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**The Impact of Neoliberal Reforms on Latin American
Population**

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Declaration

1. I hereby declare that I have compiled this thesis using the listed literature and resources only.
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3. I fully agree to my work being used for study and scientific purposes.

In Prague on Aug 1, 2023

Jozef Feťko

References

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Abstract

Neoliberalism evokes strong reactions in the minds of both its proponents and detractors. With the so-called second Pink Tide washing over Latin America recently and the growing rejection of the legacy of neoliberalism in countries like Chile, many academics have started proclaiming it dead and outlived. Yet there are still those who defend its legacy and claim it should have gone much further. This thesis critically engages with these arguments using both theoretical and empirical arguments that point to the inherent contradictions baked in the neoliberal theory, its flawed assumptions, as well as the high social costs that neoliberal reforms inflict on the populations affected by them. Additionally, the thesis explores the historical development of neoliberalism during the Pinochet rule and its transformation after the 1982 crisis in Chile, which has famously been called the “lab of neoliberalism” and was long used as a model for economic development by many mainstream economists and international financial institutions.

Abstrakt

Neoliberalismus vyvolává silné reakce v myslích svých zastánců i odpůrců. S takzvanou druhou růžovou vlnou, která se v nedávné minulosti přelila Latinskou Ameriku, a rostoucím odmítáním dědictví neoliberalismu v zemích, jako je Chile, jej mnozí akademici začali prohlašovat za mrtvý a přežitý. Přesto se stále najdou tací, kteří hájí jeho odkaz a tvrdí, že měl jít mnohem dál. Tato diplomová práce se těmito argumenty kriticky zabývá pomocí jak teoretických, tak empirických argumentů, které poukazují na inherentní rozpory zakořeněné v neoliberalní teorii, její chybné předpoklady a také vysoké sociální náklady, které neoliberalní reformy způsobují jimi zasáhnutým populacím. Kromě toho se práce zabývá historickým vývojem neoliberalismu během Pinochetovy vlády a jeho proměnou po krizi v

roce 1982 v Chile, které je známé jako „laboratoř neoliberalismu“ a bylo dlouho používáno jako model ekonomického rozvoje mnoha mainstreamovými ekonomy a mezinárodními finančními institucemi.

Keywords

neoliberalism, reforms, developing economies, Latin America

Klíčová slova

neoliberalismus, reformy, rozvojové země, Latinská Amerika

Název práce

Dopady neoliberálních reforem na obyvatelstvo Latinské Ameriky

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Introduction

The stagflation of the 1970s brought about an important paradigm shift in the realm of mainstream economic thinking. A combination of high inflation and unemployment challenged the conventional approach and heavily contributed to the questioning of the effectiveness of state interventionism in managing economic crises. A set of “pro-market” reforms across different countries and continents not only radically changed how we think about the field of economics and the role of the state in it, but has had further sociological impacts, too. The Keynesian welfare state model so prominently present since the end of World War 2 was replaced by a highly amorphous approach that later came to be known as neoliberalism.

Neoliberalism has also been used as a development model and in the 1980s and 1990s got strong backing from the international financial institutions. This was, for instance, the case of the IMF that gave out conditional loans that made countries face a tough dilemma; either accept them, adopt “pro-market reforms” and remodel their economies, or reject them and thus not obtain much-needed loans.

Throughout the years, the legacy of neoliberalism has become a highly controversial and polarizing issue in academic circles as well as among the public at large. The extensive literature on this topic signifies both its prominence and importance, but despite the great number of papers and books published on the topic, academics still come to widely different conclusions about its overall effects. While some praise the approach for bringing positive economic results such as improving the macroeconomic indicators, creating growth, and curbing inflation, others criticize it for fueling wealth inequality, eroding the welfare state, and creating social polarization.

This thesis seeks to contribute to the ongoing debate on neoliberalism and its legacy in Latin America with a special focus on its effects on the people. Although the best-known representatives of neoliberalism are politicians like Margaret Thatcher and Ronald Reagan and economists like Milton Friedman and Friedrich Hayek, all of whom are Western figures, the first actual implementation happened in Chile after the coup that overthrew the democratically elected socialist President Salvador Allende in 1973. The subsequent military junta led by Augusto Pinochet gave important governmental positions and power to the so-called “Chicago Boys”, a group of US-trained neoliberal economists.

The thesis aims to explore the argument put forward by the proponents of neoliberalism as it was present in the Latin American region. Among the authors are Walton (2004) and Edwards (2009), who do generally admit that there were some negative aspects to how neoliberalism unfolded and that many promises were left unfulfilled. However, they maintain that the pro-business approach was in its essence the correct one. According to them, the reforms should have gone much further, as it was their implementation and incompleteness that were flawed, not the basic premises of neoliberalism (Walton 2004; Edwards 2009).

To engage with this argument, we look both at the theory itself and the historical conditions that led to the rejection of neoliberalism in Latin America. The neoliberal theory operates with various assumptions that upon closer inspection unveil its shortcomings. Together with the empirical evidence from Chile, the so-called “lab of neoliberalism”, we can observe how among its most prominent outcomes are inequality and subsequent strong social pressure. Together they lead to the rejection of neoliberalism by the segment of the population that is most negatively affected by it. This is one of the major baked-in instabilities of the theory.

By pointing out the theoretical and empirical flaws we question the validity of the argument and conclude fairly confidently that more neoliberalism couldn't have been the answer.

Furthermore, we argue that neoliberals in Chile achieved by and large most of what they originally envisioned yet still failed to provide materially for the people. Therefore, it would be unfounded to claim that more of the same would have magically changed the course of the economy or its impact on the people. The research questions are thus the following: What were the historical conditions that led to the alternations of neoliberalism in Latin America? Can neoliberalism ever go too far? What role does the neoliberal state play in the economy? We will engage with these questions on both theoretical and empirical levels. We hypothesize that the high social costs caused by neoliberal reforms lead to its eventual rejection.

The first chapter of this thesis contains the necessary historical background as well as the main theoretical tenants of neoliberalism. After presenting and critically engaging with its core beliefs, we present the legacy of neoliberalism in the Latin American region. The chapter also includes a relevant literature review.

The methodology and data are briefly described in the second chapter. The empirical part consists of a single case study of Chile as it was the best-case scenario where neoliberals had close to a free hand in passing the reforms according to their liking. The third chapter then describes the evolution of neoliberalism through its different stages, especially the shift from its radical form to a more pragmatic one after the 1982 crisis. It also discusses the negative impacts the workers had to endure, as they accounted for a large part of the population and were the main source of domestic resistance. It also briefly touches on the topic of the post-junta government that was formed after transitioning back to democracy.

This thesis might seem quite limited to just one country. However, as Chile was given as the model economy to be emulated by other Latin American countries, the different (mis)interpretations had noteworthy effects on the entire region. The findings thus hold substantial value well beyond Chile and even beyond the region, as neoliberalism became the “common sense” approach in the mainstream economic thought.

1. The Shortcomings of the Neoliberal Theory

Even though half a century has passed since the first implementation of neoliberal reforms and even longer since its first economic conceptions, there is no single concise definition of what exactly neoliberalism is. This umbrella term includes many different schools of economic thought with even more disagreeing theorists, as well as practitioners from across the world that had to adjust the theory to the specific on-the-ground circumstances. It comes as no surprise that neoliberalism in the Global North and the Global South had different challenges to tackle and widely different sets of tools available to utilize. Thus, some authors consider this term problematic as its meaning has grown to be quite ambiguous and at times very far-reaching.

Regardless of the differences and disagreements, two main overarching and uniting elements persist. The first one is the emphasis on increasing competition domestically through deregulation and internationally by liberalizing trade. The second one is the seeming reduction of the role of the state in the economy by privatizing state-owned enterprises and public services and reducing the size of the welfare state. Balanced budgets achieved by limiting fiscal deficits and thus avoiding the accumulation of debt are another important element for neoliberals. The tax cuts and spending cuts go hand in hand and give the illusion of the 'small state'. As will be discussed later, however, the role of the state is not so much diminished as it is radically transformed.

In general, this right-wing pro-business approach to economic reforms was most prominently present in the 1980s and 1990s, although its origins reach even further to the past. It is still a topic of discussion whether the neoliberal era has ever ended. On one hand, neoliberalism continues to have a large presence in contemporary mainstream economic

thought, but on the other, the response to the COVID-19 pandemic as compared to the 2008 financial crisis seems to indicate a strong diversion from the traditional neoliberal solutions.

Despite the veneer of rationality, neoliberals attribute the market magic-like qualities. Firstly, in their view markets are self-regulating and thus lead to a long-term balance. Secondly, they are fundamentally productive and efficient due to being uncompromising in how and where they allocate resources, as they are free from political influence and motivate both the rich and the poor to work. The profit motive forces private companies to keep the costs low and to be much better run, as there are no taxpayers to cover the unnecessary inefficiencies as is the case with state-owned enterprises. Thirdly, markets are economically just, since they give everyone the chance to succeed or fail based on their own merit. The resulting inequalities are just a reflection of the natural differences in talent and hard work between people. Lastly, the market constitutes a responsive and even democratic mechanism where competition assures that only what the consumers want gets produced and at a reasonable price (Heywood 2008, pp. 70–71).

These market-oriented policies have also been dubbed “the Washington Consensus”. However, while the usage of both of these terms generally overlaps, and even get used interchangeably, the term Washington Consensus does imply quite a large role of external players, not just the US, but also that of the international financial institutions like the IMF. Though this is not incorrect, as it will be discussed, much of the push in Latin America came from within the region, where neoliberalism had its own rich history and it wasn’t forcefully thrust upon it (Dados, Connell 2018; Edwards 1995, chap. 3). Moreover, some authors also question the term “consensus” due to the dissent by prominent economists that was publicized at the time (Naím 2000). Combined with the overemphasis on the external actors, for the purposes of this thesis “neoliberalism” will be the preferred term used.

1.1 Northern Origins of the Neoliberal Theory

Neoliberalism had been around for decades before it achieved its hegemony in the global political economy. Its origins can be partly traced to a meeting of liberal intellectuals in the late 1930s in Paris who were concerned about the then-recent developments (Birch, Mykhnenko 2010, pp. 2–3). They feared the rise of totalitarianism, not only the one represented by the rise of far-right parties such as the Nazi Party in Germany but also the one of collectivist planning – both socialist and Keynesian approaches present in the UK as well as the American New Deal (Kiely 2018, p. 358). In their view, totalitarianism was inherent to any sort of state planning of the economy and was therefore a reason not to just oppose it but to also come up with an alternative theory where any kind of economic planning would be taken away from the hands of the state and be left alone to the ‘natural forces of the free market’. And although it was used by some authors dating as far back as the 1920s (Mirowski, Plehwe 2009), the term ‘neoliberalism’ gained its prominence only after this very meeting. The name was coined due to its connection and continuation of nineteenth-century liberalism. The updated (‘neo’) part was in the role of the state as the protector of free markets through securing the rule of law. The neoliberal state should also maintain competitive conditions, curb monopoly power, protect property rights, control the currency, and, according to some, even maintain some social welfare (Peck 2008, p. 16).

According to Birch and Mykhnenko (2010), two people can be considered the ideological founding fathers of neoliberalism for laying out its base tenets. These were Ludwig von Mises’s conviction that ‘egoism is the basic law of society’ and Friedrich von Hayek’s belief that free markets lead to ‘spontaneous order’ and thus solve the issue of economic calculation. In Hayek’s view, any form of state planning is a priori ineffective since even the best bureaucrats have to sort out so much complex information that it renders it impossible

(Heywood 2008, p. 70). Together these two form a “*theoretical backbone for the political and ideological claims made by [other neoliberal thinkers]*” (Birch, Mykhnenko 2010, p. 3).

