

powers of shock, the architects of the American-British invasion imagined that their use of force would be so stunning, so overwhelming, that Iraqis would go into a kind of suspended animation, much like the one described in the *Kubark* manual. In that window of opportunity, Iraq's invaders would slip in another set of shocks—these ones economic—which would create a model free-market democracy on the blank slate that was post-invasion Iraq.

But there was no blank slate, only rubble and shattered, angry people—who, when they resisted, were blasted with more shocks, some of them based on those experiments performed on Gail Kastner all those years ago. “We’re really good at going out and breaking things. But the day I get to spend more time here working on construction rather than combat, that will be a very good day,” General Peter W. Chiarelli, commander of the U.S. Army’s First Cavalry Division, observed a year and half after the official end of the war.⁸² That day never came. Like Cameron, Iraq’s shock doctors can destroy, but they can’t seem to rebuild.

THE OTHER DOCTOR SHOCK

MILTON FRIEDMAN AND THE SEARCH FOR A LAISSEZ-FAIRE LABORATORY

Economic technocrats may be able to structure a tax reform here, a new social security law there, or a modified exchange rate regime somewhere else, but they really never have the luxury of a clean state on which to set up, in full flower as it were, their complete preferred economic policy framework.

—Arnold Harberger, University of Chicago economics professor, 1998¹

There are few academic environments as heavily mythologized as the University of Chicago’s Economics Department in the 1950s, a place intensely conscious of itself not just as a school but as a School of Thought. It was not just training students; it was building and strengthening the Chicago School of economics, the brainchild of a coterie of conservative academics whose ideas represented a revolutionary bulwark against the dominant “statist” thinking of the day. To pass through the doors of the Social Science Building, under the sign reading “Science Is Measurement,” and into the legendary lunchroom where students tested their intellectual mettle by daring to challenge their titanic professors, was to seek nothing so prosaic as a

degree. It was to enlist in battle. As Gary Becker, the conservative economist and Nobel Prize winner, put it, "We were warriors in combat with most of the rest of the profession."²

Like Ewen Cameron's psychiatric department at McGill in the same period, the University of Chicago's Economics Department was in the thrall of an ambitious and charismatic man on a mission to fundamentally revolutionize his profession. That man was Milton Friedman. Though he had many mentors and colleagues who believed just as fiercely as he did in ultra laissez-faire, it was Friedman's energy that gave the school its revolutionary fervor. "People would always ask me, 'Why are you so excited? Are you going out on a date with a beautiful woman?'" recalls Becker. "I said, 'No, I'm going to a class in economics!' Being a student of Milton's was magic indeed."³

Friedman's mission, like Cameron's, rested on a dream of reaching back to a state of "natural" health, when all was in balance, before human interferences created distorting patterns. Where Cameron dreamed of returning the human mind to that pristine state, Friedman dreamed of depatterning societies, of returning them to a state of pure capitalism, cleansed of all interruptions—government regulations, trade barriers and entrenched interests. Also like Cameron, Friedman believed that when the economy is highly distorted, the only way to reach that prelapsarian state was to deliberately inflict painful shocks: only "bitter medicine" could clear those distortions and bad patterns out of the way. Cameron used electricity to inflict his shocks; Friedman's tool of choice was policy—the shock treatment approach he urged on bold politicians for countries in distress. Unlike Cameron, however, who was able to instantly apply his pet theories on his unwitting patients, Friedman would need two decades and several twists and turns of history before he too got the chance to put his dreams of radical erasure and creation into action in the real world.

Frank Knight, one of the founders of Chicago School economics, thought professors should "inculcate" in their students the belief that

each economic theory is "a sacred feature of the system," not a debatable hypothesis.⁴ The core of such sacred Chicago teachings was that the economic forces of supply, demand, inflation and unemployment were like the forces of nature, fixed and unchanging. In the truly free market imagined in Chicago classes and texts, these forces existed in perfect equilibrium, supply communicating with demand the way the moon pulls the tides. If economies suffered from high inflation, it was, according to Friedman's strict theory of monetarism, invariably because misguided policy makers had allowed too much money to enter the system, rather than letting the market find its balance. Just as ecosystems self-regulate, keeping themselves in balance, the market, left to its own devices, would create just the right number of products at precisely the right prices, produced by workers at just the right wages to buy those products—an Eden of plentiful employment, boundless creativity and zero inflation.

According to the Harvard sociologist Daniel Bell, this love of an idealized system is the defining quality of radical free-market economics. Capitalism is envisaged as "a jeweled set of movements" or a "celestial clockwork . . . a work of art, so compelling that one thinks of the celebrated pictures of Apelles who painted a cluster of grapes so realistic that the birds would come and pick at them."⁵

The challenge for Friedman and his colleagues was how to prove that a real-world market could live up to their rapturous imaginings. Friedman always prided himself on approaching economics as a science as hard and rigorous as physics or chemistry. But hard scientists could point to the behavior of the elements to prove their theories. Friedman could not point to any living economy that proved that if all "distortions" were stripped away, what would be left would be a society in perfect health and bounteous, since no country in the world met the criteria for perfect laissez-faire. Unable to test their theories in central banks and ministries of trade, Friedman and his colleagues had to settle for elaborate and ingenious mathematical equations and computer models mapped out in the basement workshops of the social sciences building.

A love of numbers and systems is what had led Friedman to economics. In his autobiography, he says his moment of epiphany came when a high-school geometry teacher wrote the Pythagorean theorem on the blackboard and then, awed by its elegance, quoted from John Keats's "Ode on a Grecian Urn": "Beauty is truth, truth beauty,—that is all / Ye know on earth, and all ye need to know."⁶ Friedman passed on that same ecstatic love of a beautiful all-encompassing system to generations of economics scholars—along with a search for simplicity, elegance and rigor.

Like all fundamentalist faiths, Chicago School economics is, for its true believers, a closed loop. The starting premise is that the free market is a perfect scientific system, one in which individuals, acting on their own self-interested desires, create the maximum benefits for all. It follows ineluctably that if something is wrong within a free-market economy—high inflation or soaring unemployment—it has to be because the market is not truly free. There must be some interference, some distortion in the system. The Chicago solution is always the same: a stricter and more complete application of the fundamentals.

When Friedman died in 2006, obituary writers struggled to summarize the breadth of his legacy. One settled on this statement: "Milton's mantra of free markets, free prices, consumer choice and economic liberty is responsible for the global prosperity we enjoy today."⁷ This is partially true. The nature of that global prosperity—contested, of course. What is irrefutable is the fact that Friedman's free-market rulebook, and his savvy strategies for imposing it, have made some people extremely prosperous, winning for them something approximating complete freedom—to ignore national borders, to avoid regulation and taxation and to amass new wealth.

This knack for thinking highly profitable thoughts appears to have its roots in Friedman's early childhood, when his parents, immigrants

from Hungary, bought a garment factory in Rahway, New Jersey. The family apartment was in the same building as the shop floor, which, Friedman wrote, "would be termed a sweatshop today."⁸ Those were volatile times for sweatshop owners, with Marxists and anarchists organizing immigrant workers into unions to demand safety regulations and weekends off—and debating the theory of worker ownership at after-shift meetings. As the boss's son, Friedman no doubt heard a very different perspective on these debates. In the end, his father's factory went under, but in lectures and television appearances, Friedman spoke of it often, invoking it as a case study for the benefits of deregulated capitalism—proof that even the worst, least-regulated jobs offer the first rung on the ladder to freedom and prosperity.

A large part of the appeal of Chicago School economics was that, at a time when radical-left ideas about workers' power were gaining ground around the world, it provided a way to defend the interests of owners that was just as radical and was infused with its own claims to idealism. To hear Friedman tell it, his ideas were not about defending the right of factory owners to pay low wages but, rather, all about a quest for the purest possible form of "participatory democracy" based on the free market, "each man can vote, as it were, for the color of life he wants."⁹ Where leftists promised freedom for workers from abuses, citizens from dictatorship, countries from colonialism, Friedman promised "individual freedom," a project that elevated atomized persons above any collective enterprise and liberated them to express their absolute free will through their consumer choices. "What was especially exciting were the same qualities that made Marxism so appealing to many other young people at the time," recalled the Marxist Don Patinkin, who studied at Chicago in the forties—"individual liberty together with apparent logical completeness; idealism mixed with radicalism."¹⁰ The Marxists had their workers' utopia, the Chicagoans had their entrepreneurs' utopia, both claiming that if they got their way, perfection and balance would follow. The question, as always, was how to get to that wondrous place

from here. The Marxists were clear: revolution—get rid of the current system, replace it with socialism. For the Chicagoans, the answer was not as straightforward. The United States was already a capitalist country, but as far as they were concerned, just barely. In the U.S., and in all supposedly capitalist economies, the Chicagoans saw interferences everywhere. To make products more affordable, politicians fixed prices; to make workers less exploited, they set minimum wages; to make sure everyone had access to education, they kept it in the hands of the state. These measures often seemed to help people, but Friedman and his colleagues were convinced—and they “proved” it with their models—that they were actually doing untold harm to the equilibrium of the market and the ability of its various signals to communicate with each other. The mission of the Chicago School was thus one of purification—stripping the market of these interruptions so that the free market could sing.

For this reason, Chicagoans did not see Marxism as their true enemy. The real source of the trouble was to be found in the ideas of the Keynesians in the United States, the social democrats in Europe and the developmentalists in what was then called the Third World. These were believers not in a utopia but in a mixed economy, to Chicago eyes an ugly hodgepodge of capitalism for the manufacture and distribution of consumer products, socialism in education, state ownership for essentials like water services, and all kinds of laws designed to temper the extremes of capitalism. Like the religious fundamentalist who has a grudging respect for fundamentalists of other faiths and for avowed atheists but disdains the casual believer, the Chicagoans declared war on these mix-and-match economists. What they wanted was not a revolution exactly but a capitalist Reformation: a return to uncontaminated capitalism.

Much of this purism came from Friedrich Hayek, Friedman's own personal guru, who also taught at the University of Chicago for a stretch in the 1950s. The austere Austrian warned that any government involvement in the economy would lead society down “the road

to serfdom” and had to be expunged.¹¹ According to Arnold Harberger, a longtime professor at Chicago, “the Austrians,” as this clique-within-a-clique was called, were so zealous that any state interference was not just wrong, but “evil. . . . It's as if there is a very pretty but highly complex picture out there, which is perfectly harmonious within itself, you see, and if there's a speck where it isn't supposed to be, well, that's just awful. . . . it is a flaw that mars that beauty.”¹²

In 1947, when Friedman first joined with Hayek to form the Mont Pelerin Society, a club of free-market economists named for its location in Switzerland, the idea that business should be left alone to govern the world as it wished was one barely suitable for polite company. Memories of the market crash of 1929 and the Great Depression that followed were still fresh—the life savings destroyed overnight, the suicides, the soup kitchens, the refugees. The scale of this market-created disaster had led to a surging demand for a distinctly hands-on form of government. The Depression did not signal the end of capitalism, but it was, as John Maynard Keynes forecast a few years earlier, “the end of *laissez-faire*”—the end of letting the market regulate itself.¹³ The 1930s through to the early 1950s was a time of unabashed *faire*: the can-do ethos of the New Deal gave way to the war effort, with public works programs launched to create much-needed jobs, and new social programs unveiled to prevent growing numbers of people from turning hard left. It was a time when compromise between left and right was not a dirty word but part of what many saw as a noble mission to prevent a world, as Keynes wrote to President Franklin D. Roosevelt in 1933, in which “orthodoxy and revolution” were left “to fight it out.”¹⁴ John Kenneth Galbraith, heir to Keynes's mantle in the U.S., described the prime missions of politicians and economists alike as “the avoidance of depression and the prevention of unemployment.”¹⁵

The Second World War lent new urgency to the war against poverty. Nazism had taken root in Germany at a time when the country was in a devastating depression, provoked by the punishing

reparations imposed after the First World War and deepened by the 1929 crash. Keynes had warned early on that if the world took a laissez-faire approach to Germany's poverty, the blowback would be ferocious: "Vengeance, I dare predict, will not limp."¹⁶ Those words went unheeded at the time, but when Europe was rebuilt after the Second World War, the Western powers embraced the principle that market economies needed to guarantee enough basic dignity that disillusioned citizens would not go looking once again for a more appealing ideology, whether fascism or Communism. It was this pragmatic imperative that led to the creation of almost everything that we associate today with the bygone days of "decent" capitalism—social security in the U.S., public health care in Canada, welfare in Britain, workers' protections in France and Germany.

