement of political
6 freedom; now he was stressing the importance of political freedom towards maintaining
7 economic freedom. Perhaps the Chilean experience, and what was politically happening with the
8 promise of elections, influenced him to stressing this point.

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13 On Sunday November 22, *El Mercurio* published interviews with four prominent members of the
14 Mont Pèlerin Society: William Hutt, Richard Hartwell, Anthony Fisher and Pascal Salin.⁴⁷ When
15 Hutt declares that “we all have a great concern for human rights, freedom of expression, of
16 thinking and writing”, the journalist immediately and succinctly adds: “[t]his was corroborated,
17 besides, by the declarations made by Friedman and Buchanan...” (*El Mercurio*, Sunday
18 November 22, 1981).⁴⁸ In his interview to Ercilla, Friedman said:

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23 “I believe that a free economy is a necessary condition for a politically free
24 society; unfortunately, it is not a sufficient condition. However, I think that a free
25 economy will be difficult to maintain in the long term, unless it is accompanied
26 by a politically free society” (*Ercilla*, November 25, 1981, p. 21)

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30 In *Capitalism and Freedom* (1962) Friedman had already expressed a similar idea (Friedman,
31 1962, p. 10). But this time he publicly stressed the importance of political freedom.

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33 Friedman also stressed the importance of freedom in private correspondence, both to private
34 citizens and political authorities in Chile. On August 7 1976, he wrote to General Pinochet on
35 behalf of Fernando Flores, a former member of President Allende’s cabinet who had been
36 imprisoned by the Junta. Friedman closed his two-page letter by lecturing Pinochet about
37 freedom and politics. He wrote: “Freedom is indivisible. Greater economic freedom promotes
38 and facilitates greater political freedom. But equally, greater political freedom promotes
39 economic freedom and it contributes to economic progress and development.”⁴⁹ There is no
40 evidence that Pinochet ever replied, but what is known is that around the time Friedman wrote
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48 ⁴⁶ In September 1980 a new Constitution that included an article that called for a plebiscite in 1988, had been
49 enacted. By then, a gradual political transition towards a constitutional democracy appeared to have begun in
50 Chile.

51 ⁴⁷ The interviews were done by historian Lucía Santa Cruz jointly with journalist Pilar Molina.

52 ⁴⁸ On Friedman and human rights, Schliesser (2010, p. 188) quotes McCloskey’s testimony recalling how Friedman
53 in the 1970s blocked an offer of financial support to Chicago from the Shah of Iran: “We can’t make such an
54 agreement with a despot.”

55 ⁴⁹ A copy of the letter may be found in Milton Friedman’s archives at the Hoover Institution. Folder 188-13.
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3 his letter, Fernando Flores was released by the military. Flores was the last major political figure
4 to be freed; he spent almost three years in several prisoners' camps.⁵⁰
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7 *4.4. Chile after Friedman's visit*