After World War II several strands of neoliberalism from different parts of the world coalesced around the Mont Pelerin Society (MPS). The MPS was founded in 1947 and among its representatives were intellectuals from the Chicago School, Austrian School, London School of Economics, University of Manchester, and German Freiburg School. These were built on top of the foundations laid out at the aforementioned 1938 meeting in Paris (Peck 2008). The main aim of the MPS was to redefine the role of the state as well as the international order to facilitate global trade. They knew that in order to achieve a radical transformation of the international political economy, they needed to ensure a prominent presence of their ideas in universities, governments, the media, and civil society. Therefore, with the help of their business sponsors, they founded several organizations to help them counter Keynesianism, especially its views on inflation and taxation (Birch, Mykhnenko 2010, p. 4). Among the most prominent and influential ones were the Heritage Foundation in the US and the Institute of Economic Affairs in the UK.

With the collapse of the Bretton Woods system in 1971 and the stagflation crisis of the 1970s, a space for new economic solutions to deal with the new problems opened up. It would be a mistake, however, to think that neoliberalism just got lucky and happened to be in the right place at the right time. In actuality, its representatives had been preparing for a time of crisis to step in and fill the vacuum. The ideas that were considered fringe just a few decades prior, after the relentless peddling through think tanks, mainstream media, and the financial and business community, were now ready to be widely received and become mainstream (Peck 2008, p. 29).

Although there were many areas of disagreement among the members of the MPS (Peck 2008, p. 15), five core principles of neoliberalism can be identified: *privatization* of state-owned enterprises, *liberalization* of international trade (predominantly of goods and capital investment), *deregulation* of labor and product markets to make them more efficient and lower their production costs, *monetarism* (i.e. emphasizing supply-side dynamics and on controlling inflation), and *marketization* or social commodification via, for instance, public-private partnerships (Birch, Mykhnenko 2010, p. 5).

It is commonly claimed that neoliberalism is either in favor of ‘small government’ or, in other words, that it favors the minimal role of the state in the economy. This is true for owning and running businesses and providing welfare services. As previously mentioned, however, concluding that the state should be under all circumstances non-intervening and disempowered isn’t precise. Rather, it represents a striking shift to the ‘logic of competitiveness’ by ensuring flexible labor policies, new commodification regimes (i.e., intellectual property rights, carbon trading), government spending targeted at the supply-side inputs like education and infrastructure, and fiscal austerity (Birch, Mykhnenko 2010, p. 7). The government thus does intervene to achieve these goals.

The role of morality and ethics is yet another area that underwent an important shift. As the market is seen as a neutral and efficient arbiter that responds to the ‘natural law’ of economic exchange (Birch, Mykhnenko 2010, p. 2), it is divorced from morality and unconcerned with what is right or wrong. The market is both politically and morally superior to the state and all kinds of political control (Heywood 2008, p. 70).

However, this claim obfuscates reality and is as dubious as it is naïve. Concurrently, it conveniently serves those who already hold a strong position on the market and can therefore

buy more freedom than those who get the shorter stick of the ever-growing inequality. For this reason, David Harvey speaks of neoliberalism as a political project that aims to restore class power (Harvey 2005).

Tickell and Peck (2003) have described two phases of neoliberalism differentiated by how the state intervenes in the economy. The so-called ‘roll-back’ phase of the 1980s was characterized by large-scale deregulation, scaling down of state-owned enterprises, and welfare services. This phase was reacting to external pressures that were not caused by neoliberalism, such as the aforementioned collapse of the Bretton Woods system and the structural crisis.

The subsequent ‘roll-out’ phase of the 1990s, on the other hand, was trying to address the negative aspects brought upon by the contradicting effects of neoliberalism itself, such as growing monopolization, poverty, and mass unemployment caused by the monetary policy that was overfocused on curbing inflation. In this second phase, sub-national solutions were preferred over national ones. The responsibility to find solutions for the problems was pushed all the way down to the individual until societal problems were completely reinterpreted as the personal failures of those who are struggling. This development was foreshadowed in 1988 in Chile by the Municipal Government Law which shifted the responsibility of delivering social services onto municipalities and restricted the capability of the national government to distribute resources. This together with privatization, especially of health services and education, served to *“individualize and commodify the pathways of social advancement and has resulted in deeply segregated systems of service provision”* (Clark 2017, p. 1359).

The culmination of this shift can be best illustrated by Margaret Thatcher's famous quote where she also questions the mere existence of society stating "*[struggling people] are casting their problems on society and who is society? There is no such thing! There are individual men and women and there are families and no government can do anything except through people and people look to themselves first. It is our duty to look after ourselves and then, also, to look after our neighbours*" (Thatcher 1987). Ensuring social justice, the well-being of the citizens, and good health outcomes were no longer for the state to deal with. Problems like unemployment and homelessness were no longer policy failures caused by the inadequate running of the economy on the national level or by deficiencies at the core of the world economy. Rather the onus was on the individual to take personal responsibility and deal with the problems through their own effort. All this on top of high unemployment, flexible labor markets, and stagnant real wages (Tickell, Peck 2003, p. 7). Freedom got reconceptualized to mean the freedom of choice of an individual in a deregulated market.

In 1989 John Williamson coined the term 'Washington Consensus' and later published an influential book where he laid out a list of its ten most important policy goals to implement (Williamson 1990):

- I. Fiscal balance in order to reduce inflationary pressures and stabilize prices,
- II. Public spending targeted at reducing poverty and improving social conditions of the poor, avoiding universal programs,
- III. Major tax reforms to reduce tax evasion and eliminate perverse incentives that would stifle production and investment,
- IV. Interest rates determined purely by the market to discourage capital flight and allocate capital to the hands of the most productive,

- V. Avoiding currency overvaluation so as not to discourage exports and avoid major and costly crises,
- VI. Reduce trade protectionism and rationalize trade by lowering import tariffs,
- VII. Encourage foreign trade investment to increase productivity by bringing new technology and management techniques,
- VIII. Privatize state-owned enterprises, sell them to both domestic and foreign investors to avoid the inherent inefficiency of the state,
- IX. Deregulate business transactions and thus eliminate barriers to entry to encourage competition,
- X. Strengthen property rights to secure stability and higher domestic and foreign investment.

These were descriptive as put forth by Williamson. However, later they morphed into being understood as prescriptive and universal. The complexities and local contexts got erased (Edwards 2009, p. 28).

1.2 Southern Origins of the Neoliberal Practice

The conventional explanations of the spread of neoliberalism usually attribute its rise to the Global North that through its more or less direct means exported and imposed these “pro-market” ideas onto the South. Either initially through the likes of Chicago Boys who were the brains behind Chile’s economic reforms during Pinochet’s rule or through international organizations such as the IMF and its conditional loans that prescribed neoliberal policies in its structural adjustment requirements.

This, however, as Dados and Connell (2018, p. 30) astutely point out, doesn’t explain why, for instance, a dictator like Pinochet would devolve so much power to a group of economists.

By that time neoliberalism hadn't achieved its later hegemonic position and there was no exact list of reforms countries had to implement. Another argument as to why the coercion narrative is not quite accurate is that there were cases when countries refused to take conditional loans from the IMF. In fact, in the early stages, the reforms were even met with skepticism and opposition by the Washington institutions (Edwards 2009, p. 26). Finally, neoliberal thought did have its own home-grown history in the South and was by no means a foreign import there. The omission of this fact by the critics of West-centrism is in itself West-centric as it doesn't take into account the history of the discussions of neoliberal ideas in the South dating back to at least the 1960s and therefore shows a potential bias and blind spot on the part of the critics. In the 1980s more than a third of all articles written about neoliberalism were about Latin America. Unfortunately, they were not referenced in the North in the following decades (Dados, Connell 2018, p. 30).

A closer inspection of the article cited by Dados and Connell shows that in the early 1960s, there were indeed neoliberals consisting of businessmen and professionals across Latin America that organized themselves and took different actions to promote neoliberal thought. Some of the actions were offensive, some defensive, and some a combination of both. There was a substantial on-the-ground presence and campaign to propagate their beliefs. In Colombia, for instance, neoliberal thinkers first aimed to awaken the feeling of imminent danger that the Jacobin Left and communists posed to them. Later its proponents pressured, blacklisted, or infiltrated a wide range of labor unions, universities, and corporations and supported anticommunist elements in them. Finally, by 1960, neoliberal ideas had gained significant traction in Colombia (Bailey 1965, p. 455).

All things considered, the main brains behind the very first implementation, the Chicago Boys, were US-trained and their ideology was heavily influenced by prominent neoliberal

thinkers. The neoliberal ideas even back in the 1960s were being traced back to the likes of Ayn Rand, Friedrich Hayek, and Ludwig von Mises (Bailey 1965, p. 446), all of whom were ‘Western’ thinkers. This undermines Dados and Connell’s argument to an extent. What goes uncontested, however, is that there were wide on-the-ground efforts to introduce neoliberal ideas, which were neither purely imported nor fully home-grown.

Another narrative that gets reproduced claims that it was the bloated welfare state that neoliberals were fighting against. Although this might hold true for the global North, it couldn’t have been the case for the South as we cannot really speak of any Southern welfare states in those times. What they were actually contesting was the two main strategies for industrialization prominent at the time, that being import replacement industrialization that gets attributed to Raúl Prebisch and Soviet-inspired state-centered command economy, alternatively a combination of the two (Dados, Connell 2018, p. 30).

Neoliberalism provided an alternative for the developing states that got traction due to being in the interest of the local business class and had some attraction to the public at large as well. The promise went as follows: each country has a competitive advantage in a certain sector (e.g., manufacturing using cheap labor, agriculture, mining, provision of business services) and it should therefore specialize in that sector and open up the markets to the global competition and thus bring prosperity and development to the country. And although this strategy would bring rapid growth in those specific sectors, others would be left behind and stagnate (Dados, Connell 2018, p. 31). Additionally, the general growth in topline economic indicators turned out to be separate from the development, meaning improved life of the majority of the people. This can be perhaps best illustrated on the issue of labor rights that were, despite the praised growth, generally being eroded.

1.3 Literature Review

For the purposes of the thesis, two kinds of literature are necessary. Firstly, critical literature that discusses the built-in shortcomings of neoliberal thought, and secondly, literature pertaining to the specific case of Chile, that provide the empirical basis for our research and points to the social, economic, and political conditions that led to the downfall of neoliberalism in the region.

“Actually Existing Neoliberalism” by Peck et al. (2018) problematizes the definition and the discourse around neoliberalism and makes a case for its processual understandings. Not only do the authors present the main tenets of neoliberalism in its usual understanding but they also expose its lack of a grand, complex, or developed vision of how the economy and society should be organized that wouldn’t be solely context-dependent. Neoliberalism, according to the authors, is *“a radically ‘incompletable’ project”* (Peck et al. 2018, p. 6). It doesn’t work in a vacuum as pretty much all its goals are relative to the already existing reality and thus don’t hold by themselves. The neoliberal manifestos can only ever be partial and never fully realized. This greatly weakens the argument of the proponents of neoliberalism who argue that the reforms, say in Chile after the near full implementation of El Ladrillo (The Brick), didn’t go far enough and would have worked, had they even further.

“The Rise and Fall (and rise again) of Neoliberalism in Latin America” by P. Kingstone explores the existing literature on the fluctuating support of neoliberalism in the region while differentiating between anti-capitalist ‘radical’ critics that (just like neoliberals themselves) operate with thick conceptions of neoliberalism, and more ‘moderate’ or pragmatic critics that operate with a thin conception of neoliberalism. According to Kingstone all three of

these traditions have provided both extensive and persuasive analyses (Kingstone 2018, p. 202).

