

CHILE 1970-73

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THE POLITICAL ECONOMY  
OF THE RISE AND FALL OF  
THE UNIDAD POPULAR

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Stefan de Vylder



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Numerous friends and colleagues have given invaluable encouragement and support to me in my work. Some have submitted earlier drafts of this study to stimulating and sometimes quite severe criticism, others have helped to reduce the amount of errors in my treatment of the English language, typed the final manuscripts or simply given me the indispensable moral support I badly needed to be able to finish the work. I wish to thank them all. But in particular I wish to thank the Chilean people, whose warmth, hospitality and courage impressed me so much while I was their guest and whose struggle against the tyranny installed in their country on September 11, 1973, deserves not only our sympathy but our active solidarity and support as well.

Stockholm, September 1974

Stefan de Vylder

# Introduction

It is easy to understand that the evolution of political events in Chile under Salvador Allende and the Unidad Popular (UP) attracted much attention all over the world. The scarcity of previous attempts to a "constitutional" transition to socialism made the UP experiment pretty well unique, and the political and economic development during the Allende period had no doubt a significance which went far beyond the Chilean borders.

Today we all know that the UP's "Chilean road to socialism" was a blind alley, leading the Chilean people not to socialism by peaceful means but to fascism by violent means. It can also be debated whether the class character and the objectives of the Allende government really were such as to warrant the designation "socialist". What is certain is, however, that with the overthrow of Allende and of Chilean democracy the question of the viability of the "Chilean road" has already been answered: it didn't work. The Unidad Popular was defeated.

But why it didn't work remains an important question, and the purpose of this study is to analyze one aspect of the UP's failure, the economic aspect. What was the nature of the UP's economic project? How was it implemented, and with what consequences? In what sense is it correct to say that the Allende government's economic strategy failed, and most important of all: if it did fail - and I will assert that it did - why? To answer these questions is the main object of this study.

In view of the complete military defeat that the Chilean Left suffered on September 11, 1973, a number of economic issues discussed below might to some people appear irrelevant. "So what", the reader might stop and ask himself when reading about, say, inflation, foreign trade or the production of corn in 1972, "as long as the working class was unarmed and the enemy not, the whole UP experiment was doomed to failure". To this I can only say: the question of the armed forces and the UP's lack of military preparations will, despite being of obvious importance, not be analyzed in what follows. I will concentrate on economic and, to a certain extent, political matters - the latter mainly in so far as they are of importance for an understanding of economic events (and they very often are). Many of the most interesting aspects of the social and political development in 1970-73 will be almost completely neglected; this is, for example, the case with the different forms of mass mobilization and organs of working class power that more or less spontaneously emerged as the political polarization proceeded. And with respect to the Right's extra-parliamentary means to precipitate the overthrow of Allende these will be dealt with

the use of the descriptive method in the economic and political sciences, but also, and I believe more important, with the use of the comparative method. At least in the Chilean context, the use of the comparative method is not a particularly well-developed one. This will now be demonstrated in the analysis and the impact of political events in Chile's neighborhood countries in order to test, which, for reasons indicated above, largely falls beyond the scope of the study.

In no way do I pretend to cover the whole Chilean process, let alone attempt to explain the UP's eventual defeat, with reference to economic factors only.

There are several major themes running through the study. Almost all are connected with the UP's economic program - its theoretical foundations, its political and economic implications, its internal contradictions and the efforts to implement it in a hostile environment in which the government's principal adversaries in addition to holding economic power controlled most of the vital institutions of the Chilean state apparatus. Although the analysis concentrates on conditions specific to Chile - much space is in fact devoted to lengthy institutional descriptions which I have found necessary to include

the discussion of the above aspects of the UP program might also serve to clarify some questions of importance for our understanding of certain general problems connected with so-called constitutional transitions to socialism. In particular I hope that the issues raised could be of relevance for the question of choice of economic strategy by leftist governments which are unfortunate enough to come to "power" under circumstances similar to those prevailing in Chile under Allende.

#### Disposition

The first three chapters are intended as background information of both political and economic character.

Chapter I, entitled "An Introduction to the Chilean Economy," is a brief survey without any analytical pretensions, of a few characteristics of the state of the Chilean economy before the Popular People's Unit took office. It begins with a description of the Chilean people's living standards prior to 1970, and thereafter some of the most salient features of Chile's economic structure are presented. Special attention is paid to aspects which are of interest for an understanding of the UP's economic program. This introductory chapter ends with a summary of major economic achievements - or, should we say, lack of major achievements - during Eduardo Frei's Christian Democratic administration in 1964-70.

In the next chapter the economic and political climate around the 1970 pre-



sidential election is presented, together with a first overview of the main programmatic objectives of the new government. The purpose is to familiarize the reader with the political environment in Chile in 1970 and with some of the most important strategic differences that existed within the ideologically quite heterogeneous UP coalition.

In chapter III some general observations regarding the Allende government's position are made. Emphasis is here put on the institutional framework - in particular on the division of power between the different bodies of the Chilean state apparatus - and on the composition of social and economic forces in Chile by the time the Unidad Popular initiated its task.

In chapter IV the UP's short-term economic policy is studied; the main objectives and principal results of the drastically expansionary "reactivation program" launched early in 1971.

The repercussions - inflation, bottlenecks and shortages, and stagnation of output - in 1972 and 1973 of the short-term program and of the sharpening of the political struggle are analyzed in chapter V. Here we can study how the Allende government - in vain - tried to cope with the mounting economic difficulties that arose and which were in part self-made, in part created by the rightist opposition and, last but not least, the mere consequences of the limitations of Chile's rigid, dependent and underdeveloped economic structure.

The last part of the study is devoted to the UP's program of "structural transformations", i.e. the formation of the state area of the economy and the agrarian reform.

The objectives of the nationalization project and the difficulties encountered in implementing it against fierce resistance are discussed in chapter VI. The internal disagreements within the UP with respect to the question of the size of the state controlled sector and the methods to be applied in the struggle against private capital are here used to analyze further an issue touched upon on several occasions earlier in the study, namely the political and economic implications of the fundamental strategic differences that existed between the "anti-monopolistic" and the "anti-capitalistic" factions of the UP.

The above-mentioned divergency within the Chilean Left will also be used to illustrate some of the reasons for the Allende government's relative failure in carrying through a viable land reform. The analysis of the huge difficulties confronting the UP in its agrarian policies adds further support to several of the arguments advanced in the previous chapters. For in the study of the agrarian sector we will see how almost all contradictions inherent in the UP's

program, in the socio-economic structure of Chile and in the general economic and political situation that prevailed during the Allende regime converged, thus confirming the infeasibility of the strategy advocated by the dominant opinion within the Unidad Popular.

A few words should finally be said about the degree of accuracy of the statistical data and sources in general used in this study.

#### A Note on the Quality of Chilean Statistics

The overall reliability of Chilean national accounts is, to begin with, fairly high. Most of the items are since the early 1940's calculated in accordance with basically the same norms as those applied in the United States and Western Europe, and although the statistical error in the estimates is often appreciably greater - in part due to Chile's endemic inflation, the large distortions in relative prices and the rather crude techniques used in the deflating procedure - there are few serious biases or inconsistencies. Economists in Chile and abroad seldom hesitate to use most of these statistics, although data on physical production volumes are always regarded as preferable when assessing trends in output over time.

The degree of accuracy, however, varies substantially between the different components of the national accounts and in Chile's statistical production in general. It is easy to point out items for which the accuracy is in general regarded as "high": population and employment statistics for the census years, volume of mineral and industrial production, balance of trade and general government, among others. Figures on agricultural production, construction, income distribution and several other areas could be classified as "moderately accurate", while population and employment statistics for the intercensus years, in particular from rural provinces, and savings, investments, profits and inventories are among the least reliable of Chilean statistics.

In the methods used to make the estimates there also exist great differences. Various survey and sample techniques naturally play a dominant role for all those items for which data covering the whole statistical population cannot easily be obtained. Simple extrapolation of population statistics is often made for the intercensus years, and a kind of regional extrapolation is also sometimes used in those cases where results from Santiago are extended to cover the rest of the country as well. The procedures used to correct for the most obvious distortions have gradually been refined and the systematic errors thereby been reduced.

So far the more general aspects. As to the question of specific problems related to the present study a few other points deserve to be made.

The rampant inflation is one such problem. Although Chile's statisticians after decades of experience have become skilled in taking a normal rate of price increases in the range of twenty to forty per cent a year into account, the levels reached in 1972 and 1973 and the problems arising due to the UP's efforts to enforce strict but largely inoperative price controls made much of the statistical prices indices, and consequently their uses, almost meaningless. For this reason physical units rather than escudos have been used below whenever possible.

Another problem has to do with time. Some - for 1973 virtually all - data I have used are of a quite preliminary character. This is, for example, the case with the external sector, where other circumstances also contributed to render the collection of accurate data difficult: the UP government was quite reluctant to make certain information about capital movements and the increasingly deteriorating foreign exchange situation public. There are, of course, also many sectors from which the official figures had not yet been gathered, let alone been published, by the time Allende was ousted.

The question of whose figures to use also deserves a brief comment. The general principle applied has been simple: I have mostly relied upon official statistics provided by the UP government, in general taken from publications by the Central Bank, the National Institute of Statistics or the Chilean Planning Office ODEPLAN. A couple of studies made at the Economic Institute of the University of Chile have also been very useful.

During the UP period the rightist opposition often published figures from, say, Chile's National Association of Manufacturers, which were less encouraging - or, toward the end of the Allende regime, even more gloomy - than those from the different ministries and public institutions. I have almost consistently abstained from making use of these and similar sources. In the official data released between 1970 and September 1973 there existed, as far as I could judge, a political bias only in the way the UP government presented its economic statistics - not in the material in itself.

All departures from the above principles for the selection of data have been indicated in the current text or, mostly, in the footnotes. For lack of official data I have, for example, on a few occasions had to utilize figures on the economic development in 1973 published in Chile after the military takeover. These are however exceptions; everybody who is the least familiar with the Pinochet regime's grotesque manipulation of information knows that such data should be taken with great care.

A lot of facts and opinions of all kinds have been obtained from Chilean newspapers and magazines, however, as well as from conversations with public

officials, economists, politicians, and Chileans in general. Most of this information is of a qualitative nature - policy statements by leading politicians, documents, newspaper editorials, etc., which perhaps constituted the most valuable sources of all for my understanding of the social, economic and political development in Chile. Sometimes certain economic statistics have, however, also been taken from second or third hand sources such as Chilean mass media; the biases and errors that can be found in this kind of information are well-known and need not be repeated here, but I should stress that the very occasional use that has been made of such sources for quantitative data can in no way affect the main conclusions of this study.

It should finally be observed that in chapter one, dealing with the Chilean economic structure before the Unidad Popular, almost all footnotes and references to the sources used are omitted, the reason being that this chapter is only a descriptive summary of the final chapters of a separate publication of mine ("From Colonialism to Dependence. An Introduction to Chile's Economic History") where all references lacking below can be found.

# An Introduction to the Chilean Economy

## Living standards

Chile's per capita income has historically been quite respectable. It once was highest in all Latin America, and although Chile lost this position a long time ago the estimated national income of some six hundred U.S. dollars per capita in the late 1960's still made Chile a country with one of the highest income levels in the so-called Third World.

For most of the Chilean people this statistical average was out of reach, however. The vast majority of the population received far less than six hundred dollars a year:

Table I:1. Income Distribution in Chile in 1968. Estimates of Relative Shares of Personal Income and of Total Income-Earning Population

	<u>Share of</u> <u>Income-Earning</u> <u>Population</u>	<u>Personal</u> <u>Income</u>	<u>Approximate per capita</u> <u>income<sup>a)</sup> (U.S. dollars)</u>
Lower income groups	71,5	26,0	220
Middle " "	24,1	28,5	710
Higher " "	4,4	45,5	6.200
	<u>100,0</u>	<u>100,0</u>	

a) Based on the assumption of equal family sizes.

The purchasing power of the officially established subsistence wage, the so-called sueldo vital at or below which about half of Chile's income earners used to be paid, was appreciably lower in 1970 than in the early 1950's.

If we look at a selection of "social indicators" we also find many signs of wide-spread misery. In 1970 the rate of infant mortality was still 7% per 1 000 live births, or considerably above the average for Latin American as a whole. The availability of medical services was low and stagnating.

Rural areas, as always in Chile, stood out as particularly underprivileged. While, for example, Santiago could count on one physician for every 938 inhabitants in 1969 - or close to the national average of the United States - the corresponding figures in rural provinces reached one per several thousand, in Arauco almost 9 000 inhabitants per doctor. Other measures of health standards reveal a similar picture, with extremely high mortality rates and few doctors, nurses and hospitals in the Chilean countryside (as well as in the urban slum districts).

The worst enemy of the Chilean people's health was malnutrition, estimated to have been responsible for the death of at least 7 000 children a year at the end of the 1960's. According to a nation-wide nutrition survey covering the period 1965-69 more than one-third of the adult population consumed less

than 2 000 calories per capita and day, and especially women and children in the low-income groups suffered from huge deficiencies of calories and proteins.

Various other studies indicate that perhaps half of the youth was underfed at the end of the 1960's. Of a large sample of seven-year old children, mainly from rural provinces, sixty per cent showed clear signs of undernourishment, often serious enough to cause permanent neurological damage. At the age of two a child from a working class family was, on average, five centimeters shorter than one from the middle and upper classes.

A large and growing housing shortage and inadequate sanitary facilities constituted another problem affecting Chile's low-income groups. The average number of individuals per existing housing unit rose from 6,8 to over seven between 1960 and 1970, and in the latter year the Chilean people disposed of 6,7 per cent fewer square meters of housing space per capita than ten years earlier. In 1970, 26,8 per cent of all existing dwellings in the cities lacked drinking water, and in rural areas the corresponding figure was 87,3 per cent.

As regards educational standards considerable progress was made during the postwar period. The rate of illiteracy was thus reduced from 19,6 to 11,4 per cent between 1952 and 1970, and both the government of Jorge Alessandri (1958-64) and, in particular, that of Eduardo Frei (1964-70) managed to keep school enrollment far above the rate of population growth. University education expanded especially rapidly; faster, in fact, than employment opportunities for professionals with university degrees.

Higher education was, however, still a privilege for a very small minority. Although more than 95 per cent of the children entered primary school at the age of six in 1962, only 32 per cent remained enrolled until completion seven years later. Out of every 100 students who did enter secondary school in 1965 sixty-six dropped out before 1969 without having graduated. Conditions outside the classrooms were such that no educational reform, however ambitious it might have been (and the Christian Democrats' reform of 1965 was quite ambitious) could prevent most of the working class youth from leaving school early in order to help support their families.

To find a job was not easy, though. Un- and underemployment was high. The Chilean economy continued to be a labor surplus economy, and the excess of people over productive employment opportunities showed a pronounced tendency to grow. Most of the new job-seekers ended up in the services sector; the absolute number of farm-workers was only insignificantly higher in 1970 than in 1930, but few of the urban immigrants could be absorbed by the industrial sector.

In relative terms manufacturing employed less people in 1970 than twenty years earlier; after a marked rise during the interwar period the percentage of the labor force working in manufacturing industry experienced a slight decline in the 1950's and 1960's. The services sector was, in short, bolstered up for lack of other employment alternatives.

Although the postwar process of exclusion of wide sectors of the Chilean population from the regular labor market was mitigated somewhat during the early 1960's, the decade ended with a miserable employment situation: out of a labor force of some 3,2 million people 260 000 were officially registered as unemployed, and about 600 000 were occupied in what ODEPLAN, the Chilean planning ministry, characterized as "marginal activities" - that is, mainly various services with extremely low income and productivity levels. Another 150 000 people outside the labor force, appearing as "inactive" in occupational statistics, constituted a reserve of disguised unemployment; they were willing to work, but knew that no job was available. Thus, without taking the notorious rural underemployment into account the number of unemployed or marginally employed Chileans comprised about one-third of the economically active population.

## Structural Characteristics

### Great but Poorly Utilized Development Potentials

A concise depiction of the Chilean economy's achievements during the present century would be "secular stagnation". Or, to use an expression currently in vogue, "stagflation"; the average rate of inflation between 1920 and 1970 exceeded twenty-five per cent a year. The following appraisal from the middle 1960's could in part illustrate what the poor economic record has signified for most of the Chilean people:

"While a relatively important and prosperous middle sector has developed, average living standards in Chile have not risen much. The conditions of the overwhelming majority of the population have probably not improved at all ... Some important groups have suffered a substantial deterioration in their living standards."<sup>1</sup>)

At first glance the Chilean economy's secular stagnation might appear astonishing. Generously favored by nature and sparsely populated as it is Chile has more natural resources per capita than most nations in the world. A well diversified and easily exploitable physical endowment provides Chile with virtually all the prerequisites for agriculture and for manufacturing and mining industries. In general, neither have other factors to which beneficial development effects are sometimes attributed, such as high export earnings, foreign aid and foreign investment, been in short supply.

But the Chilean economy as a whole has never "taken off". Ever since the 16th century temporary upswings have been followed by crises and stagnation. A wide gulf has always existed between the country's huge development potentials and the living standards that it has actually offered the majority of its inhabitants.<sup>2)</sup> Where progress occurred it failed to spread to the other parts of the economy, or else it was of short duration. As formulated by Mario Ballesteros and Tom Davis:<sup>3)</sup>

"Even a brief review of Chile's economic history reveals that the growth of a particular sector has not succeeded in eliciting a strong, expansive response from the remaining sectors of the economy."

#### Sectoral Distribution of Output and Employment

This is not the place to attempt an analysis of how the above incapacity of the Chilean economy has expressed itself in the course of its history. But it must be stressed that Ballesteros' and Davis' observation points to a fundamental structural defect of the economy which has historical roots dating back to colonial times. Time after time certain sectors have experienced temporary "booms", usually generated by foreign demand and affecting mineral exports (gold and silver during colonial times, nitrates between 1880 and 1930, copper in the 1950's and 1960's); these booms have largely failed to benefit the economy as a whole, however, and once having come to an end they have left stagnation and misery behind.

This "désarticulation", to borrow an expression introduced by Samir Amin to characterize the economic structure of a typical "underdeveloped" country,<sup>4)</sup> could be illustrated with the huge disparities in labor productivity found both between and within the different sectors of the Chilean economy. As a rough measure of the magnitudes of the inter-sectoral productivity differences we could compare the percentage distribution of Gross Domestic Product and of total employment. Such a comparison for 1952 and 1969 is provided in Table I:2 below.

Table I:2. Distribution of GDP (at market prices) and Labor Force in 1952 and 1969.

	1952			1969		
	Share of GDP	Share of Empl.	Diff.	Share of GDP	Share of Empl.	Diff.
Agriculture, forestry and fishing	17,9	29,7	-11,8	7,5	25,0	-17,5
Mining, manufacturing, construction	31,8	28,7	+3,1	47,9	28,1	+19,8
Services	49,3	41,6	+7,7	44,6	46,9	-2,3
	100,0	100,0		100,0	100,0	



From the above figures we see how Chile's aggregate employment structure remained comparatively stable, while the different sectors' respective shares in the generation of GDP underwent more drastic changes; a clear symptom of structural rigidities. In particular we notice that labor productivity in mining, manufacturing and construction increased markedly, thus widening further the gap between them and agriculture. With respect to the services sector, its relative decline in productivity is conspicuous: from having been a "plus-sector" in 1952 services were, as a consequence of the large absorption of labor in combination with the decrease in the share of output generated, converted to a "minus-sector" with a productivity per worker falling short of the national average.

With further disaggregation we would of course find much larger productivity differences than those illustrated in Table 1:2 above. Within agriculture, for example, labor productivity - but not productivity per hectare - was far higher on large estates than on small minifundios,<sup>5)</sup> and an industrial worker in a modern plant produced several times more than a small artisan also classified as employed in manufacturing. Comparing two extremes of the Chilean labor force: a minifundista producing food for some 100 dollars a year and a copper miner in Exotica extracting over 250 tons of pure copper a year with a value of several hundred thousand dollars, we get an impression of the vast differences that could occur in Chilean labor productivity.

What happened in postwar Chile was that employment stagnated precisely in those activities which had a high and rising labor productivity (large-scale mining and certain manufacturing industries, above all). Labor force absorption instead took place in the increasing overcrowded services sector, leading to a concomitant loss of the type of "transfer gains" encountered in developed, coherent economies where, at least in the long run, people tend to leave the stagnant sectors (subsectors, individual firms) in order to find new jobs in the rapidly expanding ones. There is a great difference between being "pulled" to the computer industry and being "pushed" to shoe-cleaning.

But the purpose of this introduction to the Chilean economy's structure and employment rigidities is not to discuss economic development and make international comparisons. The main reason why the sectoral distribution of GDP and employment is important within the present context is that the situation described above should be kept in mind when we come to the class structure of the society that the Unidad Popular inherited and tried to transform. For the high degree of "désarticulation" of the economy did not only produce economic effects; it was also very much reflected in the composition of the social forces

struggling for power in Chile in 1970-73, and its political implications were no doubt considerable. Without some knowledge of the extreme heterogeneity in productivity and income levels between and within the different sectors of the economy much of what happened in Chile under Allende cannot be properly understood.

A brief description should also be made of two other salient features of the economic structure, features that were to play an important role in the Unidad Popular's economic and political project: the economy's high degree of foreign dependence and its monopolistic character.

#### Foreign Dependence

Chile's formal national independence was won in the 1810's, when Spanish colonial rule was overthrown. The liberation was, however, only political. No social or economic revolution took place, and the groups dominating Chile's social and economic life prior to independence continued to do so, but without the restrictions imposed upon them by the colonial administration. The domestic elite that took over was from the very beginning closely associated with foreign commercial interests, and those who led the revolt against the Spanish Crown by no means abolished the privileges created during colonial rule: they inherited them. Their economic and political power was then used to reimport Europe; not only European consumer goods but modern Europe's current political ideas and "way of life" as well.

This happened a long time ago. But Chile's status as a dependent country far down in the world economic hierarchy has not undergone any fundamental changes.

Despite an increasingly abundant literature on the subject, "foreign dependence" is no exact and well-defined concept, and no attempt will be made here to clarify the theoretical issues involved. The importance for Chile of her vaguely defined dependence should nevertheless be stressed. Historically, foreign trade and foreign investments have had a decisive impact both upon the Chilean economy's law of motion - all its clearly discernable phases have been induced by external impulses - and upon the generation of its most outstanding structural characteristics. Add to this the more or less indirect influence of foreign commodities and consumption patterns, foreign economic and military aid, foreign know-how and technology, foreign loans, foreign culture, foreign economic and political doctrines, etc.

But to reduce the problem of foreign dependence to manageable proportions we have to leave most of these aspects aside. In what follows only a limited selection of economic facts and figures will be presented, and the purpose is

to provide a quantitative overview rather than interpret the data.

As for direct investments, to begin with, foreign capital had entrenched itself in many strategic activities by the late 1960's. Most of the rich mineral resources - accounting for over 85 per cent of Chile's export earnings - were directly controlled by foreign interests. Apart from the North American control of large-scale copper mining, foreign interests owned and operated all large-scale iron mining (Bethlehem Steel Co.) and close to a hundred per cent of the nitrate and iodine industry.

Besides its control of the mineral export sector foreign capital also dominated Chile's import trade, and it is estimated that almost fifty per cent of wholesale trade was handled by foreign companies. Foreign capital monopolized telephone and telegraph services and held a majority interest in the major electricity company, it controlled five banks and had minority interests in several more, and all the main advertising agencies were either subsidiaries of foreign companies or mixed Chilean-foreign enterprises. Thus, important financial and service activities were also thoroughly penetrated by foreign capital.

In manufacturing foreign ownership was of less importance in quantitative terms, but it was growing rapidly and was strategically distributed. Thus, while foreign interests owned 20,3 per cent of the capital stock in all Chile's industrial joint-stock companies in 1969 the foreign share in industries such as chemical products, transport equipment, rubber products, and electrical machinery and equipment - all with growth rates between two and four times as high as the overall industrial average - reached 38,3, 43,8, 45,1 and 59,9 per cent, respectively, and in all these industries foreign shareholding was so distributed that it rendered possible an effective control of between sixty and eighty per cent of all capital within each sector.

To this concentration toward the most dynamic branches we should add another important feature: the heavy predominance of foreign capital in the very largest corporations. Although foreign participation existed in only about one-fourth of all Chile's industrial joint-stock companies (or in 212 out of 833), this fourth accounted for 59,5 per cent of all industrial share capital. Among the 100 largest companies foreign ownership was found in 61, and in forty of these the foreign holdings were large enough to guarantee the control of the administration of the company in question.

Among the investing countries the United States dominated, with some two-thirds of the value of total foreign investment in Chile. Over half of the American<sup>6)</sup> capital was concentrated to large-scale mining.

Another aspect of foreign investments in Chile that should be observed is their rapid growth during the 1960's. The changes made at the beginning of the decade in the legislation concerning the entry of foreign capital in Chile granted foreign investors a wide range of privileges, which in part explains the dramatic upsurge of foreign investments in the years that followed. Of a total inflow of foreign capital of 1 672 million dollars between 1954 and 1970, 1 457 millions, or 87 per cent, occurred during the period 1962-70.

This massive entry of foreign capital was far from sufficient to impede a rapid worsening of Chile's balance of foreign investments, however. The large American copper companies occasioned alone a leakage of foreign exchange in the form of profit remittances that exceeded 100 million dollars a year in the late sixties, and Chile's private foreign investment balance deteriorated from a yearly average of -68,5 million dollars in 1955-59 and -87,1 in 1960-64 to -199,1 in 1966-70, the latter corresponding to almost 20 per cent of total export earnings.

There also existed in Chile, as in other underdeveloped, dependent countries, a large foreign dominance even within that part of industry which was not wholly or partially owned by foreign capital. As described by Andre Gunder Frank:<sup>7)</sup>

"Through affiliates of metropolitan corporations, through joint metropolitan-Chilean enterprise, through licensing arrangements, through trade marks and patents, through metropolitan owned or controlled advertising agencies, and through a host of other institutional arrangements, much of the Chilean consumer goods industry is also coming to have an ever increasing satellite dependency on the metropolis".

Of the various mechanisms mentioned above those related to technology are of special interest; the type of capital-intensive and "luxury-intensive" industrialization that Chile embarked upon during the 1950's and 1960's was to a large extent sustained by imports of technology through direct foreign investment and/or through various licensing and royalty arrangements. The importance of the latter was growing rapidly - in part due to an advantageous tax legislation - and while foreign direct investments in Chilean manufacturing were mainly found in the largest corporations within the modern sectors, licensing and royalty arrangements with Chilean industrialists covered a wide range of different industries with different characteristics.

Together with the de-nationalization of the Chilean economy through foreign direct investment and various forms of technological subordination to foreign capital Chile also increased her dependence on foreign loans and on foreign exchange in general. In 1970 the public sector had accumulated a foreign debt exceeding 3 billion dollars, and the private sector, also increasingly dependent on foreign credits which financed thirty per cent of all private investments, contributed with another 600 million dollars in foreign debt. As a

result of this heavy borrowing Chile increased her foreign debt more than six-fold between 1960 and 1970, and amortization and interest payments came to constitute a heavier and heavier burden. At the end of the sixties total payments on foreign capital absorbed almost fifty per cent of Chile's export earnings:

Table I:3 Service Payments on Foreign Capital and Ratio of Service Payments to Exports of Goods and Services 1958-68 (annual averages, millions of dollars)

<u>Period</u>	<u>Service Payments a)</u>	<u>Exports</u>	<u>Ratio of service payments to exp.earn.</u>
1958-64	237	549	43,1
1965-68	467	953	49,0

a) Including amortization and interest payments plus profits and depreciations of direct investments.

This mounting debt burden had not yet given rise to serious import problems, however. The difference between export earnings and service payments continued to rise in absolute terms, and as seen in Table I:4 the constantly growing inflow of foreign financial resources made it possible to increase substantially the net capacity to import during the whole postwar period.

Table I:4 Index of Chile's Net Capacity to Import, Selected Years (1947=100)

<u>Year</u>	<u>Import Capacity</u>
1947	100,0
1960	215,7
1969	507,8

The fact that Chile was extremely favored with respect to the terms of trade during the 1960's did not prevent her from having become the most indebted country in the world per capita<sup>8)</sup> when the copper bonanza was coming to an end in 1970. The high copper incomes rather served to accelerate the process; given the Chilean governments' traditionally almost unlimited acceptance of all foreign loans within reach the creditor countries' confidence in Chile's capacity to pay has, together with strictly political considerations, been the main regulator of the amount of credits granted. It is hardly a coincidence that the periods of huge foreign borrowing in the Chilean history (the 1920's and the 1960's) have coincided with palmy days for Chile's mineral exporters.

This pattern has had a destabilizing impact on Chile's import capacity. Debts have been incurred when export earnings have been high and rising, but once balance of payment difficulties have arisen credit lines have been cut and serious adjustment problems have had to be coped with.

It should also be pointed out that an important lesson from Chile's historical experiences in this field is that a powerful "ratchet effect" of growing

dependence upon imports seems to have been operating whenever the external sector has prospered. The situation described below by Andre Gunder Frank<sup>9)</sup> could hardly have occurred in an economy which had not been "spoilt" by recurrent invasions of foreign exchange and imported commodities:

"Having been a producer of capital equipment in the nineteenth century, Chile now has to import 93 per cent of its investment in plant and equipment. Provided by nature with ample coal, petroleum and hydraulic resources, Chile nevertheless has to import fuels. Having been a major exporter of wheat and live-stock products, Chile is now highly dependent on food imports."

The only major sector where the Chilean economy instead of ceding ground to imports showed a manifest tendency towards self-sufficiency was the consumer goods industry. By 1970 the share of consumer goods other than foodstuffs in total imports had been reduced to less than ten per cent, and the century-long process during which imports changed from being a constant threat to Chile's incipient consumer goods industry to its vital supplier of raw materials, fuels, and capital goods was practically completed.

But the fact that the process of import substitution of consumer goods was coming to an end also signified that the dynamics with which it had periodically provided the economy were becoming saturated (given existing income distribution and price structure). The basis upon which this apparent success in import substitution rested was, furthermore, exceedingly fragile. Besides the heavy dependence on imports of capital goods and the large import content of the expansive industries the reliance upon foreign financing and foreign technology had both increased the economy's vulnerability to adverse external conditions and ear-marked an appreciable part of export earnings for service payment purposes. And, we might add: the foreign penetration contributed to accentuate the "désarticulation" of the economy as well as its highly monopolistic and inequalitarian character.

#### The Chilean Economy's Monopolistic Structure

A large number of good studies confirm the high degree of concentration of ownership and control of all important sectors of the Chilean economy as well as the existence of a handful of powerful interest groups, or "clans", which through their control of a wide range of different financial and industrial activities exercised a dominant influence over the economy as a whole.

Within manufacturing, the 833 joint-stock companies that existed in 1969 accounted for over two-thirds of the whole output of Chile's about 35 000 industrial establishments (including crafts). Of these 833 joint-stock companies 227, or about one-fourth, controlled 82 per cent of the total capital stock. The individual branches or subsectors were, with very few exceptions.

dominated by one to three big corporations whose combined market shares exceeded fifty per cent. In industries controlled by foreign capital the monopolistic structure was especially pronounced.

In whole-sale trade conditions were similar. In 1967 twelve companies out of a total of 2 600 accounted for 44 per cent of total sales. Of the commercial banks the largest one, Banco de Chile, provided 32 per cent and the largest five 57,4 per cent of all private bank credit.

