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As a former graduate student of yours, I was naturally interested to read the interview you, Arnold, gave to *El Mercurio* of Santiago, Chile. Knowing the kind of work you have devoted to the economy and the economists of Chile for nearly two decades, I was not overly surprised to read your declaration that under the authority of the present Military Junta, "the country has been able to overcome so great an economic chaos in so short a time and at relatively little cost." *El Mercurio* announced that you too, Milton Friedman, are going down to see the "miracle" at work. I would like to examine this spectacular success, and especially its cost to the people of Chile, more closely with you.

Your interview brought back long-forgotten memories.

gent of Chilean economics students' arrived in our economics department in the mid-1950's. They had been brought under the terms of a long-term agreement negotiated (by you, Arnold, as I recall) between the Catholic University of Chile and the Department of Economics of the University of Chicago. Suddenly, Chile and its economy became a topic of daily conversation in the Department of Economics. I remember well how you and others of my wise and foresighted

professors reported on your trips to Chile and told us of its absurd attempts to live beyond its underdeveloped means by maintaining much too big a public sector (anathema in the Department of Economics of *Capitalism and Freedom* by Milton Friedman), much too weighty a bureaucracy and much too overgrown a medical and social security system.

Many of the new recruits and recently arrived Chilean graduate students, like myself also, were apprenticed and put to work as research assistants in so-called "workshops". The most important of these was the "money workshop", directed by Milton Friedman and whose collective work was later published under our editorship as *Studies in the Quantity Theory of Money*.

This work claims to have measured and proved that, historically, the supply of money and the level of prices have changed proportionally and simultaneously (or with a small lag) in accordance with the so-called Quantity Theory of Money and Irving Fisher's 1920's formulation of the same in the formula $MV=PT$, or the Quantity of M(oney) multiplied by the V(elocity) of its circulation = (equals) P(rices) multiplied by Transactions of the Quantity of goods and services). Since, according to the theory and Friedman & Co.'s measurements, the velocity of money turnover and the production of goods and services do not change much or rapidly, prices are necessarily determined by the quantity of money, hence the name "quantity theory". The "technically necessary", that is "not political" policy conclusion, which you, Milton Friedman are still trying to impose on us all, are that inflation has nothing to do with the dictation of price increases by monopolies (which you, Arnold Harberger, measured and "proved" not to exist at least in

the USA), but simply by too much money, and especially too much money created through government spending, whose reduction, in turn, was the main object of concern in your Workshop on Public Finance, Arnold Harberger. And that, remember, is where you put me to work. The task you assigned to me was to measure the rate of profit earned by capital in the United States, which you thought should turn out to be between 6% and 10%. But I immediately found a profit rate of over 30% in one industry (drugs and cosmetics), and you thought I must not be measuring right. Our workshops, and many of us graduate students, Chilean and otherwise, were suitably installed in the basement of the Social Science Building at 1126 E. 59th St., Chicago, Illinois, on whose cornerstone above our heads was inscribed, and is presumably still legible, "SCIENCE IS MEASUREMENT".

I also remember when I left your workshop prematurely because I could not swallow the necessary measure of your scientific standards; and I remember what you told me when we parted company: I would never do as an economist, or at least your kind; and I would do well to go look for a job teaching somewhere in a small liberal arts college. This gratuitous advice reflected more than your mere personal judgment. It reflected and coincided with that of the Department of Economics at the University of Chicago under the lead and directed by Milton Friedman and Ted Schultz (*Transforming Traditional Agriculture* into Agri-Business), who have sought to inculcate upon generations of students the conviction that they should not read to inform themselves about the world (or not read beyond Chapter 3 in Adam Smith's *Wealth of Nations* or read anything but the

footnotes in Alfred Marshall's *Principles of Economics*) and instead should only acquire and master the kit of tools required to measure the world in partial equilibrium. Already a couple of years earlier, upon taking the qualifying exams in economic theory (Milton Friedman's field) and Public Finance (Arnold Harberger's field) after nine months instead of the usual two years, the Department's official notification that I passed these exams at the PhD level had been accompanied by a letter from the Department advising me that, in my own interest as well as theirs, I would do better not to pursue my studies in the Department, because in the long run, I was not expected to measure up. Later the Department approved the project of my proposed thesis as acceptable but privately offered the opinion that I should not attempt to carry it out because I would surely be unable to do so satisfactorily. In the opinion of the Department, the project was all right, but the candidate for a PhD in the Department of Economics at the University of Chicago was not. He did not measure up.

I also remember Arnold, that after we had both gone to Chile and there met and married our respective Chilean wives, we once met at an economists' luncheon at Santiago's businessmen's club. I recall how, after lunch, going by car to the Catholic University, where you were again officiating, and which I had by then learned to be not *the* University of Chile but *the reactionary* university bastion of the bourgeoisie and the upward mobile there, you tried to persuade me that the price of municipal bus fares in Santiago was not equal to the marginal cost of transportation services in a free market and was therefore inefficient and against the public interest. It was

a micro-argument that was part and parcel of the larger one I had already heard back at the University of Chicago, to the effect that social security and other popular conquests signify distortions that interfere with and disequilibrate the freedom of the market. My answer to you, that these few populist measures restore to the people only a small part of the exploitation they suffer through the normal operation of the capitalist market system, no doubt confirmed your several years earlier parting judgment of me that incorrigibly I was and am simply incapable of finding the for you and yours normal measure of equilibrium.

Our ways parted more and more. You continued to preach the glories of the "free" market to generations of students from the already most reactionary department of economics in Chile and organized the training of "technical" experts in the Departments of Economics at the Catholic University of Chile and the University of Chicago (each the most reactionary in its respective country) with a view to hopefully rendering the former capable of transmitting your wisdom to others without the continued technical advice of the latter.

I, on the other hand, devoted myself to the study of the development of underdevelopment in Chile and Latin America through their dependence on foreign, especially American, capital, and the complicity of the monopolizing local bourgeoisies. In contrast to yours, my political economic work brought me into increasing contact with the people and forces that subsequently composed Allende's government of Popular Unity between 1970 and 1973 as well as with the extra-governmental and non parliamentary left opposition to the same.

Thus, for instance, it was Clodomiro Almeyda, later Foreign Minister, who in 1967 arranged my return to Chile to work in the national (not Catholic) University of Chile. It was Pedro Vuscovich, later Economics Minister, and Salvador Allende, then President of the Senate, who came to the airport in the middle of the night to obtain entry to Chile for me after, upon my arrival in 1968 with an official United Nations passport, I was immediately detained and brought before the head of the political police, who, while interrogating me, showed me his thick, CIA-supplied file on me, and then ordered me to be immediately taken to the airport and put on the next plane out. I have also been unable to visit you and tell you any of this personally, because, since I left the United States for Latin America in 1962, the Government of the United States has consistently refused me re-entry to the freedom of God's country on the grounds that also in my graduate student days, I had refused to "serve" in its Armed Forces during its war against Korea (my generation's Vietnam) and that since then I had written published (and unpublished!) things, all of which prove to the satisfaction of the Attorney General of the United States of America that my presence there would not be in the best interests of the country and, what's more, might constitute a threat to the national security of the United States of America!

