The Chicago Boys and the Revival of Classical Liberal Economics in Chile

AXEL KAISER

According to a persistent narrative on the free-market revolution led by the so-called Chicago Boys in Chile in the 1970s and 1980s,[1] the country was purely "a laboratory for cutting-edge free market experiments" imported from the United States (Klein 2007, 59). In the words of Juan Gabriel Valdés, "The ensemble of neo-liberal ideas that evolved in Chile after 1975 had no precursor in the nation's public life" (1995, 13). Thus, the Chicago Boys "introduced ideas into Chilean society that were completely new, concepts entirely absent from the 'market of ideas' prior to the military *coup*" (Valdés 1995, 13).

This paper argues that the laboratory narrative is wrong. Classical liberal economics of the sort promoted by the Chicago Boys and thinkers such as Friedrich Hayek and Milton Friedman had been a substantial part of Chile's intellectual and institutional tradition long before the emergence of the Chicago School of economics. Moreover, for more than half a century of democratic regimes, free-market

Axel Kaiser is director of the Friedrich von Hayek Chair at Adolfo Ibañez University in Santiago de Chile and senior fellow at the Atlas Center for Latin America.

1. In the 1950s, the Catholic University of Chile (Pontificia Universidad Católica de Chile) and the University of Chicago began an exchange program that enabled Chilean students to pursue postgraduate studies at the Economics Department of the University of Chicago. These students would be known as the "Chicago Boys," a label that was also applied to other students graduated from American universities other than Chicago who took part in the implementation of free-market reforms under the Pinochet regime.

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economics was the most accepted economic philosophy by Chile's political and intellectual elites. To a large extent, this acceptance was due to the influence of French classical liberal economist Jean Gustave Coucelle-Seneuil. Another decisive and lasting classical liberal influence was the Venezuelan-born intellectual Andrés Bello, who is arguably the most prominent thinker in Chile's history. A follower of Adam Smith and the Scottish Enlightenment, Bello created a system of private law in Chile[2]—along the lines of free-market philosophies—that has endured until this day.

Chile and the Early "Neoliberal" Hegemony

The ideas usually referred to as "neoliberalism" and so often related to the Chicago School of economics and to thinkers such as Friedrich Hayek are the natural successors of classical liberalism. This fact becomes evident when the history of a central force in the development of the neoliberal identity, the Mont Pelerin Society (MPS), is examined (Plehwe 2009, 4). When this organization was founded in 1947, classical liberalism was at its lowest point in terms of influence on intellectuals, politicians, and society in general (Higgs 1997, 623). In this context, Hayek decided to create an organization that would revive classical liberalism in order to preserve what he believed were the intellectual foundations of Western civilization. Among the group's cofounders were figures such as Lionel Robbins, Michael Polanyi, Karl Popper, Ludwig von Mises, Walter Eucken, and several Chicago economists, including Milton Friedman, Frank Knight, Aaron Director, and George Stigler. In their purpose statement, the founders argued that the central values of civilization were in danger and that the position of the individual was "progressively undermined by extensions of arbitrary power." These threats, declared the founders, were bolstered by the growth of a historical perspective that denied "all absolute moral standards and by the growth of theories which question the desirability of the rule of law." Most importantly, those ideologies had been fostered "by a decline of belief in private property and the competitive market," which guaranteed a diffusion of power and initiative and without which it was "difficult to imagine a society in which freedom may be effectively preserved" (Mont Pelerin Society 1947). To be sure, there were relevant intellectual differences among the MPS founders, but, overall, there is little doubt that their aim was to promote a free society along the lines of classical liberalism. As R. M. Hartwell notes, the goal of the MPS was to discuss classical liberalism "and its decline, the possibility of a liberal revival, and the desirability of forming an association of people who held certain common convictions about the nature of a free society" (1995, 26). Milton Friedman would later declare that the society sought to "promote a classical, liberal philosophy, that is, a free economy, a free society, socially, civilly and in human rights" (1992). For Rachel Turner, "the neo-liberal

2. The concept of "private law" refers to contract law and tort law.

project strove for a new understanding of the state, economy and society within an ideological framework of traditional liberal tenets" (2008, 4).

It is within this philosophical framework of a modern liberalism derived from classical liberalism that the Chicago Boys' worldview of limited government and free markets has to be understood. In other words, the Chicago Boys' free-market philosophy was a direct successor of classical liberal economics. And in Chile, this philosophy of limited government and free markets was not new. Indeed, classical liberalism had achieved a profound impact in the second half of the nineteenth century and the early twentieth century. This was the period when the formal economic institutions and the intellectual base for the economic policy of the newly created Chilean republic were defined. Despite the dominance of protectionist ideas in the Spanish-speaking world, the economy in Chile was in many respects freer than in most developed countries.[3] Although far from hegemonic, classical liberalism had started to gain influence in Chile's political and intellectual spheres already in 1819. That year, Jean Baptist Say's work *Traité d'économie politique* (1803), a cornerstone of economic liberalism, became the basis of a course on political economy at the emblematic National Institute (Instituto Nacional) high school and was compulsory reading for all law students (Will 1964, 4).

In the early 1850s, classically liberal theories developed in the industrialized world had already become a major influence in Chile. One of the most outspoken critics of economic liberalism in the first half of the twentieth century, Leonardo Fuentealba, complained that due to the influence of this new approach, "the solution to any kind of economic problem was left to private hands" so that "the government should under no circumstances have to hinder the free play of individual interest" and its role was limited "to secure personal safety and property rights." Moreover, the Chilean state, according to Fuentealba, became a "night watchman state" (1946, 10).