Proponents of neoliberalism such as Williamson and Kuczynski (2003) argue that Chile is the proof that neoliberal reforms had a net positive effect, as the country was one of the best performers in the region. Furthermore, they claim that neoliberal reforms had not gone far enough since Latin American economies weren't fully liberalized, not even Chile's. More specifically they point to the labor markets that, according to them, stayed mostly unreformed. This argument remains highly pertinent in the discussions on the legacy of neoliberalism. In their view, the reason why the reforms didn't perform as promised is that they depended on strong and effective institutions which were either weak or not present at all. This goes beyond what neoliberal theory deals with and therefore can't be held against it.

"Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002" (Winn 2004a) provides an in-depth analysis of the neoliberal period under the rule of Augusto Pinochet and the subsequent Concentración government and its impact on organized labor. The main claim of the book is that the workers were those who bore the cost of their country's economic success and had to endure the *"economic assault on the gains in wages, benefits and working conditions that workers had won since the 1930s"* (Winn 2004a, p. 2). In the chapter *"The Pinochet Era"*, P. Winn captures the attempts at suppressing Chile's labor unions through the use of decrees, market, and even physical force and the workers' resistance and militancy used to counteract them that followed. While analyzing the effects of the reforms the book adopts a bottom-up approach by focusing on the experiences of the country's workers who accounted for a majority of Chile's population. Besides its focus on different sectors such as mining, metallurgy, manufacturing, or fisheries, some chapters also

delve deeper into the impact of the reforms on gender relations and the environment. Tinsman in her chapter (Tinsman 2004) examines the role of the female seasonal workers who, on one hand, were often working 15-hour days in exploitative harsh conditions for low wages, but on the other hand, the new incomes helped them get more agency and strengthened their bargaining power. Thus, the effect on them was quite contradictory in its nature.

Klubock (2004) and Shurman (2004) dive into the environmental effects of the policies instituted by Pinochet. Schurman analyzes the effects of the “wild fisheries” boom that both started as a result of the industry’s deregulation globally and ended as the lack of regulation caused a collapse of species by 1990 (Schurman 2004). Similarly, Klubock’s findings suggest that the Pinochet-era decrees caused intense exploitation of both Chile’s workers and forestry. Furthermore, the supposed success story of the private sector in the forestry industry was ultimately just a collection of the prior heavy investment from the public resources (Klubock 2004). Shurman points out that on top of the negative effects on the workers, the neoliberal model led to what effectively is the tragedy of the commons, although she doesn’t explicitly name this concept. Shurman also underscores that in a globalized world economy, the Chilean export miracle is bound to be short-lived as it creates a race to the bottom where there will always be another country with better comparative advantage, such as even lower labor cost, which will ultimately create further pressure, even worse working conditions, and internal inequality.

Taylor (2002) looks closer at the merit of the IMF’s praise of Chile’s rapid economic growth in the 1990s. The IMF attributed the success to a combination of good policies and improved political situation. Taylor points out, however, that the IMF downplays the “*historically specific global political-economic context*” of the 1990s and creates an illusion of a universally applicable neoliberal development model (Taylor 2002, p. 69). Chile’s

development was predicated on the global economic fluctuations of the 90s and the geographical particularities as Chile had rich raw material reserves. This model without the proper contexts therefore creates a false impression of its own reproducibility. It does reveal, however, whose interest the IMF had in mind as it was promoting one of the most unequal countries at the time.

Fischer (2009) in her article presents the multifaceted nature of neoliberalism and introduces its seven different development stages and modifications as it pertains to Chile. The author also emphasizes the necessity to differentiate between the effects of neoliberalism and the military dictatorship and not to equate the two (Fischer 2009, p. 338). The mutability of neoliberal knowledge combined with the flexible ties to the power is according to her the reason why Chile stayed on the neoliberal path so long and even after the fall of the dictatorship. This presents yet another challenge to the argument that the effects of neoliberalism would have been better if it had been implemented more fully.

Dados and Conell (2018) in their article titled "*Neoliberalism in World Perspective: Southern origins and southern dynamics*" argue that it is in fact not true that neoliberalism was imposed onto the global South as it is commonly claimed. Such a claim disregards the deep history of neoliberalism dating back to at least the 1960s. Instead, it was the power of the postcolonial Southern state that made early experiments with neoliberalism possible and was a key condition to the creation of the global neoliberal regime (Dados, Connell 2018, p. 31). Winn also gives credence to the argument by pointing out that the idea that international organizations could coerce these countries completely against their will to adopt radical neoliberal reforms is undermined by the fact that some were able to do so (Winn 2004a).

The proponents of further neoliberalism explain its failings in a few different ways. One of the more common ones is the corruption argument. Edwards (2009) blames the implementation of the privatization of public utilities in different Latin American countries. The lack of proper prior regulation and competition policies led to the replacement of state-owned monopolies by privately-owned ones as the insiders got massive shares of the enterprises at very low prices.

This seems to be the case in Pinochet's Chile as well as González et al. (2020) point out in their article. According to them, the origins of today's Chilean political corporations can be traced exactly to the privatization of state-owned companies by the military dictatorship. Privatization was controversial due to its pricing and the identity of the buyers as, for instance, one of the world's largest mining companies was sold to Pinochet's son-in-law at a below-the-market price. After the restoration of democracy, these political corporations formed financial ties with the new government which helped them survive long past the dictatorship (González, Prem, Urzúa 2020).

The second argument Edwards makes in defense of neoliberalism is the failure or unwillingness of the countries to create strong and modern institutions that would not only crack down on corruption but would also protect property rights and encourage the rule of law. Lastly, Edwards points out that another one of Williamson's ten points was not followed, that being avoiding currency overvaluation. Many countries such as Brazil, Argentina, and Mexico pegged the values of their currencies to the US dollar thus making them artificially high (Edwards 1995, p. 28). Chile was no exception as between 1979 and 1982 the peso was also pegged to the dollar which, combined with the high interest rates, cause it to run up its debt and cause a major economic crisis. Edwards blames the effects of the currency crisis such as *“increased unemployment, wiped out savings, reduced wages,*

and generated disappointment and anger” in the 1990s and early 2000s for paving the way to popular rejection of globalization and market orientation in the region. He conveniently omits the role of neoliberalism in heightening financial contagion and exacerbating the negative effects of economic crises.

Although existing literature provides a rich and quite extensive critique (and also defense) of neoliberalism, there seems to be a gap when it comes to engaging with the argument that neoliberalism should have gone further to reach its full potential and the benefits that come along.

1.4 Criticism of Neoliberalism

What seems to be clear is that there is an ever-growing literature criticizing neoliberalism and the role it has played in the past half a century. Some authors scrutinize the assumptions that are at its core, some its contradicting nature, while others find fault with the negative empirical effects neoliberalism has had.

Kingstone (2018) summarizes four key normative assumptions of neoliberalism and puts them under scrutiny. The first is that the state is incapable of making good policy choices. Second, renewing economic growth can be achieved by ‘getting prices right’. Third, efficient use of resources can solve social injustices. Lastly, a combination of minimal state, property rights and their legal protection amounts to fair social outcomes. If one or more of these assumptions are proven wrong, then all policy prescriptions may be put into question. Radical as well as moderate critics of neoliberalism agree that these underlying assumptions can’t be empirically supported.

Additionally, Kingstone considers it a fatal flaw of neoliberalism to omit the institutional requirements in its theoretical framework, not something that should absolve it as Kuczynski and Williamson (2003) claim (Kingstone 2018, p. 204). Naím (2000) adds that the implicit expectation that there are *“honest governments, an impartial legal system, properly trained and remunerated public officials, transparent regulatory systems, and so on”* (Naím 2000, p. 96) is unreasonable. A country fully capable of meeting these high pre-conditions is not only already developed, but an outright utopia.

Neoliberalism also gets criticized for believing in the alleged moral neutrality of the market. As markets heavily determine the well-being of the population, this view can't hold. Especially when the state that could correct market failures is supposed to not intervene. Morality and the market cannot be decoupled. James Wolfensohn, the former World Bank President said: *“We cannot adopt a system in which the macroeconomic and financial is considered apart from the structural, social and human aspects, and vice versa”* (in Wolfensohn, Kircher 2005, p. 132). Furthermore, when using neoliberalism as a development model, the cultural realities and uniqueness of each country need to be considered, which was not the standard practice. There isn't and cannot be any universal model to follow as structural factors and the international environment change in time and space. A lot of the 'Chilean miracle', for instance, was possible thanks to copper exports and the favorable geopolitical reality of the 1990s (Taylor 2002).

Neoliberalism failed to provide specific policies for newly opened economies to effectively cope with the impacts of globalization, especially the financial one. This gave rise to unpredictable financial crashes that quickly spread across countries (Naím 2000, p. 94). These then set them back and erased the economic progress made through painful reforms, many times accompanied by harsh political turmoil.

Even some IMF economists (Ostry, Loungani, Furceri 2016) now acknowledge that the IMF used to push a ‘neoliberal agenda’. They maintain that said agenda lifted millions from abject poverty through global trade and transfer of technology and know-how to developing economies and that privatization led to “*more efficient provision of services and lowered the fiscal burden on the governments*” (p. 38). They do go on to criticize capital account liberalization and fiscal consolidation, however. These two policies resulted in increased inequality, unsustainable growth and had no proven benefits to increasing growth. Financial openness can be positive if it provides a way for poorer countries to access capital to finance investment, but it is also very hazardous as the capital can escape just as quickly as it came. Portfolio and speculative investments especially don’t boost growth and heavily fuel economic volatility. Additionally, the authors go on to criticize austerity policies and suggest that it is preferable for countries to live with the already accumulated debt rather than run budgetary surpluses to reduce it as it represents sunken costs and doesn’t really do anything for increasing output. “*On average, consolidation by 1 percent of GDP increases the long-term unemployment rate by 0.6 percentage points and raises by 1.5 percent within five years the Gini measure of income inequality*” (Ostry, Loungani, Furceri 2016, p. 40). The increased inequality itself can stifle economic growth and its durability; the opposite of what neoliberalism is trying to achieve. The inequality created by neoliberalism doesn’t just pose a threat to domestic political stability. It also greatly stifles global competitiveness (Naím 2000, p. 96).

Harvey (2005, p. 19) points out that “*when neoliberal principles clash with the need to restore or sustain elite power, then the principles are either abandoned or become so twisted as to be unrecognizable.*” A tension exists between the ideas in the theory and the actual practice. Another disconnect is in the way neoliberals discuss the role of the state. Despite

its anti-state rhetoric neoliberalism cannot live without the state. Taking this rhetoric at face value leads some proponents to point to the increased government spending after the passage of neoliberal reforms and conclude that neoliberalism has never actually been implemented (Kiely 2018, p. 338). In Chile, for example, government spending as a percentage of the GDP actually increased during the Pinochet regime compared to what it was before the coup, in the leadup to and during the actual rule of a socialist president (Clark 2017, p. 1355). This, of course, misses the point.

Neoliberalism does need the state to achieve its goals even though it tends to be used as a scapegoat whenever a crisis occurs. On one hand, in its neoliberal era, the World Bank claimed the East Asian miracle was made possible thanks to the market-friendly approach. The subsequent 1997-98 Asian financial crisis, however, was blamed on state-led crony capitalism. Liberalization of the financial markets that enabled crises to spread from one country or region to another, gets blamed either on corruption or the inefficiencies of the state. Similarly, in the 1980s it was the institutional framework that was lacking in the eyes of neoliberals, not the inherent flaws of structural adjustment. Poverty is seen as the result of the inherent excluding hierarchal nature of the market, but due to the poor not being sufficiently integrated into it (Kiely 2018, p. 338).