So I am writing you, prompted now by the interview that you, Arnold Harberger, recently conceded to *El Mercurio* of Santiago, Chile, published in its edition of July 14 and reproduced in its international edition of 15-21 July 1974. The coincidence between your views and those of *El Mercurio* is, of course, no

coincidence. Your scant 20 years of work devoted to a common cause is, of course, only modest compared to that of *El Mercurio*, which was founded in 1827 and has defended the interests of the Chilean (but also British and now American) ruling class ever since then. Its present owner, Agustin "Dunny" Edwards, is Vice-President of the Pepsi Cola Company, to whose offices in the United States he fled immediately after the election of Allende. Dunny's grandfather, Augustin Edwards also, already propagated and financed the military counterrevolution of 1891 against Balmaceda's then relatively progressive government in Chile, which had threatened to nationalize its then important British-owned saltpeter (salitre) mines. Dunny's appointment as his replacement as Director of *El Mercurio* during his years of absence after 1970, Fernando Leniz, worked hard to overthrow Allende and has since been duly appointed by the Military Junta as their Minister of the Economy.

Shortly before his appointment, on November 2, 1973, *The Wall Street Journal* had editorialized in its "Review and Outlook" column: "a number of Chilean economists who studied at the University of Chicago, who are known as the 'Chicago School' in Santiago, are champing to be unleashed. That would also be an experiment we would watch with academic interest." Minister Leniz brought them into the government with him and unleashed them on the Chilean economy. Since they are only "technocrats" of course, they had to form a harmonious team with the political advisors and ideologists of the Military Junta. According to the *Financial Times* (the London City's equivalent to Wall Street's journal) of October 19, 1973, the chief of these is the member of the fascist

and terrorist "Patria y Libertad" organization and also professor from the Universidad Católica, Jaime Guzman, who had drafted the generals' first decrees declaring the government of Allende to be "illegitimate", and who was then appointed to the commission charged with drawing up a new constitution for a corporate state. He and his fellow ideologues were not trained at the University of Chicago but instead had been prepared for his new duties by Opus Dei, the notorious semi-secret society of Franco's fascist Spain. Another "advisor" - to DINA, the Junta's Gestapo — is Walter Rauff, whose extradition Germany demanded but did not get, because of his Nazi activities as SS captain and commander of two concentration camps. According to *El Mercurio*, editorializing under the titles "Constitutional Statute", "Reconstruction of the State", and "An Efficient State" in June 1974, "One of the most delicate and transcendental tasks of the Government Junta is precisely the reconstruction of the State, which means giving the country political powers with well-defined attributes and with the authority necessary for the achievement of the common good. This is the fundamental role of the Government Junta and it excludes [as General Pinochet also declared in his own interview to the same paper] by itself the idea that the power of the actual regime be transitory . . . The foremost requirement of a more executive, coordinated and effective governmental action is precisely the inflexible carrying out of the economic and fiscal policy of the Junta."

So there is both a long tradition and a present rationale to the coincidental interview you so graciously granted and which *El Mercurio* so proudly pub-

lished and headlined in four columns across its entire page.

Arnold Harberger, what measure, not to mention science, do you use to arrive at your statements to *El Mercurio* that "I am really surprised that the country has been able to overcome so great an economic chaos in so short a time and at relatively little cost . . . The minimum wage is now at the level it was in 1970, in real terms, which is higher than it was during the last period of the previous government . . . The present unemployment rate is normal, if we consider the moment out of which the country is emerging . . . To my mind, there was no alternative to [the immediate establishment of] freedom of prices"?

Price control in Chile was not invented by the previous government. It was established 30 years ago in the governments of Pedro Aguirre Cerda and Juan Antonio Rios and had been maintained and used by all civilian governments, however rightwing, since then. "Freedom" of prices has meant a price rise of over five *times* since September, according to the present military government itself (yearly percentage rates of inflation have become altogether meaningless); and prices of mass consumption necessities, especially of foodstuffs, have risen ten to 15 times. The price of bread, for which demand increased as the price of other items rose beyond consumers' reach, rose to 22 times its September 1973 level. In March 1974, for a family with one "subsistence wage" (sueldo vital), bread cost 40% of its income. Bus fares, one of our favorite prices, had, by February 1974, risen to ten times their September 1973 price and in May were doubled again, so that one month's normal

home-to-job municipal bus transportation (on four buses daily) now costs about 6,000 escudos, or between 33% and 50% of the official "subsistence minimum" (sueldo vital) to sustain a family. Thus bread alone and the bus fare to earn it are up about 80% of such a family income, leaving the remainder for "living" expenses!

The "minimum" wage, as you know, is, in Chile as in most underdeveloped countries the world over, no measure at all of the real wage and still less of the income received by those not covered by the legislation or, in this case, decree. We may recall the careful calculations of Michael Chossudowsky (also at the Universidad Católica, mimeographed there in January 1974, and therefore probably known to you!) and the conclusions he derived from his estimates of the income at November 1973 prices that would have been necessary to restore to a family at the lowest income level its purchasing power of the year 1968/69, that is, after its decline since 1966 during the Christian Democratic administration and before the increases in income it enjoyed during the Unidad Popular government of Allende: "In other words, the total income of E 31,210 would permit a family of five people (in Greater Santiago), and considering the prices of November 1973, a standard of living of a family of the same size that received the indispensable minimum (sueldo vital) plus family [social security] allowances in the year 1968/69. *While this [would] amount to a readjustment [increase] of the minimum family income amounting to nearly 100% of its present level of E 16.320, it would not offer a solution to the problems of disnutrition and poverty in the lowest income range*" (emphasis by Chossudowsky).

"In other words, the lowest income bracket experienced in October 1973 a fall of 48% in its real purchasing power with respect to 1968/69. In view of the substantial increase in purchasing power of the lower income groups under the Popular Unity government, the fall in real purchasing [power] was in October 1973, well in excess of 50% with respect to its January 1973 level." (Michael Chossudovsky, "The Neo-Liberal Model and the Mechanisms of Economic Repression — The Chilean Case", Department of Economics, University of Ottawa, Canada, Nov. 1974 mimeo, pp.20-21, published in *Co. Existence* 1975).

Arnold Harberger, you, also, seem not to have had it from the horse's mouth, Fernando Leniz, Minister of the Economy and ex-Director of *El Mercurio*, who explained to his interviewer from *Ercilla*: "The root of the problem is that during the years of the UP they gave wages that resulted in a level of consumption that the productive capacity of the country could not maintain." *Ercilla*: "The fact is that the decline in purchasing power is so great that it ended up below the levels of 1970." *Leniz*: "Yes, because the expenditure was carried to such an extreme that it was impossible to maintain the consumption of [19]70."

The Chilean Jesuit magazine, *Mensaje*, published an article by Ruiz Tagle, according to which the price increase for essential consumer goods during the first three months of the Military Junta's rule was estimated at 400% to 500% and the increase in money wages at only 67%, notwithstanding the legal "minimum" wage. The CEPCH (Confederation of Private Employees of Chile) complained on December 7, 1973, that its members had suffered a 60% decline in their pur-

chasing power under the Junta's rule. Then came the Junta's "adjustment" of money wages in January 1974. Disentangling the government's contradictory percentages, indexes and multiplications (after the Junta had replaced the conservative old functionaries of the National Statistical Institute with new "technical experts"), Franz Hinkelammert, (admittedly now ex-) professor at the same Catholic University of Chile, calculated the loss in the newly decreed real wages at 37% compared to those after the last previous adjustment in October 1972.