To this concentration of industrial production, banking activity and whole-sale trade - not to forget agriculture and mining, which will be dealt with separately in Chapter VI and VII - to a limited number of large units we should add the concentration of ownership that existed. In 59 per cent of the 271 dominant industrial corporations the ten largest share-holders owned over ninety per cent of all shares, and in 85 per cent of the cases their share surpassed fifty per cent. Figures which, of course, indicate a still higher degree of control of the administration of the companies.

The major share-holders tended, furthermore, to be identical in a large number of different corporations, and their economic power embraced all vital sectors of the economy. The "commanding heights" of the Chilean economy can, in fact, be said to have been in the hands of about fifteen large economic groups which were present in every private industrial, financial and commercial activity of importance. The mightiest of these clans, the Edwards family, intimately linked to the dominant American interests operating in Chile, alone controlled one commercial bank, seven financial and investment corporations, five insurance companies, thirteen industries and two publishing houses. With respect to the latter, of prime importance for the reproduction of the political views and ideology of the extreme Right, the supremacy of the Edwards group in the Chilean market used to be disproportionately large: in the late 1960's its newspaper chain El Mercurio alone supplied over half of the total circulation of dailies in the country, and its publishing house Lord Cochran an even higher share of the supply of weekly magazines. Together with the closely associated Editorial Zig-Zag the Edwards controlled almost a hundred per cent of the whole Chilean market for magazines, comics, etc.

The main adversaries of the Unidad Popular were, in short, not only extremely powerful in the economic field - they had a large amount of vital resources in the ideological struggle as well.

To facilitate an understanding of the Allende government's heritage a few words should finally be said about the economic project of the Christian Democratic administration and about the specific situation that the Chilean economy found itself in by the late 1960's.

## The Christian Democrats' "Revolution in Freedom"

The reform program of Eduardo Frei - marketed as "Revolution in Freedom" - was ambitious in the sense that it clearly recognized a large number of structural defects of the Chilean economy, and it can be characterized as the first systematic attempt on the continent to implement a development strategy in accordance with the ideology of the most advanced representatives of Latin American bourgeois reformism: the "Alliance for Progress" and The Economic Commission for Latin America. Its main ingredients - agrarian reform, redistribution of income, emphasis on industrial growth and reliance upon foreign aid, trade and investment - could all be found in expositions from the Alliance for Progress and ECLA from the early 1960's, although with different emphasis, ECLA always giving prominence to the necessity of industrialization and of social reforms and the Alliance for Progress to the foreign ingredients.

Like most other Chilean presidents Frei promised an accelerated rate of economic growth, a gradual cut-back in inflation and unemployment and an improvement of living standards, especially for the poor majority. But contrary to most of his predecessors Frei provided a catalogue of means through which this development was to come about. In the field of economic policy the state was to play a far more active role than during the two earlier administrations; public investments were to increase, and through the channelling of financial resources according to state-determined priorities specific targets with respect to the sectoral distribution of GDP were to be achieved. Industry was to be given preferential treatment, and its share of GDP was supposed to increase from some twenty-six per cent to slightly above thirty. The relative share of mining was also to increase, while the expansion of the services sector should be halted and its share of GDP drastically curtailed. The instruments chosen to steer this selective growth were public investment and credit policy and a stimulation of the entry of foreign capital and technology.

To advance towards a solution of the long-standing agrarian problem, the government set up ambitious targets for an agrarian reform. The totally insufficient legislation from the Alessandri period should be changed so as to permit a "revolution" in the land tenure system to take place, and according to initial promises 100 000 new peasants proprietors were to be created in six years.

To improve conditions of life for the Chilean masses and to correct the admittedly distorted pattern of growth a far-reaching redistribution of income was to be undertaken, partly through increases of the legal minimum wages and improvements in the social security system and partly by giving the underprivileged poor access to educational facilities on a massive scale. To counter-



act the economic, social and political "marginalization" heavy emphasis was put on stimulating initiatives and organizations "from below", and the possibilities of "participation" - the most commonly used slogan - should be extended to virtually all categories of powerless Chileans.

The importance of national solidarity was stressed; a condition for the success of the "Revolution in Freedom" was said to be the "communitarian cooperation" of all groups and classes. Although being far from anti-imperialistic the Christian Democrats' program also contained references to "reduction of the foreign dependence" and "perfection of the national sovereignty". Concrete indications of how this was to be attained were few, however, and apart from the much talked about program of "Chileanization" of the large U.S.-owned copper mines, a program to which we will return in Chapter VI, the struggle for national independence was assumed to be a spiritual rather than tangible process.

Let us now look at some of the economic results of Frei's "Revolution".

Unlike Jorge Alessandri in 1958 and Salvador Allende in 1970, Eduardo Frei and the Christian Democrats took office during a period of rapid economic expansion. The outlook for the Chilean economy looked good: the friendly relations with the United States - which had provided generous financial support to Frei during his election campaign - promised a continuation of the inflow of foreign aid, loans and private investments, and the escalation of the United States' war in South-East Asia guaranteed a good market for Chilean copper.

To these external stimuli which the Chilean economy could count on we should add the dynamic components of Frei's reform program, such as the role of the state as promotor of economic growth. Public investment - including loans to the private sector from state-controlled credit institutions - grew at an annual rate of some ten per cent between 1964 and 1970, thus giving the government the direct or indirect control of about three-fourths of all investment decisions by the end of the period.

The active support of manufacturing provided the economy with another impulse. During the 1960's Chile entered a new stage of import substitution through the creation of new industries producing consumer durables and a rapid expansion of the existing ones. Protected by almost prohibitive tariffs and quantitative restrictions and benefiting from various forms of public subsidies the industries producing cars, TV-sets, etc., increased output manifold, as is evidenced from Table 1:3.

Table I:5 Annual Production of Selected Consumer Durables 1964 and 1969  
(thousands of units).

	<u>1964</u>	<u>1969</u>
TV-sets	7,2	110,0
Record-players	13,0	81,8
Passenger cars	7,8	22,1

The growth of these and other modern industries entailed a considerable shift in the composition of output within the manufacturing sector:

Table I:6 Value Added in Manufacturing, percentage shares 1960 and 1970

	<u>1960</u>	<u>1970</u>
Traditional industries <sup>a)</sup>	54,8	45,5
Intermediate industries <sup>b)</sup>	30,4	32,0
Dynamic industries <sup>c)</sup>	14,8	22,5
	<u>100,0</u>	<u>100,0</u>

a) = Food, beverages, tobacco, textiles, clothing and footwear, furniture, printing and publishing, and miscellaneous.

b) = Wood, paper and paper products, leather and leather products, rubber products, chemical products, petroleum and coal products, basic metals, and non-metallic mineral products.

c) = Metal products, machinery, electrical products, and transport equipment.

Both exports, public investments and the consumer durables industry continued their rapid, although somewhat erratic, expansion up to 1969; nevertheless, overall economic activity only succeeded in sustaining its high rate of growth during the first two years of the Frei administration. As from 1967 the Chilean economy once again revealed its inherent tendency toward stagnation - GDP per capita increased with only one per cent as an annual average 1967-70, and in agriculture, manufacturing, construction and basic services output per capita in 1970 even fell slightly short of the 1966 levels.

After 1966 the recession thus became especially pronounced in the goods-producing sectors, the growth rates of which tended to lag appreciably behind the growth of the economy as a whole. In terms of employment absorption the Christian Democratic government's failure in this respect was conspicuous; as seen in Table I:7 below, the postwar trend towards services was not reversed but reinforced.

Table I:7 Composition of the Creation of New Employment 1960-70 (percentage)

	<u>1960-64</u>	<u>1964-67</u>	<u>1967-70</u>
Production of Goods	44,3	37,4	18,5
Basic Services	10,5	4,5	10,3
Other Services	45,2	58,1	71,2
	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>

After six years of "Revolution in Freedom" all the government's major promises remained unfulfilled. The rate of economic growth had declined, as com-

pared with the preceding period; the two good years 1965 and 1966 were followed by four poor ones, and the Chilean economy's inegalitarian pattern of demand and resource allocation had become further accentuated. Despite favorable external conditions and heavy public investment the rate of gross investment had tapered off, to amount to no more than 15-16 per cent of GDP in 1969-70 as against 17-18 per cent in 1965-66 and 26,9 per cent as projected in the economic plans from 1965. Like all previous governments during the 20th century the Christian Democrats also failed to come to grips with the inflation, which accelerated throughout the 1967-70 recession when the consumer price index rose with 21,9, 27,9, 29,3 and 34,9 per cent a year.

The government had, in short, proved unable to change the fundamental behavior of the economy. All Chile's major social and economic problems remained to be solved, and the immediate economic prospects were far from bright. By the end of the Frei administration Chile exhibited clear symptoms of going through a crisis of the kind experienced in the mid-fifties: a combination of galloping inflation and stagnation. Contrary to then, however, the foreign debt now amounted to several years' export earnings, and the Chilean people now owed foreign banks and aid organizations more than three hundred U.S. dollars per capita.

- 1) Osvaldo Sunkel in Claudio Véliz (ed.) Obstacles to Change in Latin America. 1966, p. 119.
- 2) The following reflections from 1796 by Manuel De Salas, then Minister of Finance, show that this contradiction was clearly recognized almost two centuries ago:

"The Kingdom of Chile is, without comparison, the most fertile in all America; yet it is the most miserable of all Spanish Dominions. Possessing everything, it lacks the necessary ...

The parks and streets are day after day full of robust workers who, underselling each other, offer their services in exchange for goods that are often useless and expensive ... Nobody can say that a work has been left unfinished because of lack of manpower. As soon as a job is offered, hundreds of people show up ... In the mines, where work is hard, there are more people than work. It is not from indolence, but from lack of employment opportunities, that the people suffer ... Instead of giving occupation to one-fourth of its inhabitants, this Kingdom should be able to employ at least seventeen times as many people as it already has ..."

Freely translated from De Salas' On the State of Agriculture, Industry and Commerce, reprinted in Hernán Godoy (ed.) Estructura Social de Chile, 1971, pp. 139 ff.

- 3) The Growth of Output and Employment in Basic Sectors of the Chilean Economy 1908-1957, Economic Development and Cultural Change, No. 2, 1962.
- 4) See L'Accumulation à l'Echelle Mondiale. Critique de la Théorie du Sous-développement, 1970.  
Comparing today's underdeveloped countries with the old undeveloped, pre-colonial societies Amin notes that the latter, as well as modern developed countries, by and large were "... des sociétés cohérentes, caractérisées par un correspondance entre ses diverses secteurs". An "économie désarticulée", on the other hand, is characterized by an "... absence de communications entre des différentes secteurs" (pp. 25-26).
- 5) Cf. Ch. VII below.
- 6) In accordance with Anglo-Saxon convention the word "American" will for simplicity sometimes be used in this study when the Latin American expression would be norteamericano.
- 7) Capitalism and Underdevelopment in Latin America, 2nd ed., 1969, p. 102.
- 8) Next to the somewhat special case of Israel.
- 9) Capitalism and Underdevelopment ... op.cit. pp. 104-05.

## Chapter II

# The *Unidad Popular*

## Political Background and the Election of Salvador Allende

Together with Uruguay, Chile used to be presented as the model of democracy in Latin America. On the surface, an amazing stability and sophisticated parliamentarism: military coups and other forms of non-constitutional transfers of power have been rare, and in terms of continuity of governments Chile's political history between the 1830's and 1973 would, as someone somewhere put it, make most European countries look like "banana republics". Another feature of Chilean politics that made the country stand out as different to most others - developed and underdeveloped alike - was the apparent lack of political violence: between 1837 and 1970 no leading Chilean statesman or high-ranking military officer was assassinated.

Thus far the official picture. But other aspects of Chile's past should be remembered, too. Behind its institutional stability and tranquility Chile's history has always been full of class confrontations, full of violence, repression, massacres and concentration camps. One example can be enough: conservative estimates give a figure of some 5 000 Chilean workers shot to death by police and army in about twenty big massacres between 1900 and 1970.<sup>1)</sup>

This is not the place to make an exposition of Chile's political history. But one thing deserves to be emphasized. For an understanding of Chile's political past and the environment in which the forces making up the Unidad Popular grew up and were shaped, the two parallel traditions of almost uninterrupted parliamentarism and of violence, repression and militant mass struggle should be recalled.

Tradition has played an important role in past and present social struggles in Chile, and both the "establishment" and the popular movements have a history, a history of oft-evoked memorable events, dates and heroes. This historical consciousness helps to explain why such typical Latin American phenomena as populist or right wing movements headed by civil or military caudillos have been of such limited importance in Chile; they have never been able to dominate the political scene but for very short periods, and they have never managed to destroy the Left's political organizations. The latter remained, despite periods of repression and recurrent splits, the whole continent's best organized and most influential working-class parties - supported by one of Latin America's most advanced trade union movements - for several decades, and their electoral successes were sometimes remarkable. In the 1941 parliamentary elections, for example,

the Marxist parties managed to capture over thirty per cent of the votes.

In view of these circumstances - and many others, of course, which have to be left out in this necessarily meager overview of Chile's political traditions - it is far from surprising that Chile was to become the first country in the Western Hemisphere to elect a Marxist president. But why in 1970? And why did the non-Marxist majority permit Salvador Allende to take office? And in what state was the country handed over to the new administration? A brief look at the situation in Chile before and immediately after the presidential election can, I hope, serve to clarify these questions, of obvious importance for an understanding of the specific conjuncture in which the new government initiated its work.

#### The Crisis of the Late Sixties

Although the term general crisis is in no sense absolute but must be identified in terms of origin, degree of intensity and general dissemination throughout the society, there can be little doubt that Chile, during the last years of the Frei government, displayed a wide range of symptoms. The problem of acute economic stagnation has already been discussed. It remains to look at the socio-political atmosphere.

To begin with, a clear sign of widespread discontent was the declining popular support for the governing party as manifested in successive electoral defeats. In 1964 Eduardo Frei received 56,1 per cent of the votes and the support of a quite heterogeneous coalition of voters. His successor as presidential candidate, Radomiro Tomic, was abandoned both by the Left and, above all, the Right, and received in 1970 less than half of Frei's percentage, or 27,8 per cent. In the parliamentary elections the Cristian Democratic Party (Partido Demócrata Cristiano, PDC) fell from 42,3 per cent in 1965 to 29,8 per cent in 1969. Electoral participation declined considerably, too, possibly indicating dissatisfaction with the system at large. Absenteeism increased from 19,4 (1965) to 29,5 per cent (1969) of registered voters. At the same time, the two big Marxist parties advanced - the Communist Party (Partido Comunista, PC) from 12,4 to 16,6 and the Socialist Party (Partido Socialista, PS) from 10,3 to 12,8 per cent between 1965 and 1969.

In the late 1960's Chilean party politics were characterized both by a considerable turn to the Left and by a pronounced polarization, tendencies which were reflected both between and within the different parties. Within the Christian Democratic Party an internal split became inevitable as the economic and political rule of the rightist faction, headed by Eduardo Frei, turned increasingly repressive. In 1969, after the government's third big massacre<sup>2)</sup>, an influential group of members of the PDC repudiated the Party and formed a new movement,

MAPU (Movimiento de Acción Popular Unitaria), which later became the perhaps most leftist political force within the UP coalition. The Radical Party (Partido Radical, PR), a faithful barometer of Chilean politics<sup>3)</sup>, also suffered a split: a conservative minority left the party, began to call themselves Radical Democrats (Democracia Radical, DR) and initiated a rapid march towards the extreme Right, while the majority declared the PR socialist (later on even revolutionary, which occasioned a new split) and integrated itself into the electoral preparations of the UP.

The Socialist and Communist Parties remained by and large intact, but internal discord was growing and for the PS especially the 1960's signified a marked radicalization. The old leadership of the Party was replaced by representatives of the by then majority leftist segment whose political line in several important respects was very close to that of the recently founded Movement of the Revolutionary Left (Movimiento de Izquierda Revolucionaria, MIR), the by far most influential revolutionary group to the Left of the traditional parties. The Socialist Party's National Congress in 1967 adopted, for example, resolutions stating that "...the pacific and electoral struggles can only be accepted as limited forms of action" and emphasized the necessity to prepare the Chilean workers for armed struggle, this in sharp contrast to the Communist Party which continued to offer the parliamentary road to socialism as the only viable possibility.<sup>4)</sup>

Outside the realm of the traditional political parties there occurred important changes, too. In the countryside the mass of campesinos (smallholders and landless farmworkers) - whose expectations had risen sharply after 1964, only to become frustrated during the latter half of the Christian Democratic administration - began to mobilize and fight for their interests in a way never seen in Chile before. Rural trade unions, which prior to 1964 were subject to a host of legal restrictions and hardly existed at all, were created at a proliferative rate to embrace, by 1970, well over 100 000 members. Strikes and land occupations became increasingly common.<sup>5)</sup>

The entire trade union movement in fact underwent a rapid development, after more than a decade of relative stagnation. Thus, while in 1953 there existed 2 067 trade unions with 298 000 members and in 1964 1 863 different unions with a total of 271 000 members, in 1970 the corresponding figures had increased to 4 519 and 551 000, respectively<sup>6)</sup>, the latter representing about twenty per cent of all wage and salary earners. Within manufacturing industry 36 per cent of the work force - and over 50 per cent of large-scale industry - was organized.<sup>7)</sup>

To this quantitative development of the labor movement we should add the tendency toward growing militancy among Chile's organized and unorganized workers.

A couple of general strikes were carried through between 1967 and 1970, and in the latter year, when confrontations reached a peak, 5 295 labor conflicts affecting more than 300 000 workers were registered.<sup>8)</sup>

A traditionally unorganized and politically rather passive group also began to mobilize: the pobladores, the slum dwellers living in the vast squatter settlements (poblaciones) encircling all Chilean cities, and Santiago in particular. Although earlier signs of social unrest within these areas of widespread misery had not been lacking - in 1957, for example, tens of thousands of poorly dressed and underfed pobladores invaded and pillaged Santiago's center in a sudden outburst of spontaneous, violent protest<sup>9)</sup> - it was not until the late 1960's that conscious, organized political work took root in the urban slum. As in the case of the campesinos the Christian Democrats were at a beginning most active among the political parties<sup>10)</sup> - under the auspices of the Catholic Church and the PDC a plethora of organizations ("Neighborhood Councils", "Mothers' Centers", "Parents' Centers", etc.) grew up in the poblaciones, organizations which constituted the cornerstones of the PDC's ambitious program of "Popular Promotion" (Promoción Popular) for the urban poor.<sup>11)</sup> But the pobladores turned out to be - and here again the parallel with the campesinos is obvious - far easier to radicalize than the PDC had originally thought and hoped, and the creation of various "communitarian organizations" gave the Left an excellent platform that it had failed to create by itself. In 1970 only a handful of Santiago's poblaciones were controlled by the PDC, and the "popular promoters" sent out from the party were to an increasing extent replaced by the riot police, which responded to the more and more common illegal land seizures with tear gas and machine guns. As in many other fields the Christian Democrats' "Popular Promotion" produced a "boomerang effect"<sup>12)</sup>; the rising expectations among the pobladores could not but clash with a deteriorating social and economic reality, and in a large number of poblaciones the PDC organizations for co-optation to society were both taken over by the Left and complemented with "Popular Militias" (Milicias Populares).

Thus, to conclude, the Chilean political scene in 1970 presented clear symptoms of disintegration, reflected both in confusion and splits within the traditional parties and in the upsurge of militant forms of mass struggle such as land occupations, strikes and even armed propaganda attacks à la Tupamaros upon banks, supermarkets and public institutions. Add to this student rebellion. The Left was on the offensive; the Unidad Popular was created in the midst of a prolonged economic, social and political crisis, and Chile's traditional bourgeois institutions were questioned not only by an élite of left wing politicians but to an increasing extent by the masses themselves. The milieu in which the presi-



dential election was held is well described by Eduardo Labarca<sup>13</sup>:

"Not one day elapsed without a strike breaking out, without a new land seizure taking place or without 10, 50 or up to 200 fundos remaining occupied by the farm workers. Right in the middle of the election campaign the first general strike of campesinos was realized, and 55 days before the elections a general national strike was successfully carried through."

#### The Presidential Election

In view of what has been said above we might perhaps expect a convincing victory for the candidate of the Left, but several factors impeded an easy translation of social unrest into votes for Salvador Allende. First, there was the problem of electoral participation - wide sectors of the recently radicalized groups were excluded from voting, either because they were illiterates or else because they simply had not bothered to go through all the bureaucratic formalities required for electoral registration. Second we have the well-known phenomenon of a strengthening of the extreme Right in times of a social crisis - "law and order", etc. The candidature of Radomiro Tomic, finally, served to disseminate confusion among many of the unorganized people vacillating to the Left: Tomic's electoral platform coincided, at least formally, in many vital aspects with that of Salvador Allende, and his terminology - heavily loaded with expressions such as "capitalism", "neo-capitalism", "oligarchy" and "imperialism" - gave quite as radical an impression as Allende's.

What favored Allende was the split of the non-Marxist opposition. Contrary to the 1964 election, which was basically an uneven fight between Frei and Allende, the Chilean people had in 1970 a choice of three apparently equally strong candidates: Allende, Tomic and Jorge Alessandri, the latter backed by the rightists parties, i.e. mainly the National Party (Partido Nacional, PNL).

But while it is true that this non-Marxist split made it possible for Allende to win a relative plurality in a three-corner fight, it is difficult to imagine how the opposition's split could have been avoided. The still powerful PDC could not withdraw their candidate without a further acceleration of the decomposition of the party, and it was equally impossible for the Chilean Right to accept that Chile would be left with a choice between two candidates whose anti-capitalistic message were difficult to distinguish from each other. The Right might have accepted another PDC candidate - Frei, perhaps, but the Chilean constitution prevented the reelection of an incumbent president - but never Tomic, and Tomic was the obvious man to run for the Christian Democrats. For decades he had been second only to Frei in the party, he was the only leading DC politician who was not directly discredited by the government's domestic failures (Tomic was Chile's ambassador to the United States), and he was the only one who could revitalize the reformist image of the party in the eyes of

the voters. It is also clear that had the 1970 election been a fight between one rightist and one leftist candidate only Allende's percentage of the votes would have increased markedly since a considerable share of the votes for Tomic would have been given to him.

As for Allende, member and founder of Chile's Socialist Party, his organized support came from the parties and movements making up the "Popular Unity" (Unidad Popular, UP), a coalition with the Communist and Socialist parties as driving forces, but also including the Radical Party (PR) and MAPU, the leftist offshot of the Christian Democrats, and two insignificant Social Democratic groups.

To general surprise - Alessandri was held as favorite - the election on September 4 gave the following result:

	<u>Number of votes</u>	<u>Percentage</u>
Allende	1 070 334	36,3
Alessandri	1 031 159	34,9
Tomic	821 801	27,8
Blank and invalid votes	31 505	1,1
<u>Total</u>	<u>2 954 799</u>	<u>100,0</u>

#### From Winning an Election to Taking Office: Sept.-Oct. 1970

The small plurality obtained by Allende did not automatically make him president. According to the Chilean constitution the National Congress<sup>14)</sup> had to decide between the two leading candidates in case no one received over fifty per cent in the regular balloting. Normally a mere formality - in no case had the Chilean Congress refused to appoint president the candidate with the largest percentage vote - the outcome of the second voting was this time quite uncertain, and the period between Sept. 4 and Oct. 24, when congressional ratification was to take place, witnessed a sequence of dramatic events and right-wing maneuvers intended to prevent Allende from taking office.

Interesting as these events were they do not all interest us in this context. But because of their relevance for the future economic and political situation in Chile some of them cannot be completely neglected: what happened in September-October had a considerable influence both upon the new administration's choice of short-term economic policy and upon the political strategy adopted. Thus, we will briefly look at two important aspects of the post-election events: the attitude of the opposition to Allende and the financial panic that broke out immediately after the result of the election was known.<sup>15)</sup>

#### The Rightist Plots

The Chilean Right - and here we must include President Frei and his followers - refused to recognize Allende's inconclusive victory. As a first effort to st

Allende the National Party tried to mobilize support from the PDC in order to obtain the Christian Democrats' congressional votes for the number two of the presidential candidates, Jorge Alessandri. According to this "Alessandri formula" - which was made public and is said to have counted with the government's and Frei's tacit approval - Alessandri would, once elected by Congress, resign and call for new elections, thus permitting Frei to run for the whole Right and confront Allende in a two-man race.

This plan failed, though, mainly thanks to the resolution of the Left - including, this time, Radomiro Tomic - and to the indecision of the Christian Democratic Right. The adherents of the Unidad Popular, and in particular the trade union movement, issued menacing statements declaring their firm decision to "defend the victory" - if necessary, with arms - and Tomic and the whole DC Left repeatedly assured Allende their full support in the coming congressional vote. In front of a certain split of the party and, possibly, a civil war, the leadership of the PDC decided to discard the "Alessandri formula" and took up negotiations with the UP instead in order to obtain a constitutional amendment that would formally guarantee what the PDC called the "survival of democracy". After the UP's acceptance of the main ingredients of the Christian Democrats' proposal - which in no way compromised the basic program of the UP but which nevertheless contained some inexpedient clauses (cf. Ch. III, footnote 8 below) - the constitutional road was effectively blocked for the opposition, which had to resort to other means when trying to stop Allende.

#### The Post-Election Economic Crisis

The immediate reaction to the election result was financial panic: bank accounts were liquidated by worried Chileans planning to flee the country<sup>16)</sup>, the Central Bank's sales of dollars for "tourist" trips abroad increased more than threefold in September as compared to preceding months<sup>17)</sup>, the dollar rate went up sharply on the black market, indicating capital flight, and the Santiago Stock Exchange index fell over fifty per cent in two weeks.<sup>18)</sup> Soon the effects spread to other sectors as well - building projects were cancelled and construction workers laid off, investments were postponed and retail sales of consumer durables fell off sharply. In the countryside the big landowners - for sabotage purposes or out of pure fear - interrupted the springtime sowing and began to slaughter cows, even reproductive cattle.

At the beginning the Frei government added to the panic rather than trying to check it; an important role in this context played a highly alarmistic Radio and TV speech by the Finance Minister, Andrés Zaldívar, who depicted the state of the national economy as disastrous, putting the blame on the election result and adding much fuel to the crisis.<sup>19)</sup>

Also important were the activities of certain foreign interests operating in Chile<sup>20)</sup> which elaborated a plan for economic sabotage. The following recommendations were, to take an example, distributed to the North American companies in Chile:

"1. Banks should not renew credits or should delay in doing so. 2. Companies should drag their feet in sending money, in making deliveries, in shipping spare parts, etc. 3. Savings and loan companies are in trouble. If pressure were applied they would have to shut their doors, thereby creating stronger pressure ... 4. Companies in a position to do so should close their doors ..."<sup>21)</sup>

But this plan failed, too. The American companies were, in general, not very cooperative<sup>22)</sup>, and at the beginning of October it was clear that the difficult economic situation would not turn into a collapse, whatever is understood by collapse, banking activity was returning to normal<sup>23)</sup>, and although unemployment continued to rise the immediate threat of chaos seemed to be over. The hope that a "swiftly deteriorating economy would touch off a wave of violence, resulting in a military coup"<sup>24)</sup> was far from fulfilled, and the army was, according to the plotters, held back by among others the Commander-in-Chief, René Schneider, who was reported unwilling to "budge an inch without Frei's okay".<sup>25)</sup> And Frei, "playing the part of Hamlet", finally said no, after much vacillation.<sup>26)</sup>

The first of the UP's battles was practically won. When groups from the extreme right, headed by ex-General Roberto Vial, in a last attempt to provoke a military intervention initiated a terror campaign which culminated in the assassination of Schneider two days before the congressional vote, the effects were totally counter-productive: the deed was repudiated by an almost unanimous opinion, and the right found itself more isolated than ever. On October 24, Allende was elected president with votes from Unidad Popular and the whole P.C., and on November 3 he and the UP government formally took office.

#### The Significance of the September-October Events

In September something that hardly required proof was proved, namely that a Marxist can win a plurality in a Latin American election. In November it was proved that a Marxist, if elected, can be permitted to take office, albeit not without certain difficulties. But what interests us here is the importance that the post-electoral events came to have for the economic and political development in Chile in the years that followed. There are four points that deserve to be made:

1. The economy that the UP inherited had not only been stagnating for four years, it also found itself in an acute state of depression and uncertainty. The main economic decision makers had little, if any, confidence in the new government. This circumstance had substantial influence upon the short-term economic project the UP was elaborating in the middle of the crisis.

2. The position taken by the Christian Democrats increased the UP's expectations of being able to establish a parliamentary alliance with the DC Left. (It should also be observed that the role played in the September-October plots by Frei and other leading rightists within the PDC was largely unknown in Chile before the publication of the IIT-documents in 1972.)
3. Both the election result and the ensuing events - above all the official attitude of the PDC and the (temporary) isolation of the National Party - strengthened the moderate, "pragmatic" line within the UP (i.e. Communists, supported by Radicals) at the expense of the more leftist sectors.
4. The extreme Right's extraparliamentary machinations, which culminated in the assassination of Schneider, considerably strengthened the overall position of the Left. A large part of the Right was strongly discredited, and the split within the anti-UP forces had been accentuated. The initially shaky UP coalition, on the other hand, looked united, disciplined and resolute. It looked so mighty that the easily frightened US News and World Report<sup>27)</sup> could announce: "Take no mistake about this: Chile is going Communist ... What remains in opposition in Chile is little more than a divided Christian Democratic Party that has been calling for an end to capitalism for years. In that party, moderates are a minority. Says our man in South America: 'A strong leftist tide is running in Chile'."

Many Chileans were equally worried, and quite a few sold their houses - beautiful homes were sold for 1 000 U.S. dollars or less during the last few months of 1970 - packed their bags and left the country. What was the character of the program that had frightened them so?

## Program and Strategy

A necessary starting point for an understanding of what happened in Chile after the election of Salvador Allende is the program of the Unidad Popular, agreed upon in 1969 (before an agreement on whom to select as presidential candidate was reached) by all the political forces integrating the UP. The importance of this program - "Programa Básico del Gobierno de la Unidad Popular" - must be stressed: there can be little doubt that both the government and the opposition took the program seriously, judging it not as an electoral platform later to be more or less forgotten but as a document containing central political and economic objectives that the UP was bent on reaching.

This program and the UP's attempts to implement it will also be a major subject of attention in this study.<sup>28)</sup> Some emphasis must, then, be put on the Allende government's explicitly political aims; traditional economic criteria would be clearly insufficient in the case of the UP, the programmatic objectives of which were not confined to a more efficient administration of an existing society but which rather consisted in the simultaneous destruction of an old social and economic order and the laying of the foundations for a new one.

In order to get a better understanding of what the UP wanted to achieve and why, we will first take a look at the UP's own analysis of the main economic and social ills that affected the Chilean society at the time the new government took over.

#### The UP Diagnosis of the Chilean Society

"Chile", asserts the "Basic Program", "is going through a deep crisis, manifested in social and economic stagnation, in widespread poverty and in all kinds of deprivations that workers, campesinos and other exploited classes are subject to, as well as in the growing difficulties that confront white collar workers, professionals, and small and medium-sized businessmen, and in the miserable employment opportunities open to women and youth."

"What is it that has failed?", the program later asks. "What has failed in Chile is a system which does not correspond to today's requirements. Chile is a capitalist country, dependent upon imperialism and dominated by sectors of the bourgeoisie which are structurally tied to foreign capital and which cannot solve the country's fundamental problems, problems which derive precisely from the bourgeoisie's class privileges which will never be given up voluntarily."