Despite the pragmatic rhetoric, neoliberalism tends to be very dogmatic. The belief in the magical properties of the market always leads the proponents to the exact same conclusion. The crises are a result of malimplementation and malregulation by the state – a very practical view of the problem. The market, however, is both in theory and in practice infallible. Neoliberals need the state to implement ‘appropriate policies and construct neoliberal subjects’, but whenever a problem arises, the state is always to blame (Kiely 2018, p. 339). Corruption is only acknowledged when it can be attributed to the actions of the state, never

to the markets. As Peck (2010, p. 7) points out, neoliberalism cannot be truly anything else than an ‘interventionist project’ despite its own denial. This denial combined with the constant lamenting over the size of the government, however, does serve a specific function. It allows neoliberals to outrage over the recent growth of government that they themselves fostered and balance it out by further privatization which leads to even more spending and continues the cycle (Mirowski, Plehwe 2009, pp. 449–450).

In one of his works, Mirowski likens neoliberalism to a Russian doll (Mirowski 2014). The inner layers represent its elitist origins in the 1930s and 1940s when it was created as a response to collectivism and authoritarianism as discussed above. The outer layers were formed in the 1970s and possessed more populist arguments that challenged the paternalism of the state and emphasized entrepreneurship and the freedom of individuals to make their own choices on the market.

As privatization and market liberation both rest on state power and public policy, we need to move past the dichotomy of state and market. Kiely (2018) identifies another important contradiction in the neoliberal theory that he calls the neoliberal paradox. The core of the argument is that neoliberals are for both ‘spontaneity’ and ‘individual sovereignty’, but also for promoting the construction of the marketized state and the ‘reconfiguration of the individual’. Such construction then requires constant state oversight and regulation. In other words, there is always a *“gap between the neoliberal project to marketise society, and the reality that neoliberalism will always have to rely on non-market mechanisms to do so”* (Kiely 2018, p. 342).

Neoliberalism and the market rule also rest on various ‘extra-market mechanisms’ that are both regulatory or interventionist yet compatible with them such as limited liability or

standardized contracts (Kiely 2018, p. 354). A similar case of acceptable state interventionism to uphold the market is quantitative easing employed after the 2008 financial crisis. As Kiely points out, this is an example of when “*neoliberalism is being maintained through interventionist measures designed to maintain neoliberal society, but these very same measures increasingly undermine the central claims made for something called a free market or spontaneous order*” (Kiely 2018, p. 364).

Market discipline is more often than not imposed on the labor force, but not necessarily on corporations as we have seen in the aftermath of the financial crisis. This leads some critics to a damning conclusion that neoliberalism is really a disguised ‘socialism for the rich’. This is something both right- and left-wing libertarians agree on (Kiely 2018, p. 367). Kiely adds and concludes that neoliberalism is what it was originally trying to fight against – undemocratic authoritarianism (Kiely 2018, p. 368).

According to Peck et al. (2018), neoliberalism is simultaneously crisis-making and crisis-managing. It is reactive to the previous status quo and brings solutions that are not sustainable in the long term and therefore carry crises of their own. Deregulation gives way to malregulation, excess marketization, and overexploitation. At the same time, it has shown itself to be capable of exploiting the same crises it has created to further its own agenda and to reinvent itself in the process (Peck et al. 2018). Yet, it is somehow able to stay true to its core principles, albeit not in its purest form.

Neoliberalism is a “radically incompletable” and “ever-changing” process with no grand end goal. It is an approach that is purposefully kept vague in many ways. There is no ideal tax rate, amount of social spending, or privatization. All that matters is the downward trend of

the tax rates and social spending and that more state-owned enterprises are being privatized. Neoliberalism thus cannot exist in a vacuum. It is purely context-dependent.

The debate over whether or when the era of neoliberalism has ended is ongoing. Especially after the financial crisis of 2008, some authors like Stiglitz (2008) were suggesting that the era of neoliberalism might be over. Meanwhile, others like Peck (2018) are of the opinion that such claims were ‘premature’ (Peck et al. 2018, p. 9). Their main argument is that the response to the crisis was neoliberal in its nature as austerity and selective stimulus spending led to a further rise in inequality and caused sluggish recovery. Kiely (2018, p. 1) identifies an interesting paradox that this 2008 ‘neoliberal crisis’ actually strengthened neoliberalism since the crisis came to be redefined as a public sector crisis and the main narrative was focused on cutting government spending. Similarly, in the aftermath of the 2010 EU sovereign debt crisis sharp austerity measures were used as the remedy to get out of the crisis.

To summarize, neoliberalism gets criticized for a vast array of reasons. Some authors point to flawed assumptions and the disregard for the institutional requirements that are at the core of the theory (Kingstone 2018). Others point to the large increase in inequality that has a destabilizing effect and can undermine the democratic will of the people (Naím 2000). This gets acknowledged even by the IMF and its economists who are now much more skeptical about the recommended policies of account liberalization and fiscal consolidation as besides increased inequality, they also cause economic volatility and stifle growth (Ostry, Loungani, Furceri 2016). The rigid use of neoliberalism as a development model and prescription of policies regardless of the local conditions and intricacies gets criticized, too. More radical authors like Harvey (2005) quite cynically claim that neoliberalism is essentially a project to restore the class power of the global economic elite. Finally, many authors point out the

ambivalent attitude toward the role of the state. The state is both a good instrument to implement neoliberalism and save itself from its self-destructing nature. The state is also a villain to blame for any negative outcomes (e.g., Kiely 2018; Peck 2010; Mirowski, Plehwe 2009).

2 Methodology and Data

For the empirical part of the thesis, we performed a qualitative case study method. More specifically, it was a holistic case study of the neoliberal era in Chile during the rule of Augusto Pinochet (1973-1990) and the early years of the subsequent Concentración government. We used document analysis of the existing scholarly literature. The source of our primary data on the macroeconomic indicators was the World Bank's World Development Indicators as well as some statements by Chicago Boys themselves, predominantly Hernán Büchi's in "*La transformación económica de Chile: el modelo del progreso*" (Büchi 2008). Additionally, we employed the analytical technique when determining the implications of the argument that neoliberalism could and should have been implemented further.

This topic is of high importance to the field of IR due to the hegemony of neoliberal thought in the field of economics and the use of Chile as a model scenario in the field of development economics. The Chilean reforms have been adopted by countries in Latin America and other parts of the world, and they have critically affected those societies as well (Borzutzky 2005).

The nebulous character of neoliberalism leads some authors to question its utility. As Peck et al. (2018, p. 4) astutely point out, however, Chile under Pinochet can safely be regarded as a neoliberal state. The so-called "lab of neoliberalism" was witness to a radical reorienting of the economy as the Chicago Boys had the free hand to pass "pro-market reforms" in as wide a scope as they wanted. There is also a consensus in the literature that the neoliberal model remained in place even after the transition to democracy (Fischer 2009, p. 333).

Chicago Boys were successfully able to introduce a new development model that aimed to redirect the Chilean economy toward global competition. The import substitution strategy

was completely replaced by export promotion. *“Many tariff and non-tariff barriers were abolished in due course, and anti-inflationary strategies were pursued by means of highly restrictive monetary and fiscal policies”* (Fischer 2009, p. 306). There was also widespread privatization and deregulation of the labor market. Besides economic changes, the reforms had wide-ranging social impacts, too.

Chile therefore serves as a best-case scenario since the reforms were implemented to the extent the Chicago Boys envisioned as they had close to a free hand in being able to implement and test their ideas without any opposition, which was suppressed through the spread of violence, fear, and exile (Clark 2017, p. 1354).

This thesis adopts a critical perspective on neoliberalism. We hypothesize that the high social costs of neoliberalism lead to its eventual rejection. The key works we relied on when analyzing the theory were *“Actually Existing Neoliberalism”* (Peck et al. 2018) and *“The rise and fall (and rise again?) of Neoliberalism in Latin America”* (Kingstone 2018). For the case study we relied on the book called *“Victims of the Chilean Miracle: Workers and neoliberalism in the Pinochet Era, 1973–2002”* (Winn 2004a), Clark’s (2017) *“Rethinking Chile’s ‘Chicago Boys’: Neoliberal technocrats or revolutionary vanguard?”*, and Fischer’s (2009) *“The Influence of Neoliberals in Chile before, during, and after Pinochet”*, especially her division of neoliberalism in Chile into seven different stages.

It is imperative to approach neoliberalism in Chile with a certain degree of caution and to discern between its effects and the effects of authoritarian rule. Decoupling these two is no easy task. It does, however, show us one of its most important features as *“it is precisely the mutability of neoliberal knowledge and its flexible relationship with power that sustained essential components of the neoliberal model and the neoliberal path in Chile”* (Fischer

2009, p. 338) even after the reinstatement of democracy. Moreover, the unlimited power of the dictatorship made these reforms possible to be implemented so rapidly and in such a wide scope.

3 Chile under Augusto Pinochet

On September 11, 1973, three years into the presidency of the first Chilean Socialist president Salvador Allende, Chilean army tanks started firing at the presidential palace where he resided. Air force jets were dropping bombs on the palace thus setting it on fire. This coup headed by General Augusto Pinochet marked the end of the Allende era, which was characterized by its political polarization, socialist reforms, grassroots democracy, economic dislocation, and social revolution as well as by class conflict (Winn 2004b, p. 14).

From the moment the US-backed junta seized power, in public speeches, the new leaders foreshadowed the country's upcoming authoritarian rule. Importantly, it wasn't just the "Marxist cancer" they wanted to eradicate from Chile's politics. With it, the entire previous half-century of social reforms cutting across different governments and reaching as far back as the 1920s. And unlike the previous juntas that had come to power until then, this one aimed at being not just a transactional one (Winn 2004b, p. 14). As a matter of fact, democracy was not restored until 1990, 17 years after Pinochet initially took hold of power. Even after that, however, Pinochet would remain as the head of the armed forces until 1998 when he retired and was subsequently arrested in England for gross human rights violations. For this reason, some authors date the end of Pinochet to 1998, while others mark its end in 1990 with the restoration of democracy.

Besides the human rights violations, the Pinochet rule was also characterized by the political and economic changes that it brought. The decades of industrial protection policies and state intervention were abruptly replaced by an open economy with a radically transformed role of the state in the market. These came to be known as neoliberal reforms which were legitimized by not only a variety of different economists of the time, but also by international

organizations that praised them and put them as a model scenario for how developing countries should organize their economies and, by extension, societies (Taylor 2002).

And thus, Chile switched from being the region's model democracy to being its model economy, albeit one notorious for also being an exceptionally cruel dictatorship. The latter was achieved at the expense of the former. It is estimated by some that there were more than 100,000 victims of torture and more than 3,000 dead or missing as a result of Pinochet's "internal war", with labor leaders and worker activists being the regime's prime targets (Winn 2004b, p. 21).

3.1 The Chicago Boys' Ascend to Power

The origins of the Chicago Boys can be traced to the period between 1955 and 1963 when a group of about 30 economists from the Catholic University of Chile took advantage of the grants provided by the University of Chicago (Silva 1991, p. 390). There, most of them started following the teachings of Milton Friedman and became fully aligned with his economic ideology. After coming back to Chile, besides becoming well-known businessmen and academics, many of them became the brains behind the economic policies passed by the Pinochet regime. Together with the gremialista movement under their leader Jaime Guzmán, they took over the Catholic University of Chile. They also collaborated with the Edwards Group, which, besides being very influential due to its concentration in the financial sector and the media, were the early supporters of the radical form of neoliberalism and established the first neoliberal think-tank in Chile called Center for Social and Economic Studies (CESEC) in 1963 which brought together key Chicago Boys. Together, they drafted a blueprint for an economic organization called El Ladrillo, The Brick (Clark 2017, pp. 1351–1352).