A similar, more radical mood was on the rise in the developing world, usually going under the name developmentalism, or Third World nationalism. Developmentalist economists argued that their countries would finally escape the cycle of poverty only if they pursued an inward-oriented industrialization strategy instead of relying on the export of natural resources, whose prices had been on a declining path, to Europe and North America. They advocated regulating or even nationalizing oil, minerals and other key industries so that a healthy share of the proceeds fed a government-led development process.

By the 1950s, the developmentalists, like the Keynesians and social democrats in rich countries, were able to boast a series of impressive success stories. The most advanced laboratory of developmentalism was the southern tip of Latin America, known as the Southern Cone: Chile, Argentina, Uruguay and parts of Brazil. The epicenter was the United Nations' Economic Commission for Latin America, based in Santiago, Chile, and headed by the economist Raúl Prebisch from 1950 to 1963. Prebisch trained teams of economists in developmentalist theory and dispatched them to act as policy advisers for

governments across the continent. Nationalist politicians like Argentina's Juan Perón put their ideas into practice with a vengeance, pouring public money into infrastructure projects such as highways and steel plants, giving local businesses generous subsidies to build their new factories, churning out cars and washing machines, and keeping out foreign imports with forbiddingly high tariffs.

During this dizzying period of expansion, the Southern Cone began to look more like Europe and North America than the rest of Latin America or other parts of the Third World. The workers in the new factories formed powerful unions that negotiated middle-class salaries, and their children were sent off to study at newly built public universities. The yawning gap between the region's polo-club elite and its peasant masses began to narrow. By the 1950s, Argentina had the largest middle class on the continent, and next-door Uruguay had a literacy rate of 95 percent and offered free health care for all citizens. Developmentalism was so staggeringly successful for a time that the Southern Cone of Latin America became a potent symbol for poor countries around the world: here was proof that with smart, practical policies, aggressively implemented, the class divide between the First and Third World could actually be closed.

All this success for managed economies—in the Keynesian north and the developmentalist south—made for dark days at the University of Chicago's Economics Department. The Chicagoans' academic triumphs at Harvard, Yale and Oxford were being enlisted by presidents and prime ministers to help tame the beast of the market; almost no one was interested in Friedman's daring ideas about letting it run even more wildly than before. There were, however, a few people who were keenly interested in Chicago School ideas—and they were a powerful few.

They were the heads of U.S. multinational corporations, contending with an increasingly inhospitable developing world and with stronger, more organized unions at home, the postwar boom years were unsettling. The economy was growing fast, enormous wealth was being

created, but owners and shareholders were forced to redistribute a great deal of that wealth through corporate taxes and workers' salaries. Everyone was doing well, but with a return to the pre-New Deal rules, a few people could have been doing a lot better.

The Keynesian revolution against laissez-faire was costing the corporate sector dearly. Clearly what was needed to regain lost ground was a counterrevolution against Keynesianism, a return to a form of capitalism even less regulated than before the Depression. This wasn't a crusade that Wall Street itself could lead—not in the current climate. If Friedman's close friend Walter Wriston, head of Citibank, had come forward and argued that the minimum wage and corporate taxes should both be abolished, he naturally would have been accused of being a robber baron. And that's where the Chicago School came in. It quickly became clear that when Friedman, a brilliant mathematician and skilled debater, made those same arguments, they took on an entirely different quality. They might be dismissed as wrongheaded but they were imbued with an aura of scientific impartiality. The enormous benefit of having corporate views funneled through academic, or quasi-academic, institutions not only kept the Chicago School flush with donations but, in short order, spawned the global network of right-wing think tanks that would churn out the counterrevolution's foot soldiers worldwide.

It all came back to Friedman's single-minded message: everything went wrong with the New Deal. That's when so many countries "including my own, got off on the wrong track."¹⁷ To get governments back on the right track, Friedman, in his first popular book, *Capitalism and Freedom*, laid out what would become the global free-market rulebook and, in the U.S., would form the economic agenda of the neoconservative movement.

First, governments must remove all rules and regulations standing in the way of the accumulation of profits. Second, they should sell off any assets they own that corporations could be running at a

profit. And third, they should dramatically cut back running of social programs. Within the three-part formula of deregulation, privatization and cutbacks, Friedman had plenty of specifics. Taxes, when they must exist, should be low, and rich and poor should be taxed at the same flat rate. Corporations should be free to sell their products anywhere in the world, and governments should make no effort to protect local industries or local ownership. All prices, including the price of labor, should be determined by the market. There should be no minimum wage. For privatization, Friedman offered up health care, the post office, education, retirement pensions, even national parks. In short, and quite unabashedly, he was calling for the breaking of the New Deal—that uneasy truce between the state, corporations and labor that had prevented popular revolt after the Great Depression. Whatever protections workers had managed to win, whatever services the state now provided to soften the edges of the market, the Chicago School counterrevolution wanted them back.

And it wanted more than that—it wanted to expropriate what workers and governments had built during those decades of frenetic public works. The assets that Friedman urged government to sell were the end products of the years of investment of public money and know-how that had built them and made them valuable. As far as Friedman was concerned, all this shared wealth should be transferred into private hands, on principle.

Though always cloaked in the language of math and science; Friedman's vision coincided precisely with the interests of large multinationals, which by nature hunger for vast new unregulated markets. In the first stage of capitalist expansion, that kind of ravenous growth was provided by colonialism—by "discovering" new territories and grabbing land without paying for it, then extracting riches from the earth without compensating local populations. Friedman's war on the "welfare state" and "big government" held out the promise of a new font of rapid riches—only this time, rather than conquering

new territory, the state itself would be the new frontier, its public services and assets auctioned off for far less than they were worth.

The War against Developmentalism

In the United States of the 1950s, access to those kinds of riches was still decades away. Even with a hard-core Republican like Dwight Eisenhower in the White House, there was no chance of a radical right turn like the one the Chicagoans were suggesting—public services and workers' protections were far too popular, and Eisenhower was looking to the next election. Although he had little appetite for reversing Keynesianism at home, Eisenhower proved eager to take swift and radical action to defeat developmentalism abroad. It was a campaign in which the University of Chicago would eventually play a pivotal role.

When Eisenhower took office in 1953, Iran had a developmentalist leader in Mohammad Mossadegh, who had already nationalized the oil company, and Indonesia was in the hands of the increasingly ambitious Achimed Sukarno, who was talking about linking up all the nationalist governments of the Third World into a superpower on par with the West and the Soviet Bloc. Of particular concern to the State Department was the growing success of nationalist economics in the Southern Cone of Latin America. At a time when large portions of the globe were turning to Stalinism and Maoism, developmentalist proposals for "import substitution" were actually quite centrist. Still, the idea that Latin America deserved its own New Deal had powerful enemies. The continent's feudal landowners had been happy with the old status quo, which supplied them with steep profits and a limitless pool of poor peasants to work in the fields and mines. Now, they were outraged to see their profits being diverted to build up other sectors, their workers demanding land redistribution, and the government keeping the price of their crops artificially low so food could be affordable. American and European corporations doing business in Latin America began to ex-

press similar complaints to their governments: their products were being blocked at the borders, their workers were demanding higher wages and, most alarmingly, there was growing talk that everything from foreign-owned mines to banks could be nationalized to finance Latin America's dream of economic independence.

Under pressure from these corporate interests, a movement took hold in American and British foreign policy circles that attempted to pull developmentalist governments into the binary logic of the Cold War. Don't be fooled by the moderate, democratic veneer, these hawks warned: Third World nationalism was the first step on the road to totalitarian Communism and should be nipped in the bud. Two of the chief proponents of this theory were John Foster Dulles, Eisenhower's secretary of state, and his brother Allen Dulles, head of the newly created CIA. Before taking public posts, both had worked at the legendary New York law firm Sullivan & Cromwell, where they represented many of the companies that had the most to lose from developmentalism, among them J. P. Morgan & Company, the International Nickel Company, the Cuban Sugar Cane Corporation and the United Fruit Company.¹⁸ The results of the Dulleses' ascendancy were immediate: in 1953 and 1954, the CIA staged its first two coups d'état, both against Third World governments that identified far more with Keynes than with Stalin.

The first was in 1953, when a CIA plot successfully overthrew Mossadegh in Iran, replacing him with the brutal shah. The next was the 1954 CIA-sponsored coup in Guatemala, done at the direct behest of the United Fruit Company. The corporation, which still had the ear of the Dulles brothers from their Cromwell days, was indignant that President Jacobo Arbenz Guzmán had expropriated some of its unused land (with full compensation) as part of his project to transform Guatemala, as he put it, "from a backward country with a predominantly feudal economy into a modern capitalist state"—apparently an unacceptable goal.¹⁹ Soon enough Arbenz was out, and United Fruit was back in charge.

Eradicating developmentalism in the Southern Cone, where it had taken far deeper root, was a much greater challenge. Figuring out how to achieve that goal was the topic of discussion between two American men as they met in Santiago, Chile, in 1953. One was Albion Patterson, director of the U.S. International Cooperation Administration in Chile—the agency that would later become USAID—and the other was Theodore W. Schultz, chairman of the Department of Economics at the University of Chicago. Patterson had become increasingly concerned about the maddening influence of Raúl Prebisch and Latin America's other "pink" economists. "What we need to do is change the formation of the men, to influence the education, which is very bad," he had stressed to a colleague.²⁰ This objective coincided with Schultz's own belief that the U.S. government wasn't doing enough to fight the intellectual war with Marxism. "The United States must take stock of its economic programs abroad . . . we want [the poor countries] to work out their economic salvation by relating themselves to us and by using our way of achieving their economic development," he said.²¹

The two men came up with a plan that would eventually turn Santiago, a hotbed of state-centered economics, into its opposite—a laboratory for cutting-edge free-market experiments, giving Milton Friedman what he had longed for: a country in which to test his cherished theories. The original plan was simple: the U.S. government would pay to send Chilean students to study economics at what pretty much everyone recognized was the most rabidly anti-"pink" school in the world—the University of Chicago. Schultz and his colleagues at the university would also be paid to travel to Santiago to conduct research into the Chilean economy and to train students and professors in Chicago School fundamentals.

What set the plan apart from other U.S. training programs that sponsored Latin American students, of which there were many, was its unabashedly ideological character. By selecting Chicago to train Chileans—a school where the professors agitated for the near-

complete dismantling of government with single-minded focus—the U.S. State Department was firing a shot across the bow in its war against developmentalism, effectively telling Chileans that the U.S. government had decided what ideas their elite students should and should not learn. This was such blatant U.S. intervention in Latin American affairs that when Albion Patterson approached the dean of the University of Chile, the country's premiere university, and offered him a grant to set up the exchange program, the dean turned him down. He said he would participate only if his faculty had input into who in the U.S. was training his students. Patterson went on to approach the dean of a lesser institution, Chile's Catholic University, a much more conservative school with no economics department. The dean at the Catholic University jumped at the offer, and what became known in Washington and Chicago as "the Chile Project" was born.

"We came here to compete, not to collaborate," said Schultz of the University of Chicago, explaining why the program would be closed to all Chilean students but the few selected.²² This combative stance was explicit from the start: the goal of the Chile Project was to produce ideological warriors who would win the battle of ideas against Latin America's "pink" economists.