Let us also look at a couple of summaries made by the key persons in the UP's economic team during the first two years, Américo Zorrilla (Communist, Finance Minister 1970-72) and Pedro Vuskovic (Independent, Minister of Economy 1970-72). In his first exposition in Congress of the "Actual State of the Chilean Economy"<sup>29)</sup> Zorrilla describes the economy as characterized by

"three outstanding features which up to now have defined our economy: its monopolistic character, the situation of dependence, and the big monopolies' utilization of the State for their own benefit. In economic terms", Zorrilla argues, "the main effects of this system ... can be summarized as follows:

1. An enormous inequality in the distribution of income ...
2. Unemployment ...
3. Underutilization of installed capacity ...
4. Inflation ...
5. Economic stagnation ..."

Vuskovic's summary<sup>30)</sup> is similar:

"In short, the stagnation, the inflation, the inequality, the unemployment and the de-nationalization of the economy were the inevitable results of the type of capitalist dependence that characterized the Chilean economy and society. The State itself, with its tradition of heavy intervention in the national economy, merely acted as an accomplice in the process of monopolization and dependence inherent in the system."

How these conclusions were reached is of minor interest to us here. What makes them important is the fact that they ought to be taken seriously and in no way discarded as mere propagandistic statements, since they did constitute the basis of the economic and political strategy adopted by the UP.

### Political Objectives

We shall return on several occasions in the chapters that follow to the specific components of the new government's program; this section is intended as a brief overview only, indicating the character of the transfer of political and economic power envisaged by the UP.

The decisive passage of the program reads as follows:

"The united popular forces seek as the central aim of their policy to replace the present economic structure, to put an end to the power of national and foreign monopolistic capital and of latifundism in order to initiate the construction of socialism."

To dispel imperialism and the domestic oligarchy - the terms most commonly used by the UP when defining the "popular forces'" main enemies - was regarded as imperative for both economic and political reasons. First, it was indispensable for the establishment of "popular power" (poder popular) which alone could guarantee the development of a genuine democracy in Chile. Furthermore, it was looked upon as a necessary condition for economic development; the whole UP diagnosis of Chile's underdevelopment was based on the fundamental assumption - or, in Vuskovic's words, "scientific conviction"<sup>31)</sup> - that the structural defects of the Chilean economy, its "deformations" which "limited the development of the productive forces"<sup>32)</sup>, were inevitable consequences of the existing power structure.

That the full implementation of the program would signify a revolutionary change in the Chilean society was emphasized by all the UP parties. The intention was to achieve a profound transformation of political power, a transformation which was to take place simultaneously with a "revolutionary change" in the economic structure. In Marxist terms, the changes in the economic "base" and those in the "superstructure" were to go hand in hand, supporting each other through increasing the "popular forces'" control of both the dominant sectors of the economy and of the whole institutional superstructure not directly related to the economic base. Pedro Vuskovic<sup>33)</sup> explains the program's revolutionary implications in the following way:

"... (the program) ... defines as its fundamental aim to transform the system and the character of the State ... it is a question of a program which can be defined not only as anti-imperialist, anti-oligarchic, and anti-feudal, but as outright anti-capitalist as well.

Thus, the program does not propose structural reforms directed towards a modification of the traditional functioning of the economy, but towards a qualitative transformation of the very nature of the economy; not in order to resolve the problems within the proper limits of the system but in order to substitute the very system.

We are, in short, dealing with a program which has a clear revolutionary, and not purely reformist, content."

### Strategy

"Being this our point of departure", Vuskovic continues, "it means that the economic policy is faced with problems which are of an essentially political, and not merely technical character ... What the economic policy is confronted with is a problem of power, a problem of social forces, of correlation of forces, which the economic policy has to subordinate itself to in order to serve - and herein lies its principal objective - as an instrument to widen and consolidate the workers' <sup>34)</sup> power positions."

The final point deserves to be emphasized: the subordination of economic policies to explicitly formulated political goals, as well as the explicit recognition of the class character of the policies. Salvador Allende's government never pretended to be a government standing above the classes, serving "society as a whole" - it openly presented itself as a participant in a class struggle, where power was to change hands through the overthrowing of the ruling classes' political and economic dominance.

But despite the SP's revolutionary ambitions the strategy outlined pointed to a gradual achievement of the objectives. "The progressive construction of a new power structure" was one of the phrases used by Allende in his First Message to Congress, and in the economic field the gradual and simultaneous character of la via chilena hacia el socialismo was also emphasized. The "destructive" and "constructive" phases were to run a parallel course:

"Our first task is to do away with (this) restraining structure which only generates a deformed growth. But simultaneously it is necessary to build the new economy in such a way that it succeeds the old one without a loss in continuity, to build it so that we conserve as much as possible of the productive and technological capacity that we, despite the vicissitudes of our underdevelopment, have at our disposal ..."<sup>35)</sup>

The institutional continuity was also stressed - we are far, far away from the classical Marxist-Leninist notion of the necessity to "break up, smash" the old State machinery in order to initiate the construction of socialism. (The whole CP strategy had, of course, little to do with classical Marxist-Leninist notions about revolutionary theory and socialism.) The Chilean revolution was to take place in pacific and constitutional forms, without violating any of the political liberties which were recognized as "achievements of the Chilean society as a whole".<sup>36)</sup> By contrast with the historical building of socialism in other countries, Allende argued, "our revolutionary road" will be "a pluralist road, anticipated by the Marxist classics but never hitherto realized".<sup>37)</sup>

This is not to say that the institutional framework would not be subjected to change, that all that was envisaged was a mere change of faces within decision making bodies or that traditional legal norms would remain sacrosanct. It should be interpreted to mean that the institutional heritage should be modified within the (very wide) boundaries of the constitution. "One has to plough with the oxen one has" was one of Allende's favorite proverbs, to which he added: "We will change



the Constitution by constitutional means." And in the First Message we read: "Our legal system ought to be modified ... it is not the principle of legality that we, the popular forces, criticize. It is a legal order reflecting an oppressive social order that we protest against ... In the regime of transition to socialism, the juridical norms will respond to the requirements of a people striving to build a new society. But there will be legality."<sup>38)</sup>

But whether revolutionary changes are to take place gradually or abruptly and whether inside or outside constitutional boundaries what is required is political power, and control of only the executive branch of the state is clearly insufficient for achieving the objectives set up by the UP. Allende's electoral victory had given him the right to govern, true, but the power to rule is, as would soon become evident to all Chile, a totally different matter. Of this the UP was quite aware from the very beginning; as indicated by Vuskovic when discussing the role of economic policy, the taking of office of the new government was conceived not as the termination of the struggle for power but as the initiation of a new, and far more difficult, stage. Or in the words of Luis Corvalán, secretary general of the Communist Party:<sup>39)</sup>

"The struggle for power is still (written in Nov. 1970, SV) unsettled in our country. The principal enemies of the people - imperialism and the landowning oligarchies - continue to conserve strong positions from which they must be displaced in order to guarantee the revolutionary development of Chile."

The government was considered a tactical instrument only:

"Our principal objectives are, obviously, to capture the entire power and to build socialism. These are our strategic objectives. The government is an instrument to utilize, a tactical instrument that we make use of in order to reach these objectives."<sup>40)</sup>

What other instruments did the UP dispose of in this struggle? Essentially, the mass organizations<sup>41)</sup> - above all the trade union movement, but also many of the originally PDC-controlled "neighborhood organizations", as well as the UP's own Comités de la Unidad Popular (CUP). The latter organizations had been founded mainly for electoral purposes but were supposed to be made permanent in order to be able to play a decisive role in the building up of a new power structure "from below" - the optimists within the UP even regarded these CUP's, or "red cells", as embryonic forms of a kind of Chilean Soviet power.

The central idea was, in short, to utilize both the executive power - the government - and the "popular power" arising out of various mass organizations against the "fundamental enemies" who, according to the plans, would be unable to resist the double pressure exercised both from above and from below and who, consequently, would lose one power position after another to the working class and its allies.

In this struggle for power embracing all levels of the society the industrial working class would be the "driving force"<sup>42)</sup>, although certainly not without help: the program of the UP was written so as to satisfy wide sectors of the population, and among the potential allies of the working class we encounter not only campesinos, white-collar workers, students, intellectuals, etc., but also small businessmen who were said to be exploited by the big monopolies and whose objective interests should coincide with those of the vast majority of the population.<sup>43)</sup> The government would, above all through its economic policies, demonstrate to these groups that its intentions were to benefit not only the industrial workers but, as well, all those sectors which could not be included among the enemies of the people.

#### Divergencies within the UP

So far we have treated the UP as if it were composed of one homogenous political force with an identical interpretation of the program and with one and only one notion of political strategy. This is, however, a gross simplification - the UP's program was little more than a compromise designed to satisfy various sectors of the Left, and rivalry between the different parties was an everyday occurrence both before and after the elections. Long-standing and deeply rooted theoretical and ideological differences of opinion were impossible to cover up, despite ambitious efforts by the general arbiter of the UP, Salvador Allende.

Within the UP we can clearly discern one "leftist" block, mainly represented by the PS majority - including the leadership of the party - and one "moderate" or "reformist" block, dominated by the PC in an informal alliance with the Radicals and, often but far from always, with the smaller and at least initially quite insignificant parties and movements forming part of the UP.<sup>44)</sup>

In order to avoid getting lost in details I will confine myself to a brief overview of the principal points of divergence between the above two basic lines, i.e. those of the two hegemonic forces within the government: the PS and the PC.

An old and important question for the Chilean Left had been to define who exactly should be included among the "popular forces". The traditional Communist line had always been to try to achieve the widest possible "popular unity", and the party had been quite open to alliances with the so-called "progressive sectors of the national bourgeoisie". On several occasions during the 1960's the PC - despite undisguised opposition from the Socialists - tried to integrate those sectors into a "People's Front" (Frente del Pueblo) directed against "imperialism, monopoly capital and feudalism", and various proposals were made to Radicals and Christian Democrats in order to seek political support for such

an alliance.<sup>45)</sup> The PS, on the other hand, categorically rejected any alliances with the "national bourgeoisie" - whose very existence, let alone progressive character, was cast in doubt - and called for the formation of a "Workers' Front" (Frente de Trabajadores) as opposed to the much wider "People's Front" of the PC.<sup>46)</sup> With respect to the bourgeois reformist parties, possible allies according to the Communists, the Socialist Congress in Chillán in 1967 repudiated any cooperation with the PDC and the PR which was not limited to reaching purely tactical objectives - parliamentary support for certain reform proposals which the traditional Right opposed, for example - and affirmed in one of the resolutions adopted that "... it is the decomposition, not the artificial survival, of the Radical and Christian Democratic Parties which is the strategic aim of the revolutionary Left".<sup>47)</sup>

These strategic conflicts - which were temporarily buried after the 1970 elections but which time and again came to the surface later on - corresponded to two different concepts of what in Marxist theory is called the "principal contradiction" within a given society. The PC's opinion was that the principal contradiction in Chile continued to be between the "people" on the one hand and "imperialism and the domestic oligarchy" on the other, while the Socialists emphasized as the principal contradiction the one between the bourgeoisie and the proletariat, arguing that the whole bourgeoisie was both reactionary and pro-imperialist.<sup>48)</sup>

Connected with these divergencies were two different time perspectives with respect to the establishment of socialism in Chile. The Communists envisaged the Chilean revolution as passing through two distinct phases, the first one being limited to the fulfillment of the "bourgeois-democratic" goals (agrarian reform, nationalization of foreign and domestic monopolies, a general democratization of society, etc.). Once these tasks had been performed and consolidated the strengthened working class, in close alliance with peasants and other progressive groups whose objective interests coincided with those of the working class, would be prepared to proceed to the second, socialist stage. A victory for a left wing coalition in Chile would, according to the Communists' analysis, merely signify the initiation of the first of these two stages; only for the sake of unity of the Left is the PC said to have accepted the inclusion of explicit references to socialistic objectives in the 1970 program, and the PC leaders in fact very rarely mentioned the word "socialism" in their propaganda. In general they preferred to interpret the UP program as "anti-monopolistic" rather than "anti-capitalistic" - a distinction with far-reaching implications for the choice of economic and political strategy and to which we will have occasion to

return many times in subsequent chapters.

This "longer view" on the construction of socialism was not shared by the PS. Referring to the discussion within the UP held immediately after Allende's electoral triumph the Central Committee of the PS declared in an internal party document:<sup>49</sup> "The difference between our opinion and that of the rest was that we Socialists demanded that the initiation of socialism should be a task of this government and not only a historical perspective." (emphasis in original).

Insistence of the PS on the rapid realization of outright socialist objectives can be explained both by its more "radical" positions in general and by its far more sceptical view of the possibilities to realize the "anti-imperialist" and "anti-oligarchic" tasks without running the risk of a serious confrontation with the whole bourgeoisie. The two-stage revolution was discarded as highly unrealistic (and, furthermore, little desirable): the opposition would never permit an armistice letting the Left consolidate the conquests of the "first stage". Once initiated, the PS argued, the revolutionary process would generate a struggle for power which necessarily would involve not only those sectors identified as oligarchic but the whole non-socialist opposition as well, and the outcome of this struggle could only be victory or defeat, socialism or counterrevolution.

The Revolutionary Left inside and outside the Unidad Popular never did believe in a "Chilean road to socialism". The implications of differences of opinion as serious as those prevalent within the UP are obvious. Not only did internal conflicts make the government work pretty badly from an administrative point of view, with incessant frictions and concomitant confusion at all political and administrative levels<sup>50</sup>, they also, and this is far more important, impeded the implementation of a consistent economic and political strategy. While the Left remained in opposition its theoretical discussions about "principal contradictions", "class alliances", etc. might to some people have appeared hair-splitting without much practical significance, but with the UP in government, the relevance of these questions for the strategy to follow became, as will be confirmed on several occasions later on, of utmost and quite concrete importance.

- 1) See Patricio Manns, Las Grandes Masacres de Chile, 1972.
- 2) In Puerto Montt on March 9, 1969. A squatters' camp erected after an illegal land occupation was attacked and burnt down by the riot police, and ten pobladores, including several pregnant women and children, were shot to death as they rose from sleep at 6.30 a.m.
- 3) The Radical Party supported and participated with ministers in every cabinet since 1938, with the exception for the Christian Democratic minority government 1964-70.
- 4) For a discussion of the PC-PS divergencies, see pp. 38-40.
- 5) Cf. Ch. VII.
- 6) Data from El Primer Mensaje del Presidente Allende ante el Congreso Pleno, May 21, 1971 (hereafter referred to as First Message) p. 603.
- 7) See Clotario Blest, Los Trabajadores: Su Organización Sindical, in Punto Final No. 108, July 1970.
- 8) First Message, p. 609.
- 9) Provoked by a rise in collective transportation fares - a not uncommon cause of riots in Latin America.
- 10) Naturally, Communists and Socialists had been working in the poblaciones for years, but without ever being able to organize much more than isolated land seizures by homeless families.  

The revolutionary potential of the pobladores was traditionally grossly underestimated by the Chilean Left, which often bunched them together under the disdainful - and erroneous - label "lumpenproletariat". The extremely hostile attitude of Marx and Engels towards the so-called "lumpenproletariat" - "... this scum of depraved elements from all classes, with headquarters in the big cities, is the worst of all possible allies", etc. - probably influenced, but the Chilean Left soon had to realize that Santiago's pobladores were quite different from the thieves and prostitutes of mid 19th century Paris.
- 11) According to official data from the PDC's "National Council of Popular Promotion" total membership in these organizations reached 2 467 000 in 1969, but these figures certainly include some double-counting. Cf. Jorge Giusti, Political Participation in Chile. Three Types of 'Pobladores' Organization, 1971, p. 7.
- 12) To borrow Jorge Giusti's expression.
- 13) Chile al Rojo, 1971, pp. 256-57.
- 14) = The Senate, 50 seats, and the House of Deputies, 150 seats. At the time of the election the UP had 80, the PDC 75 and the Right 45 of the 200 senators and deputies.

- 15) The Chilean material on the Sept.-Oct. events is abundant, and the story was told over and over again in the Chilean press. Among the sources I have drawn most upon should be mentioned four, however: Chile al Rojo by Eduardo Labarca, Chile: Una Economía de Transición? by Sergio Ramos, articles in Monthly Review, Vol. 22, No. 8, January 1971, and the so-called "ITT-documents". The latter, consisting of memos written by agents from the CIA temporarily employed at the International Telephone and Telegraph Company's branch office in Chile, are especially valuable; their authenticity has been officially recognized, and they contain much although perhaps not always accurate information which is difficult to obtain from other sources.
- 16) For figures, see Américo Zorrilla, Exposición sobre la Política Económica del Gobierno y del Estado de la Hacienda Pública 27.11.1970, (hereafter First Exposition), p. 78.
- 17) In September these sales reached 17,5 million dollars and in October 13,6 millions, as compared with an average of 5,3 during the first eight months of the year. Ramos, Chile: Una Economía de Transición?, op.cit. p. 139.
- 18) See Monthly Review, Jan. 1971, p. 4. "It is worth remembering", the MR editorial points out, "that the election of Labor Governments in Britain or Social Democratic governments in Scandinavia has never evoked a similar compliment from the local bourgeoisies".
- 19) For a complete text of Zaldívar's report - known by the Left as the "terror speech" - see El Mercurio, Sept. 24, 1970. Cf. also the ITT documents (esp. p. 24) where the speech is referred to as if it were part of a general plan to provoke economic chaos, a plan which is said to be "encouraged by some sectors in the business and political community and by President Frei himself".
- 20) Supported by Washington, according to the ITT-documents (p. 10): "Last Tuesday night (Sept. 15) Ambassador Korry finally received a message from the State Department giving him the green light to move in the name of President Nixon. The message gave him maximum authority to do all possible - short of a Dominican Republican action - to keep Allende from power."
- 21) Ibid., p. 21.
- 22) Which is clearly recognized in the ITT-documents.
- 23) See Banco Central, Boletín Mensual No. 515, January 1971, p. 23.
- 24) The ITT-documents, p. 23.
- 25) Ibid., p. 14.
- 26) Ibid., p. 34.
- 27) Nov. 30, 1970, p. 39.
- 28) Naturally, we will often have to recur to other sources - such as authoritative statements by Allende and other leading UP politicians - when interpreting the program, and we will also see that although the whole UP always declared the execution of the program being the government's prime objective there existed considerable divergencies of opinion with respect to how and in what pace this should be achieved.
- 29) First Exposition.

- 30) Speech made at an Alliance for Progress meeting in Washington on Feb. 22, 1971. Reprinted in Martner (ed.) El Pensamiento Económico del Gobierno de Allende, 1971, pp. 97-111.
- 31) See La Experiencia Chilena. Problemas Económicos, in CESO-CEREN, Transición al Socialismo y Experiencia Chilena (based on a symposium held in Oct. 1971), p. 100.
- 32) Ibid.
- 33) Ibid., p. 101.
- 34) In Spanish trabajadores, which includes all working people: blue-collar workers, campesinos, employees, etc. The Spanish work for (manual) worker is obrero.
- 35) First Message, p. VII.
- 36) Ibid., p. XII.
- 37) Ibid., p. VI. Naturally, the UP repeatedly emphasized that only through the realization of an anti-imperialist and anti-oligarchic transformation of the society could the formal democracy guaranteed in the constitution be given a real and not merely formal content - an economic structure characterized by foreign control and monopolistic concentration was denounced by Allende as the "very negation of democracy". Segundo Mensaje ante el Congreso Pleno, 21.5.72 (henceforth Second Message), p. XI.
- 38) First Message, p. XI.
- 39) Informe al Pleno del Comité Central del Partido Comunista, Nov. 1970, cited in Ramos, Chile: Una Economía de Transición?, op.cit., p. 30.
- 40) Hernán del Canto, leading Socialist and for some time Minister of the Interior. Speech given in Nov. 1972, here taken from Punto Final, supplement to No. 172, Dec. 5, 1972, p. 22.
- 41) "The realization of the social changes requires, above all, a mobilization of the masses ..." - a message repeated over and over again. This particular quotation taken from a joint statement by the UP parties, published in El Mercurio, Feb. 2, 1972.
- 42) See, for example, Allende's speech on "Participation and Mobilization" in Joan Garcés (ed.) Nuestro Camino al Socialismo - la Vía Chilena, 1971, pp. 89-101.
- 43) Cf. p. 34 above, where we saw how wide were the sectors of the population which were suffering under l'ancien régime. With respect to small-scale business the UP program declared that the "monopolistic firms" exploited the small ones through "selling them their raw materials at high prices while buying cheaply", and that the state had so far only served the interests of the big monopolies. Under the UP government, small-scale enterprise would "benefit from the overall planning of the economy". The state should "provide the necessary technical and financial assistance to the firms of this sector, enabling them to fulfill an important role in the national economy".

- 44) As a very rough indication of the various political forces' strength we can look at the results of the municipal elections in April 1971, where the UP managed to get slightly over fifty per cent of the valid votes:

The PS: 22.8%, the PC: 17.4%, the PR: 8.3%, other UP groups: 2.4%. The opposition: 49.1%.

It should be pointed out, however, that the PC's organizational solidity and discipline made the party far heavier politically than its electoral results would indicate. The PS, on the other hand, was comparatively poorly organized and consisted of a large number of different factions and tendencies. The fact that I often make use of the Socialists' documents and analyses when illustrating strategic differences within the Chilean Left should not be interpreted as if the PS shared a consistent "revolutionary" line against the Communists' "reformism". The policy of the PS was, in fact, very contradictory.

- 45) For a good overview of the positions of the PC and the PS during the 1960's see James Ferras, Politics and Social Forces in Chile, 1969, pp. 182 ff., or Carlos Cerda, El Leninismo y la Victoria Popular, 1971, pp. 107 ff. A great many Socialist documents referring to the PS-PC controversies are found in Julio César Jobet & Alejandro Chelén (eds.), Pensamiento Teórico y Político del Partido Socialista, 1972.

- 46) It is significant that the PS - and even more so the MIR - tended to emphasize the need of the industrial working class to get allies "from below" - campesinos, unemployed, the laboring poor in the poblaciones, etc. much more than the PC did. The Communists rather worked for alliances "upwards"; with the middle class of small businessmen and salary earners.

- 47) Cited in Carlos Cerda, El Leninismo y la Victoria Popular, op.cit., p. 198.

- 48) The following remark by Allende - who should not be taken for a representative of the most radical wing of the PS - is quite typical:

"The penetration and domination of foreign capital has been so accentuated during the last few years that it has made the so-called national bourgeoisie virtually invisible." In Regis Debray's interview with Allende in Punto Final, March 15, 1971, p. 31.

- 49) Which leaked out and was published in El Mercurio, March 12 and March 13, 1972. Its authenticity was confirmed by the PS.

- 50) The party rivalry within the UP was in fact institutionalized through a rigid quota system for the distribution of posts not only in the government but in the whole public administration as well. Every UP official far down in the hierarchy was appointed politically, and every one should have an immediate superior and an immediate subordinate from parties other than his own. While such a system might have created "justice" within the governing coalition it was hardly conducive to efficiency, and the problems with the huge Chilean bureaucracy were furthermore aggravated by the fact that almost all functionaries from preceding governments remained on their jobs, albeit deprived of much of their power.



## Chapter III

# The a priori Prospects of the "Chilean Road"

## General Consideration

The lack of experience with attempted constitutional, "parliamentary" transitions to socialism makes the situation in Chile under Allende pretty well unique, and most aspects of the "Chilean road" have to be analyzed without much help from historical analogies. The "popular fronts" of the 1930's are, for example, rather inadequate as precedents since their aims were mainly defensive - to turn back the tide of fascism - and the many examples of social democratic governments in Western Europe and elsewhere do not help us much, either. For whether we call Dr. Allende's government "socialist" or not - and many people within the UP itself in fact hesitated to call it a socialist government - it is undeniable that its ends and means were appreciably more "radical" than those of traditional left-wing "fronts" or social democratic governments. And the UP's "Basic Program" contained, despite all its ambiguities and compromises, basic elements which clearly distinguished it from current Latin American reformism.

Partly due to the scarcity of examples the Marxist theory of the "parliamentary road to socialism" is quite abstract - if such a theory can be said to exist at all. Although neither Marx, Engels or Lenin completely discarded the possibility of a constitutional transfer of power to a working-class government and a successive transition to socialism, their indeed limited optimism with respect to this option has continued to be shared by later Marxists, who have done little to formulate concretely the relevant problems with which a constitutionally elected socialist government would be confronted.<sup>1)</sup> This lack of concretization has unfortunately come to characterize most theoretical contributions from those Communist parties - which today constitute the great majority of Communist parties, at least in parliamentarily ruled countries - that have opted for a non-insurrectionary road to socialism.

But before proceeding to the Chilean case with all its peculiarities one Marxist theorist deserves to be quoted. This is Oscar Lange, who thirty-five years ago drew attention to a number of general problems connected with socialist transformation of a society. "An economic system based on private enterprise and private property of the means of production", Lange wrote, "can work only as long as the security of private property and of income derived from property and from enterprise is maintained. The very existence of a government bent on introducing socialism is a constant threat to this security. Therefore, the capitalist economy cannot function under a socialist government unless the government is socialist in name only." Once the capitalists are caught by this easily comprehensible insecurity investments and efficient management are in danger, "and no

government supervision or administrative measures can cope effectively with this passive resistance and sabotage of the owners and managers."<sup>2)</sup> Lange's recipe is the following:

"A socialist government really intent upon socialism has to decide to carry out its socialization program at one stroke, or to give it up altogether. The very coming into power of such a government must cause a financial panic and economic collapse. Therefore the socialist government must either guarantee the immunity of private property and private enterprise in order to enable the capitalist economy to function normally, in doing which it gives up its socialist aims, or it must go through resolutely with its socialization program at maximum speed ... Socialism is not an economic policy for the timid.

On the other hand, as a complement to its resolute policy of speedy socialization, the socialist government has to declare in an unmistakable way that all property and enterprise not explicitly included in the socialization measures is going to remain in private hands, and to guarantee its absolute security ...

To avoid the growth of an atmosphere of panic in this sector of private property and enterprise the socialist government may have to prove the seriousness of its intentions by some immediate deeds in favor of the small entrepreneurs and small property holders ...<sup>3)</sup>

But government power is not enough:

"To be successful, the socialist government must put itself at the head of a great mass movement ... in the absence of such a mass movement, there is little a socialist government in office can achieve ...<sup>4)</sup>

## The Chilean Case

The problems pointed out by Lange, as well as the possible road to overcome them, were clearly present in the minds of most UP leaders. They had witnessed how the moneyed classes panicked immediately after the elections, and they were well aware of the imminent danger of sabotage and passive resistance on the part of the new government's adversaries. Their initial socialization plans also coincided in vital respects with the bold strategy recommended by Lange; they feared that nothing short of a rapidly gained control over the "commanding heights" of the economy could assure a satisfactory degree of economic tranquility, and over and over again they declared their willingness to delimit the State's domain in the economy in such a way that all small and medium-sized producers and property holders could feel absolutely secure against expropriations.

They also emphasized the need for support from a mass movement in order to carry through the program, although there existed various opinions within the UP - and, certainly, between the UP leadership and the Chilean workers - with respect to the division of labor between the government and the mass organizations.

But what were the prospects for a leftist government to realize its program in Chile? We have earlier seen how the UP envisaged the process from a political point of view, and the rest of this chapter will be devoted to an overview of a few aspects of relevance for an understanding of the a priori prospects for the new government. Emphasis is first placed on more formal matters such as the

division of power between the various branches of the state apparatus - a brief overview which will be of some help for an understanding of the Allende government's "administrative freedom of action" - and thereafter I will try to indicate the relative strength of the UP and the opposition in terms of social and political forces in Chile by the time the Unidad Popular initiated its task.

### Legal and Institutional Aspects

The constitution of Chile which Allende inherited<sup>5)</sup> was based on the classical Montesquieuan division of power between three independent bodies: the executive power - the president, to whom all ministers were exclusively responsible -, the legislative power - the national congress divided into two chambers -, and the judiciary, represented by its highest organ, the supreme court. To these powers, easily recognizable in any parliamentary republic, we should add two independent institutions lacking clear correspondencies in most other countries: the Contraloría General de la República, whose main function was to see to it that the executive acted in accordance with the constitution, and the Tribunal Constitucional, which was set up to supervise the parliament but whose tasks mainly consisted in trying to solve the conflicts that arose between the executive and the congressional majority over how the constitution ought to be interpreted.<sup>6)</sup>

There is little unique in these parts of the constitution, although it should be stressed that the independent character of the authorities making up state power was appreciably more pronounced in Chile than is usually the case.<sup>7)</sup> But if we proceed to look more closely at the specific faculties attributed to each body significant singularities appear, the foremost of these being the very ample powers with which the president was equipped - powers so ample that the Chilean constitution was sometimes said to establish a system of "legal Caesarism".

Immediately after taking office a Chilean president gained absolute control, both centrally and regionally, of the administration of the country. He appointed ministers and high-ranking officers<sup>8)</sup> - he was, of course, generalismo of the armed forces -, he appointed governors (intendentes) with whom the executive power within all the different provinces was vested, and he also appointed all high- and middle-ranking officials within the entire public administration, including state owned enterprises. In total several thousand posts were filled directly by the president and his advisers, and as long as all these people avoided being convicted for crimes - crimes in general or "violations of the constitution" - the president, and he alone, could remove them from office.

In economic matters the constitution also provided the president with a remarkable amount of latitude. The executive had, for example, the right to establish the size of all remunerations within the public sector, as well as industrial and agricultural minimum wages in the private sector. In practice all wages and

and salaries in Chile have tended to follow the presidential norms, although the trade unions were free to ask for more and the employers often tried to pay less.

Now, in addition to the clear recognition of a presidential regime in the constitution the legal and institutional framework which the UP took over also favored the executive power. Not only did there exist an incredibly large number of valid laws (over 20 000, it was often said) which the president was legally free to use, the traditionally heavy state interference in the national economy had also resulted in a host of decrees with the force of law to regulate both the public and the private sectors of the economy which could be adapted so as to suit the purposes of a leftist government. A state organ - DIRINCO (Dirección Nacional de Industria y Comercio) was in charge of the whole price control system and had the power to set the prices of all goods of "prime necessity" - a concept interpreted generously enough to cover virtually anything salable. In a country with a "normal" inflation of some 20-40 per cent this price control system could clearly serve as a useful instrument for a government like Allende's acting in a hostile business environment and in constant need of bargaining power. CORFO and CORA - the Industrial Development Corporation and the Agrarian Reform Corporation, respectively - as well as a great number of other public organs directly dependent upon the government could intervene in vital industrial and agricultural matters, and the laws and decrees regulating their activities were flexible enough to permit them to exercise both direct and indirect control over private interests. To this we should add that public credit institutes for decades had played a dominant role in the financing of private investment - in 1970, the state financed over seventy per cent of all investment made in Chile.

The list of state bodies created by earlier governments and given a wide range of economic faculties could be made very long. But having already demonstrated what needed be demonstrated - the heavy involvement of the state in economic life in Chile and the great variety of means that the executive power had at its disposal to control the functioning of the economy - we can stop the enumeration here and go over to the question: what limitations were there in the extensive powers with which the president was equipped?

First we note that the Congress had absolute authority with regard to taxation. The president had, of course, an initiative right in taxation matters, but the Congress alone decided; it was free to raise and lower tax rates on its own, without the executive power's interference. Secondly, the Congress had to approve the executive branch's budget proposals, and it could, within certain limits, modify any public expenditure included in the bill.<sup>9)</sup> Thirdly, the supervisory power of the Congress was extended due to the possibility that a congressional majority

could dismiss any minister or intendente in case he were convicted - and here the Congress acted as both prosecutor and judge - of "infraction of the constitution". With a simple majority the Congress could remove any displeasing minister or intendente from his duty, and with two-thirds of the congressional seats even the president, if found guilty, could be impeached and forced to resign. Fourthly, and what is most important when it comes to the UP's possibilities to realize its reform program, the Congress alone was entitled to legislate.