This period from the mid-1950s to the end of the 1960s is what Fischer (2009, p. 337) calls the ‘proto-neoliberalism’ stage. At the core of the activities was the ideological critique of import substitution and socialism. They weren’t yet active in politics. Instead, they used think tanks, universities, and the media to gain prominence and influence. According to them, Chile’s diagnosis was that it had become a ‘rentier society’ where interest groups were extracting rents from the state through subsidies, trade protections, price setting, or providing social security financed by taxation. This interventionism was then restricting competition, limiting investment, and forcing politicians to continue this increasingly stagnant vicious distribution cycle that was causing political and economic conflicts in the country. The election of Allende was to them just a symptom of a larger cumulating problem that dated as far back as the second half of the 19th century (Clark 2017, p. 1353). According to Hernán Büchi, one of the Chicago Boys, there was *“nothing [about Allende’s socialist government] that was entirely distinct or against the evolution of the country from the 1930s”* (Büchi 2008, p. 57).

The subsequent step was the ‘rollback’ period between 1973 and 1975. Prior to the coup, the military junta didn’t have a clear vision for the organization of the economy besides its opposition to Allende’s enacted socialist policies. Initially, they intended to choose a centrist gradualist and technocratic route that would balance conservative “pro-market” positions with nationalist protectionist positions favored by its business supporters (Winn 2004b, p. 25). There were some, namely in the air force under commander Gustavo Leigh, who were advocating for a modern ‘mixed economy’. However, Leigh was eventually expelled in 1978 and more radical factions, mainly navy and army officers, got their way (Fischer 2009, pp. 317–318). Alongside them, key advisory positions were filled with neoliberal and gremialista academics.

The new military regime got entirely rid of the price supports and the import substitution model by repressive means. Interest rates were freed, the nationalized enterprises were returned to their former owners and US multinationals affected by the pre-coup expropriation measures were compensated. These weren't deep fundamental institutional reforms, but rather it was a reversal of the major economic policies passed by previous governments (Fischer 2009, p. 318).

What was clearcut from the beginning, though, was the combative attitude toward organized labor that was posing a threat to the regime due to its entrenched role in society. During the curfew that immediately followed the coup, one of the first buildings seized by the military was the headquarters of the Central Unica de Trabajadores (CUT), the largest trade union federation in Chile at the time, which was later banned altogether. Factory workers were being interrogated by military intelligence and pressured to become informants for them. Many of both activists and worker leaders disappeared, were killed, brutally tortured, detained, or sent to exile (Winn 2004b, p. 22). Decree-Law No. 198 approved in December 1973 by the junta allowed the government to replace union leaders at any time and for any reason (Remmer 1980, p. 283).

In such a hostile environment, the union leaders that remained in office were left without much power to protect the union members. The unions were quickly made toothless by either being stripped of power or being too afraid to act. Additionally, strikes, union elections, and collective bargaining were all banned, tripartite labor commissions and state-led mediation boards were suspended, and three-quarters of the 130 federations and confederations affiliated with CUT were disbanded. This coercive "internal war" on workers lasted until 1978.

Although the Chicago Boys had been active even before the coup, their ascent to power wasn't immediate. It took about two years for them to rise to powerful deciding positions (Fischer 2009, p. 317). In 1975 it was clear that the recession had come. Chile's trade deficit had increased as copper prices, the country's main export commodity, fell significantly in 1974. The liberalization of prices didn't curb the high inflation levels nearly as much as the regime would have hoped. At its peak in 1974, inflation reached almost 505 percent, and one year later it was still at almost 375 percent (World Bank 2022a). The prices of commodities like bread rose by 1,000 percent in just three months in late 1973 alone (Winn 2004b, p. 22). This drop was the result of the declining demand caused by the reduction of wages and public expenditures. The oil shock depressed Chile's manufacturing even further (Fischer 2009, p. 319).

Pinochet became convinced that the only solution out of the crisis was a radical shock treatment, an approach legitimized by the Chicago Boys, and Milton Friedman himself, after he visited Chile in 1974 and met with Pinochet. Subsequently, he disempowered his detractors in the air force and further purged those officials who were opposed to the "shock treatment". In 1975 two of the Chicago Boys joined the junta government and assumed control of economic policymaking. Namely, these were Sergio de Castro, who became the Minister of the Economy, and Jorge Cauas, who was named the Minister of Finance. Furthermore, Decree Law 966 expanded the Finance Ministry to cover not only the Economy, Agriculture, and Mining, but also Labor, Public Health, Housing, Urbanization, Social Security, and the Economic Development Agency (Clark 2017, p. 1352). The ministry thus became extraordinarily important and influential. Moreover, the Chicago Boys' advantage was that they had a holistic economic recovery plan ready in the form of "El Ladrillo" (Fischer 2009, p. 320).

Their ascent to power gave way to the ‘rollout’ stage that lasted from 1975 until 1978 and marked the most orthodox version of neoliberalism defined by the most radical measures. As a part of the government, the Chicago Boys introduced a free trade regime, heavily deregulated the domestic and financial markets, and privatized state-owned enterprises even further.

The role of external factors shouldn’t go unrecognized either in the adoption of shock therapy. Multinational lenders were careful about lending to Chile, especially due to the regime’s horrific human rights violations. The Chicago Boys played an important legitimizing role thanks to their academic university background and their ties to international organizations. In 1974 Chile entered a standby arrangement with the IMF, but most of its conditions weren’t met. In 1975 the IMF required the adoption of even harsher measures. The shock treatment thus helped build Chile’s credibility even further and this decreased the need for other external funding that would demand improvements in human rights.

Besides the monetarist shock treatment, during this period the regime introduced a free trade regime. In 1973 tariffs were averaging 94 percent but by 1979 they were cut all the way down to 10 percent (Winn 2004b, p. 28). The second wave of privatization included even what were profitable state-owned enterprises. The goal was not to just sell them but ‘*to create and recreate a solid private sector*’ (Büchi 2008, p. 292). This was the first neoliberal package. Its negative effects were offset by the improved access to foreign credit which helped with quickly rising unemployment, skyrocketing imports caused by currency overvaluation, and deindustrialization caused by exposure to foreign competition. Rising copper prices and its growing export improved the balance of payments (Fischer 2009, p. 321). In 1977, Chile pulled out of the Andean Pact which removed the obstacles to foreign

financial investment (Ffrench-Davis 2002, p. 60). The exchange rate was revaluated so even the government implicitly recognized that monetarist policies alone weren't enough (Fischer 2009, p. 321). The inflation was eventually curbed under the 100 percent level in 1977 (World Bank 2022a).

The Chicago Boys shouldn't be seen as just neoliberal technocrats as they are commonly described in the literature. On the contrary, according to Clark (2017), they were a revolutionary vanguard that led a capitalist revolution that "*radically altered the material and ideological foundations of the nation*" (p. 1350). They had both overt (stated, technical) and covert (hidden, sociological) goals. According to Hernán Büchi, the main objective wasn't to disempower the state by 'deregulation' but to reconstruct both the state and the society (Büchi 2008, p. 63), to construct not just a market economy, but a market society. In the so-called ODEPLAN, a national development plan created by Chicago Boys, the role of the state is described as '*decisive in the socio-economic development*' of Chile (quoted in Clark 2017, p. 1355). Government spending as a percentage of the GDP reflects that since it was higher in the period between 1974 and 1989 than between 1960 and 1973 (Clark 2013, p. 280).

The creation of a dynamic capitalist elite that would be competitive in the world markets and hold substantial power over the state and civil society was an actual plan, rather than a by-product of the reforms. This was achieved by strengthening business groups through privatization and financial reform. Covertly, they achieved another goal as they channeled resources to firms connected to Chicago Boys and who later supported the 'revolutionary project from within civil society' (Clark 2017, p. 1355). Through privatization and political connections, the conglomerates Cruzat-Larraín and BHC-Vial increased the number of firms they controlled from 28 to 174 which accounted for more than 60 percent of domestic credit

and more than half of the assets of the 200 largest companies between the years 1970 and 1978 (Silva 1996, pp. 107–108).

What came next was the extension and deepening phase from 1978 until 1981 which was characterized by the so-called ‘seven modernizations’. The market approach was extended beyond the markets to other spheres of society, such as healthcare and education (Fischer 2009, p. 338). This exemplifies how the inspiration for the Chicago Boys was not purely Milton Friedman, but also Hayek and his social theory (Clark 2017, p. 1354). Besides the Chicago School, the Virginia School and Austrian approaches were also influential (Fischer 2009, p. 337). The Virginia School’s influence can be felt in this ‘extension’ phase and its contribution lies in its public choice theory and the “theory of governmental failure”, which assumes that the polity stands in the way of the most effective allocation of scarce resources. The role of the government therefore should be to ensure that the polity can’t do so. This makes us better understand Chile’s agenda of privatizing social security and education, as well as its labor relations agenda. Perhaps the most significant intellectual to be influenced by this school of thought was José Piñera, who was in charge of the privatization of social security and labor reform. Meanwhile, the Chicago School’s monetarism informed the ideas connected to regulation and competition theories (Fischer 2009, p. 325).

In 1979 the regime announced its Plan Laboral (Labor Plan) which replaced the Labor Code of 1931 that had served as a backbone for ‘one of the most organized and radical labor movements in the region’ (Clark 2017, p. 1358). Even at the time, it was seen by some academics as *“a major ideological attack on social relations, an attempt to remodel the Chilean people’s historic perceptions as to how they relate to one another, a ‘commodification’ of relations between one worker and another...”* (Haworth, Roddick 1981, p. 49). The ‘seven modernizations’ included the institutional changes in labor

relations, a transformation of social security, judiciary, privatization of healthcare, municipalization of education, regional decentralization, and internationalization of agriculture (Silva 1991, p. 395).

The effects on organized labor especially were devastating. Not only were the existing labor unions banned, but membership in them was made voluntary and new unions were made substantially weaker, ineffective, and forced to compete with each other. The new system allowed multiple parallel unions within a company. Under the new rules, as few as 25 workers could form a union as long as they represented at least 10 percent of the labor force. The rights of the workers to collectively bargain over their wages and working conditions were severely hampered, too (Fischer 2009, p. 325). Out of four types of unions that were established (enterprise, interenterprise, independent workers, and construction workers), only one was able to collectively bargain on behalf of its members, that is the enterprise unions, but even these paled in comparison with their predecessors (Winn 2004b, p. 33). Unions were depoliticized and transformed from being at the core of *'identity formation, class consciousness, and political mobilization'* to being merely localized mediators between *'individualized and privatized market subjects'* (Clark 2017, p. 1358).

While before the Plan Laboral came into force the workers were entitled to a severance pay of one month for each year of service with a maximum of five months, under the new rules the employers were allowed to fire workers without cause on thirty days' notice or pay them a month's wage and immediately terminate their contract. Alternatively, companies were able to claim dismissals for "business needs" without any severance pay whatsoever. Contesting such claims in court was in practice highly unlikely due to prohibitive costs relative to the income of the workers (Winn 2004b, pp. 32–33). It was made possible to pay workers sub-minimum wages and force them to work up to twelve hours without paying

them for overtime hours as long as their work didn't exceed 48 hours. Furthermore, employer contributions to special funds and union housing, as well as special rights enjoyed by sick and pregnant workers were mostly eliminated as well.

