

## **The “Chicago Boys” intellectual transfer: a Gramscian interpretation**

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### **ABSTRACT**

In September 11, 1973, the Chilean army, commanded by General Augusto Pinochet, killed the democratically elected socialist president Salvador Allende. Recognizing the Chicago Boys as the organic intellectuals of neoliberalism in Chile, we describe how they were a key element to transform Chilean society in the attempt to form a Historical Block after Salvador Allende's overthrow. This allows us to consider not only the ideological, but also the role of class struggle.

Keywords: Chicago Boys; Historical Block; History of Ideas; Gramsci

### **RESUMO**

Em 11 de setembro de 1973 foi assassinado o presidente socialista democraticamente eleito, Salvador Allende, pelo Exército chileno comandado pelo General Augusto Pinochet. A partir do reconhecimento dos Chicago Boys como intelectuais orgânicos do neoliberalismo no Chile, nosso trabalho descreve como esses foram elemento central na tentativa de implementar um novo Bloco Histórico após o golpe contra Allende. Com isso, podemos tanto observar a transferência ideológica que ocorreu no período quanto o papel da luta de classes.

Palavras-chave: Chicago Boys; Bloco Histórico; História das ideias; Gramsci

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**Área 2** – Economia Política

# THE “CHICAGO BOYS” INTELLECTUAL TRANSFER: A GRAMSCIAN INTERPRETATION

## 1 INTRODUCTION

In September 11, 1973, the Chilean army, commanded by General Augusto Pinochet, killed the democratically elected socialist president Salvador Allende. Right after the coup, a great shift in social and economic policies occurs dismantling all the measures taken by the popular government and by its moderate antecessors as well. It is highly acknowledge that this new economic agenda adopted by General Pinochet after the coup in Chile can be directly traced back to the “Chicago Boys”. Those economic advisers Pinochet resorted to were the newly arrived Chileans that made part of a graduate exchange program at the University of Chicago’s School of Economics. The Chicago Boys implemented several policies that would be labeled “neoliberal” and replicated throughout the world. The focus of our work is to understand these economists as what Gramsci called “Organic Intellectuals”.

Organic intellectuals<sup>1</sup> play a major role in the consolidation of a “Historical Block” (HB) – “[A] durable alliance of class forces organized by a class (or class fraction) which can exercise political, intellectual and moral leadership over the dominant classes and popular masses” (Jessop, 1997:570). The intellectuals are the ones who forge and spread the ideology that will make possible to build a consensus in the society around the referred leadership. Recognizing the Chicago Boys as the organic intellectuals of neoliberalism in Chile, we describe how they were key elements to transform Chilean society and to form a new Historical Block, in the form of “passive revolution”, after a socialist attempt of rupture. Using Gramsci’s ideas we are able to contribute to understand a turbulent period in Chile’s history, which includes an attempt of a “legal route to socialism” (1970-73), a coup, and a seventeen years long military dictatorship (1973-89).

### 1.1 GRAMSCI AND HISTORY

Although Antonio Gramsci’s writings became known outside Italy only during the 1960’s (Portelli, 1977), he produced his most important work, the *Prison notebooks*, while incarcerated from 1926 to 1937. One example is Robert Cox’s *Hegemony and International Relations: An Essay in Method* (1983), the first to bring a Gramscian perspective to the international relations studies (Germain and Kenny, 1998). This happened almost 50 years after the death of the author, and exemplifies how slow the dissemination of his thought was.

The Gramscian theory is part of Historical Materialism and represents a major step forward regarding the relations between the structure and superstructure. He departs from mechanical materialism and the exclusively focused interpretations on structural conditions of revolution (Femia, 1975). For him the superstructure has an active nature that interact with the structure forming the HB (D’Assunção, 2010).

The structure refers to the relations of production, usually seen as the mode of production of a particular stage of development, as discussed in Williams (2011:46). However, while Gramsci considers the structure as static, or at least as history’s less variable element (Portelli, 1977), he does not see it as mere production of material objects, but as a space for the reproduction of global social relations (Vasconcelos, Silva and Schmaller, 2013). The superstructure on the other hand is formed by “political society” and “civil society”, representing the space of the State<sup>2</sup> and the space of ideas. This historical materialism differs from orthodox Marxism while avoiding the complete determination of the superstructure by the structure. Here the ideas also have the role of molding the structure at some level, without resulting in idealism. “Hence linking ‘objectivity’ to human consciousness and the intersubjective constitution of the social world” (Morton, 2003a:136).