Officially launched in 1956, the project saw one hundred Chilean students pursue advanced degrees at the University of Chicago between 1957 and 1970, their tuition and expenses paid for by U.S. taxpayers and U.S. foundations. In 1965, the program was expanded to include students from across Latin America, with particularly heavy participation from Argentina, Brazil and Mexico. The expansion was funded through a grant from the Ford Foundation and led to the creation of the Center for Latin American Economic Studies at the University of Chicago. Under the program, there were forty to fifty Latin Americans studying graduate-level economics at any given time—roughly one-third of the department's total student population. In comparable programs at Harvard or MIT, there were just four or five Latin Americans. It was a startling achievement: in just a decade, the

ultraconservative University of Chicago had become the premier destination for Latin Americans wanting to study economics abroad, a fact that would shape the course of the region's history for decades to come.

Indoctrinating the visitors in Chicago School orthodoxy became a pressing institutional priority. The head of the program, and the man in charge of making the Latin Americans feel welcome, was Arnold Harberger, a safari-suit-wearing economist who spoke fluent Spanish, had married a Chilean and described himself as "a seriously dedicated missionary."²³ When the Chilean students started arriving, Harberger created a special "Chile workshop" where University of Chicago professors presented their highly ideological diagnosis of what was wrong with the South American country—and offered their scientific prescriptions on how to fix it.

"Suddenly, Chile and its economy became a topic of daily conversation in the Department of Economics," recalled André Gunder Frank, who studied under Friedman in the 1950s and went on to become a world-renowned development economist.²⁴ All of Chile's policies were put under the microscope and found wanting: its strong social safety net, its protections for national industry, its trade barriers, its controls on prices. Students were taught disdain for these attempts to alleviate poverty, and many of them devoted their PhD theses to dissecting the follies of Latin American developmentalism.²⁵ When Harberger would return from his frequent trips to Santiago in the fifties and sixties, Gunder Frank recalled that he would lambaste Santiago, Chile's health and education systems—the best on the continent—as "absurd attempts to live beyond its underdeveloped means."²⁶

Within the Ford Foundation, there were concerns about financing such an overtly ideological program. Some pointed out that the only Latin American speakers invited to address the students in Chicago were alumni of the same program. "Although the quality and impact of this endeavor cannot be denied, its ideological narrowness consti-

tuted a serious deficiency," wrote Jeffrey Puryear, a Latin American specialist with Ford, in one of the foundation's internal reviews. "The interests of developing countries are not well-served by exposure to a single point of view."²⁷ This assessment did not stop Ford from continuing to fund the program.

When the first group of Chileans returned home from Chicago, they were "even more Friedmanite than Friedman himself," in the words of Mario Zañartu, an economist at Santiago's Catholic University.²⁸ Many took up posts as economics professors in the Catholic University Economics Department, rapidly turning it into their own little Chicago School in the middle of Santiago—the same curriculum, the same English-language texts, the same unyielding claim to "pure" and "scientific" knowledge. By 1963, twelve of the department's thirteen full-time faculty members were graduates of the University of Chicago program, and Sergio de Castro, one of the first graduates, was appointed faculty chairman.²⁹ Now Chilean students didn't need to travel all the way to the U.S.—hundreds could get a Chicago School education without leaving home.

The students who went through the program, whether in Chicago or its franchise operation in Santiago, became known throughout the region as "los Chicago Boys." With more funding from USAID, Chile's Chicago Boys became enthusiastic regional ambassadors for ideas Latin Americans call "neoliberalism," traveling to Argentina and Colombia to set up more University of Chicago franchises in order to "expand this knowledge throughout Latin America, confronting the ideological positions which prevented freedom and perpetuated poverty and backwardness," according to one Chilean graduate.³⁰

Juan Gabriel Valdés, Chile's foreign minister in the 1990s, described the process of training hundreds of Chilean economists in

* Walter Heller, the famed Kennedy-government economist, once mocked the cultishness of Friedman's followers by dividing them into categories: "Some are Friedmanly, some Friedmanian, some Friedmanesque, some Friedmanic and some Friedmaniacs."

Chicago School orthodoxy as “a striking example of an organized transfer of ideology from the United States to a country within its direct sphere of influence . . . the education of these Chileans derived from a specific project designed in the 1950s to influence the development of Chilean economic thinking.” He pointed out that “they introduced into Chilean society ideas that were completely new, concepts entirely absent from the ‘ideas market.’”³¹

As a form of intellectual imperialism, it was certainly unabashed. There was, however, a problem: it wasn’t working. According to a 1957 report from the University of Chicago to its funders at the State Department, “the central purpose of the project” was to train a generation of students “who would become the intellectual leaders in economic affairs in Chile.”³² But the Chicago Boys weren’t leading their countries anywhere—in fact, they were being left behind.

In the early sixties, the main economic debate in the Southern Cone was not about laissez-faire capitalism versus developmentalism but about how best to take developmentalism to the next stage. Marxists argued for extensive nationalization and radical land reforms; centrists argued that the key was greater economic cooperation among Latin American countries, with the goal of transforming the region into a powerful trading bloc to rival Europe and North America. At the polls and on the streets, the Southern Cone was surging to the left.

In 1962, Brazil moved decisively in this direction under the presidency of João Goulart, an economic nationalist committed to land redistribution, higher salaries and a daring plan to force foreign multinationals to reinvest a percentage of their profits back into the Brazilian economy rather than spiriting them out of the country and distributing them to shareholders in New York and London. In Argentina, a military government was trying to defeat similar demands by banning the party of Juan Perón from running in elections, but the move had only radicalized a new generation of young Peronists, many of whom were willing to use arms to retake the country.

It was in Chile—the epicenter of the Chicago experiment—that defeat in the battle of ideas was most evident. By Chile’s historic 1970 elections, the country had moved so far left that all three major political parties were in favor of nationalizing the country’s largest source of revenue: the copper mines then controlled by U.S. mining giants.³³ The Chile Project, in other words, was an expensive bust. As ideological warriors waging a peaceful battle of ideas with their left-wing foes, the Chicago Boys had failed in their mission. Not only was the economic debate continuing to shift leftward, but the Chicago Boys were so marginal that they did not even register on the Chilean electoral spectrum.

It might have ended there, with the Chile Project just a minor historical footnote, but something happened to rescue the Chicago Boys from obscurity: Richard Nixon was elected president of the United States. Nixon “had an imaginative, and on the whole effective, foreign policy,” Friedman enthused.³⁴ And nowhere was it more imaginative than in Chile.

It was Nixon who would give the Chicago Boys and their professors something they had long dreamed of: a chance to prove that their capitalist utopia was more than a theory in a basement workshop—a shot at remaking a country from scratch. Democracy had been inhospitable to the Chicago Boys in Chile; dictatorship would prove an easier fit.

Salvador Allende’s Popular Unity government won Chile’s 1970 elections on a platform promising to put into government hands large sectors of the economy that were being run by foreign and local corporations. Allende was a new breed of Latin American revolutionary: like Che Guevara, he was a doctor, but unlike Che, he looked the part of the tweedy academic, not the romantic guerrilla. He could deliver a stump speech as fiery as any by Fidel Castro, but he was a fierce democrat who believed that socialist change in Chile needed to come through the ballot box, not the barrel of a gun. When Nixon heard that Allende

had been elected president, he famously ordered the CIA director, Richard Helms, to "make the economy scream."³⁵ The election also reverberated throughout the University of Chicago Economics Department. When Allende won, Arnold Harberger happened to be in Chile. He wrote a letter home to his colleagues describing the event as a "tragedy" and informing them that "in rightist circles the idea of a military takeover is also sometimes broached."³⁶

Although Allende pledged to negotiate fair terms to compensate companies that were losing property and investments, U.S. multinationals feared that Allende represented the beginning of a Latin America-wide trend, and many were unwilling to accept the prospect of losing what was a growing portion of their bottom line. By 1968, 20 percent of total U.S. foreign investment was tied up in Latin America, and U.S. firms had 5,436 subsidiaries in the region. The profits that these investments were able to produce were staggering. Mining companies had invested \$1 billion over the previous fifty years in Chile's copper mining industry—the largest in the world—but they had sent \$7.2 billion home.³⁷

As soon as Allende won the vote, and before he was even inaugurated, corporate America declared war on his administration. The center of activity was the Washington-based Ad Hoc Committee on Chile, a group that included the major U.S. mining companies with holdings in Chile, as well as the de facto leader of the committee, the International Telephone and Telegraph Company (ITT), which owned 70 percent of Chile's soon-to-be-nationalized phone company. Purina, Bank of America and Pfizer Chemical also sent delegates at various stages.

The committee's single purpose was to force Allende to back off his nationalizations "by confronting him with economic collapse."³⁸ They had many ideas for how to make Allende feel the pain. According to declassified meeting minutes, the companies planned to block U.S. loans to Chile and "quietly have large U.S. private banks do the same. Confer with foreign banking sources with the same thing in

mind. Delay buying from Chile over the next six months. Use U.S. copper stockpile instead of buying from Chile. Bring about a scarcity of U.S. dollars in Chile." And the list goes on.³⁹

Allende appointed his close friend Orlando Letelier to be his ambassador to Washington; that gave him the task of negotiating the terms of expropriation with the same corporations plotting to sabotage the Allende government. Letelier, a fun-loving extrovert with a quintessential seventies moustache and a devastating singing voice, was much beloved in diplomatic circles. His son Francisco's fondest memories are of listening to his father play the guitar and belt out folk songs at gatherings of friends in their Washington home.⁴⁰ But even with all Letelier's charm and skill, the negotiations never stood a chance of success.

In March 1972, in the midst of Letelier's tense negotiation with ITT, Jack Anderson, a syndicated newspaper columnist, published an explosive series of articles based on documents that showed that the telephone company had secretly plotted with the CIA and the State Department to block Allende from being inaugurated two years earlier. In the face of these allegations, and with Allende still in power, the U.S. Senate, controlled by Democrats, launched an investigation and uncovered a far-reaching conspiracy in which ITT had offered \$1 million in bribes to Chilean opposition forces and "sought to engage the CIA in a plan covertly to manipulate the outcome of the Chilean presidential election."⁴¹

The Senate report, released in June 1973, also found that when the plan failed and Allende took power, ITT moved to a new strategy designed to ensure that he would not "make it through the next six months." Most alarming to the Senate was the relationship between ITT executives and the U.S. government. In testimony and documents, it became clear that ITT was directly involved in shaping U.S. policy toward Chile at the highest level. At one point, a senior ITT executive wrote to National Security Adviser Henry Kissinger and suggested that "without informing President Allende, all U.S. aid funds

already committed to Chile should be placed in the 'under review' status." The company also took the liberty of preparing an eighteen-point strategy for the Nixon administration that contained a clear call for a military coup: "Get to reliable sources within the Chilean military," it stated "... build up their planned discontent against Allende, thus, bring about necessity of his removal."⁴²

When grilled by the Senate committee about his brazen attempts to harness the force of the U.S. government to subvert Chile's constitutional process in order to further ITT's own economic interests, the company's vice president, Ned Gerrity, seemed genuinely confused. "What's wrong with taking care of No. 1?" he asked. The committee offered a response in its report: "'No. 1' should not be allowed an undue role in determining U.S. foreign policy."⁴³

Yet despite years of relentless American dirty tricks, of which ITT was only the most scrutinized example, in 1973 Allende was still in power. Eight million dollars in covert spending had failed to weaken his base. In midterm parliamentary elections that year, Allende's party actually gained support beyond the number that had first elected it in 1970. Clearly, the desire for a different economic model had taken deep root in Chile, and support for a socialist alternative was growing. For Allende's opponents, who had been plotting his overthrow since the day the 1970 election results came in, that meant their problems would not be solved by simply getting rid of him—someone else would just come along and replace him. A more radical plan was needed.