The latter point merits a short digression. For a government content with the mere administration of the country the influence of the Congress was fairly easy to circumscribe - the powers attributed to the president were ample enough to make it possible for him to impose his will in most current matters without having to consult the parliament. But for a government like Allende's, bent on achieving fundamental economic and social changes, the situation was different. New legislation could not be passed without congressional support, and the full implementation of the UP program would clearly be rendered difficult within the boundaries of the old legal framework. Although the president could veto all legislative projects accepted by Congress as long as he could count on at least one-third of the seats in the Senate, he could pass no new legislation without having the majorities of both chambers of Congress supporting him, majorities which could not possibly be gained before the March 1973 parliamentary elections.<sup>10)</sup>

Now, there existed one possibility for a president wanting to get round the legislative power of the parliament: to call for a plebiscite. With absolute majority in a plebiscite any constitutional reform presented by the executive could be carried through, irrespective of congressional opinion. This important means was clearly envisaged in the program of the UP, which in a crucial passage stated that the prevailing bicameral system should be abolished and substituted for by a "People's Assembly" (Asamblea del Pueblo). Knowing that the parliamentary majority would refuse to commit political suicide the UP planned to submit this reform proposal to the Chilean people to obtain the verdict in a plebiscite. The UP failed, however, to capture the legislative power; nothing happened that could break the deadlock. The UP remained a minority in Congress, and only in a limited number of cases were the president's bills accepted. Allende did not call for a plebiscite to override congressional opposition and he had, indeed, to plow with the oxen provided him by earlier governments and parliaments. And this he unquestionably did with a certain amount of legal ingenuity - some of the tens of thousands of valid laws and decrees that the UP inherited turned out to be quite useful to the new government, a circumstance which repeatedly occasioned confrontations with the Supreme Court and the Contraloría General, organs whose interpretations of existing laws only rarely coincided with those

of the legal experts of the UP and which were second to few as sources of die-hard resistance to the Allende government.

### The Correlation of Forces

The legal and institutional setting in Chile - including the important role played by the state as regulator of economic life - provided, as we have seen, the executive branch of the state apparatus with a host of instruments which the UP was free to apply, but it also contained serious obstacles to the government's socialist ambitions. The parliament, the judiciary and the Contraloría General were from the very beginning anti-UP<sup>11)</sup> (although it took some time for the PDC to make its position absolutely clear), and the same can naturally be said about the domestic economic establishment in alliance with powerful foreign interests. Because of its ideological and political impact the mass media constituted an especially serious impediment to the UP; the parties which later were to form the anti-UP coalition Confederación Democrática controlled, by 1970, two of the three main TV-stations, 95 per cent of Chile's about 150 radio stations, 90 per cent of the newspaper circulation and close to one hundred per cent of all weekly magazines.<sup>12)</sup>

Furthermore, the great majority of officers in the armed forces and national police were decidedly against the Unidad Popular, although for a long time many of them managed to maintain a facade of neutrality.

The position of the Catholic Church - the ideological influence of which is less pronounced in Chile than in most other Latin countries - was somewhat ambiguous. A large number of individual priests either combatted or supported the UP, of course - and the former were more numerous than the latter - but the relations between the institution as such and the Allende government could, at least during the first two years, best be described as characterized by almost cordial neutrality.

What could the UP count upon, then? Having been elected with little more than one-third of the votes and with all the important institutions being either hostile or conditionally neutral the Allende government had apparently engaged itself in an extremely uneven struggle. But this picture of the correlation of forces is no doubt misleading; the UP was, in fact, much stronger than it looked "on paper".

The popular support for Allende was, to begin with, politically much more significant than its numerical strength would indicate. The bare 36,3 per cent obtained in 1970 included the best organized and politically most active sectors of the Chilean population (if a handful of big landowners and industrialists is disregarded), namely the industrial and mining workers whose economic importance and role in Chile's political life are difficult to overrate. With very

few exceptions<sup>13)</sup> this "classical proletariat" was enthusiastically pro-UP, and at every critical juncture - and there were several - Allende could count upon resolute and organized backing from the urban industrial workers.

In general elections, however, support from the industrial working class - numerically small and, as we have seen earlier<sup>14)</sup>, with a historical tendency to decline rather than increase as a share of the economically active population - was far from sufficient. If the poorly organized and politically rather passive group of craftsmen is excluded, all blue-collar workers employed in manufacturing, construction and mining amounted to no more than about half a million in 1970, or about one-sixth of the labor force and some ten per cent of the whole population between fifteen and sixtyfive. Of these less than half, or about 200 000 - or, to make an extreme comparison, some two per cent of the whole Chilean population - were organized in trade unions.

The above point is important. The class structure that the UP inherited was, from an electoral point of view, extremely disadvantageous for the left. For we can now see how the fact that the very small share of modern industrial and mining workers in the Chilean work force was reflected on the political level. The well organized, radical and politically active groups supporting the big working class parties were easily outnumbered by the mass of people employed in small-scale business or in the service sectors, people who were far more difficult to organize and whose political consciousness was likely to be individualistic and rightist oriented rather than socialist - this quite irrespective of the fact that they, from a narrow economic point of view, often suffered more from the existing system (but had less to win from the UP's program, too) than many of the comparatively well-paid miners and factory workers in large-scale industry.

A concrete example can serve to indicate the disproportions that existed between political influence and numerical weight. While the about 20 000 miners of the Gran Minería copper pits constituted less than one per cent of the whole labor force and were but a small fraction of, say, Chile's well over 200 000 domestic servants<sup>15)</sup>, the miners' political activities were constantly on the newspapers' headlines while the opinions of the unorganized and politically weak domestic servants were completely ignored.

Chile's underlying economic structure also served to weaken the solidarity between different groups of urban and rural poor. The economy's high degree of heterogeneity resulted in huge disparities in productivity - and in wages and profits - both between and within the different sectors, and its inegalitarian character was not only a question of inequality between the "very rich" and the "very poor". There also existed very pronounced differences in economic and

social conditions between, say, blue- and white-collar workers, copper and coal miners, workers in modern industry and in artisanry, between rural and urban workers, taxi-drivers and domestic servants, between domestic servants and unemployed pobladores, between office clerks and ambulant merchants, etc. To carry out an economic project acceptable to all these groups was virtually impossible. The objective conditions did not favor "popular unity", and we will later see that the UP's adversaries knew very well how to take advantage of the contradictions that inevitably arose.

A few words should also be said about the correlation of forces within the non-industrial sectors of the Chilean population. As to the campesino organizations these were predominantly anti-Allendist in 1970, but a shift was clearly under way and as early as in 1971 the UP got an undisputable majority in the farm workers' trade unions. For reasons we will return to most of the direct beneficiaries of the land reform - i.e. the members of the reformed cooperatives - tended to side with the Christian Democrats, however.

With respect to the middle strata of white-collar workers, small and medium-sized property holders, etc., the organized support that the UP could count on from these sectors was quite limited. Within the public sector several large trade unions had traditionally been dominated by the Left, while privately employed salary earners were in general both poorly organized and predominantly anti-UP. Support from small-scale enterprise and own-account workers could, at best, be expected to be conditional and unreliable - no real effort had been made by the Left to integrate these large and often very impoverished sectors into political organizations or trade unions, and the phrases dedicated to them in the UP program were hardly convincing.

Now, if we are to summarize this overview of social forces in Chile one conclusion is obvious: among the directly productive workers the dominance of the UP was overwhelming, and to the solid core of supporters among the urban and rural proletariat we can add important sectors of organized white-collar workers. Even if the professionals' unions - often but far from always controlled by the rightist opposition - were included the UP could count upon a comfortable majority among organized wage and salary earners: in the June 1972 elections to the Central Union of Workers (CUT), to which practically all organized workers, campesinos, white-collar employees, etc. belonged, the UP parties received more than 70 per cent of all votes, as against 25,5 per cent for the PDC (the Right did not even present candidates).

The opposition, on the other hand, had its strongholds among quite heterogeneous and - at least initially - politically rather passive groups. In addition to the obvious backing from the upper and upper-middle classes it could thus count on



the majority of self-employed workers, certain layers of the peasantry, a large part of the workers and employees within the services sector and, last but not least, it could count on the Chilean women, especially the housewives whose conservative leanings constituted an incessant problem for the Chilean Left.<sup>16)</sup>

In elections the opposition was powerful, but in the daily economic and political struggle the organizational strength and social composition of the adherents of the Left gave the UP an extraordinary force.

The other factor favoring the UP was the specific political conjuncture before and after the 1970 elections. Both the election campaign and the mass mobilization in defense of the victory generated an enormous impetus which the Left could rely upon. The initiative was in the hands of the "popular forces"; to the prolonged crisis of the late 1960's the September-October events left behind a divided, demoralized and discredited Right and a strengthened UP which, despite all its internal divergencies, had two things at its disposal which the rightist opposition lacked: enthusiasm and a common political program. If the acute economic problems could be coped with the new government was pretty sure to get a good start, notwithstanding the absence of governmental preparations (the surprise in September was great as attested to by the fact that the UP had not even composed a shadow cabinet before the elections). If the split within the opposition were not bridged - which could not possibly take place without provoking a major or minor split within the Christian Democratic Party - an initial political hegemony of the UP would be almost guaranteed.

As for the international situation, the position of the UP also looked rather promising in 1970. This is not the place to try to analyze the overall correlation of forces in a global perspective, but it deserves to be pointed out that Southern Latin America was characterized by a general leftist offensive. Bolivia under General Torres was rapidly moving towards a pre-revolutionary - or, as we can say today with hindsight, pre-counterrevolutionary - situation, and in Peru the stand of the Velasco government was openly pro-UP and anti-US. The military dictatorship in Argentina and the repressive Pacheco regime in Uruguay both found themselves in a stage of outright decomposition and represented no immediate threat to the Allende government's position. The Brazilian generals had consolidated their power, true, and had converted their country into an aggressive, sub-imperialist power on the continent, but it was nevertheless counteracting tendencies that prevailed in the Southern cone of Latin America.

But let us now return to Chile and summarize the domestic political panorama at the time the Unidad Popular initiated its task.

By November 1970 the UP government had, as we have seen, a clear advantage from a tactical point of view, an advantage which it had to convert into stra-

tegic advances in order to be able to realize its program. Unless rapidly overcome the UP's institutional minority position - in particular the lack of control of most of the vital institutions of the state apparatus - would sooner or later have to act as a powerful brake on the socialist ambitions of the new government which had, furthermore, to try to find means with which to defend the economy against expected resistance and pressure from strong domestic and foreign business interests.

Although the chapters that follow will be devoted mainly to economic matters they will, I hope, permit us to understand how and why the Unidad Popular failed to convert its good position at the outset into lasting victories.

- 1) There exists, on the other hand, an abundant Marxist literature dealing with the concept "transition to socialism". Since this discussion is of quite limited relevance for the present study I will not delve into this problematic area here. Suffice it to observe that there seems to prevail a general consensus in this "transition debate" about at least one thing: in order to qualify for being in a stage of transition to socialism a society must meet two fundamental and necessary requirements: 1. The working class (in alliance with other non-bourgeois classes and sectors) must have taken power and replaced the old State with a new, proletarian State. 2. The socialist mode of production must have become the dominant (albeit not the only) mode of production within the economy.

The above two criteria need further definitions and clarifications, of course - and here consensus tends to come to an end - but no Marxist arguing along the lines sketched above would maintain that Chile after a couple of years of Unidad Popular could deserve to be called a "transitional economy".

For recent contributions to this debate, see Charles Bettelheim, La Transición vers l'Economie Socialiste, 1968, and Luis Althusser and Etienne Balibar, Lire le Capital, 1968, and the Paul Sweezy-Charles Bettelheim discussion in successive issues of Monthly Review during 1968 to 1971. Special reference to the Chilean case is made in Sergio Ramos, Chile: Una Economía de Transición? and in CESCO/CEREN Transición al Socialismo y Experiencia Chilena.

- 2) On the Economic Theory of Socialism, 1938, pp. 123-24.
- 3) Ibid., pp. 125-26.
- 4) Ibid., p. 126.
- 5) The one in force during the UP regime dated from 1925, when the constitution of 1833 was revised (but not fundamentally changed). The modifications made after 1925 were primarily designed to strengthen the position of the president vis-à-vis the parliament.  
A revised and by August 1971 up-to-date text is found in Francisco Complida and Cecilia Medina, Constitución Política de la República de Chile, 1971.
- 6) The Tribunal Constitucional was established only in 1970, and nobody really knew its exact function. Between 1970 and 1973 it intervened on just a few occasions - always at the request of Allende, who wanted the Tribunal to support the executive's view (which it almost always did). Its political role was quite insignificant in comparison with the other state authorities mentioned in the constitution.
- 7) The Congress had, for example, no influence whatsoever upon the designation of ministers, and with respect to the judiciary, the members of the Supreme Court could only be nominated by the Supreme Court itself.
- 8) For military appointments the approval by the Senate was required, however.  
It should also be observed that Allende before taking office signed an agreement with the Christian Democrats in which he promised not to make any changes in the hierarchy of the armed forces. Allende was, then, for all practical purposes bound to respect the military's own decisions with respect to appointments unless he was prepared to accept an open confrontation. This promise hardly contributed to upgrading the prospects of the "Chilean road to socialism".

- 9) But the executive could - and this is what the Chilean administrations have traditionally done - evade part of this inconvenience through the utilization of Central Bank credits for the financing of public expenditures. The fact that the constitution stated that the budget must be "balanced" hardly contributed to the enforcing of a strict orthodoxy in fiscal policies, since credits from the Central Bank were presented simply as "capital incomes".

The "normal" budgetary procedure in Chile - where almost all 20th century governments have been either minority governments or else have been sustained by rather precarious parliamentary coalitions - has been the following:

1. The government presents its budget, which already at this stage contains an appreciable amount of "capital income" as well as the customary tax increase proposals.
  2. The parliament rejects all tax rises and cuts down a more or less equivalent amount of public expenditures.
  3. The executive accepts the modifications introduced by the Congress but insists in practice on its spending proposals, which are financed by Central Bank credits.
- 10) By the time Allende took office the UP could count on more than one-third but less than half of the seats in both the Senate and the House of Deputies. Later party splits and complementary elections did nothing to alter this fundamental relationship, and neither did the parliamentary elections of March 1973.
- 11) The Supreme Court showed overtly its position already before Allende had taken office through its quite sensational refusal to repeal the parliamentary immunity of an extremist senator involved in the assassination of General Schneider (see Ch. II, p. 32 ).
- 12) For a detailed compilation of ownership and control of Chile's radio stations and newspapers by 1972, see report to the Senate by Senator Valente (PC), reproduced in El Mercurio, Nov. 16, 1972. Cf. also this author's From Colonialism to Dependence. An Introduction to Chile's Economic History, op. cit., Ch. VI.
- 13) Among these exceptions the mining workers of Chuquicamata deserve to be mentioned in particular. Here, in Chile's and the world's largest open cast copper mine, the Chilean Left had always had difficulties - presumably as a result of these miners' comparatively privileged economic position vis-à-vis other Chilean workers (one of many political aspects of the problems created by the huge productivity differences found between different sectors of the Chilean economy). In Chuquicamata Allende was, in fact, defeated by the right-wing candidate Jorge Alessandri in the 1970 presidential election. Early in 1973 many of the copper miners in El Teniente, till then regarded as overwhelmingly leftist dominated, carried through a prolonged strike with clear anti-UP connotations. In most of the copper strikes that affected Chile in 1971-73 only technical and administrative personnel participated, however.
- 14) Cf. Ch. I above and, for more details, From Colonialism to Dependence ..., op.cit., Ch. VI.
- 15) ODEPLAN, Balance de Mano de Obra, in Nueva Economía, No. 1, Sept.-Oct. 1971, p. 45.

- 16) For an analysis of the voting pattern of Chilean men and women see Chile Hoy, No. 34, Feb. 2-8, 1973.

In the 1970 elections Allende got 41,6 per cent of male votes as against only 30,5 per cent of female votes, and in the April 1971 municipal election the UP's figures were 53,4 and 43,6 per cent, respectively.

The trend during the UP period was unmistakable, however: more and more women integrated themselves into political work, and the Center-Right electoral hegemony among housewives was gradually being broken.

## Short-term Economic Program

While the broad economic and political objectives of the UP were outlined in the electoral program, the short-term, or conjunctural, economic policy was not. Immediately after the elections, however, an economic team was constituted, which in the midst of the Sept.-Oct. crisis elaborated a plan<sup>1)</sup> for the new government's first economic steps, steps which were fundamentally designed to achieve a rapid reactivation of the economy. The purpose of this chapter is to discuss this conjunctural part of the economic program of the UP - its objectives, means and principal results.

But first a reservation. For expository reasons it is, unfortunately, necessary to study this short-term economic program separately, outside the general context, although its intimate links with the other aspects of the program ought to be kept in mind. When using the expression "short-term policy" I do not mean to say that the implementation of the various components of the UP's economic project followed strictly chronological lines. Quite the contrary: all the three basic ingredients of the economic program - reactivation of the economy and income redistribution, acceleration of the agrarian reform and expansion of the state area of the economy - were to take place simultaneously, supporting each other and supporting the fundamental objective of the UP, namely the "popular forces'" taking of power in society as a whole. In the words of the "Basic Orientations ..."<sup>2)</sup>: "One cannot imagine a first stage of merely conventional means as an initial step towards achieving economic 'recovery' followed by a second stage when the basic programmatic objectives ought to be initiated. No - from the very beginning it is, both from an economic and political point of view, imperative to undertake both things simultaneously."

Thus, the division of labor between the various aspects of the economic program of the UP was not primarily of a chronological nature, and neither is the disposition of the chapters in this study. A good excuse for using the term "short-run" or "conjunctural" policy is, however, that the UP economists always did so, well aware of the fact that the distinction between this part of economic policy and the other ones was a question of ends and means rather than of months and years.

### Objectives

The two main, and mutually interdependent, objectives of the short-term program were to achieve 1) a rapid recovery of the economy and 2) a more egalitarian distribution of income. As explained by Pedro Vuskovic:<sup>3)</sup>

"The short-run economic policy can, in very general terms, be characterized as a policy of economic reactivation based upon an income redistribution.

The rapid recovery was presented as a task of extraordinary priority - not only because it was easier to carry through a redistributive policy in an expanding economy, but also because of the fact that the economy, when the People's Government took office, found itself in a very profound crisis, a product of the prolonged campaign of political terror that preceded the Sept. 1970 elections and to which, once the election result was known, was added a campaign ... of economic and financial terror ..."

Both the policy of reactivation and of income redistribution had, of course, not merely economic but also political aims. In the UP's "march towards power" it was imperative to widen the popular support of the regime, and a considerable dose of "populist" policies was deemed necessary. The UP judged, that if future elections were to be won the government could not possibly - even if it had wanted to, which it did not - impose any material sacrifices on the majority of the people, and it was undoubtedly this political restriction that Allende had in mind when he stated that "... the political model towards socialism that my government is applying requires that the socio-economic revolution take place simultaneously with an uninterrupted economic expansion."<sup>4)</sup>

## Means

### Incomes Policy

The pillar of the reactivation program was the incomes policy, and immediately after taking office the new government took up negotiations with the Central Workers' Union (CUT) in order to establish criteria for private and public remunerations in 1971. The following basic principles were agreed upon:<sup>5)</sup>

1. To recuperate, for all workers and employees earning up to twenty sueños vitales, the level of real income on Jan. 1, 1970 - that is, to give everyone but the very highest paid full compensation for the rise of consumer prices during 1970 (which turned out to be 34,9 per cent).
2. To give an appreciably higher readjustment to the least paid workers, and
3. To initiate a process of standardization and levelling of all social benefits such as pensions, family allowances, etc.

Apart from the obvious aspect of social justice the policy of income redistribution was also justified for economic reasons. Giving money to the poor, it was argued, would have a relatively large impact on the absorption of unemployment since the demand for goods of "popular consumption", whose production was more labor-intensive than that of the consumer durables

bought by the upper and upper-middle classes, was likely to increase most. (This positive employment effect should not be taken for granted in the short run, however: the low-income groups spent a sizeable share of their extra earnings on imported foodstuffs).

It should, however, be pointed out that the redistributive program of 1971 was not primarily aimed at changing the distribution of income between different groups of wage and salary earners - although the very poor were given preferential treatment - but rather at increasing labor's overall share of national income. It was the receivers of profits and rents rather than the well-paid professionals who were to pay the bill.

Now, in monetary terms the outcome of the first years' incomes policy turned out to exceed by far the norms set up in the CUT-government agreement, which only indicated the lower limits of the 1971 remunerations. When all local negotiations had been concluded by July average income per employed had increased 54,9 per cent, as against the 40-45 per cent envisaged by the government.<sup>6)</sup> These 54,9 per cent were distributed almost equally between wage and salary earners - 55,4 and 54,3 per cent, respectively - but with a considerable dispersion between different sectors, the average increase per employed varying between 41,3 per cent (public utilities) and 72,1 per cent (mining).<sup>7)</sup> Both in the private and public sectors the legal minimum wage was raised from 12 to 20 escudos a day, or with 66,6 per cent, and the basic salary for employees, the suelo vital, went up over 35 per cent, reaching an average of somewhat above 800 escudos a month.<sup>8)</sup>

In any normal economy these massive increases in purchasing power would probably be judged sufficiently drastic to produce a demand-induced reactivation of the economy, especially since they were not accompanied by tax increases which could have absorbed part of the liquidity.<sup>9)</sup> The UP economists also hoped that the rise in labor costs should work in the same direction, i.e. stimulate production; since the price control system was to be extended and its implementation made far more rigid,<sup>10)</sup> the industrialists were to be faced with a necessity to respond with raising production levels to compensate for the decline in profit margins. But the government did not want to rely upon the response from private business only, and the incomes policy was accompanied by a remarkable expansion of public spendings.

#### Public Expenditures

Despite the parliamentary opposition's efforts to cut down both the income and expenditures side of the UP's first budget 1971 became a year of vigorous increases in public spendings. When the year was over it turned out that





expenditures, while the main function of the commercial banks - including the state owned Banco del Estado - has been to provide the private sector with loans on very favorable terms. The real rate of interest has traditionally been negative, and discount policy has consequently had a very small effect upon the demand for credit: with demand always being larger than supply a system of informal rationing has had to do the job of distributing the available credit.

With the Unidad Popular in government the scope for traditional monetary policy was even more limited, and the UP did, in fact, pay very little attention to monetary issues. Official statements only indicated that monetary policy was to be "closely integrated" with the government's general program, its main function being, in the words of the President of the Central Bank, to be "... an instrument for its (the program's) realization" or, somewhat more concretely, to "help mobilizing all the productive resources in the country and to orient these towards activities to which the government has given priority".<sup>15)</sup> In the future planning of the economy credit policy was to play an important role, and a gradual nationalization of all commercial banks was initiated so as to make it possible for the government to exercise direct control of an even larger share of Chile's investments.<sup>16)</sup> No specific anti-inflationary task was attributed to monetary policy, however; since it was the UP's contention that the "inflationary process ... is generated by the economic structure", it was considered that monetary policy could best fulfil its price stabilization role by facilitating the carrying through of the basic political and economic program of the UP, designed to do away with the existing, inflation-creating structure.<sup>17)</sup>

In the short run, which is what interests us here, monetary policy was aimed at contributing to the success of the general reactivation program. Credits had to be granted to the public sector in order to finance its expansion, and as to private investments these were stimulated through a fairly rapid increase in the supply of commercial credits. For a start even consumers' credits were expanded, but as the stimulation of consumption by other means soon began to appear threateningly easy to achieve this type of credit was gradually cut down, finally almost to disappear completely.

Interest rates were, furthermore, lowered, especially on loans for priority projects. The standard bank interest rate was lowered from 24 to 15 and the maximum contractual rate from 24 to 18 per cent, rates that were kept stable all through 1971, and on certain favored categories of loans the rate of interest was brought down to 12 and even 9 per cent a year.

The public sector's share of total bank credit rose (see Table IV:1) from less than one-third to almost 60 per cent of the total amount of credit, and the treasury alone increased its indebtedness tenfold in 1971.

This vigorous credit expansion was naturally accompanied by a rapid increase in the general liquidity of the economy. By the end of Dec. 1971 the rate of money in the hands of the private sector to GDP had jumped to 16,6 per cent, as compared with 10,9 per cent in 1970.<sup>18)</sup> Notes and coin in circulation increased from 5 256 to 11 556 million escudos between Dec. 31, 1970 and Dec. 31, 1971, and the total supply of money more than doubled in one year.<sup>19)</sup>

Table IV:1. Total Amount of Credit Granted by the Banking System Dec. 1970 - Dec. 1971 (Millions of escudos)

To End of	The Public Sector			The Private Sector	Total
	Treasury	Other	Total		
Dec. 1970	916	1 152	2 069	6 777	8 846
July 1971	6 487	2 634	9 121	8 512	17 633
Dec. 1971	9 301	6 814	16 115	10 785	26 900

Source: Banco Central, Boletín Mensual No. 537, Nov. 1972, p. 1362.

With regard to the distribution of commercial credit priority was given to state-owned industries, low-cost residential construction, the reformed area of agriculture, to export-promoting activities and to small and medium-sized private enterprises. The heavy concentration of credit - including the regional concentration - was censured severely by the UP economists, and both for economic and political reasons a more balanced distribution was to emerge. Thus, although the sectoral distribution of credit remained more or less unchanged as compared with 1970 (see Table IV:2), there was a marked shift away from private "monopolies" towards the public sector and towards smaller economic units within the different sectors. But if we are to summarize the monetary policy of the Allende government's first year we can no doubt conclude that, as in the case of the incomes policy, the general expansionary aspect clearly dominated over the redistributive aspect, and we can also conclude that tremendous inflationary pressures were bound to arise in an economy where average wages and salaries rose by 54,9 per cent, total public expenditures by 80 and bank credits by more than 200 per cent in one year.





To avoid imports of non-priority consumer goods - generally labelled "luxuries" - the already existing system of non-tariffal restrictions was tightened up. In certain cases a previous deposit of up to 10 000 per cent of the value of the imported commodity was required, for example, and the direct state control of imports was also increased. By the end of 1971 the public sector accounted for over 50 per cent of all imports.

We are now able to make a summary of this in itself brief overview of ends and means of the UP's short-term economic program. In order to reactivate the depressed economy and absorb the high unemployment, raise living standards and increase the popular support of the government the UP launched a drastically expansionary program based on an overall increase and slight redistribution of wages and salaries, massive increases in public expenditures and a substantial expansion of credit. To counteract inflationary tendencies and protect the purchasing power of the working class the expansionary policy was accompanied by rigorous price controls supervised by vigilant consumers' organizations and supported by imports at favorable exchange rates.

In the rest of this chapter we will study the results of this policy during 1971.

## Economic Developments in 1971

We have earlier seen how political developments before and after the 1970 elections strengthened the Unidad Popular, how the comparatively well united left arose as the undisputed number one political force in Chile. Tactically the situation was excellent, but the strategical weaknesses of the UP were equally evident.

The same could be said about the specific economic conjuncture. From a short-run point of view, Allende arrived at the right moment - the economy was depressed, with large amounts of idle resources to be mobilized, and only massive and organized resistance from business circles could have prevented the reactivation program from becoming successful.

But the long-run prospects were, of course, far gloomier.

When taking office, the new government could count upon:

1. Idle capacity. Capacity utilization rates in 1970 averaged, according to OGBPLAN estimates, 63 per cent in the capital goods and consumer durables sector, 77,6 per cent in the traditional mass consumption goods industry, and 55,3 per cent in the intermediate goods industry, the overall average in manufacturing being 75,3 per cent.<sup>24)</sup> In other sectors, such as transportation, commerce, etc. excess capacity was also high.
2. Idle manpower. Unemployment figures were in 1970 among the highest ones ever recorded since reliable data began to be collected in the mid-fifties.

In Dec. 1970 the rate of open unemployment reached 8,3 per cent in Santiago and 9,9 and 17,0 per cent in Concepción-Talcahuano and in Lota-Coronel, respectively.<sup>25)</sup>

3. Large stocks of consumer goods. The size of these are difficult to estimate, but they were, as mentioned above, undoubtedly large. Especially during the first half of 1971 sales of consumer goods rose much faster than production.
4. Large reserves of foreign exchange. In 1970 the Central Bank's dollar reserves reached an all-time peak. At the end of December they amounted to 333 million dollars, or equivalent to over three months' imports of goods and services.<sup>26)</sup>

To this we should add another "asset" from which the UP expected a lot but the utilization of which was not exactly at the government's free disposal, namely the huge profits obtained by private business. In 1970, under Eduardo Frei, distributed profits as a share of national income exceeded the sum of all wages of Chile's blue-collar workers.<sup>27)</sup>

#### The Private Sector's Behavior

A key problem was to what extent the government could mobilize the economy's idle resources and force the rentier class to accept the material sacrifices imposed upon it. Could the crisis atmosphere be dissipated and a certain cooperation be obtained from private decision makers the economic program designed by the UP looked promising from a short-run point of view - if not, it was doomed to failure, and nothing short of a drastic nationalization offensive - with unpredictable economic and political sequels - or an unmistakable retreat from the UP's basic programmatic objectives could lead to the reestablishment of a necessary minimum of economic order.

How did the private sector react? Both production statistics and other information indicate that private industry, by and large, responded positively. For small and medium-sized industrialists, artisans, merchants, peasants, etc., there was not much of a choice - independently of their political opinion they had to continue to work in order to make a living, and most of them benefited, furthermore, strikingly from the economic policy of the UP. In 1971 no organized opposition whatsoever from these groups arose, let alone economic sabotage. But the higher up one gets, the more does the homogeneity of reactions disappear. Sabotage and other forms of resistance were frequent during the first few months: Agustín Edwards, to take one example, let his bank go bankrupt, left for the United States and became the Vice-President of Pepsi-Cola Co.<sup>28)</sup> Many of the big landowners slaughtered their cattle for sale, and







Table IV:6. GDP at Factor Cost 1970 and 1971 (millions of escudos at 1970 prices and percentage increases)

Sector	1970	1971	Percentage increase
Agriculture	6 084	6 419	5,5
Fishing	285	321	12,6
Mining	10 076	10 368	2,8
Manufacturing	25 430	28 609	12,5
Construction	3 792	4 152	9,5
Subtotal Goods	45 667	49 860	9,2
Electricity, Gas and Water	1 645	1 887	14,7
Transport and Communications	4 305	4 533	5,3
Subtotal Basic Services	5 950	6 420	7,9
Commerce	18 742	20 204	7,9
Banking and Finance	4 131	4 742	14,8
Government	5 382	5 694	5,8
Miscellaneous Services	10 694	11 550	8,0
Subtotal non-basic Services	40 577	43 851	8,0
<u>Total</u>	<u>92 194</u>	<u>100 140</u>	<u>8,6</u>

Source: Based on data from ODEPLAN, taken from Minister of Finance, Third Exposition, op.cit. p. 55.

With regard to the distribution of use of total output, consumption increased while investment declined. Private and public consumption rose by 12,9 and 4,6 per cent, respectively, and investment fell off as follows:

Table IV:7. Gross Domestic Investment 1970 and 1971 (millions of escudos at 1970 prices and percentage changes 1971/1970)

	1970	1971	Percentage change
Construction	7 600	8 550	12,5
Imported Machinery and Equipment	5 184	4 303	-16,8
Miscellaneous	1 673	481	-71,3
<u>Total</u>	<u>14 457</u>	<u>13 344</u>	<u>-7,3</u>

Source: ODEPLAN, Informe Económico Anual 1971, op.cit. p. 19.

Expressed as share of total product this signified a decline in the rate of gross capital formation from 15,7 to 13,3 per cent of GDP. The public sector's share rose appreciably: public investments increased slightly in real terms, while private investments fell off abruptly.

