

# Hurricane Milton

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**While economists laud the recently deceased Milton Friedman for being “a champion of freedom whose work transformed economics and changed the world,” as a full-page advertisement in the *New York Times* put it, people in the South will remember the University of Chicago professor as the eye of a human hurricane that cut a swath of destruction through their economies. For them, Friedman will long be associated with two things: free-market reform in Chile and “structural adjustment” in the developing world.**

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Soon after the coup against the government of Salvador Allende on September 11, 1973, Chilean graduates of Friedman’s economics department, who were later dubbed the “Chicago Boys,” took over the helm of the economy and launched a program of economic transformation with doctrinal vengeance. Friedman was often quoted as saying that political freedom goes hand-in-hand with free markets. The irony that the bayonets of one of Latin America’s most bloodstained dictatorships imposed a free market paradise in Chile could not have escaped the guru.

Yet Friedman visited Chile during the dictatorship, giving his blessings to the radical free-market, export-oriented thrust of the regime, praising Chilean dictator General Augusto Pinochet for his commitment to a “fully free market as a matter of principle,” and delivering talks such as “The Fragility of Freedom” that rang ironic in the Chilean context. Even as he accused his critics of “tarring and feathering” him with the regime’s human rights abuses, Friedman took pride in providing doctrinal inspiration for what he described as the “Chilean Miracle.”

## The Chilean Experiment

After his disciples were done with it, Chile was indeed radically transformed... for the worse.

Free market policies subjected the country to two major depressions twice in one decade, first in 1974-75, when GDP fell by 12%, then again in 1982-83, when it dropped by 15%. Contrary to ideological expectations about free markets and robust growth, average GDP growth in the period 1974-89—the radical Jacobin phase of the Friedman-Pinochet revolution—was only 2.6%. By comparison, with a much greater role of the state in the economy during the period 1951-71, Chile’s economy grew 4% a year.

By the end of the radical free-market period, both poverty and inequality had increased significantly. The proportion of families living below the “line of destitution” had risen from 12 to 15% between

1980 and 1990, and the percentage living below the poverty line, but above the line of destitution, had increased from 24 to 26%. By the end of the Pinochet regime, some 40% of Chile's population, or 5.2 million of a population of 13 million, was poor.

In terms of income distribution, the share of the national income going to the poorest 50% of the population declined from 20.4 to 16.8%, while the share going to the richest 10% rose dramatically from 36.5 to 46.8%.

In terms of the structure of the economy, the combination of erratic growth and radical trade liberalization resulted in "deindustrialization in the name of efficiency and avoiding inflation," as one economist described it. Manufacturing's share of GDP declined from an average of 26% in the late 1960s to 20% in the late 1980s. Many metalworking and related manufacturing industries went under in an export-oriented economy that favored agricultural production and resource extraction.

### **Mitigating Friedmanism**

The radical Friedman-Pinochet phase of the Chilean economic counterrevolution came to an end in the early 1990s, after the Concertacion came to power. In violation of classical Friedmanism, this center-left coalition increased social spending to improve Chile's income distribution, bringing down the proportion of people living in poverty from 40 to 20% of the population. This cautious "Keynesian" modification, which increased internal purchasing power, contributed to the post-Pinochet average yearly growth rate of 6% a year.

Unwilling to challenge the upper classes, however, the social democratic regime retained the basic neoliberal contours of economic policy, leading to continuing high levels of poverty, unemployment, and inequality. Also, the continued emphasis on agricultural and natural resource exports has created tremendous environmental stresses. Overfishing along Chile's coasts has gone hand in hand with ecological destabilization from the spread inland of the fresh salmon and mussel farms. A booming wood export industry has promoted the growth of tree plantations at the expense of natural forests, resulting in Chile becoming the second most deforested area in Latin America after Brazil. Environmental management is widely acknowledged to be ineffective, being consistently subverted by the imperatives of export-oriented growth.

### **Exporting the "Revolution"**

Chile was the guinea pig of a free market paradigm foisted on other third world countries. Beginning in the early 1980s, the International Monetary Fund and the World Bank subjected some 90 developing and post-socialist economies to free-market "structural adjustment." From Ghana to Argentina, state participation in the economy was drastically curtailed, government enterprises passed to private hands in the name of efficiency, protectionist barriers on Northern imports were eliminated wholesale, restrictions on foreign investment were lifted, and, through export-first policies, domestic economies were more tightly integrated into the capitalist world market.

Structural adjustment policies (SAPs), which set the stage for the accelerated globalization of developing country economies during the 1990s, created the same poverty, inequality, and environmental crisis in most countries that free-market policies did in Chile, minus the moderate growth of the post-Friedman-Pinochet phase. As the World Bank chief economist for Africa admitted, "We did not think the human costs of these programs could be so great, and the economic gains so slow in coming." So discredited were SAPs that the World Bank and IMF soon changed their names

to “Poverty Reduction Strategy Papers” in the late 1990s.

Despite being now universally seen as dysfunctional, free-market and structural adjustment policies have been so thoroughly institutionalized that they continue to reign. The legacy of Milton Friedman will be with the developing world for a long time to come. Indeed, the most appropriate inscription for Friedman’s gravestone comes from William Shakespeare’s Julius Caesar: “The evil that men do lives after them, the good is oft interred with their bones.”

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