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Friedrich Hayek and his visits to Chile

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Abstract F. A. Hayek took two trips to Chile, the first in 1977, the second in 1981. The visits were controversial. On the first trip he met with General Augusto Pinochet, who had led a coup that overthrew Salvador Allende in 1973. During his 1981 visit, Hayek gave interviews that were published in the Chilean newspaper *El Mercurio* and in which he discussed authoritarian regimes and the problem of unlimited democracy. After each trip, he complained that the western press had painted an unfair picture of the economic situation under the Pinochet regime. Drawing on archival material, interviews, and past research, we provide a full account of this controversial episode in Hayek's life.

Keywords F. A. Hayek · Chile · Chicago boys · Augusto Pinochet · Salvador Allende · Milton Friedman · *Centro de Estudios Públicos* (CEP) · *El Mercurio*

1 Introduction

Friedrich A. Hayek visited Chile twice, once in November 1977, and again in April 1981, both visits taking place while General Augusto Pinochet was President. On the first trip, in addition to receiving an honorary degree, giving talks and interviews, attending dinners and the like, Hayek had about a twenty minute audience with Pinochet. Over the course of the next year Hayek wrote

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about his visit to Chile, once in a journal called *Politische Studien*, then in letters published in *The Times* of London, decrying the treatment of Chile by the western press. On the second trip he was hosted by a newly formed organization, *Centro de Estudios Públicos* (CEP), for which he agreed to serve as the Honorary President. While on the trip he met with the executive committee of CEP, saw his friends, gave the usual talks and interviews,[1] and also met with two former Chilean Presidents. The second trip was prior to a regional meeting of the Mont Pèlerin Society that took place in the coastal city of Viña del Mar, Chile in November 1981, a meeting that Hayek himself did not attend. In January 1982 he had another letter to the Editor published, this one in the German newspaper *Frankfurter Allgemeine Zeitung* (*FAZ*), in which he criticized the editors for printing a cartoon that likened Pinochet to the Polish Prime Minister Wojciech Jaruzelski.

Though the reaction to Hayek's trips, interviews and letters are insignificant compared to the outcry that Milton Friedman's 1975 visit provoked,[2] they continue to be mentioned and criticized, both by opponents of his ideas, but also by those who otherwise count themselves as among his supporters. We have two goals in adding our voices to the discussion.

The first is simply to clarify the record of what happened. We draw on archival materials, existing research, related articles and interviews published by Chilean newspapers (*El Mercurio, La Tercera* and *La Segunda*) and Chilean magazines (*Que Pasa* and *Ercilla*), and on interviews with principals who are still alive.[3] In addition to providing an account of his visits, we will identify some obvious mistakes or misleading statements that may be found in other accounts.[4] In other cases, where we simply disagree with certain claims that have been made, we will provide evidence in support of our views. Thus, in our opinion,[5] there is no available evidence for the assertion, made by Klein (2007, p. 103), Grandin (2006a; 2006b, p. 172), and Robin (2011, p. 74) that Hayek was involved in the decision to hold the 1981 regional meeting of the Mont Pèlerin Society in Viña del Mar. And contra Fischer (2009), we see little evidence that

[1] Two lengthy interviews in the leading Chilean newspaper *El Mercurio* were translated into English and have been the source of much debate. We return to this topic below.

[2] For more on the reaction to Friedman's trip, see, e.g., Friedman and Friedman 1998, chapter 24 and appendix A; Grandin 2006a; Klein 2007, chapter 2.

[3] Unless otherwise noted, all translations from Spanish are by Leonidas Montes.

[4] For example, Hayek went to Chile twice, not "several times" (Klein 2007, p. 163) or "a number of times" (Grandin 2006a, b p. 172). Hayek, who failed to get an appointment in the economics department at Chicago and whose views on a number of subjects differed from those of members of the Chicago School, cannot be well-described as the "patron saint of the Chicago School" (Klein 2007, p. 103). Hayek's first trip to Chile was in 1977, not 1978 (Fischer 2009, p. 328; Cristi 1998, p. 168; Cristi [2000] 2014, p. 185), and his subsequent publication in German was not titled "True Reports on Chile" and was not a "defense of economic and social policies under Pinochet" (Fischer 2009, p. 339), but a complaint about the uniformly negative coverage in the western press about countries like Chile and South Africa. For more on what Hayek actually said in the German publication and a critique of Fischer's account, see Farrant et al. (2012).

[5] We realize that some may question the objectivity of our opinion. For purposes of full disclosure, we note here that Bruce Caldwell is the General Editor of *The Collected Works of F. A. Hayek,* and has been a member of the Mont Pèlerin Society since 2010. Leonidas Montes has been a member of CEP's Council since 2005, and from 2009 until 2014 he was the Dean of the School of Government at *Universidad Adolfo Ibáñez*. Currently Montes is an academic at this non-profit private university that is related to the Valparaíso Business School and the Adolfo Ibáñez Foundation.

Hayek or his ideas had an impact on the writing or content of the new Chilean constitution that was enacted in 1980 and went into effect in 1981.

Second, Hayek's decision to go to Chile, the public statements he made during and after his trips, and perhaps most damningly, his failure to speak out against the human rights abuses that occurred under Pinochet's seventeen year rule, also require explanation.

For those who see Hayek as an intellectual godfather of neoliberalism, and who associate that doctrine not simply with the promotion of globalization but with more sinister activities (e.g., using state power to force the spreading of market regimes), there is little to explain: they naturally assume that Hayek would be a supporter of the Pinochet regime.[6] One sees this attitude expressed in passing comments in the blogosphere or press – for example, the claim that Hayek took Pinochet to be "an avatar of freedom" (Grandin 2006a), or references to Hayek's "sunny view of the Chilean dictator Augusto Pinochet" (Schuessler 2010).[7] Others try to establish links between Austrian thought and fascism.[8]

We find such speculations to be singularly unconvincing when it comes to explaining Hayek's visits to Chile. But we are equally unconvinced by explanations by those putative supporters who argue that, by the time that Hayek went to Chile, he was an old man who was either losing his intellectual powers or growing cranky with age.[9] Certainly Hayek did dramatically increase the number of interviews he gave

[6] Neoliberalism has become such a weasel word that it is almost pointless to try to define it; suffice it to say that this appears to be one aspect of its interpretation by at least some writers. For more on this see MacEwan 1999; Harvey 2005; Mirowski 2009, pp. 417–55; Caldwell 2011, pp. 301–34.

[7] Thus Corey Robin, in defending statements he made about Hayek in his *Nation* article "Nietzsche's Marginal Children: On Friedrich Hayek" (Robin 2013), referred his readers to five blog posts he had published the year before that carried such colorful names as "Hayek von Pinochet," "But Wait, There's More: Hayek von Pinochet, Part 2 (In which we learn what our protagonist had to say about South Africa and what Ludwig von Mises had to say about fascism)," "Friedrich del Mar," "The Road to Viña del Mar," and "Viña del Mar: A Veritable International of the Free-Market Counterrevolution." See http://coreyrobin.com/2012/07/18/when-hayek-met-pinochet/.

Cristi 1998, pp. 146–68, and Mirowski 2009, p. 444 try to establish intellectual connections between Hayek and Carl Schmitt, a person whom Hayek had identified as "the legal theorist of National Socialism" (Hayek [1944] 2007, p. 117). For a criticism of Cristi and others, see Shearmur, forthcoming.

[8] The fascism charge regarding Mises is based on a couple of sentences taken from his book *Liberalism in the Classical Tradition*, first published in 1927 and translated in 1962. Mises regarded the emergence of fascism in the 1920s as a reaction to "the frank espousal [by the communists] of a policy of annihilating opponents and the murders committed in the pursuance of it" and in this context praised fascism as "an emergency makeshift" that "has, for the moment, saved European civilization" (Mises [1962] 1985, p. 47; 51). He was offering a comment on a pressing issue of the day. Most of the book, as one might imagine from its title, is a sustained defense of classical liberalism, a doctrine perhaps even more out of favor then than it is now in the age of neoliberalism. In the book Mises systematically examines the foundations of liberalism, and its implications for economic and foreign policy. We might simply point out the other obvious fact that, as a Jew and a classical liberal, Mises was *persona non grata* among both the Nazi and Stalinist regimes. He and his wife just managed to escape the Nazis and their French collaborators when they fled Geneva, traveling across Vichy France to Barcelona and Lisbon in July 1940, and ultimately landing in New Jersey about a month later (Mises 1984, chapter 4). His apartment in Vienna was ransacked by the Nazis, and the materials they took were later seized by the Soviets and placed in a secret archive in Moscow, where they sit today (Ebeling 2012, p. ix). He is as unlikely a candidate for being considered a fascist as he is for being a communist.

[9] See e.g., the following blog post at Bleeding Heart Libertarians by Kevin Vallier on May 13, 2013, in response to Robin's *Nation* article: "Robin ends with a Hayek smear. When Hayek was eighty he said that Pinochet was an improvement on Allende. This was a serious mistake in judgment, but it is not significant for Hayek's body of work in any way." http://bleedingheartlibertarians.com/2013/05/on-robins-tenuous-connection-between-nietzsche-and-hayek/ . Greg Ransom expressed doubts that Hayek had even met with Pinochet, writing "Show me the picture." In fact such pictures do exist.

following the award of the Nobel Prize in 1974, so there were more opportunities for misstatements. But he also did important work through the early 1980s (e.g., he completed *Law, Legislation and Liberty* (1973–79) and wrote *The Denationalization of Money* [1978] 1999), so the charge that this was all due to mental deterioration seems to us if not false, at least problematical.

Instead, we will offer an alternative to the arguments that Hayek was either a closet admirer of the Pinochet regime or was losing his mental faculties at the time of his visit. Regarding his public statements, we will show that many of the themes to be found during both trips drew on ideas that Hayek had developed over the course of his career. Regarding his decisions to visit Chile and to remain silent about the human rights abuses that occurred under Pinochet, though it is always difficult to establish a person's motives, we think that these decisions had multiple causes. In the course of the paper we will show that Hayek's first trip was set into motion by Manuel Ayau, a longtime Mont Pèlerin member and friend who had recently hosted Hayek in Guatemala; that Hayek was suspicious about the objectivity of news reports in the western press and was probably curious about what conditions in Chile were really like; that he was surprised about the level of economic development that he encountered on both of his visits (which deepened his suspicions about the press); that he was reacting not just to Chile but to the multiple pressures and concerns brought on by both the cold war and to what he perceived as the mistaken direction of the economics profession in the 1970s; and that he was hoping that there might be a transition back to a limited democracy, not just in Chile, but in other countries which combined an authoritarian and military political regime with a liberal economic system.

The next section will give a necessary background account of the political and economic situation in Chile prior to his visits. Section 3 will offer a reconstruction of Hayek's mindset prior to his first trip to Chile. After setting the context, section 4 will discuss the details of the November 1977 visit, the trip on which he met with Pinochet. In section 5, we deal with his initial forays in the western press, and in section 6 with claims about Hayek organizing the Viña del Mar meeting of the Mont Pèlerin Society and his influence on the Chilean constitution. Hayek's April 1981 visit to Chile as Honorary President of *Centro de Estudios Públicos* (CEP) will be covered in section 7, and section 8 will analyze the two controversial and important interviews Hayek gave to *El Mercurio* in 1981. Section 9 will recapitulate the multiple reasons behind Hayek's visits, and section 10 will conclude.

2 The Chilean background

Though the stability of Chile's democratic republican political system was well-known and long-standing (and, as such, regarded as rather exceptional within Latin America), all this changed in the early 1970s with the election of Marxist President Salvador Allende and his Unidad Popular government. Though the new regime had some early economic successes, its policies ultimately resulted in a collapsed economy and severe political polarization. The so-called "Chilean Road to Socialism" ended on September 11, 1973 with a military coup and Allende's suicide while under bombardment in the Presidential Palace, *La Moneda*. The National Congress was dissolved and Augusto Pinochet and the Junta Militar ran the country for almost seven years. The military

regime enacted strict political repression and committed ruthless human rights abuses. In 1980 a new constitution was approved, one that called for a referendum to take place in 1988. In this plebiscite Chileans would decide whether Pinochet would continue for eight more years ("Yes"), or democratic elections would be held in 1989 ("No").[10] The "No" option won approximately 55 % of the votes.[11] Accordingly, in 1989 the country held both Presidential and congressional elections. Patricio Aylwin, a Christian Democrat, was elected with 56 % of the votes. Aylwin took office on March 11, 1990, and a gradual transition back to democracy began.

2.1 Allende and the unidad popular government

Chile had experienced high inflation and only moderate growth during the 1950s and 1960s. Development theories promoted by the United Nations Economic Commission for Latin America (ECLA), established in 1948 and based in Santiago, were quite influential in Latin America during this period. Although such theories actually have a rich previous history in economics,[12] the Singer-Prebisch dependency and import substitution models provided the leading development paradigm for most countries in Latin America. The theoretical program viewed protectionism and planning as the two most important imperatives for rapid development. It was in reaction to the success of this intellectual program and its theoretical framework, plus the strong influence of Marxist ideas within certain academic circles,[13] that the "Chile Project," the cradle of the "Chicago Boys," was begun. The project that would so greatly influence Chile's subsequent history had its origins in Albion Patterson's *Plan Chillán* in 1953.[14] In 1956 the "Chile Project" was formalized with the signing of a contract between *Pontificia Universidad Católica de Chile* and the Department of Economics of the University of Chicago (Valdés 1995, pp. 109–26).[15] If Chilean history during the 1970s and 1980s

[10] A "Yes" victory would imply eight more years of Pinochet, but also that congressional elections would be held in 1989.

[11] Of the 7,251,943 votes cast, the "No" option received 54.71 %, while 43.01 % voted to grant Pinochet another term in office (or 55.99 % and 44.01 % of the valid votes; see Cavallo et al. [2008] 2013, p. 643, Godoy 1999, p. 93 or Barros 2002, p. 307).

[12] Prebisch is the main intellectual behind ECLA's influence (for his life and context, see Dosman 2008). But besides the German background (mainly List and Sombart), Ernest Friedrich Wagemann, a Chilean who had studied in Germany in the 1920s, published his influential "*Evolución y Ritmo de la Economía Mundial*" in 1933, which was based on the ideas of Sombart (Love 1996, p. 106 and 134) and widely read. In short, "structuralism" and "center periphery" theories were not original to the ECLA but part of a long-standing intellectual tradition.

[13] A 1957 report to the US Congress warned of the importance of assisting Chile "*in resisting Marxist influences in economic and political institutions*" (Valdés 1995, p. 91: italics in original). See Fermandois 2013, p. 262 for more on the penetration of Marxism in Chilean universities.

[14] This involved an agricultural development plan for a region in the south of Chile. Through it, the first connections with Chicago, specifically with Theodore W. Schultz, were established (see Valdés 1995, pp. 109–14).

[15] Patterson first attempted to reach an agreement with *Universidad de Chile*. Although Rector Juan Gómez Millas viewed the proposal favorably, apparently he could not convince the leftwing economists who were in control of the Faculty of Economics (Valdés 1995, p. 114). Contracts with *Pontificia Universidad Católica de Chile* were ultimately signed in March, 1956 by Dean Julio Chaná and Theodore W. Schultz, who was then the Chairman of the Department of Economics at the University of Chicago (see also Fontaine A. 1988, pp. 23–4). For more on the "Chicago Boys" in Chile, see Valdés 1995.

may be seen as a laboratory of the cold war, the intellectual forces behind it had developed well before the political struggle took place.

The two administrations that preceded Allende followed similar economic trajectories. With the support of conservative and center right parties, Jorge Alessandri (1896–1986) was elected President in 1958 with 32 % of the vote. He attempted a managerial approach to governance, but this was difficult when dealing with only a minority control of Congress. Though there were some initial successes, by 1964, when the next election was held, GDP growth was a modest 2.2 %, the inflation rate was 44 % and the unemployment rate was 6.5 %.[16] This paved the way for the election of Eduardo Frei Montalva (1911–1982), whose "Revolution in Liberty" campaign attracted the support of members of his own party, the Christian Democrats, and a broad spectrum of center right voters who feared the left and Allende. After the so-called "naranjazo",[17] liberal and conservative parties reluctantly ended up supporting Frei Montalva, who received 55.7 % of the votes cast, an absolute majority (Collier and Sater 1996, pp. 261–2).[18] During Frei Montalva's time in office (1964–1970), average GDP growth was 4 %, annual inflation was 34 % and the unemployment rate was lowered to 5.9 %.[19] Except for inflation, they were good figures overall, but his administration was perceived as having been successful in the beginning, with a sharp slowdown at the end.[20]

During Frei Montalva's six years in office his government continued and widened a land reform process that had been initiated by Alessandri, and Chilean involvement with American copper mines (the so-called "Chilenization of copper") began. Controlling shares (51 %) of the main American copper mines in Chile were bought by the government.

By the 1970s elections the political scene had grown turbulent. In 1967 there was an emotional debate over the *chiribonos* scheme, a plan to postpone the annual public sector salary increase that engendered strong popular and political resistance from the public sector union (Collier and Sater 1996, p. 319). The episode brought with it increasing inflation, an economic slowdown, and considerable political polarization.[21]

In the September 4, 1970 Presidential election, Radomiro Tomic, the Christian Democrat candidate, would receive only 27.8 % of the votes, former President Jorge Alessandri came second with 34.5 %, and Salvador Allende, leader of a left

[16] Unless stated otherwise, for historical Chilean economic data we will use Díaz et al. 2014 (for unemployment figures, they rely on Coloma et al. 2000).

[17] With the death of Oscar Naranjo, the congressional seat for Curicó became vacant so elections were called giving the left a surprising 39.2 % of the votes. The results forced a political realignment that favored Frei Montalva.