Essential to the sweeping liberalization of Chilean economic policy and the intellectual shift from protectionism to classical liberalism was economist Jean Gustave Courcelle-Seneuil, a follower of Adam Smith and John Stuart Mill. Born in 1813, Courcelle-Seneuil would become one of the most distinguished proponents of French classical liberalism. He became the editor of the influential *Journal des économistes* and a member of the prestigious French Academy for Moral and Political Sciences (Académie des sciences morales et politiques). Charles Gide described Courcelle-Seneuil's liberal engagement in the following terms: "He was virtually the *pontifex maximus* of the classical school; the holy doctrines were entrusted to him and it was his vocation to denounce and exterminate the heretics. During many years he fulfilled his mission through book reviews in the *Journal des économistes* with

3. In his comparative study on the trade regimes of France, England, Chile, and the United States in 1856, Jean Gustave Courcelle-Seneuil concluded that Chile's trade legislation was "superior with respect to the general tariff system and with respect to the higher degree of liberty it allows to trade." For him, the Chilean tariff was "without dispute the one with less elements of the so-called protectionist system" (1856, 44; all translations are mine unless otherwise noted in the references).

priestly dignity. Being Argus-eyed, he knew how to detect the slightest deviation from the liberal school" (qtd. in Hirschman 1992, 184). Cited by Karl Marx in his work *Capital* in 1867, Courcelle-Seneuil would be praised by Joseph Schumpeter in 1954 as someone who had a "clear grasp of economic affairs that comes from first-hand experience" but that was rather absent in modern literature ([1954] 2006, 473).

Under the presidency of Manuel Montt, the Chilean government hired Courcelle-Seneuil in 1855. His task consisted in creating and teaching the subject of political economy at the University of Chile and the National Institute as well as in serving as an adviser to the minister of finance. From those positions, Courcelle-Seneuil engaged in the teaching and application of free-market economics and classical liberal philosophy. As an adviser to the Chilean government, he participated in passing several laws that liberalized the economy. His most emblematic reform was the establishment of a free-banking system. For the libertarian economist Murray Rothbard, "the law of 1860 created a free bankers' paradise in Chile. Anyone or any group could set up a bank and issue notes. There were no reserve requirements, no limits on loans to directors, and no inspection by government agencies" (1989, 2). As Jere Behrman observes, the free-banking legislation devised by Courcelle-Seneuil was "an important symbol of the acceptance of *laissez faire* by the Chilean body politic" (1976, 8). Along the same lines, in the early twentieth century the leading protectionist economist Guillermo Subercaseaux argued that as a result of Courcelle-Seneuil's influence, the classical liberal doctrine had achieved a "complete triumph" in Chile, resulting in the adoption of the principle of liberty "without any restrictions," particularly with regard to banking. Moreover, according to Subercaseaux, the current of classically liberal ideas was so "powerful" that the finance commission of the Chilean House of Representatives (Cámara de Diputados) even complained that there was insufficient freedom or flexibility in the banking law (1924, 43).

Courcelle-Seneuil's substantial influence over policy making in Chile went hand in hand with an overarching libertarian influence on the intellectual climate of opinion and academia. As Juan Pablo Couyoumdjian has observed, "Courcelle-Seneuil's mentoring implied the creation of a unique liberal tradition in the Chilean academy," underscoring "a period of liberal dominance in public policy" (2008, 294). Indeed, as the first professional professor of political economy in Chile, Coucelle-Seneuil could spread classical liberalism more than anyone before him. He was nothing less than the founding father of the discipline of economics in Chile. Before the arrival of Courcelle-Seneuil, political economy there was reduced to a few empiric axioms without any coherence or relationship. As a result, students did not understand the relationship between the different economic propositions they had learned—even after they had passed their qualifying exams (Barros Arana 1892, 7).

A charismatic professor, in the words of Albert Hirschman, Courcelle-Seneuil managed to instill "apostolic zeal in his students," who, in many respects, were seen as being even more radical in their liberal enthusiasm than Courcelle-Seneuil himself (1973, 165). One of his followers, Miguel Cruchaga, a radical laissez-faire

economist, wrote a treatise on economics that would become the basic textbook of all students of political economy in the University of Chile for decades to come (Mac-Clure 2011, 103). Another of the most influential of Courcelle-Seneuil's disciples was Zorobabel Rodriguez, who between 1884 and 1891 would become the main Chilean promoter of the classical liberalism derived from Adam Smith and Frédéric Bastiat (Correa 1997, 391).

Complaining about the hegemony of classical liberalism in the country, the conservative historian Francisco Encina, an ardent supporter of protectionism and nationalism, wrote in 1911 that Courcelle-Seneuil's ideas—taught by his disciples at the University of Chile—constituted "the almost exclusive fountain from which politicians, journalists, and the rest of the elements that defined public opinion have drunk economic ideas for almost fifty years" (1981, 217).[4] According to Encina, the University of Chile had become the main center of the ideological absorption of Courcelle-Seneuil's classical liberalism (Mac-Clure 2011, 104).

Courcelle-Seneuil's Free-Market Philosophy

In the words of the nineteenth-century historian Diego Barros Arana (who knew Courcelle-Seneuil personally), Courcelle-Seneuil was "fundamentally liberal in politics but even more so in economics." Accordingly, he fought against state interventionism "in all the manifestations that could affect political, social or economic liberty" (1892, 7).