The new adjustments were immediately followed by the skyrocketing of prices in February and March — the *official* inflation in the first four months of 1974 was 87% and most of that in foodstuffs — so that even the fictitious moneywage increase was quickly wiped out. By March 1974, "in terms of the incomes' policy implemented in the private and public sectors, our results suggest the following tendencies: 1. The real income of the lowest income group has fallen by more than 60%. 2. The real income of the middle income groups has fallen by 75%. 3. The real income of nearly all income groups of the public sector has fallen by approximately 60%. These results suggest that the wages and salaries group has experienced an overall decline of at least 60-65% in its purchasing power as a result of the Junta's policy of 'freeing prices and freezing wages'." (Chossudowsky, *Neo Liberal Model*, pp.22-3.) "In view of the estimated fall in the real purchasing power and the drastic decline in the real value of the minimum wage (sueldo vital), our estimates would suggest that 85% of Chile's population was in March 1974 below the threshold poverty level

whereas the lowest income bracket (less than two minimum wages) which represents approximately 60% of all households (primarily blue-collar workers) is currently in conditions of extreme poverty and malnutrition" (Chossudowsky, *Neo Liberal Model*, pp.30-31).

"Given the estimated decline in purchasing power which affects more than 80% of income recipients, we can safely infer from the underlying data . . . that at least 25% of total income has been transferred from the lower and middle income groups to the upper 5% income bracket. In other words, the upper 5% income bracket has increased its participation from 22.7% (CEDEM, 1967) to approximately 50% of total income" (Chossudowsky, *Neo-Liberal Model*, pp.27-30). No wonder that, while the construction of public housing for low income receivers declined sharply in 1974, private (high income) housing construction increased over the previous year (*Mercurio*, Feb.8, 1975). No wonder that the items whose importation increased most were motorcycles, hi-fi equipment and various luxuries - excepting of course for military equipment to sustain the repressive apparatus. But in your interview for *El Mercurio*. you say the wage is still "above the level of equilibrium". Perhaps the equilibrating artists you trained to serve the Military Junta in Chile can help it equilibrate the wage still better on the points of its bayonets. You were right, Arnold Harberger: By February 1975 this equilibration had raised money wages by about ten times — but while prices had risen 50 times since the coup! The new price of bread in Santiago is 650-680 escudos per kilo (*El Mercurio*, Feb. 14, 1975). The new minimum wage for January-February 1975 is

112.5 escudos in Santiago. That is *one kilo of bread costs six hours of work*. A kilo of bread a day for a family in a month (30 x 650 or 680) costs 20,000 escudos. The subsistence salary (sueldo vital) for January-February 1975 is officially 27,000 escudos in Santiago. "Normalized" and "equilibrated" bread consumption thus costs 75% of such a subsistence wage!

You will no doubt agree with the good advice given to an employer in a small textile mill who reported that "in my factory, we haven't had one important order in the last three months. By the end of last month, I hadn't any money to pay Friday's wages, so I asked for credit from a bank. I was told credit was suspended, but that I could ask for advice from the Ministry of Economic Affairs. So I did, and I received a visit from a Colonel. I explained that I had no money to pay wages, to which he replied: 'Well, tell them to sell the television sets their precious Allende gave them. And if that does not satisfy them, let me know — we'll shoot a few and you'll see how they obey.'" (quoted in *Chile Monitor* No.3, 1974).

I know that you have been working nearly two decades to achieve this "normalcy" also in the level of unemployment. During the conservative government of Alessandri, from 1958 to 1964, the average annual rate of unemployment in Greater Santiago varied between 5% and 9.5%. In the Christian Democratic government of Eduardo Frei, it rose from 5.5% in the years 1964-66 to over 6% in 1967-69, and reached 8.3% in 1970. The government of Allende brought the rate of unemployment down to 3.8% in one year and to 3.6% for two years after that. By February 1974, unemployment among the affiliates

of CUT, the national labor congress since prohibited by the Junta, had risen to 24.6% and the average rate including unaffiliated workers was over 18%. The *lowest* quoted rate of unemployment in Chile since the takeover of the Military Junta, which does not exactly encourage worker registration or response to surveys, is 15%. Current estimates are of 20% to 25% unemployment. The Junta, of course, does not count as "unemployed" the tens of thousands of workers and employees that were dismissed for political reasons. According to the Director of the Budget, 19,200 people were thrown out of government employment in the first three months alone (and replaced by 19,000 others that came from private employment, while those fired were left with no employment and only the blacklisting of being on the Junta's blacklist). At the same time, being neither employed or "unemployed", they also lost all unemployment, social and medical security, and retirement benefits. But the head of the Junta, General Pinochet, promises still more "normalcy" to come: he has prohibited the hiring of any new person by the government and has announced the reduction of public employment by 20% or 100,000 additional wage and salary earners by the end of 1975 — so they may be free to work in the private sector! How will these government jobs be eliminated? One way is to accelerate and extend still further than in the past ten months the dismantling of Chile's public, social and medical insurance system, long the most advanced in Latin America, just as you have been recommending for 20 years. The end of chaos is in sight; your dream of normalcy is coming true, and in so little time! Excluding the political dismissals between September 11

and September 30, 1973 between the latter date and May 31, 1974, the official reduction in public employment was 47,198 (*El Mercurio*, Dec. 10 1974). Or do your employment, and particularly normal public employment, calculations include the vast increase in military draft and the previously there unheard of incorporation of women in the armed forces?

What about the little cost? The main item in the low income budget, food expenditures and consumption, has declined drastically, no doubt in search of "equilibrium". On the supply side, this is easily explained by the decline in agricultural output occasioned first by the truckers' strike and then by the military terror in the countryside during sowing time last spring (which in the southern hemisphere begins in September), and by the sharp decline of government and private food imports in the name of the equalization of internal and external prices — but *not* wages — to achieve "external equilibrium". On the demand side, the decline in food purchase and consumption is, of course, not derived from any dietary equilibrium but from the simultaneous increase in food prices and decline in mass income. Since government food subsidies are also "disequilibrating", they must be eliminated also, as *El Mercurio* (May 18) suggests. As for meat, whose import was restrained by previous governments through periodic meatless days or weeks, imports have ceased; and General Pinochet has declared that sale prohibitions are no longer necessary because supply and demand are now in market equilibrium! That is, there is no more "demand" because people can no longer afford it. The previous government's program of a daily pint of milk for every child was stopped immediately after the military coup.

Some of the "relatively low costs" are that an increasing number of people in Chile are now literally starving to death. The rate of infant mortality has shot up to levels not previously known for many decades. In agreement, evidently, with your belief, Arnold Harberger, that Chilean social and medical security is much too developed (which you repeated in your Chilean press conference as reported in *El Mercurio*, July 10, 1974) and like you, Milton Friedman, the Junta's Minister of "Health" proposes that medicine should be fully integrated into the free market and that the National Health Service — and apparently also the public cemeteries — must be put on a users pay-as-you-go self financing basis. And the Ministry of Interior, as also reported in *El Mercurio*, proclaims a surprised alarm that the number of murders (excluding those committed by the armed forces and by the armed civilian fascist goon squads) has risen, and the rate of assaults and robbery still more, since September, which to the Ministry is especially surprising in view of the fact — it says — that the Junta has maintained the strictest nightly curfew (which, in turn, has strangled all nightlife services) ever since the 11th of September, 1973!