[18] His political campaign received substantial financial support from the United States government and the CIA (Fermandois 2013, pp. 129–31 and p. 189). Under President Kennedy's "Alliance for Progress" Chile received additional funding, "around US$720 million between 1961 and 1970, the largest amount, on a per capita basis, given to any Latin American nation" (Collier and Sater 1996, p. 310).

[19] In addition, real wages grew on average 9.7 % per year and the fiscal deficit averaged 2.1 % of GDP.

[20] 1970 finished with moderate GDP growth of 2.1 % and inflation of 34.9 %.

[21] In January 1967, the Chilean Senate denied President Frei Montalva permission to visit the United States. And by November 1967 the Socialist Party had declared itself a Marxist-Leninist movement, and characterized revolutionary violence as "unavoidable and legitimate" at its Annual National Congress at Chillán (Fermandois 2013, pp. 154–5).

and center left coalition who was running for office for the fourth time, won the election with 36.2 % of the votes (for an analysis of the election see Valenzuela 1978, pp. 39–49). The relative majority required that the election be ratified by Congress. A very tense month followed. US President Richard Nixon asked his CIA Director Richard Helms to promote a preventive coup through the so-called track II.[22] On October 22, 1970, a group tried to initiate it by kidnapping General René Schneider, the commander in chief of the Chilean Army, who was mortally wounded in the unsuccessful attempt (Fermandois 2013, pp. 350–3). Public opinion rallied around Allende and, following the Chilean tradition, on October 24 Allende was ratified by Congress as Chile's first Marxist President (and the first Marxist President democratically elected in the western world). The day after ratification, Schneider died. In the middle of the cold war, the so-called "Chilean Road to Socialism" became a political experiment closely followed by the world.[23]

Within a month's time, Allende's Unidad Popular government embarked upon a number of politically ambitious and controversial socialist structural reforms. The most controversial reforms were accompanied by heated anti-imperialist and anti-oligarchic discourse.[24] In July 1971 the copper industry was fully nationalized with the unanimous support of Congress, and (unlike the situation under Frei Montalva) without any compensation for American shareholders. The agrarian reform that had been timidly initiated under Alessandri and had grown during the Frei Montalva administration, was drastically accelerated. Though the process itself was rather disorganized, virtually all large estates were expropriated, generating a "chaotic situation in the countryside," political polarization and, of course, declining productivity (Loveman 1976, p. 301).[25] The banking system was also substantially nationalized; by the end of Allende's government, about 85 % of the financial sector belonged to the state (Larraín and Meller 1991, p. 188). The prices of more than 3,000 goods were fixed. In short, the state rapidly gained overwhelming control of the economy.

[22] See the Church Committee Report of the US Senate and recent testimony of former CIA covert officer, Jacques Devine (2014). Hurtado (2013) provides an interesting study of this period that is based on declassified US government documents. It reveals Frei Montalva's distress about the future, the concern of the US government about the results of the election, and its active participation in trying to prevent Allende from being ratified. Hurtado also shows that some members of Frei Montalva's cabinet discussed the possibility of a "white coup" that would prevent Allende from being ratified. These discussions and the prospects of a supposed "deal" between Alessandri and Frei Montalva were known by Harberger, who sent a letter to his Chicago colleagues about the situation on September 7, 1970 (see Valdés 1995, p. 241–3).

[23] Much has been written about the rise, fall, and aftermath of Allende and his Unidad Popular government. Six well-researched accounts are Collier and Sater (1996) on the historical situation generally; Fermandois (2013) on the Allende period and its context; Moss (1973) on the Marxist experiment; Valenzuela (1978) on the political situation; and Larraín and Meller (1990), 1991) on economic conditions under the Allende government.

[24] Pedro Vuskovic, Minister of Economics, declared "state control is designed to destroy the economic basis of imperialism and the ruling class by putting an end to the private ownership of the means of production" (quoted in Moss 1973, p. 59).

[25] As the process moved from expropriation of larger (initially 80 ha) to smaller (40 to 80 ha) lots in 1972, social and political confrontation grew more vociferous. In 1971 the Unidad Popular government even expropriated, as a political gesture, a 43 ha farm owned by former President Jorge Alessandri (Fermandois 2013, p. 408). By the end of 1971, nearly 5 million hectares had been seized. By the end of 1973 the uncompensated expropriation had reached approximately 10 million hectares, taken from almost 6,000 farms, constituting 61 % of Chile's irrigated agricultural land (Loveman 1976, p. 305).

Initially the socialist plan was a resounding success. The Chilean economy experienced unprecedented growth of 8.9 % in 1971, inflation fell to 28.2 % and unemployment fell to a historical low of 3.8 % with an average increase of real wages of 22.3 %. Allende's government had fulfilled, and indeed surpassed, all expectations.[26] People from around the world came to Chile to witness the successful democratic implementation of socialism, among them Fidel Castro, who arrived there on November 10, 1971. His visit was not supposed to be a long one, but he stayed for almost a month, traveling around the country and giving lengthy speeches. In the end his rhetoric became rather extreme, apparently making Allende uneasy (Fermandois 2013, pp. 519–28). But the "Chilean Road to Socialism" indeed appeared to be feasible. In this celebratory atmosphere, Allende and his Unidad Popular government obtained almost 50 % of the votes in the Municipal elections of April, 1971.

The outstanding initial successes were not sustainable. The price of copper was relatively high when Allende entered office. This, together with the Frei Montalva government's responsible fiscal management, had given Allende's government significant foreign reserves to utilize for their programs. But its policies of nationalization and expropriation isolated Chile from much of the world economy, with the exceptions of Cuba, the Soviet Union, and China. When coupled with expansionist policies and the growth of the public sector payroll, the end result was significant increases in the fiscal and trade deficits, a decline in international reserves, and a large drop in foreign investment. To maintain its programs, the government printed money: as early as 1971, M1 increased by 119 % (Larraín and Meller 1991, p. 197). Not surprisingly, by 1972 the economic situation began to change sharply, and approached a crisis stage by 1973. With increasing public sector wages, subsidies to state-owned companies and lower tax collections, the public deficit reached 24.5 % of GDP in 1972 and 30.5 % in 1973 (ibid., p. 200). Inflation increased to 255.1 % in 1972, and reached 606 % in 1973. In August 1973, the month before the military coup, inflation was running at an annualized rate close to 1,000 %. In this atmosphere, the fixed official prices triggered shortages that gave rise to an active black market. The government was forced to organize the distribution of certain basic necessities.

On March 5, 1973, Frei Montalva in an alarming interview in *The Times* complained about Allende's government, who by "trespassing on the law or using it arbitrarily and contrary to its spirit, they have tried to impose this totalitarian *étatiste* model" and declaring that "Chile is following step by step the path of Cuba."[27] In June 1973, the Chilean Supreme Court openly criticized

[26] The early successes of the socialist experiment were widely noted and celebrated; see, e.g., "Chile: The Economic Achievements" as reported in *The Times*, May 22, 1972. In August 1971 Frei Montalva wrote a letter expressing his reaction to the buoyant economic atmosphere to Jorge Cauas (who had been the President of the Central Bank under his administration), Andrés Zaldívar (his Finance Minister in 1968–70) and Sergio Molina (his Finance Minister in 1964–68). In the letter he regretted having not listened while in office to advice that called for implementing policies similar to those of Allende, "as the results would have been much better with great advantage for the technocrats [Cauas, Zaldívar and Molina], the country and, most of all, for the great advantage for our government" (Gazmuri et al. 2000, pp. 802–04).

[27] This interview took place before in the parliamentary elections of March 1973. Nonetheless, at this point the Unidad Popular government still remained popular with the electorate, obtaining a surprising 44 % of the votes. The popular sentiment was reflected in a wall slogan of the time that said "*Es un gobierno de mierda, pero es el nuestro* ('It's a shitty government, but it's ours')" (Collier and Sater 1996, p. 315).

Allende, stating that the country was facing "a crisis of the rule of law" (see Valenzuela 1978, p. 91 and note 29). But for many socialist leaders, it was simply a matter of "the primacy of politics": as Pedro Vuskovic, Allende's minister of Economy from 1970 through 1972, had earlier said, "Economic policy is subordinate, in its content, shape and form, to the political needs of increasing Popular Unity support…: a central objective is to widen support for the government" (quoted in Collier and Sater 1996, p. 346).

As 1973 progressed there was a massive transport strike and several incidents of violence and other signs of civil unrest. Chile had become a highly polarized society, with one side blaming "the enemies of the people" (a category that included such targets as oligarchs, imperialists and fascists) who were accused of creating shortages for their own profit, while the other side blamed Allende and his Unidad Popular government for the economic failures of their policies. As the economy spiraled downwards, the social and political atmosphere became severely strained:

> Families were divided: old friendships were strained to the breaking point: tempers were comprehensibly lost. It was a time when many of the traditional Chilean virtues, above all the virtue of *convivencia*, the ability to respect alternative points of view, seemed totally in abeyance (Collier and Sater 1996, p. 355).

On August 22, 1973 the lower chamber of the Chilean Congress adopted a resolution accusing Allende's government of breaking the laws and violating the constitution.[28] Given the tone and content of this declaration, it could be interpreted as a call for a military coup.[29] In early September, after negotiations between Allende and the Christian Democrats had failed, some members of the government coalition were calling for armed revolution. Allende had lost political control of the situation and of his own coalition. Finally, on September 11, 1973, the three branches of Chile's armed forces and *Carabineros* (Chile's national police) joined to overthrow the government of Salvador Allende. "The Chilean Road to Socialism" came to an abrupt and bloody end with the symbolic

[28] Points 5 and 6 of this declaration accused the government of violating the laws and Constitution by attempting to gain "total power, with the purpose of submitting people to the strictest economic and political control of the state in order to attain a totalitarian system absolutely opposed to the representative and democratic system established by the Constitution." The document concluded by urging the government to restore the rule of law.

[29] It has been suggested that this resolution was a condition that the armed forces insisted upon having in place before they would undertake a coup (Huerta Díaz 1988, vol. 2, p. 80). In fact, the resolution stopped "just short of advocating a coup d'état" (Collier and Sater 1996, p 356). But the text could also be interpreted as a call for further political negotiations: for example Cristi ([2000] 2014, pp. 46–50) argues that the declaration was a call to "restore" the rule of law, not to "destroy it" (for a brief analysis see also Fermandois 2013, pp. 749–53). In any event, the prospect of a coup was in the air. At the end of June there was a coup attempt dubbed *el tancazo* or *tanquetazo*. A few days later, on July 3, 1973, *The Times* published an article titled "Chile at a Standstill, Waiting for a Coup?" On September 1, 1973, *The Economist* published an article entitled "Near the Road's End" that began with the words, "Only Chile's armed forces can halt that country's slide into civil war." For a retrospective view of *The Economist* magazine's treatment of Chile in the 1970s, when Robert Moss was the editor in charge of Latin America, see "The Pinochet Affair: Blackwashing Allende," *The Economist,* January 28, 1999.

bombardment of the Presidential Palace.[30] After a tragic and emotional radio address, Allende committed suicide in his office at *La Moneda*.[31]

2.2 Pinochet's military regime

The Junta Militar imposed harsh political repression. Congress was closed on September 21, 1973, and the systematic persecution of communists, socialists, and indeed anyone linked to the left, was initiated. The first three months after the coup were particularly violent, but human rights abuses extended throughout the entire period in which the military regime was in power (official figures put the final death toll at 3,197).[32] The murders and torture are both a stigma and a wound for Chilean republican history that still mark and pain its citizens.

The international press reported on the human rights abuses both during and after the coup. The Commission on Human Rights at the United Nations established an ad hoc Working Group that visited Chile. They submitted two condemnatory reports in 1975 and 1976. Moreover, in September 1976, Orlando Letelier, Allende's former Ambassador to the US, was killed in car bomb explosion at Sheridan Circle in Washington DC, near the Chilean Embassy.[33] This brutal assassination attracted worldwide attention and censure, especially after the involvement of DINA, Pinochet's secret police, was revealed two years later. Pinochet responded to the United Nations human rights panel by calling for a referendum of support for the

[30] In an interview immediately after the coup, Patricio Aylwin - who was then leader of the Christian Democrats and would succeed Pinochet as President - gave some reasons, similar to those stated in the Congressional resolution, for his support of the military intervention. He criticized the Allende government on a number of issues: for creating "the economic crisis, their attempt to retain power by any means, the moral chaos and destruction of the institutional framework, [which] provoked a collective despair and anguish in the majority of the Chileans that triggered the military action." According to Aylwin, "we are convinced that the so-called Chilean Road to Socialism, the flag that Unidad Popular promoted around the world, had completely failed." He also noted that "the organized militias of Unidad Popular, a parallel army that was heavily armed, had also planned a coup to get total power. We believe that the armed forces simply anticipated that risk, saving the country from falling into a civil war or a communist tyranny." A video of Aylwin's interview may be accessed at https://www.youtube.com/watch?v=owtCH6XP6Qk.

In this highly polarized context, the Christian Democrats were divided among those who welcomed the military coup and those who did not, but the majority supported it. Many believed that the coup was a necessary transition and that constitutional democracy would return quickly with a call for elections (this appears to be the case for Eduardo Frei Montalva; see Gazmuri 2000, pp. 851–71). When the military regime did not relinquish power and human rights abuses persisted, the Christian Democrats became strong critics of Pinochet.

[31] Apparently he used the machine gun that Fidel Castro had given him as a present during his long visit to Chile in 1971. His address can be heard at https://www.youtube.com/watch?v=xZeEfXjTNu4. On Allende's suicide see Cavallo and Serrano ([2003] 2013, pp. 186–9) and Fermandois (2013, p. 768).

[32] The Reports of the Commission of Truth and Reconciliation, or Rettig Commission of 1991, and of the National Commission on Political Imprisonment and Torture, or Valech Commission of 2004 and 2011, provide detailed and thorough descriptions of the cases of human rights violations in Chile. It lists 2,095 executions and approximated that there were 1,102 disappearances. At least 40,000 people were subjected to political imprisonment in which most suffered from ill-treatment or torture. Some 200,000 people were forced into exile.

[33] Ronni K. Moffitt, an American colleague of Orlando Letelier, traveled in the car with her husband, Michael Moffitt, and was also killed. The fact that an American citizen was a victim of a bomb attack in the capital of the country hardened the determination of the U.S. government to thoroughly investigate this criminal act.

military regime in January 1978, which he received in a mock election that took place just two months after Hayek's first visit Chile.

In political and economic terms, although officials from the Armed Forces took key positions in government in the first period of the military regime, the influence of the Chicago Boys was already present.[34] From the outset, the two main economic objectives of the Junta were to get inflation under control and to reestablish a market economy. A massive devaluation, the removal of price controls on nearly 3,000 goods, and the return of many firms confiscated by the Unidad Popular, followed. The immediate effect of the removal of price controls was to put upward pressure on prices. Inflation was 606.1 % in 1973 and 369.2 % in 1974. In July1974 Jorge Cauas, a well-respected Christian Democrat economist who had been President of the Chilean Central Bank under Frei Montalva, was appointed as Finance "Super" Minister with the charge of bringing inflation under control. His problems were compounded by an adverse international economic climate: the price of copper had fallen sharply, oil prices were soaring, and international creditors were wary of Chile. Facing both high unemployment and high inflation, Cauas implemented a "National Recovery Plan," what would become known as a "shock treatment" approach to stabilization.[35]

Inflation was indeed brought under control, but the required economic restraint (as well as the firing of legions of state employees as state firms were returned to their owners or privatized) caused unemployment to remain high (18 % in 1975, 21.9 % in 1976 and 18.1 % in 1977). At the end of 1976, Jorge Cauas resigned and Sergio de Castro, the most prominent and emblematic Chicago Boy, assumed the position of Finance Minister. After that, the influence and control of the Chicago Boys was evident in all relevant government positions. Immediately after de Castro assumed office, Chile withdrew from the Andean Pact – a trade agreement with Colombia, Peru, Bolivia, Venezuela, and Ecuador – and drastically reduced its high tariffs on foreign goods to a uniform 10 %.[36] The increased competition that resulted had a huge positive impact on the long-run efficiency and productivity of Chilean firms.

As noted, privatizations also began during this first period of economic liberalization. Under Allende, *Corporación de Fomento de la Producción* (CORFO), a state corporation to promote productive activities, became a kind of Chilean state holding company. It expanded from owning 46 firms and no banks in 1970, to controlling 488 firms and 19 banks in 1973. Over the next 5 years the Chicago Boys implemented an extensive privatization scheme, such that by 1978 all but one bank had been privatized and CORFO controlled only 23 firms, of which 11 were in the process of being sold to the private sector (Edwards and Cox 1991, pp.

[34] The Chicago Boys in Chile had developed a market oriented program called "El Ladrillo" ("The Brick") before the coup. Arturo Fontaine A. recalls that the leaders of the Armed Forces had a copy of it a day after the coup (Fontaine 1988, p. 20).

[35] Cauas' policies reflected plans that had already been designed prior to Friedman's visit to Chile, as Pinochet pointed out in a letter to Friedman (Friedman and Friedman 1998, p. 594). This was confirmed in a Montes interview of Cauas, May 28, 2014.

[36] During Allende's government "the average nominal import tariff was 105 % with tariffs ranging from nil for some inputs and 'essential' consumer goods to 750 % for goods considered as 'luxuries'" (Corbo 1993, p. 2) and "[at] the end of 1973 the average import tariff in Chile was 94 %. In June 1979 it was 10 % and covered all imported items, except cars" (Foxley 1980, p. 23).

95–98).[37] The opening up of the economy and the implementation of additional market-oriented reforms[38] ultimately led to signs of economic recovery.

