excerpt from: Sharon Beder, Free Market Missionaries, Earthscan, London, 2006.

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Economic Advisers

It is, of course, quite appropriate – and indeed necessary – to be sceptical about government 'intervention'. The trouble is that they then put their faith in the metaphor of 'the market', and they turn this faith into a mystique which they then pursue without any scepticism at all.

DONALD HORNE[1]

When General Pinochet ousted the democratically elected socialist government of Salvador Allende in 1973 he put the economy into the hands of a group of some 30 Chilean economists, known as the 'Chicago Boys' because many had studied economics at the University of Chicago with Milton Friedman. Friedman visited Chile in 1975, when military dictator Pinochet asked for help with his economic policy,[2] and gave a number of lectures there advising what should be done to fix the Chilean economy. This is ironic given that Friedman, in his book *Capitalism and Freedom*, argued for the necessary relationship between 'political freedom and a free market'. What Chile under Pinochet unequivocally demonstrated was that free market economic policies could be implemented in a decidedly anti-liberal political system.

As instruments of the military regime, the Chicago Boys were able to implement Friedman's policies, and other free market policies, without compromise for 16 years from 1973 to 1989. They were able to impose austerity measures without fear of a political backlash from people put out of work and unable to afford food and shelter. Their policies included drastic government spending cuts, the privatization of state-owned businesses, the lifting of all restrictions on foreign investment and the decimation of business regulations.[3]

Although Friedman chose to portray the Chilean experience as an economic miracle and a model for other developing countries, as did the World Bank and the International Monetary Fund (IMF), the benefits of this so-called miracle went to the wealthy and to foreign corporations, while the poor suffered. Chile experienced major fluctuations, oscillating between recessions and boom times, while employment levels fell and bankruptcies soared. Between 1972 and 1987 Chile's per capita GNP (Gross National Product) fell 6.4 per cent, and unemployment averaged around 16 per cent, a performance that was worse than most other Latin American nations. Those who objected 'disappeared' or were assassinated or imprisoned.[4]

Workers were worse off than they had been before the Pinochet coup, with the share of national income going to workers declining from 52.5 per cent in 1970 to 30.7 per cent in 1989. During the same period, the share of wealth enjoyed by the top 20 per cent of the population increased dramatically so that by 1989, they enjoyed 54.6 per cent of household consumption. Industries became concentrated in the hands of a few firms; 600 miles of roads in Santiago remained unpaved through lack of government spending; and pollution levels soared, particularly in the cities, because of a lack of government regulation.[5]

Things would have been even worse if Pinochet had not reversed some of the policies of the Chicago Boys when 'Chile's industry keeled over and died' with a drop in GDP (Gross Domestic Product) of 19 per cent in 1982–83. The population rioted despite the threat of being shot. Pinochet reinstated a minimum wage and union rights, instituted a government programme that created 500,000 public service jobs, and regulated the flow of foreign capital.[6]

Nevertheless, the same failed free market policy prescription was actively promoted by the World Bank and IMF, not only in Latin America, but in all parts of the world from the mid-1980s.[7] It was the driving force behind the structural adjustment programmes being imposed on all indebted developing nations. World Bank and IMF loans became conditional upon the adoption of policies such as privatization, outsourcing, downsizing of public service workforces, reducing barriers to foreign investors and redirecting government spending away from public services and publicly-owned enterprises into debt servicing.

Both the World Bank and the IMF underwent a policy shift during the 1980s. They took on the free market policy prescription being advanced by corporate-funded think tanks in the US and the UK at the time and, helped by a change of personnel, became missionaries of free market dogma.

The influence of US free market thinking on the IMF and the World Bank is reinforced by the dominance of economists in those organizations. More than 80 per cent of the World Bank's economists, who are far more influential than the social scientists employed by the bank, were trained in either Britain or North America: 'In the 1980s and early 1990s, their outlook, and that of virtually all of the remaining 20 per cent, was increasingly based on the assumptions and methodologies of neo-classical economics.' These people in turn hired people of like mind so that economists of other persuasions were unlikely to be employed at the bank. There is also a well-worn revolving door between these multilateral banks and international financial firms such as Chase Manhattan, Deutsche Bank and JP Morgan; something that is encouraged by the World Bank.[8]

The IMF had not started off with these free market policies. It was originally established to maintain economic stability, based on a Keynesian understanding of how this would be achieved. As noted in Chapter 7, Keynes argued that economic downturns could be remedied by governments increasing aggregate demand and stimulating the economy. The IMF could help poor countries to do this by