Additionally, Gramsci’s account of history departs from other theories of history, such as the *revisionist* method (also known as *austere historicism*). To this method, the idea is that we need

to understand thought within a precise context, and that it does not last indefinitely. There is no significance in past ideas for the revisionist historians. Furthermore, there must be a focus on what the author or authors were consciously trying to say (FEMIA, 1981). Gramsci's *absolute historicism* on the other hand claims that a philosopher cannot ignore his precedents (*idem*) (i.e. ideologies of the ruling classes), which coexist in the different levels of thought.

“As a result, the appropriateness of the position that past ideas, questions, and philosophies still have a bearing on the present, and may thus transcend social context and ‘speak’ to us, may be established. [...] Although a theory is certainly linked to the social relations of a particular epoch, some problems are perennial because underlying thoughts about a range of concrete particulars do recur.” (Morton, 2003a:131)

The class (or fraction of it) that dominates the contemporary HB is responsible for the philosophy, i.e. the leading ideology, formulated by their own organic intellectuals. Nevertheless, the farther other classes are from the ruling one, the more their thought will be composed by past dominant ideologies from the former HB or other forms of thinking. The Folklore is the further one class can get from the philosophy, and the common sense is the middle of the road<sup>3</sup> (Portelli, 1977).

Hence, Gramsci's analysis will allow us to understand the process of constitution of a new era in Chile, a new hegemony and a new HB as a dispute of classes. We argue that other works neglect this facet of history<sup>4</sup> or focus on different groups of intellectuals, missing some peculiarities of this process<sup>5</sup>. This article intends to show how, Pinochet's dictatorship, started as a “war of maneuver” working its way to a “war of position” in a passive revolution, and how the philosophy of the new Historical Block suffered great influence from abroad, although not connected to any prevailing HB.

## 2 CHILEAN ECONOMY AND THE FORMER HISTORICAL BLOCKS

A stable Historical Block is only possible through the existence of hegemony, created by the consensus among classes. On the other hand, coercion, or the rule of political society, may allow domination, although in a less stable way. The first one is an organic connection between structure and superstructure made possible by the organic intellectuals of a certain class (or part of it), i.e. it is a dispute in the civil society, while the last is a domination using the State apparatus (Portelli, 1977). “These two levels correspond on the one hand to the function of ‘hegemony’ which the dominant group exercises throughout society and on the other hand to that of “direct domination” or command exercised through the State and ‘juridical’ government”. (Gramsci, 1992:12). The HB either can be an independent constitution from inside the country (or another level of analyses) or can be a result of ideological transfer from abroad. As previously asserted, the Chilean case fits in the second approach.

From 1930 onwards, after profound political and economic crises, Chile changed to being close to a Transnational Historical Block, as identified by Bob Jessop. Also called the “Atlantic Fordism” international HB, which

Economically [...] aimed to secure full employment in relatively closed national economies mainly through demand-side management and regulation of collective bargaining; socially it aimed to generalize norms of mass consumption so that all its citizens shared the fruits of economic growth (and so contributed to effective domestic demand) and to promote forms of collective consumption that supported a Fordist growth dynamic” (Jessop, 1997:572).

Although Latin American countries did not foster all those practices, such as “generalized norms of mass consumption”, the increasing role of the State on leading the economy, for example, was true. After 1929, in LA, “the state machine was conceived as the higher authority which could integrate and orient internal interests, bolster their economic and political weakness, and take the lead, on an equal footing, with the external private and public nuclei of power” (ECLAC, 1985:3). The efforts towards industrialization, ECLAC's Import Substitution Model (specifically during the 1950s and the 1960s), and the role of the state in the economy spread through LA. It was no different in Chile.

The ECLAC was established in 1948 in Santiago, Chile. Back then, the main concern of the ECLAC centered on inflation (Baer, 1967). This subject placed the ECLAC and the International Monetary Fund (IMF) policies recommendations on antagonistic sides.

The economists connected to ECLAC's thought are known as "structuralists". They advocated that inflation (the major discussion in LA's economics) is part of the growth process. Thus, shock policies should not be implemented, but gradualist policies, given that monetary and fiscal restraints are not fully effective and harmful to growth and employment (Campos, 1967). On the other hand, the monetarists, closer to the IMF, defended the fiscal and monetary restraints as the solution to the distortions in the prices and exchange rates caused by the inflationary process. Those distortions should be held fast in order to avoid explosive tensions that could damage the growth even further (*Ibidem*).

The IMF considered the distortion between prices of domestic and foreign goods as caused by inflation. This distortion led to an unfavorable balance of payments, exacerbated by the fixed exchange rate policy. To Furtado and the structuralists on the other hand, the structural changes created by the industrialization process should be blame for those distortions and inflation (Boianovsky, 2012)<sup>6</sup>. More precisely, the supply was inelastic because there was structural bottlenecks, normally in the agricultural sector (Waschter, 1979) that causes inflation. Import inelasticity was also to be blamed (Baer, 1967). There are other sensitive points, such as the role monetarists attributed to inflation distorting the allocation of resources in favor of the less risky and more unproductive activities (*Ibidem*), but we will not go further in this analysis. For a more complete discussion over this matter, see Baer and Kerstenetzky (1964), Fishlow (1986) and Love (1996).