Hayek's visits in 1977 and 1981 took place while the Chilean economy was on the rebound: between 1975 and 1981 the average annual growth rate was 7.3 %. In addition, in September 1980 a new Constitution had been enacted, one that included an article that called for a plebiscite in 1988. So a slow and gradual political transition back towards a constitutional democracy appeared to have begun. In this atmosphere, Pinochet, in January 1981, trumpeted "the seven modernizations."[39] Hayek's second visit, in April 1981, took place during a booming and optimistic economic time.

The strong recovery of the early 1980s came to an abrupt end with the world recession of 1982, which hit the US and Latin America particularly hard. The Chilean situation was further aggravated because the peso had been pegged to the dollar in June 1979. Triggered by skyrocketing international interest rates, the recession resulted in a significant fall in the exchange rate, lower prices for Chilean exports (especially copper, which reached its lowest price in 50 years), a rapid accumulation of private foreign debt, and a virtual halt to capital inflows from abroad. Moreover, the recently freed banking system lacked sufficient regulation. A group of industrial conglomerates loosely related to the banks known as the *grupos* became heavily indebted, and ultimately went bankrupt, causing the state to intervene.[40] In 1982, real unemployment reached almost 25 % and the real rate of growth of GDP plummeted −14.1 %. In Chile the 1982–3 recession was comparable in its effect only to the Great Depression.

During this period it seemed that monetarism and the economic liberalization policies of the Chicago Boys had failed.[41] Sergio de Castro left as Minister of Hacienda in April 1982. A period of acute economic depression, political uncertainty, and intense social and civil unrest, followed.[42] The controversial fixed exchange rate was abandoned in June 1982. In 1985 the country would take off again under the market oriented and pragmatic macroeconomic management undertaken by the Finance

[37] Codelco, the Chilean copper holding corporation, remained state-owned for "strategic" reasons (for more on the discussion of this issue within the Junta Militar, see Barros 2002, pp. 105–7, and Barros 2005, pp. 135–8). The expropriation of American copper interests had consequences: an international embargo on Chilean copper. The government appointed a group of lawyers led by Julio Philippi to negotiate with all American copper companies. At the end of 1974 the Chilean government reached an agreement that involved compensation of $142.7 million for the American firms.

[38] Perhaps the most famous of these was the pioneering social security reform designed by Minister of Labor and Social Security José Piñera, which was enacted in 1980 and replaced a virtually bankrupt pay-as-you-go system with individual retirement accounts.

[39] These included a new labor law (1979), social security law (1980), health services reform (1980), educational reform, agricultural reform, justice reform and administrative and regionalization reform. The first three reforms were implemented by José Piñera while he was Minister of Labor and Social Security (1978–1980).

[40] For an economic analysis, see De la Cuadra and Valdés 1992.

[41] Although Edwards 1984 analyzes the macroeconomic inconsistencies and mistakes previous to the severe 1982–3 Chilean recession, the crisis was greatly influenced by exogenous factors. Therefore to conclude that the Chilean Chicago experience was a failure is too extreme. As Sebastian Edwards and Alejandra Cox argue "if failure is defined as a significant deviation between the expected (and publicized) overall results of the policies and actual results, then the Chilean experience was a failure. This, however, does not mean that there were no accomplishments" (1991, p. 208, note 1).

[42] After Sergio de Castro had to resign on April 19, 1982 (see Arancibia et al. 2007, pp. 380–6), Chile had five Finance Ministers in the following 3 years.

Minister, Hernán Buchi.[43] By 1988 economic growth was at 7.3 % and unemployment 9.9 %. In that year, the Constitution called for a plebiscite. Despite political intrigue and official abuses during the campaign,[44] a majority of Chileans voted "No," so that presidential and parliamentary elections followed in 1989 as part of the constitutional mandate. Patricio Aylwin was elected with 56 % of the votes. During 1989, the last complete year of Pinochet as President, real GDP growth reached 10.5 % and unemployment hit a low of 7.9 %. On March 11, 1990, in a ceremony at the new Congressional building in Valparaíso,[45] Pinochet handed over power to President Aylwin. Since then, Chile has experienced economic growth and political stability. During the golden period of 1985–97 GDP grew at an average annual rate of 7.1 % and GDP per capita doubled (De Gregorio 2005, p. 23). Nowadays Chile has the highest GDP per capita in Latin America, though critics point out that this is accompanied by considerable income inequality.

3 Hayek's mindset in the 1970s

In 1969 Hayek and his wife moved from the University of Freiburg in West Germany to the University of Salzburg in Austria. It was an inauspicious move. For a variety of reasons he was unhappy, perhaps even depressed in Salzburg, and in any event he did not get much work done.[46] But in early 1974 the depression lifted and he returned to full working capacity. In that same year he was jointly awarded the Nobel Prize with the Swedish economist Gunnar Myrdal.[47] Over the course of the next few years he would complete his trilogy *Law, Legislation and Liberty* (Hayek 1973–79) and open a new avenue of inquiry with the publication of his pamphlet *The Denationalization of Money* (Hayek [1978c] 1999).

The Nobel Prize made Hayek, for the second time in his life, into a public intellectual. He had had the experience before when the publication of the *Reader's Digest* edition of *The Road to Serfdom* and a barnstorming public relations U. S. book

[43] Hernán Buchi, who had previously worked in government, assumed the position of Finance Minister in February 1985. Buchi had a MA in Economics from Columbia, so he could not be considered a Chicago Boy proper. If it is difficult to explain why the military regime embraced with enthusiasm an open economy and a market oriented approach, it is even harder to explain their perseverance with those programs after the severe crisis of 1982. See the interesting article "Pinochet sends the Chicago Boys back to School" (*The Economist*, issue 7406, August 10, 1985).

[44] For example, on October 5, 1988, the day of the plebiscite, *El Mercurio,* the main Chilean newspaper that supported the military regime, published on its front page the results of a survey poll that indicated that the "Si" option would win. The same day the *New York Times* published the results of a survey by CEP that predicted "No" as the winner ("Pinochet Foes, Bolstered by Polls, Hope to Oust Him in Vote Today," October 5, 1988). In Chile the latter results were disclosed only after the elections; as it turned out, they were quite close to the actual results (for a discussion of the results and the context, see Méndez et al. 1989, p. 103). During the tense night that followed the plebiscite, Fernando Matthei, a member of the Junta Militar representing Air Force, first publically acknowledged that the "No" option had won (Cavallo et al. [2008] 2013, p. 661, and for an account of that long day, see ibid. pp. 637–64). Pinochet would only address the country in the early evening of the next day.

[45] The new Congress building, of somewhat dubious architectural value, was built in Valparaiso by Pinochet with the idea of "decentralizing" the government. Construction began two weeks after the 1988 plebiscite.

[46] For more on this, see Kresge and Wenar, eds. 1994, pp. 130–31.

[47] Hayek always insisted that he recovered prior to winning the Nobel; it was subsequent to, rather than the cause of, his recovery.

tour in 1945 had made his name (if not his ideas) recognizable for a time to millions of readers.[48] By 1974 those heady days were rather far behind him. Now, suddenly, it began anew. He sat for newspaper, news magazine, and radio and television interviews. He was invited to visit university campuses to give speeches, even commencement addresses. Whenever he visited a foreign country, he would be interviewed by their press and sometimes be invited to meet with government officials. Hayek's views were seldom widely popular, and perhaps even less so in the 1970s, but they had the advantage of a certain novelty. Thus articles explaining, extolling, and (perhaps more frequently) criticizing his ideas appeared with fair regularity. Hayek also increased his own activity, writing letters to the Editor of newspapers like *The Times* of London and the *Frankfurter Allgemeine Zeitung* (*FAZ*).[49]

At the end of March 1975, only a few months after Hayek had gone to Sweden to accept his prize, Milton Friedman accompanied his University of Chicago colleague Arnold "Al" Harberger on a trip to Chile to take part in a series of talks and seminars on economics.[50] For six days they would both participate in various seminars and public talks (Friedman and Friedman 1998, pp. 398–99). As noted earlier, by 1975 inflation in Chile had fallen from its peak in 1973, but was still a major problem. During his visit Friedman had a forty-five minute meeting with Pinochet in which he recommended a dramatic decrease in the rate of the increase of the money supply to get inflation under control. Friedman later sent Pinochet a letter in which he outlined this and other policies (ibid., p. 399).

Friedman's trip was criticized by the *New York Times* columnist Anthony Lewis in September of that year. Soon thereafter, student protests began at the University of Chicago. Though the protests included such things as picketing the apartment house where he and Rose lived, they were small and, according to the Friedmans, "… they were not very serious. However, they were the first of many during the next 5 years or so" (ibid., p. 402).

Things got much worse in October 1976 when it was announced that Friedman would receive the 1976 Nobel Prize in Economics. Within weeks of the announcement, the *New York Times* published a letter from two Nobel laureates, George Wald (medicine) and Linus Pauling (chemistry and peace), criticizing the award committee for a "deplorable exhibition of insensitivity" in giving him the prize. On the same day they published another letter, this one signed by laureates David Baltimore and Salvador E. Luria (both in medicine), calling the award committee's decision "disturbing" and "an insult to the people of Chile" who were "burdened by the reactionary economic measures sponsored by Professor Friedman" (ibid., pp. 596–97). When Friedman went to Sweden to receive the prize in December there were multiple demonstrations, some rather large. During the ceremony itself an individual protester shouted "Down with capitalism, freedom for Chile" as Friedman was receiving the award. Vocal protests at his speaking appearances would recur over the next few years. Regarding the whole episode, Friedman

[48] See the Editor's introduction to Hayek [1944] 2007, pp. 18–22 for more details.

[49] A representative sample of the various genres may be found by perusing boxes 108, 109, and 167 of the Friedrich von Hayek collection, Hoover Institution, Stanford. Many more instances may be found in separate folders spread throughout the collection.

[50] The invitation had been tendered by *Banco Hipotecario de Chile*, owned by Javier Vial, one of Chile's most powerful businessmen; his economic conglomerate – *Grupo Vial* - would collapse in the 1982 economic crisis.

concluded, "I never could decide whether to be more amused or more annoyed by the charge that I was running the Chilean economy from my office desk in Chicago" (ibid, p. 400).[51]

The turmoil over the Friedman prize ended up touching Hayek. On December 14, 1976, only 4 days after the awards ceremony, Gunnar Myrdal published a piece in the Swedish newspaper *Dagens Nyheter,* an English translation of which soon appeared in the American popular economics magazine *Challenge*. Noting Friedman's recent receipt of the prize, Myrdal criticized the Swedish Academy of Science for its secretive practices in choosing the recipient, a process that makes it difficult for any opposition to form prior to their recommendation. He also argued that, because economics is at best a "soft" science, the awarding of the prize had become a political act that should be discontinued. Myrdal then segued into a discussion of the prize he had shared with Hayek (another political act, in his view), noting the "thousands of cablegrams I received from colleagues all over the world, mostly informing me that they were deeply critical of the Nobel Prize being given to von Hayek" (Myrdal 1977, p. 52). He ended his piece expressing regret that he had accepted the award. His excuse was that "I should have declined to receive it, particularly as I did not need the money but gave it away… But I had not then thought the problem through. I was merely disgusted. Also, the message reached me very early one morning in New York, when I was totally off my guard" (ibid.).[52]

Hayek knew of the Myrdal piece soon after it was published in Swedish because Ole-Jacob Hoff sent a letter summarizing its contents to Friedman, and copied Hayek on it.[53] Hayek had throughout his career been known for keeping his disagreements with opponents on a professional level.[54] By the 1970s he was doubtless beginning to wonder if this had been a good strategy. The treatment Friedman was receiving would have angered him. So would Myrdal's intemperate public remarks.

We also know from his notecards that Hayek was increasingly agitated about the direction the economics profession was taking at the time. Indeed, he was thinking of

[51] Some Chilean Chicago Boys probably attended his course in economic theory and perhaps his Workshop in Money and Banking, but the faculty who were really involved with Chile were Arnold Harberger, H. Gregg Lewis and Larry Sjaastad. Rolf Luders was the only PhD Chilean student supervised by Friedman, and in a private interview with Montes on March 31, 2014, he acknowledged that Friedman was "always very busy, and only read the main chapter of my monetary history, which for all formal purposes – given the 42 page length restriction then existing - was my PhD dissertation [*A Monetary History of Chile: 1925–1958*, University of Chicago, 1968]. He did not read the other chapters that provided descriptive and analytic support."

[52] On May 31, 1977 the *New York Times* published an article by Leonard Silk entitled "Nobel Award in Economics: Should Prize Be Abolished?" It begins summarizing the whole situation: "The award of the Nobel Memorial Prize in Economic Science to Prof. Milton Friedman of the University of Chicago last October provoked a storm of criticism over Professor Friedman's right-wing politics, focused particularly on his willingness to give advice to the central bank and the post-Allende Government in Chile. This storm has been followed by a blast from an earlier Nobel Laureate, Prof. Gunnar Myrdal." The disagreement among economists had become a very public event.

[53] Hoff's letter may be found in the Hayek collection, box 147. Throughout his career Hayek would write phrases, epigrams, ideas, quotations, and other notes to himself on notecards. This box principally contains Hayek's notecards, so has no folders. The letter was folded up amongst the cards.

[54] In his review of Hayek's *The Road to Serfdom*, Schumpeter (1946, p. 269) famously characterized both Hayek and the book as (perhaps overly) polite: "…it is also a polite book that hardly ever attributes to opponents anything beyond intellectual error. In fact, the author is polite to a fault…".

writing a book titled *What Is Wrong with Economics*.[55] He never wrote the book, but he did spend a considerable amount of time in the late 1970s on "the Paris Challenge," a debate he hoped to organize on capitalism versus socialism. This too never materialized, but it ultimately led him to another writing project, one that culminated in *The Fatal Conceit: The Errors of Socialism* (1988), his final major publication.

All of this is simply meant to convey Hayek's frame of mind when he received the invitation to visit Chile in June, 1977. The invitation was sent to Freiburg but forwarded to the Hoover Institution at Stanford, where Hayek was spending much of the month. By then Milton Friedman, who had retired from Chicago the year before, was a fellow of the Hoover Institution at Stanford and he was living with Rose in San Francisco. They doubtless would have seen each other, and probably even discussed Friedman's visit to Chile in 1975, its effects, the consequences of accepting the offer to visit Chile, and perhaps even some details of the Chilean economic situation.

Hayek later reported that when it became public knowledge that he had accepted the invitation, he received many letters and phone calls, many from "well-intentioned people I did not know… [all of] which were intended to stop me from visiting such an objectionable country" (Hayek, quoted in Farrant et al. 2012, p. 518).[56] Of course, it was revulsion over human rights abuses that caused so many people to advise him not to visit Chile. But there were other countervailing elements in play. It was, after all, the middle of the cold war, and Chile was being censured by for having overthrown a democratically-elected Marxist government. Hayek was a life-long critic of socialism, and he was doubtless curious to see for himself a country that had moved from a Marxist government to an authoritarian military regime that was implementing free market oriented policies. Given Hayek's character, his mindset, and the larger political context, it is rather hard to imagine him not accepting the invitation to go to Chile.[57]

4 The November 1977 visit

The letter officially inviting Hayek to Chile to give a lecture and receive an honorary degree was dated May 12, 1977, and came from Juan Naylor, the Rector of *Universidad Técnica Federico Santa María*.[58] It is a formal invitation and notes that "the Business School of Valparaiso, *Fundación Adolfo Ibáñez*, will arrange the details of your visit." This invitation was sent to Hayek on May 25, 1977 with an

[55] The book is mentioned on notecards in the Hayek collection, box 147, cards that are proximate to the letter from Hoff mentioned in note 53. His targets in the book were to include Samuelson on unemployment, Leontieff on planning, Tinbergen on social justice, and Myrdal on development, with appendices on [John Stuart] "Mill's Muddle" and "The Neglect of Ludwig von Mises."

[56] Some were people he did know, like Ralph Raico, Hayek's former PhD student at Chicago, who in a letter of 13 June 1977 warned him about human rights abuses in Chile. Farrant and McPhail (forthcoming) mention Raico's letter, which may be found in the Hayek collection, box 14, folder 20.

[57] C. E. Cubitt reports "His visit to Chile was from the beginning a very controversial affair. Many people were unhappy about his going there, some of his friends pleading restraint, others sending him letters of protest and warnings about the damage the visit would do to his reputation. Hayek, however, was not a person to be influenced by words of caution so long as he was convinced of the propriety of his action" (Cubitt 2006, p. 19).

[58] Correspondence and Hayek's itinerary for the 1977 visit may be found in the Hayek collection, box 54, folder 23.

accompanying letter from Pedro Ibáñez, a prominent entrepreneur, former Senator, and the President of the *Fundación Adolfo Ibáñez* (Adolfo Ibáñez was Pedro Ibáñez father), the organization that ran the Valparaíso Business School (*Escuela de Negocios de Valparaíso*). Ibáñez took care to mention that though the Valparaíso Business School was "officially associated" with the *Universidad Técnica Federico Santa María*, it was independent "both academically and economically." [59] He then asserts that,

> …we believe that a visit of 1 week may allow a fair knowledge of our country and its problems, and could provide various opportunities to foster both the political and economic concepts so outstandingly set forth by you… You may be sure that our academic world as well as our country public opinion, will listen with deep interest to your illuminating views.

