

cranial capacity. On the basis of these characteristics we discover what it is that situates man apart from the other creatures and constitutes his essence: the complex of psychic faculties which make it possible for him to think and reason.”

Karl Marx would have been proud of such materialistic argumentation. Carried to its extreme, this human biological differentiation led to eugenics, later known as the Nazi race hygiene which Adolf Hitler would apply against what he considered “inferior races.” This supposed difference between human beings is also the nucleus of the policy of “social hierarchy” preached by Gabino Barreda.

In September 1971, at the Ludwig von Mises 90th birthday celebration in New York, Gustavo R. Velasco presented the *Program for a Liberal Party* in which he insisted: “In the first place, the free market economy provides what the consumers ask for. The economy is . . . the freedom to consume or perhaps to desire, to seek new satisfiers, including forming new desires and needs.” If Velasco pushed drug legalization, like most of his Mont Pelerin colleagues, it would be no surprise.

### **The Mont Pelerin Society in Mexico today**

At the dawn of the 1980s, in Mexico and all over the world, “private” institutes sprang up to propagandize the fascist garbage that Gustavo R. Velasco was expressing, as “democratic” and even “Catholic.”

In 1984, the U.S.-based Center for International Private Enterprise (CIPE) started its operations as a “donor” to various business organizations in Ibero-America, to get them to launch furious campaigns against the guiding role of the State in national economies, as well as for “free trade,” “privatization,” and “democratic pluralism.” Among the recipients of these funds were Coparmex and the Business Coordinating Council (CEE) of Mexico.

Later, it would be discovered that the CIPE was getting its money from the infamous National Endowment for Democracy, the legal front through which Lt. Col. Oliver North was conducting out his arms-for-drugs deals in the Iran-Contra affair. Given its clandestine nature, the relation between these funds and the creation of the mentioned institutions remains to be clarified, but the fact is that they arose from the same process.

**Center for Investigations into Free Enterprise (CISLE):** Founded in 1984, its current executive director is Roberto Salinas-León, who also appears as the chairman of the Mont Pelerin Society in Mexico. Luis Pazos, the most vulgar of the followers of Velasco at the Free School, is general director of CISLE and also an active member of the Mont Pelerin Society.

**Ludwig von Mises Institute:** It began its activities in 1983. The name “pays homage to the outstanding Austrian economist, Ludwig von Mises”; the aim is to “rescue the name and the ideas of the Austrian school of economics.” This organization is directed by Dr. Carolina de Bolívar.

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## **Book Reviews**

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### **Chile was wrecked by Mont Pelerin experiment**

by Cynthia R. Rush

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#### **Pinochet's Economists: The Chicago School in Chile**

by Juan Gabriel Valdés

Cambridge University Press, New York, 1995  
280 pages, hardbound, \$49.95

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In *Pinochet's Economists: The Chicago School in Chile*, author Juan Gabriel Valdés has done some useful investigative work to reveal how the international financial oligarchy succeeded in turning the nation of Chile into a laboratory for the nation-wrecking economic policies it wants to apply worldwide today. The country became an experiment in the application of the fascist policies of Austrian economist Friedrich Von Hayek, his disciples at the University of Chicago, and co-thinkers at the Mont Pelerin Society following the September 1973 coup against the socialist government of Salvador Allende.

Allende, with the backing of Cuba's Fidel Castro, was in the process of wrecking the Chilean economy, while making it a Marxist beachhead from which to assault the rest of the continent. Chilean patriots and nationalists, including within the Armed Forces, were rightfully concerned with saving their nation when they decided to act in 1973. But what they ended up with, was an economic program as bad as anything Allende would have done, had he remained in power.

In the years following the coup, and especially after 1975, when their control over economic policy was consolidated, the Mont Pelerinites were euphoric over Chile. In an “in your face” display of arrogance, the Mont Pelerin Society even held its 1978 annual meeting in Viña del Mar, Chile. More important than their initial euphoria, however, the Von Hayek grouping went on to attain an intellectual authority which allows Conservative Revolutionaries today to peddle the Chilean “economic miracle” as the solution to the crises afflicting most developing-sector nations.