In the Chilean case, the 1929 crisis caused a fall in mineral commodities prices and created incentives to begin an industrialization process, creating a national, State-owned industry (Cáceres, 1982). Nevertheless, since the 1950s, economists already pointed out the fragility of this model, with severe consequences to fiscal debt, migration, agriculture, etc., which accelerated the inflationary process (Correa, 1985). Following what happened in all Latin America (Foxley, 1983), after 1950, there were attempts to implement monetary policies. This period differs from the bigger wave of monetarists policies of the 1970s associated with financial stabilization. During the 70s this happened more consistently and persistently, mainly in Chile after 1973 and then (in a smaller degree) in Uruguay and Argentina, in 1974 and 1976 respectively (Foxley, 1983). This scenario differs from similar attempts in the 1950s due to the lack of structural change and long-term goals of the last (*Ibidem*).

From 1956 to 1958, for example, the Chilean government hired the American consultant firm Klein-Sachs with the mission to decelerate the 77.5% inflation (Lüders, 2012). The implemented fiscal and monetary policies succeeded in controlling the inflationary process for a short period<sup>7</sup>.

The 1958 elected President Jorge Alessandri made an initial attempt to deepen these changes, but political pressures stopped him. In that moment, not only ECLAC had a great influence in the country but also it was the beginning of John F. Kennedy's Alliance for Progress (Cáceres, 1982:43-44). In order to avoid the communist treat in Latin America, the Alliance for Progress had an ambitious plan that included not only the habitual price stability, growth and domestic savings, but also income distribution, some agrarian reform, low-cost housing and trade diversification (Michaels, 1976:75). The foreign aid influence can be measured by the 1.5 billion dollars Chile received between 1961 and 1970, being the second country in per capita income aid (*Ibidem*:76). The agency's goals however, would match better with the next president, which represented an alternative to the already popular Salvador Allende.

Supposing that Chile was part of this Atlantic Fordism HB, we can understand 1958's president Alessandri abandonment of austerity policies as concessions to auxiliary groups that were close to other ideologies as those of ECLAC or non-Marxist left. Alessandri, and the groups he represented, attempted to diverge from the HB ideology, but they had no support, being drawn back to what he considered populist and demagogic policies (Cáceres, 1982). They were not able to create a new consensus. In turn, the next president, the Christian Democrat Eduardo Frei Montalva (1964-1970), was closely connected to populism (Coelho, 2000). Unlike Marxist revolution or conservative

capitalism, his “Revolution in Liberty” aimed to merge structural changes and the maintenance of democracy. Frei adopted developmentalist policies and even started land reform, therefore maintaining the consensus around the HB.

Eduardo Frei Montalva election, according to Fontaine (1993), was the first that left wing candidates benefitted from the previous years’ huge rural-urban migration. The rural population had a smaller participation in the electoral process, but when they migrated to urban centers, they usually became involved in the political process, such as joining working class unions (Fontaine, 1993). Nevertheless, elite groups were able to stop Montalva’s populist measures (Valdés, 2008:218), but they could not avoid the radicalization in Chilean politics that resulted in the election of the socialist Salvador Allende (which benefitted from the migration process as well). As Valdés pointed out, the number of electors rose from 1.5 to 2.5 million people (or from 15 to 30% of population) from 1958 to 1970. The number of unions doubled as well.

The Montalva’s term was widely supported while able to combine “a populist desire for social justice and the corporative institutions [...] the corporativist fraction of *officislistas* representing the urban industrial managerial wing of the party gave increased production and technical efficiency a priority over social justice” (Michaels, 1976:79). This was part of his project named “Revolution in Liberty”, which fitted “the Alliance for Progress’ vision of a revolutionary peaceful development” (*Ibidem*). During this period, the Chilean State sought to integrate peripheral groups socially and economically (Aravena, 1997:53). Frei Montalva, mainly after 1965, needed the Alliance financial support in order to keep this bold project. However, after 1967, a year that united rising inflation, low growth and falling prices of copper (Chile’s main export product) Chile needed even more. This time however, according to Michaels (1976:82-83), the US was less concerned with the Alliance’s goals and pressed for fiscal restraint. The World Bank and the IMF urged that Chile reduced the agrarian reform and public housing budgeted, in addition to other reforms, in order to reduce inflation (*Ibidem*: 89). The government lost its popular basis paving the way for Salvador Allende.

