



SECOND OPEN LETTER

to

Arnold Harberger and
Milton Friedman

April 1976

II

Milton Friedman and Arnold Harberger: You will recall that, following Harberger's first public visit to Chile after the military coup, I wrote you an open letter on August 6, 1974. After Harberger's second visit and the public announcement of Friedman's intention to go to Chile as well, I wrote you a postscript on February 24, 1975. You will recall that in this open letter and postscript I began by reminiscing about the genesis, during the mid-1950's, when I was your graduate student, of the "Chile program" in the Department of Economics at the University of Chicago, in which you trained the so-called "Chicago boys", who now inspire and execute the economic policy of the military Junta in Chile. I then went on to summarize the "rationale" of your and the Junta's policy by quoting Harberger's public declarations in Chile and by citing the Junta's official spokesmen and press. Finally, I examined with you the consequences, particularly for the people of Chile, of the application by military force of this Chicago/Junta policy: political repression and torture, monopolization and sell-out to foreign capital, unemployment and starvation, declining health and increasing crime, all fostered by a calculated policy of political and *economic genocide*.

Since my last writing, worldwide condemnation of the Junta's policy has continued and increased, culminating with the condemnation of the Junta's violation of human rights by the United Nations General Assembly in a resolution approved by a vast majority including even the United States and with the Junta's condemnation even by the Human Rights Committee of the US-dominated reactionary Organization of American States. The US Senate voted to cut off military aid and sales to the Chilean Junta (though the House of Representatives is willing to stop only aid and not cash sales), and the Europeans voted in the Club of Paris renegotiation of the Chilean debt and in the World Bank not to extend financial aid to the Junta any further (although the US-dominated World Bank recently extended a new credit of 33 million dollars anyway — which is a matter to which we shall have to return below). Opposition to the Chicago/Junta economic policy has also vastly increased inside Chile itself since my last writing: The Fascists, Pablo Rodriguez Grez (leader of the fascist terrorist organization against President Allende, *Patria y Libertad*) and Orlando Saenz, former President of the Sociedad de Fomento Fabril (the Chilean Manufacturers Association), have produced a constant stream of criticism of the Chicago/Junta economic policy for over a year now, arguing in defense of medium and small capital. Lately, even former President Eduardo Frei, first in interviews and recently in a book, has launched into an acrimonious critique of the same policy, emphasizing not only the destatization, but the, literally, denationalization of Chilean industry, as he says. Finally, according to the London *Times* and other reports, even important

elements of the Chilean military, led by Junta-member Air Force General Leigh, have demanded a modification of the past economic policy.

Closer to home and, as you know much better than I do, since I wrote you my first open letter, you yourselves, Milton Friedman and Arnold Harberger, have become the object of severe criticism for your active theoretical, political and personal support of the Chilean military Junta. First there were letters to the editor and editorials in the University of Chicago student newspaper, the *Maroon*, taking you to task. Then a "Committee Against Friedman, Harberger Collaboration with the Chilean Junta" received increasingly widespread support from many on your own campus, who rightly felt that you are damaging the reputation of their University. Then, an official University Commission of Inquiry was demanded to examine your collaboration with the military Junta in Chile and its implications. In the meantime, such prestigious and far from radical elements of the American press as the *New York Times* and even of the conservative business press such as *Business Week* published various very critical articles headlined, for instance, "Chile is Acid Test for Friedman Economics - But Crisis Worsens" (*NYT/Int. Herald Tribune*, 22.3.76). All of this mounting criticism is the expression of the consequences — admittedly not so much for the people of Chile as for business capital, both Chilean and international, which most of these critics represent — of the Chicago/Junta economic policy in Chile, particularly since you, Milton Friedman (accompanied by Arnold Harberger on your third trip), went to Chile in March, 1975, and prescribed what you yourself called a "shock treatment", which, be-

ginning in April 1975, was then applied by the "super-economics Minister" Cauas as his "economic recovery program" of calculated and organized *economic genocide* of vast masses of the Chilean people. The trouble, of course, with literally killing off increasing numbers of the Chilean population and choking off increasing numbers of Chilean businesses is that, though this policy affords substantial profits to the ever-smaller number of — increasingly foreign, as Frei complains — capitalists and conglomerates in whose hands capital is concentrated, this policy is also increasingly harmful to the interests of ever-larger groups of small, medium and even ex-large business. And this explains the rising latter-day critique of the Chicago/Junta economic policy and, in some cases, even opposition to the Junta itself of ideological and political representatives of economic interests in Chile and abroad, who first connived to bring the Junta to power, then supported it or kept conveniently silent about its crimes, and only recently come to agree that enough is enough.

Since it has now been one year since you went to Chile in March 1975, to prescribe your shock treatment (and a little longer since I last wrote you in February 1975) and since data for 1975 are now becoming available, this may be a suitable occasion to write you again and to examine how the Chilean patient has responded to your treatment. This I shall do below, as far as the Junta's available, often conflicting, and never too trustworthy data permit. But since your shock treatment was, by your own admission, only the extension and intensification of the Chicago/Junta economic policy already taught by you for decades and applied by the Junta since the

military takeover, it may be appropriate to briefly summarize the essential elements of this policy again (this time without relying on the long quotations of my earlier letter), and then to review the implementation of economic genocide since September 11 1973, without dwelling again on the, by now, universally denounced political repression and systematized torture, which, far from having abated as some may have hoped, have continued massively to suppress wider and wider circles of the population as these increasingly react first to the Chicago/Junta policy and then to the economic genocide and business fratricide of the Friedman/Cauas shock treatment.