Lessons in Regime Change: Brazil and Indonesia

There were two models of "regime change" that Allende's opponents had been studying closely as possible approaches. One was in Brazil, the other in Indonesia. When Brazil's U.S.-backed junta, led by General Humberto Castello Branco, seized power in 1964, the military had a plan not merely to reverse João Goulart's pro-poor programs but

to crack Brazil wide open to foreign investment. At first, the Brazilian generals tried to impose the agenda relatively peacefully—there were no obvious shows of brutality, no mass arrests, and though it was later discovered that some "subversives" had been brutally tortured during this period, their numbers were small enough (and Brazil so large) that word of their treatment barely escaped the jails. The junta also made a point of keeping some remnants of democracy in place, including limited press freedoms and freedom of assembly—a so-called gentlemen's coup.

In the late sixties, many citizens decided to use those limited freedoms to express their anger at Brazil's deepening poverty, for which they blamed the junta's pro-business economic program, much of it designed by graduates of the University of Chicago. By 1968 the streets were overrun with antijunta marches, the largest led by students, and the regime was in serious jeopardy. In a desperate bid to hold on to power, the military radically changed tactics: democracy was shut down completely, all civil liberties were crushed, torture became systematic, and, according to Brazil's later-established truth commission, "killings by the state became routine."⁴⁴

Indonesia's 1965 coup followed a very different trajectory. Since the Second World War, the country had been led by President Sukarno, the Hugo Chávez of his day (though minus Chávez's appetite for elections). Sukarno enraged the rich countries by protecting Indonesia's economy, redistributing wealth and throwing out the International Monetary Fund and the World Bank, which he accused of being facades for the interests of Western multinationals. While Sukarno was a nationalist, not a Communist, he worked closely with the Communist Party, which had 3 million active members. The U.S. and British governments were determined to end Sukarno's rule, and declassified documents show that the CIA had received high-level directions to "liquidate President Sukarno, depending upon the situation and available opportunities."⁴⁵

After several false starts, the opportunity came in October 1965,

when General Suharto, backed by the CIA, began the process of seizing power and eradicating the left. The CIA had been quietly compiling a list of the country's leading leftists, a document that fell into Suharto's hands, while the Pentagon helped out by supplying extra weapons and field radios so Indonesian forces could communicate in the remotest parts of the archipelago. Suharto then sent out his soldiers to hunt down the four to five thousand leftists on his "shooting lists," as the CIA referred to them; the U.S. embassy received regular reports on their progress.⁴⁶ As the information came in, the CIA crossed names off their lists until they were satisfied that the Indonesian left had been annihilated. One of the people involved in the operation was Robert J. Martens, who worked for the U.S. embassy in Jakarta. "It really was a big help to the army," he told the journalist Kathy Kadane twenty-five years later. "They probably killed a lot of people, and I probably have a lot of blood on my hands, but that's not all bad. There's a time when you have to strike hard at a decisive moment."⁴⁷

The shooting lists covered the targeted killing; the more indiscriminate massacres for which Suharto is infamous were, for the most part, delegated to religious students. They were quickly trained by the military and then sent into villages on instructions from the chief of the navy to "sweep" the countryside of Communists. "With relish," wrote one reporter, "they called out their followers, stuck their knives and pistols in their waistbands, swung their clubs over their shoulders, and embarked on the assignment for which they had long been hoping."⁴⁸ In just over a month, at least half a million and possibly as many as 1 million people were killed, "massacred by the thousands," according to *Time*.⁴⁹ In East Java, "Travelers from those areas tell of small rivers and streams that have been literally clogged with bodies; river transportation has at places been impeded."⁵⁰

The Indonesian experience attracted close attention from the individuals and institutions plotting the overthrow of Salvador Allende in Washington and Santiago. Of interest was not only Suharto's brutality but also the extraordinary role played by a group of Indonesian

economists who had been educated at the University of California at Berkeley, known as the Berkeley Mafia. Suharto was effective at getting rid of the left, but it was the Berkeley Mafia who prepared the economic blueprint for the country's future.

The parallels with the Chicago Boys were striking. The Berkeley Mafia had studied in the U.S. as part of a program that began in 1956, funded by the Ford Foundation. They had also returned home to build a faithful copy of a Western-style economics department, theirs at the University of Indonesia's Faculty of Economics. Ford sent American professors to Jakarta to establish the school, just as Chicago profs had gone to help set up the new economics department in Santiago. "Ford felt it was training the guys who would be leading the country when Sukarno got out," John Howard, then director of Ford's International Training and Research Program, bluntly explained.⁵¹

Ford-funded students became leaders of the campus groups that participated in overthrowing Sukarno, and the Berkeley Mafia worked closely with the military in the lead-up to the coup, developing "contingency plans" should the government suddenly fall.⁵² These young economists had enormous influence over General Suharto, who knew nothing of high finance. According to *Fortune* magazine, the Berkeley Mafia recorded economics lessons on audiotapes for Suharto to listen to at home.⁵³ When they met in person, "President Suharto did not merely listen, he took notes," one member of the group recalled with pride.⁵⁴ Another Berkeley grad described the relationship in this way: we "presented to the Army leadership—the crucial element in the new order—a 'cookbook' of 'recipes' for dealing with Indonesia's serious economic problems. General Suharto as the top Army commander not only accepted the cookbook, but also wanted

* Not all the U.S. professors sent under the program were comfortable with this role. "I felt that the University should not be involved in what essentially was becoming a rebellion against the government," said Len Doyle, the Berkeley professor appointed to head Ford's Indonesian economics program. That point of view got Doyle recalled to California and replaced.

the authors of the recipes as his economic advisers."⁵⁵ Indeed he did. Suharto packed his cabinet with members of the Berkeley Mafia, handing them all the key financial posts, including minister of trade and ambassador to Washington.⁵⁶

This economic team, having studied at a less ideological school, were not antistate radicals like the Chicago Boys. They believed the government had a role to play in managing Indonesia's domestic economy and making sure that basics, like rice, were affordable. However, the Berkeley Mafia could not have been more hospitable to foreign investors wanting to mine Indonesia's immense mineral and oil wealth, described by Richard Nixon as "the greatest prize in the Southeast Asian area."⁵⁷ They passed laws allowing foreign companies to own 100 percent of these resources, handed out "tax holidays," and within two years, Indonesia's natural wealth—copper, nickel, hardwood, rubber and oil—was being divided up among the largest mining and energy companies in the world.

For those plotting the overthrow of Allende just as Suharto's program was kicking in, the experiences of Brazil and Indonesia made for a useful study in contrasts. The Brazilians had made little use of the power of shock, waiting years before demonstrating their appetite for brutality. It was a near-fatal error, since it gave their opponents the chance to regroup and for some to form left-wing guerrilla armies. Although the junta managed to clear the streets, the rising opposition forced it to slow its economic plans.

Suharto, on the other hand, had shown that if massive repression was used *preemptively*, the country would go into a kind of shock and resistance could be wiped out before it even took place. His use of terror was so merciless, so far beyond even the worst expectations, that a people who only weeks earlier had been collectively striving to assert their country's independence were now sufficiently terrified

* Interestingly, Arnold Harberger was hired as a consultant to Suharto's finance ministry in 1975.

that they ceded total control to Suharto and his henchmen. Ralph McGehee, a senior CIA operations manager during the years of the coup, said Indonesia was a "model operation. . . . You can trace back all major, bloody events run from Washington to the way Suharto came to power. The success of that meant that it would be repeated, again and again."⁵⁸

The other crucial lesson from Indonesia had to do with the pre-coup partnership between Suharto and the Berkeley Mafia. Because they were ready to take up top "technocratic" positions in the new government and had already converted Suharto to their worldview, the coup did more than just get rid of a nationalist threat; it transformed Indonesia into one of the most welcoming environments for foreign multinationals in the world.

As momentum began to build toward Allende's ouster, a chilling warning began appearing in red paint on the walls of Santiago. It said, "Jakarta is coming."

Shortly after Allende was elected, his opponents inside Chile began to imitate the Indonesia approach with eerie precision. The Catholic University, home of the Chicago Boys, became ground zero for the creation of what the CIA called "a coup climate."⁵⁹ Many students joined the fascist Patria y Libertad and goose-stepped through the streets in open imitation of Hitler Youth. In September 1971, a year into Allende's mandate, the top business leaders in Chile held an emergency meeting in the seaside city of Viña del Mar to develop a coherent regime-change strategy. According to Orlando Sáenz, president of the National Association of Manufacturers (generously funded by the CIA and many of the same foreign multinationals doing their own plotting in Washington), the gathering decided that "Allende's government was incompatible with freedom in Chile and with the existence of private enterprise, and that the only way to avoid the end was to overthrow the government." The businessmen formed a "war structure," one part of which would liaise with the military;

another, according to Sáenz, would “prepare specific alternative programs to government programs that would systematically be passed on to the Armed Forces.”⁶⁰

Sáenz recruited several key Chicago Boys to design those alternative programs and set them up in a new office near the Presidential Palace in Santiago.⁶¹ The group, led by the Chicago grad Sergio de Castro and by Sergio Undurraga, his colleague at the Catholic University, began holding weekly secret meetings during which they developed detailed proposals for how to radically remake their country along neoliberal lines.⁶² According to the subsequent U.S. Senate investigation, “over 75 percent” of the funding for this “opposition research organization” was coming directly from the CIA.⁶³

For a time, the coup planning proceeded on two distinct tracks: the military plotted the extermination of Allende and his supporters while the economists plotted the extermination of their ideas. As momentum built for a violent solution, a dialogue was opened between the two camps, with Roberto Kelly, a businessman associated with the CIA-financed newspaper *El Mercurio*, acting as the go-between. Through Kelly, the Chicago Boys sent a five-page summary of their economic program to the navy admiral in charge. The navy gave the nod, and from then on the Chicago Boys worked frantically to have their program ready by the time of the coup.

Their five-hundred-page bible—a detailed economic program that would guide the junta from its earliest days—came to be known in Chile as “The Brick.” According to a later U.S. Senate Committee, “CIA collaborators were involved in preparing an initial overall economic plan which has served as the basis for the Junta’s most important economic decisions.”⁶⁴ Eight of the ten principal authors of “The Brick” had studied economics at the University of Chicago.⁶⁵

Although the overthrow of Allende was universally described as a military coup, Orlando Letelier, Allende’s Washington ambassador, saw it as an equal partnership between the army and the economists. “The ‘Chicago boys,’ as they are known in Chile,” Letelier wrote,

“convinced the generals that they were prepared to supplement the brutality, which the military possessed, with the intellectual assets it lacked.”⁶⁶

Chile’s coup, when it finally came, would feature three distinct forms of shock, a recipe that would be duplicated in neighboring countries and would reemerge, three decades later, in Iraq. The shock of the coup itself was immediately followed by two additional forms of shock. One was Milton Friedman’s capitalist “shock treatment,” a technique in which hundreds of Latin American economists had by now been trained at the University of Chicago and its various franchise institutions. The other was Ewen Cameron’s shock, drug and sensory deprivation research, now codified as torture techniques in the *Kubark* manual and disseminated through extensive CIA training programs for Latin American police and military.

These three forms of shock converged on the bodies of Latin Americans and the body politic of the region, creating an unstoppable hurricane of mutually reinforcing destruction and reconstruction, erasure and creation. The shock of the coup prepared the ground for economic shock therapy; the shock of the torture chamber terrorized anyone thinking of standing in the way of the economic shocks. Out of this live laboratory emerged the first Chicago School state, and the first victory in its global counterrevolution.

STATES OF SHOCK

THE BLOODY BIRTH OF THE COUNTERREVOLUTION

For injuries ought to be done all at one time, so that, being tasted less, they offend less.

—Niccolò Machiavelli, *The Prince*, 1513¹

If this shock approach were adopted, I believe that it should be announced publicly in great detail, to take effect at a very close date. The more fully the public is informed, the more will its reactions facilitate the adjustment.

—Milton Friedman in a letter to General Augusto Pinochet, April 21, 1975²

General Augusto Pinochet and his supporters consistently referred to the events of September 11, 1973, not as a coup d'état but as "a war." Santiago certainly looked like a war zone: tanks fired as they rolled down the boulevards, and government buildings were under air assault by fighter jets. But there was something strange about this war. It had only one side.

