



**Sebastián Edwards, *The Chile Project: The Story of the Chicago Boys and the Downfall of Neoliberalism*. Princeton: Princeton University Press, 2023. 343 pages. USD \$27.49 (hardback)**

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Sebastián Edwards's book *The Chile Project* is an outstanding review of the rise and fall of the pro-market consensus and the neoliberal project undertaken in Chile since the 1970s—which perhaps ended in October 2019 with riots and political protests—culminating in the radical left's attempt to modify the Constitution. Edwards wonderfully combines economic history, Latin American politics, international economics, and the history of ideas, all interwoven to tell a compelling story of the peak and collapse of neoliberalism. Using analytic narratives and historical evidence, he tells the story of the implementation, deepening, and breakdown of the neoliberal consensus in Chile. Even with its economic lens, the book's prose is so well-crafted, it reads almost as fluidly as a novel.

There is probably no better person to write a book about the history of economic ideas in Chile and the 'Chicago Boys'. Edwards was born in Santiago, Chile, and was an economist in his early career during Salvador Allende's socialist government, working on price controls and economic planning; he subsequently obtained his doctorate in Economics at the University of Chicago and was later the Chief Economist for the Latin America and Caribbean Region of the World Bank. Edwards thus holds profound knowledge of the intellectual debates around the Chicago School of Economics and the economic policies of Latin America, including Chile.

The book is divided into three sections. Part I, (Chaps. 1 to 3), explores the early history of neoliberalism in Chile (1955–1973), the origins of the 'Chicago agreement' between Chicago and Universidad Católica de Chile (PUC), and the economic chaos created by Salvador Allende's socialist government. Part II, (Chaps. 4 to 9), reviews the politics and the neoliberal reforms made by the two generations of 'Chicago Boys' during the Pinochet Dictatorship (1973–1990). This part also explores Milton Friedman's two visits to Chile, his meeting with Pinochet, and the severe currency and banking crisis that Chile suffered in 1982. Part III, (Chaps. 10 to 16), covers the improvement of the neoliberal Chilean model

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during the return of democracy (1990–2010), up until the surge of student protests and the emergence of new far-left activists and politicians that questioned the consensus. Part III also explores the “narrative of gloom, malaise and inequality” (p. 219) that was constructed toward the end of 2010 and became the dominant narrative employed by academics, public intellectuals, and politicians to question and undermine Chile’s pro-market project. Here Edwards puts forth his own conjecture of why Chile had massive protests and a revolt against its economic system—which is called in the literature the “malaise” debate or the “*malestar* hypothesis.”

The book closes with reflections about important themes related to Latin American politics and the “war on ideas,” such as the recently failed Constitutional Convention in Chile and how it was captured by far-left ideology and the current presidency of Gabriel Boric, a young far-left politician and former student leader who never graduated and yet arrived to political power to, allegedly, destroy neoliberalism. Perhaps most importantly, Edwards also offers views on the intellectual retreat of pro-market forces and the abandonment of the war on ideas by Chilean free-market intellectuals.

This very ambitious book covers a lot of ground; rather than reviewing the book chapter by chapter, I will focus instead on the book’s major contributions as well as mention some shortcomings in Edwards’s interpretation of the Chilean malaise or “*malestar* hypothesis.”

There are several important contributions in this book. First, Edwards contributes to the overarching “neoliberal” literature. Economists are particularly reluctant to use the word *neoliberalism*, and some scholars argue that it is now a useless concept void of meaning, and thus not worth using (Venugopal, 2015; Paniagua, 2021)); yet Edwards provides an interesting definition of neoliberalism: “I define *neoliberalism* as a set of beliefs and policy recommendations that emphasize the use of market mechanisms to solve most of society’s problems and needs, including the provision and allocation of social services such as education, old-age pensions, health, support for the arts, and public transportation. ... neoliberalism is the marketization of *almost* everything” (p. 14, emphasis original). This is a reasonable definition to capture real-world experiences in several parts of the world, including in Chile since the 1970s onwards. Between 1973 and 2010, Chile underwent a progressive push, undertaken by both the political left and right, to expand and deepen the neoliberal experience by exploring new ways of using market mechanisms to address pressing social problems such as an interstate highway system, unilateral free-trade policies, public transport, the prison system, the pension system, education, etc.