In his letter Ibáñez reminded him that Manuel Ayau had previously alerted Hayek that the invitation would be coming.[60] Ayau was a key advocate of classical liberalism in Latin America, the founder of *Universidad Francisco Marroquín* in Guatemala, and would be the President of the Mont Pèlerin Society in 1979–1980. On March 30, 1977 Ayau had written to Hayek that he had recently been visited by "former Senator Pedro Ibáñez, member of our Mont Pèlerin Society and founding and present President of Adolfo Ibáñez Foundation." He added that the foundation, established some twenty five years ago, ran "a school of economics and business along the same philosophical lines of our university [that is, the *Universidad Francisco Marroquín*], philosophy that Senator Ibáñez has expounded through his political career in Chile." He then told Hayek that the *Universidad Técnica Federico Santa María* had received a grant from the "Earhart Foundation (Ann Arbor)" to invite a distinguished economist, so "it is their wish to submit their formal invitation to you to come to Chile to receive an honorary degree of the Universidad Santa Maria and deliver a few lectures in his country sometime this year, or whenever it is convenient for you." Pedro Ibáñez had asked Ayau "to consult" Hayek to see if he "could consider such an invitation favorably, and in such case, to let me know at your convenience so that they can proceed to send you their formal invitation. They would feel highly honored by your acceptance."[61]

Ayau's letter of support had its intended effect. On April 6, 1977 Hayek replied to Ayau saying "I have long wished to see the West Coast of South America which I do not know and should be pleased to receive an invitation from the Universidad

[59] As on his visit Friedman turned down offers of two honorary degrees from the main universities in Chile "precisely because he felt that acceptance of such honors from universities receiving government funds could be interpreted as implying political approval" (Harberger, quoted in Friedman and Friedman 1998, p. 598), it may be that Pedro Ibáñez wanted to assure Hayek that accepting the degree would not in any way implicate him in endorsing the military regime. *Universidad Técnica Federico Santa María* was a private university and Ibáñez was a private citizen. Ibáñez also doubtlessly felt genuinely proud of the academic and economic independence of the Valparaíso Business School, one that was funded by the Foundation over which he presided.

[60] "It is a great honour for me to confirm the invitation already announced to you by our good friend Mr. Manuel Ayau." Letter, Pedro Ibáñez to Hayek, May 25, 1977, in the Hayek collection, box 54, folder 23.

[61] Letter, Manuel Ayau to Hayek, 30 March 1977, in the Hayek collection, box 54, folder 21.

Santa Maria."[62] On June 10, 1977 Hayek replied in a handwritten letter to Pedro Ibáñez accepting the invitation and saying that as soon as he has "access to a typewriter, which will be next week at the Hoover Institution, Stanford" he will officially confirm adding that he "wanted to send you this first reply at once."[63] Finally, on June 13, 1977, Hayek formally replied from the Hoover Institution accepting the invitation.[64]

A few months later Hayek would hear from another important player for his 1977 visit, Carlos Cáceres, Dean of the Valparaíso Business School and, later, Chilean Central Bank President and Pinochet's Finance and Interior Minister. They had a brief exchange of letters nailing down details of the trip in September and early October.[65] In late October, Cáceres sent Hayek a preliminary itinerary for the Chilean leg of his trip.[66]

The itinerary had him arriving in Santiago on Monday 14, then traveling directly to Viña del Mar on the coast. On Tuesday, November 15, he would receive the *Doctor Honoris Causa* degree and then give an academic lecture. A press conference was organized for the afternoon. On Wednesday he would meet faculty members of the Valparaíso Business School, then travel to Santiago in the afternoon. On Thursday morning a "visit to the highest government authorities" was to occur, followed by lunch at *El Mercurio*, to be hosted by Sub-director Arturo Fontaine, another press conference, and a lecture to students of the Valparaíso Business School. On Friday he would meet faculty members of several Departments of Economics and give a lecture to businessmen in the evening. On Saturday morning he would travel to Colunquén, a private farm owned by Pedro Ibáñez, located in the Aconcagua valley, some 80 miles from Santiago. Finally, on Sunday, November 20, he would fly to Buenos Aires, Argentina.

Additional events, and one clarification, may be found on what is presumably the official final itinerary. These include a "Visit to the President of the Republic" on Thursday, November 17 at noon (the 12:00 is handwritten in over an earlier time that day). An interview with *Que Pasa* magazine upon arrival, and another with *Ercilla* magazine on Thursday at 16:30, replacing the press conference that had originally been scheduled, were also added. Finally, a Friday evening reception for the conservative German politician Franz Josef Strauss was written in by hand.

The question arises: did Hayek know in advance that he would meet Pinochet? It was not in his initial itinerary, though certainly the statement that was there, that the trip

[62] Letter, Hayek to Manuel Ayau, 6 April 1977, Pedro Ibáñez papers. We are grateful to Adolfo Ibáñez, son of Pedro Ibáñez, for giving us access to, and permission to quote from, Pedro Ibáñez papers.

[63] Letter, Hayek to Pedro Ibáñez, 10 June 1977, Pedro Ibáñez papers.

[64] Ibáñez sent Hayek a cable confirming his visit on June 26, 1977. Ibáñez followed this with a letter on July, 1, 1977 thanking Hayek for his personal letter, confirming receipt of his formal acceptance letter to *Universidad Técnica Federico Santa María*, checking dates of his visit to Chile, and inviting Hayek to his country house. Hayek replied on July 14, 1977 saying that his plans "developed into a four country visit (Chile, Argentine, Brazil and Nicaragua) which I can do only if I stay in each country only from Sunday to Sunday and use the Sundays for traveling." All correspondence may be found in the Pedro Ibáñez papers.

[65] Cáceres also informs Hayek that Rector Juan Naylor had passed away and that Mr. Ismael Huerta, former Ambassador of Chile to the United Nations, had replaced him. The letters are to be found in the Hayek collection, box 54, folder 23.

[66] Hayek's ultimate itinerary included week-long visits to Argentina, Brazil, and Portugal, as well as 4 days in Spain, directly following his visit to Chile. See the Hayek collection, box 4, folder 29.

would include a "visit to the highest government authorities," might have led him to suspect it. Interestingly, eight days before the event *El Mercurio* had already announced that a meeting was planned.[67]

Carlos Cáceres and Pedro Ibáñez were the only persons with Hayek when he met with Pinochet, and Cáceres is the only person still alive who was present at the meeting. There were no translators: Ibáñez, as Hayek's host in Chile, played that role. In 2010 Cáceres agreed to sit for an interview with both authors, and he was able to remember many details of Hayek's trip. Cáceres recalled picking Hayek up at the airport in Santiago and taking him to Viña del Mar, which is where the Valparaíso Business School and *Universidad Técnica Federico Santa María* are located. On the way there they stopped in Casablanca, at a restaurant famous for its chicken stew. When they arrived at Viña del Mar, Hayek found the coastal resort setting much to his taste, walking on the beach and bending down to inspect the stones. Hayek would return there accompanied by his wife in 1981.[68]

When it came to the details of Hayek's meeting with Pinochet, however, Cáceres had much less to say. His memory was that it was a brief twenty minute affair, and whatever was discussed (which he said he could not remember), he supposed that it was nothing too substantive, noting the difficulty of intercourse when neither party knew the others' language. It should probably be mentioned that Pinochet would barely have known whom Hayek was, except that he was a Nobel laureate in economics who was apparently supportive of the Chilean economic recovery plan.

More information about the encounter is provided in newspaper accounts, for directly before and after the meeting Hayek spoke to members of the press. *El Mercurio* ran an article the next day, noting that Hayek had said that "he had talked to Pinochet about the issue of limited democracy and representative government on which he wrote a book. He said that in his work he argues that unlimited democracy cannot work because, in his opinion, it creates different forces that end up destroying democracy." He told reporters that Pinochet "listened carefully and asked him for the documents that he had written on the issue." This is consistent with Hayek's secretary Charlotte Cubitt's recollection that on his return Hayek asked her to send Pinochet a copy of his chapter on "A Model Constitution" from *Law, Legislation and Liberty*.[69] Given the prominence of the idea of "limited democracy" in Hayek's writings of the time, that both Cáceres and Ibáñez were members of the Council of State, and that in a few years a new constitution would be adopted, it is certainly plausible that Hayek would have mentioned his own writings on constitutions and democracy.

In the *El Mercurio* article Hayek also expressed his surprise at the state of development he had found: before coming to Chile he thought he was going to find an underdeveloped country, "but now he could not use that term to define Chile." He

[67] On Wednesday, November 9, 1977, *El Mercurio* published an article about Hayek's upcoming visit to Chile, underlining his meeting with President Pinochet on Thursday, November 17. In an interview with Leonidas Montes on April 2, 2014, Carlos Cáceres did not remember whether Hayek had received the final program in Chile or it had it sent to him before. He was inclined to think that it was the former.

[68] Caldwell and Montes, interview of Carlos Cáceres, November 16, 2010.

[69] Cubitt 2006, p. 19, recalls that "He must have meant or hoped to influence Augusto Pinochet, the military Dictator of Chile from 1973 to 1990, for he met him, shook hands, and then asked me to send him a copy of the last chapter of *Law, Legislation and Liberty III*, namely 'A Model Constitution' along with a letter." According to a report in *La Segunda*, November 18, 1977, Hayek also mentioned certain ideas concerning a model constitution in his talk before a group of businessmen.

praised the government for its willingness to run the country "without being obsessed with popular commitments or political expectations of any kind," adding that the painful economic reforms they were experiencing were a "necessary evil that will soon be overcome." He ended by praising market liberalization efforts, concluding that "the direction of the Chilean economy is very good" and that "the effort the country is undertaking is an example for the world."[70] According to Carlos Cáceres, who wrote to Hayek soon after the visit, his positive comments were well-received by the regime.[71]

Hayek's praise for the regime's economic policies contrasts with more cautious statements he made earlier in his trip. Hayek's visit was covered in the newspapers, often as front page news, and one can trace his reaction by following the stories day by day. On the first couple of days the reports consist only of summaries of his lectures, and there was nothing in them about Chile. There was, however, a statement about democracy: "Although I am an eminently democratic person, I think that the democratic system cannot be unlimited, as it needs protections to avoid the influence of power and interest groups."[72] When he talked to the press on Wednesday (his comments would appear in *El Mercurio* the next day), he told journalists that he had seen little of Chile but thought that from what he had seen the economic situation "is much better than I had expected." Regarding the current economic plan, he said that "it has been applied for only 3 years, and this is a period too short to make a judgment." Asked about the new direction in which the leaders had taken the Chilean economy, one different from that of the last 30 years, Hayek said that he thought that it was the right direction, and emphasized the importance of free enterprise for development, especially in a small country like Chile that "has to explore and find opportunities to obtain more welfare. And this is possible only with free enterprise." He then criticized planning and warned of the dangers of powerful unions. When one journalist asked Hayek about the rise in unemployment that the new economic regime had created, Hayek argued that "the country should not look for short term remedies, but for the long term conditions that will finally end up creating new jobs." He added that it was easy for politicians simply to print money, but that that was no solution. When the journalist persisted in questioning the social costs of the reforms, Hayek ended up saying that "he does not know anything about Chile, but what you say is very familiar to me and I have heard it in other countries. If politicians are not prepared to take drastic measures, we always hear those same arguments. Based on what you say, the Chilean

[70] F. A. Hayek, in *El Mercurio,* November 18, 1977. The statements in *El Mercurio* are quite similar to those found in *La Tercera,* November 18, 1977. That newspaper also reports that Hayek addressed the social cost of the economic reforms – lower salaries and unemployment – by justifying them as necessary measures to get inflation under control and arguing that employment and salaries will ultimately recover. When he was asked, "Why do you think that the Chilean economy has progressed?" he replied that market liberalization was a key, and he particularly praised the attempts to lower inflation and to allow the exchange rate to freely adjust. The latter was not to last: between 1979 and 1982 the Chilean peso was pegged to the dollar, with dire results when the 1982 recession hit.

[71] Cáceres expressed "the deepest gratitude of the Business School and myself for having the valuable opportunity to listen your lectures and to discuss your very interesting and innovating approaches about the future of the economic sciences as well as its relationship with the political environment. In several occasions, the President of the Republic as well as the members of the economic committee, have made public statements acknowledging your comments about the Chilean economy." Letter, Cáceres to Hayek, 28 April 1978, the Hayek collection, box 54, folder 23.

[72] F. A. Hayek, in *El Mercurio,* Wednesday November 16, 1977.

government is doing the right thing. I believe it is attacked in the typical way that all governments that take the necessary measures are attacked."[73]

Hayek's interview with *Que Pasa* magazine has a number of interesting dimensions.[74] First, Hayek warned about the dangers of inflation, then (echoing the opening sentences of his 1974 Nobel address) stated that economists have nothing to feel proud about, that the profession had created a huge amount of confusion. When he is asked his opinion of Milton Friedman's views, he pointed out a number of differences from those of his own, a contrast that would not have gone unnoticed by the Chicago Boys. Next, and presumably in reference to the policies under Allende, he criticized excessive government expenditure because as it improves employment in the short term, it increases the threat of inflation. In Hayek's opinion, politicians who use it are guilty of "*Après nous, le deluge*" thinking. Finally, he makes an argument that he had made for decades: that democracy is a means, not an end. The end should be individual freedom. As a means for the majority of citizens peacefully to rid a government they do not like, it is very valuable. But an unlimited democracy is one of the worst forms of government.[75]

Hayek's lack of knowledge of the details of the workings of the Chilean economy was revealed in his interview in *Ercilla* magazine. Referring to the three main prices in the economy – interest rates, salaries and the exchange rate – the interviewer asked Hayek whether one could talk of a market economy in Chile if only interest rates are free. Hayek replied, "Really? I thought the exchange rate was free. Well, I believe that that is not too damaging. The real problem is fixed salaries. The economy cannot work unless relative salaries are in equilibrium… Inflexible salaries are a major obstacle for the market to function well." Asked his opinion about the economic recovery, he offered his strongest words of approval: "It is extraordinary! I am very surprised. I would have never expected this degree of prosperity after hearing how the economy was 3 years ago. I am amazed."[76]

To summarize, Hayek's long-time acquaintance from the Mont Pèlerin Society, Manuel Ayau, was instrumental in paving the way for Hayek's invitation to Chile. The itinerary for the trip shows that, with the exception of his meeting with Pinochet and other officials on Thursday, and talking to businessmen, it was very much an academic sort of visit. It is not clear that Hayek knew beforehand that he would meet Pinochet, though it was known by the Chilean press a full week before his arrival. It seems to us reasonable to conclude that the principal goal from the perspective of those who invited him was to have his stature lend some legitimacy to the economic reforms and to the Pinochet regime. Hayek seems not to have known much about the Chilean economy prior to his visit. As the week progressed, Hayek reached the conclusion that economic conditions in Chile were much better than he had anticipated, and concluded further that those conditions had been misrepresented in the international press. Hayek soon would make evident his displeasure with press coverage.

[73] F. A. Hayek, in *El Mercurio,* Thursday November 17, 1977.
[74] F. A. Hayek, in *Que Pasa,* November 17–23, 1977.
[75] Cf. his words in *The Road to Serfdom:* "Democracy is essentially a means, a utilitarian device for safeguarding internal peace and individual freedom… A true 'dictatorship of the proletariat' even if democratic in form, if it undertook centrally to direct the economic system, would probably destroy personal freedom as completely as any autocracy has ever done" (Hayek [1944] 2007, p. 110).
[76] F. A. Hayek, *Ercilla* magazine, November 23, 1977.

5 Hayek's forays in the press

On Sunday November 20, 1977, Hayek flew to Buenos Aires.[77] A week later, when Hayek was in Sao Paulo, Brazil, he sent a letter to Jurgen Eick, the editor of the liberal German newspaper *Frankfurter Allgemeine Zeitung* (*FAZ*), offering a short article on Chile entitled "*Internationaler Rufmord: Eine Personliche Stellungnahme*" ("International Character Assassination: A Personal Statement").[78] The editor sent a reply declining the offer, saying that though they might agree in substance with the points Hayek made, that the style of the article would be unfit to convince skeptics and would lead his critics to label him a "Chile-Strauss." The term refers to the firestorm that had erupted in Germany in reaction to comments that the German politician Franz Josef Strauss had made during and after his own 5 day visit to Chile. Strauss had reported that he was impressed by the "domestic peace and political stability" he had encountered in Chile. He said that the Pinochet government "while authoritarian, was not totalitarian and much less brutal than other military regimes throughout the world," but added that he had told "Pinochet and other members of the junta that he was committed to parliamentary democracy and thought Chile's leaders should gradually lead their nation back to such a system" (Hofmann 1977, p. 4). In response, a group of German clergymen and university professors called on the German government to take legal action against Strauss for "aiding and abetting a terrorist organization," namely, the Chilean junta (ibid.). Though he had met Strauss in Chile, Hayek was apparently not aware at the time that he submitted his article to the *FAZ* about the controversy that had raged in the German press.

Regarding his own article, Hayek wrote back to say that he was disappointed with their decision, then offered the essay as a letter to the editor rather than as an article, which would presumably exculpate the newspaper from any responsibility beyond giving a reader a chance to express his view. He added that if they refused again, he would offer it to Strauss to be published in a conservative journal called *Politische Studien*.[79] The *FAZ* did in fact decline again, and the article was ultimately published in 1978 under the shorter title "*Internationaler Rufmord*" in *Politische Studien*.

It was in this report that Hayek recounted how well-intentioned people had tried to keep him from going to Chile. He went on to say that in Chile he had met "educated, reasonable, and insightful men – men who honestly hope that the country can be returned to a democratic order soon" (Hayek, translated in Farrant et al. 2012, p. 518). As Farrant et al. point out, Hayek's goal in his brief piece is neither to defend the Pinochet regime nor even to report on the political and economic situation in Chile: "Instead, Hayek argues that the Pinochet regime is unfairly subjected to a particularly

[77] During his visit to Argentina, organized by Alberto Benegas Lynch Jr, Hayek met President General Videla on November 22 and also met General Leopoldo Galtieri, then a member of the Military Junta. Galtieri followed Videla as President of the Junta at the end of 1981. In 1982 he orchestrated and led the conflict over the Falklands Islands.

[78] Literally, *Ruf* means reputation or good name, and *Mord*, assassination. Therefore *Rufmord* is like the killing of a good name or its reputation. The exchanges between Hayek and the *FAZ* are contained in the Hayek collection, box 98, folder 13.