The undermining of job security didn't end there. These were just some of the many ways the power relations in Chile's labor market shifted in favor of the business class with further political ramifications, especially for the Left, as the disempowered workers were their strongest base.

Some labor organizations that were associated with the Christian Democrats tried to get in the good graces of the Pinochet government. They were pro-worker but anti-socialist and even got a labor minister. However, in 1976 and 1977 even leaders connected to Christian Democrats and the independent ones started getting targeted and several were internally exiled, even though originally, they were supportive of the coup. This in turn forced them to unite with leftist labor organizations and form a mass labor opposition. Although they remained both ideologically and practically distinct, they shared a critique of the junta and supported a return to democracy and respect for human rights.

On May Day in 1978, their joined forces culminated in the first public demonstration supported by opposition workers. What followed was a year of different acts of defiance and protest despite the risks and repressive measures that were the result of standing up to the regime. Across different sectors, workers organized strikes, sickouts, and prolonged stoppages, among others. Once again, these meant not only political defiance but also, they were specific manifestations of deep-rooted dissatisfaction with the economic "shock treatment" policies implemented throughout the years (Winn 2004b, p. 24).

Overall, despite all the attempts to depoliticize and weaken Chile's labor movement in the 1970s, Pinochet didn't manage to do it. Quite the opposite, organized labor grew more militant and united. When the opposition parties were silenced and unable to express their dissatisfaction with the regime, organized labor filled the vacuum by uniting the center-left forces, from Christian Democrats led by Manuel Bustos to Socialists under Arturo Martínez.

The seven modernizations transformed not only Chile's economy but also its society and culture. Their effects were immediate and lasted well beyond the Pinochet era. For instance, the privatization of social security in the short term shored up the capital markets by transferring worker savings away from them and putting them into the hands of the business elites (Winn 2004b, p. 31). The old pay-as-you-go was replaced by a system that stood on three principles: individual capitalization, private pro-profit management of funds, and a state-guaranteed minimum. Since the state was simultaneously the guarantor of both the new system but also of the old one for those who remained under it, it undertook a gigantic financial burden (Clark 2017, p. 1358). The creation of this system was highly costly for those insured and for the state, and it also led to a severe drop in coverage (Borzutzky 2005). Quickly after the implementation, two conglomerates with close ties to Pinochet (BHC and Cruzat-Larrain) got hold of about two-thirds of the market (Fischer 2009, p. 326).

Amid growing international criticism for human rights violations, Pinochet was seeking to institutionalize his rule to attract more foreign investment (Winn 2004b, p. 31). Thus, in 1981 the new constitution by the gremialista leader Jaime Guzmán came into effect. The Constitution, too, was heavily influenced by Hayek's ideas and was even named after one of his books – "The Constitution of Liberty" (Fischer 2009, p. 327). The freedoms in it were very consistent with the neoliberal understanding of the word, i.e., individual rights, free enterprise, and freedom to own private property. To protect the market, the constitution laid

down the need for a strong central state authority to guarantee the existing rule of law. It also strengthened the role of the president. The military was no longer under civilian control and the Left was excluded from participating in politics (Winn 2004b, p. 30). Human rights were not considered guaranteed in their absolute form and could be heavily restricted in case of societal turmoil.

Although at first, it seemed like the orthodox neoliberal policies were working well, supported by the improving GDP per capita, the crisis that followed wiped out all the growth, and GDP per capita didn't surpass its 1973 level until 1987 (World Bank 2022b). The radical policies led to the country's worst economic crisis since the 1930s and were then replaced by a more pragmatic approach (Winn 2004a, p. 3).

3.2 The 1982 Crisis and the Pragmatic Shift

The election of Ronald Reagan in 1980 in the United States brought an end to Chile's international isolation and with the economy booming and the foreign capital flowing, things were looking up for the dictatorship. Yet *"by 1982 the economy was in shambles and Chile in the throes of its worst economic crisis since the depression of the 1930s"* (Winn 2004b, p. 38). What followed were large social protests that eventually forced Pinochet to negotiate with the opposition and the parties he had banned previously. Even the Reagan administration stopped its support for the dictator and pressured him to return the country to democracy.

The period between 1982 and 1983 was the 'substantiation' phase after which the radical form of neoliberalism in Chile ended (Fischer 2009, p. 338). If it wanted to survive, the neoliberal projects needed to confront the new realities of the 1982 economic crisis, deviate considerably from its course, and change its internal power structure (Clark 2017, p. 1351).

The crisis was caused by both internal and external factors. The copper prices plummeted which was devastating for Chile as copper was the country's largest export. Heavy borrowing of the conglomerates, the prior uncontrolled financial and trade liberalizations, and a fixed exchange rate were the biggest internal factors for the recession (Clark 2017, p. 1356). What's more, the credit wasn't used for smart investment but for consumption and acquisition of enterprises. These caused a steep fall in growth, increasing balance-of-payments deficit, insolvency of hundreds of businesses in the manufacturing sector, and soaring interest rates. Out of fifty private financial institutions sixteen went bankrupt (Fischer 2009, p. 329).

With the sudden steep rise in the price of the dollar, the government was pressured to intervene in the banking system and the private administration of social security. *“At the beginning of 1983, three financial institutions were liquidated, another five were taken over by the state, and two banks were subjected to a special regime of state oversight”* (Fischer 2009, p. 329). The Central Bank socialized the external debt, and a large sum of private debt came under the control of the state.

When the economy was showing signs of recovery in 1976, the neoliberals were proudly taking credit for it. With the new crisis in the early 1980s, they were blaming the same government for not properly following their advice (Fischer 2009, p. 321). This nicely checks out with what Kiely (2018) describes as the neoliberal paradox – blaming the state for the crises and drawbacks of the policies yet turning to it to solve the exact same problems and taking credit when the economy is doing well.

This redirection of the economic policy was short-lived, and the basics of the neoliberal model stayed in place or returned after the crisis ended. There were, however, internal

disagreements among the members of Pinochet's team. Finance Minister de Castro remained true to the fixed exchange rates he introduced in 1979 and was opposed to the devaluation of the peso. True to the radical neoliberal vision, he believed that only the strongest and most competitive should survive. However, he was overruled by his colleagues and eventually also by Pinochet himself. Later, he was forced to resign along with José Piñera, the minister of mining, and Sergio Fernández, the minister of the interior. They got replaced by those who were willing to be flexible in their neoliberal principles. The new minister of finance, Rolf Lüders, former vice president of the BHC group, decided to save the baking system by state intervention (Fischer 2009, p. 330).

In agriculture, minimum prices for key crops were instituted and the government decided to subsidize farm credits and help them renegotiate debts under highly favorable terms to boost production and exports. Another way the government helped was by increasing import tariffs on agricultural produce and gravely reducing the cost of labor to make the industry internationally competitive.

The 'revival' phase lasted from 1983 until 1989. The measures adopted during the crisis were reversed and the economy went back to the neoliberal organization, however, now a much more pragmatic one.

In order to provide help, the IMF wanted to be extra sure that all the conditions were met, to justify giving loans to a country with an abysmal human rights record. With the first signs of recovery in 1985 the government started another round of privatizations, especially of the firms that were nationalized during the previous crisis and of some other strategic sectors that were previously excluded from privatizing, like businesses in the steel, chemical, energy, sugar, aviation and telecommunications industries, as well as some copper mines

(Fischer 2009, p. 333). Almost everything, most of which was very efficient and profitable, was privatized, apart from one state petroleum and one copper company. Despite the government's talk about "popular capitalism" in which employees and small investors would buy shares of the privatized companies, what happened was further capital concentration and centralization.

Debt-for-equity swaps gained huge popularity and resulted in close to \$2 billion of hard currency entering the economy by 1988. This resulted in a complex interweaving of foreign investors and domestic capitalists through joint acquisitions of privatized businesses. The resources were channeled into the new export sectors (Clark 2017, p. 1356). Overall, the measures used were interventionist and their goal was to rescue the neoliberal model, which Pinochet himself admitted, to deepen the support for the export-promotion approach (Fischer 2009, p. 333).

3.3 Concentración

Pinochet's constitution of 1980 mandated a plebiscite to be held about whether he should stay in power for another eight years. This happened in 1988 and the 'no' campaign won with almost 56 percent of the national vote. Thus, the proposition was rejected, and a democratic election was to be held a year later in 1989. In it, the Christian Democratic candidate Patricio Aylwin took on Francisco Errázuriz and the junta-backed candidate Hernán Büchi. Aylwin won with over 55 percent of the popular vote to Büchi's 29 and Errázuriz's 15 percent. And although the Pinochet regime was defeated and its main figures barred from holding high positions of power, neoliberalism remained the ruling ideology since the legal framework granted by the 1980 constitution stayed in place. This, however, had its positive effects, it ensured stability and led to the support of the business community

for democracy. Moreover, the deep changes in the culture and the value system of the society safeguarded neoliberalism even more since even its former opponents were now embracing it, thus cloaking it in another layer of legitimacy. This change of identity was one of the Chicago Boys' covert goals and along with the institutional framework were the main reasons neoliberalism prevailed even after the end of the dictatorship (Clark 2017). Chicago Boys remained active and continued on with their careers in the private sector, civil society, think tanks, academia, and the media (Fischer 2009, p. 336).

The election campaign of 1989 wasn't centered around economic policy. The consensus on both sides was on the issues of export promotion, careful fiscal management, low tariffs, new investment, and repaying the international debt. However, the polls showed that most of the voters were worried about unemployment, poverty, and personal indebtedness (Angell, Pollack 1990, p. 12). Despite the propaganda and fearmongering on the side of the government, the voters weren't swayed and voted against its candidates. Not even the new electoral system, which was designed for the incumbent government to maintain as much power as possible, kept the new center-left coalition from winning both the presidency and majority in the legislature.

After the restoration of democracy in 1990, the center-left coalition that took hold of power, the so-called Concentración Government, similar to the Blair and Clinton administrations in the UK and US respectively, maintained the neoliberal model despite their prior criticisms of its high social costs and worsening of inequality and poverty. This is what Fischer (2009, p. 338) calls the 'persistence' of the neoliberal project which continued well beyond the dictatorship.

Thanks to the targeted social programs enacted by the Concentración Government, they managed to decrease both poverty and unemployment while keeping economic growth high and foreign investment flowing in. Where they came up short, however, were the real wages that didn't keep up with the economic boom and the rise in productivity. Work week remained long, and the labor rights previously taken away weren't reinstated. Furthermore, Chile remained one of the most unequal countries in the world (Winn 2004a, p. 4).

As the "miracle" was approaching its end, some 20 percent of Chileans, or around three million people continued to live in poverty. And as one of the most open economies in the world, Chile was more vulnerable to external shocks than ever before, which became clear during the Asian financial crisis in 1997-1998. This was the final nail for the talks of an economic miracle. The country entered the 21st century in an economic decline with growth rates in 1999 amounting to -1.1 percent and unemployment reaching 10 percent in 2000 (Winn 2004a, p. 4). The inequality so criticized by the Concentración before their rise to power wasn't appropriately and successfully addressed after their win. The emphasis was to promote employment and put the poor back to work.