#### Agriculture

During the agricultural year 1970/1971 Chile had good luck with the weather.<sup>35)</sup> The area under cultivation remained virtually constant - 1 262 400 hectares as compared with 1 251 500 in 1969/1970 and an annual average of 1 243 500 in 1966-1970<sup>36)</sup> - but output from crop-farming rose by 8,6 and that of live-stock products by 1,8 per cent, the latter thanks to substantial increases in poultry and milk production.

Table IV:8. Index of Agricultural Production 1970/1971 (1969/1970 = 100)

Cereals	104,9	
Pulses	111,1	
Potatoes	122,2	
Wines	131,1	
Main industrial crops	90,9	
Fruits	105,1	
Vegetables	104,2	
<u>Subtotal crop-farming</u>		<u>108,6</u>
Meat	94,5	
Poultry and poultry products	113,9	
Milk and milk products	108,3	
Wool	82,5	
<u>Subtotal live-stock</u>		<u>101,8</u>
<u>Total</u>	<u>105,5</u>	

Source: Instituto de Economía, La Economía Chilena en 1972, p. 480.

Thus, in the midst of an acceleration of a far-reaching agrarian reform and with uncertainty ruling all over the countryside the harvest of 1971 nevertheless turned out to be very good, second only to that of 1968 in the history of Chile.

#### Mining

In 1971 all vital mineral resources were nationalized. To the circumstances around these nationalizations and to their international repercussions we will return in Chapter VI - what interests us here is how production and prices developed.

#### Copper

Had it not been for the recent incorporation of two new mines, Andina and Exótica, into the Gran Minería of copper output in large-scale copper mining would have declined considerably. Production in the three old mines reached its lowest level since 1961, but thanks to the new mines total output could hit an all-time peak.

Table IV:9. Copper Production 1971 as Compared with 1970 (thousands of metric tons and percentage changes)

Mine	1970	1971	Percentage change 1971/1970
Chuquicamata	263	250	-4,9
El Teniente	177	147	-17,0
El Salvador	93	85	-8,6
<u>Subtotal "old" mines</u>	<u>533</u>	<u>482</u>	<u>-5,5</u>
Exótica	2	35	
Andina	6	54	
<u>Subtotal all Gran Minería</u>	<u>541</u>	<u>571</u>	<u>5,5</u>
Medium and small-scale mines	151	137	-10,2
<u>Total copper mining</u>	<u>692</u>	<u>708</u>	<u>2,3</u>

Source: Corporación de Cobre (CODELCO)





70 000 housing units in 1971 as against about 6 000 in 1970 and 20 000 as an average 1967-70 (see Table IV:12), and the public Housing Corporation (Corporación de la Vivienda, CORVI) - responsible for the "slum removal" building in Chile's poblaciones - increased its activity manyfold.<sup>37)</sup>

Table IV:12. Residential Construction 1971 as Compared with 1970 and Annual Average 1967-70. Number of housing units initiated

	Average 1967-70	1970	1971	% var. 1971/1967-70
Public Sector	20 347	5 914	73 009	259
Private Sector	19 830	17 792	12 000	-39
<u>Total</u>	<u>40 177</u>	<u>23 706</u>	<u>85 009</u>	<u>111</u>

Source: Ministerio de la Vivienda y Urbanismo, Política Habitacional del Gobierno Popular, op.cit. p. 22 and p. 45.

A large number of these projects were never finished. Towards the end of 1971 it stood clear that the housing program of the government had been far too ambitious for Chile's resources. Bottlenecks began to appear - financial bottlenecks and, above all, lack of materials (the shortage of cement turned acute, for example) and of transportation facilities. Gestation periods were prolonged, and as late as in Nov. 1972 only 28 600 of all housing units initiated by the public sector during 1971 and 1972 had been completed.<sup>38)</sup> Still more than during earlier administrations, certainly, but far below original expectations.

Among non-residential projects in 1971 the increases in the construction of hospitals (50 000 m<sup>2</sup> completed as against 28 000 in 1970) and of schools (226 000 m<sup>2</sup> 1971, 79 000 m<sup>2</sup> 1970) deserve to be mentioned, together with the great pride of Chilean architects and construction workers, namely the impressive building of over 40 000 m<sup>2</sup> where the UNCTAD III conference was held in April 1972. The sudden necessity - only in mid-1971 was it decided that Santiago would become the seat of the conference - to concentrate on the completion of this building during the latter half of 1971 naturally contributed to obstruct the full realization of the other parts of the construction program.

### Employment

We have earlier dated the industrial recovery to around March 1971, and this is also confirmed by data on the employment situation, which at least in Santiago began to improve as from March. In the other two regions from which good data are available the occupational expansion was slower and less pronounced; both the market mechanisms and the state bureaucracy operated with a considerable lag in the provinces.

Table IV:13. Rate of Open Unemployment in Greater Santiago, Concepción-Talcahuano and Lota-Coronel 1970-1971 (percentages of labor force)

	Santiago			
	March	June	Sept.	Dec.
1970	6,8	7,0	6,4	8,3
1971	8,2	5,2	4,8	3,8

  

	Concepción-Talcahuano		Lota-Coronel	
	April	Oct.	April	Oct.
1970	10,2	9,9	15,1	17,0
1971	9,7	8,4	15,6	12,8

Source: Instituto de Economía.

According to ODEPLAN's rough estimates<sup>39)</sup> the average number of employed exceeded in 1971 that of 1970 with some 146 000 people, of which 89 000 were new entrants to the labor force and some 57 000 formerly unemployed who had now managed to get a job. The sectors which showed the largest percentage increases in employment were construction (11,7 %), public utilities (7,6 %), manufacturing (7,1 %), and transport and services (both 5,1 %). The trend towards services of preceding years was temporarily broken:

Table IV:14. Sectoral Distribution of the Absorption of New Employment 1966-70 and 1970-71

Sector	1966-70	1971
Agriculture	6,8	8,4
Mining	1,9	0,9
Manufacturing	11,7	28,0
Construction	x	14,5
Public Utilities	-	0,6
Transportation	8,7	6,3
Commerce	33,4	13,2
Other services	37,5	28,1
	100,0	100,0

Note: x denotes negative value, - insignificant value.

Source: ODEPLAN, Informe Económico Anual 1971, op.cit. p. 23.

### Prices

To most people's surprise - and, certainly, contrary to the political opposition's indeed sombre prophecies - the rate of Chile's endemic inflation diminished appreciably in 1971. The consumer price index of the National Institute of Statistics rose with no more than 22,1 per cent between Dec. 1970 and Dec. 1971, as against 34,9 per cent the year before.





### Exports

The heavy decline in export earnings was due to the fall in copper prices, which the slight increase in volume failed to compensate for.

Table IV:17. Copper. Production and Exports 1970 and 1971

<u>Year</u>	<u>Production</u> (metric tons)	<u>Exports</u> (metric tons)	<u>Average export price</u> (cents per pound)	<u>Export earnings</u> (thous.dollars)
1970	692 000	668 000	64,2	868 000
1971	708 000	704 000	48,5	695 000

Source: Based on Instituto de Economía, La Economía Chilena en 1972, op.cit. pp. 400-401.

Thus, if the high prices of copper in 1970 would have prevailed during 1971, too, Chile's export earnings would have exceeded the actual level by more than 200 million dollars. Other export products developed satisfactorily: minerals other than copper increased with some three per cent in value, from 115 to 119 million dollars, and industrial products from 115 to 122 million, while exports of agricultural products suffered a slight decline from 32 to 29 million dollars.

### Imports

In 1971 import prices also developed unfavorably to Chile. According to Pedro Vuskovic these higher prices signified a loss to Chile of about 110 million dollars over 1970.<sup>43)</sup> Together with the decline in average export prices this would mean a deterioration of Chile's terms of trade in the range of 25 per cent in one year, and would thus explain the whole shift from the surplus on the balance of trade in 1970 of 71 million dollars to the 1971 deficit of 129 millions.

But lacking detailed data on the development of import and export prices we can stick to aggregate figures in value terms only, keeping in mind that the overall volume of imports might actually have been kept more or less constant between 1970 and 1971. What is certain is, however, that the composition of imports changed appreciably, with intermediate goods and consumer goods - especially of agricultural origin - increasing their shares while imports of capital goods and services suffered a decline both in absolute and relative terms. The fact that the UP's economic policy was oriented towards consumption rather than accumulation was clearly reflected in Chile's balance of trade as well.

Table IV:18. Composition of Imports in 1970 and 1971 (millions of dollars and percentage changes)

	<u>1970</u>	<u>1971</u>	<u>% change</u>
<u>Goods</u>	<u>1 020,0</u>	<u>1 165,6</u>	<u>12,5</u>
Consumer goods <sup>a)</sup>	61,0	100,5	39,3
Raw materials and intermediate goods <sup>a)</sup>	484,0	554,3	14,5
Foodstuffs and agricultural products	165,0	310,9	86,6
Machinery and equipment	310,0	200,0	-35,5
<u>Services</u>	<u>181,9</u>	<u>146,1</u>	<u>-19,7</u>
<u>Total</u>	<u>1 201,9</u>	<u>1 311,7</u>	<u>8,4</u>

a) Excl. foodstuffs and agricultural products.

Source: Banco Central and ICIRA, Diagnosis, op.cit.

With respect to imports another circumstance deserves to be mentioned: the change in national origin of Chilean imports. As a consequence of the political reorientation initiated by the UP the United States ceded ground to the rest of the world as supplier of goods to Chile.

Table IV:19. Origin of Chilean Imports 1970 and 1971 (percentages)

	<u>1970</u>	<u>1971</u>
United States	37,2	17,0
Latin America (excl. Cuba)	20,3	31,8
Other market economies	42,0	47,3
Countries with planned economies	0,5	3,9
Total	100,0	100,0

Source: Minister of Finance, Third Exposition, p. 58.

#### Other items in the balance of payments

No systematic information on the development of Chile's non-commercial foreign transactions in 1971 was ever released. It is clear, however, that the political changes introduced in Chile had a heavy impact upon autonomous capital movements; traditionally strongly positive, Chile's capital account showed a deficit of approximately 100 million dollars in 1971.<sup>44)</sup>

The period of the United States' favoring of Chile as the continent's largest per capita receiver of American aid and credits had come to an abrupt end. Both the Agency for International Development and the Export-Import Bank rejected all Chilean requests for credit during 1971 (and 1972), and so did the Inter-American Development Bank and the World Bank. Credit lines that American commercial banks had traditionally offered Chile for current import requirements were also gradually being cut down; while Chile in Nov. 1970 could call on short-term credits from U.S. banks of approximately 220 million dollars the corresponding figures were to fall to 88 and 25 millions in Nov.

1971 and Jan. 1972, respectively.<sup>45)</sup> The entry of private capital for investment purposes virtually disappeared as well.

This "invisible blockade", as the UP called it, had both political and commercial causes. The UP government soon found itself involved in a - not at all unexpected - constant dispute with the United States on various economic matters, especially after the nationalization of the Gran Minería of copper (which, it should be noted, signified a considerable direct relief for Chile's balance of payments since profit remittances ceased after July 1971), and the U.S. government issued a large number of statements urging various financial organizations under its direct or indirect control not to grant Chile any new credits until due compensation for expropriated American property were paid.<sup>46)</sup> But strictly commercial considerations also contributed: Chile was becoming a bad risk, especially for North American institutions which probably feared that an eventual breakdown of U.S.-Chilean relations would make it difficult to recuperate loans to Chile.

The "invisible blockade" did not signify that Chile's access to foreign loans was cut off, however. The Soviet bloc provided Chile with credits which together with funds made available from several Western European and Latin American countries compensated for the virtual closing-down of American financial assistance. The UP continued on the same road as earlier Chilean administrations: to accept what foreign credit that was within reach. When the balance of payments situation turned critical in 1972 Chile could, furthermore, reach a quite favorable agreement on the renegotiation of her foreign debt, which threatened to absorb over 400 million dollars of Chile's shrinking export earnings only in that year.<sup>47)</sup>

Now, to summarize we can conclude that Chile's foreign exchange situation deteriorated alarmingly in 1971; according to Pedro Vuskovic it had even turned into "the principal restriction for the further realization of the government's program."<sup>48)</sup> In part this impairment of the external position was the direct result of the UP's own economic policy (e.g. the demand-induced increase in low-priced agricultural products), in part it was the indirect consequence of the efforts to implement a program clashing with powerful foreign economic interests (with subsequent effects on both the private investment balance and on the availability of North American financial assistance), and, finally, it was the consequence of factors completely beyond the control of the Chilean government, such as the indeed unfortunate development of Chile's terms of trade. Without the relief that credits from non-American sources signified, an acute balance of payments crisis would have become reality early in 1972.

## Year One. An Evaluation

From a short-run point of view the success of the 1971 policy was spectacular: never since 1952 had the Chilean economy grown so fast in one single year. Real wages rose considerably, and personal consumption expanded by 12,9 per cent over 1970. For most of the Chilean people, and especially for the very lowest paid and for those unemployed who got new jobs in 1971, the first year of UP rule brought striking benefits, and several "social indicators" - such as, for example, the rate of infant mortality which appears to have fallen over ten per cent in one year<sup>49)</sup> - indicate that the gains reached the most modest and underprivileged sectors of the population.

But when making an evaluation of Salvador Allende's first year in office we cannot stop in December 1971. The UP's drastic short-run program had heavy - and largely negative - repercussions upon later political and economic developments. It proved, in fact, to be most difficult to make the planned transition from a policy based on an overall increase in consumption and a quite indiscriminate effort to mobilize idle resources to a more sophisticated development policy based on capital accumulation and economic planning. In part the increase in output and consumption in 1971 took place at the expense of possibilities of future growth, and various external and internal restrictions were bound to arise sooner or later as foreign exchange reserves were approaching zero and the existence of idle capacity and skilled manpower was gradually being exhausted. Investment fell off markedly,<sup>50)</sup> as we recall, despite the efforts by the public sector. By the end of the year various kinds of bottlenecks were already beginning to appear, and future rapid growth could clearly not continue to be based on the philosophy of letting capital accumulation lag far behind consumption increases.

To this we should add the monetary explosion, which soon threatened to confront the Chilean economy with an unprecedented inflation with unpredictable economic and political sequels.

In short: in only one year the economic panorama had changed completely. In January 1972 it was no longer a question of trying to cure an acute depression, but of trying to manage an economy which was beginning to exceed all its bounds.

A few words should finally be said about major political events; since the government's economic policies were subordinated its explicitly formulated political objectives we cannot make an evaluation of 1971 without referring to the political advances that at least initially were made by the Unidad Popular.

The magnitude of these advances is indicated by the extraordinary increase in public support to the Left as expressed in the municipal elections in April 1971, when the groups and parties which at that time made up the UP managed to get slightly over fifty per cent of all valid votes as against 49,1 per cent for the opposition. The government, elected in 1970 by little more than one-third of the voters, had ceased to represent a minority of Chileans, and the two big Marxist parties - the PC and the PS - alone got over forty per cent of the votes, thus reducing further the electoral weight of the Social-democratic forces within the UP. As hoped and expected by the UP a large number of people who had supported Radomiro Tomic in the 1970 presidential election had been won over by the UP, and most of these by the explicitly Marxist parties.

How much of this spectacular electoral victory that should be attributed to the government's expansionist economic policy is difficult to tell. The re-activation program had only recently begun to give tangible results, although it is obvious that the wage increases already granted gave the consumers a feeling of prosperity that created a favorable climate for the government. But most of the explanation of the election result probably lies in the UP's success in maintaining the overall political initiative on every front - e.g. the initiation of the most popular program of bringing the country's basic mineral resources under Chilean control, the acceleration of the agrarian reform, the government's nationalism, supported by a resolute and very ably handled foreign policy, etc. - and in the still divided opposition's failure to present any viable political alternative.

During the months immediately preceding and following upon April 1971 the electoral strength of the UP probably reached its peak. After April 1971, when the UP had proved to be a national majority, the possibilities for the Left to win a plebiscite on the question of dissolving the parliament, though roughly dominated by the opposition, and ask the citizens to elect new representatives to the "People's Assembly" which was supposed to substitute the Congress seemed very bright.

No effort was made to gain the legislative power this way, however. It was no secret in Chile that the Socialist Party insisted on calling for a plebiscite, while the Communists, Radicals, and Allende personally turned down the Socialist proposal, feeling that a plebiscite would immediately force the opposition to unite and hoping that the political gains of the UP could be consolidated during the period to come. Presumably one was also hoping that the long expected split within the Christian Democratic Party would

materialize and the electoral position of the Left thereby improve further.

Later, it was officially admitted by many leading UP people that this decision to postpone the calling for a plebiscite on the People's Assembly issue had been a serious mistake.<sup>51)</sup>

Both the unification of the opposition and the DC split did not fail to take place pretty soon. In May the rightist, "Frei-ist" faction took over the control of the leadership of the PDC at a party congress in Cartagena, and in June the Christian Democracy and the National Party agreed upon a common candidate in a complementary election in Valparaíso to fill a vacant seat in the Chamber of Deputies. To the great disillusionment of the UP the candidate from the united Right defeated the Socialist who ran for the Left; the margin was small, but large enough to rule out the question of a plebiscite for the moment.

Another political episode, for which neither the UP nor the opposition had any responsibility whatsoever, also came to favor the Right: Frei's former Minister of the Interior, Edmundo Pérez Zújovic, was assassinated by a group of leftist extremists, and the event was easily converted into useful propaganda stuff for the opposition which for long had been conducting a stubborn but so far not too convincing campaign against the government's supposedly soft treatment of all kinds of "dangerous extremists".

As could be expected internal discord was growing within the Christian Democracy as the party more and more openly allied itself with the traditional Right. After the Valparaíso election the question was no longer if a split would occur, but when and in what proportions. Already in July these questions were answered when nine dissident DC deputies and two senators and a number of influential members - not including Tomic, however - declared it impossible to change the party "from within" and decided to form a new movement, the Christian Left (Izquierda Cristiana, IC), which immediately joined the UP. At the same time the UP suffered a serious setback, however - a group of Radicals, including five senators and nine deputies, accused the Radical Party of having turned "Marxist", left the PR and formed a middle-of-the-road party, the Radical Left Party (Partido de Izquierda Radical, PIR) which first gave the government its (conditional) support but which finally ended up where the Radical Democrats (DR), the offshot of the PR from 1969, had ended up: far out to the Right. When the PIR and the DR early in 1973 fused into one party the two groups had become both very small and utterly reactionary.

1971 was, to conclude, a year of definitions. After July 1971 no more party splits took place, and the political forces were orderly lining up in two

antagonistic blocs, with only little PIR disturbing the picture during a vacillating period of not knowing on whom to pin one's faith. The UP no doubt strengthened its general position, despite the fact that the headway made during the first six months or so was not followed by still greater victories but rather by a prolonged stalemate. The "march towards power" had got a seemingly good start, but the leadership of the Unidad Popular failed to take advantage of the situation.

All the Allende government's major obstacles remained to be overcome. The opposition's parliamentary majority was intact, along with its control of most central institutions: the judiciary power, the Contraloría General, the army, most branches of the state bureaucracy and the mass media industry were thoroughly dominated by bourgeois interests. These power bastions were valuable assets in the war of attrition that followed, and the rightist opposition knew how to make use of them to make the "Chilean road to socialism" a blind alley.

- 1) The mimeographed document that became the result of this preparatory work is dated Oct. 29, 1970. On the circumstances under which this document - Orientaciones Básicas del Programa Económico de Corto Plazo - was prepared, see Sergio Ramos (who was one of the collaborators) in Chile: Una Economía de Transición? op.cit. pp. 167 ff. and p. 261.
- 2) Cited in Ramos, op.cit. p. 167.
- 3) Banco Central, Boletín Mensual, N° 531, May 1972, p. 535.
- 4) Second Message, p. 18.
- 5) See Minister of Finance, First Exposition, pp. 24 ff.
- 6) A fact that undoubtedly worried the government, which repeatedly urged the workers to be moderate in their negotiations and to accept the governmental norms only. The following answer by Allende to an interviewer indicates how delicate the problem was:  
Int: For decades the Socialist and Communist parties in Chile have encouraged the workers to demand stiff wage hikes. Now these demands hurt your government, and may well undermine your economic policies. What course of action do you plan to take in this respect?  
Allende: It is not easy to persuade workers who have acquired certain habits to give them up or to explain to them that they are no longer striking against those who exploit but against a government representing their own interests. But we have undertaken an intense effort of political education. Its results have been mixed so far, and this problem remains our Achilles' heel.  
 Many Chileans are convinced that a socialist government is supposed to make each citizen a lottery winner.  
 From Guardian, March 29, 1972.
- 7) All data from Minister of Finance, Second Exposition.
- 8) In Santiago the suelo vital was increased to 832 escudos, but it varied slightly between different provinces. In 1972 it was made equal throughout the country.
- 9) The government did propose some modest tax raises, but they were all turned down by Congress.
- 10) On the price policy of the UP, see pp. 64ff.
- 11) The latter increased substantially in number during 1971, which makes comparisons with preceding years somewhat misleading.  
 In Chilean legislation, as well as in Chilean statistics, the public sector was composed of three sectors: the "fiscal sector", the "decentralized sector", and the "sector of public enterprises". The first and third of these require no explanations, and the "decentralized sector" was made up of various public institutes such as CORA, CORFO, etc.  
 With respect to the financing of these three sectors the border-lines were far from clear, however; they were all to a large extent financed with credits, over which the parliamentary influence was non-existent. What the Congress decided was, at the most, only the degree of decitary financing.



- 12) Instituto de Economía, La Economía Chilena en 1971, op.cit. p. 161.
- 13) Ministerio de la Vivienda y Urbanismo, Política Habitacional del Gobierno Popular, op.cit. p. 22 and p. 45.
- 14) From 827,9 to 2 167,6 million escudos. See Minister of Finance, Second Exposition, p. 82.
- 15) Speech given at the Alliance for Progress meeting in Washington, Feb. 1971. Reproduced in Gonzalo Martner (ed.) El Pensamiento Económico, op.cit. pp. 253-67.
- 16) On the nationalization of the banking system, see Ch. VI, pp. 160-61.
- 17) See speech by the president of the Central Bank, in Martner, op.cit.
- 18) ODEPLAN, Informe Económico Anual 1971, op.cit. p. 40.
- 19) Based on Banco Central, Boletín Mensual N° 537, Nov. 1972, p. 1360. Cf. also Ch. V, Table V:3 below.
- 20) The passage on inflation in the "Basic Program..." of the UP reads as follows:  
 "The rising cost of living creates havoc in people's homes ... Every day the Chileans who live from the proceeds of their work are robbed of part of their wages and salaries ... Alessandri and Frei gave assurances that they would put an end to inflation. The results are there for all to see. The facts prove that inflation in Chile is basically the outcome of deeper causes related to the capitalist structure of our society and not to wage increases as successive governments, in order to justify the system and restrain the workers' incomes, have tried to make us believe."
- 21) Minister of Finance, First Exposition, p. 22.
- 22) Especially the Communist newspapers published almost every day small features showing one or more Chilean stachanovites, and participation in voluntary work on Saturdays and vacations was stimulated.
- 23) There also existed a brokers' market, used for foreign tourists, for Chileans travelling abroad, and for various non-commercial external transactions. On the brokers' market the exchange rate was set to 28 escudos to the dollar, and a host of taxes were introduced on purchases of foreign exchange for tourist purposes. On the black market, which enjoyed a considerable upswing after Sept. 1970, the price of dollar was later to rise to between five and ten times the official brokers' rate.
- 24) Instituto de Economía, La Economía Chilena en 1971, op.cit. p. 77. Figures refer to establishments employing fifty or more people.
- 25) The by far best employment studies were the inquiries made by the Institute of Economics at the University of Chile. These studies covered, however, only three urban regions in Chile: Greater Santiago, Concepción-Talcahuano and Lota-Coronel (the latter dominated by manufacturing industry and mining, respectively).  
 If not otherwise stated all my data on the employment situation in these regions have been taken directly from the Institute of Economics, which published the results of the inquiries four times a year for Santiago and twice a year for Concepción-Talcahuano and Lota-Coronel.

- 26) Banco Central, Boletín Mensual N° 516, Feb. 1971, p. 157. "Net foreign exchange reserves" were calculated as the Central Bank's gross reserves minus short-term liabilities. The existence of foreign exchange in the rest of the banking system could be considered negligible - some ten million dollars in Dec. 1970.
- 27) See ODEPLAN, Resumen del Plan de la Economía Nacional 1971-76, Table 1, p. 24, and ODEPLAN, Antecedentes ... op.cit. p. 43.
- 28) Cf. also Ch. VI, p. 160 below.
- 29) Kennecott and Anaconda even went so far as to make their job offers to mining technicians public through advertisements in the Chilean press.
- 30) Output from Chuquicamata, El Teniente and El Salvador fell from 278 700 tons in the last six months of 1970 to 245 100 tons in the first six months of 1971.  
Panorama Económico N° 275, Feb. 1973, p. 23.
- 31) Which, it deserves to be mentioned, also found its access to imported machinery and credit somewhat curtailed; the borderline between economic "resistance" and simple financial problems is not so easy to draw.
- 32) See Ch. VI.
- 33) The notion of "irregularities" was, in the eyes of the workers and the government, quite wide, and the "rules of the game" in the economy were thus drastically changed. A refusal to utilize installed capacity, a decline in the purchases of raw material, or stock-piling of finished goods could, for example, often be considered worthy of sanctions.
- 34) Other sources indicate a slightly lower rate of growth in 1971; some 8,0 - 8,4 per cent.
- 35) Which in Chile signifies a rainy winter with a lot of snow accumulating in the Andes which during the whole summer can provide the irrigated soils in the Central Valley with water. In the southern provinces, however, where every winter is rainy and a large part of the rest of the year as well, the problem is generally too much rain and too little sunshine.
- 36) ODEPLAN, Informe Económico Anual 1971, op.cit. p. 97.
- 37) The number of housing units under construction by CORVI increased from less than 10 000 at the end of 1970 to over 40 000 at the end of 1971. Ministerio de la Vivienda y Urbanismo, Política Habitacional del Gobierno Popular, op.cit. pp. 54-55.
- 38) For details on the initiation and completion of public residential construction during the period 1971-1972, see Instituto de Economía, La Economía Chilena en 1972, op.cit. pp. 374 ff.
- 39) Informe Económico Anual 1971, op.cit. pp. 21 ff.

- 40) A comparison which is not quite correct to make, however, since the situation in Dec. 1970 was unusually bad due to the fact that the 1970 inflation was much superior to the general wage readjustment at the beginning of the year. The official consumer price index of 1971 also underestimates the real rate of inflation somewhat, since shortages had already begun to appear, especially of certain foodstuffs, and official prices were not always kept.

The messy situation in Chile with wage and salary adjustments based on the inflation during the preceding period makes real income estimates very hazardous, and almost anything can be "proved" with a suitable choice of months to compare (which does not, of course, prevent fairly accurate comparisons over longer periods). Data on output and consumption in physical terms are clearly preferable to calculations of nominal income and inflation when estimating changes in real income - especially in 1972, when black and grey markets by and large destroyed the INE's efforts to make the consumer price index reflect the real rise in the cost of living (some efforts were however made to weigh together official and non-official prices in the index).

- 41) ODEPLAN, Informe Económico Anual 1971, op.cit. p. 26.

- 42) = 30 million dollars, according to ODEPLAN, *ibid.*, p. 49.

- 43) Banco Central, Boletín Mensual N° 531, May 1972, p. 542.

Since we measure in U.S. dollars all the time we should remember that the dollar was depreciated ten per cent in 1971.

- 44) ODEPLAN gives the following aggregate figures on Chile's capital account 1967-71: (million dollars)

1967	+123,9
1968	+303,5
1969	+238,2
1970	+148,5
1971	-99,7

Informe Económico Anual 1971, op.cit. p. 61.

- 45) Vuskovic in Banco Central, Boletín Mensual N° 531, May 1972, p. 544.

- 46) For a selection of official U.S. statements, see Banco Central, Boletín Mensual N° 533, July 1972, pp. 796 ff. and NACLA, Chile: Facing the Blockade, op.cit.

- 47) In 1971 Chile paid 310 million dollars to her creditor countries in interest and amortization payments, while she escaped with only about 100 in 1972.

- 48) In Banco Central, Boletín Mensual N° 531, May 1972, p. 548.

- 49) From 79 to 71 per 1 000 live births.

- 50) Although it could, of course, be argued - and as has been argued by many economists - that consumption of health and sanitary services as well as of foodstuffs ought to be regarded as investment in human capital in countries where a large part of the population suffers from serious physical and mental deficiencies due to lack of calories and proteines.

- 51) Even Allende, who was strongly against the idea of dissolving the Parliament in 1971, later regretted the decision to "postpone" the plebiscite. See speech delivered on Jan. 19, 1973, in El Mercurio, Jan. 20, 1973.

## Chapter V

# 1972 and 1973. Inflation and Stagnation

The distinction made earlier between the UP's short-term or conjunctural economic policy on the one hand and its program of structural reforms on the other was already somewhat artificial in 1971, and even more so in the years that followed. But an effort to maintain it will nevertheless be made in the remainder of this study; in this chapter we will thus extend the analysis of "traditional" economic policies and of the behavior of incomes, money, prices, production levels, etc. to 1972 and 1973, while chapters six and seven will be devoted to the political economy of the UP's nationalization and agrarian reform programs.

The interdependence of all the above mentioned aspects of economy policy is obvious, as is the interdependence of "economic" and "political" factors, and the lines of causation become more and more difficult to trace the further in time we proceed. While it was, for example, still quite legitimate to regard the economic boom of 1971 as occasioned mainly by the government's short-term reactivation program, it is much more difficult to divide the responsibility for the economic performance later on between the effects of (a) the UP's initial, exaggeratedly "Keynesian" manner of stimulating demand, (b) the program of structural transformations and of (c) the over-all political situation. All these factors and several others were certainly influential - and influenced one another - and to do justice to the dialectics of the Chilean process under Allende a better synchronized analysis than the one presented below would no doubt be required.

It should however be stressed that the intensification of class struggles and the further polarization that characterized Chile during the latter half of the UP administration gave political factors in the most narrow sense of the word a more decisive impact upon the behavior of the economy than had been the case in 1971. Without wanting to emphasize the distinction between economics and politics, let alone suggest a one-way causal relationship between the two, I will therefore indicate the differences between 1971 and 1972-73 by making a change in the disposition of this chapter with respect to the preceding one: in what follows the political panorama will be presented before I turn to "strictly economic" developments instead of the other way around.

## Major Political Events

After having reached its high-water mark some six months after Allende's taking office the political strength of the UP gradually began to deteriorate, and by 1972 all the parties of the Chilean Left admitted that the "popular forces" had

been losing ground. It was not primarily a question of a decline in electoral support for the government - in terms of votes the UP apparently lost very little from late 1971 onwards<sup>1)</sup> - but rather of a general inability to cope with the economic and political problems that arose and to counteract the increasingly violent attacks launched by the rightist opposition. The latter, by now unified around the common objective of ousting Allende but maintaining certain tactical and strategic differences with respect to how to do it and to what should come after, had taken over the initiative.

Political events in a couple of neighboring countries also developed unfavorably for the Unidad Popular and for the South American Left in general. In August 1971 the progressive Bolivian government headed by General Torres was overthrown by a strongly pro-U.S., pro-Brazilian and anti-Marxist military junta. In Uruguay the forces of the extreme Right gradually consolidated a terror regime - a process which was confirmed in June 1973 when the Parliament was closed, the trade union movement and most political parties outlawed and a rightist military dictatorship de facto established.