Your Chicago/Junta economic policy, of which your Friedman shock treatment is but the extension and intensification, may be summarized briefly: Begin by freeing almost all prices to raise them several-fold to "world levels" and — paradoxically for a Chicago purist — increasing the money supply concomitantly. Fostering a "free" capital market as well, which, beyond concentrating capital into conglomerates, also creates its own financial instruments above and beyond the control and even the accounting of the state, and which at the same time increases the amount of monetary means of payment and their velocity of circulation. Both of these "freedoms" generate a run-away inflation whose consequences and surely also intended effects are to shift income and wealth from labor to capital, and from smaller to bigger capital, and from national to foreign capital. Fortifying the same process to the same effect still further, "freedom" must be promoted by destroying or yellow-dog co-opting the organization of labour and eliminating its bargaining power, and through

all means preventing money wages to keep pace with inflation in both private and public employment. In a word, drastically to reduce real wages by bringing prices but not wages to "world" levels. At the same time, the state divests itself of state sector enterprises at bargain basement prices to Chilean and particularly to foreign big capital, and doing so not only with enterprises that became state-owned or controlled under the previous government, but also with enterprises that had been financed through state investment for over a generation (in 1970, before Allende, 70% of all investment in Chile had been state-financed, half directly and half indirectly, through subsidies to private capital). Similarly, to institute a crash program of agrarian counter-reform, affecting half of the reformed properties and, on the average, the best one fifth of their basic irrigation hectares and returning some 2 million hectares of land expropriated during the Allende and Frei administrations to their former owners and/or to new capitalist owners, while repressing and exploiting the peasantry and rural laborers even more brutally than the urban population. Cut back not only wages but also employment and expenditures in the public sector and convert much of the most advanced social security and public health system of Latin America (outside of Cuba) into a private pay-as-you-go business. In the "external" sector, devalue repeatedly, reduce tariffs and other import restrictions, extend every kind of favor to foreign capital, including payments to the American copper companies in excess of the values of their former properties. "Redress the balance of payments" by reducing imports of goods necessary to meet the essential consumption needs

of the population, while exporting the manufactures and even food products that the consumers' reduced purchasing power no longer permits them to buy and the producers' sales no longer permit them to dispose of on the domestic market — and restructure production and then redirect investment to permit the still greater promotion of "non-traditional" exports of food, raw materials and manufactures at the expense of the Chilean consumers, whose most essential needs are sacrificed more and more by an intentional, calculated and forcibly imposed Chicago/Junta policy of *economic genocide*.

Milton Friedman and Arnold Harberger, let us review some of the modalities and consequences of this Chicago/Junta policy of economic genocide using as far as possible the Junta's own data. We may begin with inflation, which has been chronic in Chile for over a generation, accelerating every time business raises prices to stem or recuperate a cyclical decline in its profits and which is then "combated" by the administration of medicine, prescribed by visiting missions of "experts" from the International Monetary Fund and the United States, which always boils down to doses of devaluation, reduction of public expenditures and depression of the wage rate (that is essentially the same medicine which you then increased to "shock" doses). During the relative industrial recovery of the first half of President Frei's administration, the official December to December inflation declined from 38% in 1964 to 17% in 1967. But with the onset of the recession in 1967, in which the rate of industrial growth declined notably, the rate of inflation moved back up to 28% in 1968, 29% in 1969 and 34% in 1970 despite the strengthening of "price

controls". Allende brought the December to December inflation down to 22% in 1971. With increasing economic difficulties, not the least caused by the economic interests that paved the way for military takeover, inflation increased again and took off to 163% in 1972 and 165% between January and August, 1973, according to data since published by the Junta.

But after its military takeover on September 11, 1973, and according to its own published data, the consumer price index shot up to reach 508% inflation for the whole year of 1973, that is, rising another 343% between September and December, of which 88% in the one month of October, 1973, alone. Other estimates put the 1973 inflation at over 1000%, especially for basic necessities; and the Junta has lately sometimes itself used a 1000% figure, but attributing it to the Allende Administration in order to argue by comparison that the Junta "lowered" the rate of inflation. Nonetheless, by its own indexes, the Junta raised the rate of inflation in its first year, September, 1973, to September, 1974, to 611%. Other estimates put the real rate of inflation at 1270% for that same one-year period of Junta rule. For the calendar year 1974, the Junta's Official consumer price index shows an increase of 376% until December, 1974. After the imposition (at what cost we will examine later) of your "anti-inflationary" "shock treatment", the rate of inflation was "reduced" to 340% for all of 1975, that is 0.8% a month less than in 1974. True, the second semester inflation of 7% and 8% a month was lower than the first semester 1975 inflation, but, according to experience, this is "normal" in

Chile, and during the first months of 1976, the monthly inflation has again risen to over 10% (13.5% in March and 38% during January-March, 1976). Summarizing, calculating from the Junta's own consumer price index, the price level in Chile from September, 1973, to December, 1975 has risen 92 times (over 9,200 per cent). The real *consumer* price level must have risen *at least* twice that much. Indeed, one of the few items that is still subject to price control and for which, therefore, there is still an official price is that which is — and now for lack of income all the more so - the main consumption staple, bread. And the official price of bread in December, 1975, was 2.50 new pesos, that is, 2,500 old escudos, per kilo. That is, the *bread price inflation* has officially been 227 *times* (twenty-two thousand seven hundred per cent)! That is two and a half times the officially calculated "consumer price index"! By comparison, the official monthly "living wage" (sueldo vital) has risen about 10 times from about 10,000 escudos in September, 1973, to 99,000 escudos - 99 pesos in December, 1975. The official minimum hourly wage has risen 25 times, and the minimum monthly salary of public employees between about 40 and 60 times, depending on bonuses. Thus, official minimum wages and salaries have risen only small fractions — one-twentieth, one-tenth, one-fifth — of the official increase in prices. Using Junta figures, the following index of real wages emerges: January, 1970: 100; December, 1970: 102; December, 1971: 127; December, 1972: 107; March, 1973: 121; June, 1973: 92; September, 1973: 80; January, 1974: 76; April, 1974: 47; May, 1974: 62; July, 1974: 57. Ex-President Frei now estimates wage earners' decline in real

