Competitio 2025. XXIV. évfolyam
doi: 10.21845/comp/2025/1-2/4

From Pinochet to Boric: Chile's Neoliberal Paradox and Its Unraveling

Book Review: Edwards, S. (2023). *The Chile Project: The story of the Chicago Boys and the downfall of neoliberalism*. Princeton: Princeton University Press. 343pp.

JUAN CRISTÓBAL DEMIAN INZULZA
PhD-student Corvinus University of Budapest, juancrisdemin@gmail.com

The Chile Project investigates what the author describes as "Chile's paradox": the nation's intricate relationship with the neoliberal economic and political framework. The study begins by tracing the adoption of neoliberal policies during Augusto Pinochet's regime and their subsequent evolution under democratic administrations, culminating in the 2019 insurrection and the 2021 election of President Gabriel Boric, committed to dismantling those neoliberal policies, as these events reflect widespread dissatisfaction with the neoliberal model.

Sebastián Edwards, a Chilean economist and professor at UCLA since 1981, specialises in the economic development of emerging regions, particularly in Latin America. He is a leading authority on populism, significantly contributing to its theoretical understanding by framing it as an economic phenomenon; indeed, two of his works, *Macroeconomics of Populism in Latin America* (1989, co-edited with Rudi Dornbusch) and *Left Behind: Latin America and the False Promise of Populism* (2010), are pivotal on the subject.

In *The Chile Project*, Edwards employs an "analytical narrative," integrating archival research, quantitative data analysis, graphical representations, and statistical inquiry, which is applied to a chronological sequence of events from 1955 to 2022.

The theoretical aspect of neoliberalism is addressed in both the book's introduction and appendix. In the introductory chapter, Edwards defines neoliberalism as "a set of beliefs and policy recommendations that emphasise the use of market mechanisms to solve most of society's problems and needs" (p. 14). These needs include education, pensions, healthcare, and transportation, with minimal reliance on economic planning.

The appendix further explores the foundations of neoliberalism, as it traces its theoretical core to free-market purists such as Ludwig von Mises and Friedrich von Hayek, who influenced economists at the University of Chicago, including Milton Friedman, Arnold Harberger, and Gary Becker.

Edwards also examines how neoliberalism is conceptualised by Michel Foucault, who regarded Gary Becker as the most "radical" theorist of the neoliberal paradigm. In *The Birth of Biopolitics* (1979), Foucault analyzes neoliberalism as a framework that extends far beyond economics, and drawing on Becker's work, *The Economic Approach to Human Behavior* (1976), he explores the neoliberal notion of Homo economicus—an individual guided solely by rational cost-benefit calculations, divorced from traditional moral or ethical considerations. Foucault argues that this paradigm represents a full societal transformation, wherein power operates under the guise of liberty (Newheiser, 2016), effectively abandoning conventional juridical and moral frameworks.

Although *The Chile Project* focuses on the Chilean case study, Edwards incorporates this theoretical debate to provide critical background, an inclusion that is particularly valuable, as it offers a foundation for deeper reflection.

The first section of the book, *The Early Years (1955–1973)*, highlights the formation of the "Chicago Boys," a group of Chilean economists trained at the University of Chicago under a 1955 agreement with the Pontifical Catholic University of Chile, an initiative that was part of a broader Cold War strategy aimed at countering communism in Latin America.

By 1958, the first Chicago Boys returned to Chile, advocating policies such as agricultural investment, monetary reform to combat inflation, labor market liberalisation, and free trade. However, their ideas met with resistance from both political and academic circles. Structuralist economists, for example, supported import substitution industrialisation, while Salvador Allende's Marxist government (1970–1973) pursued policies of extensive nationalisation and state intervention, measures that led to significant economic crises, marked by hyperinflation reaching nearly 700% and widespread price controls.

Remarkably, the Chicago Boys faced opposition not only from the left but also from the right. For instance, former president Jorge Alessandri strongly opposed the neoliberal paradigm and excluded the Chicago Boys from his 1970 presidential campaign.

The most significant aspect of this issue is that the initial resistance to neoliberalism underscores the ideological shifts that later shaped Chilean politics, particularly the right-wing's eventual adoption of neoliberalism and abandonment of traditional nationalist and social-Christian ideologies.

In the second part of the book, *The Chicago Boys and the Pinochet Dictatorship, 1973–1990*, Edwards examines the implementation of the neoliberal paradigm

during Chile's military rule, exploring how Chile transitioned into a fully neoliberal state, with neoliberal ideology achieving dominance across economic, political, and cultural domains.

Beginning in 1973, the first-generation Chicago Boys, led by figures such as Sergio de Castro, pursued two main goals: curbing inflation and creating a free-market economy. Inspired by Milton Friedman's proposal of "shock treatment"—which Friedman himself presented to Pinochet in 1975—they enacted sweeping budget cuts, deregulation, and market-oriented reforms, and by 1978, these efforts included abolishing price controls, lowering tariffs, and privatising many firms nationalised under Salvador Allende's administration.