According to the French professor's utilitarian approach, "freedom has its problems, but it has action and provides useful lessons. It causes some disasters, but they can be foreseen and are to be expected." Therefore, "if one opts for freedom, one should not build up false hopes." This quandary notwithstanding, continued Courcelle-Seneuil, "the regimen of liberty is the best and most normal one" because it is self-correcting; privileges "can stop the first blows, but they can also jeopardize the future" (1857, 49). In his work *Liberté et socialisme* (1868, translated into Spanish as *Libertad y socialismo* in 2018), Courcelle-Seneuil further argued that, on the one hand, "liberty takes men just how they are for their improvement through the action of experience and responsibility." State authority, on the other hand, "assumes that most men are incapable of governing themselves, while a small number of them are capable of both governing themselves and all the rest." However, he concluded, "we do not see anywhere in our modern societies those individuals who are superior in reason, in brightness, and in morality to whom we might without any fear entrust the duty of governing others" ([1868] 2018, 54).

4. It should be borne in mind that the Universidad de Chile is until this very day the most emblematic higher-education institution in Chile and that for a long time it was one of the few universities in the country. The Chilean political and social elites were traditionally educated in this institution.

In this view, a scheme of liberty is inseparable from a system of private property, which, as Courcelle-Seneuil described it, is an expression of human nature that "[can] not be affected without harming others" (1887, 309–10). Moreover, Courcelle-Seneuil argued that "of all the institutions established for public benefit or utility—private property—is the most useful and it constitutes, in a way, the base of the whole social structure: it is the most energetic instrument of civilization" (1887, 300).

Given the utility of liberty, which Courcelle-Seneuil understood in an entirely negative sense,[5] all interference with it has to be prevented. The same thing goes for property. For him, an attack on one individual's liberty affects not only the individual who is damaged but also society as a whole (Courcelle-Seneuil 1887, 402). Accordingly, by "securing personal liberty and the freedom to work of every human being, society obtains more wealth and power in all branches of human activity than by making the individual's activity dependent on some whim or sanction of its coercive agents" (1887, 401–2). Adam Smith had made the same case for liberty in *Wealth of Nations* (1776), where the Scottish political philosopher—the founder of modern economics—argued that just as every individual, "endeavors as much as he can both to employ his capital in the support of domestic industry . . . every individual necessarily labors to render the annual revenue of the society as great as he can" ([1776] 1981, 356).

Thus, Courcelle-Seneuil shared Smith's idea that the system of natural liberty led by the invisible hand of the market best achieves social progress. Although far from perfect, this system creates incentives to adapt to new situations and prepare for future crises. Government intervention, in turn, even if it might be able to prevent some evils in the short run, would do so at the cost of hindering progress in the long run because social and political progress are inseparable from the operation of the free market. The French professor argued that industry and commerce had even built cities and brought about political deliberation: "The agora and the forum were nothing more than markets, and in such markets our great-great grandparents came together to deliberate and made collective decisions . . . . In all times and places, commercial centers have been the source of civilization" (1887, 386–87).

For Courcelle-Seneuil, the main enemies of a free society are socialism and protectionism. In his view, both ideologies seek to exploit people's hatred of one another, usually based on attractive rhetoric and flawed economic theories. Contrary to the egalitarian claims of socialists, Courcelle-Seneuil believed that a free economic system based on equality before the law is the only one compatible with liberty and a classless society where individuals can move up and down the social ladder without traversing legal or political impediments. Moreover, in Courcelle-Seneuil words, economic inequality is "a cause of imitation and progress" because the poor, "stimulated by necessity, make efforts to achieve comfort and then to become wealthy"

5. According to Isaiah Berlin, "political liberty in this sense is simply the area within which a man can act unobstructed by others. If I am prevented by others from doing what I could otherwise do, I am to that degree unfree" (2002, 169).

(1887, 174). As a consequence, inequality itself, “far from being an evil, has been a primary cause of progress and the central factor of civilization” (175). Courcelle-Seneuil thus concluded his reflection on social inequalities: “Let us repeat with all strength that inequality has to be respected because it is useful and because no attempt can be made to combat it without doing injustice in the process and without introducing artificial inequalities that are much more staggering than those that originate in human nature” (177). On this issue, Courcelle-Seneuil’s view differed from Adam Smith’s idea that individuals are naturally more equal than not and that it is “habit, custom and education” that mostly creates differences among them (Smith [1776] 1981, 28). Closer to Courcelle-Seneuil’s position, Friedrich Hayek argued that humans are unequal and that “the equality before the law which freedom requires leads to material inequality” ([1960] 2006, 77).

For Courcelle-Seneuil, the system of liberty not only has positive economic consequences but also deep ethical implications. In a radical defense of private property and individual responsibility, he argued that the person who wants to be free has to “provide for himself and for his children,” adding that a free person has “no right to the fruits of his neighbors’ labors, because if he had such rights the neighbors would no longer enjoy plenary liberty” (1887, 402).

Philosophically, Courcelle-Seneuil also rejected the use of abstractions such as “the state,” arguing that they are instruments to make absurd ideas defensible. Likewise, entities such as “society” and “republic” do not exist; they are abstractions and can therefore not be entitled to any kind of rights or have any duties (1887, 244). This means that individuals cannot demand from the “society” or the “republic” benefits of any sort. In his view, government has a few concrete functions: to protect individual rights, to provide for domestic and foreign defense, and to collect taxes in order to finance those functions (1887, 194). A government that does more than that and seeks to benefit certain groups becomes corrupt and creates incentives for people not to engage in productive activities but rather to look for benefits from the state, thereby undermining the whole economic and republican system and thus paving the way for revolution (1887, 196).