income as at least 35% since 1969 in his administration, omitting thereby any mention of the increase of workers' real income during the Allende administration, shown even in Junta figures. Other estimates are that, by the end of 1975, the poorest urban wage and salary earner's real income has declined *by* two-thirds *to* one-third or even to 28% of what it *was* in 1972. The upper 5% income receivers' share of national income has risen from about 25% to about 50%, while the share of national income going to wages and salaries, which was 51% in 1969 under the Frei Administration and which was raised to 64% in 1971/72 by Allende, has now been depressed or compressed to about 38% in 1974/75 by military force and the "free market" of the Chicago/Junta economic policy.

The real income effects of this compression of wage and salary payments may be *partially* gauged by some consumption estimates — though even these are still averages in an increasingly unequal distribution of income and even of wage and salary receipts and though they necessarily leave entirely out of account the vastly increased non-receipt of income through unemployment and other causes. Consumption estimates in kilos per person published in Chile by the Jesuit magazine *Mensaje* (No.239, June 1975,p.242) and which unfortunately only go until 1974, that is, before your shock treatment again lowered mass consumption, may be summarized in the following table:

Annual Average Consumption, kilogram/person

<i>Item</i>	1970	Average 1971-73	1974	% Decline 1974/71-73
Wheat	176	184	170	- 8%
Rice	11.5	9.7	4.8	-50%
Beans	5.5	6.1	4.4	-28%
Sugar	33	35	28	-20%
Milk (litres)	132	166	127	-23%
Vegetable oil	6.4	7.6	6.7	-12%
Pork/mutton/ chicken	4.2	4.8	4.0	-17%
All meat, mostly beef	31.3	28.8	28.3	- 2%

Potato consumption increased, but is concentrated in the South, where they are grown and from which, for reasons of bulk, they cannot be easily exported. The estimated *decline* in *average* calorie consumption to the end of 1974 is 15%. The Confederation of Private Employees (CEPECH) constructed the following budget estimates for its members on a minimum salary with 3 dependents (family of 4):

	<i>February 1974</i> <i>(published March</i> <i>1974)</i>	<i>June 1974</i> <i>(published July</i> <i>1974)</i>
Minimum salary	37,000 Escudos	57,000 Escudos
Minimum food expenditure	36,000 Escudos	67,000 Escudbs-
Minimum total expenditure	76,000 Escudos	152,000 Escudos
Deficit expenditure -salary	39,000 Escudos =51%	95,000 Escudos =63%

Some other budget estimates are that 45 kilos bread, 45 kilos milk, and 100 municipal bus fares cost 17%

of the lowest, monthly salary of a public employee in September, 1973, and the same consumption of the public employee's lowest salary in July, 1975, cost 73% of his salary. No wonder that the consumption of milk, let alone of other "luxuries" like simple consumer goods and movie and football attendance, has dwindled and that in July, 1975, bus tickets sold in Santiago were 12 million, or 32% less than "normal" as workers and employees are increasingly obliged to walk to work in order to earn their — literally — daily bread. Since, other than bread, bus fares are the other main officially priced item, it is easy to calculate that, according to official prices and the official "living wage" (*sueldo vital*), in February 1974, family bread consumption alone and the bus fares to earn it amounted to about 80% of the "living wage", and that by February, 1975, the cost of the bread alone, without the bus, was 74% of the "living wage". Indeed, from official bread prices and official wage and salary scales, we may construct the following measures of the Chicago/Junta's.

Economic Genocidal Bread Wage

<i>Date</i>	<i>Public Employee's Minimum Salary Expressed in Kilos of Bread per Day</i>	<i>Hourly Minimum Wage Expressed In Kilos of Bread per Hour</i>	<i>Hours of Work at Minimum Wage Necessary to Earn One Kilo of Bread</i>
Sept. 1973	22 kilos	1.45 kilos	.69 hours
May 1974		.41	2.54
Sept. 1974	11		
Nov. 1974	9		
Feb. 1975		.17	5.78
March 1975	4		
Dec. 1975	2.8-4	.16	6.1

According to the official price of bread of 2.50 pesos per kilo (2.2 lbs.) and the official minimum wage of 0.41 pesos per hour, in December, 1975, under the rule of the military Junta and with the advice and consent of their Chicago boys and of you personally, Milton Friedman and Arnold Harberger, an hour's work buys 160 grams of bread and it is necessary to work more than six hours to buy one kilo (2.2 lbs.) of bread in Chile at the minimum wage — if you can get it! To earn the equivalent of the 99 pesos a month "living wage" at the minimum wage of 0.41 pesos per hour, it is necessary to work 241 hours a month or 55 hours a week and walk to work — if you can get it!