And what about other aspects of the relatively little cost? Two weeks before your interview, *El Mercurio* (June 25, reproduced in the weekly edition of June 24-30) published revealing data on industrial production in Chile in April 1974, compared with April 1973. Production in petroleum refining, iron and steel, metals and machinery, etc., the domains of big and increasingly foreign-related capital, had supposedly risen substantially. "On the other hand, the largest declines are observable in printing and publish-

ing (—40.3%) (the books burnt in front of the television cameras have apparently not been replaced!), beverage industries (—19.7%), clothing (—16.0%), furniture and accessories (—14.9%), rubber products (—13.2%), fabrication of paper [which had been artificially held in short supply by the Alessandri-owned company to create political difficulties for the previous government] (—12.7%), and electrical appliances for household use (—10.7%). In the first four months of this year . . . only two sectors show a negative result: goods of everyday consumption . . . and the sector of various manufactured articles." That is, the production and consumption of manufactured articles destined for the mass, and as in appliances (even for the middle class) market has fallen off significantly! Relative to the average for 1973 (which had itself been already diminished by the Junta) SOFOFA and *El Mercurio* (Feb.8, 1975) themselves calculate a further *decline* in industrial production of 5.1% for goods of "habitual" consumption and of 18.9% for beverages.

According to *Business Week* of November 17, 1973, a large supermarket chain (there are only two in Chile) reported that its sales, valued in escudos, had risen 200%; but the physical quantity of the goods it turned over and sold had declined by 40%! The newspaper *La Tercera* reported on December 5, 1973, that AMPICH (the Association of Medium and Small Industrialists and Craftsmen, including perhaps the above-cited textile producer) had complained of declines of up to 80% in its members' sales, I remember reading even in *El Mercurio* that the storewindows and shelves are full of goods again after the "scarcities" of the Allende times, but that, unfortunately,

their turnover of clothing, for instance, had declined to a third of what it had been during the "times of scarcity", since people now have only big eyes but no money with which to buy. The Camara de Comercio Detallista (the Association of Retail Merchants of Chile), whose President Rafael Cumsille, with Leon Villarin, the leader of the truckers, had been one of the principal organizers of the strikes and boycotts destined to bring down the Allende government, has complained to the Junta and your disciples, Arnold Harberger, that the new economic policy imposes "the law of the jungle" and "benefits to the big and not the little ones" and is driving numerous of its members into bankruptcy. Even Orlando Saenz, former President of the Sociedad de Fomento Fabril (the Chilean national association of manufacturers), has resigned from his directive post and from his immediate post-coup job of Economic Advisor to the Foreign Ministry.

As a representative of medium size capital in Chile, Saenz has since gone into semi-opposition to the Junta's economic policy: "I at least entertain doubts about what Milton Friedman says. In an economy managed only through monetary and market mechanisms, there is no way to avoid a brake on inflation from causing stagnation and high unemployment. And these will be even more severe in a country like Chile . . . I have very little doubt that the force of the facts will conduce everybody to this conviction . . . we have come dangerously close to an economic stagnation that is already visible in the industrial sector. There are those who think that the zero or almost zero industrial growth that we will have this year does not matter in the face of the agricultural

and mining upturn. This is a serious mistake ..." (Saenz in *Que Pasa* No.182, Oct. 17, 1974, p.16). If one answers this question (about the Junta's "anti-inflationary" policy) with honesty and realism, one finds that the cost has been a sharp increase in unemployment, a considerably lower share of the wage and salaried sector in the national income, and a very low economic growth derived essentially from the increase in mining production and its better average selling price in 1974 relative to the previous year. And, in the face of that cost, it seems to me that there can be no doubt that the inflation of the last year represents one of the greatest failures of our economic history. Being of this opinion, evidently I favor important changes in the present economic policy ..." (Saenz, in *Que Pasa* No.195, Jan.16, 1975, p.11). Saenz's change of heart has not gone unheeded by the Junta. After beer sales had already fallen sharply because of the decline in consumer income, the Junta decided to apply its "anti-monopoly" law to the brewery of which Saenz is director!

These statements and resignations are reflections of the increasing dissatisfaction and concern of sectors of the middle classes and the bourgeoisie (though not, of course, of the masses of the people whose opposition is reflected in other ways). For this reason, perhaps, and because the Junta is preparing "public opinion" for new measures to come, the Junta and its spokesmen have mounted a campaign of "explanations" in which your interview is but one, albeit a very well-fitting, piece of the jigsaw puzzle. Thus, Orlando Saenz' successor as President of the Sociedad de Fomento Fabril, Raul Sahli, was asked by *Ercilla*: "Why did Orlando Saenz leave the Presidency of the

SFF? It is said that it was because of the discontent with many businessmen . . .?" *Ercilla* received only "half" an answer: "He wanted to devote himself to his private activities again." *Ercilla*: "But after seven months the balance is for many unsatisfactory." Sahli: "No, it's not so bad." And to *Que Pasa?* he answers: "We industrialists are for the social market policy. We have been asking for a free economy for 50 years. And that is what this Government is implementing, in decreeing first the freedom of prices, which all of us applaud, and then freedom of competition, which is necessary so that the first one functions. We understand that in a small country like Chile, the competition has to come from abroad . . . In the search for new lines of production, in the coordination of various factories for the production of one product, or in the development of big producers of high efficiency, which can come out of the union of several small ones, or in cooperatives. Monopolies? **Yes**, quite so. Only with monopolies can we compete with foreign markets. Inside the country, they would not operate as such, since they also would be subject to the competition of imported products." And to *Ercilla*: "The worst of it is that neither the businessman nor the consumer have adapted themselves to the new reality. What is missing is the mentality of the North American public. It's only a problem of mentality." Amen.

The ex-supervisor of production at the Alessandri and Edwards paper monopoly, then ex-Director of *El Mercurio*, now become the Junta's Minister of the Economy, Fernando Leniz, is not far behind in his "explanations": Question (by *Ercilla*): "After eight months, can we speak of success or failure of

the present economic policy?" Leniz: "No, one cannot speak of failure. And to speak of success already would be pretentious. The results will only become noticeable after a fairly longer delay ..." *Ercilla*: "Speaking of delays . . . the results [of the economic policy] could already be called 'juntistas'. Nonetheless, you continue to talk of the inheritance from the UP. When will the Junta assume its own responsibility?" Leniz: "When all the effects of the inheritance of the past, of the work of the UP, disappear. It might be two years, I don't know . . . For two years it is necessary to maintain the levels of consumption below the curve of the gross national product."

Arnold Harberger, you also say "I have quite clear vision, because I know the Chilean economy . . . I think the strongest guarantee, for a small economy like the Chilean one, to protect itself from monopoly situations is the competition of the world markets . . . The inefficiencies and internal costs [of social security] reflect themselves in the exchange rate. The equilibrium rate will be higher if these problems exist . . . From now on, I see the possibility of a continued rise in production and of the economy in general in Chile . . . For me, the problem is whether the Government and the population will be capable of observing and maintaining the necessary attitude." Well, so far, the Government at least, is giving both evidence and further promise of measuring up quite well:

The exchange rate has been brought towards "equilibrium" by increasing thirteen times and severalfold the Escudo:Dollar exchange rate to make the corresponding import prices for foodstuffs ten times and for other necessities (manufactures) five

times higher, while reducing the "parallel" and exchange rate to make high income travel abroad cheaper and the remission of foreign profits abroad greater. The International Monetary Fund and the Interamerican Bank in Washington as well as the American and European governments, banks and firms have applauded this equilibrating act with US\$700 million, over US\$1,100 million by the end of 1974, in loans and credits for the Military Junta that they withheld from the Allende government on grounds of its "irrationality".