Edwards uses neoliberalism *not* as an anti-liberal slogan, but as a conceptual tool to dissect the economic history of Chile and its development. He has a positive view of what neoliberalism accomplished in Chile, a country that was a poor and backward-looking country by 1973. According to Edwards: “In less than two decades the Chicago Boys had created a modern capitalist economy that... produced an acceleration in efficiency, productivity, and growth. In financial and economic circles there was talk of a budding ‘Chilean miracle’... in the early 2000s Chile became by a wide margin, the wealthiest nation in Latin America... it also attained the best social indicator levels in the region for health, education, and life expectancy” (pp. 2–3).

A second key contribution builds on the idea of neoliberalism and its development. The book makes a valuable contribution into economic history and the history of ideas in classifying and dissecting the neoliberal Chilean experience in three major phases.

First, between 1973 and 1982, the early phase of “incipient neoliberalism” (p. 21) saw the original (first generation) of Chicago Boys in charge. During this time, prices were freed (previously, Chile under Allende had a surrealistic system of over three thousand price controls), the economy opened to the rest of the world, there was a process of deregulation and privatization of state-owned or state-intervened enterprises (during Allende’s government the State had taken over or nationalized hundreds of companies), and a “shock treatment” policy was implemented to defeat stubborn three-digit inflation. Pinochet also decided to expand the market-based model in 1979 toward social services such as education, health, and pensions—calling this program the Seven Modernizations. The period ended in 1982 with a massive currency and banking crisis that almost ended the Chile Project.

The second period between 1982 and 1990 was the “pragmatic neoliberalism,” during which the second-generation of Chicago Boys held the key cabinet posts and further promoted Chile’s economic liberalization. The main goals of this phase were to encourage economic growth, enhance trade liberalization, introduce market-based mechanisms in large areas of society, and expand the privatization process. Unlike the prior generation of Chicago Boys, they were *not* so fixated on ending double-digit inflation at whatever social cost.

The third and final part of the neoliberal project, named the “inclusive neoliberalism,” occurred between 1990 and 2019. It began with a return to democracy and the rise of power of the center-left coalition Concertación. This coalition had four consecutive presidents: Aylwin, Frei Ruiz-Tagle, Lagos, and Bachelet. Even though this coalition was formed by many left politicians who were exiled or sided with Allende’s government, these left-centred presidents paradoxically deepened and expanded the neoliberal project. This was done by using market mechanisms to expand social programs, opening the economy to even more intensive free trade, establishing a market-determined exchange rate regime and free international capital movements in 1999, enacting a private (state-guaranteed) loan system for college education, and adopting a fiscal rule to control public expenditure.

The results of this last neoliberal phase were impressive since, in terms of economic growth, most of the “Chilean miracle” took place during this period. After 1990, Chile became one of the most stable and open economies within emerging markets, and Chile’s average per capita GDP growth was 4.1% during 1991–2005—significantly higher than the world average (Schmidt-Hebbel, 2006). Thus, forty years after the Chicago-PUC academic agreement was launched, Edwards notes that the Chile Project “was bearing full fruit” (p. 187). Crucially, this last neoliberal period occurred in a democratic setting and is what Edwards argues was the result of the “great persuasion” in the war of ideas between pro-market forces and the left. “The decision made by the incoming team of left-of-center politicians and economists to maintain, and even deepen, the promarkets reforms.... Pinochet lost the electoral battle [in 1990], but the Chicago Boys won the ‘war of ideas.’ As the 2019 revolt showed, however, that triumph was not permanent” (p. 179).

A third contribution of this book is that it offers a very valuable review and historical survey of the major public and social policies enacted in Chile during these three phases, helping scholars to understand who did what and when and under which presidency. This is very useful for economic historians and intellectuals interested in economic development, the history of neoliberalism, and Latin American politics. The book includes numerous useful tables, graphs, social indicators, data, and anecdotes with policy makers, complementing the in-depth analysis of key economic policies that helped shaped Chile’s economy. Particularly illuminating are Edwards’s discussions on the “Shock Treatment” implemented in 1975 to

lower inflation, changes in exchange rate regimes in Chile, the currency and banking crisis of 1982, unilateral free-trade reforms, market-based social policies implemented after Pinochet dictatorship, and Chile's pension system.

The fourth contribution is that Edwards corrects several misconceptions and preconceived ideas about the Chile Project and how neoliberalism was implemented. For instance, commentators believe that the Chile Project was a *deliberate effort* by the United States and the Chicago economists to impose a regime and a pro-market ideology into a developing country, positioning Chile as a sort of alleged "laboratory experiment" led by foreign powers. This is false. Edwards's review of facts shows that the Chilean neoliberal project, rather than being a conscious plan implemented under Pinochet, was rather the *unexpected and evolving* result of the permanent "war of ideas" fighting to persuade Pinochet and the later democratically elected presidents that relying on markets to promote prosperity was good for the country. In fact, most of the largest and most profound pro-market transformations occurred democratically under left-centered politicians between 1990 and 2010. Thus, neoliberalism in Chile was not imposed all at once under the Pinochet dictatorship, but *developed gradually* according to the competition of ideas.