Edwards identifies 1979 as the pivotal year when Chile's full transformation into a neoliberal state began. The Seven Modernisations introduced that year liberalised critical sectors, including labor laws, pensions, healthcare, education, and agriculture, while also reforming public administration and the judiciary. Economist José Piñera spearheaded major reforms such as the creation of an individual savings-based pension system, labor market liberalisation, and a mining concessions law to attract private investment. Concurrently, conservative jurist Jaime Guzmán led the drafting of a new constitution grounded in the principle of subsidiarity, which limited the state's role to areas beyond private sector capacity.

The phase of incipient neoliberalism concluded with the 1982 currency crisis, rooted in policies introduced in 1978, when de Castro shifted from monetary supply control to exchange rate management, fixing the peso-to-dollar rate in 1979. This policy led to currency overvaluation, compounded by labor reforms under José Piñera that rigidified wages. When foreign banks withdrew investments and capital inflows dwindled, Chile's external deficit became untenable, triggering a sharp devaluation. This crisis discredited the first-generation Chicago Boys, leading to their removal from government by 1984.

In the mid-1980s, Chile entered a new phase of "pragmatic neoliberalism" led by a second generation of Chicago Boys under Hernán Büchi's guidance. This phase marked a shift from rigid ideological dogmatism toward policies prioritising economic growth and employment.

Key reforms of this era included the promotion of "popular capitalism," which encouraged small-scale stock ownership in privatised companies and banks, involving a broader range of investors, including private Pension Funds Administrators (AFPs). Education reforms introduced decentralised school management and voucher systems, while public project evaluations began incorporating "social prices" to assess benefits for specific income groups, initiatives that were bolstered by the establishment of an independent Central Bank in 1989, aimed at ensuring stable monetary policies.

The third and final section of the book, *Neoliberalism Under Democratic Rule, 1990–2022*, spans seven chapters and examines the evolution of neoliberalism

during the eight democratic administrations that followed the Pinochet dictatorship. Edwards terms this phase "inclusive neoliberalism," characterised by remarkable economic growth and development, juxtaposed with a gradual decline in the system's credibility, an erosion that culminated in the 2019 insurrection, the election of far-left President Gabriel Boric—committed to dismantling neoliberalism—and the unsuccessful attempt to draft a new Chilean constitution.

A critical observation in this section is that, despite Pinochet's political defeat, the neoliberal framework established by the Chicago Boys persisted. Under Christian Democratic presidents Patricio Aylwin (1990–1994) and Eduardo Frei (1994–2000), neoliberalism was expanded and modified to address social concerns, for example, Finance Minister Alejandro Foxley, serving under Aylwin, introduced targeted social assistance programs aimed at improving living conditions while maintaining market-driven principles, and his successor, Eduardo Aninat, liberalised currency controls and facilitated unrestricted capital flows during Frei's presidency.

The Socialist Party administrations of Ricardo Lagos (2000–2006) and Michelle Bachelet (2006–2010) further institutionalised neoliberalism by integrating it with progressive social reforms. Lagos' tenure included the expansion of free trade agreements, reductions in tariffs, and the launch of programs such as CAE (university credit) and AUGE (healthcare assistance). Bachelet continued this approach during her first term, introducing a solidarity pillar to the pension system and advancing progressive social policies. This synthesis of market economics with social welfare reforms earned international recognition as the "Chilean miracle" or "neoliberalism with a human face."

Despite Chile's economic achievements, disillusionment with neoliberalism grew over time. The United Nations Development Programme's 1998 "malaise hypothesis" highlighted a pervasive lack of human security, defined as confidence in sustained opportunities and access to them. Public concerns about inequality, long dismissed by neoliberal advocates as envy-driven, gained traction as Chileans increasingly perceived the elite monopolising economic and political power, and by the 2010s, widespread outrage over corruption, collusion, and judicial impunity for elites deepened the sense of injustice.

This growing dissatisfaction was particularly evident in debates surrounding the pension system, a cornerstone neoliberal reform designed by the Chicago Boys and implemented in 1981 under José Piñera's leadership. Managed by AFPs, the system initially promised retirees a 70% income replacement rate, however, by the late 2000s, it delivered only 35%, exposing deep structural flaws despite efficient fund management. These shortcomings made the AFP system a focal point of public discontent and a key driver of the 2019 social unrest. Yet, the 2022 rejection of an anti-neoliberal draft constitution revealed a paradox: while Chileans criticised the AFP system and neoliberalism broadly, they also valued individual

savings and fund ownership, a contradiction that underscores the complex and ambivalent relationship Chileans maintain with neoliberalism, seeking higher pensions without fully abandoning individualistic principles.

During Michelle Bachelet's second presidency (2014–2018), Chile's far-left initiated efforts to draft a new constitution aimed at replacing the neoliberal framework with a social democratic model. This initial constitutional process was largely ignored by Sebastián Piñera's subsequent centre-right administration (2018–2022). However, the 2019 insurrection prompted a 2020 referendum in which an overwhelming majority supported rewriting the constitution. This led to the election of a far-left-dominated constitutional convention in 2021, coinciding with the rise of Gabriel Boric to the presidency, a former activist with Marxist-autonomist ideals, and Boric aligned his administration with the convention's vision of transitioning from an individualistic neoliberal model to one rooted in solidarity.