The Klein-Saks Mission and the Return of Free-Market Economics

In the 1950s, after more than two decades of fostering protectionist policies, Chile found itself in a critical economic situation. In 1954, the number of labor strikes reached its highest level in the decade (San Francisco et al. 2016, 233). That same year, gross domestic product (GDP) per capita contracted 5.3 percent, and in 1955 inflation reached higher than 80 percent (San Francisco et al. 2016, 235). Despite the fact that economic liberalism had lost much of the influence that it had achieved in the past, President Carlos Ibañez del Campo decided to hire a group of free-market American economists

known as the "Klein-Saks mission" with the aim of stabilizing the country's economy. From 1955 to 1958, the mission would do a complete study of the Chilean economy in order to determine a diagnosis and come up with a set of recommendations. According to its final report, inflation had established itself as an "institution" that had caused a true "economic civil war" between the different groups and classes of the country (Klein & Saks 1958, 3). This economic mission pointed out that workers sought to protect themselves by demanding automatic cost-of-living wage adjustments, merchants fought for credit access under more favorable conditions, exporters wanted quotas and special exchange rates, and farmers demanded greater flexibility to raise prices more than other groups enjoyed. The task force argued that the government also took part in this war by financing its spending by printing fiat money. As a result, the Klein-Saks report concluded, inflation was threatening to destroy the "whole democratic structure of the country" (Klein & Saks 1958, 3).

In their proposals to correct such imbalances in the Chilean economy, the delegation anticipated many of the reforms made by the Chicago Boys a couple of decades later (Lüders 2011, 210). As the Chicago economist Rolf Lüders explains, the "economic model" implicit in the program of reforms presented by the Klein-Saks mission in the 1950s was quite similar to the "economic model" devised by the Chicago Boys in the 1970s (2011, 210). Mission members meant not only to make a radical break with more than twenty years of statist path dependence but also to eliminate the massive benefits being doled out to interest groups. The latter proved to be crucial in the delegation's failure to achieve its goal (Garay 2011, 198). Nevertheless, the fact that the Klein-Saks mission could present an economic plan aligned with liberalism indicated that a gradual shift in the climate of opinion was taking place. No one at the time understood the nature of this shift more clearly than Anibal Pinto, a leading protectionist economist working for the United Nation's Economics Commission for Latin America (ECLA) based in Santiago. Before the first Chicago Boys had begun spreading economic liberalism in Chile, Pinto warned that what were considered to be new economic ideas were nothing more than a rebirth of a classical liberal tradition long present in Chilean history. Determined to alert opinion leaders and policy makers on the dangers posed by the rebirth of free-market economics, in 1957 Pinto wrote an article with the telling title "Back to Courcelle-Seneuil?" (1957). In that piece, Pinto stressed the role of intellectuals and ideas in defining economic and social evolution. According to Pinto, the "intellectual compass" was again being defined by a different "North," which could be defined as "liberal" in the classical sense. This new orientation, he said, sought to achieve less government intervention, more competition, less protectionism, and more foreign investment. For Pinto, these ideas were a "copy" of similar ideas from other episodes of Chilean history. Along these lines, he argued that the shift in Chilean economic policy during the second half of the nineteenth century, from protectionism and state intervention to a free-market model, had been the result of a "flood of foreign ideas" that had penetrated "the country's conscience" and

that saw in Courcelle-Seneuil a “brilliant and persuasive prophet” (1957, 503). This soothsayer, insisted Pinto, had formed legions of disciples who had promoted the free-market doctrine as “indisputable dogma” (503). In Pinto’s eyes, Chile was now experiencing a similar process with the rebirth of what he called “Courcelle-Seneuilism” (504). He disqualified this set of ideas as a free-market “magical” formula (503) that included nonfixed prices, freedom of international trade, free-floating exchange rates, and free flows of foreign investment. For Pinto, there were two reasons for the rebirth of Courcelle-Seneuilism. The first was excessive and inefficient government control and government intervention in the economy, which he admitted had not worked as it was supposed to work. The second and most important reason for the change in the climate of opinion was the “powerful fanning of ideas that has its heat source in the United States” and that had attained an “overwhelming influence” in Chile (502).

ECLA’s Reaction against Classical Liberal Economics

As a result of all the economic and intellectual changes that took place in Latin America due to the Great Depression of the 1930s, liberalism was marginalized, and protectionism, welfare-state liberalism, and Keynesianism became the new dominant ideas (Frankenhoff 1962, 191). These ideas achieved a strong influence through Raúl Prebisch, who was known as the “Latin American Keynes” (*Economist* 2009). Prebisch assumed the direction of ECLA in 1950. One of his central beliefs was that economic laws were not universal. He argued that “one of the central flaws of general economic theory” in developed nations was “its false sense of universality” (1949, 13). Following this approach, Prebisch developed the theory of “structuralism.” Structuralism argued that industrialized nations and their exports of technology were to blame for the underdevelopment of Latin American countries, which exported raw materials of less value (1949, 19). Economic development, Prebisch believed, was the result of technological advance and industrialization. The structural problem arose because the periphery exported cheap raw materials, whereas the industrialized countries exported more sophisticated goods of higher value. And because demand was more elastic for primary goods than it was for more advanced goods, the result was a permanent trade imbalance. This imbalance, according to Prebisch, led to a sustained drain of resources from the periphery to the industrialized countries, perpetuating economic underperformance in Latin America (1949, 19). The solution to the structural problem, according to Prebisch, was large-scale government intervention in the economy and what became known as import substitution industrialization, which implied the restriction of free trade as well as the government’s active engagement in business activities in order to foment the inward industrial development of Latin American countries. The rationale was very similar to the one applied by the German Historical School of Gustav Von Schmoller and Friedrich List in the