After Salvador Allende took office in 1970, there were fundamental changes. After winning the election, the new government imposed a major social and economic rupture, as stated in its electoral program. Allende brought under state control a major part of Chile’s economy, including banks and the once foreign-owned copper mines, deepened the land reform (dissolving the *latifundia* system) and implemented short-term measures benefiting the popular sectors. “The strategy involved the brief rupturing of an elitist development model of dependent capitalism, and its replacement with a more redistributive and participatory state orientation organized around social property” (Barton, 2004:9-10). His intention was to restructure power relations to which the country’s economic interests would have to adjust to (Fleet, 1973).

In adopting this strategy Allende was taking a calculated risk. Measures favorable to the popular classes might well stimulate production through increased demand. But over the long run the burden of government policies would have to be borne by the country’s middle sectors, long the controlling element in national politics. [...] Allende would have to hope that economic conditions for the middle sectors would not deteriorate too rapidly, that political forces representing them would remain divided, and that in any event the middle class would retain its traditionally constitutional political inclinations. (*Ibidem*:768-9)

It is important to highlight a crucial question about Chile’s elections. There was no need for absolute majority. Allende took office with less than 37% of the valid votes while Jorge Alessandri obtained 34.9% (Conservative) and Radomiro Tomic 27.8% (Christian Democrat). Therefore, even if we consider the votes as a proxy to actual support of a major ideological change, Allende was not even close to a consensus. The rapid move ahead of Popular Unit’s social objectives, the sharp fall of growth rates, and rise in inflation in 1971 (up to 162% for the year) increased hostility and moved the Christian Democrats from a neutral position to full-fledge opposition (*Ibidem*).

Even though Allende’s/Popular Unity’s short government was not a dictatorship or used systematic violence to silence opposition, its attempt to institute a new Historical Block in Chile with

socialist tendencies, is considered a war of maneuver. Through democratic elections, they took power after a moment of weakness and decreasing popularity of the former HB. There was never a hegemony, no control over civil society during Allende's term. This can be seen as a lack of preparation of subordinate classes that allowed a quick recovery by the ruling class. They did not seize the moment of an organic crisis in the HB, i.e. the moment where the organic intellectuals no longer represent the ruling class (Portelli, 1977).

The gradual disappearance of market mechanisms along with the broad nationalization of private companies and the land reform increased the right wing radicalization. The business owners started to retain products and practice terrorism in order to wreak havoc and destabilize Allende's Government (Valdés, 2008; Fischer, 2009)<sup>8</sup>. Meanwhile, even before the coup, the Chicago Boys gained relevance in the formulation of the opposition's economic plan that could sustain a possible new government, since they represented a major rupture with socialism and the former populism as well (Valdés, 2008). These economists represented a complete different paradigm in comparison not just to Allende's policies, but also to the former ECLAC structuralist influences. However, the Chicago Boys were not the leading intellectuals right after the coup yet, as we will see next.

The ideological radicalization and the alliance between the centre and the right constituted the support that made possible the military coup. The newly established dictatorship had the will and the power to conduct the policies they wanted with much less political pressure than before, at least from dissidents groups. The Chilean students from the University of Chicago had an important role, as we intend to show. Therefore, the relation between the Chicago and the *Pontificia Universidad Católica de Chile* (PUCC), which started in the 1950s, became central to Chile's future.

### **3 THE CREATION OF THE CHICAGO BOYS AND THEIR ROLE ON A NEW HISTORICAL BLOCK**

An import fact to our discussion is the recognition of the developments of the post-war Chicago School of Economics (CSE) as a particular school of thought and opposed to the main authors inside the American academy. It was after this period that the agreements involving this university and the PUCC started (late 1950s), and this new thinking of the CSE had a direct influence on the politics adopted during the Pinochet's dictatorial regime.

Founded in 1892, with James Lawrence Laughlin as its first director, the Department of Economics of the University of Chicago has a history of political conservatism and economic orthodoxy (Valdés, 2008). Nevertheless, the arrival of Milton Friedman in 1946 marked a turning point<sup>9</sup>. He was the leader of what latter would be called the anti-Keynesian revolution. His influence is so important that Van Overtveldt (2007) divided the evolution of the CSE between the Pre-Friedman Era, Friedman Era and Post-Friedman Era.

The Friedman Era, (1946-76, his time as a teacher there), was marked by a specialization on neoclassical price theory, partial equilibrium and empiricism (Van Overtveldt, 2007). Although Van Overtveldt stressed the major importance of Friedman inside the CSE, Valdés (2008) pointed out the role of previous professors, as Frank Knight and Henry Simons, not only in price theory but also in adopting the concept of the Economist as someone designed to make people see things as they really are (Valdés, 2008:54). The last trait was an important feature of the Chicagoans. Besides, about the same time as Milton Friedman several professors entered the department, including some from Cowles Commission (e.g. D. Gale Johnson, H. Gregg Lewis, Theodore Shultz, Jacob Marschak and Tjalling Koopmans), and several other left or died (e.g. Frank Knight, Henry Schultz, Henry Simons, Oscar Lange and Paul Douglas) (Hammond, 2010).