But thanks to your Chicago/Junta policy of *economic genocide*, fewer and fewer people in Chile can get any work at all. The official rates of unemployment in Santiago are the following:

1964-66 average	5%	Aug.-Sept. 73	4%	
1967-69 average	6%	Aug.-Sept.74	8%	Construction 14%
1970 average	7%	Dec. 1974	9%	
Dec. 1970	8.3%	Jan.-March 75	12%	
1971 average	5%	May-June 75	15%	
1972 average	4%	Aug.-Sept.75	16%	Construction 35%
				Union estimate 50%
July 1973	3%	Oct. 1975	17.4%	
		Dec. 1975	18.7%	

The Junta-supporting reactionary Institute of Economics of the University of Chile estimates unemployment in Santiago to be 20% at the end of 1975. Other estimates go up to 25% and more real unemployment. That is, in a population of about 10 million at the last

census and a work force of about 3 million, unemployment stands at 600,000 to 700,000 or over 2.5 million with family dependents. And this is not counting the about 40,000 murdered by the Junta, the still about 10,000 in concentration camps (through which about 300,000 have passed at one time or another since September 11, 1973), and it leaves out of account the several hundred thousand who have sought to escape from the Chicago/Junta political repression and economic genocide by emigrating from Chile to all comers of the world, but particularly to neighboring Argentina, from where that country's new military Junta is now beginning to send them back.

The Junta itself and the Dean of Sciences it appointed at the University complain that about one quarter of Chile's scientific and technical personnel has already left the country and that from the Science Faculty itself the rate of attrition has risen from four staff a month under the "totalitarian Marxist" administration of Allende to 11 a month under the "freedom" of the Junta, so that the last one to leave will soon be asked to turn out the lights. In 1974, the Cardinal of Chile, whose Church has been active in organizing the refugee program, estimated the number of emigrees at 120,000; but with the continued extension of political repression and the doubling of official unemployment since then, the number of emigrees from Chile has surely more than doubled since then. Moreover, the unemployment among those who remain in Chile, as everywhere in the world, is very unevenly distributed, so that Catholic Church reports citing parish sources speak of urban districts with 86% unemployment — and 92%

malnutrition. Catholic Church sources also report frequent cases of children fainting in school from weakness caused by lack of food, of vomiting by small children whose starved stomachs reject the food offered in the Church's "school lunch programs", and even the few public kindergartens have now been ordered to accept only children who are undernourished! The Chicago/Junta economic policy of "sanitation" (saneamiento), "recuperation" and your "shock treatment", Milton Friedman and Arnold Harberger, is a calculated policy of *economic genocide* that is producing a generation of people suffering from malnutrition and retarded mental development on a scale previously and elsewhere unknown in memorable peacetime history.

Economic Genocide as a calculated policy is consciously and intentionally implemented not only through pricing and production, but also through export and import. Thus, on October 1, 1975, *El Mercurio* reported that "Raimundo Perez, Zonal Director [of Agriculture] in Taica said, that in his opinion, Chile could become an exporter of rice . . . Chile, which once was a big consumer of rice, has now ceased being so because of its high price. For the Zonal Director of Taica, rice has ceased being a mass consumption food and has become a luxury food." Under the title of "Export Diversification", *El Mercurio* (September 22-28, 1975, International Edition) had itself editorialized: "Little by little the nation's agriculture is becoming an important factor in our export trade, at the same time as food becomes an ever less important item in the country's imports. Therefore, the predictions show Chile as a certain net exporter of agricultural products before the end

of the decade." Rodrigo Zavala Illanes, Director of the Fourth Agricultural Region explained to *El Mercurio* that, in his opinion, "for the first time in history a Government gives agriculture the priority consideration and importance that it deserves. Specifically, the plans for the Fourth Region are to orient agricultural production for export."

The intent of economic genocide and the continual bragging about its implementation are clear. The data so far are much less so. The following data for agricultural and sea food imports, exports and imports-minus-exports have recently been quoted by Junta spokesmen or can be calculated and projected from their declarations:

**Agricultural and Sea Food Imports, Exports and
Imports-Minus-Exports**
in millions of dollars

Year	Imports			Exports			Imp-Exp			
	1	2	3	4	5	6	7	8	9	
	MinAg	SecAg	Cent Bnk Pres	Other	SecAg	Cent Bnk	Cent Bnk Pres	Cent Bnk Pres	MinAg	
1972		600					19			
1973		800	600	700	29	25	25	575		
1974	550	330	460	560	414	71	55	50	410	
1975	330	130	320	255	330	110	86	100	210	120
1976			200					200	0	

1. Minister of Agriculture Tucapel, *El Mercurio*, Oct.31,1975
2. Sub-Secretary of Agriculture Gazmuri, *El Mercurio*, Oct.9, 1975
3. Central Bank President Baraona, £7Mercimo. Dec.13, 1975
4. Other sources and extrapolations of part-year data
5. Sub-Secretary of Agriculture Gazmuri

6. Central Bank data published by *El Mercurio*, Feb.22-29, 1976
7. Central Bank President *Bsusionsi*, *El Mercurio*, Dec.13,1975 (same as no.3)
8. Same as nos. 3 and 7
9. Minister of Agriculture Tucapel, *El Mercurio*, Oct.31,1975 (same as no.1)