[79] According to Farrant et al. 2012, p. 532, note 9, Hayek had originally turned down Strauss's offer to publish a piece on Chile there.

negative propaganda campaign" (ibid., p. 517). In his opinion, international reporting on both Chile and South Africa had systematically distorted the truth.[80] Moreover, he argued that the boycotts and other sanctions against those countries had been made on an arbitrary basis rather than in accordance with principles that had been set out beforehand (ibid., p. 518). Those who know of Hayek's recurring emphasis on the importance of following general rules that are articulated in advance of a specific concrete situation will find the sentiments expressed in "*Internationaler Rufmord*" quite familiar.

After he received the Nobel Prize Hayek became an increasingly frequent contributor to the Letters to the Editor page of *The Times* of London.[81] His letters criticizing certain legal immunities enjoyed by British labor unions provoked often heated replies. He also wrote about such topics as immigration, inflation, monetarism, and current events. In a July 11, 1978 letter to *The Times* Hayek defended Margaret Thatcher, noting that when she said that, "free choice is to be exercised more in the market place than in the ballot box, she has merely uttered the truism that the first is indispensable for individual freedom while the second is not: free choice can at least exist under a dictatorship that can limit itself but not under the government for an unlimited democracy which cannot."[82] This prompted a comment, published on July 24, from a Mr. William Wallace, who accused Hayek of favoring authoritarian regimes.

In a letter of August 3, 1978, Hayek replied to the charge, noting that, "I have certainly never contended that generally authoritarian governments are more likely to secure individual liberty than democratic ones, but rather the contrary. This does not mean, however, that in some historical circumstances personal liberty may not have been better protected under an authoritarian than democratic government." To illustrate his claim, Hayek argued that there had been more personal liberty in ancient Greece under the '30 tyrants' than under the democracy that killed Socrates, and more under Salazar's early government in Portugal than under the 'democracies' of Eastern Europe, Africa, and much of South America.[83] He then wrote the sentence that would cause even his staunchest allies to wince: "I have not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende."[84] One critic pointed out that it would be hard to find dissenters if all of them had been killed. Hayek's longtime nemesis, Lord Kaldor, chimed in a few months later that, "if we take Professor Hayek literally, a fascist dictatorship of some kind should be regarded as the necessary pre-condition (along with monetarism) of a 'free society'."[85] Kaldor's letter gives a suggestion of the kind of response that Hayek's words generated.

[80] Hayek and his wife would spend March 13 to April 10, 1978 in South Africa, which may have provided an additional reason for his including reference to that country in his article.
[81] For a list of letters, see the Hayek collection, box 63, folder 4.
[82] F. A. Hayek, letter to *The Times,* July 11, 1978.
[83] Hayek's friend Karl Popper would certainly have disputed his claim about the Thirty Tyrants. In the *Open Society and Its Enemies* he wrote, "…the number of full citizens killed by the Thirty during the 8 months of terror approached probably 1500, which is, as far as we know, not much less than one-tenth (about 8 %) of the total number of full citizens left after the war, or 1 % per month – an achievement hardly surpassed even in our own day." See Popper 1966, vol. 1, p. 303, note 48.
[84] F. A. Hayek, letter to *The Times,* August 3, 1978.
[85] Lord Kaldor, letter to *The Times,* October 18, 1978.

6 The Chilean constitution and the Viña del Mar Mont Pèlerin Society meeting

We take up next two claims that have been made in the secondary literature that we would like to challenge. The first has to do with the effect of Hayek's 1977 visit on the development of the Chilean constitution, which was enacted in September 1980 and went into effect in March 1981. The second deals with Hayek's role in choosing the site for the 1981 Mont Pèlerin Society Regional meeting, which took place in Viña del Mar.

6.1 Hayek and the Chilean constitution

In a section of her chapter entitled "'Authoritarian Freedom': A Hayekian Constitution for Chile," Karin Fischer claims that Hayek had a substantial influence on the content of the Chilean constitution, as well as a role in the process of its creation:

> The constitution was drafted by *gremialista* leader Jaime Guzmán,[86] who from the beginning served as the architect of the legal and constitutional framework of the military government. The constitution was not only named after Hayek's book *The Constitution of Liberty*, but also incorporated significant elements of Hayek's thinking… Guzmán clearly drew from Hayek in distinguishing between authoritarianism and totalitarianism in order to justify a state's use of repressive measures when they are required… Not surprisingly, Hayek went to some lengths to bestow legitimacy on the new Chilean constitution, since he had been personally consulted by the Chilean government in the process leading up to the final draft. During his first visit to Chile in 1978 [sic., the visit was in 1977], Pinochet invited him to a personal meeting. Hayek's influence extended beyond the merely personal, however. One member of the commission in charge of drafting the constitution, Carlos Cáceres, was a close follower of Hayek and eventually joined the MPS in 1980 (Fischer 2009, pp. 327–28).

There seem to be at least three claims here. The first is that Hayek's meeting with Pinochet constituted a personal governmental consultation prior to the final drafting of the constitution. The second is that Jaime Guzmán, who all acknowledge had an important role both in earlier discussions, and in the drafting of the constitution, was influenced by Hayek's ideas.[87] The third is that Hayek exercised further influence through his relationship with Carlos Cáceres.

The first claim is the easiest to dismiss. As was shown, Hayek's 1977 visit was itself intense, but short in duration. And his meeting with Pinochet, who personally had little

[86] *Gremialismo* is the movement founded by Jaime Guzmán in 1967 at *Pontificia Universidad Católica de Chile* that gave birth to *Unión Demócrata Independiente* (UDI), the strongest conservative and right wing political party in Chile that was founded in 1983, after Guzmán distanced from Pinochet (see Cristi [2000] 2014; Moncada 2006, and Cristi and Ruiz-Tagle 2006).

[87] See, for example, Cristi [2000] 2014, p. 59, who refers to "the powerful influence Friedrich Hayek's thought had in Jaime Guzmán."

impact on the development of the constitution, was a formal and abbreviated one. The second and third claims, however, require more attention.

A good place to begin is to point out that Hayek and his work was virtually unknown in Chile in the 1970s. Those who knew of him may have read *The Road to Serfdom*, but very few Chileans had read anything beyond his most popular book. The best illustration of the relative ignorance among Chileans of Hayek's work is that, as late as 1981, Lucia Santa Cruz, a reputed historian who interviewed Hayek for *El Mercurio*, was apparently not aware that Hayek had already finished the third volume of his trilogy *Law, Legislation and Liberty,* a book that had been published 2 years earlier. The role of disseminating Hayek's writings in Chile fell to CEP, and only began when Hayek became its Honorary President in 1981.[88] For perhaps obvious reasons, Milton Friedman's *Capitalism and Freedom* (1962) and later his popular *Free to Choose: A Personal Statement* (1980), were read and were influential.[89] If Jaime Guzmán did indeed play an important role in the creation of the 1980 Constitution, numerous accounts state that though he had intellectual interests, he was first and foremost a politician.[90] Although Hayek's books were in his library, relevant testimonies doubt that Guzmán had read them.[91]

The most important influences on Jaime Guzmán's worldview were two: Catholic Thomism – a profoundly influential intellectual current at *Pontificia Universidad Católica de Chile* that was fundamental for *gremialismo* – and the ideas of the German jurist Carl Schmitt (see Cristi 1998; [2000] 2014, especially chapter 3). In his book *Der Hüter der Verfassung* (1931), which might be translated as "The Protector (or Guardian) of Democracy," Schmitt had developed the idea of "protected democracy," would become a fundamental concept in Guzmán's approach to legal and constitutional matters.[92] Cristi not only identifies Schmitt as a crucial influence and underlines Guzmán's early Catholic

[88] The publication of the first volume of *Revista de Estudios Públicos* in 1981 had a translation of chapters 12, 16 and 18 of *Law, Legislation and Liberty.* Successive translations of Hayek's works would follow.

[89] Jorge Cauas is among those to state that though Friedman's work was well known in Chile, Hayek's writings were known only by a very small circle. Cauas admitted that by 1981 he had read only *The Road to Serfdom* (Montes interview with Jorge Cauas, March 31, 2014).

[90] Arturo Fontaine T. began his introduction to a collection of Guzmán's writings by declaring "Jaime Guzmán was not an intellectual: he was a politician" (see Fontaine T. 1991, p. 251). This collection was published by *Revista de Estudios Públicos* just after Guzmán was assassinated in 1991. The assassination was committed by members of a leftist movement, who shot him while he was walking out of the *Pontificia Universidad Católica de Chile* after lecturing. Others have written similar things about Guzmán. Thus Moncada states that "Guzmán was, before anything, a politician… his thought adapted to the reality he had to live" (Moncada 2006, p. 23), and Cristi, in the preface to the second edition of his biography of Guzmán, notes that he was a "practical thinker" (Cristi [2000] 2014, p. 18).

[91] In his comments on our paper, Renato Cristi noted that Guzmán's library contained copies of Hayek's work. Enrique Barros, a prominent lawyer with a PhD from Munich – an academic degree rather uncommon at that time in Chile – who had read and studied Hayek for his research, returned to Chile in 1979. Barros confirmed, in private correspondence, that Hayek was then only vaguely known in Chile and that Guzmán had most probably not read him. Oscar Godoy, Dean and Professor of the Political Science Department at *Pontificia Universidad Católica de Chile*, who had read Hayek in the late 1960s, also recalled in private correspondence that during the 1970s "he could not find in Chile a counterpart to talk about Hayek" and that it was his belief that Hayek "had no presence or impact in Chile."

[92] Cristi (1998, chapter 7) also claims that, though Hayek often criticized Schmitt, he shared certain of Schmitt's views; Shearmur forthcoming provides a critique of Cristi's argument and those of others. Perhaps most relevant for this paper: though Hayek favored "limited democracy," this was certainly quite different from the corporativist and paternalistic "protected democracy" of Schmitt.

fascination with Aquinas, but adds the importance of Spanish *carlismo,* something that may have led to Guzman's early admiration of Franco.[93]

As an aside, the usual picture of Guzmán as the mastermind of the constitution also requires some explanation and development. It is true that from the beginning of the military regime, Guzmán was the most influential advisor in legal and constitutional matters. The principal position statements, including the foundational "*Declaración de Principios del Gobierno de Chile*" (Declaration of Principles of the Chilean Government, March, 11, 1974) and "*Chacarilla*" discourse (July 9, 1977), were written by Guzmán. But even if his influence in the creation of the 1980 Constitution was fundamental, he did not act alone. The 1980 Constitution was in reality the outcome of a long, slow and complex political process that involved many players.

Two days after the coup, the Junta Militar appointed Guzmán to lead a group to study the constitution (Cristi [2000] 2014, p. 45).[94] Ten days after the coup, the Junta appointed a commission of constitutional lawyers to prepare a draft for a new Constitution. The group was initially dubbed "Comisión Constituyente", then "Comisión de Estudio de la Nueva Constitución Política del Estado" and finally simply "Comisión Ortúzar", and served from 1973 to 1978. In September 1976, after the Orlando Letelier killing, the impetus for the group to begin substantive work was increased due to external as well as internal pressures. By July 1977, Pinochet began talking publicly (especially in the so-called *Chacarillas* discourse) about a transition and referred to a new Constitution. Under the influence of Guzmán, Pinochet also called for an "autocratic and protected democracy." Soon thereafter, in November 1977, Pinochet set out some "Orientations" for a new Constitution ("*Orientaciones Básicas para el Estudio de una Nueva Constitución*"), which further accelerated the discussion. Perhaps it was a necessary political gesture or a simple maneuver. But it became a commitment.

Pinochet had established a Council of State ("Consejo de Estado") in January 1976 to advise him, and between 1978 and 1980 this body revised and amended the Constitution that had been presented to them by the "Comisión Ortúzar." Thus though it has frequently been argued that the Pinochet regime was a personalized one, like Franco's (see Arriagada 1986; Huneeus 2007), recent research based on archival material shows that the Junta Militar actually enacted rules and procedures in a more collegial manner, and the negotiations that led to the drafting of the 1980 Constitution were no exception.[95]

[93] José Antonio Primo de la Rivera, the founder, political leader, and martyr of Spanish Falange, was another important influence on Guzmán (Cristi [2000] 2014, pp. 273–4). In private correspondence Cristi also suggested that that among Spanish followers and disciples of Carl Schmitt, Alvaro D'Ors was particularly influential (cf. ibid., p. 100, note 50). On Spanish *carlismo*, an ultra-conservative and traditionalist Catholic popular movement, officially born in 1833 and which played a crucial role during the civil war in Spain, see Blinkhorn 1975.

[94] The Junta Militar act of September 13, 1973, says that "the promulgation of a new constitution is under study, and the work is led by Professor Jaime Guzmán" (also see Barros 2002, pp. 88–92).

[95] See Barros 2002, 2005. Certainly Pinochet wanted to obtain and secure more power. And he achieved it, but there were also some limits. For example, from the beginning of the Junta Militar a delimitation between the executive and legislative powers was established (Barros 2002, pp. 49–51 and Barros 2005, pp. 72–4). Moreover, as Barros 2002, p. 38 and Barros 2005, p. 63 argues, on legal matters the unanimity of the Junta and its four members was needed. In addition, Barros 2002, pp. 167–8 states that "contrary to the conventional wisdom that the 1980 constitution was designed and dictated by General Pinochet" it "was rather the product of a compromise" (the Spanish version, Barros 2005, p. 208, says that the constitution "was the result of a negotiation").

During the constitutional debate the pervasive phantoms of Allende, Marxism and the crisis of Unidad Popular government were present. In the name of order and peace, many questionable mechanisms were put into place in order to avoid another civil and political crisis. "Protected democracy" implied a fear of majority rule that was widely shared by members of both Commissions. And this fear found voice in the 1980 Constitution.[96]

This brings us to Pedro Ibáñez and Carlos Cáceres, Hayek's hosts on his 1977 visit. Recall that on July 7, 1978 Pedro Ibáñez wrote to Hayek about the impact of his first visit, noting that it became even more important "…now that there is an increasing debate on the new political institutions. Hence your ideas constantly emerge as frequent subjects of discussion. However the final outcome of the constitutional arguments is still far from clear." Both Ibáñez and Cáceres were members of the Council of State.[97] In March 1979 Pedro Ibáñez presented a Memorandum to the Council with a number of provisions for the new Constitution. In a later interview, Cáceres claimed that the Memorandum was inspired by Hayek's *Constitution of Liberty* and *Law, Legislation and Liberty*.[98] Both Ibáñez and Cáceres thought that they were promoting Hayekian ideas. But they were not. The Ibáñez Memorandum proposed an autocratic government with limited suffrage, and an alternative mechanism for Presidential elections.[99] The President of the Council, Jorge Alessandri, completely disagreed with it, and former President González Videla referred to the proposal as "totalitarian and fascist" (Arancibia et al. 2008, vol. 1, p. 416). In the end only Ibáñez and Cáceres supported the Memorandum; on April 3, 1979 the Council voted 13 to 2 to reject further consideration of the Ibáñez proposal (ibid., pp. 428–29).

On July 8, 1980 Jorge Alessandri presented the Council of State's recommendations to Pinochet.[100] The Junta, advised by Jaime Guzmán, revised it, and a month later published the final version in *El Mercurio*. Council President Alessandri immediately sent a letter of resignation to Pinochet in protest. Alessandri had wanted, among other things, elections to take place sooner, and to have a transitional Congress (Carrasco 1987, pp. 139–141).[101] Finally on the symbolic date of September 11, after "a dubious plebiscite carried out amidst a state of emergency" (Barros 2002, p. 217), the 1980 Constitution was approved. During the run-up to the plebiscite the phrase "Constitution of Liberty" was used by promoters of the new Constitution. But the phrase was not an invocation of Hayek's book of the same name. In the Chilean context, "Liberty" would mean, simply, "Not Marxist." That was the signal that was being sent, not some reference to a book and an author few Chileans would have known about.

[96] For the fear of majority rule, see Sierra and MacClure (2011).

[97] The Council of State began with sixteen members. Two former Presidents, Jorge Alessandri and Gabriel González Videla, were also members of the Council of State, with Alessandri as its President and González Videla as Vice-President. Eduardo Frei Montalva did not accept the invitation to participate.

[98] Montes interview with Carlos Cáceres, June 5, 2014.

[99] For the discussion in the acts at the Council of State, see Arancibia et al. 2008, vol. 1, pp. 405–27; see also Brahm 2008, pp. lxxii-lxxviii; Barros 2005, pp. 266–68; Sierra and MacClure 2011, pp. 26–29.

[100] The complete text of the Council of State Constitutional project was published on July 9, 1980, in *El Mercurio* and a developed and a complete version of the so-called "minority vote" of Ibáñez and Cáceres was published the day after.

[101] Alessandri demanded in his letter of resignation that its contents only be made public after the plebiscite. For the important role that Alessandri played as President of the Council of the State in the shaping of the 1980 Constitution see Arancibia 2008, pp. xxi-lxiii. For a comparative study of the Constitutional project of the Council of State and the 1980 definitive Constitution, see Carrasco 1987, pp. 147–223.