previous century—namely, that by fostering industrial development through subsidies, government-owned enterprises, and import restrictions, Latin American countries would become competitive with developed countries. As had been the case in the past between classical liberals and the German Historical School, the Prebisch doctrine clashed with the free-trade and noninterventionist philosophy defended by modern liberals. According to Celso Furtado, an economist at ECLA, Prebisch's contributions always implied a criticism of free-market economics (cited in Toye and Toye 2006, 22). Prebisch himself would declare that after the Great Depression he had abandoned the belief in free trade "as well as in the positive results of the international division of labor" so much advocated by Adam Smith (Street 1987, 650). Some authors have even observed that Prebisch completely rejected economic liberalism and firmly embraced government intervention (Toye and Toye 2004, 59).

In general, ECLA promoted Prebisch's interventionist philosophy with the explicit aim of debunking classical liberalism. As Luis Ortega has explained, ECLA was strongly influenced by ideologies critical to liberalism that had emerged in the early twentieth century and formulated "a relentless critique of the orthodox liberalism of the nineteenth century, in particular of its assumption regarding the external sector and the role of the state" (1999, 62). Confirming this assessment in an interview given in 2000, Osvaldo Sunkel, a former leading member of ECLA, described the group of people related to ECLA as a "group of center-leftwing intellectuals and social scientists" who believed that "the government was the solution to every problem."[6] That worldview achieved substantial impact on the whole of Latin America. For Emanuel Adler, ECLA "influenced the Latin American intellectuals, who later influenced politicians and also influenced politicians directly" (1987, 95). Joseph Love observes that in the 1980s the Prebisch thesis was probably "the most influential idea of economy and society ever to come out of Latin America" (1980, 46). For Patricio Silva, ECLA achieved a "clear intellectual hegemony in the early sixties among economists, many of whom occupied government positions" (1991, 389–90). According to Vittorio Corbo, of all Latin American countries Chile was the one where ECLA's ideas had the greatest impact (1988, 18). Moreover, as Verónica Montesinos has observed, between the 1950s and 1970s Santiago became a vibrant intellectual center for antiliberal ideas (1997, 289)

Heirs of Adam Smith: Courcelle-Seneuil and the Chicago Boys

No intellectual current at the time could have been more opposed to ECLA's anti-free-market economic philosophy than the Chicago School of economics. According to Steven Medema, no other group in the twentieth century was more fertile in

6. This interview is available at http://www.pbs.org/wgbh/commandingheights/shared/pdf/ufd_dependencia_full.pdf.

expanding and developing Adam Smith's ideas than the Chicago School, and no other group had its name as strongly associated with Smith (2010, 40). Following this classical economic tradition, the Chilean Chicago-trained economists elaborated a document in which they laid down the foundations of the free-market revolution that would take place in the 1970s and 1980s. The document was known as *The Brick* (*El Ladrillo*) because of its thickness, and it crystallized their economic thinking, their view on Chile's recent history, and their social and political philosophy. It was written at the time of the presidential election of 1970 as an economic program for the eventual victory of conservative candidate Jorge Alessandri. The idea was to make profound economic changes to put an end to what the authors viewed as the economic mismanagement that had characterized the Chilean economy since the 1930s. In other words, it aimed to debunk ECLA's economic approach, which the authors saw as largely responsible for Chile´s acute economic and social problems. During the government of Salvador Allende (1970–73), the document was rewritten and updated, considering the government's socialist experiment that by 1973 had resulted in generalized scarcity of basic goods, more than 600 percent inflation, and an economic contraction of 7.2 percent of per capita GDP. The fiscal deficit that had risen to 12.7 percent of GDP in 1972 reached 7.3 percent of GDP in 1973 (San Francisco et al. 2019, 738). The final version of *The Brick* presented in 1973 had the purpose of "defining a set of interrelated and coherent economic policies that would enable resolving the acute economic crisis" in which Chile found itself (Centro de Estudios Públicos [CEP] 1992, 15–16).

In *The Brick,* the Chicago Boys' diagnosis of the problems faced by the Chilean economy did not essentially differ from what classical liberals had argued was needed in Chile during the second half of the nineteenth century and onward, nor did it move away from what the Klein-Saks mission had concluded in the 1950s. Since the time of Adam Smith, classical liberals have argued for putting an end to protectionism and runaway government intervention in the economy. As Smith explained,

> Were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different provinces of a great empire. As among the different provinces of a great empire the freedom of the inland trade appears, both from reason and experience, not only the best palliative of a dearth, but the most effectual preventative of a famine; so, would the freedom of the exportation and importation trade be among the different states into which a great continent was divided. ([1776] 1904, 35)

Smith also warned against conspiracies that had been postulated by the merchants in order to extract rent from the public. "The interest of the dealers," he wrote, "in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public" ([1776] 1981, 233). For Smith, "to widen the market and to narrow the competition, is [*sic*] always the interest of

the dealers." Whereas widening the market "may frequently be agreeable enough to the interest of the public," narrowing the competition "must always be against" the public's interest because it can serve "only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens" (233). Therefore, continued Smith, the proposal of any new law or regulation of commerce that comes from the order of those who live by profit "ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention" (233).