But let us go back to Chile and, first, have a look at some of the methods used in the Chilean bourgeoisie's counter-offensive and then turn to the increasingly defensive tactics adopted by the leadership of the Unidad Popular.

In Congress, to begin with, the opposition's rather passive resistance of 1971 evolved into more aggressive lines of action. The PDC and the PN, acting in concert and with the help of their petty allies among the ex-Radicals, continued to block all bills - even the most harmless ones - presented by the government, but they also tried to enforce completely new legislation: for example a couple of "constitutional reforms" to impede the extension of the state's control of economic activity and the further carrying through of the agrarian reform were thus passed by the congressional majority during 1972. Prolonged but resultless conversations between the UP - which was anxious to reach agreements with hoped-for "progressive sectors" of the Christian Democratic Party - and the PDC traditionally followed before Allende decided to veto the opposition's projects.

The administration's current economic policies were also obstructed. When, for example, the UP wanted to raise taxes in order to reduce somewhat the budgetary deficits, the opposition's prompt answer was to lower taxes instead. The Chilean constitution's specification of the division of power in economic matters between the President who was to control the expenditure side of the budget and the parliament whose responsibility it was to grant income made such maneuvers possible, though rendering stabilization policies impossible.

Impeachment of ministers and intendentes (provincial governors) also became increasingly common. In 1971 only two such cases took place - in 1972 four and

in 1973 ten ministers and intendentes were suspended from office after censor motions passed by the congressional majority.<sup>2)</sup> "Failure to protect private property and personal rights" was the standard formulation used.

The opposition tried, in short, to change the "rules of the game" in Chile's political life by eroding presidential power in an attempt to convert Chile into a country run by the Congress.<sup>3)</sup>

The judiciary was active too in openly defying the administration's authority. We will in subsequent chapters have occasion to deal with the Supreme Court's and the Contraloría General's struggles against the nationalization program; suffice it here to emphasize that the bitter resistance against socialism from the judges was a serious political handicap for the UP, especially since it made it virtually impossible to punish rightist sabotage and terrorism.<sup>4)</sup> The decisions of the Supreme Court in particular were sometimes so astonishingly biased that most people began to regard them as little more than political - and, for the government, quite offensive and humiliating - demonstrations.

The general strategy of the legislative and judiciary powers was, in short, to try to impose their will against that of the executive in order to curtail the wide range of faculties that the Chilean constitution equipped Salvador Allende with. In their efforts to make governing as difficult as possible the judges and the rightist senators and deputies had the wholehearted support from all the opposition's mass media - which were both quantitatively and qualitatively far superior to those of the Left - and, of course, from their political parties and organizations. From 1972 on the entire DC leadership - but certainly not all Christian Democratic members, let alone voters - participated very actively in the general policy of obstruction; it is symptomatic that it was a Christian Democratic senator (Juan de Dios Cármona) who, in April 1972, was the first to launch publicly an appeal for "civil disobedience", to later become so common, as a method to weaken the government.<sup>5)</sup>

This and similar appeals fell into fertile ground, and instead of advancing towards the overriding objective of taking power in society as a whole the UP had to face the fact that the authority of the government was becoming undermined. When the armed forces and carabineros eventually began to change their neutral attitude in order to openly join the anti-UP forces the Allende government lost all its possibilities to use state repression against the various forms of civil disobedience, sabotage, fascist terrorism and street fighting instigated by the whole of the Chilean Right.

The above circumstances, i.e. the UP's lack of control of the state apparatus, would never have produced such fatal results as they did if, firstly, the alternative organs of power "from below" ("poder popular") had been allowed to de-

velop into true organs of power and, secondly, if private business had continued its 1971 policy of near cooperation in the economic field.

The latter point leads us over to another, very important and effective, part of the counter-offensive launched against the Allende regime: economic opposition and sabotage.

The strategy behind the whole "Chilean road" was based on the underlying assumption that it was possible to divide the bourgeoisie into two separate and well-defined parts: one monopolistic sector, which should be fought and expropriated, and one non-monopolistic sector which in no way should feel threatened by the UP but which instead should and could be won over to the side of the "popular forces" (or at least be "neutralized", to use an expression often used by the Chilean Left). But this in theory rather clear-cut distinction, which appeared to make some sense at the beginning of the Allende administration, turned out to be more and more illusory as the Right to an increasing extent managed to mobilize the whole of private business, monopoly capitalists and petty traders alike, to fight the "Marxist threat".

What happened was that the expected and not too pronounced "investment strike" of 1971 was complemented with less passive forms of resistance. Speculation, black marketeering and minor economic dislocation serving both pecuniary and political ends flourished, of course - the UP's own economic policies certainly encouraged such phenomena - but far more serious were the sometimes very prolonged waves of boycotts, lockouts, strikes and sabotage that affected the Chilean economy from late 1972. As early as in October of that year, when the first of these massive and well coordinated actions by big business, wide sectors of the petty-bourgeoisie and conservative professionals' unions<sup>6)</sup> took place, the political objectives were clear: in their attempts to a complete and indefinite cessation of all vital economic activities - the common slogan during the "October crisis" was "Paralyze Chile!" - the rightists, including the PDC leadership, were trying to force Allende to resign and/or the military to intervene.<sup>7)</sup>

These and similar events will be touched upon now and then in the chapters that follow, and I will also - and this is what is of main interest for an explanation of the Unidad Popular's failure - try to analyze why the economic and political strategy of the UP had to clash with the interests of not only the "oligarchy" but of the working class' hoped-for allies within the petty-bourgeoisie as well. For it is crucial to stress that the fierce opposition to the Allende government had some very objective reasons and was not merely the result of clever manipulation by the Chilean Right. Independently of the role that was played by intrigues, plots, propagandistic lies and criminal sabotage and violence - and all



this was very much present in the rightist offensive - it would be superficial indeed to blame the failure of the "Chilean road to socialism" on such factors only; the conflicts and contradictions that arose were, as will be shown later on, inherent in the very socio-economic structure of Chile and in the overall strategy followed by the UP.

Before we turn to economic policies and events a few words should finally be said about the attitudes adopted by the UP and about the divergencies within the Chilean Left that became increasingly sharp from middle 1972 and onwards.

The one thing that all the different leftist parties agreed upon was that the political panorama looked less favorable to the UP than in 1971. But when it came to the question of how to confront the critical situation unanimity ended: the Communists, supported by Radicals and, more often than not, by Allende personally, advocated a defensive "consolidation-of-gains" policy based on concessions to the rightist opposition, while the UP Left - and, certainly, the MIR - emphasized the socialist contents of the struggle, opposed the conciliatory line of the PC and called for a vigorous mobilization of the masses and for a working class offensive around revolutionary objectives.

The arguments sustaining these two lines - which clearly reflected the never buried strategic differences that since long had existed between the PC and the PS<sup>8)</sup> - deserve to be presented directly by a couple of participants in the internal UP debate. Let us first listen to Orlando Millas (Senator, PC) when in an important article from mid-1972<sup>9)</sup> he exposes his own party's positions:

"The characteristic feature of the situation today is that the correlation of forces has deteriorated for the working class and for the government as a result of political and economic mistakes which we could briefly describe as transgressions of the UP program ... It would be unfortunate to continue to increase the number of enemies, and what should be done is quite the opposite, namely to make concessions or at least neutralize certain sectors and social groups ..." (emphasis added)

In synthesis, the PC argued that one had gone too far, that the time had come not for a new offensive but for a period of consolidation of the gains already obtained. Emphasis was put on discipline - no more factory occupations or land seizures, for example - and on economic slogans such as the "battle of production".<sup>10)</sup> The word "socialism" was seldom mentioned by the Communists, and never in connection with the UP's immediate tasks.

An opposite view was given in an interview of Oscar Garretón, MAPU's new secretary general, in which Garretón argues that "... (in our opinion) the socialist tasks are the most important ones today. This implies a critical position towards those within or outside the UP who assert that the process which our country is going through is a gradual process which could be arrested all of a sudden in order to postpone the socialist objectives to a later stage ... As far as we

understand the UP program these (socialist) objectives are in fact expressed in the program ...<sup>11)</sup>

In a document<sup>12)</sup> elaborated by the political commission of the Socialist Party the position of the PC is equally refuted: "A correct analysis leads to the conclusion that the present process is a revolutionary process ... and that it has already advanced so far that what we can do is not to consolidate it half-way trying to defend ourselves but to accelerate it further ...".

And, finally, the position of Carlos Altamirano, secretary general of the PS: "The actual class struggle is irreconcilable, that is, there is no place for either conciliation, nor coexistence. It will come to an end only when one of the classes assumes the entire power."<sup>13)</sup>

It was, by and large, the positions of the PC which imposed themselves within the government. The victory for the "consolidationist" line could be illustrated with the cabinet reshuffle that took place in June 1972, when the above cited Orlando Millas was made Minister of Finance and a technocratic representative of the rightist faction of the PS, Carlos Matus, became Minister of Economy. The main symbol for an aggressive policy against private business, Pedro Vuskovic, was sacrificed by Allende at the PC's insistence while negotiations over the size of the state area of the economy were taken up with a sector - the "progressive" dummy - of the Christian Democratic leadership.

Outside the ministries political events took a different turn, however, and as often happens when antagonisms intensify in society as a whole the masses became much more revolutionary than their leaders.<sup>14)</sup> Some of the socio-economic reasons behind this development will be analyzed later on, in particular when we come to the implementation of the nationalization program and the agrarian reform, but exactly how the workers' radicalization expressed itself, and how the different mass organizations and autonomous organs of "parallel power" developed, will only very occasionally be touched upon in subsequent chapters. What is important in the present context is to emphasize that the most salient feature of the Chilean political scene as from 1972 was precisely the polarization that took place, the working class' own revolutionary mobilization and the fact that the UP leadership more and more began to tail behind the mass movement instead of conducting it.

With this brief overview of political positions and developments in mind it will, I hope, be easier to understand both the reasons for and the effects of what will be the main topic of the rest of this essay: the economics of the political economy of the latter half of the Allende administration.

## The New Economic Situation and the Lack of New Policies

As early as May 1st, 1971, President Allende forewarned: difficulties lie ahead. "The purchasing power that you now dispose of", Allende told the mass of workers listening to his speech, "has given rise to a sales boom never experienced before in Chile's history, but you must remember that it is necessary to restore certain things. In fifteen days or in two months our stocks will be depleted ... Chile is not accustomed to rationing, and we do not want such a system to be introduced. Therefore, comrades, we have to produce ..."15)

Despite good-sized increases in output in 1971 the "battle of consumption" had turned out to be much easier to win than the "battle of production". The recession of the late Frei years had been cured; now the problem that arose was how to find remedies for the overdose of stimulants and for the explosive inflationary pressures that had been created.

To confront the new circumstances more drastic measures than appealing to the workers' consciousness by asking them to produce more were called for. But whatever these drastic measures might have consisted of they were not implemented, and with the political situation growing increasingly critical the government's always very limited freedom of action was further and further reduced.

The first of the economic battles that was irrevocably lost was the battle against inflation.

### The Revival of Inflation

After a brief period of relative stability of prices in 1971, when consumer prices rose by only 22,1 per cent, the pace of price increases began to accelerate at an unprecedented speed:

Table V:1. INE's Consumer Price Index, Percentage Increases.  
Selected twelve-month periods

<u>Period</u>	<u>Rate of increase(%)</u>
Jan. 1971 - Jan. 1972	24,8
July 1971 - July 1972	45,9
Jan. 1972 - Jan. 1973	180,3
July 1972 - July 1973	323,2
Jan. 1973 - Jan. 1974	800 (?) <sup>a)</sup>

a) The junta's estimate. See explanation in footnote 16 below.

The month-to-month development was as follows:

Table V:2. INE's Consumer Price Index 1972-73 (1969 = 100).  
General index and monthly variations (percentages)

<u>Month</u>	<u>General index</u>	<u>Monthly variations</u>	<u>Change during preceding 12 months</u>
1969, Dec.	100	-	-
1972, Jan.	170,8	6,5	24,8
" Feb.	181,9	3,7	32,0
" March	186,9	2,7	34,0
" April	197,5	5,7	38,1
" May	205,9	4,3	40,0
" June	210,2	2,1	40,1
" July	219,5	4,4	45,9
" Aug.	269,4	22,7	77,2
" Sept.	329,3	22,2	114,3
" Oct.	379,4	15,2	142,9
" Nov.	400,7	5,6	149,9
" Dec.	434,1	8,3	163,4
1973, Jan.	478,8	10,3	180,3
" Feb.	498,7	4,1	174,1
" March	528,6	6,2	183,3
" April	582,5	10,2	195,5
" May	695,6	19,4	238,5
" June	804,1	15,6	283,4
" July	927,1	15,3	323,6
" Aug.-Sept.	n.a.	n.a.	n.a.

Source: Instituto Nacional de Estadísticas (INE). As from March 1973 the figures - always based on the INE index - have been taken from El Mercurio.

It should be stressed that the official index given above became increasingly unrealistic<sup>16)</sup> as shortages and black markets mushroomed. By 1972 Chile experienced a situation of both galloping inflation and widespread scarcities. Through price regulations the government continued to try to keep prices of "popular consumption" goods low while letting "luxuries" become relatively expensive<sup>17)</sup>, but a larger and larger share of trade within the private sector escaped the eyes of the price inspectors and JAP's.

With the political costs of shortages and black markets being high and rising, the government felt that a modification of the price policy of 1971 had to be made. In August-September an effort was thus made to normalize the distribution of consumer goods, and particularly of foodstuffs, by permitting large price increases. The formula "stabilization on a higher level" launched by the Millas-Matus economic team proved inoperative, however: the UP economists had calculated with a drastic, once-and-for-all movement towards equilibrium between demand and supply for a wide range of commodities, but the hoped-for disappearance of queues and black markets failed to materialize.<sup>18)</sup> The "higher level" was no doubt reached, but not the "stabilization" part of the project. Prices continued to rise.

The inflationary pressures were too strong to permit manipulations with price controls. Behind the 1972-73 inflation lay an explosive increase in the quantity of money in circulation in Chile. During 1971 the price spiral could still be suppressed somewhat thanks to idle capacity, curtailment of profit margins, cheap imports and, last but not least, thanks to the existence of large stocks of commodities which could absorb part of the inflated demand for goods. In 1972 these roads were all becoming blocked, however, and with a certain lag even official prices caught up with the massive injections of money into the economy. In 1972 and 1973 both series accelerated upwards in an almost parallel way:

Table V:3. Quantity of Money and Consumer Price Index, Percentage Increases.  
Selected twelve-month periods

<u>Period</u> <u>End of</u>	<u>Percentage increase of</u>	
	<u>Quantity of money</u>	<u>Consumer prices</u>
Dec. 1970 - Dec. 1971	114	22
Dec. 1971 - Dec. 1972	172	163
April 1972 - April 1973	219	196
July 1972 - July 1973	292	324

Source: Based on Banco Central, Boletín Mensual, various issues, and Table V:2 above.

But why did the supply of money increase this fast?

The fact is that the UP's reactivation program, once initiated, became impossible to check for both economic and political reasons. Tough stabilization policies were out of the question, since the good times should continue; we recall Dr. Allende's words about "continuing expansion" being a necessary condition for the viability of the "Chilean road to socialism".<sup>19)</sup> Wages should not be cut down, material sacrifices should not have to be imposed upon the Chilean people. Taxes should be raised for the high-income groups, true, but this could not be done against the will of the Congress (which flatly let all tax increase bills down). And the public sector had to continue to expand, argued the UP which let the budgetary deficit increase from ten to twenty-six billion escudos between 1971 and 1972.<sup>20)</sup>

Let us now see how the government's intentions and efforts to cope with the new situation were reflected in its incomes policy - a policy which was both a cause and a symptom of the rapidly approaching monetary crisis.

The UP's first year brought, as we have seen, great economic benefits for Chile's wage and salary earners. The new government also promised that the real income gains obtained in 1971 should be maintained in subsequent years as well. In the general CUT-government agreement it was thus established that from 1972 and onwards all - or almost all, at least - income groups were to receive full compensation for the inflation. That is, wage readjustments at the beginning of each year should be based upon, and should not fall short of, the preceding year's rise in

the cost of living. The UP's formula was that the purchasing power of 1971 should be neither increased nor reduced in real terms, but that living standards of the great majority of the population nevertheless should continue to rise through improvements in various public services such as education, health, etc.<sup>21)</sup>

Because of galloping inflation it was found necessary to adjust wages more often than once a year, however. The price rises hit the weakest groups hardest, and not only arbitrary injustices but total chaos in the whole wage structure threatened unless an overall settlement was reached. Conversations with the trade unions were taken up by mid-1972, and on October 1st a general wage lift compensating for the inflation of the first nine months of the year was agreed upon. From one day to another all but the very highest wages and salaries increased by 99,8 per cent.

By and large, the UP thus continued to rely upon non-discriminatory criteria - almost everybody should be compensated. Why? Let us stop for a moment and look at the UP's way of arguing.

The income policy of 1971 was primarily based on the principle of overall expansion rather than redistribution; the UP did, quite consciously, go in for favoring not only the poor majority (which in percentage terms did receive a little more than average, though) but of the comparatively well-to-do middle classes as well. The underlying philosophy was explained in the following way by Orlando Millas, then Minister of Finance, in an interview in October 1972<sup>22)</sup>:

Interviewer: Do you believe that it is possible to carry through the actual economic policies without hurting the interests of certain sectors of the middle strata ("capas medias") like professionals, technicians, and middle and high officials within the state bureaucracy?

Millas: This is of course not only absolutely possible but also indispensable ... I think that it is evident that everything that the People's Government has done has resulted in higher living standards and better possibilities for the above mentioned middle sectors. And we will continue with these policies since all revolutionary processes get strengthened precisely through the alliance between the working class and the middle strata ...

The UP's strategy was, as Carlos Altamirano put it early in 1973, based on the belief "... that all Chileans, with the exception of a handful of monopolists and latifundistas, could increase their well-being." By now Altamirano dissociated himself completely from this illusion (which the UP Left never really believed in): "Reality", he continued, "has clearly demonstrated that this conception was false."<sup>23)</sup> Not only did the exaggerated generosity towards the middle strata aggravate the economic difficulties (inflation, shortages, etc.), the UP Left argued - the idea that one could "bribe" these sectors to support a socialist government had also proved to be erroneous.<sup>24)</sup>

The debate around these questions was always very heated within the UP, but the "official" line tended to be the one advocated by the PC and its allies. By March/April 1973, when a new general wage settlement was to take place, the UP seemed to agree that a change was called for, however, and this time the government and the CUT decided to differentiate income readjustments. While all incomes inferior to five sueldos vitales were raised with a common percentage of 60,8 per cent, corresponding to the inflation between October 1st and March 31, all groups in higher income brackets received no proportional increase but a lump sum equivalent to 60,8 per cent of five sueldos vitales, or some 6 100 escudos per month.

The March/April agreement was received with indignation by the rightist parties, which established their own criteria in Congress, refused to pass the UP's proposals and agreed upon a non-discriminatory readjustment with full proportional compensation for the past five months' inflation to rich and poor alike. Allende vetoed, successfully, arguing that the legislative branch had no power whatsoever to determine wages.<sup>25)</sup>

In October 1973 a new general rise was to take place. The snowball put in motion immediately after Allende's electoral victory grew and grew - wage lifts on the order of two hundred per cent or so would have been required to compensate for the inflation between March and October 1973.

The situation was already absurd in 1972, but no political force in Chile was interested in recognizing its absurdity. Wage and salary earners suffered badly from the inflation and the economically and politically most powerful groups - copper miners, professionals, technicians, skilled workers - were bent on fighting for their interests, well aware of the fact that the Allende government neither could nor wanted to repress them by force. Wage-drift necessarily accelerated. In order to forestall strikes and discontent, protect the weak and keep its old and oft-repeated promises the UP government thus felt obligated to grant general readjustments with shorter and shorter intervals. As to the position of the political Right, finally, this group became much more interested in precipitating the overthrow of the government than in protecting the industrial bourgeoisie's immediate profits. The oppositional parties constantly urged the Chileans to demand higher wages and salaries, and through their organizations and mass media they instigated and fomented any labor conflict within reach. It was also typical for the situation that when the congressional opposition early in 1973 decided to try to change the administration's wage proposals it passed a program which was more and not less generous than that of the UP.

In this the opposition failed, but the deadlock between the executive and legislative powers nevertheless contributed directly to aggravate the situation. Although the Congress had no influence over wages it did control taxes, and this control was used to see to it that the government's wage bills passed Congress with more and more inadequate financing. In October 1972 the UP estimated public expenditures to increase by some twenty thousand million escudos as a result of the wage readjustment, and according to the administration's original project twelve and a half of those twenty should be financed through tax increases, leaving an expected deficit of eight thousand million escudos to be printed by the Central Bank. The bill was sabotaged, however; in Congress it was modified to such an extent that only 4 840 million escudos out of the proposed 12 540 million remained with adequate financing.<sup>26)</sup> The government's plan to make taxes more progressive was determinedly rejected, and a "simplified" system of income taxation which in practice favored the wealthy was passed.<sup>27)</sup>

In March/April 1973 the situation was repeated. Allende warned: "There will be a plebescite. We will veto the program if the Congress insists in letting the wage readjustment bill pass without adequate financing."<sup>28)</sup> But nothing unusual happened - the congressional majority refused to revise upwards and reduced a couple of property taxes instead, and Allende's words about calling for a plebescite were buried in silence.

We thus see that although the wage trap that the Allende government was caught in was originally set by the UP itself and by the general situation in late 1970 the opposition saw to it that later political developments placed solutions out of reach. No political force in Chile could - or wanted to - halt the wage race, and the attitude adopted by the opposition-controlled parliament rendered increased taxation of the wealthy impossible. The situation called for drastic measures, but by now the government lacked the political strength to take to drastic measures of any kind against anyone.

And the annihilation of the value of the escudo continued. A sophisticated analysis of the Chilean inflation in 1972 and 1973 would of course require the taking into account of a large number of mutually reinforcing promoters of inflation neglected above: the government's credit, exchange rate, public expenditure and price control policies, the bottlenecks that arose, the losses incurred in state owned enterprises and in the reformed sector of agriculture, the flourishing stockpiling, speculation and spreading of rumors, etc. - all of these factors were influential and ought to be studied. Most of them will also be studied in the chapters that follow; no effort will however be made to integrate them into a systematic analysis of the inflation. The story of the Allende



government's and the Congress' income and tax policies has been told and it is, I hope, telling enough - as long as we remember that the inflation that developed was both a cause and an effect of the huge nominal income rises granted in 1971-73.

## Shortages spread

Late in 1971, on one of the first days of December, a novel political manifestation took place in Santiago: down the fashionable shopping street Providencia thousands and thousands of mostly well-fed and well-dressed Santiago housewives were marching and screaming and banging on pots to express their protests against the "scarcity of food" imposed upon them by the UP.<sup>29)</sup> The economic reasons for the women's complaints were not very convincing - beef was really the only foodstuff that had turned short - but this "march of the empty pots" was an unmistakable omen of what was to come. It was followed by innumerable similar and apparently more easily justifiable actions.

Both in Chile and abroad the shortage of foodstuffs came to symbolize the economic problems that arose under Allende. In a sense this picture is highly misleading: long queues did occur outside the grocery stores, but the overall supply of foodstuffs increased remarkably fast, at least during the UP's first two years. Food became short not because there was less available than before but thanks to the fact that it was so cheap that the great majority of the Chilean people now could afford to eat much better than ever before, a circumstance which made many upper-class Chileans, who were used to eating beef seven days a week, very upset.<sup>30)</sup>

All this will be examined more in detail in Chapter seven, which deals with the agrarian reform and the overall availability of foodstuffs during 1970-73. But what deserves to be stressed at this juncture is, first, that as from December 1971 queues and shortages did begin to appear and the general economic situation did begin to deteriorate and, second, that although much will be said about scarcities in what follows we should always keep in mind that the shortages of consumer goods that arose were rather the result of high nominal wages and price controls than of a diminishing supply of commodities.

But let us temporarily leave all monetary issues aside and instead look at the, together with the inflation, most salient feature of the Chilean economic panorama after 1971: the rapid growth of various restrictions and bottlenecks which turned the previous expansion into stagnation, and, eventually, decline.

### The Limits of Idle Capacity

When initiating the short-term reactivation program the UP could count upon a good-sized margin of excess capacity in manufacturing. Implicit in the government's way of reasoning was the belief that this idle capacity stood at the economy's free disposal in much the same way as did the stocks of inventories and of foreign exchange, and optimism with respect to continued industrial expansion was widespread.

The average rate of idle capacity in 1970 was calculated to be approximately twenty-five per cent.<sup>31)</sup> During the successful year of 1971 one witnessed an increase of manufacturing output of some fourteen per cent. Twenty-five minus fourteen equals eleven; if we add the (very modest) net investment that took place we can suppose that perhaps 13 to 15 per cent - our estimates are very rough - of the initial idle capacity was left by January 1972.

But although demand remained adequate, to say the least, the rate of industrial growth stagnated. A bare 2,8 per cent increase was recorded in 1972, to be followed the next year by an outright decline. As in so many other cases when "Keynesian" policies have been pursued in underdeveloped countries problems originating from the supply side very soon checked the speed once the wheels had been set in motion.

To talk about excess capacity in average terms is very illusory in a poorly articulated economy with supply rigidities. The margins of, say, twenty-five per cent in 1971 and fifteen in 1972 that existed in Chilean manufacturing turned out to be meaningless averages as the amount of idle capacity "at disposal" varied widely between different sectors, and bottlenecks appearing in one industry often affected others as well. Excess capacity thus became exhausted "from below"; all of it could not be utilized. This is particularly clear if we recall that ODEPLAN's estimates of the pre-UP situation indicated that capacity utilization rates were highest precisely in the intermediate goods industries, where less than fifteen per cent of excess capacity was registered in 1970. In many vital individual industries the margins were even narrower, of course.

It should also be pointed out that excess capacity estimates are based on the assumption of normal supply of raw materials, fuels, electricity, spare parts, skilled workers, etc. But in Chile one or several of these crucial elements began to be lacking here and there as early as the beginning of 1972. Problems with imports of spare parts and alloys created great difficulties in the huge Pacific Steel Company (CAP), for example, and the shortage of cement and building materials in general turned acute at an early stage; the repercussions on the rest of the economy of these and other scarcities were considerable.

To identify exactly where and why these bottlenecks originally appeared is difficult indeed, but what is important to underline is that once in existence these bottlenecks tended to spread, and spread fast. The government tried to catch up with the help of emergency imports and all kinds of improvisations, but its control of the economy was very limited and both for economic and political reasons it became increasingly cumbersome to cope with the new problems.

Among the many different factors responsible for the emergence of what we could call an almost generalized bottleneck economy one deserves to be pointed out in particular: the poor quality of Chile's infrastructural facilities and above all her road transportation system where, to make things worse, the rightist political opposition had one of its most strategic strongholds.

#### Infrastructural Bottlenecks

Even a superficial glance at an economic map of Chile reveals the vulnerability of the economy and its dependence on a smooth working transportation system. In the North: a vast desert, apparently worthless but containing mineral resources providing most of the country's export earnings. Greater Santiago: over one-third of the whole population, with more than half of the total purchasing power, crowded on a small piece of land some eighty miles away from the closest port (Valparaíso) and without important natural resources in the vicinity. South of Santiago, down to Puerto Montt: the narrow and six hundred miles long Central Valley, the fertile soils of which supply the rest of the country with cereals, meat, vegetables and wines. Further South: a cold, rainy and mountainous archipelago inhabited by a scattering of fishermen and sheepfarmers and, far down on the Tierra del Fuego some 2 500 miles south of Arica, by a handful of petroleum settlers.

The transportation system serving this awkward geography is far from adequate. Trains are few and time-consuming - it takes, for example, three full days to go by train from Arica to Santiago, and on the single-track and somewhat decayed railroad between Santiago and Valparaíso very little freight can be carried. In all directions both goods and passenger traffic is heavily dependent on trucks and buses.

The lack of port facilities is another weak link. Chile's coast line is immense, but good natural ports are scarce and docking and discharging capacity in the main ports very limited.

The Allende government could hardly be blamed for this legacy of the past. The UP was perfectly well aware of the situation: Chile's deplorable infrastructure was repeatedly criticized, and in the government's investment plans trans-

portation was always emphasized as a priority sector. A large number of ambitious projects was undertaken. But gestation periods were long and certain vital imports (vehicles, spares, tires, machinery, etc.) became difficult to obtain, and serious bottlenecks began to arise.

In the port of Valparaíso one could at times see over five large vessels carrying imports lying at anchor waiting to be discharged, and once unloaded the cargo could pass weeks in Valparaíso waiting for road or railway transportation to Santiago or elsewhere. Industries often had to slow down for lack of fuels or raw materials (margins in the form of inventories had become very small already by early 1972). In the agrarian districts in the South fertilizers from the North or from abroad often arrived late, and after harvest large quantities of potatoes and vegetables could perish for lack of carriage. Shortage of warehousing and refrigeration arrangements meant that cheap and nutritious fish, of vital importance for the Allende government's battle against the protein deficiency afflicting a large share of the Chilean people, would arrive half rotten to the consumers.

And so on - the list of infrastructural bottlenecks giving rise to interruptions of production or other forms of losses could be made very long.

The capacity of Chile's passenger transportation system also turned insufficient. Tickets on buses and trains soon became short, mainly as a result of the UP's price policy: to travel in Allende's Chile was indeed inexpensive, and to come across tickets correspondingly difficult. Within the Capital the demand for fares increased tremendously; employment was high, and many a worker could now for the first time afford to take the bus to the factory. Part of the local transportation system almost broke down, and the monstrosity of the urban agglomeration of greater Santiago took on a new caricature.<sup>32)</sup>

The national airline company LAN-Chile also benefited by the demand boom. With the 32,9 per cent expansion of passenger traffic reached in 1971<sup>33)</sup> almost all idle capacity was absorbed, and as from 1972 flights were booked up for weeks, eventually months, in advance.

In short: all kinds of travelling increased, and the low-income groups, who could not afford much travelling before, benefited in particular. At the same time, of course, the policy of cheap fares and tickets brought some inconveniences: the costs of waiting and/or of changing one's plans multiplied as it was sometimes impossible to move from one place in Chile to another with short notice (a situation which all kinds of speculators and reserved ticket dealers were quick to take advantage of).

So far we have only dealt with the economic reasons for the bottlenecks that arose in the field of transportation. The chain of causation has been simple:

the generally deficient infrastructure that existed in Chile proved incapable of satisfying the extra demand for transportation services to which the 1971-72 overall economic expansion and the government's price policy gave rise. On the supply side problems also set in, mainly as a consequence of the scarcity of certain vital imports.

But everything cannot be explained with reference to economics alone. Political factors contributed, too, and we should not leave the transportation sector without mentioning a circumstance to which we will have occasion to return: the attacks from the Right.

The crucial importance of distribution and of road transportation in particular did not escape the attention of the Chilean bourgeoisie, and the gremios<sup>34)</sup> controlling most of the country's truck and bus traffic were converted into key organizations in the preparations for the overthrow of Allende. The gremio de los camioneros (Truck Owners' Association), a mafia-type organization headed by León Vilarín and receiving generous financial assistance from abroad<sup>35)</sup>, was particularly active. It played, for example, a very leading role in what came to be known as the "October crisis", i.e. the general lockout launched in October 1972 by almost all Chile's employers' associations. Through this lock-out, initiated by the truck owners and followed in rapid succession by the gremios of merchants, bus owners, professionals, etc., almost all road transportation - and a lot of other activities as well - was virtually halted for over three weeks. Minor strikes and lockouts were common, and the conflicts - which officially were presented as protests against low freight charges, lack of petrol and tires, unfair competition from state owned enterprises etc. - added considerably to the serious distribution problems that affected Chile.