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9 Sergio de Castro resigned as Minister of Finance on April 19, 1982.⁵¹ The controversial fixed
10 exchange rate, staunchly defended by the majority of the Chicago Boys, was abandoned two
11 months later, on June 15, 1982 (see figure 1, where the vertical lines show the time of
12 Friedman's two visit). The devaluation of the peso had a devastating effect on companies that
13 had borrowed heavily in foreign currency. All of the sudden their debts skyrocketed in peso
14 terms; hordes of them went bankrupt. Banks that had granted dollar-denominated loans could not
15 recoup their monies and became insolvent.
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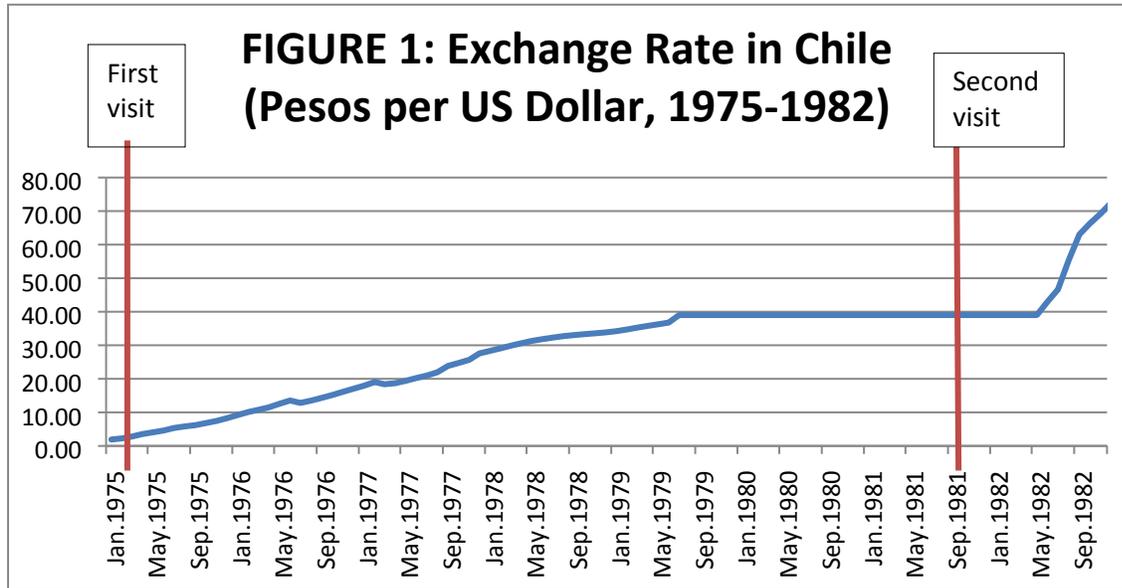
20 The crisis was so severe, that in 1982, unemployment reached over 25% and real GDP
21 contracted by 14.1%. Suddenly it seemed that the economic liberalization policies of the Chicago
22 Boys had failed. A period of acute economic depression, political uncertainty, and intense social
23 and civil unrest followed. After Sergio de Castro's resignation, Chile had five Finance Ministers
24 in a three year period. In this scenario of uncertainty, the military Junta was ambivalent with
25 respect to the future of the economy. The market oriented reforms were at risk. So was the
26 promised transition to democracy. And, as reflected in the cartoon, published in one of Chile's
27 leading weekly magazines (see figure 2), the economic policies of the Chicago Boys and their
28 mentor, Milton Friedman, were publicly blamed for the crisis. This was also the case
29 internationally: analysts argued that the costly crisis was the result of Friedman-inspired policies.
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36 Hernán Büchi, who had previously worked in the military government, assumed the position of
37 Finance Minister in February 1985. Conveniently, Büchi was not a Chicago graduate; he had
38 obtained a MBA from Columbia in 1975. However, he surrounded himself by a new generation
39 of Chicago Boys, and embarked on a new round of reforms and privatization, while maintaining
40 a flexible exchange rate (a crawling peg, once again) and avoiding overvaluation. In that regard,
41 the policies followed since 1985 were more in line with Friedman's views on exchange rates and
42 external adjustment than those followed by the old guard of the Chicago Boys until 1982.
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44 Indeed, one of the most important goals of Büchi's team was to make sure that the peso stayed
45 somewhat undervalued, as a way of providing an incentive for exports. Under Büchi's market
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53 ⁵⁰ Friedman was informed of Fernando Flores' imprisonment by Albert Fishlow, a professor at Berkeley, in a letter
54 dated July 2, 1976. See the Friedman Archives at the Hoover Institution. Folder 188-11.

55 ⁵¹ For Sergio de Castro's personal testimony of his resignation, see Arancibia et al. (2007, pp. 380-6).
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oriented and pragmatic macroeconomic management, the Chilean economy would take off again. By 1988 economic growth was at 7.3% and unemployment had declined to 9.9%.



Source: Chilean Central Bank

On October 5 of that year, Chileans voted on a plebiscite with only one question: should Pinochet stay on as president another eight years? Voting for “NO” meant that free presidential and congress elections would be called within a year’s time, while the voting “YES” meant maintaining the military regime for eight more years. Approximately 55% of the Chileans voted “NO.” In December 1989, Patricio Aylwin, a Christian Democrat who led a political coalition of center and center left parties called *Concertación*, was elected president with 56% of the votes. Interestingly, his adversary was none else that former Minister of Finance Hernán Büchi, considered by many to be the father of the “Chilean miracle.” During 1989, the last complete year of Pinochet in power, real GDP growth reached 10.5% and unemployment hit a low of 7.9%.

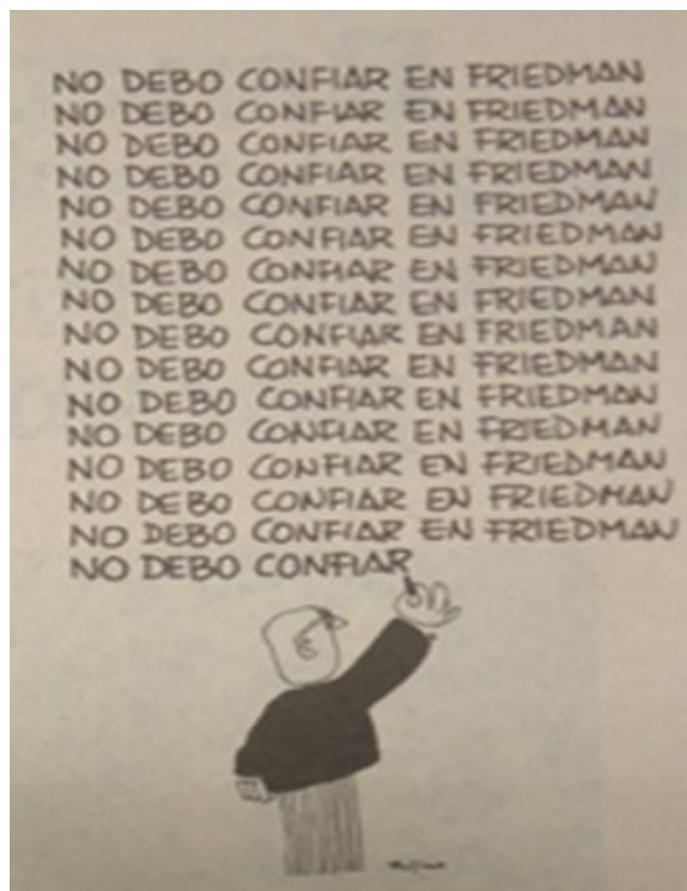


Fig. 2 “I shall not trust Friedman” (*No debo confiar en Friedman*).