The Vice-President of the Agricultural Trade Enterprise (ECA) Heman Garcia cites the following figures for the import of wheat in thousands of tons: 1973: 1,270; 1975; 700 (other data: 650) adding that for this last year, national production amounted to 5.5 to 6 months domestic consumption, implying that total consumption was about 1,400,000 tons in 1975. In 1973, according to Garcia, domestic wheat production was only enough for seed and noodles. But the Junta's own published data indicate that 1973 production was 810,000 or 746,000 tons of wheat. That means that, according to Junta sources, total wheat consumption in 1973 exceeded 2,100,000 tons and that by 1975 it had been reduced to about 1,400,000 tons. Even if we accept the Junta's often published figure of 1,003,000 tons of wheat production for 1975 (which is belied by Garcia's cat-out-of-the-bag revelation), total wheat consumption in 1975 would only have reached 1,700,000, which is still far below the 2,100,000 plus of 1973. In 1972, wheat production had been 1,145,000 tons and imports perhaps another 1,000,000 or more. Thus, the Junta's spokesmen and even their conflicting figures make it quite clear that the Chicago/Junta policy of economic genocide is to balance the food import/export budget through the starvation of the population. This economic genocidal policy is clearly also implemented

through the agricultural pricing and export policy. Thus, the Junta claims success for its agricultural policy because, between the agricultural year 1973/74 and 1974/75, the area sown to and the production of five major crops — wheat, rice, sugar beets, raps, and oil seeds - increased (for production) by 37% for wheat, 122% for rice and about 70% for each of the three other crops. But what the Junta fails to mention is that the Sown area was particularly low in the (southern hemisphere) spring of 1973 because the military coup terrorized the rural population and prevented timely sowing. Moreover, each of the abovementioned crops had price supports from the Junta which encouraged its production, some of which was subsequently destined for export. At the same time, the area sown to and the production of low-income staples and sources of protein declined by 9% for maize, 27% for potatoes, 22% for lentils, peas and chickpeas, 1% for beans, and 16% for barley and oats. Capitalist farmers and peasants thus responded to the Junta's agricultural and pricing policy - and reduced total sown area by 5%.

At the same time as the population was increasingly suffering from hunger, the Junta — as its Central Bank President and Vice-Minister of Agriculture proudly proclaim — has left no stone unturned to increase the exports of raw and processed food. The data are conflicting, but nonetheless revealing: from 29 million dollars in 1973 to 63 million dollars in 1974 according to *El Mercurio* (June 16-22, 1975), or an increase of 120% and to 40 million dollars or an increase of only 50% according to the US Embassy. For 1975 over 1974 scattered data indicate an increase of 87% in agricultural, meat and seafood products

and of 195% of processed foods for the period January to August of each year, and of 60% and 108% respectively for the periods January to November of each year. These data are not corrected for price changes, of course; but they do reflect the policy of restricting imports and encouraging exports through continuous devaluations — of 600% in 1975 alone. A more complete picture of exports, which, however, conflicts in many respects with other scattered citations including those from the Central Bank President himself, was published from Central Bank sources by *El Mercurio* of February 22-29, 1976, and may be summarized as follows:

Chilean Exports in millions of dollars

	1970	1971	1972	1973	1974	1975
1. Total	1095	960	832	1302	2139	1535
2. Copper	855	702	658	1085	1654	905
3. Non-copper	241	258	174	217	486	630
4. "Traditional	154	169	112	149	197	270
5. "Non-traditional	87	89	62	68	189	360
6. " " Agric.&Sea	32	29	19	25	55	86
7. " " Food Industry	14	11	10	9	18	73*
8. "All food	46	40	29	34	73	159
9. " Non-food industry	39	46	31	32	114	197
10. Non-copper mining	2	2	2	1	1	4

*(39 sugar)

The policy of exporting more and more food while the population is increasingly starving (that is, by deliberately starving the population, since food production did not similarly increase) is clearly visible from lines 6 and 7 and their addition in line 8, which indicates an average export of all food products of 37

million dollars a year from 1970 to 1973, and which then rises to 73 million in 1974 and quadruples to 159 million dollars in 1975, certainly far more than inflation which did not especially affect the fruit, vegetable and seafood exported by Chile. Indeed, the traditional sugarcane importing Chile exported its own sugar beet production (or imported sugar cane ground in Chile's now idle refining capacity and then re-exported) in 1975 even with falling sugar prices! In two years of Junta economic genocide, the export of food increased from 3% of total exports in 1972/73 to over 10% in 1975, and from 16% to 25% of non-copper exports, according to the Junta's own figures, while domestic calorie consumption declined 15% during the first year and an unknown further amount during the second year of intensified Chicago/Junta policy of economic genocide.

The above table on exports also reveals two further important aspects, one beyond the Junta's control and the other a further aspect of deliberate Chicago/Junta policy. Total export earning in 1974 fell drastically from over 2 billion dollars in 1975 to 1.5 billion because, with the world recession induced, nearly 50% decline in the price of copper and the CIPEC agreed upon restriction in copper production, Chile's earnings from copper fell from 1.6 billion to 0.9 billion dollars. But the same table also shows that, in the first year of Junta rule, the 1974 boom price of copper had increased total and copper earnings between 1973 and 1974 by an amount equivalent to its subsequent renewed decline. That is, during the first year of its rule in 1974, the Junta enjoyed very exceptionally favorable copper and total foreign exchange earnings, which cannot be held responsible for

the Chicago/Junta policy of economic genocide in its first year of implementation. The other revealing change — which reflects the Junta's reaction to the copper price decline and is the policy which the Junta constantly advertises as its proudest success — is the six-fold increase in non-food industrial exports from 32 million to 197 million dollars, which, with the abovementioned four-fold increase of food exports, adds up to the nearly six-fold increase from 68 million to 360 million dollars of what the Junta calls "non-traditional" exports. But this export increase is also the result and reflection of denying these manufactures to the Chilean consumer, whose income and purchasing power has been so drastically reduced, and of denying them also as inputs to the Chilean industry, for whose production the domestic demand has been eliminated so that it is obliged to export its production — which is the deliberate *Prochile* Chicago/Junta policy of whose "success" the latter is so proud.