The new Constitution left Pinochet in office as President for eight more years. Though it has many antidemocratic dispositions, it was built on the Constitutions of 1833 and especially, of 1925. However, it strengthened property rights, increased economic freedoms, and established the subsidiary role of the state.[102] The 1980 Constitution has been criticized for a number of its provisions, among them the powerful role it gave to the armed forces, the exceptions it made that would allow constitutional limitations to be overridden, and its restrictions on civil and political liberties (Loveman 1993, p. 353). Its authoritarian origin has been also a source of criticism, but it must also be noted that it is hardly unique in that respect: it has been noted that "as of 2008 44 % (79) of the world's constitutions in force are categorized as democratic and the remaining 56 % (99) categorized as authoritarian" (Elkins et al. 2014, pp. 145–6). As Collier and Sater 1996, p. 364, sum up: "[t]he tenor of the final version was markedly authoritarian. Among other things it provided for an extremely strong eight-year presidency (Pinochet wanted sixteen-year terms, but was dissuaded), a Congress with more limited powers than before (and with one-third of the Senate nominated, not elected), and various institutional mechanisms to entrench military influence over future governments. Moreover, the 'transitional dispositions' (very numerous) were to remain in effect for nearly a decade." [103] It must be added, however, that if the 1980 Constitution "appeared as a masterwork of authoritarian constitution making" (Barros 2002, p. 217), it also set new restrictions on Pinochet's authority and, in the end, finally allowed for a plebiscite that would bring a return to democracy.[104]

6.2 Hayek and the Viña del Mar Mont Pèlerin Society meeting

As noted earlier, a number of writers have claimed that Hayek chose Viña del Mar as the location for the 1981 Mont Pèlerin Society meeting.[105] They point out that Hayek was both the founder and, by 1981, the honorary president of the organization, so presumably was in charge of selecting the sites for the meeting. Corey Robin notes further that there was correspondence dating as far back as 1978 from both Carlos

[102] In his assessment of personal rights granted by constitutions, Ginzburg 2014, p. 14 argues that the 1980 Chilean Constitution actually protects 16 more rights than its predecessor, the 1925 Constitution.

[103] As part of the political negotiations towards the transition, new changes were added in 1989 to the 1980 Constitution and another referendum followed on July 30, 1989 (for a fascinating account see Godoy 1999; see also Barros 2002, pp. 308–10). With the return to democracy, many antidemocratic dispositions have been revoked. The 1980 Constitution has been continuously and periodically modified, with major changes in 2005.

[104] The 1980 Constitution set in place institutions, such as a Constitutional Tribunal, that would compel the military to hold a plebiscite, finally allowing an "ordered" transition (see Ginzburg 2014 pp. 14–16). Pinochet's defeat in this vote would bring a return to democracy. After the 1988 elections, a notable graffiti offering in Santiago read: "We threw him out with a pencil" (quoted in Barros 2002, p. 307, note 74).

[105] For example, Corey Robin claims that "Hayek admired Pinochet's Chile so much that he decided to hold a meeting of his Mont Pèlerin Society in Viña del Mar, the seaside resort where the coup against Allende was planned" (Robin 2011, p. 74). Naomi Klein claims that Hayek "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 Pèlerin Society, the brain trust of the counterrevolution" (Klein 2007, p. 103). The same claim is made by Greg Grandin, who stated that Hayek "visited Pinochet's Chile a number of times. He was so impressed that he held a meeting of his famed Société du Mont Pelérin there," and identifies Jose Piñera, who holds a PhD in Economics from Harvard, as "a Chicago student" (Grandin 2006a, b, p. 172). See also Robin 2012, "The Road to Viña del Mar," http://coreyrobin.com/2012/07/17/the-road-to-vina-del-mar/

Cáceres and Pedro Ibáñez to Hayek indicating their desire to hold the meeting in Chile, and that the decision was made at the 1980 Palo Alto meeting of the Society, which Robin claims that Hayek attended.

There are numerous problems with these accounts. Hayek was indeed the honorary president of the Mont Pèlerin Society, but this position did not carry with it any prerogative concerning siting of the meetings. That decision was made by the Executive Committee of the organization.

It is true that both Carlos Cáceres and Pedro Ibáñez wrote to Hayek about wanting to have a meeting take place in Chile. Cáceres's letter simply informed Hayek that at the upcoming 1978 meeting in Hong Kong, Pedro Ibáñez would propose to the executive committee that the 1980 General Meeting be held in Chile.[106] Ibáñez' letter to Hayek later that year was more detailed, and offered a number or reasons for why the meeting should be held in Chile. At the end he asked Hayek for his support:

> Economic as well as political developments in my country may be worth reviewing and analyzing on the spot.
>
> Needless to say, a group of top economists, business leaders and government officials would be only too glad to co-operate and welcome members of the Society.
>
> I can assure you that the Chilean group could arrange an interesting and appropriate programme, including of course entertainment of such a distinguished group.
>
> Although Chile might be considered by some people to be at the end of the world, I doubt whether Hong Kong is really any closer!
>
> If you share my view regarding the above, do you think I could count on your support and backing, when the time comes to set forth this suggestion to the Board of the Society?[107]

It turns out that Ibáñez sent the same letter to a number of other high-ranking members of the Mont Pèlerin Society, including George Stigler (who was then the President) and Milton Friedman. There is no letter of reply from Hayek to either Cáceres or Ibáñez to be found in the Hayek archives or in the letters of Pedro Ibáñez. But both Stigler and Friedman did reply.[108] The former said the matter would be "carefully considered by the Board." Friedman said the same, though he added that in his personal opinion it would be better to have a Regional meeting in Chile, rather than the General meeting.

At the 1978 Hong Kong General meeting (which Hayek attended) it was decided that the next General meeting would take place in 1980 at the Hoover Institution, at

[106] Letter, Carlos Cáceres to Hayek, 28 April 1978, Hayek collection, box 54, folder 23.
[107] Letter, Pedro Ibáñez to Hayek, 7 July 1978, Hayek collection, box 54, folder 23.
[108] Letter, George Stigler to Pedro Ibáñez, 4 August 1978; Letter, Milton Friedman to Pedro Ibáñez, 22 August 1978; both in the Pedro Ibáñez papers.

Stanford University in Palo Alto, California. It was only at the 1980 meeting in Palo Alto that it was decided that the next Regional meeting would be held at Viña del Mar, Chile, in either September or November, 1981. Contrary to the Robins account, though Hayek had planned to attend the Palo Alto meeting, he had to cancel out due to health problems.[109] Furthermore, there is no evidence that he had any influence from afar. Indeed, in a letter to Hayek in October, 1980, Carlos Cáceres felt it necessary to inform him that the next Regional meeting would be in Chile, and expressed his hope that Hayek could come to it, even if it meant postponing Hayek's planned visit in April 1981.[110] Why would Cáceres have informed him of this if Hayek had been in on the planning?

So if it was not a matter of Hayek selecting Viña del Mar, how was it decided that the 1981 meeting would be in Chile? The simplest answer is that the leadership recognized that a number of South American members wanted to host a meeting, and further that by 1980, Manuel Ayau was President of the Mont Pèlerin Society. Carlos Cáceres attended the 1980 meeting as a guest and Pedro Ibáñez participated as a member.[111] Thus there was plenty of support on the ground in Palo Alto for selecting Chile as the site for the next Regional Meeting.

A final note: the leadership of the Mont Pèlerin Society, in particular Milton Friedman, wanted either to make it clear that the Society did not support the Pinochet regime, or alternatively, to avoid any pretext for demonstrations when the Society's meetings were held at Stanford. In the files of Pedro Ibáñez's correspondence there is a letter from Manuel Ayau to Ibáñez dated April 28, 1980 in which Ayau notes a "problem" regarding the upcoming meeting in Palo Alto. In the letter he explains to Ibáñez that though Sergio de Castro had been invited to participate as a guest, the organizing Committee had decided to "disinvite" him. Although invitations would be still be sent to other people whom Ibáñez had recommended, including Jorge Cauas, Pablo Barahona and Carlos Cáceres, Ayau explained to Ibáñez that he "had agreed with Milton Friedman not to invite people currently in government positions", which would exclude Sergio de Castro, who was Finance Minister by then.

7 The April 1981 visit

The circumstances of Hayek's second trip to Chile were quite different from the first visit. On March 26, 1980 Jorge Cauas, President of the *Banco de Santiago*, wrote to Hayek that "the economy has continued improving its operation increasingly relying in free markets. We are nevertheless aware of the need to complement this economic picture with analysis on those aspects which form, in your words, the basis of the political order in a free society." As such, he and a group of "private businessmen" were forming a Center dedicated to the study of "political philosophy, political economy and public affairs." Given his contributions in such works as *The Constitution of Liberty* and *Law, Legislation and Liberty* it was only natural that they would seek his support and advice ("as our

[109] Cubitt 2006, p. 56, notes that "he was extremely dejected though, to have had to cancel his visit to the United States…"

[110] Letter, Cáceres to Hayek, 10 October 1980, Hayek collection, box 54, folder 23.

[111] After the 1980 meeting, Carlos Cáceres was granted membership in the Society; see the Hayek Collection, box 72, folder 45.

intellectual leader") with this initiative.[112] Cauas visited Hayek in Freiburg in late May. In an interview Cauas recalled that they met at Hayek's house there and spoke for about an hour in Hayek's office, during which time Cauas asked him to become the Honorary President and Council Member of the newly formed *Centro de Estudios Públicos* (CEP, or Center for Policy Studies). According to Cauas, Hayek understood the importance of CEP for the future of Chile, accepted the invitation to become its Honorary President, and said that he would seriously consider another visit to Chile.[113]

On his return to Chile Cauas wrote to thank Hayek for the meeting and let him know who else was to serve on the Council of CEP. In addition to the Chilean members, offers had been extended to Karl Brunner (who had accepted), Armen Alchian (who was deliberating), as well as to Milton Friedman, Ernst-Joaquim Mestmäcker, Arthur Seldon and Theodore W. Schultz.[114] Cauas wanted to have the first full meeting of the Council sometime in 1981, so he asked when Hayek might next be coming to Latin America so that the meeting could be planned around his schedule. He also attached the bylaws of CEP, a document that began with a mission statement:

> The purpose of the Center is the diagnosis and analysis of philosophical, political, social, economic and public affairs problems with the objective of fostering the understanding of the determinants which ensure the attaining and preservation of a free society.
>
> As a Center of thought sustained on the moral bases of the western world, the values that underlie its action are those which allow the existence of the widest personal freedom in a society living in peace and harmony. The set of values which orders and centers its actions is, therefore, that in which priority is given to the ideals of liberty.
>
> The center shall implement its objectives through research studies, publications, seminars and conferences in the areas of its concern.

[112] Letter, Jorge Cauas to Hayek, 26 March 1980, the Hayek collection, box 15, folder 16.

[113] Montes Interview with Jorge Cauas, March 31 and May 28, 2014. Puryear 1994, in his account of the role of intellectuals and think tanks during the Chilean transition, refers to CEP as "virtually the only right-of-center think tank to emerge during the 1980s. CEP had been founded in 1980 by a group of economists and business leaders seeking to broaden the legitimacy of neoconservative political and economic thinking by distancing it from the military regime. Fully independent of the government, CEP relied on local business groups and foreign donors for support. It was a serious intellectual enterprise, convening top scholars and policy makers to discuss political, economic, and social issues… CEP helped to establish the identity and legitimacy of a democratic right, and to generate a dialogue with center and left intellectuals" (p. 91).

[114] Ultimately Cauas served as Chairman of the Board, Julio Philippi as Deputy Chairman, Roberto Kelly as Treasurer and Carlos Urenda as Secretary. Hernán Cortés served as Director and Juan Carlos Méndez as Deputy Director (he was the Director of Budget, and a Ph.D. candidate in Economics at the University of Chicago). Other members of the Council were Sergio de Castro (he was Finance Minister then, a former Minister of Economy, and a former Dean of the Department of Economics at *Pontificia Universidad Católica de Chile*, with a Ph.D. in Economics from the University of Chicago), Arturo Fontaine (Director of *El Mercurio*), Pablo Baraona (President of *Banco Unido de Fomento*, a former Minister of Economy and President of the Central Bank, with an MA in Economics from the University of Chicago). The foreign members would include Armen Alchian, Karl Brunner, Ernst Mëstmacker, Chiaki Nishiyama, and Theodore Schultz. Though Milton Friedman and Arthur Seldon were invited, they apparently declined.

Later in the summer Hernán Cortés wrote to Hayek to inform him about the first Ordinary meeting of CEP (one without foreign members present), and to suggest that the first Plenary meeting take place in April 1981. Cortés finished his letter to Hayek saying that he might attend the September 1980 Mont Pèlerin Meeting at the Hoover Institution in Palo Alto, and if he did, he "would like very much to have a talk with you." From this we deduce that though he had agreed to be Honorary President of CEP, Hayek had not yet confirmed his willingness to visit Chile again.

On October 10, 1980 Carlos Cáceres wrote Hayek a lengthy letter in support of Cauas and CEP, apparently in response to correspondence from Hayek, who had questions he wanted answered before committing to come the next April.[115] Cáceres told him that Cauas had served as the President of the Central Bank during the Frei Montalva Government, as Finance Minister under Pinochet from 1975–1977, and as the Chilean Ambassador to the US in 1977–78. He praised Cauas for establishing a "free economic system" in a difficult context, adding that "a lot of courage as well as clear ideas and goals were required to make such decisions." He also mentioned that Cauas was a member of the Council of the Adolfo Ibáñez Foundation, underlining "his important contributions to our educational activities." Cáceres went on to note that since he returned to Chile after his stint as Ambassador, Cauas had been devoted to "the development of an intellectual group which can support the basic ideas of a free social system." He had assembled a brilliant group of Council members, whom Cáceres identified by name and profession. Cáceres concluded with a strong endorsement of Cauas and CEP and asked Hayek for his support, since that would "bring high prestige to the Institute" and "create a pledge among its members in the constant achievement of the ideas that you have always sponsored."[116]

Cáceres also noted that the next Regional Meeting of the MPS would be held in Viña del Mar in September or November, 1981, adding that "All of us will be very pleased if you could participate in that meeting. Accordingly, I would like to ask you to postpone your trip to Chile until the date of the meeting, that I will confirm you as soon as possible." By supporting Cauas and CEP, Carlos Cáceres was probably aware that it would be less likely that Hayek would attend the MPS Regional Meeting at Viña del Mar, but he was still apparently willing to do so.[117]

Finally, Hayek made a decision. On October 20, 1980, Hayek wrote to all those involved with his visit to South America (Cauas, Cortés, and Cáceres in Chile, Maksoud in Brazil, and Benegas Lynch in Argentina) informing them that he would be able to visit South America with his wife "about mid-April to mid-May."

[115] Unfortunately there is no copy of Hayek's letter to Cáceres in the Hayek archives.

[116] Letter, Cáceres to Hayek, 10 October 1980, Hayek collection, box 54, folder 23.

[117] In a letter dated February 17, 1981 to Carlos Cáceres and all those involved in his 1981 visit, Hayek made it clear that "after visiting South America this Spring there is very little prospect that I can repeat such a visit in the autumn to attend the Mont Pèlerin Meeting at Viña del Mar" (Hayek collection, box 54, folder 23). Nevertheless, the organizers of the November 1981 meeting included Hayek as participating on a panel on the topic 'Democracy: Limited or Unlimited?' in the preliminary program, perhaps hoping that he would change his mind, or perhaps to indicate that Hayek approved of the meeting, or perhaps simply to draw more attendees, given Hayek's status as the founder of the Society. Pedro Ibañez informed him of this in a letter to Hayek on January 26, 1981 where he says "we took the liberty of including your name in connection with the theme 'Democracy, Limited or Unlimited?'" The letter may be found in the Pedro Ibáñez papers.

He noted that he would visit Chile first, then asked his Argentinian and Brazilian hosts to arrange the rest of his visit to their countries. He concluded that, "I am afraid I have to plead that the amount of work I can do is now somewhat limited, but I shall of course be prepared to speak on two or three occasions during my stay in each country."[118]

Accompanied by his wife, Hayek arrived in Santiago on Wednesday April 15. Compared to his first trip, the list of events on his printed schedule was rather light. April 19 was Easter Sunday, so virtually nothing was planned until Monday April 20, when the meeting of the CEP Council took place. On Tuesday a visit to *Pontificia Universidad Católica de Chile* was planned. That day, on his own initiative and request, Hayek also had a one hour meeting with former President Frei Montalva.[119] Over the next 2 days a conference titled "*Fundamentos de un Sistema Social Libre*" (Foundations of a Free Social System) and organized by CEP took place. Held at the Sheraton Hotel in Santiago, the academic event received wide coverage in the press. The international members of CEP's Council presented their work.[120] On Friday April 24 Hayek had a meeting with former President Jorge Alessandri. After that conversation, he declared that "Alessandri and I think very similarly."[121] Hayek then traveled to Viña del Mar to attend a planning meeting for the upcoming Mont Pèlerin Society regional meeting. He also gave a lecture to graduate students at the Valparaíso Business School. On Saturday they lunched at Pedro Ibáñez's farm in Colunquén, as Hayek had done on his 1977 visit. He spent Sunday with his wife at Viña del Mar and in the evening attended the opening events of a meeting, organized by Miguel Kast, titled an "International Conference on Experiences of Political Economics" ("*Conferencia Internacional sobre Experiencias de Política Económica*"). The conference proper, held at the Hotel Miramar in Viña del Mar, began on Monday, and Hayek gave a lecture entitled "The Role of International

[118] Hayek was then 81 years old and within three weeks, on May 8, he would celebrate his 82th birthday.

[119] *La Segunda*, an afternoon newspaper, reported (April 21, 1981) that the meeting was requested by Hayek and that he arrived at 10 a.m. at Frei Montalva's residence with only an interpreter.

[120] After a welcome by Jorge Cauas, Nishiyama began the conference on Wednesday morning with a paper on "Rational Expectations and a Free Society System" ("*Expectativas Racionales y Sistema Social Libre*"), followed by Schultz on "The Problem of Poverty in a Free Society" ("*El problema de la Pobreza en la Sociedad Libre*"). On Thursday Mestmäcker gave a lecture on "Liberty and Monopoly in the Economy and the Media" ("*Libertad y Monopolio en la Economía y los Medios de Comunicación*"), Alchian spoke on "The Importance of Property Rights in a Free Society" ("*La Importancia de los Derechos de Propiedad en una Sociedad Libre*"), and Hayek closed with a lecture on "The Ethical Foundations of a Free Society" ("*Los Fundamentos Éticos de una Sociedad Libre*").