Either way, according to Miller (1962), the specializations mentioned above added to a convergence on to understand the role of the State and public policies. This makes the CSE homogeneous enough to differentiate itself from other American schools. In his words,

“What does distinguish him [the Chicago Economist] from other economists are a number of closely related attributes: the polar position that he occupies among economist as an advocate

of an individualistic market economy; the emphasis that he puts on the usefulness and relevance of neo-classical economic theory; the way he equates the actual and the ideal market; the way in which he sees and applies economics in and to every nook and cranny of life; and the emphasis that he puts on hypothesis-testing as a neglected element in the development of positive economics.” (Miller, 1962:65)<sup>10</sup>.

The CSE’s monetarist influence is also prominent and important. Friedman’s work was highly influential to the foundations of this new monetarism. This approach stood as a direct challenge to the Keynesian consensus that emerged after the “neoclassical synthesis” (Laidler, 2010). The “Point Four”, an American technical aid program, had monetarist influence, while the “Projecto Chile” was the name of the specific project that allowed the implementation of the agreements between the CSE and the PUCC. One of the Point Four objectives, similarly to the Alliance for Progress, was to foster development and avoid the socialist threat (Valdés, 2008).

Theodore Schultz’s Human Capital (that connects individual knowledge, education, value creation and development, and it was later developed by Gary Becker) is fundamental to enlighten the “Projecto Chile” preference for the University of Chicago. According to Valdés (2008), Schultz, then head of the CSE’s department, established a close relation to Albion Patterson, director of Point Four and an admirer of the Human Capital theory. Patterson had a clear disagreement with the ECLAC’s models and theories of development, and saw the Schultz’s work as an alternative. (*Ibidem*: 98). Given those influences, Chile would later become a big laboratory to the Human Capital theory (Fischer, 2009).

In Patterson’s pursuit for a university willing to sign an agreement for professional training in the United States, his first attempt was with the *Universidad de Chile* (UC). The university refused the cooperation due to Patterson’s requirement for an exclusive exchange with the CSE. UC did not want to restrict its exchange program to only one university. Besides that, ECLAC had a major influence inside UC’s economic department, where economic development and structuralism prevailed (Valdés, 2008: 115).

Then, the next candidate was the not yet widely known *Pontificia Universidad Católica de Chile*. Dean Monsignor Alfredo Dias Santiago asked for help with the university’s program of economics and Patterson established the agreement. In 1956, Theodore Schultz, Earl Hamilton, Simon Rottenberg and Arnold Harberger arrived in Santiago to formulate the program. Over eight years, twenty-six Chileans received training at the CSE<sup>11</sup>. Those who returned to PUCC manage to dominate the economics department around 1964 (*Ibidem*). At that moment, PUCC was a small CSE inside Chile.

The establishment of a small CSE in PUCC is important to show how the ideological transfer that would enable the passion revolution as discussed by Davies (1999), and to avoid deterministic interpretations as the understanding of a imposition of CSE’s ideas. The point is that, to establish a new Historical Block there must be a demand for a new ideology, and new intellectuals<sup>12</sup> that will forge it. In order to overcome a HB, both situations should happen simultaneously, organic crises and the formulation of a new hegemony (Portelli, 1977). When the coup happened in Chile, the Chicago Boys were there to establish the leading ideology. As we will show, their dominance over the government policies was not immediate. However, we should first discuss the origin of this ideas, which are closely connected to the *Mont Pèlerin Society*. Pinochet’s dictatorship had no popular support and intended to build a consensus as far as possible from any kind of leftist ideology. The transference of ideas to Chile (this neoliberal project) had a major influence of this society and started before their implementation in the leading countries, what would happen only under the Ronald Reagan and Margaret Thatcher’s governments (Gill and Law, 1993).

### 3.1 THE MONT PÈLERIN SOCIETY

The transposition of ideas and the attempt to construct a new hegemony that took place in the Chicago Boys case is central to this Gramscian analyses. This centrality is related to the passive revolution and the building of a new hegemony (Davies, 1999).

Before moving forward, it is important to define the concepts used here. Hegemony, according to Callinicos (2010:494), is “the synthesis of political domination and ideological leadership necessary for stable class rule”. Dominance is “concealed behind a veil of consent” (Morton, 2003b:635), a product of the relationship between rulers and ruled. This relationship depends on the creation of a consensus among classes around the leading ideology. That means if a ruling class achieve the said changes, it would be a stable situation or equilibrium because the hegemony allowed the political climate to its acceptance, not only through the state political society, which would mean to impose an unstable rule using state apparatus. In cases where the formation of hegemony is not possible, as in the *Risorgimento* according to Gramsci, passive revolution is likely to happen.