This relatively big increase of industrial exports at the cost of a quantitatively much larger decline of industrial production and of Gross National Product may well please the Junta, some of the exporting industrialists (the few who can profit more from the rise in exports than they lose from the fall in production), the exporters and the foreign importers (though much less so the ultimate consumers) who can now buy Chilean manufactures produced with starvation wages and then sold abroad at stop-loss prices with Junta subsidies to boot. But the same cannot and does not please the increasing number of industrialists for whom the Chicago/Junta policy results in production at 50% capacity and less or bankruptcy and absorption by the ever fewer remaining Chilean

owners of capital and the ever more foreign owners of Chilean capital. Nor can it please even those foreign capitalists whose profits and/or investment opportunities in Chile are now eroded by the Chicago/Junta policy. These gentlemen and their political and ideological spokesmen may have lent their full support to the Chicago/Junta policy while its economic genocide "merely" cut their workers' wages in half with a bayonet, but they increasingly lost their enthusiasm when the continuation and indeed the shock treatment intensification of this same policy increasingly resulted in their own business throats or at least industrial arteries being directly and through the decline in purchasing power being indirectly cut by the same bayonets. And recently they must have been joined in their discontent even by some agriculturalists who, with big Chilean and foreign capital, were the Junta's main beneficiaries and supporters when this same Chicago/Junta policy and the 50% decline in 1975 in the application of fertilizers and pesticides resulted in losses of up to 40% of their wheat crop, as reports have it from Santiago southward at the beginning of the 1976 harvest season. This would imply a wheat crop near 600,000 tons for 1975/76 (compared with 1,368,000 tons in 1970/71), that is back up to the 1932/33 depression low! And that is why, Milton Friedman and Arnold Harberger, your policy is now losing favor, as we already observed, even with Fascists, Frei, sectors of the Chilean military and some American and European economic and political interests. Little wonder, when the Sociedad de Fomento Fabril (which has suddenly also conveniently forgotten the Allende years in which industrial production increased!) now estimates industrial

production in August 1975 at 72% of the pre-Allende year 1969 — which itself fell in the middle of the three-year 1967/68-1970 recession period of the Frei administration. No wonder when for mid/end 1975 installed capacity utilization rates are reported of 45% for the textile industry, 44% for the shoe industry (which is now exporting to the US and Europe), 52% for the furniture industry, 13% for the glass industry (which reflects the decline in construction and which cannot export its products), 35% for other construction materials, 28% for copper products (despite a 20% increase in exports while internal demand fell from 12,000 to 5,000 tons), and 80% for the food-processing industry which, as we observed, has been able to significantly increase its exports (though fruit canning supposedly decreased 40% between 1974 and 1975). Planned automobile output for 1975 was 23,000 vehicles and real production was 6,000 vehicles. Steel production, which had been 450,000 tons while domestic consumption was 550,000 tons, had by 1975 declined to 330,000 tons, of which 130,000 tons were consumed domestically and 200,000 tons were exported. No wonder "non-traditional" exports increased. But this was not sufficient to satisfy metal-working firms that reported 80%, 60%, 50%, 20%, and 15% utilization of their installed capacity, even though the export of metal products increased 433%, according, to the Junta, in 1975!

We may briefly review this "healing" and "recuperation" of the economy, as the Junta termsthe economic policy your theories and training inspired and your personal advice promoted, Milton Friedman and Arnold Harberger. According to the US-dominated

Interamerican Development Bank, Chilean Gross National Product (GNP) was as follows (in millions of US dollars): 1960: 5068, 1970: 7820, 1971: 8423, 1972: 8540, 1973: 8202, and 1974, reflecting the jump in copper prices: 8612. For 1975, the US Department of Commerce gives an early estimate of a 10% decline in GNP and Frei a decline of 12%. The Junta-supporting Institute of Economics of the University of Chile estimates the decline of 12% to 14%, and, if agricultural production declined more than the Junta has yet admitted, the total GNP decline was still greater. Splitting the middle between Frei and the Institute of Economics at a 13% decline of GNP would leave 1975 GNP at 7,492 million dollars, or over 4% *lower* than in 1970 and over 12% *below* the Allende year 1972! Real investment in physical facilities and construction declined about 30% in 1975. For the rise and fall of industrial production, the following figures are available from the Sociedad de Fomento Fabril (unless otherwise indicated) and from the Government's Instituto Nacional de Estadísticas:

1970 to 1971	+12%
1971 to 1972	+ 4%
1970 to 1972 +17% = +8%	per annum average
Jan.-Aug. 1973 to 1974	-1.5%
19J3 to 1973	-2% (DSTE) +2% (SFF) = 0% average
	INE&SFF
1973 to 1974 "habitual consumption products" (= 45% industrial production)	- 5% (SFF)
1973 to 1974 construction	-15%
Jan.1974 to Jan.1975	-18% (production) -14% (sales)
Jan.-March 1974 to 1975	-15%
Jan.-May 1974 to 1975	-17%

Jaiu-June 1974 to 1975	-18%
Jan.-July 1974 to 1975	-22%
Jan.-Aug. 1974 to 1975	-24%
Jan.-Nov. 1974 to 1975	-24%
1974 to 1975	-25 - 30% (other estimates)

In a word, under the Allende administration industrial production first increased very rapidly, particularly in mass consumer goods, and then stagnated as the domestic and foreign boycott became more and more stringent. Under Junta rule, industrial production first declined markedly for mass consumer goods that were immediately affected by the Chicago/Junta policy of wage depression and demand contraction, while still increasing for producer goods, for an overall "growth" rate of 0 in the first year. By the beginning of the second year of Junta rule, industrial production had declined by about 15% of the same months a year earlier, and, after the application of your shock treatment from April 1975 on, Milton Friedman, industrial production of capital goods also declined rapidly by 40% for 1975, so that now 26 out of the 30 product sectors of Chilean industry showed declines (and therewith industrial opposition increased concomitantly); total industrial production decreased more rapidly to 25% of what it had been a year before. In January 1976, industrial production fell off a further 7.3% from December 1975.