Less conspicuous forms of sabotage, such as the provocation of artificial shortages of spare parts and tires through stockpiling, were other methods used by the gremio of truck owners in its struggle against the government.

At the end of next chapter we will look more closely at the efforts by the UP to tackle the problems arising in the field of distribution. Suffice it here to underline that the government failed completely to break the private sector's dominance in both road transportation and in wholesale and retail trade, and that it was precisely to these sectors that the political opposition concentrated its economic sabotage. Although it is impossible to assess in quantitative terms the role that these activities played in the creation of bottlenecks and general scarcities they did become a very decisive factor from October 1972 onwards.

### The External Sector

The UP often blamed shortages and other economic difficulties on restrictions originating abroad, and asserted that the low price of copper and the "invisible blockade" rendered it impossible to obtain the necessary imports. Part of the argument was true: Chile did have bad luck with copper prices, which in 1972 fell even below the poor average for 1971 (while import prices continued to rise), and the United States did obstruct both new lending and the sales of certain vital products to Chile. But total importations nevertheless expanded; the great difference in comparison with previous years lay in that under Allende the general increase in purchasing power, the government's ambitious nutrition and development projects and the gross overvaluation of the escudo made foreign exchange appear far more scarce than it really was.

Chile's economic difficulties cannot be said to have been caused by a reduced supply of imports for the simple reason that no such reduction took place. But it is also clear that once the numerous bottlenecks had begun to spread the foreign trade situation gained very strategic importance; bottlenecks arising from a lack of certain crucial imports were rapidly transmitted to other parts of the economy, and it therefore often "looked" as if the limited supply of imported goods was the Chilean economy's number one constraint.

Let us now turn to the figures. Between 1970 and 1971 total goods imports grew some thirteen per cent in current prices (dollars), with consumer and intermediate goods - especially of agricultural origin - rising fast while imports of capital goods declined.<sup>36)</sup> In 1972 the general upward trend was reinforced. Agricultural products continued to increase in both absolute and relative terms, and capital goods - in particular those related to the transportation sector - recovered:

Table V:4. Chile's Imports of Goods 1971 and 1972.

<u>Millions of dollars and changes 1971/72</u>				
<u>Category</u>	<u>1971</u>	<u>1972</u>	<u>Change</u>	<u>% Change</u>
Agricultural products	310,9	468,2	157,3	50,1
Other consumer goods	100,5	74,2	-26,3	-26,3
Raw materials and intermediate goods <sup>a)</sup>	554,3	577,5	23,2	4,2
Capital goods				
of which	200,0	341,8	141,8	70,9
Machinery and equipment	139,0	158,5	19,5	14,0
Transport materials, vehicles	57,9	173,3	115,4	199,1
Reproductive animals	3,0	10,0	7,0	233,3
<u>Total</u>	<u>1 165,6</u>	<u>1 146,7</u>	<u>296,1</u>	<u>25,4</u>

a) Excluding all products of agricultural origin  
For a discussion of price changes, see Ch. VII.  
Source: Banco Central, Departamento de Estudios.

The differentiated exchange rates became more and more unrealistic. In June 1973 there existed four different prices of the dollar for commodity imports, ranging from twenty escudos to the dollar (foodstuffs and fuels) to 240 (luxury goods), the weighted average being around forty escudos per dollar.<sup>37)</sup> While consumer prices had increased over five times between Nov. 1970 and June 1973, the official devaluation of the escudo lagged far behind. On the brokers' market the dollar stood at 420 in mid-73 - on the black market one dollar was worth some 1 500 - 2 000 escudos.

The system of neither plan nor market that characterized the economy during the latter half of the UP administration makes it difficult to estimate the effects the government's exchange rate policy could have had on the volume and composition of foreign trade. The state controlled all legal external transactions, and a system of import planning - or import budgeting, as it was called - gradually emerged. The structure of Chile's import trade should consequently mirror directly the UP's own priorities to a larger and larger extent, and with the escudos being overvalued for all kinds of transactions the variations in the rates of exchange had little or no influence upon what was imported and by whom (although they certainly did affect/distort domestic relative prices).

As to exports, the government preferred to foster these through cheap credit rather than by means of preferential exchange rates. In spite of the fact that export-creating activities were ranked third by Allende among those sectors to which special priority should be given<sup>38)</sup> the escudos that the exporters received for each dollar's worth of sales were too few to stimulate Chilean producers wanting to sell abroad. Recurrent adjustments of these exchange rates (there existed several, and the whole system turned increasingly complex) were made, and in the cases of agricultural and industrial exports the devaluations were appreciably more drastic than those affecting the import trade, but the emergence of black or gray domestic markets, especially for foodstuffs, usually made it very bad business to engage in exporting.<sup>39)</sup>

For mineral exports the exchange rates established were entirely unfavorable - twenty escudos to the dollar after the August 1972 devaluation, 45 after June 1973. We can safely assume that the elasticity of supply lay very close to zero in the nationalized large-scale mining industries, but the exchange rate policy must have badly discouraged many of the private small and medium-sized producers. The (relatively mild) fluctuations in world market prices that Chile's mineral exports experienced in 1972 were, on the other hand, virtually wiped out by the Central Bank's large exchange rate modifications and by domestic inflation.

Chilean exports performed very poorly in 1972. Problems in copper mining and in agriculture will be dealt with in subsequent chapters; suffice it here to mention that whatever were the reasons - production bottlenecks, the domestic price level and the lack of price incentives to exporters, etc. - all major export trade items fell below their not too high 1971 levels:

Table V:5. Chile's Exports of Goods 1971 and 1972.  
Millions of dollars and changes 1972/71

<u>Category</u>	<u>1971</u>	<u>1972</u>	<u>Change</u>	<u>% Change</u>
Mineral products	813,2	734,5	-78,7	-9,6
Copper	701,8	657,0	-44,2	-6,3
Iron	67,7	44,5	-23,2	-34,4
Nitrate and iodine	35,2	24,5	-10,7	-30,4
Miscellaneous	8,5	7,9	-0,6	-7,1
Agricultural products	29,4	19,3	-10,1	-34,3
Manufactures	122,1	83,4	-38,7	-31,7
<u>Total</u>	<u>964,7</u>	<u>836,2</u>	<u>-128,5</u>	<u>-13,3</u>

Source: Banco Central, Departamento de Estudios

We are now in a position to summarize the development of Chile's balance of trade in the years 1970 to 1972:

Table V:6. Chilean Imports and Exports of Goods 1970-72.  
Millions of dollars

	<u>1970</u>	<u>1971</u>	<u>1972</u>
Exports of goods	1 128,8	964,7	836,2
Imports " "	1 020,0	1 165,6	1 461,7
Balance	+ 108,8	- 200,9	- 625,5

Source: Table V:4 and Table V:5

In 1973 the picture of growing deficits changed. The import boom of the preceding years was no longer allowed to continue, and the volume of imports during the first eight months appears to have been kept more or less constant with respect to 1972, with only a slight increase in value terms. The scattered data hitherto released are both provisional and incomplete, but what matters in the general economic context are not the exact magnitudes but rather the crucial circumstance that the stagnation of imports now coincided with a considerable decline in domestic industrial and agricultural production (more on this below).

The total supply of home-produced plus imported goods still remained above the pre-UP levels, but with bottlenecks becoming increasingly generalized the foreign trade restriction turned severe, thus exacerbating the shortages that had developed.



At the same time as imports stagnated export earnings started to rise. The hoped-for miracle that alone could somewhat palliate Chile's balance of payments crisis finally occurred as copper prices rose rapidly on the world market. Early in January 1973 the price of copper was still what it had been all through 1971 and 1972, or slightly below fifty cents per pound, but in March it had already exceeded seventy cents, in July it passed ninety and in August it temporarily reached over one hundred cents per pound. The slight decline following this all-time record level caused the average price of 1973 to stay at 76,6 cents - though well over fifty per cent above the 1972 average.<sup>40)</sup>

The foreign trade gap could not possibly be closed with the help of improved copper prices alone, however. With normal volumes of copper sales a price rise of some 25-30 cents per pound signifies an improvement of Chile's balance of payments in the range of 350-400 million dollars; the 1972 deficit exceeded 600 millions, and in 1973 import prices continued to rise while Chile's industrial and agricultural exports continued to decline. The 1973 deficit in the balance of trade probably did not fall short of 400 million dollars, and to this we should add some thirty to fifty millions as a minimum for the deficit on invisibles (tourism, royalties, profit remittances, etc.).

How were these import surpluses financed? In 1971 the stock of foreign exchange had been sufficiently large to cover the whole current account deficit and even to reduce somewhat the debt load; after 1971 this was no longer possible.

Chile had, to begin with, to postpone the servicing of most of her giant foreign debt; in interest and amortizations 400 million dollars were due in 1972 and another 496 in 1973<sup>41)</sup>, or about half of these two years' total export earnings.

After a series of negotiations during February - April 1972 most of Chile's creditor nations - the so-called Paris Club - accepted the fact that the Allende government had neither the intentions nor the possibilities to fulfill payments obligations. Chile's initial bid in the Paris Club talks was a three-year total moratorium, and what was granted was a seventy per cent moratorium on payments due in 1972 and six years of grace for the balance. The agreement was received with relief by the UP and carried, as far as we know, no political compromises. "We went to Paris to negotiate our foreign debt and not our political program" Allende emphasized<sup>42)</sup>, and the efforts made by some of the members of the Paris Club - the United States and a few others - to enforce upon Chile a "stand by" agreement which would have given the International Monetary Fund a decisive sway over Allende's economic policies were refuted.

Both during and after the Paris Club agreement Chile took up bilateral negotiations with her creditor nations and with private American and European banks. More or less advantageous settlements were reached<sup>43)</sup>, and in 1972 Chile service

her foreign debt according to the schedule only with certain international organizations, such as the World Bank. Altogether Chile escaped with paying approximately one hundred million dollars.<sup>44)</sup>

With the U.S. government no understanding was reached, however. The Chilean debt to the United States amounted to some 1 720 million dollars, of which 185 were credits from private banks and the remainder from public agencies like the Agency for International Development (AID) and the Export-Import Bank (EXIM-BANK).<sup>45)</sup> After the U.S.-Chilean conversations over the interpretation of the Paris Club settlement had broken down completely Chile decided to suspend unilaterally all debt servicing to American public institutions.<sup>46)</sup>

Chile's debt went virtually unserviced in 1973. Talks with the Paris Club over a new renegotiation were to be held in May, but they were postponed time after time and in the meantime all Chilean debt payments were suspended. By September 1973 the conversations were still of a "preliminary" character.

But in spite of the relief that the renegotiation and the unilateral suspension of interest and amortization payments signified additional credits were needed to pay for current imports. Systematic information about these new credits and about the size of various private capital movements was never made public, but in spite of the poor quality of the data a few points deserve to be considered.

To begin with, what is obvious is that the overall volume of credits granted Chile remained what it had been all throughout the 1960's, namely very high. Almost the totality of the huge 1972 and 1973 balance of trade deficits must have been covered by new lending. The Chinese motto of "relying on one's own forces" was no more applicable to the UP's strategy than it had been to that of the two previous Chilean governments.

The main difference with respect to the Alessandri and Frei periods was that the composition of creditor nations changed appreciably under Allende. The "invisible blockade" resulted in the dissolvment of financial dependency on the United States: from having represented 78,4 per cent of the value of all short-term credits in November 1970 the share of the United States had two years later fallen to 6,6 per cent.<sup>47)</sup> Long-term loans from U.S. public agencies and from the big international credit institutions were, with the exception of a couple of good-sized IMF-credits<sup>48)</sup>, either drastically reduced (The Inter-American Development Bank, EXIM-BANK) or cut down to zero (AID, The World Bank).

Other lenders therefore had to step in, and it was not only, or even primarily, the Eastern European countries and China which helped the Allende government to overcome Chile's acute balance of payments problems. The UP's application of Pedro Vuskovic's formula of "taking advantage of the contradictions that exist

within the capitalist world"<sup>49</sup>) was apparently successful; the UP did manage to replace the credits the United States refused to grant with loans from a wide variety of Western countries: Argentina, France, Spain, Mexico, Brazil, Japan, Sweden, Holland, West Germany, Finland - the list could be made even longer.

The UP was no doubt right when arguing that the world had changed since the days of the Cuban revolution, when Fidel Castro's regime soon found itself economically isolated from practically the whole capitalist world. Our conclusion from this overview of the development of Chile's external sector must however be that those who outside or inside the Unidad Popular asserted that the United States' 'invisible blockade' played the dominant role in the creation of the economic difficulties that confronted Chile under Allende were exaggerating somewhat the impact of the critical balance of payments situation. The latter no doubt became a serious restriction in 1972 and 1973 (above all as a result of unfavorable shifts in the terms of trade): shortages of badly needed spare parts and equipment emerged for lack of imports, and these shortages, often affecting key industries, gave rise to bottlenecks which were, in turn, easily transmitted to other sectors of the economy. Most of these problems must, however, be blamed on other factors than the U.S. financial blockade. The overall volume of credits - and imports - rose markedly, and if the amount and commodity composition of Chilean imports nevertheless turned out to be inadequate it was because of the domestic economic situation which made Chile's import requirements virtually insatiable.

## Stagnation and Decline of Output

Thus far very little has been said about how production actually developed in 1972 and 1973. But we have seen the problems arise: the inflation, first, and the monetary chaos, and then we studied how Chile's potential for future growth along 1971 lines was gradually exhausted as idle capacity in manufacturing began to disappear, as infrastructural bottlenecks arose and, finally, as restrictions originating from the external sector made themselves felt. By 1972 the policy of "first consumption, then accumulation" - a policy which political circumstances rather than strictly economic considerations had "forced" upon the UP - was, in short, reaching its limits. Worse still: no alternative policy was within sight.

The statistics available for the latter half of the Allende government are both meager and quite provisional but they should be sufficiently clear-cut to give empirical support to the subtitle of this section: stagnation and decline.

Before we turn to the figures a reservation must however be made. Although it is perfectly clear that the economic difficulties that arose were to a large

extent conditioned by the limitations of the UP's short-term economic policy proper - the aftermath of the 1971 boom, one could say - it must also be kept in mind that the overall political situation, with rightist lockouts and sabotage and, albeit with lesser immediate economic repercussions, militant strikes and occupations on the part of the workers, also influenced events substantially, especially from October 1972 onward. The fact that both agricultural and industrial production began to fall precipitately should definitely not be interpreted as a necessary consequence of the economic restrictions that have been described above. Chile's productive capacity was and is poor and rigid, but under normal political conditions - and a process of radical social change and intensification of class struggles is in no way characterized by normalcy - it would have withstood the strains much better than it actually did in 1972 and 1973. If I were to make an extremely schematic assessment of the responsibility for the economic crisis of the last UP year I would suggest the following simple formula: while stagnation of output was what could be expected from a "strictly economic" point of view, the decline that eventually took place must be attributed to political factors alone.

#### Major Sectors of Activity

Data for the mineral and agricultural sectors - where problems were of a somewhat more special character and only partly related to the general economic situation - will be given in subsequent chapters.<sup>(50)</sup> It is sufficient in the present context to simply state that the agriculture sector and the Gran Minería of copper showed a fair performance in 1972, with production levels slightly above those of 1971. In 1973 copper production appears to have declined a little and agricultural output seems to have dropped substantially. In mining - other than copper - 1972 and 1973 were, as a whole, poor years, with declines registered in both.

As for construction, serious difficulties had already appeared in 1972 when transportation problems and shortages of building materials turned acute. The public sector's ambitious residential construction programs were severely curtailed, and many projects already initiated had to be postponed.<sup>(51)</sup>

The value of basic services increased, according to preliminary estimates<sup>(52)</sup>, by 3.7 per cent in 1972, with large increases in electricity, gas and water and modest rises in transport and communications.

Let us finally look at manufacturing, the most interesting sector in the present context. In 1972 the aggregate volume of physical production rose by 7.8 per cent with the following sectoral distribution:

Table V.7. Index of Physical Industrial Production 1972 (1968=100) and Percentage Variations 1972/71

Category	1972	% var. 1972/71
Light consumer goods	113,5	0,8
Consumer durables	119,6	1,8
Transport equipment	120,2	7,5
Intermediate and capital goods (for use in manufacturing)	137,4	5,4
Intermediate and capital goods (for use in construction)	131,0	10,5
Miscellaneous	120,1	-1,1
General index	122,6	2,8

Source: INE, taken from Banco Central, Boletín Mensual No. 542, April 1973, p. 353

In the month-to-month development of industrial production the whole transition from recovery and expansion to stagnation and decline can be studied:

Table V.8. Volume of Industrial Production Jan. 1970 - Sept. 1973.

INE's general index (1968=100) and monthly differences (in index numbers, comparisons made with corresponding months one year earlier)

Month	1971	Var. 1971/70 (index points)	1972	Var. 1972/71 (index points)	1973	Var. 73/72 (index points)
January	92,5	-2,1	111,1	18,6	108,8	-2,6
February	81,4	1,1	97,1	15,7	98,5	1,4
March	113,1	7,4	127,6	14,5	131,3	3,7
April	109,4	1,4	125,4	16,0	115,2	-10,2
May	119,2	17,8	126,5	7,3	n.d.	(-11,0) <sup>a)</sup>
June	121,4	10,9	127,6	5,5	n.d.	(-14,8) <sup>a)</sup>
July	124,7	6,0	127,4	3,6	n.d.	(-10,7) <sup>a)</sup>
August	129,0	18,0	128,5	1,5	n.d.	(-12,0) <sup>a)</sup>
September	120,6	10,0	119,1	-11,3		
October	123,1	22,5	118,4	-10,0		
November	123,6	22,6	126,1	-12,6		
December	121,3	31,7	121,6	-8,7		
Jan.-Dec.	111,5	17,3	127,6	3,2		

Source: 1971-72: Banco Central, Boletín Mensual, current issues.

Jan.-April 1973: Panorama Económico No. 279, August 1973

May-August 1973: El Mercurio (international ed.) Jan. 30-27, 1974.

- a) These figures - all taken from El Mercurio - are based on the index made up by the Chilean Association of Manufacturers (SOFOFA) and are not directly comparable to the general INE index, although they no doubt reflect rather accurately the overall tendency of the last few months of the UP administration.

Finally it should be said that one important economic variable did not show any sign of stagnation, namely employment. Not even in 1973 does the occupational situation seem to have deteriorated - still another symptom of the fundamental

differences that existed between the economic crisis of the Allende period and the more or less chronic recessions of earlier administrations (to say nothing of the disastrous decline in employment and real wages introduced by the Pinochet regime).

In the three areas from which good data on the employment situation were collected with regular intervals - greater Santiago, Concepción-Talcahuano and Lota-Corenel - the rates of overt unemployment decreased as follows under Allende:

Table V:9. Rates of Overt Unemployment 1970-73 (percentages of labor force)

Area	1970	1971	1972	1973		
	(annual average)	(annual average)	(annual average)	March	April	June
Greater Santiago	7,1	5,5	3,8	3,8		3,1
Concepción-Talcahuano	10,1	9,0	5,9		3,4	
Lota-Corenel	16,0	14,2	11,1		9,3	

Source: Instituto de Economía, *Ocupación y Desocupación*, current issues. The 1973 figures are taken from *Panorama Económico's* statistical abstracts, the primary source always being the polls made by the Economic Institute. See also Ch. IV, p. 75.

#### A Note on Living Standards

The dismal picture given above of the economic situation during the last year of Unidad Popular would be highly misleading if it were not supplemented with a brief comment on the development of the standard of living of the majority of the Chilean people. The reason why I confine myself to a brief comment in this context is not that I regard this aspect as of little importance, but because it is dealt with at several other occasions in this essay. We have just seen, for example, that employment remained very high even in 1973, and we also already know that both imports and domestic production of most consumer goods increased appreciably during the UP years (in addition to becoming more evenly distributed). The situation with respect to the most vital aspect of all when judging the development of the material well-being of the Chilean people, i.e. the availability - and distribution - of foodstuffs, will be dealt with separately in chapter seven.

But it should also be said that the very ambitious program of social reforms that the Allende government undertook will be almost completely neglected in what follows. Many of the social schemes that were introduced - food for school children, the free delivery of half a litre of milk a day to all children under the age of sixteen, the medical, educational and social security reforms, etc. - resulted in hitherto unheard-of improvements in living conditions for the

working class and for low-income groups in general. The rapid expansion of all kinds of social services was in part motivated by redistributive objectives; the UP's failure to achieve a pronounced enough redistribution of income by means of ordinary incomes and tax policies was to a certain extent compensated for through "exaggerated" increases in the public sector's provision of certain basic goods and services.

Many of the above programs - especially those related to the distribution of free or cheap food - came to constitute a form of rationing, and made further inroads on the supply of marketed commodities. They were, consequently, most unpopular among the well-to-do Chileans, whose politicians and newspapers never ceased to openly attack or at least make fun of free milk to children and school breakfasts. In many a modest Chilean family, however, will the Allende years be remembered as the time when the first school was built in the home village or población or when the poorly fed children of the family suddenly began to receive medical attention and half a litre of milk a day.

- 1) In the March 1973 parliamentary elections the UP got 43,4 per cent of the ballots as against 54,7 per cent for the so-called CODE (Confederación Democrática - sic), i.e. the electoral alliance uniting the PDC, PP and a couple of minor rightist parties.

The results were in general considered very satisfactory by the UP; they signified a decline compared to April 1971, of course, but the UP figures were only insignificantly lower than in a couple of by-elections held early in 1972 - when economic difficulties had hardly yet arisen - to fill some vacant seats in Congress. And the UP poll remained far above the 1970 percentage of 36,3 per cent; Allende's electoral performance compared very favorably to that of Eduardo Frei, whose precipitate loss of popular support was described above (Cf. Ch. II, p. 26 ).

- 2) The 1972 and 1973 figures would have been even higher if Allende had not chosen to suspend beforehand a couple of ministers against whom the Right had initiated "constitutional accusations".
- 3) Or, perhaps we should say, run by the military; one of the very last decisions to be taken in the Chilean National Congress was the notorious August 22, 1973, declaration which solemnly stated that the Allende government was "unconstitutional", "illegitimate" and "undemocratic" and had lost its right to govern the country. This declaration was the official carte blanche from the rightist deputies and senators for the military take-over and subsequent closure of, among many other things, the Congress.
- 4) One example deserves to be given: the Chilean courts' handling of the "Schneider case", i.e. the trial against the assassins of former Commander-in-Chief René Schneider (see Ch. II, p. 32 ). The professed leader of the rightist league responsible for the murder of Schneider, ex-general Roberto Vial, was first sentenced to twenty years of prison, but after appeals to higher instances the penalty was reduced to five and, in the Supreme Court, to two years of imprisonment and five years of exile. Vial, who never tried to hide his guilt and who even dedicated himself to writing books about how he planned and directed the plots of October 1970, recovered his liberty and went to Paraguay to live a comfortable life while the UP was still in "power". Minor rightist terrorists had absolutely nothing to fear; they were always released on bail.
- 5) See interview in El Mercurio, April 2, 1972.
- 6) The role played by the associations of technicians, doctors, dentists, nurses, etc. cannot be dealt with in detail here, but it must be underlined that political strikes by these groups contributed a lot to weakening the Allende government's position. The cynical sabotage on the part of the physicians deserves to be mentioned in particular, and the following remark from August 1973 by the then president of the Chilean Medical Association, Eduardo Cruz Mena, is quite representative:  
 "Of course people will be dying for lack of medical assistance - in a war one has to kill." (Answer to a question asked on TV by an interviewer, wondering whether the Medical Association's decision to cancel even emergency duties on all hospitals would result in many people dying or not.) Cited in Chile Hoy No. 64, August 31 - Sept. 6, 1973.



- 7) The over three-week long "October crisis" was solved in two different ways. First by a truly impressive mobilization by the whole Left, in particular by the industrial workers (including many Christian Democratic workers) who kept production up in addition to helping to solve the serious distribution problems that arose. Huge contingents of students, housewives, unemployed, etc. also participated in the emergency works organized by the Left, and to the great disappointment to the opposition the rightist forces proved incapable of "paralyzing Chile" against this mobilization.  
The crisis was also solved by conciliation; at the request of Allende three high military officials (including the then Commander-in-Chief Carlos Prats) entered the cabinet when the Right's offensive was already in a stage of complete disintegration.
- 8) Cf. Ch. II, pp. 38-40.
- 9) La Clase Obrera en Condiciones del Gobierno de la Unidad Popular. El Siglo, June 5, 1972.
- 10) A somewhat extreme position in this respect was taken by El Siglo, the PC's official daily, which could, for example, assert that "... the most revolutionary task of the moment is the Battle of Production of Copper. Victory or defeat in our revolutionary process depends on this battle." (Editorial, Feb. 2nd, 1972)
- 11) Chile Hoy, No. 27, Dec. 15-21, 1972.
- 12) Quoted earlier, see Ch. II, p. 40.
- 13) Speech published in Posición, No. 37, Jan. 18, 1973. Cf. also interview in Punto Final, No. 177, Feb. 1973, where Altamirano to the question whether a "confrontation" (understood as armed confrontation) was "likely", "possible to avoid" or "inevitable" gave the simple answer "inevitable".
- 14) As pointed out by Arghiri Emmanuel (Unequal Exchange, op.cit., p. 180) exactly the opposite is characteristic of periods of relative tranquility.
- 15) El Mercurio, May 2nd, 1971, reproduced in the same paper on Jan. 17, 1973.
- 16) The INE did try to take prices on the "parallel" markets into account on several items which were traded mostly outside the official channels, but in spite of these efforts the INE index undoubtedly underrated the rate of inflation more and more. When the military junta in September - October 1973 abolished almost all price controls prices of foodstuffs increased more than five times on the average, and the true rise in the consumer price index probably exceeded eight hundred per cent for the whole year.
- 17) In order to "absorb liquidity", as the UP economists sometimes put it, the prices of passenger cars were, for instance, raised far above the general index. One example: In Nov. 1970 a Fiat 600 cost 48 000 escudos, and two years later the official price had gone up to 490 000 escudos. On the black market a Fiat 600 would be sold for even more.
- 18) The Millas-Matus price policy was also part of the general strategy of conciliation; the rightist opposition had long been exacting "fair prices" in order to stimulate profits and production.
- 19) Cf. Ch. IV, p. 59.

- 20) For details of the budgetary development, see Banco Central, Boletín Mensual, No. 542, April 1973, pp. 354ff.
- 21) Cf., for example, Minister of Finance in his Second Exposition, pp. 28ff.
- 22) Chile Hoy, No. 17, Oct. 6 - 12, 1972.
- 23) Interview in Chile Hoy, No. 37, Feb. 23 - March 1st, 1973.
- 24) Representative statements along these lines were given by Altamirano in interviews in Punto Final, No. 177, Feb. 13, 1973, and in Ultima Hora, Feb. 28, 1973.
- 25) This was also recognized by the so-called Tribunal Constitucional which in April pronounced a judgement supporting the administration's interpretation.
- 26) These were the Treasury's own, very approximate estimates. See Ultima Hora, Sept. 13, 1972, or Ercilla, No. 1940, Sept. 20-26, 1972.
- 27) The new tax rates accepted in Congress were as follows:

<u>Income Bracket</u> (number of sueldos vitales) <sup>a)</sup>	<u>Marginal tax rates</u> (per cent)	<u>Estimate of share of wage and salary earners within each income group<sup>b)</sup></u>
0-5	10	85,4
5-10	15	10,2
10-15	20	3,6
15-20	30	
20-30	40	0,8
30-40	45	
40-50	50	
etc.		

a) One sueldo vital equalled 2 033 escudos per month in Oct. 1972.

b) Extremely rough estimates.

Sources: Tax tables: Ultima Hora, Oct. 2, 1972. Income distribution: Panorama Económico, No. 272, Oct. 1972 (based on inquiries made in 1971).

Note: From the above tables we can see that since income taxation was based not on nominal wages but on multiples of sueldos vitales the system lacked the "automatic stabilizers" existing in countries with progressive tax scales based on nominal wages.

- 28) El Mercurio, March 23, 1973.
- 29) The cries "Chile sí, Cuba no!" indicated another target for the women's attacks: Fidel Castro was just about to leave Chile after a long visit as Allende's guest.
- 30) A small and unpretentious poll made by the Christian Democratic magazine Ercilla in September 1972 gives a clear indication of the differences of opinion that existed between wealthy and poor Chileans with respect to the scarcity-of-goods problem. A sample of 300 people were asked the following question: "Is it, in your opinion, easy or difficult to obtain goods of prime necessity?" In reply, 99 per cent of the upper class respondents claimed that it was "difficult" to get such goods, a judgement which 77 per cent of the middle class but only 19 per cent of the lower class sample concurred with. (continued ...)

30) (continued)

See Ercilla, No. 1939, Sept. 13-19, 1972. The poll comprised one hundred individuals - all from Santiago - from each of the vaguely defined "upper", "middle", and "lower" classes. The answers were naturally quite biased by the political opinions of the respondents.

31) Cf. Ch. IV, p. 66.

32) The fact that the Santiago buses went crowded - and slowly - had other reasons than cheap fares, however: a large part of the vehicles became immobilized because of depleted supplies of spare parts and tires.

See Chile Hoy, No. 9, August 11-17, 1972, for data on the deficient collective transportation system of Santiago and the importation problems that affected it.

33) ODEPIAN, Informe Económico Anual 1971, op.cit., p. 175.

34) Literally "guilds", in Chile used to designate the rightist controlled federations of small and medium-sized entrepreneurs, professionals, etc. The ideology of the gremialismo movement was outright fascist, with a Mussolini type of corporate state as its ideal. The gremios were the only kind of "trade unions" which were not outlawed by Pinochet, and the chief theorist of the gremialismo, Jaime Guzmán, was immediately after the coup in September 1973 appointed member of the commission which should work out a new, "modern" Chilean constitution.

35) In October 1972 several truck owners and taxi drivers publicly admitted that they were being offered dollars in reward for their participation in the lockouts and strikes. A large inflow of dollars was also recorded on the black market where the dollar - in the midst of a serious political crisis - fell over thirty per cent against the escudo in a couple of weeks.

"Subversion against Allende was surprisingly cheap", a Brazilian businessman told a reporter from the Washington Post early in 1974. "The money we sent would go a long way on the black market." For further information on Brazilian involvement in the overthrow of Allende, see Marlise Simon's article The Brazilian Connection in Washington Post, Jan. 6, 1974.

According to testimonies given by the Chief of the U.S. Central Intelligence Agency, William Colby, some eight million dollars were also spent between 1970 and 1973 by the CIA in its eventually successful campaign to install a military dictatorship in Chile.

36) See Ch. IV, p. 78.

37) Estimate by El Mercurio, (International Ed.) June 11-17, 1973.

38) See, for example, Allende's Los Cambios Revolucionarios y el Desarrollo Económico Chileno, speech held in July 1972, printed in Revista de la Universidad Técnica del Estado, No. 9, July - August 1972.

In the first and second priority categories Allende placed "goods of popular consumption, foodstuffs in particular" and "transportation".

39) Unless the dollars could be exchanged on the black market, of course; all kinds of smuggling flourished. Cf. Ch. VII.

40) In current prices, as usual; early in 1973 the U.S. dollar was devalued by some ten per cent against the industrial world's major currencies.