The change in ideology in a passive revolution does not involve a new ideology based on popular internal struggle and class consensus. It is a “revolution from above” where the bourgeoisie is no longer a revolutionary class and uses the state apparatus “to assure its property relations” (Morton, 2007:70). “Gramsci conceptualizes passive revolution as being not just a specific route to bourgeois domination, but also a means by which capitalist class rule is maintained in an epoch of crisis, war, and revolution” (Callinicos, 2010:497). This top down change intends to be a gradual process that represents an alternative for “[managing] the structural contradictions of the capitalist mode of production” (*Ibidem*: 498). The renewal of the capitalist mode of production, with the implementation of neoliberal mode of accumulation, happened in Chile in response to an attempt socialist revolution. This ideology which the authors in the tradition of this paper call “neoliberal” can be traced back to the *Mont Pelèrin Society*.

The *Mont Pèlerin Society*, according to Van Horn and Mirowski’s (2009), is an international bourgeois group established in 1947, in order to foster free market policies around the world. From this point of view that would be a “source” of the ideology that came to Chile through the University of Chicago<sup>13</sup>. We do not mean that price theory or another theoretical framework was imposed to Chicago or even developed inside *Mont Pelèrin*, but that the society would finance and foster liberal ideas that could not be connected to any country’s reality yet. An illustration of that is how the leading American school on the propagation of these neoliberal policies, in opposition to the Keynesian mainstream of the time, had great influence from and in this society. *Mont Pelèrin*’s connection to the CSE involves several participants that at some point in time were professors there, e.g. Knight, Friedman, Aaron Director and Stigler, as well as the work of Friedrich Hayek (Van Overtveldt, 2007).

Hayek became very close not only to *Mont Pèlerin* but also to the University of Chicago, even though he was never part of the Economics Department. Hayek was a critic of empiricism while the Chicago School reinforced the role of macroeconomics statistics on determining cause and effect of economic phenomena. In addition, his main work, *Road to Serfdom*, faced strong criticism at CSE for being considered too popular and non-academic. When Hayek became a professor at the University of Chicago, it was at the Commission of Social Thought, in 1950 (*Ibidem*).

Although not a part of the Economics Department, Hayek had an important role in its economic policy propositions change, allowing it to distinguish itself from other American universities. As an evidence of that, during the centenary celebrations of the University of Chicago, Ronald Coase (1993) affirmed that Hayek assisted Henry Simons in his manifest for a liberal economics teaching in Chicago. Their relation was also important in the establishment of the *Hayek Research Project* that intended to extend analyses based on *The Road to Serfdom* to the United States. Aaron Director was appointed the project director. The *Volker Fund* sponsored the project and also assisted in the hiring of Hayek at Chicago and the in foundation of the *Mont Pèlerin Society*’s (Van Overtveldt, 2007).

Van Horn and Mirowski claimed that the *Mont Pèlerin Society* and the CSE were part of the same post-war deliberated transnational effort to disseminate neoliberal ideas (Van Horn and Mirowski, 2009:139-140). Their intention is to challenge the impression that surrounds the evolution of the coherent thought of the CSE as a linear and logical development in the history of ideas, instead seeing it as planned reinforce of free market capitalism. This approach clarifies some points in our goal to apply the theory of hegemony to this period in Chile.



When arguing with Van Horn and Mirowski's interpretation implies to consider the transplant of neoliberal ideas in Chile, this implies that it happened before any revolution (in the terms of this ideology) inside the leading countries, what would make it the leading ideology of any Historical Block. Therefore, the neoliberal HB was fruit of intellectuals assembling supported and funded by an international bourgeoisie. Davies (1999) analyzed this as a passive revolution, due the incorporation of external elements from abroad leading to a fragile change in ideology with no popular initiative or actual hegemony. Due the lack of popular participation, there is no consensus, no balance that will allow the leading class to govern through civil society. As happened in Chile, that will require a war of maneuver<sup>14</sup>, i.e. an assault on power and a rule through political society. This situation can be carried out in a way that will allow a consensus to be built, gradually, closer to the intended ideology than it would without the assault; however, that is a fragile form of ruling.