Milton Friedman and Arnold Harberger, the immediate consequences of the Junta's application from April, 1975, one of the shock treatment you prescribed in your conversations with Pinochet himself during your March, 1975, visit are already visible in the Chilean economy and emerge from our general review above of the Chicago/Junta deliberate and

calculated policy of economic genocide, de-nationalization, de-industrialization, export promotion, etc. Nonetheless, it might be good to examine further the rationale and the consequences of this shock treatment per se.

Up to the time of your visit, Milton Friedman, the Junta had repeatedly argued that its Chicago-inspired and Chicago boys-administered economic policy and its consequences so far were made necessary by the exigencies of "sanitation" (*saneamiento*) of the destructive wounds left by the previous Allende government of Popular Unity. More recently, mention of the Allende administration has faded in official pronouncements, and comparisons with the Allende years are now studiously avoided by both the Junta and its loyal opposition. Since the decline in the price of copper and the rise in the price of imported wheat and petroleum, and particularly since the deepening of the 1974/75 recession in the whole industrialized capitalist world, the Junta has laid all the blame for the consequences of its economic policy on the world economic crisis. When you arrived in Chile, Milton Friedman, you told the Junta that the heritage of Allende and the crisis are all very well, but that the time had come for the Junta to assume responsibility for its own and your Chicago boys' actions, and to recognize their own mistake — and then to proceed quickly to correct it. What, according to you, Milton Friedman, was the essence of their mistake? The Junta had made the Chilean patient swallow your Chicago medicine, all right, as Harberger had observed in previous visits. But it had not stuffed enough of this medicine down the patient's throat, or done it quickly and forcefully enough. Therein lies the

Junta's essential responsibility and mistake, according to your argument. The Junta answered that it had done as well as it could under the circumstances, and that you, Milton Friedman, were not being realistic in asking for so much more and in arguing that circumstances (Allende, crisis and all) could not belie your theory. Indeed, after letting prices loose to cut wages and concentrate income and wealth as we observed, and printing money at the rate of 350% to 370% more per annum while the velocity of circulation (or spending) of this money had increased from 9 to 18 times per annum between 1970 and 1974, and witnessing bank account turnover double from January/February to September/October, 1974, the Junta already turned the screws on before you arrived and reduced the annual rate of increase of money to 200% after October 1974 and from January to March, 1975, increased the money supply by only 40% (as against 52% during the same months a year earlier). But despite your quantity theory of money, prices continued to rise — indeed, accelerated as always during these months in Chile — to a 60% increase during the first three months of 1975, just prior to your arrival, Milton Friedman. Moreover, the Junta had already begun the Chicago/Junta policy of reducing public employment the year before, promising to reduce it by another 20% till the end of 1975; and furthermore, the Junta had already divested itself of many public enterprises and had already incorporated a 10% across-the-board cut in the general budget (though, realistically speaking, "circumstances" of course required a vast increase in the military budget). But the Chicago medicine had not worked well enough to stem the

tide of inflation, now that it had done its job of cutting wages and concentrating income and wealth and now that its continuation was becoming troublesome. Your diagnosis, Milton Friedman, was, of course, not that your medicine is no good, except for the fewer and fewer beneficiaries; but that the patient had not taken enough of your medicine. According to you, the Junta's pleas of extenuating circumstances were really irrelevant and it faced the simple choice of continuing the same doses of your medicine at the cost of prolonged inflation with prolonged unemployment, or of making the Chilean patient swallow down a super dose of the same medicine, the shock of which would undoubtedly increase unemployment still further in the short run, as you publicly admitted, Milton Friedman, but which would also quickly cure the patient of his inflation - if it did not kill him off outright first!

So you prescribed a "shock treatment" of reducing public expenditures by a further 25% at one fell swoop, reducing wages and salaries still more drastically, coupled with your expected increase in unemployment; and as an "antidote" to "manage" the patient in his anticipated state of shock, you and the Junta agreed to create "emergency" "minimum" employment by the state and municipalities without the security and bonuses of ordinary public employment and to "promote" "new" employment by private enterprise by permitting it not to pay the normal social security contributions and offering it other subsidies. The result has been, of course, that the public agencies, municipalities and private employers have increasingly fired their former employees who were entitled to certain bonuses, social security,

health services, etc. — all of which your Chicago Junta policy wants to abolish as a violation of "freedom" of the market, anyway - and have *partially* replaced them with "new" employees who were sometimes the very same persons, doing the same work at still lower pay and reduced benefits. Thus, this "antidote" really serves to strengthen the second element of your shock medicine, that is, to reduce wages and salaries. In a word: super-exploitation of labor.