From the start, Pinochet had complete control of the army, navy, marines and police. Meanwhile, President Salvador Allende had

refused to organize his supporters into armed defense leagues, so he had no army of his own. The only resistance came from the presidential palace, La Moneda, and the rooftops around it, where Allende and his inner circle made a valiant effort to defend the seat of democracy. It was hardly a fair fight: though there were just thirty-six Allende supporters inside, the military launched twenty-four rockets into the palace.³

Pinochet, the operation's vain and volatile commander (built like one of the tanks he rode in on), clearly wanted the event to be as dramatic and traumatic as possible. Even if the coup was not a war, it was designed to feel like one—a Chilean precursor to Shock and Awe. It could scarcely have been more shocking. Unlike neighboring Argentina, which had been ruled by six military governments in the previous four decades, Chile had no experience with this kind of violence; it had enjoyed 160 years of peaceful democratic rule, the past 41 uninterrupted.

Now the presidential palace was in flames, the president's shrouded body was being carried out on a stretcher, and his closest colleagues were lying facedown in the street at rifle point.* A few minutes' drive from the presidential palace, Orlando Letelier, recently returned from Washington to take up a new post as Chile's defense minister, had gone to his office that morning in the ministry. As soon as he walked through the front door, he was ambushed by twelve soldiers in combat uniform, all pointing their submachine guns at him.⁴

In the years leading up to the coup, U.S. trainers, many from the CIA, had whipped the Chilean military into an anti-Communist frenzy, persuading them that socialists were de facto Russian spies, a

* Allende was found with his head blown apart. Debates continue over whether he was shot by one of the bullets fired into La Moneda or he shot himself rather than give Chileans the lasting image of their elected president surrendering to an insurrectionary army. The second theory is the more credible.

force alien to Chilean society—a homegrown “enemy within.” In fact, it was the military that had become the true domestic enemy, ready to turn its weapons on the population it was sworn to protect.

With Allende dead, his cabinet in captivity and no mass resistance in evidence, the junta's grand battle was over by mid-afternoon. Letelier and the other “VIP” prisoners were eventually taken to freezing Dawson Island in the southern Strait of Magellan, Pinochet's approximation of a Siberian work camp. Killing and locking up the government was not enough for Chile's new junta government, however. The generals knew that their hold on power depended on Chileans being truly terrified, as the people had been in Indonesia. In the days that followed, roughly 13,500 civilians were arrested, loaded onto trucks and imprisoned, according to a declassified CIA report.⁵ Thousands ended up in the two main football stadiums in Santiago, the Chile Stadium and the huge National Stadium. Inside the National Stadium, death replaced football as the public spectacle. Soldiers prowled the bleachers with hooded collaborators who pointed out “subversives”; the ones who were selected were hauled off to locker rooms and skyboxes transformed into makeshift torture chambers. Hundreds were executed. Lifeless bodies started showing up on the side of major highways or floating in murky urban canals.

To make sure that the terror extended beyond the capital city, Pinochet sent his most ruthless commander, General Sergio Arellano Stark, on a helicopter mission to the northern provinces to visit a string of prisons where “subversives” were being held. At each city and town, Stark and his roving death squad singled out the highest-profile prisoners, as many as twenty-six at a time, who were subsequently executed. The trail of blood left behind over those four days came to be known as the Caravan of Death.⁶ In short order, the entire country had gotten the message: resistance is deadly.

Even though Pinochet's battle was one-sided, its effects were as real as any civil war or foreign invasion: in all, more than 3,200

people were disappeared or executed, at least 80,000 were imprisoned, and 200,000 fled the country for political reasons.⁷

The Economic Front

For the Chicago Boys, September 11 was a day of giddy anticipation and deadline adrenalin. Sergio de Castro had been working down to the wire with his contact in the navy, getting the final sections of "The Brick" approved page by page. Now, on the day of the coup, several Chicago Boys were camped out at the printing presses of the right-wing *El Mercurio* newspaper. As shots were being fired in the streets outside, they frantically tried to get the document printed in time for the junta's first day on the job. Arturo Fontaine, one of the newspaper's editors, recalled that the machines "worked non-stop to duplicate copies of this long document." And they made it—just barely. "Before midday on Wednesday, September 12, 1973, the General Officers of the Armed Forces who performed government duties had the Plan on their desks."⁸

The proposals in the final document bore a striking resemblance to those found in Milton Friedman's *Capitalism and Freedom*: privatization, deregulation and cuts to social spending—the free-market trinity. Chile's U.S.-trained economists had tried to introduce these ideas peacefully, within the confines of a democratic debate, but they had been overwhelmingly rejected. Now the Chicago Boys and their plans were back, in a climate distinctly more conducive to their radical vision. In this new era, no one besides a handful of men in uniform needed to agree with them. Their staunchest political opponents were either in jail, dead or fleeing for cover; the spectacle of fighter jets and caravans of death was keeping everyone else in line.

"To us, it was a revolution," said Cristián Larroulet, one of Pinochet's economic aides.⁹ It was a fair description. September 11, 1973, was far more than the violent end of Allende's peaceful socialist revolution; it was the beginning of what *The Economist* would later

describe as a "counterrevolution"—the first concrete victory in the Chicago School campaign to seize back the gains that had been won under developmentalism and Keynesianism.¹⁰ Unlike Allende's partial revolution, tempered and compromised by the push and pull of democracy, this revolt, imposed through brute force, was free to go all the way. In the coming years, the same policies laid out in "The Brick" would be imposed in dozens of other countries under cover of a wide range of crises. But Chile was the counterrevolution's genesis—a genesis of terror.

José Piñera, an alumnus of the economics department at the Catholic University and a self-described Chicago Boy, was doing graduate work at Harvard at the time of the coup. On hearing the good news, he returned home "to help found a new country, dedicated to liberty, from the ashes of the old one." According to Piñera, who would eventually become Pinochet's minister of labor and mining, this was "the real revolution . . . a radical, comprehensive, and sustained move toward free markets."¹¹

Before the coup, Augusto Pinochet had a reputation for deference that bordered on the obsequious, forever flattering and agreeing with his civilian commanders. As a dictator, Pinochet found new facets of his character. He took to power with unseemly relish, adopting the airs of a monarch and claiming that "destiny" had given him the job. In short order, he staged a coup within a coup to unseat the other three military leaders with whom he had agreed to share power and named himself Supreme Chief of the Nation as well as president. He basked in pomp and ceremony, proof of his right to rule, never missing an opportunity to put on his Prussian dress uniform, complete with cape. To get around Santiago, he chose a caravan of gold bullet-proof Mercedes-Benzes.¹²

Pinochet had a knack for authoritarian rule, but, like Suharto, he knew next to nothing about economics. That was a problem because the campaign of corporate sabotage spearheaded by ITT had done an effective job of sending the economy into a tailspin, and Pinochet

had a full-fledged crisis on his hands. From the start, there was a power struggle within the junta between those who simply wanted to reinstate the pre-Allende status quo and return quickly to democracy, and the Chicago Boys, who were pushing for a head-to-toe free-market makeover that would take years to impose. Pinochet, enjoying his new powers, intensely disliked the idea that his destiny was a mere cleanup operation—there to “restore order” and then get out. “We are not a vacuum cleaner that swept out Marxism to give back power to those Mr. Politicians,” he would say.¹³ It was the Chicago Boys’ vision of a total country overhaul that appealed to his newly unleashed ambition, and, like Suharto with his Berkeley Mafia, he immediately named several Chicago grads as senior economic advisers, including Sergio de Castro, the movement’s de facto leader and the main author of “The Brick.” He called them the *technos*—the technicians—which appealed to the Chicago pretension that fixing an economy was a matter of science, not of subjective human choices.

Even if Pinochet understood little about inflation and interest rates, the *technos* spoke a language he did understand. Economics for them meant forces of nature that needed to be respected and obeyed because “to act against nature is counter-productive and self-deceiving,” as Piñera explained.¹⁴ Pinochet agreed: people, he once wrote, must submit to structure because “nature shows us basic order and hierarchy are necessary.”¹⁵ This mutual claim to be taking orders from higher natural laws formed the basis of the Pinochet-Chicago alliance.

For the first year and a half, Pinochet faithfully followed the Chicago rules: he privatized some, though not all, state-owned companies (including several banks); he allowed cutting-edge new forms of speculative finance; he flung open the borders to foreign imports, tearing down the barriers that had long protected Chilean manufacturers; and he cut government spending by 10 percent—except the military, which received a significant increase.¹⁶ He also eliminated

price controls—a radical move in a country that had been regulating the cost of necessities such as bread and cooking oil for decades.

The Chicago Boys had confidently assured Pinochet that if he suddenly withdrew government involvement from these areas all at once, the “natural” laws of economics would rediscover their equilibrium, and inflation—which they viewed as a kind of economic fever indicating the presence of unhealthy organisms in the market—would magically go down. They were mistaken. In 1974, inflation reached 375 percent—the highest rate in the world and almost twice the top level under Allende.¹⁷ The cost of basics such as bread went through the roof. At the same time, Chileans were being thrown out of work because Pinochet’s experiment with “free trade” was flooding the country with cheap imports. Local businesses were closing, unable to compete, unemployment hit record levels and hunger became rampant. The Chicago School’s first laboratory was a debacle.

Sergio de Castro and the other Chicago Boys argued (in true Chicago fashion) that the problem didn’t lie with their theory but with the fact that it wasn’t being applied with sufficient strictness. The economy had failed to correct itself and return to harmonious balance because there were still “distortions” left over from nearly half a century of government interference. For the experiment to work, Pinochet had to strip these distortions away—more cuts, more privatization, more speed.

In that year and a half, many of the country’s business elite had had their fill of the Chicago Boys’ adventures in extreme capitalism. The only people benefiting were foreign companies and a small clique of financiers known as the “piranhas,” who were making a killing on speculation. The nuts-and-bolts manufacturers who had strongly supported the coup were getting wiped out. Orlando Sáenz—the president of the National Association of Manufacturers, who had brought the Chicago Boys into the coup plot in the first place—declared the results of the experiment “one of the greatest failures of our economic history.”¹⁸ The manufacturers hadn’t

wanted Allende's socialism but had liked a managed economy just fine. "It is not possible to continue with the financial chaos that dominates in Chile," Sáenz said. "It is necessary to channel into productive investments the millions and millions of financial resources that are now being used in wild-cat speculative operations before the very eyes of those who don't even have a job."¹⁹

Their agenda now in grave danger, the Chicago Boys and the piranhas (and there was a great deal of overlap between the two) decided it was time to call in the big guns. In March 1975, Milton Friedman and Arnold Harberger flew to Santiago at the invitation of a major bank to help save the experiment.

Friedman was greeted by the junta-controlled press as something of a rock star, the guru of the new order. Each of his pronouncements made headlines, his academic lectures were broadcast on national television and he had the most important audience of all: a private meeting with General Pinochet.