The cost of the miracle under Concentración was among others environmental. Rhetorically the government was signaling its concern, but there was little action that would reflect it. And as the economy was growing, so was the environmental degradation. Thus, with regard to Chile, we cannot talk about sustainable development, even under Concentración due to its harsh impacts on the environment and the workers (Winn 2004b, p. 55). Overall, Chile went from the second most equal country in Latin America under Salvador Allende, to the second most unequal at the beginning of the 21st century. The new CUT could hardly mobilize people and lost most of its original power and influence. The labor leaders were pressured *"to contain the demands of their working-class constituencies "for the sake of democracy."*

As a result, worker wage gains lagged behind productivity increases and inequality did not diminish” (Winn 2004b, p. 56). The story of Chilean economic development is thus one of “Two Chiles” – one rich and one poor.

3.4 The Lessons from Chile

Chile underwent two major phases in its neoliberal transformation toward a market society. First was the process of the reconstruction of a powerful capitalist elite that took over not just the state but also civil society. Secondly, the civil society subjectivities that were before derived from union membership and political affiliation became individualized, privatized, and marketized. The main agents of the social revolution were the Chicago Boys who actively brought about this social revolution (Clark 2017, p. 1351).

This case underscores how adaptable neoliberalism is, yet also showcases how unsustainable its purest version is. With the first major crisis in 1982, its weaknesses became apparent and if it wanted to survive, a more pragmatic version had to be introduced and the values upon which it was built had to be compromised. Those who didn’t agree were gotten rid of. It is arguably this adaptability that helped it persist for so long to the point that even today, the country is still grappling with the neoliberal legacy of the Pinochet era.

As Büchi (2008, p. 63) himself stated, the objective wasn’t to ‘deregulate’ the economy. Rather, it was to construct new political and economic regulations and norms, to construct a market society and a state subsidiary to it. Its creation, however, required a strong state that needed to get rid of the deeply entrenched historic role of unions which were severely disempowered through military decrees. This not only had beneficial consequences for the dictatorship in the advancement of neoliberal reforms but also helped demolish the grass-root power of organizing and mobilizing its members and thus squashed its main political

threat. In other words, stripping labor of its power and influence served not only economic but also political functions. It was a crucial step both practically and ideologically as in the minds of neoliberals being “pro-market” meant being staunchly anti-labor. In fact, this gives us an important insight into neoliberal thought as it is not as much pro-market as often described, as it is pro-business.

The role of the state wasn't just to be a passive observer and guarantor of the smooth running of the market. Rather, the state and its powers were fully utilized to transform and reconstruct the state and society (Clark 2017, p. 1354). The neoliberal openness weakened Chile to external influences and worsened the 1982 crisis. For all the talk about non-interventionism, the state had to step in and take on private debt and renationalize many enterprises.

The hypothesis of this thesis was that the high social costs of neoliberalism lead to its eventual downfall. Unfortunately, the findings are not clearcut. On one hand, I would argue that it is indeed the case that the neoliberal contradictions in Chile led to the end of its purest form as the country had to face its first economic crisis after instituting the reforms. The vulnerability caused by trade liberalization, financial deregulation, and fixed exchange rates exposed the country to the forces of the global economy and thus exacerbated the crisis due to the lack of protectionist measures. Moreover, the unaddressed inflation created high social pressure. Workers specifically were hard hit and were at the forefront of the resistance movement. This resistance was pushing back against the effective implementation of some of the attacks on labor rights.

On the other hand, the hyper-adaptability of the theory did allow it to persist, albeit in a much watered-down form. Although the radical version failed, through heavy side-stepping in the

short run, neoliberalism survived multiple economic crises and even the restoration of democracy. The reforms had gone far enough that they became a part of the national identity.

Although high social costs had to be endured by the population and the government was faced with resistance, especially by the workers, the evidence that the pragmatic shift happened because of them, is lacking. It was the built-in flaws of neoliberalism that made its radical version fail and it was its adaptability, willingness to defy its own principles in the short run, successful change in the identity and culture of Chileans, and the new institutional reality that made it persist in its more pragmatic form for so long.

Conclusion

Both empirical and theoretical evidence suggests that neoliberalism contains built-in contradictions that make it predestined to fail. Kiely (2018) calls it the neoliberal paradox. According to him, *“neoliberalism is being maintained through interventionist measures designed to maintain neoliberal society, but these very same measures increasingly undermine the central claims made for something called a free market or spontaneous order”* (Kiely 2018, p. 364). An example of this is quantitative easing employed after the 2008 financial crisis, an interventionist monetary tool that ‘parks the debt in central bank accounts’ to uphold the market and preserve neoliberalism. Similarly in Chile, after a disastrous financial meltdown and a 15 percent drop in real GDP in 1982, the state heavily intervened in the economy by taking over the financial sector and socializing private debts *“to the tune of 40 % of GDP”* (Clark 2017, p. 1356). After the reform of social security, once again, the state became the guarantor of minimum rates of return for contributors under both the new private system and the old public one (Clark 2017, p. 1359).

Importantly, the wealth inequality aspect goes largely unaddressed and neglected by the theory. The inequalities make it easy for elite capture to occur and for the economic elites to subvert social justice and the democratic will of the people at large. In essence, a select few amass an excessive amount of power, allowing them to shape policies and control resources in a way that primarily benefits themselves, often to the detriment of the general population. This creates a democratic deficit. Besides high social costs, the environmental cost gets neglected as well through ignoring the negative externalities in the pursuit of profit maximization.

Furthermore, describing neoliberalism as ‘pro-market’ should be reconsidered as well. As there are two sides to each market and neoliberalism favors one over the other, the term “pro-market” seems inaccurate. Neoliberals are generally in favor of flexible labor markets. In countries with a rich history of organized labor such as Chile, this means that the supply side of the equation has to be disempowered by a strong and repressive hand of the state. On top of contradicting the ‘small state’ mantra, this inherently harms the workers as it puts them in an asymmetric position when negotiating their working conditions. Conversely, the supply side of the goods and services markets gets favored through deregulation, which can concurrently negatively affect consumers on the demand side. For this reason, the ‘pro-business’ label seems much more appropriate.

The argument that neoliberalism didn’t succeed in bringing positive changes in the lives of the people in Latin America was because “the reforms weren’t taken far enough” made by the proponents of further neoliberalization, doesn’t work on multiple levels. The case against it can be found both by a critical exploration of the neoliberal theory as well as by investigating the original claims of the Chicago Boys and comparing them to the actual outcomes.

Firstly, neoliberalism in Chile was almost fully implemented in its original radical vision as it stands in *The Brick (El Ladrillo)*, the Chicago Boys’ initial vision for the economic transformation of Chile that was finished just a few weeks before the 1973 coup and later published in 1992. This was possible in no small part due to the dictatorship’s extensive powers and the ability to implement economic reforms even against the will of large swaths of the population, especially the workers. However, already with the financial crisis in the early 1980s, the purest neoliberal approach had to be abandoned in favor of a pragmatic one. Later, after years of experimentation, the material conditions got severe enough that despite

the dictatorship's repression the junta was rejected through strong social and political pressure. Nevertheless, we do need to be careful with overgeneralized conclusions in this case as on top of enacting neoliberal reforms, Chile was a deeply authoritarian dictatorship with gross human rights violations. It is quite difficult to decouple which factor was the dominant one, whether it was economic hardships or authoritarianism and cruelty of the regime.

Secondly, the neoliberal theory is based on flawed assumptions and is internally contradictory as was previously described. Assuming that the state cannot make positive policy choices, prices set by the free market are sufficient to renew economic growth and the efficient use of resources solves social injustices is not supported by empirical evidence (Kingstone 2018, p. 204). Also, ignoring the institutional requirements when diagnosing the problems is a fatal flaw of the theory, not a handy excuse.

Thirdly, the neoliberal theory is highly amorphous and ever-changing as it adapts in time to both internal and external circumstances and moves the goalpost as necessary (Fischer 2009, p. 338). As Peck et al. point out, neoliberalism is best understood as a “radically incompletable” and ever-changing process, rather than a theory with a grand design and preordained path with specific end goals (Peck et al. 2018, p. 6). This also can be observed in the different stages it went through in Chile, what Silva describes as the shift from the “radical” to the “pragmatic” version of neoliberalism (Silva 2001; 1991). This ability to adapt is taken as a strength by its proponents and might even be the reason why neoliberalism has persisted in mainstream economic thought for so long. It also means that the original radical version wasn't viable and couldn't survive the first obstacle it faced – namely the 1982 crisis.

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Diploma thesis project

The Impact of Neoliberal Reforms on Latin American Population



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Introduction to the topic

The stagflation of the 1970s brought upon an important paradigm shift in the realm of mainstream economic thinking. A set of “pro-market” reforms across different countries and continents not only radically changed how we think about the field of economics and the role of the state in it, but has had further sociological impacts, too. Keynesian welfare state model so prominently present since the end of World War 2 was replaced by a highly amorphous approach that later came to be known as neoliberalism.

Neoliberalism has also been used as a development model and in the 1980s and 1990s got strong backing of the international financial institutions. This was, for instance, the case of the IMF that gave out conditional loans that made countries face a dilemma; either accept, adopt “pro-market reforms” and remodel their economies, or reject and thus not obtain much needed loans.

Throughout the years, the legacy of neoliberalism has become a highly controversial and polarizing issue in the academic circles as well as among the public et large. The extensive literature on this topic signifies its prominence and importance, but despite the great number of papers and books published on the topic, the academics still come to widely different conclusions about its overall effects. While some praise the approach for bringing positive economic results such as improving the macroeconomic indicators, creating growth, and curbing inflation, others criticize it for fueling wealth inequality, eroding the welfare state and creating social polarization. This thesis seeks to contribute to the ongoing debate on neoliberalism and its legacy in Latin America with a special focus on its effects on the people in Latin America.

Research target, research question

This thesis aims to explore the argument put forward by the proponents of neoliberalism as it was present in the Latin American region. These authors, like Walton (2004) and Edwards (2009), do generally admit that there were some negative aspects to how neoliberalism unfolded and that many promises were left unfulfilled. However, they maintain that the pro-business approach was the correct one. Additionally, according to them the reforms should have gone much further, as the implementation of the reforms and their incompleteness were flawed, not the basic premises of neoliberalism (Walton 2004; Edwards 2009).

To engage with this argument, we need to look at both the theory itself and the historical conditions that led to the rejection of neoliberalism in Latin America. If we find flaws in the basic premises of the neoliberal theory and also empirical reasons that show that it was the effects of neoliberalism that led to its own eventual downfall (e.g., by creating high social pressure through rising inequality), we can question the validity of the argument and conclude fairly confidently that more of neoliberalism couldn't have been the answer. Alternatively, if we can prove that by and large neoliberals achieved most of what they originally envisioned yet still failed to provide materially for the people, we can conclude with a considerable amount of confidence that more of the same wouldn't have magically changed the course. The research questions are thus following: What were the historical conditions that led to its downfall in Latin America? Can neoliberalism ever go too far? We will engage with these questions on both theoretical and empirical level.

Literature review

For the purposes of the thesis, two kinds of literature are necessary. Firstly, critical literature that discusses the built-in shortcomings of the neoliberal thought and secondly, literature pertaining to the specific case of Chile, that provide the empirical basis for our research and point to the social, economic and political conditions that led to the downfall of neoliberalism in the region.

“Actually Existing Neoliberalism” by Peck et al. problematizes the definition and the discourse around neoliberalism and makes a case for its processual understandings. Not only do the authors present the main tenets of neoliberalism in its usual understanding but they also expose its lack of a grand, complex, or developed vision of how the economy and society should be organized that wouldn't be solely context dependent. Neoliberalism, according to the authors is *“a radically ‘incompletable’ project”* (Peck et al. 2018, p. 6). It doesn't work in a vacuum as pretty much all its goals are relative to the already existing reality and thus don't hold by themselves. The neoliberal manifestos can only ever be partial and never fully realized. This greatly weakens the argument of the proponents of neoliberalism who argue that the reforms, say in Chile after the near full implementation of El Ladrillo (The Brick), didn't go far enough and would have worked, had they even further.