*EIR* has demonstrated that, since 1973, most aspects of Chile's physical economy have actually fallen in per capita and per household terms, while the speculative bubble of foreign debt grew more than *sixfold* (see *EIR*, July 21, 1995, "An Obituary for London's Chilean Economic Model"). But no one else has even addressed this reality, nor challenged the axiomatic assertion that the Chilean economy has supposedly prospered—a flat lie. Today, even critics of the Mont Pelerin Society's Chilean experiment argue, "Yes, there are problems with what they did, *but . . .* the economic model is largely successful." Thus, the fundamental intended purpose of the Chilean "revolution," *to change the way people think, especially about economics*, has, sadly, largely succeeded.

### **An international project**

Valdés is a political scientist, whose book is based on research he did for his Ph.D. at Princeton University. Thus, his work is marred by the jargon, mechanistic formulas, and pseudo-"objectivity" associated with such academia. The book is valuable, however, largely because of the author's meticulous examination of the contents of U.S. government records of the "Chile Project," the technical cooperation agreement signed in March 1956 by Chile's Catholic University, the University of Chicago, and the International Cooperation Administration, the precursor to the Agency for International Development in the U.S. State Department.

The 1956 agreement permitted Von Hayek's Chicago, "Austrian School" economists, led by the chairman of the Economics Department, Theodore Shultz, to set up Catholic University's economics department, achieving complete control over it by 1964; and by 1970, *one hundred* economists had been trained in the Austrian School of Economics' theories of how to rip up the nation-state in the name of "economic freedom."

Valdés reports that Dr. Arnold Harberger, considered to be the "father" of the Chile Project, emphasized that it was necessary to "de-Latin Americanize" the Chilean students, that is, turn them into traitors against their own country. The Chicago Boys did not enter the military government immediately following the coup. But by 1975, for reasons which were undoubtedly related to needing "international support," the Pinochet government was convinced to buy into the Von Hayek economic package. Chicago-trained economists quickly moved into the key positions in the Finance and Economics ministries, the Central Bank, and other government agencies.

Even minimal industrialization, based on import substitution, was tossed out the window, and was replaced with activities favoring "comparative advantage," such as mining, agriculture, forestry, and fishing. That was in the mid-1970s. Where this new system of "economic freedom" led, was revealed by a report in the French daily *Le Figaro* in early January, indicating that Chile is now one of the major drug-money launderers in the Western Hemisphere.

That this was a project of an *international* oligarchy, is

also made clear by Valdés's description of the role of the Edwards group, Chile's most powerful financial and political family which has functioned as a tool of British interests in the country since the last century. It was the Edwards family which worked with the British in 1891 to overthrow President José Manuel Balmaceda, a follower of German-American economist Friedrich List who threatened British interests in the nitrate industry and had a plan to industrialize the country. As an Edwards-linked banker bragged in 1892, following Balmaceda's demise, "we are the owners of Chile, owners of its capital and soil. Everything else is a mass to be influenced and sold; it carries no weight, either as opinion or as prestige."

In the 1960s and early 1970s, business magnate Agustín Edwards and his associates sold the Von Hayek economic model to business and financial circles, while organizing support for it internationally. It was Edwards who "showed the greatest interest in the dissemination of this doctrine expressed by United States professors and continued by their Chilean followers," Valdés writes. He also reveals that in the mid-1960s, the Chilean Chicago Boys were hired into the Edwards family's financial and corporate apparatus, offered money, jobs, opportunities, and protection outside of academia, and finally recruited in 1972 to join the team that would write an "alternative economic program" for a post-Allende government.

Edwards's U.S. connections, Valdés emphasizes, were "far greater than those arising from mere affinity, friendship or commercial interest." Once Allende took power in 1970, he reports, it was Edwards who asked Richard Nixon and Henry Kissinger to intervene militarily to overthrow the new President. That particular request was turned down, and Edwards left Chile. But three years later, Kissinger threw his weight behind the coup, and particularly behind the Von Hayek economic package.

### **Why Chile?**

In one sense, the choice of Chile as the site of this experiment is understandable. Historically, it has served as the stomping grounds for British financial interests, and a base for British geopolitical machinations against other Ibero-American nations. A case in point is the 1879-81 War of the Pacific against Peru and Bolivia, a model for such British-inspired geopoliticians as Luigi Einaudi today, who are out to wreck nation-states through manipulation of border conflicts. Yet, Valdés also points out that there is really no historical precedent, in Chile, or in any other Ibero-American nation for that matter, for the type of draconian program which was imposed on the country after 1975.