Throughout his stay, Friedman hammered at a single theme: the junta was off to a good start, but it needed to embrace the free market with greater abandon. In speeches and interviews, he used a term that had never before been publicly applied to a real-world economic crisis: he called for "shock treatment." He said it was "the only medicine. Absolutely. There is no other. There is no other long-term solution."²⁰ When a Chilean reporter pointed out that even U.S. President Richard Nixon imposed controls to temper the free market, Friedman snapped, "I don't approve of them. I believe we should not apply them. I am against economic intervention by the government, in my own country, as well as in Chile."²¹

After his meeting with Pinochet, Friedman made some personal notes about the encounter, which he reproduced decades later in his memoirs. He observed that the general "was sympathetically attracted to the idea of a shock treatment but was clearly distressed at the possible temporary unemployment that might be caused."²² At this point, Pinochet was already notorious the world over for order-

ing massacres in football stadiums; that the dictator was "distressed" by the human cost of shock therapy might have given Friedman pause. Instead, he pressed the point in a follow-up letter in which he praised the general's "extremely wise" decisions but urged Pinochet to cut government spending much further, "by 25 per cent within six months . . . across-the-board," while simultaneously adopting a package of pro-business policies moving toward "complete free trade." Friedman predicted that the hundreds of thousands of people who would be fired from the public sector would quickly get new jobs in the private sector, soon to be booming thanks to Pinochet's removal of "as many obstacles as possible that now hinder the private market."²³

Friedman assured the general that if he followed this advice, he would be able to take credit for an "economic miracle"; he "could end inflation in months" while the unemployment problem would be equally "brief—measured in months—and that subsequent recovery would be rapid." Pinochet would need to act fast and decisively; Friedman emphasized the importance of "shock" repeatedly, using the word three times and underlining that "gradualism is not feasible."²⁴

Pinochet was converted. In his letter of response, Chile's supreme chief expressed "my highest and most respectful regard for you," assuring Friedman that "the Plan is being fully applied at the present time."²⁵ Immediately after Friedman's visit, Pinochet fired his economic minister and handed the job to Sergio de Castro, whom he later promoted to finance minister. De Castro stacked the government with his fellow Chicago Boys, appointing one of them to head the central bank. Orlando Sáenz, who had objected to the mass layoffs and plant closures, was replaced as head of the Association of Manufacturers by someone with a more shock-friendly attitude. "If there are industrialists who complain because of this, let them 'go to hell.' I won't defend them," the new director announced.²⁶

Freed of the naysayers, Pinochet and de Castro got to work stripping away the welfare state to arrive at their pure capitalist utopia. In 1975, they cut public spending by 27 percent in one blow—and they kept cutting until, by 1980, it was half of what it had been under Allende.²⁷ Health and education took the heaviest hits. Even *The Economist*, a free-market cheerleader, called it “an orgy of self-mutilation.”²⁸ De Castro privatized almost five hundred state-owned companies and banks, practically giving many of them away, since the point was to get them as quickly as possible into their rightful place in the economic order.²⁹ He took no pity on local companies and removed even more trade barriers; the result was the loss of 177,000 industrial jobs between 1973 and 1983.³⁰ By the mid-eighties, manufacturing as a percentage of the economy dropped to levels last seen during the Second World War.³¹

Shock treatment was an apt description for what Friedman had prescribed. Pinochet had deliberately sent his country into a deep recession, based on the untested theory that the sudden contraction would jolt the economy into health. In its logic, it was strikingly similar to that of the psychiatrists who started mass-prescribing ECT in the 1940s and 1950s, convinced that deliberately induced grand mal seizures would magically reboot their patients’ brains.

The theory of economic shock therapy relies in part on the role of expectations in feeding an inflationary process. Reining in inflation requires not only changing monetary policy but also changing the behavior of consumers, employers and workers. The role of a sudden, jarring policy shift is that it quickly alters expectations, signaling to the public that the rules of the game have changed dramatically—prices will not keep rising, nor will wages. According to this theory, the faster expectations of inflation are driven down, the shorter the painful period of recession and high unemployment will be. However, particularly in countries where the political class has lost its credibility with the public, only a major, decisive policy

shock is said to have the power to “teach” the public these harsh lessons.*

Causing a recession or a depression is a brutal idea, since it necessarily creates mass poverty, which is why no political leader had until this point been willing to test the theory. Who wants to be responsible for what *BusinessWeek* described as a “Dr. Strangelove world of deliberately induced depression”?³²

Pinochet did. In the first year of Friedman-prescribed shock therapy, Chile’s economy contracted by 15 percent, and unemployment—only 3 percent under Allende—reached 20 percent, a rate unheard of in Chile at the time.³³ The country was certainly convulsing under its “treatments.” And contrary to Friedman’s sunny predictions, the unemployment crisis lasted for years, not months.³⁴ The junta, which had instantly taken to Friedman’s illness metaphors, was unapologetic, explaining that “this path was chosen because it is the only one that goes directly to the sickness.”³⁵ Friedman concurred. When asked by a reporter “whether the social cost of his policies would be excessive,” he responded, “Silly question.”³⁶ To another reporter he said, “My only concern is that they push it long enough and hard enough.”³⁷

* Some Chicago School economists claim that the first experiment in shock therapy took place in West Germany on June 20, 1948. That’s when Finance Minister Ludwig Erhard eliminated most price controls and introduced a new currency. The moves were sudden and without warning, a tremendous shock to the German economy, leading to widespread unemployment. But that is where the parallels end: Erhard’s reforms were restricted to price and monetary policy, they were not accompanied by cuts to social programs or by rapid introduction of free trade, and many measures were taken to protect citizens from these shocks, including increasing wages. Even post-shock, West Germany easily met Friedman’s definition of a quasi-socialist welfare state: it provided subsidized housing, government pensions, public health care and a state-run education system, while the government ran, and subsidized, everything from the phone company to aluminum plants. Crediting Erhard with inventing shock therapy makes for a palatable narrative, since his experiment took place after West Germany was liberated from tyranny. Erhard’s shock, however, bears little resemblance to the sweeping transformations currently understood as economic shock therapy—that method was pioneered by Friedman and Pinochet, in a country that had just lost its liberty.

Interestingly, the most powerful criticism of shock therapy came from one of Friedman's own former students, André Gunder Frank. During his time at the University of Chicago in the fifties, Gunder Frank—originally from Germany—had heard so much about Chile that when he graduated with a PhD in economics, he decided to go see for himself the country his professors had portrayed as a mismanaged developmentalist dystopia. He liked what he saw and ended up teaching at the University of Chile, then serving as an economic adviser to the government of Salvador Allende, for whom he developed a great respect. As a Chicago Boy in Chile who had defected from the school's free-market orthodoxy, Gunder Frank had a unique perspective on the country's economic adventure. One year after Friedman prescribed maximum shock, he wrote a rage-fueled "Open Letter to Arnold Harberger and Milton Friedman" in which he used his Chicago School education "to examine how the Chilean patient has responded to your treatment."³⁸

He calculated what it meant for a Chilean family to try to survive on what Pinochet claimed was a "living wage." Roughly 74 percent of its income went simply to buying bread, forcing the family to cut out such "luxury items" as milk and bus fare to get to work. By comparison, under Allende, bread, milk and bus fare took up 17 percent of a public employee's salary.³⁹ Many children weren't getting milk at school either, since one of the junta's first moves had been to eliminate the school milk program. As a result of this cut compounding the desperation at home, more and more students were fainting in class, and many stopped going altogether.⁴⁰ Gunder Frank saw a direct connection between the brutal economic policies imposed by his former classmates and the violence Pinochet had unleashed on the country. Friedman's prescriptions were so wrenching, the disaffected Chicago Boy wrote, that they could not "be imposed or carried out without the twin elements that underlie them all: military force and political terror."⁴¹

Undeterred, Pinochet's economic team went into more experimental territory, introducing Friedman's most vanguard policies: the

public school system was replaced by vouchers and charter schools, health care became pay-as-you-go, and kindergartens and cemeteries were privatized. Most radical of all, they privatized Chile's social security system. José Piñera, who brought in the program, said that he got the idea from reading *Capitalism and Freedom*.⁴² George W. Bush's administration is usually credited with pioneering "the ownership society," but in fact it was Pinochet's government, thirty years earlier, that first introduced the idea of "a nation of owners."

Chile was now in bold new territory, and free-market fans the world over, accustomed to debating the merits of such policies in purely academic settings, were paying close attention. "Economics textbooks say that's the way the world should work, but where else do they practice it?" marveled the U.S. business magazine *Barron's*.⁴³ In an article headlined "Chile, Lab Test for a Theorist," *The New York Times* noted that "it is not often that a leading economist with strong views is given a chance to test specific prescriptions for a very sick economy. It is even more unusual when the economist's client happens to be a country other than his own."⁴⁴ Many came for an up-close look at the Chilean laboratory, including Friedrich Hayek himself, who traveled to Pinochet's Chile several times and in 1981 selected Viña del Mar (the city where the coup had been plotted) to hold the regional meeting of the Mont Pelerin Society, the brain trust of the counterrevolution.

The Myth of the Chilean Miracle

Even three decades later, Chile is still held up by free-market enthusiasts as proof that Friedmanism works. When Pinochet died in December 2006 (one month after Friedman), *The New York Times* praised him for "transforming a bankrupt economy into the most prosperous in Latin America," while a *Washington Post* editorial said he had "introduced the free-market policies that produced the Chilean economic miracle."⁴⁵ The facts behind the "Chilean miracle" remain a matter of intense debate.

Pinochet held power for seventeen years, and during that time he changed political direction several times. The country's period of steady growth that is held up as proof of its miraculous success did not begin until the mid-eighties—a full decade after the Chicago Boys implemented shock therapy and well after Pinochet was forced to make a radical course correction. That's because in 1982, despite its strict adherence to Chicago doctrine, Chile's economy crashed: its debt exploded, it faced hyperinflation once again and unemployment hit 30 percent—ten times higher than it was under Allende.⁴⁶ The main cause was that the piranhas, the Enron-style financial houses that the Chicago Boys had freed from all regulation, had bought up the country's assets on borrowed money and run up an enormous debt of \$14 billion.⁴⁷

The situation was so unstable that Pinochet was forced to do exactly what Allende had done: he nationalized many of these companies.⁴⁸ In the face of the debacle, almost all the Chicago Boys lost their influential government posts, including Sergio de Castro. Several other Chicago graduates held prominent posts with the piranhas and came under investigation for fraud, stripping away the carefully cultivated facade of scientific neutrality so central to the Chicago Boy identity.

The only thing that protected Chile from complete economic collapse in the early eighties was that Pinochet had never privatized Codelco, the state copper mine company nationalized by Allende. That one company generated 85 percent of Chile's export revenues, which meant that when the financial bubble burst, the state still had a steady source of funds.⁴⁹

It's clear that Chile never was the laboratory of "pure" free markets that its cheerleaders claimed. Instead, it was a country where a small elite leapt from wealthy to super-rich in extremely short order—a highly profitable formula bankrolled by debt and heavily subsidized (then bailed out) with public funds. When the hype and salesmanship behind the miracle are stripped away, Chile under Pinochet and the

Chicago Boys was not a capitalist state featuring a liberated market but a corporatist one. Corporatism, or "corporativism," originally referred to Mussolini's model of a police state run as an alliance of the three major power sources in society—government, businesses and trade unions—all collaborating to guarantee order in the name of nationalism. What Chile pioneered under Pinochet was an evolution of corporatism: a mutually supporting alliance between a police state and large corporations, joining forces to wage all-out war on the third power sector—the workers—thereby drastically increasing the alliance's share of the national wealth.

That war—what many Chileans understandably see as a war of the rich against the poor and middle class—is the real story of Chile's economic "miracle." By 1988, when the economy had stabilized and was growing rapidly, 45 percent of the population had fallen below the poverty line.⁵⁰ The richest 10 percent of Chileans, however, had seen their incomes increase by 83 percent.⁵¹ Even in 2007, Chile remained one of the most unequal societies in the world—out of 123 countries in which the United Nations tracks inequality, Chile ranked 116th, making it the 8th most unequal country on the list.⁵²

If that track record qualifies Chile as a miracle for Chicago school economists, perhaps shock treatment was never really about jolting the economy into health. Perhaps it was meant to do exactly what it did—hoover wealth up to the top and shock much of the middle class out of existence.

That was the way Orlando Letelier, Allende's former defense minister, saw it. After spending a year in Pinochet's prisons, Letelier managed to escape Chile, thanks to an intensive international lobbying campaign. Watching from exile the rapid impoverishment of his country, Letelier wrote in 1976 that "during the last three years several billions of dollars were taken from the pockets of wage earners and placed in those of capitalists and landowners . . . concentration of wealth is no accident, but a rule; it is not the marginal outcome of a difficult situation—as the junta would like the world to believe—

but the base for a social project; it is not an economic liability but a temporary political success."⁵³

What Letelier could not know at the time was that Chile under Chicago School rule was offering a glimpse of the future of the global economy, a pattern that would repeat again and again, from Russia to South Africa to Argentina: an urban bubble of frenetic speculation and dubious accounting fueling superprofits and frantic consumerism, ringed by the ghostly factories and rotting infrastructure of a development past; roughly half the population excluded from the economy altogether; out-of-control corruption and cronyism; decimation of nationally owned small and medium-sized businesses; a huge transfer of wealth from public to private hands, followed by a huge transfer of private debts into public hands. In Chile, if you were outside the wealth bubble, the miracle looked like the Great Depression, but inside its airtight cocoon the profits flowed so free and fast that the easy wealth made possible by shock therapy-style "reforms" have been the crack cocaine of financial markets ever since. And that is why the financial world did not respond to the obvious contradictions of the Chile experiment by reassessing the basic assumptions of *laissez-faire*. Instead, it reacted with the junkie's logic: Where is the next fix?