The new government has handed back two hundred state-owned or controlled enterprises to their former private owners — and Minister Leniz has offered to put *one thousand* — so many never existed — state-controlled enterprises up for sale at bargain basement auction prices to any comer, whether he was a previous owner or not (*Suddeutsche Zeitung*, May 28 and October 20). CORFO and *El Mercuric* (Jan.23, 1975) announce that of the 480 enterprises under state control in September 1973, 220 have been returned to their owners, 26 are in process of being returned, 56 were sold, 59 are under negotiation or for sale, 51 are under analysis, 18 under study, and 20 will temporarily or permanently remain public. To "protect itself against monopolistic situations", the government has removed all kinds of import restrictions and opened the doors to the monopolies in the world market to compete freely in the Chilean one. The Military Junta has just removed the clauses from the statutes which protected Chile against certain abuses by foreign investors, thereby contravening its international obligations under Article 24 of the Andean Pact with Bolivia, Ecuador, Colombia, Peru

and Venezuela, the latter of which countries are registering strong complaints. Thereby, the Military Junta in Chile, like the martial law government of Marcos in the Philippines, is now removing the controls on foreign investment in its country, which UNCTAD and now also the Economic and Social Council of the United Nations are recommending to other underdeveloped countries the world over. This measure, and the "mutually satisfactory" agreement with the international copper companies to pay just "compensation", that is \$69 millions to Kennecott for El Teniente mine which had a book value of \$49 million and a debt to Chile of \$223 million for excess profits, and \$236 million to Anaconda which had a similar debt of \$78 million for the nationalized copper mines (after the Allende government had already taken over and incorporated into the national debt the private debts of these companies amounting to more than their book values!), and to pay the notorious ITT for "services rendered", are part of an equilibrating act to the military government on the occasion of a meeting of multinational corporate executives organized in Chile by Business International at the end of June (or about the time of your visit also, Arnold Harberger). Your friendly interviewer, *El Mercurio*, editorializes (June 24-30): "The presence in Chile of an important group of foreign businessmen has made the topic of foreign investments and the treatment they should receive the order of the day . . . The decision, often repeated by the authority [government] to the effect that any sacrifice will be made with view to achieving economic stability, guarantees that the country will slowly but surely approach a situation of normal-

ity that is highly appreciated by foreign investment . . . The political tranquility and the maintenance of the norms dictated today will in the future have the effect of an additional guarantee for the investor which one gets only a very few times but which the Chilean military government now offers", as you say, Arnold Harberger, at very little cost.

With more time, space and patience, *El Mercurio* can afford to devote a whole page to "explain" these "economic topics" every Saturday and in between fill in with editorials and other fillers for those unfortunate ignoramuses who, unlike myself and others of your graduate students, did not previously have the opportunity to learn these self-evident truths in the Departments of Economics of the University of Chicago and the Universidad Católica de Chile: "Why is inflation produced? It is not out of place to repeat for the nth time that prices rise only if the purchasing power of the community is higher than the supply of goods and services. The purchasing power depends on the quantity of money in the economy and the number of times this money is spent in a period of time. The supply of goods depends on the domestic production and the net inflow of goods and services from abroad . . . The price level only changes if there is a change in the quantity of money, in the velocity of circulation or the supply of goods and services. Normally, the supply of goods does not change much . . . The velocity of circulation, or the number of times an escudo is spent, also does not change much in normal conditions . . . So we inevitably arrive at the same thing as always and that is that there can only be inflation if the quantity of money increases. Money is the only pertinent variable . . . Besides, the

empirical evidence in Chile and the rest of the world during all known times [that is, those measured in the basement workshop at the University of Chicago and its subcontractors] confirms the clear correlation between the increase in the money supply and the rise in prices. Despite all this being said, one frequently hears different explanations, especially in the Chilean case. Concretely speaking, it is said that inflation is due to increases in the rate of exchange, to increases in wages, to exorbitant profits of the capitalists, to rises in international prices, to increases in raw materials prices, etc. All these explanations are partial..." (May 18, 1974). "The so-called structural explanation maintains that inflation is due to some real phenomena that have nothing to do with the quantity of money . . . Other structural kinds of explanations, like attributing inflation to social pressures or to the class struggle, are of no importance, since it is obvious ... As has often been said [since all other things only deal with the symptoms], only attacking the causes of the monetary emission permits a reduction of the inflation, and the causes of the emission come from the deficit of the public sector. This is the only correct position, and though it be called monetarist, it does not cease being correct, especially if we consider that there are no coherent alternative explanations ..." (June 8, 1974).

"Monetary reform consists in expropriating a part of the money in the possession of enterprises and persons. The part that is taken away from them is the part that is necessary to eliminate the excess of money that exerts pressure on the prices and makes them rise. But what is gained in the end by eliminating the excess liquidity if the emission of money con-

tinues to rise as a consequence of the fiscal disequilibrium? . . . For these reasons, the reduction of inflation is fundamentally a problem of the fiscal budget and requires a program of reducing public expenditures and of revising the income of the public sector . . . For this reason, it does not seem advisable, if one wants to reduce the costs of inflation to a minimum, to postpone such fundamental decisions as the statute of the investor, the reform of the capital market and the measures designed to reduce the cost of hiring workers . . . The reduction of the public deficit must be immediate and the urgency of the rest of the measures is obvious" (June 8, 1974).

"The public expenditures must be reduced and this can only be done through a program which combines the following measures: a) a significant reduction in the number of public employees; b) readjustment of low salaries in the public sector; c) closing down of public activities and institutions of little productivity for the country; d) transfer of certain activities to the private sector. The Treasury can also improve its situation by selling off the most diverse types of properties, from automobiles to productive enterprises . . . Many of the state enterprises should be transferred to the private sector" (May 18, 1974).

"Therefore, although it turns out to be unpopular, the salaries in the public sector . . . must, for the most part, fall and increase only in the minority of cases. Normally, the popular thing to do is not the correct thing to do . . . With respect to the private sector, it seems obvious that you don't get very far with direct controls . . . There should be some control over prices [but] the correct way to do it is not to fix prices but to permit free importation . . . This puts an automatic

and impersonal ceiling on prices" (May 25, 1974).

The new President of the Sociedad de Fomento Fabril, Raul Sahli, seems to agree: "The social market economy should be applied in all its breadth. If there are industrialists who complain because of this, let them 'go to hell'. I won't defend them. As an industrialist, I do not have a glass roof, and that is why I accepted this presidency. Even though, when I finish, I will have more enemies than Salvador Allende" (end of his *Que Pasa* interview).