Cartoon published in *Revista HOY*, on 14 July 1982,
just a month after June 15, 1982 devaluation)

In a ceremony at the new Congressional building in Valparaíso, Pinochet handed over power to democratically elected President Patricio Aylwin, on March 11, 1990. Since then, Chile has experienced sustained economic growth, democracy, and political stability. During the so-called golden period of the Chilean economy (1985-97), GDP grew at an average annual rate of 7.1% and GDP per capita doubled (De Gregorio 2005, p. 23). Nowadays Chile has the highest GDP per capita in South America. Between 1973, the last year of Allende, Chile’s GDP per capita has increased from less than 20% of US GDP per capita to almost 50% in 2017 (measured in purchasing power parity terms).

5. Concluding Remarks

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3 In this paper we have addressed three issues related to Milton Friedman and Chile: First, we
4 analyzed his two visits, in 1975 and 1981, during the Pinochet dictatorship. To do this we
5 combed archives in Chile and the United States, and we interviewed, among others, two of the
6 people who accompanied him to the by now famous meeting with Pinochet – Arnold Harberger
7 and Rolf Lüders. We went over Friedman’s meetings, lectures, and interviews; we studied the
8 questions he was asked, and the answers he gave. We talked to a number of people who attended
9 his lectures, and we read everything he wrote on Chile – papers, letters, notes, memoranda. As
10 noted, the first 1975 visit has been documented before; indeed, his meeting with Pinochet has
11 been analyzed and deconstructed many times, both by friends and foes. However, very little has
12 been written about his second trip.
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18 Second, we address a question raised by a number of authors, including Joseph Stiglitz and Paul
19 Krugman: What did Friedman think and say (if anything) about Chile’s experiment with pegged
20 exchange rates during 1979-1982, an experiment that ended up badly, with a major and costly
21 crisis. More specifically, did he point out, either publicly or privately, that by fixing the
22 exchange rate to the dollar and deregulating the financial sector, the Chicago Boys were
23 following a dangerous path, a policy that he had criticized innumerable times? We conclude that
24 during his first visit the exchange rate was barely touched on. What he said was simple: he
25 agreed with the crawling peg system of mini devaluations followed by the government at that
26 time. In addition, he pointed out that with Chile’s very high inflation it would be highly
27 dangerous to peg the exchange rate. During his second visit things had changed significantly in
28 Chile. The country was then entering the third year of a pegged exchange rate policy, and
29 according to almost every indicator the peso had become severely overvalued.
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36 During his second visit Friedman was asked repeatedly about the fixed exchange rate issue. His
37 answers were evasive and ambiguous. Although he did not endorse the pegged rate, he refrained
38 from criticizing it. This contrasts sharply with what he had done in the past in other developing
39 countries, including in India and Israel, where he did not hesitate to criticize their fixed exchange
40 rate policies. In Chile Friedman did not say what he really thought about pegging the exchange
41 rate at an artificial level. Of course, it is difficult to know what would have happened if in
42 November 1981 he had criticized the fixed exchange rate, and suggested moving to greater
43 flexibility. A possible problem with that strategy was that by then it was already too late. The
44 external imbalance was so large that nothing short of a major devaluation would have helped
45 solve the situation.
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51 Third, we investigated what he said regarding political freedom during those visits. Our interest
52 is not what he said many years later, when Pinochet was out of power and democratic rule had
53 been restored. We inquire whether during the dictatorship, and while in Chile, he stated that the
54 military had to grant political freedom to Chilean citizens, and had to reinstitute the democratic
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3 system. Our conclusion is that although he declared that the political and economic conditions
4 were very negative under president Salvador Allende, he did not provide open support for the
5 coup or the dictatorship. On the contrary, he was explicit about liberty and during both visits he
6 publicly stated that political and economic freedom had to go hand in hand. During the 1981
7 visit, Friedman publicly stressed the importance of political freedom to maintain economic
8 freedom in the context of the Chilean promised road to democracy.
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12 In sum, if in his 1975 visit to Chile Milton Friedman was fully consistent with his economic
13 ideas on inflation, he was silent about politics and human rights abuses. And if in his 1981 visit
14 he spoke about politics and the transition to democracy, Friedman was silent regarding his
15 economic ideas on exchange rates.
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