The 2022 draft constitution drew heavily from Álvaro García Linera's New Latin American Constitutionalism, emphasising indigenous autonomy, identity politics, and radical political decentralisation. Complementing this vision, Boric's government pursued a structuralist agenda centred on industrialisation and universal welfare. Ultimately, Chileans rejected the draft in 2022, not due to its economic anti-neoliberal aspirations but because of its divisive identity-based governance and decentralisation measures; nonetheless, Boric's administration and centrist political elites remain committed to advancing a democratic state of social rights.

Edwards identifies three primary factors contributing to the "malaise hypothesis," which seeks to explain Chile's paradoxical relationship with neoliberalism: 1) economists' narrow emphasis on vertical income inequality rather than broader issues like quality of life and fairness, which can be qualified as horizontal inequality; 2) the far-left's Gramscian strategies to dominate public discourse and foster pessimism; and 3) the public's impatience with the perceived slow pace of progress.

Edwards also critiques conservative and pro-market intellectuals for their complacency, as he argues that they, having assumed they had won the ideological battle, abandoned the intellectual debate and became mere beneficiaries of the neoliberal system. This complacency mirrors the broader attitude of conservatives since the Cold War's end, when Francis Fukuyama's 1989 "end of history" thesis suggested liberal democracy in its neoliberal form faced no viable ideological competition.

Edwards also merits recognition for directly engaging in the role of ideology, an area often sidestepped by economists. He correctly characterises the 2019 insurrectional movement and the Boric government as far-left, moving away from

tendencies to label these actors as moderate or non-ideological. His observation that the 2019 insurrection represents a political revival of forces defeated in 1973 adequately underscores the enduring influence of these ideals.

Edwards further examines the intellectual foundations of the new left, highlighting the impact of thinkers like Judith Butler (gender theory), Antonio Gramsci (hegemonic narratives), Ernesto Laclau (populist resistance to elites), and Jürgen Habermas (radical democracy). To this list, I add Félix Guattari and his concept of "molecular revolution," which frames the 2019 Chilean insurrection as an anarchic revolutionary response to marginalisation (Barrientos & Gajardo, 2024).

However, Edwards appears overly generous in his assessment of the 2022 constitutional drafters, suggesting they were unaware of the consequences of their proposals. In contrast, I argue that the far-left's anti-capitalist aspirations inherently necessitated economic destabilisation as a precursor to establishing a new political order.

In his concluding reflections, Edwards presents Chile's neoliberal experience as a narrative of "success" and "neglect." While acknowledging neoliberalism's role in fostering economic growth, he criticises its inability to address inequality, a pressing political issue even amid low poverty levels. The author notes that many Chileans aspire to a European-style social democracy but points out that the far-left's radical efforts have not materialised this vision. The book closes with a cautionary note, warning that Chile risks forfeiting its unique regional position and becoming indistinguishable from other Latin American countries.

Three key features distinguish *The Chile Project*, making it a highly thought-provoking contribution to the field.

First, Edwards places Chile's neoliberal journey within the broader theoretical discourse on neoliberalism, not merely as an economic doctrine but as a philosophical stance with profound implications for social relations. This framing elevates Chile's relevance, offering lessons that extend far beyond its borders.

Second, the book provides an insightful examination of how neoliberalism achieved ideological dominance across both right-to-centre and left-to-centre political spectrums, displacing nationalism and socialism. Edwards' exploration of this ideological transformation serves as a precursor to understanding the resurgence of these displaced ideologies in the current illiberal era. This dynamic effectively challenges the "end of history" thesis popularised by Francis Fukuyama, marking the resurgence of ideological contestation in global politics.

Third, the book delves into two inherent contradictions within neoliberalism: first, the tension between economic success and social neglect, and second, how people can demand to the state an assurance in improving their quality of life without wanting to abandon an individualistic mindset. These contradictions invite critical inquiry in an era where liberalism itself faces fundamental challenges worldwide.

All in all, *The Chile Project* is written in a clear, engaging, and accessible style, making it an enjoyable read even for casual, non-specialist audiences, including those new to economics or political science.

References

Barrientos, A. & Gajardo, B. (2024). *El proceso insurreccional: Asedio a las democracias liberales*. Santiago: EZ&E.

Becker, G. S. (1976). *The economic approach to human behavior*. Chicago: University of Chicago Press.

Dornbusch, R. – Edwards, S. (Eds.). (1991). *The Macroeconomics of Populism in Latin America*. Chicago: University of Chicago Press.

Edwards, S. (2010). *Left behind: Latin America and the false promise of populism*. Chicago: University of Chicago Press.

Foucault, M. (2008). *The birth of biopolitics: Lectures at the Collège de France, 1978–1979* (G. Burchell, Trans.; M. Senellart, Ed.). New York: Palgrave Macmillan.

Newheiser, D. (2016). Foucault, Gary Becker, and the critique of neoliberalism. *Theory, Culture & Society, 33*(5), 3–21.