El Mercurio continues, devoting its attention now to "the private sector" and "the perfecting of the labor market": "The longer the entrepreneur takes in understanding the logic of the anti-inflationary economic policy, the greater will the tendencies toward unemployment be. In [neo-classical Chicago] theory, at least, unemployment could be zero if the entrepreneurs and the workers behaved within the logic of the stabilization program. For that to occur, it is, however, necessary that the economic authority explain that logic and that it always behave within it." *El Mercurio* itself helps to explain on the same page: "A good part of the unemployment that is traditionally observed in our country is due to imperfections in the labor market." You Milton Friedman wrote a book about that, too, and so did your colleague Albert Rees! "The perfecting of the labor market is urgent ... Some of the things to consider in this regard are the following: a) the cost of hiring labor must be reduced substantially in relation to that of capital . . . social security, and, in some cases, very high minimum wages due to monopolistic labor union practices . . . If these sources of expensive labor are eliminated, the incentive to employ more labor is evident and em-

ployment should rise. Hiring additional workers involves, moreover, other problems that must be resolved. The existence of a no [that is, certain protection against] dismissal law protects the employed worker but inhibits the employment of new workers. This obstacle to the increase in employment must be immediately revised. Hiring an additional worker for a private enterprise has, in recent years, been very adventurous. In addition to the high cost, the worker cannot be changed and is a permanent source of disturbance and problems. This last aspect has disappeared [thanks to the military government], but the high costs and immobility remain. The elimination of these impediments should result in an increase of employment" (June 1, 1974). "When the minimum wage is fixed about the level of equilibrium, the demand for workers is below the equilibrium and effective employment is also lower. In other words, minimum wages protect the employed workers, but they castigate those who most need protection, that is, the one who is unemployed" (May 25, 1974)! "There is no justification for the importance given to the so-called arbitrary firing . . . The entrepreneur hires a worker only if the value of the product he delivers is greater than the cost of hiring him; similarly, when the opposite begins to happen, the entrepreneur tends to get rid of the worker . . . Decline in sales, technological change, end of production, little dedication or irresponsibility in work are generally accepted as logical causes for firing. They all imply that the worker begins to deliver a lower value of production . . . It is true that there can exist atypical entrepreneurs who fire workers for trivial reasons . . . An entrepreneur who was to com-

mit such affronts would have higher operating costs than the competition . . . through which he would be the object of an automatic punishment."

Of course, this punishment is only automatic if the market is competitive. But what if there are labor unions, not to mention monopolies, since "only with monopolies can we compete", as Raul Sahli said. *Ercilla* asks him, "Do you think that a dialog is possible [between capital and labor] while the entrepreneurs unite and express themselves as organizations and the workers cannot do the same?" Sahli: "That there is not any more global organization of the workers [since the Junta's destruction of the General Trade Union organization, CUT] is due, obviously, to the excessive politization that affected the union camp. When the depolitization is completed, there will be an entrepreneur-union relation that is free of all demagogery." *Ercilla*; "And the employers' organization is free of all political influences, even though it does not express itself through the action of political parties [whose existence or function is also prohibited]?" Sahli: "Yes, since the SFF does not represent entrepreneurs, but rather enterprises. And with this concept, I want to support my position against the no-firing law (ley de inamovilidad)."

What is the object lesson of all these "explanations?" You say, Arnold Harberger, that, with "a little bit of luck", internal production in Chile will rise 4% or 5% this year and perhaps 10% next year. After that, your "sufficiently clear vision" foresees the "possibility of a continuously increasing growth." Well, on May 8, the day after explaining about the "unarbitrary" unemployment, *El Mercurio* has a few

words of its own to say about "resource allocation" through "market incentives" and the resulting "Self-sustained Economic Growth": "The change in relative prices and the tariff policy have a tendency to provoke favorable conditions in some branches of industry and unfavorable ones in others ... Among those that should have less incentives are those in the very high cost import-substituting industries and, in general, the over-protected lines of industry; all of these latter should go on to a rapid reallocation of their investments so as to obtain the maximum product of the capital and labor resources they use today." "Often, it is thought that the unemployment derived from an anti-inflationary policy tends to be permanent. The evidence everywhere shows that this is not the case and that economic activity and employment recuperate rapidly. [Of course, everywhere else in Latin America and the underdeveloped world, where an anti-inflationary policy, though, of course, not yours, has been in vogue for decades, the amount of structural unemployment has been increasing more and more.] . . . The recuperation of the private sector begins to be observable in some areas such as agriculture, mining, construction and the export sector in general. The recuperation of these sectors implies the absorption of labor that tends to compensate the decline of employment in the depressed activities like the industry and services that suffer from the impact of the decline in internal demand" (June 1, 1974). "The important thing is to create conditions so that new activities rise rapidly to replace those that must disappear . . . In this line, the most important thing is to have a system of prices that incentivates production and especially an exchange rate that

promotes exports . . . Since the domestic bank finance is restricted by definition [as the small textile producer found out], it is indispensable to open oneself up to foreign finance as a way to minimize the costs of the lack of internal resources. In this regard, it is urgent that there be definitive clarification of the situation of foreign capital through the decree of an investor's statute and a clear policy of external indebtedness. External aid is the key . . ." (May 18, 1974).

Devoting several editorials and supporting stories to the Junta's policy of de-industrializing and mining/agriculturalizing Chile, which has evidently raised a political problem of major proportions, *El Mercurio* launched a new explanatory campaign in February 1975:

"The present policy of economic normalization and achievement of greater stability involves sacrifices of [sic!] the population and therefore gives cause for criticisms of various kinds. The changes in the structure of prices that are intended primarily to give incentives to agricultural development [for export], the policy of tariff reduction designed to end the indiscriminate protection of certain [industrial] sectors, and the maintenance of an exchange rate designed to equilibrate the balance of payments and to stimulate exports produce resistance and criticism . . . The economic policy of the present government has proposed the necessity to specialize our production in those activities in which the country has competitive comparative advantages . . . in which our costs permit us to compete favorably in world markets . . . The issue is little by little to eliminate the inefficient lines of [industrial] production that had been built up under a model of development 'toward the inside' that was based on the discriminating protection of activities in which the country clearly did not have advantages. The new policy is not easy to understand, especially for the affected sectors. Therefore no effort of clarification is in

vain . . . The Department of Economics has published a manual . . . In what follows, we will present some ideas based on this manual, which turns on the topic of international trade and comparative advantage . . ."

The object and the object lesson could hardly be clearer, thanks to your, *El Mercurio's*, its now Minister ex-Director's, and the Sociedad de Fomento Fabril's (literally, Society for Industrial Development, sic!) "explanations". But if any shadow of a doubt about the objective of it all should remain anyway, it is dispelled by the following list of sectors in which Minister Fernando Leniz and his advisor and since Minister of Economic Coordination, Raul Saez (the same one who negotiated the "Chileanization" give-away of the copper mines for ex-President Frei, and not to be confused with Orlando Saenz) offer the most attractive opportunities to American businessmen at their February 4, 1974, meeting with the infamous Council of the Americas, which, under the leadership of Mr. Rockefeller, groups together the principal North American monopolies with business interests in Latin America: "mining, petroleum, natural gas, chemical industry, iron and steel, coal and possible derivatives, agriculture, merchandizing of agricultural products abroad, reforestation and cellulose industry, tourism, etc. . . ." In a word, the raw materials in which Chile again becomes a "comparative advantage" just when they again receive imperialism's priority attention during this new major crisis of accumulation just as they did during those after 1873 and 1929. Even Mr. Kissinger, who not so long ago could not care less if Latin America disappeared below the sea because it did not tilt his balance of power, now rushes to Tlatelolco to show his renewed interest

and, no doubt, to announce a third "noche triste".

You, Arnold Harberger, and the President of the Sociedad de Fomento Fabril, Raul Sahli, say it is all only a question of "attitude" and "mentality". That being the case, of course, you should not have been surprised to see that it was possible to change so much, in so short a time and at so little cost. The military government and the "people" represented by *El Mercurio* have amply demonstrated that they already "observe the necessary attitude". What about the attitude of, and costs to, the rest of the people, including workers, peasants, middle class employees, small businessmen, some industrialists, and their families and children? If they, like Mr. Sahli's consumers, do not know enough to observe the necessary attitude of their own accord, what has the military government done to change and "maintain the necessary attitude" for them, and at what cost to them?