For Milton Friedman, these sorts of deviations from the free market occurred because "the self-interest of people in government leads them to behave in a way that is against the self-interest of the rest of us" (1993, 11). Thus, if there is an invisible hand at work in the market that leads people who are seeking their benefit to serve the interest of the public, in government "people who intend to serve only the public interest are led by an invisible hand to serve private interests which was no part of their intention" (Friedman 1993, 11). In his article "Protectionism and Free Trade" (1879), Courcelle-Seneuil made exactly the same case. Simulating a dialogue between a merchant and a congressman on the subject of protectionism, the merchant schools the representative on what protectionism means in the following terms: "You are in charge of representing the interest of the French people: do not forget them in order to favor private interests. . . . I deeply lament that men like you, to whom we have entrusted the defense of our interest, use the power that has been vested on you to ask the ministers and the President of the Republic and your colleagues in both houses of Congress to give others a part of our income" (Courcelle-Seneuil [1879] 2010b, 256).

The merchant then adds that there are two kinds of industries: the ones that survive without asking anything from anyone and the ones that are incapable of sustaining themselves and demand that legislators take away part of other people's income for their benefit (Courcelle-Seneuil [1879] 2010b, 268). The merchant concludes with a statement that sums up perfectly the view of *The Brick*, Smith, and the Chicago Boys: "[W]e ask to be protected from protectionists, we ask justice and equality for all. We ask the gradual abolition of unjust privileges" (270).

Following a classical liberal approach, *The Brick* argued that one of Chile's central problems was that government intervention and protectionism had created powerful interest groups "whose action was in conflict with the general interest" (CEP 1992, 47). As a result, economic success depended more on "political patronage" than on "technical and entrepreneurial capacity" (32). According to *The Brick,* the worst problems created by protectionism and import substitution were a low economic growth rate, excessive government intervention, scarcity of productive jobs, inflation, agricultural backwardness, and extreme poverty in large sectors of the population. The effects of these problems were a deficient allocation of productive resources, limited development of the exports sector, low growth of

productive resources, harmful actions of powerful interest groups, constant shifts in economic policy, bad use of political power, and food shortages (27–28). Based on this approach, in order to solve the Chilean economic and social crisis the authors of *The Brick* advocated free trade, antimonopolistic policies, tax reform, a new private pension system, normalization of agricultural activity, creation of capital markets, better protection of property rights, and an end to price fixing. The central belief behind those policies suggested that the key to social prosperity lay in individual effort and not in government redistributive policies. According to *The Brick,* "the worker who thinks that because his poverty is unfair it has to be solved by a government policy of income redistribution and not, at least to any significant extent, by his own effort and persistence will be someone who reduces the creative potential of the country" (CEP 1992, 35–36). Accordingly, despite the introduction of some social policies, the government "always has to demand the maximum productive effort of all citizens" (36).

Just as Courcelle-Seneuil had done a century earlier, the free-market solution postulated in *The Brick* sought to compete on an ideological level with the alternative doctrines of socialism and protectionism. Chicago Boy Sergio de Castro wrote decades later, on the occasion of the publication of *The Brick* for a wider audience, that it was the genuine commitment to the "libertarian ideals" of *The Brick* that allowed the achievement of real progress (CEP 1992, 8). According to the progressive economist Patricio Meller, the authors of *The Brick* basically replicated the elemental model of Adam Smith (cited in Kaiser 2011, 58). The progressive economist Ricardo French-Davis argued in a somewhat exaggerated fashion that the economic model of *The Brick* was a model "free from public interventions in the markets" with a "blind faith in the idea that the market knows everything" (from an interview in Kaiser 2011, 84). The Chicago view that inspired *The Brick* and here criticized by French-Davis was perhaps best expressed by Friedman: "[I]n the discussion of economic policy Chicago stands for the belief in the efficacy of the free market as a means of organizing resources, for skepticism about government intervention into economic affairs, and for emphasis on the quality of money as a key factor in producing inflation" (1974, 11).

According to Friedman (2000), the economic ideas applied by Chile in the 1970s were the same ideas Great Britain and the United States had applied during the hegemony of classical liberalism during the nineteenth century. They were also the ideas that Chile had applied under the influence of Courcelle-Seneuil, who had translated Smith's *Wealth of Nations* into French and who had been commissioned by the Gallium Library to write a study on the Scottish economist (Fuentealba 1946, 16). Courcelle-Seneuil praised Smith, arguing that he had rectified the ideas about wealth and had demonstrated "with great superiority the division of labor and its power" ([1858] 2010a, 274–75). In addition, Courcelle-Seneuil argued that Smith had refuted "a number of mistakes" and offered a superior theory on money and banking (274–75).

Friedman, Courcelle-Seneuil, and Economics as a Positive Science

Unlike Prebisch and ECLA's economists, who denied the existence of universal laws of economics, the Chicago Boys viewed economics as the science that sought to understand a universal and natural force. In the words of the Chicago Boys' most important mentor, Arnold Harberger, "The forces of the market are just that: They are forces; they are like the wind and the tides; they are things that if you want to try to ignore them, you ignore them at your peril, and if you understand that they are there, working their way, if you find a way of ordering your life that is compatible with these forces, indeed which harnesses these forces to the benefit of your society, that's the way to go" (2000).

Chicago Boy Pablo Baraona would recall that at Chicago "there was a science so understandable and important as physics or biology" and that this science could be used to design economic policies that "tell people what is good and what is bad" from an economic point of view (Baraona n.d.). In other words, economics was an instrument to solve problems such as poverty, inequality, and inflation, among many others.