The Revolution Spreads, the People Vanish

For a time, the next fix came from other countries in Latin America's Southern Cone, where the Chicago School counterrevolution quickly spread. Brazil was already under the control of a U.S.-supported junta, and several of Friedman's Brazilian students held key positions. Friedman traveled to Brazil in 1973, at the height of the regime's brutality, and declared the economic experiment "a miracle."⁵⁴ In Uruguay the military had staged a coup in 1973 and the following year decided to go the Chicago route. Lacking sufficient numbers of Uruguayans who had graduated from the University of

Chicago, the generals invited "Arnold Harberger and [economics professor] Larry Sjaastad from the University of Chicago and their team, which included former Chicago students from Argentina, Chile, and Brazil, to reform Uruguay's tax system and commercial policy."⁵⁵ The effects on Uruguay's previously egalitarian society were immediate: real wages dropped by 28 percent, and hordes of scavengers appeared on the streets of Montevideo for the first time.⁵⁶

Next to join the experiment was Argentina in 1976, when a junta seized power from Isabel Perón. That meant that Argentina, Chile, Uruguay and Brazil—the countries that had been showcases of developmentalism—were now all run by U.S.-backed military governments and were living laboratories of Chicago School economics.

According to declassified Brazilian documents just released in March 2007, weeks before the Argentine generals seized power, they contacted Pinochet and the Brazilian junta and "outlined the main steps to be taken by the future regime."⁵⁷

Despite this close collaboration, Argentina's military government did not go quite as far into neoliberal experimentation as Pinochet had; it did not privatize the country's oil reserves or social security, for instance (that would come later). However, when it came to attacking the policies and institutions that had lifted Argentina's poor into the middle class, the junta faithfully followed Pinochet, thanks in part to the abundance of Argentine economists who had gone through the Chicago program.

Argentina's newly minted Chicago Boys landed key economic posts in the junta government—as secretary of finance, president of the central bank and research director for the Treasury Department of the Finance Ministry, as well as several other lower-level economic posts.⁵⁸ But while the Argentine Chicago Boys were enthusiastic participants in the military government, the top economic job went not to one of them but to José Alfredo Martínez de Hoz. He was part of the landed gentry that belonged to the *Sociedad Rural*, the cattle-ranchers' association that had long controlled the country's export

economy. These families, the closest thing to an aristocracy that Argentina possessed, had liked the feudal economic order just fine—a time when they didn't have to worry about their land being redistributed to peasants or the price of meat being lowered to make sure everyone could eat.

Martínez de Hoz had been president of the Sociedad Rural, as had his father and grandfather before him; he also sat on the boards of several multinational corporations, including Pan American Airways and ITT. When he took up his post in the junta government, there was no mistaking the fact that the coup represented a revolt of the elites, a counterrevolution against forty years of gains by Argentina's workers.

Martínez de Hoz's first act as minister of the economy was to ban strikes and allow employers to fire workers at will. He lifted price controls, sending the cost of food soaring. He was also determined to make Argentina once again a hospitable place for foreign multinationals. He lifted restrictions on foreign ownership and in the first few years sold off hundreds of state companies.⁵⁹ These measures earned him powerful fans in Washington. Declassified documents show William Rogers, assistant secretary of state for Latin America, telling his boss, Henry Kissinger, shortly after the coup that "Martínez de Hoz is a good man. We have been in close consultations throughout." Kissinger was so impressed that he arranged to have a high-profile meeting with Martínez de Hoz when he visited Washington "as a symbolic gesture." He also offered to make a couple of calls to help along Argentina's economic efforts: "I will call David Rockefeller," Kissinger told the junta's foreign minister, a reference to the president of Chase Manhattan Bank. "And I will call his brother, the Vice President [of the United States, Nelson Rockefeller]."⁶⁰

To attract investment, Argentina took out a thirty-one-page advertising supplement in *BusinessWeek*, produced by the PR giant Burson-Marsteller, declaring that "few governments in history have been as encouraging to private investment. . . . We are in a true social

revolution, and we seek partners. We are unburdening ourselves of statism, and believe firmly in the all-important role of the private sector."⁶¹

Once again, the human impact was unmistakable: within a year, wages lost 40 percent of their value, factories closed, poverty spiraled. Before the junta took power, Argentina had fewer people living in poverty than France or the U.S.—just 9 percent—and an unemployment rate of only 4.2 percent.⁶² Now the country began to display signs of the underdevelopment thought to have been left behind. Poor neighborhoods were without water, and preventable diseases ran rampant.

In Chile, Pinochet had a free hand to use economic policy to eviscerate the middle class, thanks to the shocking and terrifying way in which he had seized power. Although his fighter jets and firing squads had been enormously effective at spreading terror, they had turned out to be a public relations disaster. Press reports about Pinochet's massacres sparked a worldwide outcry, and activists in Europe and North America aggressively lobbied their governments not to trade with Chile—a distinctly unfavorable outcome for a regime whose reason for existence was to keep the country open for business.

The newly declassified documents from Brazil show that when Argentina's generals were preparing their 1976 coup, they wanted "to avoid suffering an international campaign like the one that has been unleashed against Chile."⁶³ To achieve that goal, less sensational repression tactics were needed—lower-profile ones capable of spreading terror but not so visible to the prying international press. In Chile, Pinochet soon settled on disappearances. Rather than openly killing or even arresting their prey, soldiers would snatch them, take them to clandestine camps, torture and often kill them, then deny

* The junta was so eager to auction off the country to investors that it advertised "a 10 percent discount on the price of land for ground-breaking within 60 days."

any knowledge. Bodies were thrown into mass graves. According to Chile's truth commission, established in May 1990, the secret police would dispose of some victims by dropping them into the ocean from helicopters "after first cutting their stomach open with a knife to keep the bodies from floating."⁶⁴ In addition to their lower profile, disappearances turned out to be an even more effective means of spreading terror than open massacres, so destabilizing was the idea that the apparatus of the state could be used to make people vanish into thin air.

By the mid-seventies, disappearances had become the primary enforcement tool of the Chicago School juntas throughout the Southern Cone—and none embraced the practice more zealously than the generals occupying Argentina's presidential palace. By the end of their reign, an estimated thirty thousand people had been disappeared.⁶⁵ Many of them, like their Chilean counterparts, were thrown from planes into the muddy waters of the Rio de la Plata.

The Argentine junta excelled at striking just the right balance between public and private horror, carrying out enough of its terror in the open that everyone knew what was going on, but simultaneously keeping enough secret that it could always be denied. In its first days in power, the junta made a single dramatic demonstration of its willingness to use lethal force: a man was pushed out of a Ford Falcon (a vehicle notorious for its use by the secret police), tied to Buenos Aires's most prominent monument, the 67.5-meter-high white Obelisk, and machine-gunned in plain view.

After that, the junta's killings went underground, but they were always present. Disappearances, officially denied, were very public spectacles enlisting the silent complicity of entire neighborhoods. When someone was targeted to be eliminated, a fleet of military vehicles showed up at that person's home or workplace and cordoned off the block, often with a helicopter buzzing overhead. In broad daylight and in full view of the neighbors, police or soldiers battered down the door and dragged out the victim, who often shouted his or her name before disappearing into a waiting Ford Falcon, in the hope that news of the

event would reach the family. Some "covert" operations were even more brazen: police were known to board crowded city buses and drag passengers off by their hair; in the city of Santa Fe, a couple was kidnapped right at the altar on their wedding day in front of a church filled with people.⁶⁶

The public character of terror did not stop with the initial capture. Once in custody, prisoners in Argentina were taken to one of more than three hundred torture camps across the country.⁶⁷ Many of them were located in densely populated residential areas; one of the most notorious was in a former athletic club on a busy street in Buenos Aires, another in a schoolhouse in central Bahía Blanca and yet another in a wing of a working hospital. At these torture centers, military vehicles sped in and out at odd hours, screams could be heard through the badly insulated walls and strange, body-shaped parcels were spotted being carried in and out, all silently registered by the nearby residents.

The regime in Uruguay was similarly brazen: one of its main torture centers was a navy barracks abutting Montevideo's boardwalk, an area once favored by families for ocean-side strolls and picnics. During the dictatorship, the beautiful spot was empty, as the city's residents studiously avoided hearing the screams.⁶⁸

The Argentine junta was particularly sloppy about disposing of its victims. A country walk could end in horror because mass graves were barely concealed. Bodies would show up in public garbage bins, missing fingers and teeth (much as they do today in Iraq), or they would wash ashore on the banks of the Rio de la Plata, sometimes half a dozen at a time, after one of the junta's "death flights." On occasion, they even rained down from helicopters into farmers' fields.⁶⁹

All Argentines were in some way enlisted as witnesses to the erasure of their fellow citizens, yet most people claimed not to know what was going on. There is a phrase Argentines use to describe the paradox of wide-eyed knowing and eyes-closed terror that was the dominant state of mind in those years: "We did not know what nobody could deny."

Since those wanted by the various juntas often took refuge in neighboring countries, the regional governments collaborated with each other in the notorious Operation Condor. Under Condor, the intelligence agencies of the Southern Cone shared information about "subversives"—aided by a state-of-the-art computer system provided by Washington—and then gave each other's agents safe passage to carry out cross-border kidnappings and torture, a system eerily resembling the CIA's "extraordinary rendition" network today.*⁷⁰

The juntas also swapped information about the most effective means each had found to extract information from their prisoners. Several Chileans who had been tortured at Chile Stadium in the days after the coup remarked on the unexpected detail that there were Brazilian soldiers in the room offering advice on the most scientific uses of pain.⁷¹

There were countless opportunities for such exchanges in this period, many of them running through the United States and involving the CIA. A 1975 U.S. Senate investigation into U.S. intervention in Chile found that the CIA had provided training to Pinochet's military in methods for "controlling subversion."⁷² And U.S. training of Brazilian and Uruguayan police in interrogation techniques has been heavily documented. According to court testimony quoted in the country's truth commission report, *Brazil: Never Again*, published in 1985, military officers attended formal "torture classes" at army police units where they watched slides depicting various excruciating methods. During these sessions, prisoners were brought in for "practical demonstrations"—brutally tortured while as many as a hundred army sergeants looked on and learned. The report states that "one of the first people to introduce this practice into Brazil was Dan Mitrione, an

* The Latin American operation was modeled on Hitler's "Night and Fog." In 1941, Hitler decreed that resistance fighters in Nazi-occupied countries would be brought to Germany to "vanish in the night and fog." Several high-profile Nazis took refuge in Chile and Argentina, and there is some speculation that they may have trained the Southern Cone intelligence agencies in these tactics.

American police officer. As a police instructor in Belo Horizonte during the early years of the Brazilian military regime, Mitrione took beggars off the streets and tortured them in classrooms so that the local police would learn the various ways of creating, in the prisoner, the supreme contradiction between the body and the mind."⁷³ Mitrione then moved on to conduct police training in Uruguay, where, in 1970, he was kidnapped and killed by the Tupamaro guerrillas—the group of leftist revolutionaries had planned the operation in order to expose Mitrione's involvement in torture training.* According to one of his former students, he insisted, like the authors of the CIA manual, that effective torture was not sadism but science. "The precise pain in the precise place, in the precise amount" was his motto.⁷⁴

The results of this training are unmistakable in all the human rights reports from the Southern Cone in this sinister period. Again and again they testify to the trademark methods codified in the *Kubark* manual: early morning arrests, hooding, intense isolation, drugging, forced nudity, electroshock. And everywhere, the terrible legacy of the McGill experiments in deliberately induced regression.