Some of these few costs, beyond the hunger and starvation of the population, are well known and have been publicized by the press around the world: the labor unions, of longstanding tradition and combativity, have been prohibited; new yellow dog unions have been "established"; but their representatives, sent by the Military Junta to the United Nations International Labour Organization in Geneva were denied credentials to the recent meeting there by *unanimous* vote, including that of AFL-CIO, of all the world's labor organizations. In Chile, in the meantime, all strikes have been prohibited since September 1973; wildcat strike leaders in ports, construction and factories have been shot; and the workweek has been increased by ten per cent — but at no increase in pay for the additional work and reduced takehome pay

for the regular workweek — because everybody has to sacrifice a little for the reconstruction of equilibrium.

Freedom of the press (which during the Allende government had flowered to weed proportions elsewhere unknown) has been completely abolished and many major newspapers and radio stations, including Christian Democratic ones, have been closed down. Total newspaper circulation has declined by 60%. No wonder the output of printing and publishing has declined 40%. The universities have all been reorganized by military presidents. Your ex-graduate student, along with all but a couple of his colleagues and most of the non-academic personnel, including his Chilean librarian wife, in the Research Centro de Estudios Socio-Economicos of the University of Chile, was relieved of his post on the grounds "that it is of public knowledge and notorious that the below-named academics have, as shown by the evidence in the hands of this public attorney, incurred the charges of ... inobservance of moral duties, inconsistency of his extra-university conduct with that sustained in class according to the existing curricula ..."

Arnold Harberger, you will be glad to know, I am sure, that the Military Junta in Chile now confirms your evaluation of my research aptitudes and conduct of two decades ago. Six students were shot on sight in the main entrance to the School of Economics to offer an object lesson to the remainder and others — including the visiting economics student and US citizen Frank Terucchi — were tortured and shot to death.

Several university faculties were closed down altogether; in others, such as social science and other faculties suspected to have substantial numbers of

left-inclined students, enrolments were cancelled; and students who dared to appear — and face arrest if they were unable to present themselves because they were already under arrest — were re-enrolled if they passed the military muster. The curricula were equilibrated accordingly: students are to study, and no nonsense!

All left of center political parties, whether "Marxist" or not, have been prohibited; and the remaining ones are effectively prevented from functioning. The voter registration rolls have been burned because they were "fraudulent", and when the time is ripe, the Military Junta will draw up its own new ones, with those voters, willing and able to register, who the Junta thinks should be on the rolls. The Military Junta says it insists on "de-politizing" the country on popular demand!

Given the "mentality" and "attitude" of the people of Chile, half of whom voted for Allende and an increasing number of the remainder of whom are economically more and more adversely affected by inflation, unemployment, bankruptcies, etc., and politically increasingly estranged by the Junta's methods, none of these "equilibrating", "normalizing" and "de-politizing" measures can be imposed or carried out without the twin elements that underlie them all: military force and political terror. The United Nations High Commissioner for Refugees Office, the Red Cross, Amnesty International, the Catholic Church, diplomats such as the Ambassador of Sweden, the Russell and other tribunals, international missions of independent jurists, and recently even the Organization of American States, etc., as well as, of course, the press, including such organs

as *Newsweek* and the *Washington Post*, now called part of the conspiracy of "international communism" by the Junta and its spokesmen, have all testified innumerable times to the hundreds of thousands of detentions; the "living" conditions in the camps of detention in the northern poisonous salt desert and the southern antarctic reaches; in a population of ten million, only half of them adult, and half of these adult males, the 30,000 murdered, (by official Junta figures, released to the United Nations), the bodies hung, or sent down the river, or just left for display to terrorize the population in populous neighborhoods; the systematic torture: systematic in the use of the most modern equipment, techniques, instructors and even interrogators imported from Brazil and the American experience in Vietnam; systematic in the selection, tracking down, and interrogation unto death and insanity of the most experienced political cadres in the labor unions, political parties, etc., that were declared "illegal"; systematic in the combination of physical torture with psychological and moral, such as the physical torture of in all respects innocent spouses, children and small babies in front of the simultaneously ridiculed person under interrogation; and systematic also in the construction of torture camps and chambers at Tejas Verdes and elsewhere, including — symbolic irony — in the Parliament building, used not only for the interrogation of political cadres, but destined and used even more for the "processing" of literally hundreds of thousands of people that are detained at the slightest or no pretext in order to soften them up before dumping them exhausted, bruised, lamed, or unconscious and always terrorized at the roadside, railway

station, or in their neighbourhoods with the warning "not" to tell their families, neighbors or work and unemployed mates about their experience. Far from abating after the first period of military rule, this process of terrorization has continued, is still increasing, and has recently been again accelerated (this week, the press, *Le Monde* of August 1, reports of over 10,000 detentions — half of them for "drunkenness" — in a few days). Still in 1975, there are days of more than 500 detentions, and these now include near and distant relatives, young and old, that the Junta takes as hostages in its attempt to suppress the resistance.

Arnold Harberger, these are some of the relatively little measures of the cost of this program of equilibration and normalization. No one knows their rationale and their provenance better than you do. Not in vain have you, your Center of Latin American Studies, and your Department of Economics at the University of Chicago devoted two decades to organizing the Department of Economics of the Universidad Católica de Chile, training generations of students and professors in the equilibrating use of your kit of tools, and brainwashing them to believe in the "normalcy" you and those you work for yearn for. Finally, carried on the bayonets of the military men trained by the Pentagon and advised by the CIA, whose activities in Chile have now been partially revealed in public testimony, who also sent them a team of US Air Force flying acrobats on September 7, 1973, (it is not clear whether to help celebrate the National and Armed Forces days, which were never celebrated on September 18 and 19, or to help precision bomb the Presidential Palace, La Moneda, which was successfully done

on September 11), and carried by a stream of the blood of the Chilean people, your trainees and disciples have floated into the government to take up the key positions of the ministries, central bank, and other offices of the Chilean Military Junta concerned with the "equilibration" of the economy, where your trainees are now engaged as the "technical experts", known as "The Chicago Boys". You have ample reason to be proud of them, like Al Capone of his "Gang" and those of your professional colleagues who trained and formed the notorious "Berkeley Mafia", which took over the governmental reins of the Indonesian economy after the US-supported Suharto military regime had bathed the islands in the blood of Indonesians estimated to have been between one-half and one million "donors".