But to return to the first element of your shock treatment, Milton Friedman, the Junta argued that it had already cut its budget by 10%, so that another 25% was asking too much. The compromise, you will recall, was to cut the foreign exchange expenditures by 25% — drastically cutting imports — but to cut the domestic Escudo budget by "only" another 15%, assuming the promised reduction of inflation to 50%. In that case, even without the Keynesian multiplier, a 15% or 25% (the original 10% plus the new 15%) reduction in government expenditure in an economy in which government spending accounts for 30% to 40% of national income can be predicted to produce (taking, say, a split the difference 20% reduction of a 35% share) a 7% reduction in national income, with its concomitant effects on unemployment and production. What happened? Well, the rate of inflation did not decline to 50% as promised. Instead, as we have observed, the average monthly inflation was only 0.8% less in 1975 than in 1974, and the annual rate only declined from 376% to 340%. This meant that the shock treatment-budgeted nominal 15%/25% decline in public escudo expenditures had a real value variously estimated as a decline of 30% to

40% of previous real public expenditures, and a still greater decline of perhaps 65% of public expenditures on goods and services (other than payments to public employees). That is, at the real rate of inflation, the real decline of, say, 35% in public expenditures that account for some 35% in turn of national income can be calculated to generate an immediate decline in national income of the order of 10% or more. No wonder that GNP declined 13% and perhaps more in 1975. So this decline cannot be blamed entirely or even principally on the decline in earnings from copper exports. No wonder that the shock treatment accelerated the decline of industrial production from 15% below a year earlier before the super doses of your medicine, Milton Friedman, to 25% a few months after its administration — all of which proves you were right, Milton Friedman, in telling the Junta that not Allende or the world are to blame for their policy and its consequences: No, the Junta itself is responsible for swallowing your theory hook, line and sinker and for administering your shock treatment to their Chilean patient at the points of their bayonets.

Finally, we may inquire further what the reception of and reaction to the Chicago/Junta policy of economic genocide and your shock treatment, as well as to the political and military repression necessary for their administration, are abroad in word and in fact. As we have observed, the United Nations General Assembly, the United States Congress, several West European governments, the press and public opinion have condemned the Junta and sometimes you personally, Milton Friedman and Arnold Harberger, in multiple resolutions and published statements. Yet, though the Junta loudly complains about the

"international Marxist" campaign to discredit it, the Junta's super-Minister, Cauas, who is in charge of administering your medicine, Milton Friedman, claims (interview in *El Mercurio*, January 18, 1976) that "nonetheless, their [the detractors'] success has been very limited. Today our economic policy is amply supported in all of the international forums and because of that we can enjoy a situation in our balance of payments that allows us to look to the future with optimism despite the low price of copper ... Abroad our economic policy is appreciated as correct and it is considered very difficult that a serious alternative could be generated . . . The technical reports of the specialized international agencies are categorical in supporting our policy . . . We do not have problems with any international financial institution. On the contrary, we can count on ample foreign support as long as we maintain a coherent and rational economic policy, which does not affect our balance of payments situation. As is obvious, if we were to adopt another more expansive policy, we would rapidly have problems with the international financial media, since these would cease their support of a country that would have to end up stopping its foreign payments as a consequence of such an expansive economic policy . . ." And how right you are on this score, Mr. Friedmanite Super-Minister Cauas!

While the United Nations General Assembly condemns the Junta for violation of human rights, the President of the World Bank, Mr. McNamara, says that he uses only economic and no political criteria in deciding on loans and, with US support, overrides the objections of his European board members to extend a new loan of 33 million dollars to the Junta.

For the same "economic" reasons also cited by Mr. Cauas, Mr. McNamara had not loaned a single new penny to President Allende. But in two years of Junta rule and Chicago economics, Mr. McNamara had already loaned the Junta 100 million dollars before he added the abovementioned 33 million. His sister institution, the International Monetary Fund, has loaned the Junta 420 million dollars, and the Inter-american Development Bank another 400 million, so that the categorical support of the international financial institutions of which Mr. Cauas spoke has amounted to 920 (now more than 950) million dollars. By comparison, Allende received 65 million.

Similarly, when US Congressman Harrington called real US policy a mockery of the US Congress, which listens to, CIA and ITT testimony about US scheming against Allende and passes resolutions against the Junta, he no-doubt knew more than most what he was talking about. But even according to the public financial record, the Junta has received 680 million dollars in loans from the United States - 380 million or 56% of which were destined to pay off the American copper companies in turn, for, as Mr. Cauas observed, a country that stopped making foreign financial payments would soon have problems with the financial agencies! The 920 million dollars from the U.S. controlled international financial institutions plus the 680 million from the United States and its bankers itself add up to 1,600 million dollars in loans to the Junta from these sources. Adding 120 million from Latin American sources primarily in Brazil and Venezuela, and another 280 million dollars from West European and Japanese sources brings the total of loans to the Junta in the 27 months before

December 31, 1975, to a tidy sum of 2,000 million dollars, or about 3 million a day and nearly 100 million a month. At the same time, no doubt so that Congressman Harrington does not cry mockery in vain, the United States has delivered more armaments to the Chilean Junta than to any other Latin American country except Brazil, and very much more arms per capita, in which the Junta is exceeded only by countries such as Israel, Iran and Saudi Arabia. On Edward Kennedy's amendment the US Senate recently voted to cut off arms aid and sales to the Junta, but the House of Representatives did not pass a similar measure supported by Harrington. The»joint committee charged with finding a compromise has now proposed to eliminate aid but to maintain cash sales of armaments to the Chilean Junta — which is now reported to stand ready to pay 132 million dollars cash on the line for armaments, that is, 83% of its 1975 earnings from food exports and just a bit more than the 125 million dollar 1973 to 1975 increase in the exports of food which, through the use of now perhaps obsolete or insufficient armaments, the Junta squeezed out of the starving population of Chile through its Friedman-Harberger policy of *economic genocide!*

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