[121] Hayek's declaration was noted in both *La Segunda*, April 24, 1981 and *El Mercurio*, April 25, 1981. On that Friday Hayek also had an interview with *gremialistas* Jaime Guzmán, Ernesto Illanes and Hernán Larraín, that was published in *Revista Realidad* (Number 24, May 1981, pp. 27–35). Some of Hayek's views on natural law and the Catholic Church clearly conflicted with *gremialismo,* but in other areas he basically repeated what he had already said in other interviews. It should be noted, however, that on p. 28 the interviewers had a sidebar with various names and Hayek's short comments on each person. About General Pinochet he supposedly said: "an honorable general," and about Frei Montalva "I know the type" (he had met him 3 days before). It is not clear what "I know the type" means in this context, nor is it clear how the interviewers generated the list and responses. At least one seems rather odd. About Karl Popper, Hayek supposedly said, "my best friend." Hayek had never before identified Popper as his best friend; he always reserved that category for his boyhood friend Walter Magg and his LSE colleague Lionel Robbins.

Institutions" in the first morning session.[122] On Tuesday, April 28 he gave another lecture at the Business School of Valparaíso, then flew to Argentina.

The Council meeting of CEP that took place on Monday April 20 revealed certain tensions among the board members regarding the direction that the new organization should take. In their initial invitations to Hayek the Chilean principals emphasized the importance of political philosophy and constitutional questions for CEP, and the statement of principles for the organization stated it was to concentrate on political, philosophical, social, and economic issues. This was doubtless because political and constitutional issues were much on their minds, given that a new constitution had only recently been ratified. The minutes from the meeting show that nonetheless this broad mandate did not sit well with certain of the economists, most of whom were aligned with the approach of the Chicago School. Apparently their opinions were persuasive:

> The discussion was centered on the suggestions of Council members Schultz and Alchian to concentrate the Centro's efforts in economic areas and de-emphasize the areas of philosophy and political theory. There was agreement to dedicate the Centro's efforts towards economic matters and maintain *Estudios Públicos* [CEP's journal] for multi-disciplinary purposes.

When attention turned to possible themes for future seminars at CEP, the division came up again:

> Professor Mestmäcker emphasized themes about the Constitution and Professors Alchian and Schultz emphasized social problems with an economic focus, such as poverty, human capital, the distribution of income, in addition to economic problems of different institutions; local government and legislation about publicly held corporations. The studies about the theories of industrial organization done at UCLA will be especially important for this last.[123]

The differences so clearly reflected in the minutes had in fact been somewhat anticipated during Hayek's first visit in 1977. In an editorial in *El Mercurio* published on November 22, 1977, just 2 days after Hayek had left, Hayek's differences with the Chicago School and Friedman were emphasized. The editorial concluded that "the government policies do not belong to the School of Chicago, nor to any other in particular." In a separate interview that took place on that trip, Hayek was asked about his opinion of the University of Chicago, monetarism and Milton Friedman. It is worth repeating Hayek's answer: "Milton Friedman is an old friend of mine. I agree with him in general, but I disagree on two points. Friedman is a positivist and he gives too much

[122] After lunch in a panel moderated by Carlos Cáceres entitled "Chile in the Last 10 Years," Jorge Cauas gave a presentation on "Fiscal and Economic Policy," Sergio de la Cuadra on "Foreign Commerce Policy," Arnold Harberger on "Political Economics and the Exchange Rate," and Florencio Ballesteros, the main economist from OEA, on "Future Perspectives for Chile in International Organizations." On Tuesday Larry Sjaastad (Chicago), Sam Peltzman (Chicago) and Armen Achian (UCLA) spoke. On Wednesday, John Pencavel (Stanford), H. Gregg Lewis (Duke), Daniel Gressel (Chicago) and Martin Bailey (Maryland) presented papers. Closing comments were given by Finance Minister Sergio de Castro. See the Hayek collection, box 4, folder 33.

[123] The minutes of the meeting may be found in the Hayek collection, box 15, folder 16.

importance to statistical data. This macroeconomic interpretation is useless. Only microeconomics has value for the economy. And regarding his quantitative theory of money, it is excellent, but very simple. Perhaps too simple."[124] In addition to the differences that Hayek pointed out in the interview, there is also a difference between the purely economic focus of Chicago and Hayek's insistence that the broader political and juridical institutional framework needs careful attention. This was a division that had long been evident in the Mont Pèlerin Society meetings, one that played out again in Chile, becoming more explicit in 1981.[125]

As with the 1977 visit, afterwards further newspaper controversies at home would follow. On December 30, 1981 the *Frankfurter Allgemeine Zeitung* published a political cartoon by Fritz Behrendt (1925–2008) depicting Pinochet and Jaruzelski, the Polish dictator, hailing each other as they rode horse-back style on exhausted people of their respective countries (*Hallo, Kollege*).[126] Hayek's critical letter to the editor was published on January 6, 1982.

> I cannot help but protest in the strongest possible terms against the cartoon on page 3 of your publication of the 30th of December equating the present governments of Poland and Chile. It can only be explained by complete ignorance of the facts or by the systematically promoted socialist calumnies of the present situation in Chile, which I had not expected the *Frankfurter Allgemeine Zeitung* to fall for. I believe that all the participants in the Mont Pèlerin Society conference held a few weeks ago in Chile would agree with me that you owe the Chilean government a humble apology for such twisting of the facts. Any Pole lucky enough to escape to Chile could consider himself fortunate.[127]

Hayek sent copies of the cartoon and of his letter to Pedro Ibáñez, Miguel Kast, Carlos Cáceres and Hernán Cortés. Cáceres wrote back, "I want to thank your courageous position to defend the Chilean reality. I agree with you about the happiness of many Polish having the possibility of living in our country."[128] For his part, Pedro Ibáñez wrote, "I am very grateful to you for your indignant protest about the caricature against Chile."[129]

It is perhaps appropriate here to mention Margaret Thatcher's letter around the same time to Hayek, in which she calls the progression from Allende to the current day "a striking example of economic reform from which we can learn many lessons." But she goes on to say that she assumes that Hayek would agree that "in Britain with our democratic institutions and the need for a high degree of consent, some of the measures adopted in Chile are quite unacceptable." She acknowledges that the democratic process moves slowly, but expresses her

[124] Hayek, in *Que Pasa*, issue November, 17–23, 1977.
[125] Burgin 2012 recounts the long-standing divisions and tensions between followers of Hayek and those of Friedman in the Mont Pèlerin Society.
[126] Note that on December 13, 1981, Jaruzelski had declared martial law in Poland.
[127] F. A. Hayek. Letter to the Editor of *FAZ*, 6 January 1982, Hayek collection, box 169, scrapbook. The letter is mentioned on Corey Robin's blog, where a translation by Thomas Nephew is provided. Last accessed 13 May 2014. http://coreyrobin.com/2012/07/17/vina-del-mar-a-veritable-international-of-the-free-market-counterrevolution/
[128] Letter, Cáceres to Hayek, 12 February 1982, Hayek collection, box 54, folder 23.
[129] Letter, Ibáñez to Hayek, 19 February 1982, Hayek collection, box 63, folder 8.

confidence that "we shall achieve our reforms in our own way and in our own time" and that the reforms will endure.[130]

Both Charlotte Cubitt (2006, p. 19) and Farrant et al. (2012, p. 535, note 35) report that Thatcher's admonition was in response to a letter that Hayek had sent to her, with Cubitt stating that the letter was to protest the cartoon in *FAZ*. And indeed Thatcher thanks Hayek for a letter of February 5. There is no copy of any letter, however, in either the Hayek or Thatcher archives. It should also be noted that Thatcher begins her letter to Hayek saying how nice it was to see him the week before at a dinner that Walter Solomon had organized, and to hear Hayek's views "on the great issues of our times." This suggests that Thatcher's letter may also have been in response to something that was said in conversation at the dinner. Of course, we have no evidence of what may have been said, either in a letter or at the dinner, but the conjecture offered by Farrant, et al. (ibid),"that Hayek was urging Thatcher to outlaw strikes or to severely curtail union activity" seems to us as likely as any other, given that this is what Hayek had repeatedly complained about and recommended, not just to Thatcher, but in pamphlets and in letters to the press, over a period of time.[131]

8 The 1981 *El Mercurio* interviews

During the 1981 trip, Hayek sat for two interviews that were published on successive Sundays in *El Mercurio*. The first one took place at Hayek's university in Freiburg prior to his trip to Chile and was published in *El Mercurio* on April 12, a few days before he arrived. The interviewer was Renée Sallas, an Argentinian journalist. The second interview took place in Chile. The interviewer was Lucía Santa Cruz, a well-regarded Chilean historian who had studied at Oxford while her father was the Chilean Ambassador to the U.K. and who was a frequent and influential contributor to public debate. Both interviews took place in English and were subsequently translated into Spanish. At some point the Spanish interviews were retranslated back into English and made available on the internet.[132] Passages from the interviews are often quoted to infer Hayek's views on democracy and dictatorship. We will show below that these passages were only a small part of what was covered in the interviews, and that many of the views that Hayek expressed reflect positions that he had held for many years.

[130] Letter, Margaret Thatcher to Hayek, 17 February 1982, Hayek collection, box 101, folder 26.

[131] Hayek wrote to Thatcher on 28 August 1979, 24 April 1980, and to Norman Tebbit (at the time Thatcher's Secretary of State for Employment) on 17 September 1981 (the letter is not in the Hayek archives, but Tebbit's response to it of September 29 is there) about union reform, and his 1980 IEA pamphlet "1980's Unemployment and the Unions" elicited dozens of newspaper articles and letters of response. The Thatcher and Tebbit letters are in the Hayek collection, box 101, folder 26. As the power of unions was a theme for Hayek, it is possible that he was recommending changes similar to those enacted in the 1979 labor reform in Chile. It included voluntary affiliation, collective negotiations only at the firm level and a maximum limit of 60 days for a strike (after that period, workers were considered as having resigned). For more on Hayek's letters to the *Times* during this period in the context of the Thatcher-Hayek relationship, see Farrant and McPhail, manuscript.

[132] These translations were not always accurate, so when necessary Montes has corrected them, and those corrected versions are what appears here. The interviews appear to have disappeared from the web: a recent search could not locate them.

8.1 Interview 1 (*El Mercurio*, Sunday, April 12, 1981)

Much of the interview deals with current world events such as the recent election and inauguration of Ronald Reagan. Hayek looked forward to the new administration, saying that the US had been on a bad path at least since FDR, and that the situation had gotten even worse in the last twenty years or so. The election of Reagan, and before him Mrs. Thatcher's accession to the post of Prime Minister, gave Hayek some hope for the future, because both of them sought to limit the power of government and return to the principles of classical liberalism. He offered his opinions of various leaders and the issues that they faced. Reagan had good advisers in his view, and many of Reagan's early statements about reducing the size of government and getting inflation under control were positions that Hayek shared. Hayek thought Reagan would have an easier time of it than Thatcher, who would have to face the strength and socialist leanings of the trade unions in England. He found it hard to take Reagan's predecessor President Carter seriously, characterizing him as well-intentioned, naïve, and weak. Regarding the Iranian hostage crisis, Hayek viewed it as a fundamental violation of international law.[133] He thought that Carter should have responded immediately with an ultimatum stating that unless they were released Tehran would be bombarded: no government should depart from general principles when dealing with terrorists.

In the course of commenting on current events Hayek articulated a number of his standard positions. Thus he held that though the government should and must provide certain services, it should never have a monopoly on their provision.[134] Its laws should be general and universally applicable, so as to not intervene arbitrarily.[135] A system of free markets was, in his view, the best way to ensure that the now large world population could be fed.[136] Calls for "social justice" (Hayek requested that, "…when you write these two words, place them in quotation marks, because for me they are lacking in all meaning…") that typically involve intervening in markets would not end poverty, only bestow privileges on specific interests.[137] Regarding macroeconomic issues, "My theory…is that excessive public sector expansion, deficit spending by government, and generous money creation by the central bank are the main causes of

[133] In November 1979 the American embassy in Tehran was overrun and fifty-two Americans were taken hostage. An attempted rescue operation launched the next April was scrubbed when the helicopters involved experienced difficulties at the staging area. On departure from the staging area one of them crashed, killing eight servicemen. The humiliation that the failed rescue attempt created played a role in the election of Reagan. The hostages were released by Iran the day before Reagan took office.

[134] Cf. Hayek in *The Constitution of Liberty* [1960] 2011, p. 334, "…it may become a real danger to liberty if too large a section of economic activity comes to be subject to the direct control of the state. But what is objectionable here is not state enterprise as such but state monopoly."

[135] The characteristics of laws that protect liberty – that they be known in advance, general, abstract, equally enforced, and, to be effective, that the legitimacy of government according to the rule of law be widely accepted – is the subject of chapter fourteen of *The Constitution of Liberty,* titled "The Safeguards of Individual Liberty."

[136] The emphasis on how a movement away from a market system would adversely affect the world's population would become an increasingly important theme in Hayek's later work; see, e.g., *The Fatal Conceit,* chapter 8, "The Extended Order and Population Growth."

[137] The second volume of *Law, Legislation and Liberty* was titled *The Mirage of Social Justice;* in an essay published first in 1946 he had said: "We must face the fact that the preservation of individual freedom is incompatible with a full satisfaction of our views of distributive justice" (Hayek [1946] 2010, p. 65).

economic problems in any country." All of this would be familiar territory to any student of Hayek's thought.

The parts of the interview that dealt with dictatorships have gained the most attention. Here is what was said:

> Sallas: What is your opinion of dictatorships?
>
> Hayek: Well, I would say that, as long-term institution I am totally against dictatorships. But a dictatorship may be a necessary system during a transitional period. Sometimes it is necessary for a country to have, for a time, some form of dictatorial power. As you will understand, it is possible for a dictator to govern in a liberal way. And it is also possible for a democracy to govern with a total lack of liberalism. I personally prefer a liberal dictator to a democratic government lacking liberalism. My particular impression is – and this is valid for South America – that in Chile, for example, there will be a transition from a dictatorial government to a liberal government. And during this transition it may be necessary to maintain certain dictatorial powers, not as something permanent, but as a temporary transitional arrangement.
>
> Sallas: Apart from Chile, could you mention other cases of transitional dictatorial governments?
>
> Hayek: Well, in England Cromwell played a transitional role between absolute royal power and the limited powers of the constitutional monarchies. In Portugal, the dictator Oliveira Salazar attempted the right path in that sense, but failed. He tried, but did not succeed. Then after the war, Konrad Adenauer and Ludwig Erhardt in the beginning had almost dictatorial powers, and they used it to establish a free government in the shortest possible time. The situation required the presence of two very strong men to achieve this task. And the two of them accomplished very well this stage towards the establishment of a democratic government. If you allow me, I would like to make a brief comment in this sense about Argentina.
>
> Sallas: Of course.
>
> Hayek: I felt very disenchanted right from my first visit there, shortly after Perón's fall.[138] At that time I talked with many officers from the Military Forces. And they were very intelligent people. Politically, brilliant. I would say, among the most brilliant politicians in your country. I felt it was a pity that they did not make better use of that intelligence. I would have hoped from them the establishment of the basis, the foundations, for the functioning of a stable democratic government. However, they did not do it. I really do

[138] Hayek first visited Argentina, invited by Alberto Benegas Lynch, in April-May, 1957. Recall that the interviewer is Argentinian; Hayek is expressing his disappointment with how things turned out in her country. Hayek would support Thatcher's position when the Argentinian invasion of the Falklands led to war in April 1982 (for example, see his letter to the Editor of *The Times* published on February 17, 1983).

> not know why they did fail, but my impression is that they had the political capacity and the intelligence to do it.
>
> Sallas: Which means that, for the transitional periods, you would propose stronger, dictatorial governments….
>
> Hayek: When a government is broken, and there are no recognized rules, it is necessary to create rules to say what can be done and what cannot be done. In such circumstances it is practically inevitable for someone to have almost absolute powers. Absolute powers that they should precisely use to avoid and limit any absolute power in the future. It may seem a contradiction that precisely I say this, as I plead for limiting government's powers in people's lives and maintain that many of our problems are born, just out of the excess of government. But, however, when I refer to this dictatorial power, I am only talking for a transitional period. As a means for establishing a stable democracy and liberty, free of impurities. Only in this way I can justify, advise it.

What to make of these exchanges? Hayek took pains to make clear that for him, dictatorship can only be justified as a temporary response to a breakdown in society, and that the goal should be return to a stable democracy. He offers examples of countries in which, after the transitional period was over, stable democratic institutions were re-established (England in the 17th century; post-war West Germany) and some examples of countries that did not have such favorable outcomes (Portugal under Salazar, and, pointedly, Argentina after Perón). He appears to have been hopeful about Chile's prospects.

The notion that the dictatorial government should use its power to place limits on government power in the future is fully compatible with his general view that the key problem of a liberal democratic order is solved by giving the government a monopoly on the use of force, and then placing strict limits of its use of coercive powers by means of constitutional and other restrictions – e.g., separation of powers, a bicameral legislature, a bill of rights, an independent judiciary, and other safeguards.

Certainly one of the more controversial opinions that Hayek expressed is that he personally would favor a liberal dictatorship over an illiberal or unlimited democracy. This gets at a distinction that he drew earlier in the interview between a constitutionally limited democracy (his preferred system) and the sort of unlimited democracy that he disparaged. This distinction loomed large in what was then his most recently completed book, *Law, Legislation and Liberty.* But the distinction between liberalism and democracy is one that he had emphasized for at least twenty years.[139] Hayek here was merely repeating what he had written on many occasions before.