The circumstances surrounding the signing of the 1956 contract, and the choice of the Catholic University as the site for the University of Chicago's project, raise many questions. The Mont Pelerin Society and the oligarchic networks to which it has been tied historically, have infiltrated the Catholic Church in order to destroy it, particularly targetting the social doctrine of the church. The activities of "catholic" Mi-

## Chile's privatized pension funds are going belly-up

Chile's privatized pension system, so lavishly praised by Conservative Revolutionaries internationally, is little more than a \$25 billion slush fund, based on forced savings, designed to prop up whichever sector of the fraudulent Chilean economic "miracle" needs propping up. In December, *EIR* confirmed that, just like other speculative players before it, such as Orange County, California or Barings Bank, the entire system could go up in smoke overnight, because one-third of it is invested in the derivatives-heavy Santiago stock market, and the remainder in equally volatile mortgage securities, bank deposits, corporate debt, and overseas investment.

In September 1995 alone, the fund lost \$1.5 billion, reportedly due to "market fluctuations" (see *EIR*, Jan. 5, 1996). For 1995, the Chilean system experienced real returns of -2.5%, supposedly due to "over-concentration" of its investments in the electricity sector (54% of the total), which dropped by 25% during that year. This could be just a taste of what is to come.

While the system is still being promoted everywhere

by its architect, Dr. José Piñera, and by his associates at the Washington, D.C.-based Cato Institute, these recent developments are giving some people reason for pause. The City of London's *Financial Times*, on Jan. 18, portrayed the system in a very negative light, quoting a Chilean pollster who reported that "almost half our respondents said they didn't trust the current economic model, that it isn't stable, that the current success is just an Indian summer."

The *Times* explained that the fact that Chile's Armed Forces had remained within the old social security system, and that the new pension system was introduced by decree in 1981, didn't help to inspire confidence in it. Moreover, the *Times* reported, "only about half the active workforce of 5 million is up to date with contributions." Another 1.5 million affiliates of the Pension Fund Administrators "have made no payments into their accounts for more than a year."

But the most dramatic revelation, one which the *Times* argued could bring the pension system "under heavy fire this year," is the fact that for those pensioners who opted to take programmed monthly withdrawals from their savings account, rather than buying an annuity, the result will be a whopping 12-15% cut in their income this year!

—Cynthia Rush

chael Novak today show how such subversion works.

Was this why Chile's Catholic University was chosen by Shultz, et al.? Some Catholic University professors objected to signing a contract with an American university such as Chicago, which advocated "a brand of conservative economics where social justice considerations do not exist," Valdés says. But in the end, reportedly largely through Shultz's intervention, opponents were mollified, and the 1956 contract signed.

How honest opponents of the project might have been swayed, or silenced into acceptance of the contract with the Von Hayekites, is suggested in Valdés's report on the polemic which Chicago professors waged against Raúl Prebisch, founder of the "developmentalist" theory of economics, based on import-substitution and light consumer industries. Prebisch, who created the U.N. Economic Commission on Latin America in 1964, was vilified by the Chicago economists for supposedly advocating "statism," which they claimed was responsible for Chile's economic problems.

But, as *EIR* has documented, Prebisch was born of the same British "mother" as the Mont Pelerinites. In the 1930s, he and Bank of England official Otto Niemeyer worked together to set up the Argentine Central Bank, as a wrecking operation against the Banco de la Nación Argentina, the national bank founded in 1890 by free-trade opponent President Carlos Pellegrini. In 1955, following the overthrow of Argentinian

President Juan Domingo Perón, Prebisch again appeared on the scene to dismantle all of the dirigist measures Perón's government had implemented, paving the way for the International Monetary Fund's entry into the country.

The "pure economic science" elaborated by Milton Friedman, Frank Knight, Gary Becker, and other of the University of Chicago's ideologues, was the essence of curriculum in which the Chilean graduate students selected to study there were immersed for two to three years. In the process by which they were chosen, one of the criteria for selection was that students have little or no political affiliation or activity. The first candidates rather showed a "professionalist, secular, and individualist" bent, Valdés reports. The purity of the "core principles"—monetary theory, price theory, and resource allocation—must not be contaminated by historical, social, cultural, and particularly *moral* considerations, in the Von Hayekians' view.

Following completion of their program, the students were required to return to teach at Catholic University, where an exact replica of the University of Chicago curriculum was established. They dutifully reproduced themselves, through their teaching work, creating, as the project report optimistically put it, a "reservoir of skills which the Chilean community will be able to draw upon for many years to come . . . a human capital asset that is uncommon in the world's low income countries."