This view of economics as a positive science was not new in Chile's intellectual history. Upon his arrival in Chile, Courcelle-Seneuil had also made a radical change in the way economics was taught and understood, foreshadowing the revolution that the Chicago Boys would undertake in Chilean academia a century later. In the words of Barros Arana, writing in the year that Courcelle-Seneuil died, 1892, "Mister Courcelle-Seneuil taught economics as an exact science, as a positive science in its foundations, a positive science in the manifestation of economic phenomena, and in the consequences they originated." And he did this in a way that "awoke young people's love for study," leaving "permanent pleasant memories within those who were lucky enough to become his disciples" (1892, 8, 4). When opposing the methodology defended by the German Historical School, Courcelle-Seneuil argued that political economy cannot have a national character because sciences "could not have another fatherland but the truth"; it was absurd to conceive of a "national mathematics or a national physics" ([1858] 2010a, 282). In his article "Political Economy," Courcelle-Seneuil further argued that economics is a positive science that investigates the causes of the wealth of nations and should never indicate what "ought to be" in a moral sense ([1858] 2010a, 281). Likewise, Friedman stated in *Essays in Positive Economics,* a text that was mandatory for students at the Catholic University and a central pillar of the education at Chicago, that "positive economics is in principle independent of any particular ethical position or normative judgments[;] . . . it deals with 'what is,' not with 'what ought to be'" (1966, 4). Moreover, while Friedman argued that positive economics is or can be "an 'objective science,' in precisely the same sense as any of the physical sciences" (1966, 4), Courcelle-Seneuil sustained that the economist "like the physicist proceeds by induction: he observes the facts and concludes more or less general laws" ([1858] 2010a, 281).

The remarkable similarity between Courcelle-Seneuil's and Friedman's methodological approaches goes even further. Both economists made the distinction between economics as a science and economics as an art. According to Courcelle-Seneuil, political economy, "considered as an art," seeks to prescribe the mechanisms that enable increasing the wealth of nations, families, and individuals ([1858] 2010a, 277). For that, it has to draw on the conclusions obtained from economics as a science. The latter "shows the way" but never imposes that way on anyone because it does not pretend any moral authority. Above all, economics should avoid transgressing individual freedom, even if that approach could work for increasing the wealth of the nation ([1858] 2010a, 281). In short, for Courcelle-Seneuil, economic policy had to be designed to increase rather than to restrict individual freedom regardless of the political context. In turn, Friedman argued that "normative economics and the art of economics cannot be independent of positive economics. Any policy conclusion necessarily rests on a prediction about the consequences of doing one thing rather than another, a prediction that must be based—implicitly or explicitly—on positive economics" (1966, 5). Here, positive economics provides the descriptive analysis of how an economy works using the tools of economic science, and normative economics makes recommendations based on those descriptions with the aim of solving economic problems. Thus, the art of economics makes recommendations if certain goals deemed valuable are to be reached regardless of the political context. Like for Courcelle-Seneuil, for Friedman these recommendations entailed increasing economic liberty, which he viewed as an essential part of individual liberty (Friedman 1962). The logic of seeing economics as a sort of natural science led the Chicago Boy and Catholic University professor Ernesto Fontaine to argue that Chile's economic achievements were due to "the triumph of economics as a science and of the economist as a professional" (1997).

Andrés Bello's Quest for Economic Liberty

Courcelle-Seneuil's arrival in Chile in 1855 was to a large extent the result of the influence of Andrés Bello, the founder and president of the Universidad de Chile (Couyoumdjian 2008, 299). Born in Venezuela in 1781, Bello is considered one of the most outstanding and influential intellectuals in Latin American history (Burke and Humphrey 2007, 51). His contributions cut across many disciplines, including law, philosophy, grammar, and poetry. Bello had the greatest influence in Chile, where he spent several decades of his life serving not only as president and founder of the Universidad de Chile but also as senator, legislator, public intellectual, and newspaper editor. His most relevant work was the *Civil Code*, which is the most important legal document ever created in Chilean history. Since its publication in 1855, it has remained fundamentally unchanged, the milestone of the Chilean legal tradition.

Philosophically, Bello was deeply influenced by liberalism. Despite his focus on order, Bello's concern for liberty has similarities to the concern John Stuart Mill showed in *On Liberty* (Squella 1983, 229). Overall, Bello's aim was to limit the power of government in order to increase individual liberty but without going so far as to open a detour to political chaos (Squella 1983, 229). His reception of British ideas was encouraged by the years he spent in England. There, Bello attended the meetings of the *Edinburgh Review* circle, which had been founded by utilitarian thinkers in 1802 and in which Bello had the chance to meet John Stuart Mill's father, James Mill, as well as Jeremy Bentham (Serrano 1994, 75). More importantly, Bello widely read British authors such as John Locke and especially the proponents of the Scottish Enlightenment, who had an important influence on his thinking (Jaksic 2001, 160). This tradition included authors such as Adam Smith, Adam Ferguson, David Hume, Francis Hutcheson, and Thomas Reid, among others. Overall, Bello envisioned the intellectual basis on which to build Hispanic America as residing in the British Enlightenment tradition rather than in the French one (Cussen 1982, 1). Moreover, perhaps influenced by the skepticism and moderation of Scottish thinkers, Bello rejected the excesses of the French Revolution and strongly opposed the Jacobin worldview. As Alfredo Jocelyn-Holt has argued, Bello's liberalism belongs to the tradition of thinkers such as Tocqueville and Constant (1998, 440–41), both of them being classical liberals in step with the British tradition.