[139] See, e.g., Hayek, *The Constitution of Liberty* [1960] 2011, p. 166: "Liberalism…is concerned mainly with limiting the coercive powers of all government, whether democratic or not, whereas the dogmatic democrat knows only one limit to government – current majority opinion. The difference between the two ideals stands out most clearly if we name their opposites: for democracy it is authoritarian government; for liberalism it is totalitarianism. Neither of the two systems necessarily excludes the opposite of the other: a democracy may well wield totalitarian powers, and it is conceivable that an authoritarian government may act on liberal principles." Cf. Hayek [1966] 1967, where he argues that the unlimited power of the majority is essentially anti-liberal, and Hayek [1973] 1978, p. 143, where he states that "liberalism is thus incompatible with unlimited democracy." As noted, much of his 1970s trilogy *Law, Legislation and Liberty* is devoted to the theme of the dangers of unlimited democracy.

8.2 Interview 2 (*El Mercurio*, Sunday, April 19, 1981)

The published second interview took place in Chile and was conducted by Lucia Santa Cruz. In the initial part of their conversation Hayek said that he had accepted the Presidency of CEP because he was interested in the Chilean case, adding that "From the little I have seen, I believe it is not an exaggeration to talk about the Chilean miracle. The progress during these years is enormous." The phrase "Chilean miracle" would quickly become a catchphrase in discussions of Chile's economic turnaround.

In the beginning of this interview Hayek repeated some standard Hayekian themes from his 1960 book *The Constitution of Liberty*, and indeed, ideas that he had mentioned in his interview with Sallas the week before. Thus he defined liberty in terms of individual freedom and absence of coercion; he stated that freedom under the law means living under a system of known and general rules; he noted that equality before the law, that is, equal enforcement of the law, prohibits further attempts to make otherwise unequal people equal; he allowed that government has many functions but that government monopolies are to be avoided; and he asserted that only a free market would allow us to feed the world's population. Harking back to ideas he had expressed as long ago as *The Road to Serfdom,* he stated that it is fine for the government to provide a safety net.[140] He also touched on how the knowledge problem makes extensive planning by the state infeasible, a theme that dates to his 1945 article "The Use of Knowledge in Society" and to his earlier critiques of socialist planning.[141]

In the next section, Hayek discussed the relationship between economic and political freedom, making it clear that economic freedom is necessary for other freedoms truly to exist.

> Hayek: Economic freedom cannot be separated from other freedoms. Liberty is about experiencing, and you can only experience if you can use all the means available. The distinction between economic freedom and intellectual or cultural freedom is artificial. There is no system that, deprived of economic freedom, has been able to guarantee intellectual freedom.

He then offered the standard Hayekian position (one controversial among his more libertarian followers) that as long as laws are equally applied to everyone by government, they are not coercive.[142] He allows that deviations from the generality norm may sometimes have to occur, but expressed his hope that this would be temporary: "some restrictions might be necessary in a period of transition, but this would not be desirable as a permanent state." Hayek then repeated his view of the relationship between liberty and democracy, and of the instrumental value of the latter:

[140] Hayek [1944] 2007, p. 148: "There is no reason why in a society that has reached the general level of wealth which ours has attained the first kind of security [that is, the certainty of a given minimum of sustenance for all] should not be guaranteed to all without endangering general freedom."
[141] See Hayek [1945] 2014; Hayek, ed., 1935.
[142] For an early critique of this view, see Hamowy 1961.

Hayek: Liberty requires a certain degree of democracy but it is not compatible with unlimited democracy, or better said, with the existence of a representative legislative assembly with all-embracing powers. However, for liberty it is indispensable that individuals can put to an end a government that the majority rejects. This is of great value. Democracy has a task that I call of "hygiene," ensuring that political processes are conducted in a healthy way. It is not an end in itself. It is a procedural rule that has the objective of serving freedom. But in no way has it the same standing as liberty. The latter requires democracy, but I would rather prefer to sacrifice temporarily, I repeat, temporarily, democracy rather than doing without liberty, even if it were temporarily.

Hayek then briefly described his solution for the problem of democracy, namely, the "model constitution" that he had presented in the third volume of *Law, Legislation and Liberty.*[143] Under this plan, the government would

> …consist of two Chambers with two different purposes. On the one hand, a true legislative body with limited powers to establish general rules, and another Chamber that would direct the government itself. Government would be, of course, limited by the general rules that the first Chamber would establish.
>
> Lucia Santa Cruz: How would power be generated in these Chambers?
>
> Hayek: By a system of elections, but different for each case. For the one in charge of government tasks, representation would be based on the different sectorial interests. In the legislative, instead, more experts, wise and experienced men, who know their subject, would be required. They would also be elected, but not on the political parties ground, as would be the case for the legislative body, and for a longer term. They could not be re-elected to avoid political pressures. Needless to say the executive Chamber would be subject to the general laws of the country.

The next question about natural law will seem strange to readers unfamiliar with Chilean politics, but it had political implications: the question was aimed at countering the *gremialistas*. Hayek's response, that laws and norms evolve through a process of competitive selection, is fully consistent with Hayek's writings in *Law, Legislation and Liberty* about "grown law."[144]

> Lucia Santa Cruz: Do you believe in natural law and that liberty and property, for example, are prior to the State?
>
> Hayek: No, in the traditional sense, but yes in a certain sense. I believe that the best norms and laws have been selected by an evolutionary process. They have not been constructed intellectually. Like other products of evolution, one can legitimately say that there is more wisdom in tradition than in deliberate

[143] The third volume of *Law, Legislation and Liberty* had been published two years earlier, in 1979, but Santa Cruz, as we already noted in section 6, apparently thought that the book was forthcoming, so in the text of the interview she has him saying "in my next book" when referring to it.

[144] See Hayek 1973, chapter 4, "The Changing Concept of Law."

> constructions. This does not mean that all traditions are good. Tradition needs to demonstrate its goodness.
>
> This can be measured by the success of the institutions it has produced, and in general it can be affirmed that the law and liberty tradition has proved been more successful than other traditions.

Santa Cruz then asked a question about dictatorships that has garnered much attention.

> Lucia Santa Cruz: On other opportunities you have referred to the apparent paradox that a dictatorial government may be more liberal than a totalitarian democracy. However, it is also true that dictatorships have other characteristics which clash with liberty. Even when it is conceived in the negative way you do….
>
> Hayek: Evidently, there are major dangers with dictatorships. But a dictatorship can limit itself and a dictatorship that deliberately sets limits on itself can be more liberal in its policies than a democratic assembly without limits. I have to admit that probably this would not happen, but even so, it can be the only hope at a particular moment. Not a certain hope, because it will always depend on the good will of an individual and there are very few individuals that can be trusted. But, despite this, if it is the only opportunity that exists at a moment, it may be the best solution. Only if the dictatorial government is visibly directing towards a limited democracy.[145]

If one compares this response with the one he had given Sallas the week before, the similarities are evident: dictatorship is not a first best solution, but may be the only hope in certain circumstances – the hope being that it will deliberately limit itself.[146]

Santa Cruz then took up questions of the role of moral values in society and politics. Hayek reiterated the idea that morals are selected through an evolutionary process, and then noted the importance of specific liberal values (like the protection of private property) for maintaining the world's population. This is followed by a discussion of the relationship between the Catholic Church and liberalism. Hayek disagreed with the Church's "extremely doctrinaire position on birth control," and when asked about the ecclesiastical pronouncements against capitalism, he said, "I don't like the word capitalism either, and I would be happy to change it." In this section, like the one where natural law was discussed, Lucia Santa Cruz again appears to have been enlisting Hayek against the *gremialistas*, the influential conservative Catholic political movement led by Jaime Guzmán, the architect of the Chilean constitution. As noted earlier, his political party, UDI, was a strong influence at the end and after the Pinochet regime. It would appear that

[145] Keeping in mind that the 1980 Constitution that had been proposed by Pinochet and the Junta Militar stipulated elections in 1988, Hayek doubtless had the Chilean case in mind when he referred to a self-limited dictatorship.

[146] For more on Hayek's implicit theory of transitional dictatorship, see Farrant and McPhail forthcoming.

Santa Cruz sought to show that at least one prominent intellectual (Hayek) disagreed with at least some of their views.

She next asked whether there is a tension between liberty and equality. Hayek offered his standard response that the most important form of equality is equality before the law, and that equality in opportunity is very difficult to attain in a world in which people are so different from one another. He also dismissed the idea that the state is a good guardian of culture. The interviewer then turned to the fraught subject of neo-liberalism, which then segues into a discussion of the influence of the Chicago Boys. The exchange is fascinating:

> Lucia Santa Cruz: Now, liberalism traditionally has been a mentality more than a rigidly structured doctrine, a pragmatic and empirical focus, an application of the principle of "trial and error." There are people who believe that neo-liberalism is essentially different in this respect, because it offers a very solid structure which could be classified as a very coherent, global ideology. How can this be compatible, for example, with the idea of the great liberal Karl Popper that politics, like any scientific hypothesis, is only a conjectural proposition, without the value of an ultimate truth?
>
> Hayek: Popper and I are in agreement in almost every respect. The problem is that we are not neo-liberals. Those who define themselves in this way are not liberal, they are socialist. We are liberals who are seeking to renovate, but we adhere to the old tradition, that we can improve, but cannot change what is fundamental. The opposite is to fall into rationalist constructivism, in the idea that it is possible to build a social structure intellectually conceived by men and imposed according to a plan without any consideration of the cultural evolutionary processes.
>
> Lucia Santa Cruz: Don't you believe that in the Chilean case, for example, where an attempt to apply a very coherent model in all spheres of national life, there are certain features of what you call constructivism?
>
> Hayek: I don't know enough to give you an opinion. I know that the economists are solid.
>
> Lucia Santa Cruz: But the model embraces more than only the economy….
>
> Hayek: It is possible that this is due to the enormous influence that positivism and utilitarianism have had in Latin America. Bentham and Comte have been major intellectual figures and liberalism on this continent has always been constructivist. Milton Friedman, for example, is a great economist with whom I agree on almost every point, but disagree not only on the mechanical use of money supply. I am too an economist, but I like to think that I am something more than that. I always say that an economist who is only an economist, cannot even be a good economist. Well, Friedman grew up in the tradition of the Bureau of Economic Research under Mitchell's influence. He maintains that since we have created institutions, we can change them as we

want. This is an intellectual mistake. It is an error. It is false. In this sense, Milton is more constructivist than I am.

This last exchange places front and center the differences and the tensions between Hayek's views and those of Friedman and the Chicago Boys. Finally, given recent discussions about neo-liberalism among historians of economics, it is worth noting that Hayek here rather dramatically disavows the label.

9 Why didn't Hayek condemn Pinochet's human rights abuses?

We turn at last to the uncomfortable question of why Hayek chose to remain silent about the human rights abuses that took place under the junta, a question about which we can only offer conjectures.

Some of it initially probably had to do with personal loyalties. Hayek had been urged to go to Chile by Manuel Ayau, a friend from the Mont Pèlerin Society. One of his early hosts, Pedro Ibáñez, had been a member of the Mont Pèlerin Society since 1970. He was also an important political figure in Chile (senator for two periods) and a supporter of the regime. Hayek considered Ayau as a friend and he was in Chile as an invited guest. As such, it is unsurprising that he kept silent about certain issues involving their country while he was there.

We have shown that Hayek, as he himself admitted and indeed revealed in his responses to certain interview questions, did not know that much about conditions in Chile prior to his first arrival there in 1977. As the week progressed, however, it became increasingly evident to him that the Chilean economy had greatly improved over the past 2 years, and was in much better shape than he had expected. Any expectations that he had formed prior to his visit had doubtless been based upon news reports in the international press.

Hayek's reaction is evident; before he had even gotten back to Freiburg, he shot off his opinion piece condemning press coverage of places like Chile and South Africa to *FAZ*. Their refusal to publish even an abbreviated version as a letter to the editor was doubtless taken by Hayek as confirming evidence for his dismal views of the press. It is possible that his distrust of the veracity of western reporting may have extended to their accounts of human rights abuses.

In the background to all of this, of course, was the fact that the 1970s was an ideologically fraught time. The cold war was an ongoing reality. Protests in the street over the Viet Nam War, over racism, over the inequities of capitalism, and indeed, over human rights violations, were perennial fixtures in the news. Stagflation and the inability of policy-makers to do anything about it (indeed, the 'stop-go policy' that was followed in the US and UK arguably made it worse) led to calls for radical reforms in economic policy: wage and price controls, incomes policies, and the like. And these were being promoted by some of the same Nobel Prize winners who had chastised the Nobel Committee for selecting the likes of Friedman and Hayek.

When Hayek visited Chile again in 1981, there had been three more years of strong economic growth and a new constitution was in place that called for a referendum in 1988 that could lead to elections in 1989. The economic record in Chile was in marked contrast to what had been going on in much of the west, and which had resulted in the

elections of Ronald Reagan and Margaret Thatcher that Hayek discussed in his second interview. Hayek reported to his secretary Charlotte Cubitt that on the second trip he had walked around on his own to see if he had been deluded, and told her that "it was the sight of so many sturdy and healthy children that convinced him" that things there were as he had thought.[147] We suspect that the second trip confirmed what he had already thought about economic conditions in the country. But in addition, he had been invited by CEP, an organization that was itself concerned with figuring out how to find a road back to a constitutional democracy.

Indeed, it is probable that Hayek hoped to have an impact on the course of political events in not just Chile, but in other countries that had imposed dictatorships to forestall communist takeovers. He recognized that the leaders in such countries blamed their problems on democracy. When he would meet with such people, he would agree that unlimited democracy was indeed a danger. But he also held out an alternative for how to make democracy work – to do so, one must limit it. *The Constitution of Liberty* was a philosophical, theoretical and historical treatment of the topic. Hayek's "model constitution" was meant to provide a somewhat more concrete proposal for how to put limitations on the democratic process.[148] Hayek always insisted that he was a supporter of democracy, but that democracy had to be limited.[149] We finally conclude with an evident fact of history: Chile did in fact make a transition back to democracy. We doubt that Hayek had anything to do with this, and to be sure, Pinochet did not go willingly into the dark night. But in the end, democracy was restored.

10 Conclusions

1. During the first trip Hayek met with elite members of the Chilean society who were gracious hosts and were active supporters of the military regime. He gradually warmed to what he saw and came away with the feeling that there were some dramatic economic improvements, and that conditions in Chile and other places had been misrepresented in the press. He felt this strongly enough to have written to the *FAZ* while still on his trip.
2. We have presented evidence that Hayek's ideas were little known in Chile in the 1970s. As such, it is very unlikely that they played a role in the creation of the 1980 Chilean Constitution. It also does not seem that those who invoked his name to defend their own positions correctly represented Hayek's actual views.

[147] Cubitt 2006, p. 19.

[148] In 1962 Hayek had sent a copy of *The Constitution of Liberty* to the Portuguese dictator Salazar. Cristi 1998, p. 168 notes that an early draft of *Law, Legislation and Liberty,* one that was written before the Chilean coup, contained a sentence deleted from the published version: "There may even exist today well-meaning dictators brought to power by a breakdown of democracy and genuinely anxious to restore it if they merely knew how to guard it against the forces which have destroyed it."

[149] Perhaps his most eloquent statement comes from the Epilogue to *The Constitution of Liberty,* "Why I Am Not a Conservative": "I have made it clear earlier that I do not regard majority rule as an end but merely as a means, or perhaps even as the least evil of those forms of government from which we have to choose. But I believe that conservatives deceive themselves when they blame the evils of our time on democracy. The chief evil is unlimited government, and nobody is qualified to wield unlimited power. The powers which modern democracy possess would be even more intolerable in the hands of some small elite" Hayek [1960] 2011, p. 525.

3. We have shown that the available evidence suggests that Hayek did not participate in the selection of Viña del Mar as the site for the 1981 Regional Meeting of the Mont Pèlerin Society.
4. Hayek's second trip to Chile was quite different from the first in terms of his hosts. Both Jorge Cauas and Hernán Cortés Douglas, President and Executive Director of CEP, wanted to learn more about his political and social philosophy and to gain some insights about how to make the transition back to a constitutional democracy in Chile. Other members of CEP, however, wanted to retain the Chicago Boys' emphasis on economic policy. The tension came up in some early interviews when Hayek commented about Friedman, and was evident in the April 1981 meeting of the Council of CEP and in his interview with Lucia Santa Cruz.
5. The interviews in *El Mercurio* have not been well represented. Most of what was said was not about Pinochet directly, and in those parts that could be taken as being relevant to Chile, Hayek was repeating views that he had expressed many times before. Furthermore, some interesting questions and responses were missed: e.g., Lucia Santa Cruz's attempt to get him to criticize natural law doctrine and the Catholic Church, which would have been read in Chile as a criticism of Jaime Guzmán and *gremialismo*, and his criticisms of Friedman's methodological approach.
6. We gave a number of possible reasons for why Hayek failed to speak out about human rights abuses. Given the string of countries that he visited on his trips (others of which also had authoritarian governments in place with their own human right records), and his visits to confer with former Chilean presidents on his second visit, it may be that he hoped autocratic regimes that practiced what he considered to be sensible economic policies would find a way back to liberal democracy. Constitutional constraints on unlimited democracy might provide the means to do so. Chile had adopted a constitution in 1981 that promised to hold a referendum that would allow a return to democratic elections in 1988. This was just the sort of result for which Hayek hoped. And Chile's success, after following economic liberalization, set a good example. As Puryear 1994, pp. ix-x notes, since 1980 "fifteen military regimes have yielded power to elected civilian governments, and today Cuba is the lone remaining Latin American dictatorship."
7. Finally, whatever Hayek's hopes may have been, his ideas had either no, or if any, only minor, influence on the course of Chilean politics before the 1980 Constitution. His thought has become much better understood there in recent years, due largely to the efforts of CEP that began in the early 1980s. But they were not well known at the time of his visits.

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