Prisoners released from Chile's National Stadium said that bright floodlights were kept on twenty-four hours a day, and the order of meals seemed deliberately out of sequence.⁷⁵ Soldiers forced many prisoners to wear blankets over their heads so they could neither see nor hear properly, a baffling practice since all the prisoners knew they were in the stadium. The effect of the manipulations, prisoners reported, was that they lost their sense of night and day, and the shock and panic triggered by the coup and their subsequent arrests were greatly intensified. It was almost as if the stadium had been turned into a giant laboratory, and they were the test subjects in some strange experiment in sensory manipulation.

A more faithful copy of the CIA experiments could be seen in Chile's Villa Grimaldi prison, which "was known for its 'Chile

* The episode was the basis for Costa-Gavras's superb 1972 film, *State of Siege*.

rooms'—wooden isolation compartments so small that prisoners could not kneel" or lie down.⁷⁶ Prisoners in Uruguay's Libertad prison were sent to *la isla*, the island: tiny windowless cells in which one bare bulb was illuminated at all times. High-value prisoners were kept in absolute isolation for more than a decade. "We were beginning to think we were dead, that our cells weren't cells but rather graves, that the outside world didn't exist, that the sun was a myth," one of these prisoners, Mauricio Rosencof, recalled. He saw the sun for a total of eight hours over eleven and a half years. So deprived were his senses during this time that he "forgot colors—there were no colors."⁷⁷

In one of Argentina's largest torture centers, the Navy School of Mechanics in Buenos Aires, the isolation chamber was called the *capucha*, the hood. Juan Miranda, who spent three months in the *capucha*, told me about that dark place. "They keep you in a blindfold and a hood with your hands and legs in chains, lying down on a foam mattress all day long, in the attic of the prison. I could not see the other prisoners—I was separated from them with plywood. When the guards would bring food, they made me face the wall, then they would pull up the hood so I could eat. It was the only time we were allowed to sit up; otherwise, we had to lie down all the time." Other Argentine prisoners had their senses starved in cells the size of coffins, called *tubos*.

The only reprieve from isolation was the worse fate of the interrogation room. The most ubiquitous technique, used in the torture chambers of all the region's military regimes, was electroshock. There were dozens of variations on how electrical currents were sent coursing through prisoners' bodies: with live wires, with army field telephones, with needles under fingernails, clamped with clothespins on gums, nipples, genitals, ears, mouths, in open wounds, attached to bodies doused in water to intensify the charge; on bodies strapped to tables or to Brazil's iron "dragon chair." Argentina's cattle-owning junta was

* The prison administration at Libertad worked closely with behavioral psychologists to design torture techniques tailored to each individual's psychological profile—a method now used at Guantánamo Bay.

proud of its distinctive contribution—prisoners were shocked on a metal bed, called the *parrilla* (the barbecue), where they were subject to the *picana* (cattle prod).

The exact number of people who went through the Southern Cone's torture machinery is impossible to calculate, but it is probably somewhere between 100,000 and 150,000, tens of thousands of them killed.⁷⁸

A Witness in Difficult Times

To be a leftist in those years was to be hunted. Those who did not escape to exile were in a minute-by-minute struggle to stay one step ahead of the secret police—an existence of safe houses, phone codes and false identities. One of the people living that life in Argentina was the country's legendary investigative journalist Rodolfo Walsh. A gregarious Renaissance man, a writer of crime fiction and award-winning short stories, Walsh was also a super sleuth able to crack military codes and spy on the spies. His greatest investigative triumph took place when he was working as a journalist in Cuba, where he managed to intercept and decode a CIA telex that blew the cover of the Bay of Pigs invasion. That information is what allowed Castro to prepare for and defend against the invasion.

When Argentina's previous military junta had banned Peronism and strangled democracy, Walsh decided to join the armed Montonero movement as their intelligence expert.* That put him at

* The Montoneros were formed as a response to the previous dictatorship. Peronism was banned, and Juan Perón, from exile, called on his young supporters to arm themselves and fight for a return to democracy. They did, and the Montoneros—though they engaged in armed attacks and kidnappings—played a significant part in forcing democratic elections with a Peronist candidate in 1973. But when Perón returned to power, he was threatened by the Montoneros' popular support and encouraged right-wing death squads to go after them, which is why the group—the subject of much controversy—was already significantly weakened by the time of the 1976 coup.

the very top of the generals' Most Wanted list, with every new disappearance bringing fresh fears that information extracted by the *picana* would lead the police to the safe house he had secured with his partner, Lilia Ferreyra, in a small village outside Buenos Aires.

From his vast network of sources, Walsh had been trying to track the junta's many crimes. He compiled lists of the dead and disappeared, the locations of mass graves and of secret torture centers. He prided himself on his knowledge of the enemy, but in 1977 even he was stunned by the furious brutality that the Argentine junta had unleashed on its own people. In the first year of military rule, dozens of his close friends and colleagues had disappeared in the death camps, and his twenty-six-year-old daughter, Vicki, was also dead, driving Walsh mad with grief.

But with Ford Falcons circling, a life of quiet mourning was not available to him. Knowing his time was limited, Walsh made a decision about how he would mark the upcoming one-year anniversary of junta rule: with the official papers lavishing praise on the generals for having saved the country, he would write his own, uncensored, version of the depravity into which his country had descended. It would be titled "An Open Letter from a Writer to the Military Junta," and it was composed, Walsh wrote, "without hope of being listened to, with the certainty of being persecuted, true to the commitment I took up a long time ago, to bear witness in difficult times."⁷⁹

The letter would be the decisive condemnation of both the methods of state terror and the economic system they served. Walsh planned to circulate his "Open Letter" the way he had distributed previous communiqués from the underground: by making ten copies, then posting them from different mailboxes to select contacts who would distribute them further. "I want to let those fuckers know that I'm still here, still alive and still writing," he told Lilia as he sat down at his Olympia typewriter.⁸⁰

The letter begins with an account of the generals' terror campaign, its use of "maximum torture, unending and metaphysical," as well as the involvement of the CIA in training the Argentine police. After listing the methods and grave sites in excruciating detail, Walsh abruptly switches gears: "These events, which stir the conscience of the civilized world, are not, however, the greatest suffering inflicted on the Argentinean people, nor the worst violation for human rights which you have committed. It is in the economic policy of this government where one discovers not only the explanation for the crimes, but a greater atrocity which punishes millions of human beings through planned misery. . . . You only have to walk around greater Buenos Aires for a few hours to check the speed with which such a policy transforms the city into a 'shantytown' of ten million people."⁸¹

The system Walsh was describing was Chicago School neo-liberalism, the economic model that would sweep the world. As it took deeper root in Argentina in the decades to come, it would eventually push more than half the population below the poverty line. Walsh saw it not as an accident but the careful execution of a plan—"planned misery."

He signed the letter on March 24, 1977, exactly one year after the coup. The next morning, Walsh and Lilia Ferreyra traveled to Buenos Aires. They split the bundle of letters between them and dropped them into mailboxes around the city. A few hours later, Walsh went to a meeting he had arranged with the family of a disappeared colleague. It was a trap: someone had talked under torture, and ten armed men were waiting outside the house in ambush, with orders to capture Walsh. "Bring that fucking bastard back alive, he's mine," Admiral Massera, one of the three junta leaders, had reportedly directed the soldiers. Walsh, whose motto was "It isn't a crime to talk; getting arrested is the crime," immediately pulled out his gun and began firing. He injured one of the soldiers and drew their fire; he was dead by the time the car arrived at

the Navy School of Mechanics. Walsh's body was burned and dumped in a river.⁸²

The "War on Terror" Cover Story

The juntas of the Southern Cone made no secret of their revolutionary ambitions to remake their respective societies, but they were savvy enough to publicly deny what Walsh was accusing them of: using massive violence in order to achieve those economic goals, goals that, in the absence of a system of terrorizing the public and eliminating obstacles, would have certainly provoked popular revolt.

To the extent that killings by the state were acknowledged, they were justified by the juntas on the grounds that they were fighting a war against dangerous Marxist terrorists, funded and controlled by the KGB. If the juntas used "dirty" tactics, it was because their enemy was monstrous. Using language that sounds eerily familiar today, Admiral Massera called it "a war for freedom and against tyranny . . . a war against those who favor death and by those of us who favor life. . . . We are fighting against nihilists, against agents of destruction whose only objective is destruction itself, although they disguise this with social crusades."⁸³

In the run-up to Chile's coup, the CIA bankrolled a massive propaganda campaign to paint Salvador Allende as a dictator in disguise, a Machiavellian schemer who had used constitutional democracy to gain power but was on the verge of imposing a Soviet-style police state from which Chileans would never escape. In Argentina and Uruguay, the largest left-wing guerrilla groups—the Montoneros and the Tupamaros—were presented as such perilous threats to national security that the generals had no other choice but to suspend democracy, seize the state for themselves and use whatever means were necessary to crush them.

In every case, the threat was either wildly exaggerated or completely

manufactured by the juntas. Among its many other revelations, the 1975 Senate investigation disclosed that the U.S. government's own intelligence reports showed that Allende posed no threat to democracy.⁸⁴ As for Argentina's Montoneros and Uruguay's Tupamaros, they were armed groups with significant popular support, able to pull off daredevil attacks on military and corporate targets. But Uruguay's Tupamaros were completely dismantled by the time the military seized absolute power, and Argentina's Montoneros were finished within the first six months of a dictatorship that stretched on for seven years (which was why Walsh was in hiding). Declassified State Department documents have proven that César Augusto Guzzetti, the Argentine junta's foreign minister, told Henry Kissinger on October 7, 1976, that "the terrorist organizations have been dismantled"—yet the junta would go on to disappear tens of thousands of citizens after that date.⁸⁵

For many years, the U.S. State Department also presented the "dirty wars" in the Southern Cone as pitched battles between the military and dangerous guerrillas, struggles that at times got out of hand but were still deserving of economic and military aid. There is mounting evidence that in Argentina as well as in Chile, Washington knew it was supporting a very different kind of military operation.

In March 2006, the National Security Archive in Washington released the newly declassified minutes from a State Department meeting that took place just two days after the Argentine junta staged its 1976 coup. At the meeting, William Rogers, assistant secretary of state for Latin America, tells Kissinger that "we've got to expect a fair amount of repression, probably a good deal of blood, in Argentina before too long. I think they're going to have to come down very hard not only on the terrorists but on the dissidents of trade unions and their parties."⁸⁶

Indeed they did. The vast majority of the victims of the Southern Cone's terror apparatus were not members of armed groups but non-violent activists working in factories, farms, shantytowns and universities. They were economists, artists, psychologists and left-

wing party loyalists. They were killed not because of their weapons (which most did not have) but because of their beliefs. In the Southern Cone, where contemporary capitalism was born, the "War on Terror" was a war against all obstacles to the new order.

CLEANING THE SLATE

TERROR DOES ITS WORK

Extermination in Argentina is not spontaneous, it is not by chance, it is not irrational: it is the systematic destruction of a "substantial part" of the Argentine national group, intended to transform the group as such, to redefine its way of being, its social relations, its fate, its future.

—Daniel Feierstein, an Argentine sociologist, 2004¹

I had just one goal—to stay alive until the next day. . . . But it wasn't just to survive, but to survive as me.

—Mario Villani, survivor of four years in Argentina's torture camps²

In 1976, Orlando Letelier was back in Washington, D.C., no longer as an ambassador but as an activist with a progressive think tank, the Institute for Policy Studies. Haunted by thoughts of the colleagues and friends still facing torture in junta camps, Letelier used his newly recovered freedom to expose Pinochet's crimes and to defend Allende's record against the CIA propaganda machine.

The activism was having an effect, and Pinochet faced universal