“The rise and fall (and rise again) of Neoliberalism in Latin America” by P. Kingstone explores the existing literature on the fluctuating support of neoliberalism in the region while differentiating between anti-capitalist ‘radical’ critics that (just like neoliberals themselves) operate with thick conceptions of neoliberalism, and more ‘moderate’ or pragmatic critics that operate with a thin conception of neoliberalism. According to Kingstone all three of

these traditions have provided both extensive and persuasive analyses (Kingstone 2018, p. 202).

Proponents of neoliberalism such as Williamson and Kuczynski argue that Chile is the proof that neoliberal reforms had a net positive effect, as the country was one of the best performers in the region (Kuczynski, Williamson 2003). Furthermore, they claim that neoliberal reforms had not gone far enough since Latin American economies weren't fully liberalized, not even Chile's. More specifically they point to the labor markets that, according to them, stayed mostly unreformed. This argument remains highly pertinent in the discussions on the legacy of neoliberalism. In their view, the reason why the reforms didn't perform as promised is that they depended on strong and effective institutions which were either weak or not present at all. This goes beyond what the neoliberal theory deals with and therefore can't be held against it.

Kingstone (2018) also summarizes four key normative assumptions of neoliberalism and puts them under scrutiny. The first is that the state is incapable of making good policy choices. Second, that renewing economic growth can be achieved by 'getting prices right'. Third, that efficient use of resources can solve social injustices. Lastly, that a combination of minimal state, property rights and their legal protection amounts to fair social outcomes. If one or more of these assumptions are proven wrong, then all policy prescriptions may be put to question. Radical as well as moderate critics agree that these underlying assumptions can't be empirically supported. Additionally, Kingstone considers it a fatal flaw of neoliberalism to omit the institutional requirements in their theoretical framework, not something that should absolve it as Kuczynski and Williamson claim (Kingstone 2018, p. 204).

“Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002” (Winn 2004) provides an in-depth analysis of the neoliberal period under the rule of Augusto Pinochet and the subsequent Concentración government and its impact on organized labor. The main claim of the book is that the workers were those who bore the cost of their country’s economic success and had to endure the *“economic assault on the gains in wages, benefits and working conditions that workers had won since the 1930s”* (Winn 2004, p. 2). In the chapter *“The Pinochet Era”*, P. Winn captures the attempts at suppressing Chile’s labor unions through the use of decrees, market and even physical force and the workers’ resistance and militancy used to counteract them that followed. While analyzing the effects of the reforms the book adopts a bottom-up approach by focusing on the experiences of the country’s workers who accounted for a majority of Chile’s population. Besides its focus on different sectors such as mining, metallurgy, manufacturing, or fisheries, some chapters also delve deeper into the impact of the reforms on gender relations and the environment. Tinsman in her chapter (Tinsman 2004) examines the role of the female seasonal workers who, on one hand, were often working 15-hour days in exploitative harsh conditions for low wages, but on the other hand, the new incomes helped them get more agency and strengthened their bargaining power. Thus, the effect on them was quite contradictory in its nature.

Klubock (2004) and Shurman (2004) dive into the environmental effects of the policies instituted by Pinochet. Schurman analyzes the effects of the “wild fisheries” boom that both started as a result of the industry’s deregulation globally and ended as the lack of regulation caused a collapse of species by 1990 (Schurman 2004). Similarly, Klubock’s findings suggest that the Pinochet-era decrees caused an intense exploitation of both Chile’s workers and forestry. Furthermore, the supposed success story of the private sector in the forestry industry was ultimately just a collection of the prior heavy investment from the public

resources (Klubock 2004). Shurman points out that on top of the negative effects on the workers, the neoliberal model led to what effectively is the tragedy of the commons, although she doesn't explicitly name this concept. Shurman also underscores that in a globalized world economy Chilean export miracle is bound to be short-lived as it creates a race to the bottom where there will always be another country with a better comparative advantage, such as even lower labor cost, which will ultimately create further pressure, even worse working conditions and internal inequality.

Taylor (2002) looks closer at the merit of the IMF's praise of Chile's rapid economic growth in the 1990s. The IMF attributed the success to a combination of good policies and improved political situation. Taylor points out, however, that the IMF downplays the "historically specific global political-economic context" of the 1990s and creates an illusion of a universally applicable neoliberal development model (Taylor 2002, p. 69). Chile's development was predicated on the global economic fluctuations of the 90s and the geographical particularities as Chile had rich raw material reserves. This model without the proper contexts therefore creates a false impression of its own reproducibility. It does reveal, however, who's interest the IMF had in mind as it was promoting one of the most unequal countries at the time.

Fischer (2009) in her article presents the multifaceted nature of neoliberalism and introduces its seven different development stages and modification as it pertains to Chile. The author also emphasizes the necessity to differentiate between the effects of neoliberalism and the military dictatorship and not to equate the two (Fischer 2009, p. 338). The mutability of neoliberal knowledge combined with the flexible ties to the power is according to her the reason why Chile stayed on the neoliberal path so long and even after the fall of the

dictatorship. This presents yet another challenge to the argument that the effects of neoliberalism would have been better if it had been implemented more fully.

Dados and Conell (2018) in their article titled “*Neoliberalism in World perspective: Southern origins and southern dynamics*” argue that it is in fact not true that neoliberalism was imposed onto the global South as it is commonly claimed. Such a claim disregards the deep history of neoliberalism dating back to at least the 1960s. Instead, it was the power of the postcolonial Southern state that made early experiments with neoliberalism possible and was a key condition to the creation of the global neoliberal regime (Dados, Connell 2018, p. 31). Winn also gives credence to the argument by pointing out that the idea that the international organizations could coerce these countries completely against their will to adopt radical neoliberal reforms is undermined by the fact that some were able to do so (Winn 2004).

Conceptual and theoretical framework, research hypothesis

This thesis will adopt a critical perspective on neoliberalism. In order to engage with the topic, we first need to define what neoliberalism is. This is especially important when dealing with this subject, as it tends to be very loosely delineated. Nevertheless, from a geographical point of view we will narrow it down to Chile. Even further, we will be dealing with it as it was propagated by the Chicago school of economics, the reforms the so-called Chicago Boys laid down in *The Brick (El Ladrillo)*, a policy document introduced during the Pinochet rule, and what effect they had on the population.

This topic is of high importance to the field of IR as Chile was the model case in the field of development economics. Our hypothesis is that the high social costs caused by neoliberal reforms led to its eventual rejection. The key works we will be relying on when analyzing the theory are chapters 1 and 16 in *“The SAGE Handbook of Neoliberalism”* (Cahill et al. 2018). For the case study we will rely on the book called *“Victims of the Chilean Miracle: Workers and neoliberalism in the Pinochet Era, 1973–2002”* (Winn 2004).

Empirical data and analytical technique

For the empirical part of the thesis, we will utilize a qualitative case study method. More specifically, it will be a holistic case study of the neoliberal era in Chile during the rule of Augusto Pinochet (1973-1990) and the early years of the subsequent Concentración government.

Although neoliberalism has become quite a nebulous concept and some authors question its utility as Peck et al. astutely point out in their article (Peck et al. 2018, p. 4), Chile under Pinochet can safely be regarded as a neoliberal state. The so-called “lab of neoliberalism” was witness to a radical reorienting of the economy as the Chicago Boys had the free hand to pass “pro-market reforms” in as wide a scope as they wanted.

The choice to focus on Chile’s economic transition is therefore quite clear. Additionally, Chile has also been praised by some economists for its economic transformation that has famously been called the “Chilean miracle” by Milton Friedman and was praised as a model to be emulated by other developing countries in the region. Chile should thus serve as the best-case scenario for the advocates of neoliberalism and show most clearly how the implementation looks like and what effects on the population we can expect.

For our primary data on the macroeconomic indicators, we will utilize the World Bank database and the World Inequality Database. As for the temporal specification, we will focus on the period starting from the military coup and ends with the ousting of Pinochet as a ruler of Chile and the subsequent Concentración government that in many ways continued the neoliberal course of action. Furthermore, the existing literature on the topic will provide the necessary context and hopefully also give us accounts of the people that lived under the authoritarian regime. The analytical technique for our case study will be the document

analysis of the existing scholarly literature. Additionally, we will utilize the analytical technique when determining the implications of the argument that neoliberalism could and should have been implemented further.

Planned thesis outline

Introduction

1. Theoretical framework (including literature review)
2. Methodology and data
3. Case study on Chile

Conclusion

Conclusion

Both empirical and theoretical evidence suggests that neoliberalism contains built-in contradictions that make it predestined to fail. As it is procedural, no exact endpoint or goal gets outlined by its proponents. The smaller the role of the state is, the weaker the tools are to tackle the private monopolies created by deregulation. These monopolies then have room to grow and the bigger they are, the higher the pressure is on the state to step in and correct the failures of the market. Additionally, the wealth inequality aspect goes largely unaddressed by the theory and the social pressure created by neoliberal reforms then leads to their popular rejection, as we can see in the case of Chile. The inequalities then make it easier for elite capture to occur and the economic elites to subvert social justice and the democratic will of the people et large.

Furthermore, describing neoliberalism as “pro-market” should be problematized as well. Neoliberals are generally in favor of flexible labor markets. In countries with a rich history of organized labor such as in Chile, this means that the supply side of the equation has to be disempowered by a strong and repressive hand of the state. On top of contradicting the “small state” mantra, this inherently harms the workers as it puts them in an asymmetric position when negotiating their working conditions. For this reason, labeling it “pro-business” seems much more appropriate.

The argument that neoliberalism didn't succeed in bringing positive changes in the lives of the people in Latin America was because “the reforms weren't taken far enough” made by the proponents of further neoliberalization, doesn't work on multiple levels. The case against it can be found both by a critical exploration of the neoliberal theory as well as by

investigating the original claims of the Chicago Boys and comparing them to the actual outcomes.

Firstly, neoliberalism in Chile was almost fully implemented in its original radical vision as it stands in *The Brick (El Ladrillo)*, the Chicago Boys' initial vision for the economic transformation of Chile that was finished just a few weeks before the 1973 coup and later published in 1992. This was possible in no small part due to the dictatorship's extensive powers and the ability to implement economic reforms even against the will of large swathes of the population, especially the workers. Nevertheless, after years of experimentation, they were rejected after a strong social and political pressure.

Secondly, the neoliberal theory is based on flawed assumptions and is internally contradictory as was previously described. Assuming that the state cannot make positive policy choices, prices set by the free market are sufficient to renew economic growth and the efficient use of resources solves social injustices is not supported by empirical evidence (Kingstone 2018, p. 204). Additionally, ignoring the institutional requirements when diagnosing the problems is a fatal flaw of the theory.

Thirdly, the neoliberal theory is highly amorphous and ever-changing as it adopts in time to both to internal and external circumstances and moves the goalpost as necessary (Fischer 2009, p. 338). As Peck et al. point out, neoliberalism is best understood as a process, rather than a theory with a grand design and preordained path with specific end goals (Peck et al. 2018, p. 6). This also can be observed in the different stages in Chile, what Silva describes as the shift from the "radical" to the "pragmatic" version of neoliberalism (Silva 2001; 1991). This ability to adopt is taken as a strength by its proponents and might even be the reason why neoliberalism has persisted in the mainstream economic thought for so long. However,

it simultaneously makes the argument in favor of deeper neoliberalism in Chile unfalsifiable and thus unscientific.

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