Bello himself made a clear indication of the British thinkers' relevance when he was asked to design the curricula for the University of Caracas in the early 1820s. His aim was not only to provide valuable material to the students of the university but also to spread an anti-Jacobin worldview (Jaksic 2001, 101). It is interesting to note that among the seventy-eight books Bello recommended, specifically within the set of books for teaching the social sciences, philosophy, and other humanities, he conferred special importance upon authors such as William Paley, John Locke, Thomas Reid, Dugald Stewart, and George Campbell (Jaksic 2001, 101). More interesting is Bello's selection for the subject of political economy, where he chose the work of essentially classical liberal economists, including Adam Smith, Jean-Baptiste Say, and David Ricardo (Jaksic 2001, 101). This selection was no surprise. In the sphere of economics, Bello had been a proponent of liberal doctrines, in particular free trade, which was the main issue debated during his time. In the words of the historian Jaime Eyzaguirre, Bello "loved political and economic liberty" (1973, 152). Moreover, Bello had read Adam Smith's *Wealth of Nations* with great care, which had been written by the Scottish philosopher precisely with the aim of demolishing protectionist doctrines (Fontaine Aldunate 1982, 35). Following Smith's doctrine, Bello would ferociously attack protectionist attempts in Chile. A famous case occurred in 1831, when the province of Santiago came up with a plan to restrict foreign imports by invoking the standard argument about the need to protect local jobs and local industries. Bello reacted with an article in which he declared that the

old "prohibitionist system" was "absurd" and contrary to sound economic principles ([1831] 1893, 68). In order to refute the protectionists, Bello argued with concrete examples showing how free trade had made the people wealthier, especially poorer people. According to Bello, the newfangled protectionist measures would only serve to enrich a few industrialists while impoverishing the mass of consumers. Liberty, he argued, had brought the Chilean public a comfort unknown to them before (69). He concluded his refutation with a devastating attack on protectionists: "If our industries had declined with the introduction of foreign manufactures, if we had closed our factories, if we had had to abandon our own production to use a foreign one, if we saw at least one sign of backwardness in our craftsmen, then we could adopt such an insidious and damaging system to our mechanical arts, a system that has made politicians become the destroyers of order and in which governments become *primi ocupantis.* But everywhere we see progress; factories are created, improvements are invented, and manufacturing is multiplied" (70).

Bello's predilection for economic liberty was also crystallized in the *Civil Code.* The *Civil Code* is of interest from an institutional and ideological perspective because it provided the framework for all contractual and other interactions involving private parties in Chile down to the present. It also became the benchmark for legal philosophy in private law and has left an imprint on generations of scholars, lawyers, and judges defining Chile's legal culture and civil law institutions that are crucial for the functioning of the market order. One of the most revolutionary aspects of the *Civil Code* was its new property regime. Before the *Civil Code,* property in Chile was regulated and conceived of from a more-collectivist perspective, which had been inherited from medieval Europe. The strong liberal economic influence of the *Civil Code* opened a previously closed space to the individual (Westermeyer 2010, 1105). Among the central principles inspiring Bello's regulation of property were the free circulation of wealth, the almost absolute right of the individual over his own property, freedom of contract, and equality before the law. These were the fundamental elements through which the *Civil Code* exalted individualism in private market interactions (Tapia 2008, 240). Liberty was thus the main philosophical inspiration of the *Civil Code.* In Bello's *Code,* all men and women are equal with few exceptions (i.e., those pertaining to family law). For Bello, free will—that is to say, the idea that all people are capable of making free decisions—was the cornerstone of private contractual law. Equally important was the idea that every person is responsible for his actions and is always obliged to repair the damage caused to another person (Tapia 2008, 241). Liberty, responsibility, and property are inseparable pillars of Bello's system. Based on them, Bello established a system of private law inspired by a free-market philosophy. Furthermore, in the words of one legal scholar, in Bello's *Code* private property is "absolute, intangible and sacred" (Díaz Müller 1972, 18). Philosophically, Bello's *Code* crystallized the idea that property is the extension of an individual's person. This idea, formulated by Locke with more emphasis than by any other thinker, had gigantic consequences for Chile: it wrecked the barriers of the

feudal system and thus paved the way for the free circulation of wealth, free trade, and private enterprise (Díaz Müller 1972, 18).

There can be little doubt that Bello, along with his good friend Courcelle-Seneuil, made one of the greatest contributions to the promotion of classical liberal economics in Chile. From an economic perspective, his philosophy was clearly classical liberal along the lines of Adam Smith's worldview. For generations, his *Civil Code* shaped Chilean legal culture and the way people living in Chilean society approached institutions such as private property, freedom of contract, and individual responsibility.

Conclusion

Free-market economics and classical liberal ideas of the sort applied by the Chicago Boys were not alien to Chile's public life and intellectual history but rather had substantially already been seen in the work of Bello and Courcelle-Seneuil in the nineteenth century—two of these ideas' most emblematic and influential proponents. Thus, the country was not a laboratory for testing theories imported from the United States after a coup that created the authoritarian conditions necessary for a free-market experiment. The truth is that there was hardly anything very original in the overall economic plan implemented by the Chicago Boys in the 1970s; even their view of economic science did not essentially differ from the methodological approach of Courcelle-Seneuil and his followers. As the Klein-Saks mission showed, the implementation of a radical set of free-market reforms to resolve Chile's economic problems had already been attempted in the 1950s. The similarity of the new economic ideas to Courcelle-Seneuil's economic liberalism, which had prevailed in the country for half a century, did not go unnoticed by certain protectionism-favoring economists. The mission failed for political reasons, but it marked a turning point in the tide of ideas that would end up with the writing of *The Brick* and, later, a revival of free-market economics that would endure for decades to come.

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