Davies analyzes the media intellectuals, most of which worked on leading universities in Chile. While it is a very interesting research, we believe the author does not discuss the importance of the relation between an international bourgeoisie and their strategies to influence world economy through government takeover. Back then, economists were more and more seen as of major importance in several areas of the government [as discussed in Robert Hall's (1955) lecture and Ackley (1966)], a result of the increasing role of planning since the beginning of the 1930's (ROLL, 1968). In Gramscian terms, they were part of the upper echelon intellectuals. The Chicago Boys were important in order to allow Pinochet's government to both implement public policy and reform the State while distancing from populism or left wing ideologies. For this reason, we believe that these intellectuals (coming from a tradition of applying economics to every aspect of life)<sup>15</sup> played a major role on building and supporting the new transplanted, ideology, modified to serve Chilean bourgeoisie interests. In order to understand the space conquered by the chicanos in Chile, we next analyze the role of Chicago boys as Intellectuals of a new Historical Block.

### 3.2 THE MILITARY COUP AND THE CHICAGO BOYS

The coup killed Salvador Allende inside the Presidential Palace and brought the military junta to power, which Augusto Pinochet would later replace (he was also a member of the junta). As Kurtz (1999) points out, neither the junta nor Pinochet were advocates of neoliberalism previously. Both represented a wide range of supporters (from Christian Democrats to liberals), and external pressures from these groups drove their politics. Actually, during the first phase of the government (1973-1975) there was no neoliberal policies. "From the beginning, the Chicago team had to struggle for control in a 'coalition' of economists that did not necessarily [...] shared their radical, neo-liberal views" (Valdés, 2008:19).

The implementation of the most radical fiscal and monetary neoliberal proposals of the Chicago Boys only started in 1975, when one of them, Sergio de Castro, became Minister of Finance. In addition, in April 1975, Milton Friedman and Arnold Harberger visited Chile. Friedman wrote Pinochet suggesting shock therapy in the economy<sup>16</sup> (Schlisser, 2010:184). Until 1982, the policies followed the Chicagoan script, mainly after 1979 (Kurtz, 1999). Moreover, the government attempted to modify Chilean society and institutions in order to eliminate any possibility of a new socialist rise to power. That was only possible thanks to the support given to the neoliberal measures by the *El Mercurio*<sup>17</sup> newspaper and other media. *El Mercurio* was the principal media vehicle to disseminate throughout society the misdeeds of Allende's government as well to defend the dictatorship and its unpopular measures as a solution. The media had the role of presenting the new dominant ideology to general society, as a mediator. Furthermore, the Church helped to destabilize Allende and back up Pinochet (Kallás, 2008 and Azevedo, 2003). The Church had influence among the classes ideologically farther to the ruling one. More than the leading philosophy, in the terms previously discussed, forms the common sense, and the Church had a unique role in influencing certain strata of society.

However, the imposition of the harshest neoliberal policies did not last during all the Pinochet's dictatorship. After the crisis of 1982, the unpopular measures diminished (Kurtz, 1999).

We interpret that as the necessity to make concessions to auxiliaries groups in order to maintain power and perpetuate the Historical Block. After the crisis, the pressures against the military rule increased and these concessions had to be made. The ideology of the Chicago Boys did not rule alone anymore, but they had already proportionated a great shift in Chile's capitalism.

It is also important to stress that the state of exception made possible all the unpopular political and economic policies for such a long period. The coup and its violence had a central role in guaranteeing the persistence of the passive revolution, and all those institutions were important to support it. This made possible the application of market principles throughout society. "While the Chicago Boys have provided an appearance of technical respectability to the *laissez-faire* dreams [...] the military has applied the brutal force required to achieve those goals" (Letelier, 1976:52).

When the Chicago Boys assumed the leading role in formulating the public policies and the free market economy turn, they were doing more than just economics. The neoliberal ideology sought not only to transform the economy but also entire social relations. The economic imperialism, that was a characteristic of the Chicago School as stated earlier, was also present. The position of the CSE was of creating the conditions to allow the policies recommended by their theory to be applied (Van Horn and Mirowski, 2009:161). Regarding this, Don Patinkin wrote:

What was particularly exciting [about the Chicagoans] were the same qualities that made Marxism so appealing to many other young people at the time: Simplicity together with apparent local completeness: idealism combined with radicalism. For Simons carried out his approach to logical extreme, with the unshaken conviction of a world reformer that life would be better if only his policy recommendations were carried out. (apud Valdés 2008:56).

The results were profound structural changes in Chile's economy capable of reformulating its capitalism completely, as discussed by Delano and Translaviña (1989). Therefore, we argue that economics became more important than other questions in the formulation of the philosophy and the Chicago Boys became the leading upper echelon's Intellectuals. They absorbed a space that could be filled by another field of knowledge and led the reformulation.

## 4 CONCLUSION

We used here the Gramscian theory in order to understand the Chicago Boys as an important part of the upper echelon organic intellectuals of this new Historical Block formation, based in a passive revolution in Chile. This enabled us to analyze the role of class struggle and ideological disputes during this period.