Arnold Harberger, you agree with Economics Minister Leniz that your joint program is not a failure but that it cannot, without being presumptuous, yet be called a complete success. After all, the President of the "Chilean" industrialists says they have been asking for it for 50 years; you have been preparing for it for 20 years; and your executors and executioners, Leniz with his team of Chicago Boys and Pinochet with his troop of assassins, have been putting your program into practice for only ten months now. They need more time to let more blood. After all, the Indonesian model — which was announced all over Chile already in 1971 by splashing "Djakarta" on the walls in red ink — and the model of Brazil (which, excepting some oil sheikdoms, now has the world's most unequal distribution of income) also required more time to implement their models on their native soil, as Leniz and your disciples are the

first to point out. Moreover, however attractive you may find the models of political economic equilibrium of these countries of a hundred million each, each ten times more than Chile, not to mention size and resources; your Swiftian "modest proposal" for Chile must be somewhat different, especially if it is to serve as a model as well for other smaller underdeveloped countries in Latin America and around the world. It takes more time to organize an efficient "perfecting of the labor market" through union busting, more unemployment, further wage depression, and longer workweeks to permit not the simple exploitation that the workers have always suffered, but a degree of super-exploitation that does not even permit the recomposition of the labor force, part of which is, in any case, dispensable in your modest proposal; to concentrate the distribution of income sufficiently to generate an "internal market" for a few capital goods and their derivatives and services — some of which can be produced in Brazil but hardly any of which in Chile; to centralize and concentrate capital enough, letting the "inefficient firms go to hell" and uniting the remainder into — or with — monopolies strong enough to compete in the world market, as the President of the SOFOFA says, and if that is not possible, to go on to accumulate again as integral parts of world monopolies; to restructure the Chilean economy, reallocating its capital and labor resources and rechannelling their fruits in accord with world imperialist "market" incentives to the production, with foreign-owned albeit not supplied, capital to produce the raw materials for export for which Chile has a "comparative advantage" in imperialist capitalism's crisis-ridden time of need; to use

that basement toolkit to forge the "anti-inflationary" and "free market" monetary and fiscal policy necessary to create and direct the "price incentives" so that industrialists and farmers will want to produce and consumers will refrain from consuming in accord with this modest proposal, irrespective of their mentality and attitudes; and, inasmuch as practice stubbornly refuses to permit what is "possible in theory", the ignorant Chileans, whose retrograde mentality and attitude has not been enlightened at the University of Chicago, must by the tens and then hundreds of thousands and millions be shot, tortured, hungered, diseased, exiled and emotionally disequibrated to permit the rock-bottom equilibration of the Chilean economy. The public sector has to wither away, but the state has to be reconstructed to exercise brutally efficient authority for the care and feeding of the private — and foreign — sector.

Arnold Harberger, Milton Friedman & Co. Inc., your modest proposal of partial equilibrium for the general good is not without its own internal contradictions. Moreover, you cannot take complete credit for this program of equilibration. Although you and your colleagues and disciples at the Department of Economics of the University of Chicago may have dedicated two decades to the design of the program and the technical training of its executors, it took the approach of another major economic and political crisis of capitalism, analogous to that of the 1930's, to mobilize the political support and the military force to instal a government prepared to put your program of equilibration and your equilibrating experts to work in Chile — and you, Milton Friedman, are still waiting to put your part of the same program, complete with

Brazilian style indexing, into practice at home for the glory and benefit of the bourgeoisie in the USA, whom you so faithfully serve as paid executors and executioners.

I was interested to read in *El Mercurio* of December 18, 1974, that you, Mr. Harberger, made a second visit to your model dreamland and that "five months later, he lamented that his diagnosis of the present Chilean situation is completely different from what it was during his previous visit . . . He said that Chile is the first country which successfully and in a short time came out of a quasi-hyperinflation . . . without violence . . . [Nonetheless] external circumstances will make it difficult that the [previously predicted 5%] growth rate continue . . . It is important — according to the professor — to understand that the difficulties are not due to the application of the principles of the social market economy nor to the actions of the managers of the economy. [It is] the external crisis . . ." Perhaps with your Chicago toolkit the world crisis was not "predictable" half a year ago. Or is it that you mistakenly predicted that Messrs. Friedman, Harberger and Co.'s social market crisis management principles would find timely application elsewhere in the world as well?

As for your ex-graduate student, how right you were indeed, Messrs. Harberger, Friedman & Co. Inc. in the USA, when you observed and predicted 20 years ago that I did not measure up to your expectations of normality; that I lack the attitude, mentality and morality you share with the Junta; that I could not be made either to measure the equilibrium conditions of mass murder and genocide or made to

the measure of your bloody executioners. Venceremos!

Andre Gunder Frank
PhD in Economics
University of Chicago 1957

Postscript

Lest we think that you and yours, Messrs. Harberger, Friedman & Co., have worked so long and hard only to see your model society flourish in Chile alone, which General Pinochet has several times reminded of its "luck" in being a quiet isle in a sea of storm, it may be well to take seriously the opinions of the Junta and its spokesmen about the relevance of your model and Chilean experience to world affairs. Here is a small sample of their opinion and advice, in which perhaps they do not speak only for themselves alone:

Under the title "Administrative Effectiveness", *El Mercurio* (14-20 October, 1974) editorializes:

"A panorama of strikes that disequilibriates the economy of countries, like Italy, that were prosperous until a short time ago, and a climate of generalized terrorism operating with impunity throughout the world, make one appreciate the climate of work and public tranquility that reigns in Chile. If thereto we add that President Ford is denouncing the risk of 'parliamentary dictatorship' in the country that is the cradle of presidentialism, the conclusion emerges that demagogery and the seed of Marxist hate lead the politically liberal regimes to destruction in politicking and immorality. Without the shadow of a doubt, Chile has made the timely and effective choice of the best possible system in the face of the profound destructive crises ...

The member of the Junta, Air Force General Gustavo Leigh, observes:

"France has been brought to ruin, which has it two or three votes away from Marxism; Italy is in a state of commotion in which nobody understands anything; and England is mixed up in a socialism that nobody understands. The world is in convulsion; there is at present economic crisis and politization in extreme degree. By contrast, in this out of the way corner of the world we have one last opportunity which our Supreme Maker has perhaps granted us ... We sincerely believe that this may be the last opportunity for this country. This government may be the last one that has the tools to eliminate the possibility of a Marxist government. After the Armed Forces, Gentlemen, let us say it in all frankness, there is nothing else in Chile. It hurts me to say so, because I do not at all like to say so. But, tell me yourselves, if I am not right. What remains after the Armed Forces of Chile? This last card and this last reserve was played on September 11. We won, but ..." (*El Mercurio*, Oct. 19, 1974).

Jaime Guzman, member of the fascist Patria y Libertad and the Commission drafting the new Constitution explains the "fundamental characteristics of the new state":

"If by 1985 present day civilization has not been destroyed by war, which is a danger that I regard much more imminent than many, I think that the libertarian system of life on which western democracy rests can only preserve itself if it is able to break with the false dogmas that are bringing us to ruination; Among the most serious ones I would allow myself to cite: a) The myth of an 'absolute liberty of expression' . . . b) The anachronic formulas that govern labor relations. The practice of collective bargaining and the right to strike are in need of redefinition in accord with the times ... I cannot in 1975, and still less in 1985, conceive of the unrestricted right to strike as being acceptable . . . c) The use that Communism is making of the international organizations . . . d) The belief that democracy should accept the co-existence of Marxists-Leninist and Democrats in civic life ... because democracy must protect

itself." (*QuePasa*. No.193, Jan. 2,1975, p.43).

"For Francisco Orrego, Director of the Institute of International Studies of the University, the Third World is where our future is. 'Chile (he says) can act as a bridge between the developed world and the developing world, because it is in between . . . Chilean action could assume leadership characteristics — in a Third World with many military governments — if there were a policy designed and defined in that direction. I would like to see General Pinochet made into leader of the Third World; and the Third World will be able to understand and benefit from the Chilean experience'." (*QuePasa*, No.196, Jan. 23, 1975, p.13).

Amen!

A.G.F.
February 24, 1975