Moving on to the shortcomings of the book, the principal one is Edwards's narrow analysis on the "*malestar* hypothesis" and the theories behind the downfall of the neoliberal project, which culminated in social unrest in October 2019. Edwards engages only partially with the recent Chilean literature on the "*malestar* hypothesis" and the recent debates around the 2019 social unrest, which limits his capacity of interpretation. Edwards focuses mainly on three aspects that, according to his view, help to explain the protests and the downfall of neoliberalism: (a) cases of collusion and abuse between politicians and the private sector, (b) problems with persistent levels of inequality and the notion of "horizontal inequality," and (c) problems with the design of the market-based pension system.

Edwards's limited interpretation of the root causes of Chile's social malaise falls short of illuminating the phenomenon for two main reasons. Regarding "horizontal inequality," I agree that Chile's Achilles heel has been the persistent levels of economic and social inequality, particularly those related with "relational inequality." As he recognizes, "it is not only about monetary income but also about social relations, segregation, racism, and the provision of amenities and public goods" (p. 11). Yet, it is surprising that Edwards does not acknowledge that key sources of "relational inequality" and "bad treatment" in Chile are the state and its ossified bureaucratic structure (Paniagua, 2021, Chap. 5). In fact, the book barely mentions Chile's severe problems of state modernization, the failed provision of public goods, and how the state apparatus lags in its modernization process. There are reasons to believe that "multidimensional inequality," particularly the one associated with public goods and social services, is associated with inefficient public policy implementation due to the opaqueness and backward-looking status of the public administration. Alas, the book remains silent on these crucial matters.

Edwards also barely mentions the rapid decline in economic growth that Chile has suffered since 2013–2014 onwards. In almost a decade, Chile passed from growing significantly more than the world average to barely growing at all (see Paniagua, 2021, Chap. 4). The rapid economic slowdown in Chile also led to a sense of "frustrated development" with stagnant real wages, economic uncertainty, job market frustrations, a slowdown in intergenerational income mobility, and to a sense of malaise in the young population—precisely the population that went out to protest in 2019 (Paniagua, 2021, pp. 123–138). The evidence suggests that the *economic*

*atrophy* of Chile, and its expectational and sociological implications, is far more important in understanding the Chilean social unrest than, say, the pension system and cases of collusion in the price of chicken and toilet paper. Yet, Edwards's book is silent also on these pressing economic issues and their sociological implications.

Despite these shortcomings, Edwards's *Chile Project* is a magnificent book that will appeal to economists, political scientists, historians, and sociologists alike, particularly those interested in Latin American politics, neoliberalism, and economic development. The book's most important message is that *ideas matter* and that the battle of ideas is an enduring constant process of persuasion. Thus, "the story of Chile's free-market reforms may be summarized with two words: success and neglect" (p. 270). One of the crucial areas of neglect was within the intellectual and cultural sphere since, "at some point during the 1990s, premarket intellectuals and academics declared victory in the war on ideas and moved on to other pursuits ... In doing so they abandoned the world of doctrine and ideas. ... What they did not understand was that victory in the war of ideas is not eternal" (p. 273).

The pro-market forces, such as think tanks and intellectuals, retreated from the public sphere and from authoring popular books, as well as from educating younger students. Thus, they were unable to offer a new narrative that could appeal to Chileans born after 1990. Ultimately, the rise and fall of neoliberalism in Chile seems to be the outcome of the war of ideas in which, first, the pro-market intellectuals gained the struggle for persuasion up until 2006 and then, between 2006 and 2019, the radical left with an anti-market and anti-privatization slogan won the debate and the cultural hegemony (Paniagua, 2022). The far-left articulated and offered an appealing narrative to a young generation of Chileans and to university students in which they claimed that "the neoliberal model implemented by Pinochet" was the root of all social ills, helping to pave the cultural path for the downfall and collapse of the previous pro-market consensus.

As John Maynard Keynes once warned us: "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.... I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas" (Keynes, 1936, p. 383). In this excellent book, Edwards convincingly shows that Chile, both for good and ill, is a poster-child of Keynes' dictum about the role of ideas in shaping the course of history. It has yet to be seen if the pro-market forces in Chile and the local intellectuals who enjoy living in a prosperous society will react to the current anti-market and anti-liberal forces; they would benefit from taking note of Edwards's valuable message.

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