The episode involving the former University of Chicago students, i.e. their role as advisors in Pinochet's government, happened right after an unsuccessful attempt of a "democratic route for socialism". The Chicago Boys not only represented a complete dismantling of socialists' policies and overcoming of their ideology [the removal of the "Marxist cancer", as stated by Letelier (1976)] but also of the previous capitalist/populist way of thinking economics (closely connected to ECLAC).

The transfer of ideas analyzed here was only possible due the failure of the socialist attempt in maintaining support for its ideology. This means that an organic crisis in the Historical Block, or the failure in making the HB possible, created a window of opportunity for a takeover by the bourgeoisie. At that moment, the Chicago Boys were present, brought by the interest of an aid program director in a not dominant economic discourse from the United States. Schultz's human capital theory was central in the process of setting the agreements that allowed the existence of the Chicago Boys, but it was Friedman's monetarism the flagship of the transformation inside Chile. This was a major experience, and Chile became a real laboratory, for the later widely used neoliberal policies.

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## FOOTNOTES

<sup>1</sup> Every individual is an “Intellectual” in some degree. What differs them is how connected is their daily work to the intellectual activity. Organic intellectuals are those who “besides being specialists in their profession [...] elaborate an ethical-political conception that allows them to engage in cultural, educational and organizational activities in order to assure the social hegemony and the domination of the state by the class they represent” (Semeraro, 2006:378, *author's translation*)

<sup>2</sup> Here State does not concern government activities exclusively. It should also include other political structures of civil society that “which helped to create in people certain modes of behavior and expectations consistent with the hegemonic social order” (Cox, 1993:51). It includes, for example, the church, the press and the educational system.

<sup>3</sup> The Church represents the most common mode of former dominant ideology present outside the ruling philosophy.

<sup>4</sup> For example Valdés (2008). Although extensive and very elucidating on the “international traffic of ideas” and the “political implications of the way economists understand the properties of their discipline” (Barber, 1995:1941), the role of class in the ideological dispute is underestimated.

<sup>5</sup> That is the case for Davies (1999), who focuses in media intellectuals.

<sup>6</sup> As pointed out by Boianovsky (2012), the roots of the LA's structuralist thought can be traced back to the 1930s and 1940s doctrine of Market Failure, developed in Great Britain (Arndt, 1985), the French structuralist school (Blankenburg, Palma and Tregenna, 2008) and others. Therefore, “the domestic character of Latin American structuralism should not be stressed too much, though” (Boianovsky, 2012: 285). Nevertheless, Missio, Jayme Jr. and Oreiro (2015), argues that despite all those and other influences LA's structuralism characterizes a new structuralist school.

<sup>7</sup> Both Lüders (2012) and Cáceres (1982) points out the importance of the hesitance of politicians to continue and deepen the monetarist's policies.

<sup>8</sup> On the destabilization process, see Goldberg (1975).

<sup>9</sup> “Friedman swiftly took over the intellectual leadership of one faction of the Department and energetically attacked the views and proposals of the others. His vigor in debate and the content of his arguments set the tone and public image of Chicago economics for at least a quarter century” (Reder, 1982:10).

<sup>10</sup> When Miller wrote his paper, the idea of the CSE as a distinguished line of thought was not so much widespread, as can be seen on George Stigler (1962) response.

<sup>11</sup> The exchange between Chileans and US's universities continued, funded by other institutions such as the Rockefeller Foundation and the Organization of American States (Fischer, 2009).

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<sup>12</sup> There are two divisions inside the intellectuals. First, they can be connected to the leading class or not. Second, they can be of a higher echelon, who formulate the philosophy of the ruling class, or of a lower echelon, the ones who reproduce it.

<sup>13</sup> The society is supposed to be a think tank to promote and finance the implementation of pro market policies throughout the world. This is also coherent with Rothkopf's (2008) idea of "superclass". An international group identified as a class of super-rich rather with their own countries.

<sup>14</sup> In opposition to that is the war of position, where a group seeks to build a consensus around its ideology before seizing power. It is a hegemony built in civil society.

<sup>15</sup> Although this was more evident from the 1960s onwards, the Chicago School already laid the foundations in the works of Margaret Reid and Theodore Schultz (REDER, 1991 and LAZEAR, 2000).

<sup>16</sup> Both Friedman and Harberger were largely criticized for showing support to Pinochet's dictatorship. See Frank (1975; 1976) and Letelier (1976) (this article was originally published in the *Nation* on August 28, 1976. The author was murdered on September 21 of the same year, in the city of Washington).

<sup>17</sup> Several people connected to *El Mercurio* and other companies had a direct participation in the coup, as shown by Davies (1999), Valdés (2008) and Fischer (2009).