- 41) Third Message, p. 137.
- 42) Quotation taken from El Siglo, Feb. 29, 1972.
- 43) An overview of these different agreements is found in an article by Enrique Sierra and María Cristina Germany in Banco Central, Boletín Mensual, No. 541, March 1973.
- 44) CORFO, Departamento de Créditos Externos.
- 45) See Chile Hoy, No. 43, April 6-12, 1973, for details of the composition of these debts.
- 46) In Chile Hoy, No. 29, Dec. 29 - Jan. 4, 1973, the head of the Chilean renegotiation delegation Orlando Letelier puts forth the Chilean position.
- 47) Minister of Finance, Third Exposition, p. 14.
- 48) These credits - given to compensate Chile for the low price of copper - gained in fact great importance; according to El Mercurio (Dec. 24, 1972) IMF lending to Chile amounted to 187, 8 million dollars in 1971-72.
- 49) Cited in El Mercurio, June 6, 1972.
- 50) See Ch. VI and VII respectively.
- 51) Some provisional indicators of the stagnation of residential construction are given in Instituto de Economía, La Economía Chilena en 1972, op.cit., pp. 373ff, and in Panorama Económico, No. 278, July 1973.
- 52) See Panorama Económico, No. 276, April 1973.

## The Formation of the Social

### Area of the Economy

We have seen earlier that the Unidad Popular defined itself not only as anti-imperialist and anti-monopolistic but as anti-capitalist as well, although the emphasis that the UP put on the latter "anti" was distinctly less pronounced than that put on the former two. The nationalization program was, then, above all designed to attack important foreign interests operating in Chile and those domestic enterprises which were defined as having a monopolistic character, while the overwhelming majority of medium and small-scale firms were supposed to remain in private hands, although subjected to various forms of public supervision.

The decisive passage dealing with the state area (or "social area", as it used to be called) reads as follows in the UP program:

"The process of transforming our economy will begin with a policy intended to create a dominant state area made up of enterprises already owned by the state plus those which are to be expropriated. As an initial step we will nationalize those basic riches - large-scale mining of copper, iron, nitrates, and others - which are now controlled by foreign capital and by domestic monopolies. This sector of nationalized activities will thus include the following activities:

1. Large-scale mining of copper, nitrate, iodine, iron and coal;
2. The financial system of the country, in particular the private banks and insurance companies;
3. Foreign trade;
4. Large-scale enterprises and monopolies in the field of distribution;
5. Strategic industrial monopolies;
6. In general those activities which condition the economic and social development of the country, such as the production and distribution of electrical energy, transportation by rail, air, and sea; communications; the production, refining and distribution of petroleum and its derivatives, including liquid gas; the iron and coal industry; cement, petrochemicals and heavy chemicals, cellulose, and paper.

All these expropriations will always be carried out with full regard for the interests of the small shareholders."

All the "commanding heights" of the economy were thus explicitly included in what was to become the state area of the economy, and if we to this add the planned elimination of all Chile's latifundios it is clear that the program was designed to do away completely with the whole dominant sector of private business. The vagueness of some of the phrases used - "as an initial step", "those activities which condition the economic and social development of the country", etc. - also indicates, that the nationalization of the directly specified sectors could be interpreted as a minimum only.

The UP program also stated that a "mixed area" combining both public and private - domestic or foreign<sup>1/</sup> - capital should be created so as to make possible a direct control of activities not explicitly included in the social area.

Thus, although the UP emphatically declared that the great majority of business establishments would remain in private hands there is little doubt that this majority of small and medium-sized firms were to be deprived of all possibilities to compete with the public sector in "strategic" activities. The full carrying through of the UP's sweeping nationalization program could then signify the virtual deathblow to Chile's till then most powerful domestic and foreign economic interests. The necessity to expropriate only a limited number of companies in order to control the economy was, of course, a corollary to the UP's thesis of the Chilean economy's extremely high degree of concentration. According to ODEPLAN, the National Planning Office, the nationalization of just a few key firms in key sectors would permit the State to increase its share in the generation of GDP from some 10 per cent in 1970 to about 40 per cent in 1976.<sup>2)</sup>

The distinction between "monopolies" - which should be fought and expropriate - and medium and small-scale entrepreneurs - who, in theory, were allies of the working class in their common anti-monopolistic struggle - turned out to be quite difficult to make, however, and even more difficult to put into practice. There was perhaps no other political issue which so clearly reflected the differences that existed within the Chilean Left and the contradictions inherent in the UP's program, and the Allende government's attempt to pursue a consistent policy in its nationalization project was soon shown illusory. For the so-called "anti-monopolistic" strategy was unsatisfactory both from a social and economic point of view, and as it was bound to clash with the interests both of the bourgeoisie and the working class it was politically infeasible as well. But more on this below, when we analyze the politically most important implications of the UP's efforts to create a strong state sector of the economy.

Now, despite violent resistance from those monopolistic interests which were to be expropriated the UP program got off to a good start. In two years all major mineral resource interests and commercial banks had been taken over by the state, and the private sector's dominance in several other sectors was being broken. But before turning to the main purpose of this chapter - to study the advances and difficulties in the construction of the social area of the economy - the UP's main arguments for the nationalization policy have to be presented.

## Principal Objectives

Like all who claim to be Marxists the UP leaders asserted that the abolishment of private property in the principal means of production was a necessary - though certainly not sufficient - condition for the construction of a socialist society, and the UP's "social area" was conceived as "the embryo of the future socialist

economy".<sup>3)</sup>

A far-reaching policy of nationalization was also considered indispensable from the point of view of economic and political power. The central aim of the UP was, as we recall, to "put an end to the power of national and foreign monopolistic capital and latifundism in order to begin the construction of socialism", and the expropriations of private business and the construction of a state area would, in the words of Américo Zorrilla, not only bring economic benefits but would also "represent the initiation of the destruction of the material base of support for the country's most reactionary sectors".<sup>4)</sup> One hoped, then, and argued, that the expropriation of property held by the "monopolistic, reactionary sectors" would gradually undermine the political strength of the Right, thereby facilitating the "popular forces'" march toward power. In the same way it was held that the taking over of the principal foreign interests doing business in Chile would deprive the domestic oligarchy of many of its most powerful allies.

The justification of a large state area of the economy was often presented - at least by Communists and Radicals - in pragmatic rather than ideological terms, however. The old economic structure was rejected as being responsible for the Chilean people's misery<sup>5)</sup>, and the UP's analysis of the ills of society led to the obvious conclusion that it was imperative to transform the economic structure radically in order to solve the economic and social problems of the country. "Economic independence" was emphasized as a necessary condition for development, and through the establishment of a dominant state sector the surplus generated by the monopolies would be used to further the development of the economy instead of being transferred abroad or dissipated through luxury consumption. The fraudulent and speculative character of big business was also repudiated time after time through the nationalization of monopolistic enterprises huge surpluses which had earlier "disappeared" in the form of capital flight, tax evasion, unproductive, speculative investment, etc. were to be recuperated for development needs.

The old pattern of industrialization was, furthermore, to be broken. "From now on, the driving force of development will be based on 'popular consumption' and not on exports and import substitution"<sup>6)</sup>; this and similar phrases indicate the new direction the economy was to take. The sectors, regions and social classes left behind or left out by the old capitalist system were to be favored in the "new economy".

In this "new economy" the state-owned sector was to become large and centralized enough to be "dominant" and permit firm public control of the economy. Planning was to substitute market forces in all investment decisions of strategic importance and it should not be the kind of "indicative planning" that every government since the 1930's had had in their programs. "The central planning agencies will be at

the highest administrative levels, and their democratically determined decisions will have an executive character".<sup>7)</sup> In the words of Allende: "We are and will always be supporters of a centralized economy, and the enterprises will have to fulfill the production plans made up by the government."<sup>8)</sup> Or, to end this section on the why's and how's of the social area of the economy, as formulated in Allende's First Message:

"Our government intends to make it (the public sector) quantitatively even more important than it has been up to now, but also qualitatively different.

The establishment of the area of social ownership does not signify the creation of a system of state capitalism, but the beginning of a truly socialist structure. The social area will be managed jointly by the workers and by representatives of the state ... The general criterion to define the socially owned area is the necessity to conceive it as one single integrated unity, capable of generating all its potentials ... This implies the urgency to establish a planning system with real power to allocate economic surplus to the different sectors of production ... It is our determination to see to it that no investment project not included in the centrally established plan be executed. In that way we will put an end to improvisation and, in accordance with the program of the Popular Unity, initiate the organization of socialist planning."

But socialist planning will not be a topic discussed in this chapter. Under the conditions that prevailed in Allende's Chile little progress was made in the "constructive" phase of the nationalization program, i.e. in the organization of the state area as an integrated whole, capable of generating its own surplus and directed in accordance with an overall economic plan. The serious economic and political difficulties that soon confronted the government also impeded effectively the "putting an end to all improvisation", and most of the chapter that follows will be dedicated to problems connected with the formation rather than the actual functioning of the state area of the economy.

## Basic Mineral Resources

### Copper

All through its history - i.e. ever since the 16th century - the Chilean export trade has been intimately linked to the extraction of minerals. Most of the riches Chile's deserts and mountains have supplied the world market with have one after another practically ceased to generate private fortunes, tax incomes and export earnings. But copper has not: during the last fifty years copper has accounted for one-third or more of Chile's total sales abroad. A share which, thanks to prices rather than production levels, has shown a pronounced tendency to rise over time; in 1950 it reached 52,3 per cent, in 1960 68,4 per cent, and in 1970 76,9 per cent.<sup>9)</sup> The bulk - some 85-90 per cent in the early 1960's - of total copper output originated from the U.S. owned Gran Minería, which thus alone controlled over half of Chile's export earnings.



To this large and increasing share of Chile's foreign tax income, however, was added a declining share of tax incomes and employment, however, of the growing importance as the country's main source of tax income in the 1930's and 1940's, especially during the "Popular Front" administrations, which had a special emphasis on copper taxes - the leading position of the Gran Minería production sector.

Table VI:1. Direct Taxes From the Gran Minería of Copper in Chile, 1930-1964  
(Tax Revenues (percentages))

Period	Share
1930-34	3,0
1935-39	14,0
1940-49	21,0
1950-59	16,9
1960-64	9,3

Source: 1930-39: Mamalakis in Mamalakis & Reynolds, Essays ..., op.cit., p. 13.  
1940-49 and 1950-59: Instituto de Economía, La Economía de Chile en el período 1940-49, en el período 1950-59, op.cit., Vol. I, p. 130-131,  
1960-64: DEPLAN, Antecedentes ..., mayo, 1964, p. 13.

In terms of employment, large-scale copper mining began to lose importance as significant. The absolute number of workers declined by 10 per cent between 1950 and 1959<sup>10)</sup>, and in 1960 total employment amounted to 28,000 men and women in the people.

Table VI:2. Employment in Gran Minería 1960, Absolute and in percentage of Total Force of Labor Force

Workers	Employment	Staff employees <sup>a)</sup>	Total	Employment in Gran Minería as a percentage of total force of labor
12 543	3 474	1 962	17 984	10,0

a) "Staff employees" comprises managers and professional employees, of whom 10 per cent were foreigners - who were remunerated according to the so-called "dollar roll", receiving their payment in dollars.

Source: Clark Reynolds & Marcus Mamalakis, Essays ..., op.cit., p. 13, and Instituto de Economía, La Economía de Chile en el período 1960-64, op.cit., Vol. II, Table 20, p. 13.

Together with the giants of the Gran Minería there operated a large number of small and medium-sized Chilean owned mines with production cycles and labor productivity levels completely different to those in large-scale mining. Although these minor mines employed more people than the Gran Minería<sup>11)</sup> they produced no more than some ten per cent of total output.

Thus, within the copper sector we encounter contrasts similar to those found within agriculture (latifundios-minifundios) and manufacturing (large modern industry-artisanry), but even more accentuated: a few large units producing the

bulk of output but employing a comparatively small number of all workers occupied within the sector.

#### Foreign Dominance and Copper

In the first few decades of the present century the three large mines, then known as the Gran Minería - Chuquicamata, Potrerillos<sup>12)</sup> and El Teniente - were established by two North American companies. Profits were high and Chilean control over the operations nil, but the foreign investors were, by and large, left in peace by all subsequent Chilean governments; not even the "Popular Front" during its early, most radical period ever suggested measures against the Gran Minería that went beyond increased taxation. This compliancy towards foreign capital stood in sharp contrast with the situation that prevailed at the end of the 19th century, when widespread discontent with the British nitrate investors' ways of disposing of Chile's prime export product made the "nitrate question" the most burning political issue of that time, provoking both a civil war and the fall of a president.<sup>13)</sup>

Several factors contributed in creating a Chilean attitude toward foreign control of the Gran Minería best characterized as one of tolerance or resignation. The American managers' superiority in terms of "know-how" and technological skill was generally recognized as an indisputable fact, and the circumstance that the large copper mines had not been taken over by foreigners but belonged to them from the very beginning of their operations also helped to subdue public resentment. To this we should add the rather indifferent political attitudes adopted by the workers themselves, attitudes which differed greatly from those of the combative, anti-imperialist nitrate miners. The living standards of the various categories of miners were also very unequal; while the nitrate workers constituted one of the very poorest groups in Chile, dying young and, while living, starving, the miners of the Gran Minería of copper enjoyed wages considerably higher than those of other Chilean workers.

Conflicts arose, however, and beginning with the commencement of the "great copper debate" in the early fifties an increasingly active and broader opinion resulted in a serious questioning of the harmony of interests between Chile and the foreign copper companies - a development which culminated in the unanimous support given by the Chilean Parliament to the Allende government's nationalization bill presented in 1971.

In the first phase of the debate, lasting up to the "Chileanization" versus "nationalization" controversy introduced during the election campaign of 1964, the copper companies' price policy constituted the main target for the Chilean attacks. The prices paid for Chile's copper were consistently inferior to those obtained in the world market, the reason for this being found in the peculiar

arrangement according to which prices were set by the government of the United States - until the mid-fifties the main buyer of Chile's copper - through negotiations with the large copper producers in the United States and abroad. The difference between these regulated prices and market prices became spectacularly large during World War II and the Korean War; between 1941 and 1945 Chile's copper was sold at a fixed price of 12 cents per pound when world market prices averaged 17,35 cents<sup>14)</sup>, and in 1951 and 1952 the price was raised to first 24,5, then to 27,5 cents while the price on the free, international market was over 40 and by the end of 1952 over 50 cents per pound.

The official arguments from the government of the United States were of both an economic and a political character. Prices ought to be "stabilized", it was argued, and cheap sales of Chilean copper constituted, furthermore, Chile's contribution to the "fight for democracy" in the "free" world.

The freezing of prices during the Korean War caused a storm of indignation in Chile, and a delegation was sent to Washington early in 1951 to negotiate directly with the American government. Results were meager, however: the "Washington agreement" conceded the right to Chilean authorities to dispose of 20 per cent of the sales from Gran Minería in any market they found convenient (with the exception of socialist countries, to which sales were explicitly forbidden), but they were forced to accept the U.S. price regulations for the remaining 80 per cent.

Both within and outside the Chilean Parliament a growing opinion demanded the "Chileanization" of the copper sales. Even members of the governing Radical Party, responsible for the copper policy since 1938, criticized severely the American price decrees. As, for example, the Radical Deputy Humberto Enríquez put it:

"We know, that while 80 per cent of our copper is sold at 27,5 cents per pound or 600 dollars per ton, the price at the world market is 1 200 dollars per ton. ... This difference represents more than 180 million dollars or, translated into our currency, some 180 000 000 000 pesos per year. This is what we are presenting to the United States as a gift. This is our contribution to the cause of democracy."<sup>15)</sup>

Despite various Chilean efforts to gain control over the export sales of copper - especially in 1952 to 1954 when the Central Bank of Chile bought the copper from the American companies at the regulated price and re-sold it in the world market<sup>16)</sup> - the price anomalies continued to appear every time international prices went up substantially. In 1965, for example, prices on the London Metals Exchange stood at 58,6 cents per pound, while Chile's copper was sold for 30,1 cents.<sup>17)</sup> One year later the United States forced the Frei government to sell 90 000 tons of copper as a contribution to the American strategic reserves - which were diminishing rapidly due to the war in South East Asia - at a price of 36 cents, when the London price was almost 70.<sup>18)</sup> Only in 1968 did Chile manage to reach an agreement which made it possible to sell all copper at London Metals Exchange prices.

Not only the price and marketing policy of the copper companies was subjected to criticism, however, although this policy in particular constituted the most humiliating aspect of the foreign investors' control over Chile's copper (and, many argued, over leading Chilean politicians). The lack of expansion of capacity and output was also hard to justify from a Chilean point of view. Despite gradually rising prices and profits net reinvestment in Chile was kept low or negative, and while repatriated profits climbed upwards<sup>19)</sup>, production stagnated. Thus, it was not until somewhat into the 1960's that Gran Minería output reached World War II levels:

Table VI:3. Production of Copper in Gran Minería, annual averages

Period	1 000 metric tons	Index, 1940-44=100
1940-44	441	100
1945-49	398	90,2
1950-54	345	78,2
1955-59	437	99,1
1960-64	501	113,6

Source: Max Nolff, Los Problemas Básicos del Cobre, in Martner (ed.), El Pensamiento Económico del Gobierno de Allende, op.cit., Table 3, p. 186. If the shift in the composition of output (see below) were taken into account, the index for 1955-59 and 1960-64 would have to be adjusted downwards considerably.

Chile - possessing some thirty per cent of all known reserves of copper and offering her investors three of the most easily exploited mines in the world - was lagging behind in the rapidly expanding world market. As a consequence of the American companies' growing unwillingness to increase mineral extraction within the country the decline in market share of refined copper was especially pronounced:

Table VI:4. Chile's Share of World Production of Copper, percentages

Year	Per cent of world production of		
	copper minerals	melted copper	refined copper
1947	19,1	17,9	10,5
1950	14,4	13,7	9,4
1955	13,9	13,1	6,3
1960	12,6	11,3	4,5
1964	13,1	12,8	4,8

Source: ECLA, Algunos Aspectos de la Industria de Cobre en América Latina, 1968, p. 25. In 1950, 41,5 per cent of Gran Minería's copper was refined within Chile - in 1961, this share had fallen to 12,2 per cent. For further details, see Mario Vera Valenzuela, La Política Económica del Cobre en Chile, 1962, pp. 32-34 and Appendices 1 and 2.

In the early 1960's the poor rate of expansion became the main theme in the copper controversy. Increased Chilean control over the sales was not enough, many people argued - to come to grips with the stagnation of production it would be necessary to "nationalize" or to "chileanize" investment and production decisions as well. Thanks to Eduardo Frei's victory in the 1964 election the "Chileanization" program got the first chance to be tested - a circumstance which undoubtedly contributed to the popularity of the nationalization formula.

#### Frei's "Chileanization" of the Gran Minería

The Gran Minería of copper, defined as mines with an annual production exceeding 75 000 metric tons, consisted of three mines - Chuquibambilla, El Salvador, and El Teniente - owned by two American companies - Anaconda and Kennecott - through their Chilean subsidiaries. The situation prior to the "Chileanization" was as follows:

	<u>Chuquibambilla</u>	<u>El Salvador</u>	<u>El Teniente</u>
Owner:	Anaconda	Anaconda	Kennecott
Name of subsidiary:	Chile Exploration Co.	Andes Mining Co.	Braden Co.
Year when exploitation began:	1911	1959	1913
Output in 1964, 1 000 metric tons:	288,2	76,7	163,2

As presented by the Christian Democrats the broad objectives of the Chileanization program were to raise investment and output, to increase Chilean control over decision making and to increase the integration of the Gran Minería into the national economy, the latter mainly through the creation of more industries based on the further processing of the copper minerals within the country.

Immediately after taking office the Frei government took up conversations with Anaconda and Kennecott in order to settle the future relations between the foreign firms and the Chilean state. In brief, the content and consequences of the agreement reached were as follows.<sup>20)</sup>

#### El Teniente

The first mine to be affected by the "Chileanization" was Kennecott's El Teniente. Even prior to 1964 the American owners had been in contact with the Chilean government and suggested an arrangement that would transfer a 51 per cent ownership interest in Braden Copper Company to the Chilean state; from Kennecott's point of view it was considered necessary to ally oneself with domestic capital in order to secure the company's future in Chile, and the state offered the best prospects for both political and economic reasons.<sup>21)</sup>

The Kennecott proposal, willingly adopted by the new Chilean government, was soon a concluded deal, and in 1967 Chile began to purchase her 51 per cent share. For purposes of compensation Braden was valued at 160 million dollars, and Chile's share thus amounted to 81,6 million which was to be paid to Kennecott in three annual installments bearing an interest charge of 4 1/2 per cent.

The price paid came as a shock to the Chileans. Braden's book value in 1967 was no more than 72,5 million dollars, or less than the sum paid by Chile for only half the shares. Although it was generally agreed that Braden's book value was an underestimation in view of the company's high profits, it was considered quite remarkable that the value of the fifty year old and poorly maintained mine had been inflated to 160 million dollars. Even a fairly optimistic calculation of the present stream of future profits would have given a real value for Braden far below the 160 million assessment of the Frei government.<sup>22)</sup>

The deal included other conditions which were no less favorable to Kennecott. Taxation on profits was heavily reduced so as to stimulate increased production, and despite the fact that Chile now owned a majority interest her total revenue from pre-tax profits declined. If the Nuevo Trato of 1955 had remained valid Chile would have received a higher percentage than actually received after "Chileanization". Possessing 49 per cent of the shares, Kennecott's net profits not only increased in absolute terms, but also as a percentage of gross profits (see Table VI:5).

Table VI:5. Taxation of Gran Minería According to the Legislations of 1955, 1967 and 1969. Percentage of profits accruing to the Chilean state as taxes and, after 1967 (El Teniente) and 1969 (Chuquicamata), dividends.

<u>Law of</u>	<u>El Teniente</u>	<u>Chuquicamata</u>	<u>El Salvador</u>
1955	78,13	71,5	60,5
1967	72,56	58,4	50,0
1969	-	76,7 <sup>a)</sup>	75,7 <sup>a)</sup>

a) Not including a special "overprice tax" which varied according to the price level of copper.

Source: ODEPLAN, Antecedentes ..., op.cit., pp. 136-37.

Chile's participation in decision making fared little better. The minority partner was guaranteed the exclusive right to administer the new, mixed enterprise, to appoint executives, etc. for a minimum period of twelve years.

In return for these benefits Kennecott had to promise to invest. According to the "Chileanization" agreement some 230 million dollars were to be invested during a span of four years so as to make possible an increase of output from some 160 000 to 280 000 tons of copper.

When it came to the financing of this expansion plan Kennecott escaped without having to raise a single dollar in fresh capital. Its only contribution was a credit of about 90 million dollars - that is, the sum, including interests, received by the Chilean state - which Kennecott granted the new mixed company Compania de Cobre El Teniente. The rest was supplied by the U.S. Export-Import Bank (119 millions) and the Chilean state. Thus, while the Frei-Kennecott agreement failed to "Chileanize" both the profits and the administration of the company it did "Chileanize" a large part of the capital costs as well as the responsibility for the repayment of credits from outside sources.

The results of the "expansion plan" turned out to be meager. In 1970 - the last year in which El Teniente was under the exclusive administrative control of Kennecott/Braden - production amounted to 176 600 metric tons, while the plans made up four years earlier indicated 213 400 tons (see Table VI:7). This further confirms the verdict of Keith Griffin, expressed before the outcome of the "expansion plan" was known: "The agreement with Kennecott appears to be a disaster from Chile's point of view."<sup>23</sup>)

Table VI:6. Output from Gran Minería 1964-70, thousands of metric tons

<u>Year</u>	<u>Tons</u>	<u>Year</u>	<u>Tons</u>
1964	528	1968	519
1965	496	1969	540
1966	538	1970	535
1967	537		

Source: ODEPLAN, Antecedentes ..., op.cit., p. 128.

Table VI:7. Projected Output in 1970 According to the Expansion Plans and Actual Production in 1970, thousands of metric tons

<u>Mine</u>	<u>Output projected for 1970</u>	<u>Actual output (1970)</u>	<u>Plan fulfillment (per cent)</u>
Chuquicamata	317,8	263,0	82,7
El Salvador	95,3	93,0	97,6
El Teniente	213,4	176,6	82,8
Exótica	22,7	1,9	8,4
<u>Total</u>	<u>749,2</u>	<u>534,5</u>	<u>71,3</u>

Source: Banco Central de Chile, Boletín Mensual, May 1972, p. 626 (actual production); and Panorama Económico, No. 246, July 1969, p. 20 (planned production).

#### Chuquicamata, El Salvador, and Exótica

Anaconda, owner of Chuquicamata and El Salvador, first refused to be "Chileanized" - it only let the Chilean state acquire a 25 per cent interest in the future exploitation of a new mine, Exótica, which was to start producing in 1970. Anaconda did, however, sign an agreement with the Chilean state in 1966 in which the

... to increase production in the three mines it controlled with 175 million dollars over the next five years. As a compensation, taxes were drastically reduced and the state owned 50 percent. The capital needed for the new investments was provided in part by the Chilean state, in part by foreign banks and other sources.

As the copper boom continued, however, and reaction from the government's political opponents grew in the business sector, etc. The results of the copper boom were not as good as expected. At the beginning of 1969 Chile controlled none of the world's copper reserves, and while production stagnated both copper prices and Chile's share of the world market moved upwards rapidly. Kennecott's and Anaconda's profits were particularly high. The annual average of net profits remitted abroad from 1960-1966 was 114.3 million dollars as against 42.3 to 114.3 million dollars between 1960-66 and 1967-70.

In June 1970, the government unexpectedly announced that a new agreement had been reached with Anaconda to sell a 51 per cent controlling interest in the company to the Chilean state. Compensation was set at 175 million dollars, to be paid over the next five years and bearing an interest charge of six per cent. The agreement also included a paragraph giving the Chilean state the right to buy remaining shares of the company during a period lasting from 1973 to 1982.

As a result of the "Chilization" of the Gran Minería there have been no more "old" mines to sell. The gradual nationalization of the Gran Minería and the Gran Minería was never carried into effect, and the various expropriations that were made up never got a chance to be completed under the leadership of the former General. Our information about what did take place in 1970-71 is however sufficient enough to support the conclusion that the Christian Democrat "Chilization" program was a very poor deal for Chile.

## *The Unidad Popular's Copper Nationalization*

The Gran Minería comprised, as we have seen, three "old" mines - Chuquibambilla, El Salvador and El Teniente - and the newer ones which had only recently started operations, namely Andina and Exótica. The situation in the copper sector in 1970 was as follows: the Chilean state owned 51 per cent of the share capital in the "old" mines, with Anaconda (Chilean) controlling 51 per cent, and 25 per cent of the share capital in the newer mines. Anaconda (Exótica) and the Corporation (Andina) held the rest. In all five mines administrative control lay in the hands of the foreign associates.

The complete nationalization of the whole Gran Minería was on both Allende's and Tomic's electoral programs and was also supported by the overwhelming majority of the Chilean people. The UP had, then, little to fear in terms of domestic opposition, within or outside Congress; the rightist parties could hardly afford



to make objections, and had they tried to stop the planned take-over Allende would only have had to call for a plebiscite and let the people decide (the fact that Allende chose to present the nationalization project as a constitutional amendment and not as an ordinary law served to intimidate the congressional opposition, since this procedure provided Allende with the possibility of a plebiscite in the event the Congress refused to pass the bill). This latter expedient never became necessary, but the constitutional reform by means of which the Gran Minería of copper was expropriated was, in fact, the only major reform the UP was able to effect through new legislation. In no other issue of importance did Allende get the congressional majority's support.

#### The Constitutional Reform and Its Sequels

On July 11, 1971, the UP's proposal was ratified unanimously by both chambers of the National Congress, and four days later the Chilean state took possession of the Gran Minería.

The state was, to begin with, made sole owner of all mineral deposits within the country's border. The constitutional amendment thus declared null and void all contracts made up earlier granting private interests, domestic or foreign, the right to ownership of Chilean mineral resources; a clause mainly affecting Kennecott, which claimed to own not only the installations in the mine it exploited but all copper ore within the whole region as well.

The concept of nationalization was, moreover, introduced into the Chilean constitution for the first time, although its validity was exclusively confined to the copper mines of the Gran Minería.

Thirdly, and herein lay the great originality of the copper bill: the right to make various forms of deductions from the amount to be paid in compensation to the owners was stipulated. This in international legislation quite unique clause signified concretely that from the sum to be paid according to the Dec. 1970 book value of Anaconda, Kennecott and Cerro Corporation deductions should be made corresponding to the sum total of all so-called "excess profits" reaped by the companies during the last fifteen years plus the value of all installations that the Chilean state (i.e. the Contraloría General) found poorly maintained or obsolete as a consequence of negligence on the part of the former owners. "Excess profits" were calculated as net profits exceeding a norm of twelve per cent a year which was established as a "reasonable" rate of return. The Chilean State assumed, however, the responsibility for the whole 774 million dollar debt that the mixed Chilean-American companies had contracted in connection with "expansion programs" in the late sixties.<sup>25)</sup>

The results of the compensatory calculations are given in Table VI:8 below.

Table VI:8. Net Compensation to be Paid for the Gran Minerfa Companies:

	<u>Book Values Minus Deductions (millions of dollars, rounded figures)</u>				
	<u>Chuquicamata</u>	<u>El Salvador</u>	<u>El Teniente</u>	<u>Ex6tica</u>	<u>Andina</u>
Book Value	242,0	68,4	318,8	14,8	20,1
-excess profits	300,0	64,0	410,0	-	-
-other deductions	18,5	5,9	219,2	4,8	1,9
Subtotal deductions	318,5	69,9	629,2	4,8	1,9
Compensation, net <sup>a)</sup>	-76,5	-1,6	-310,4	10,0	18,3

a) Minus sign signifies debt to the Chilean state.

Source: ODEPLAN, Nueva Economfa, No. 1, Sept.-Dec. 1971, p. 18.

Thus, while the Allende government's complete nationalization of the Gran Minerfa of copper came as the logical culmination of Frei's "Chileanization", the procedures applied in the two cases were totally different. While the Christian Democrats "Chileanized" with the express consent of the American companies - in the case of Kennecott even in accordance with the company's own proposals - and paid a price for the Chilean holdings which by far exceeded the sum total of the mine's book values, the UP's nationalizations clashed directly with the interests of the foreign owners who not only lost all their assets in Chile but who even found themselves owing the Chilean state several hundred million dollars.

The Kennecott, Anaconda and Cerro Corporation quite naturally protested against the calculations made by the Contraloría General. Though the American companies could do little about the constitutional amendment, they did have the right to appeal to a "copper tribunal" set up in order to settle the very likely conflict over the amount of compensation to be paid for the companies' assets. In August 1972 this copper tribunal - whose decisions were final and whose verdict both sides beforehand had promised to respect - confirmed both the legality of the Chilean state's measures and, with only a few minor modifications, the calculations made by the Contraloría General. The legal road was thus effectively blocked for the U.S. companies.

The nationalization of copper was bound to have repercussions upon Chile's international relations, and the compensation issue was soon converted into an open dispute between the governments of the United States and Chile. A vital part of American foreign policy - manifested in, for example, the so-called "Hickenlooper amendment" and in a host of official statements of various kinds as well as in innumerable concrete cases of diplomatic, economic and military pressure on countries expropriating U.S. property without paying "prompt and adequate compensation" - is to protect American business abroad, and in the case of the Gran Minerfa of copper the U.S. government also became directly involved at once since the U.S. companies' assets in Chile were insured against expropriations through

the public agency OPIC (Overseas Private Investment Corporation ). The U.S. government responded to the Chilean proceedings with considerable concern; not so much because of the amount of money involved, perhaps, but rather out of fear that the Chilean example would initiate a chain reaction among Third World countries which could be tempted to start deducting "excess profits" when nationalizing foreign property.<sup>26)</sup>

The attitude towards Chile thus turned cool, if not to say outright hostile, although reprisals were kept on a far more discrete level than, say, was and is the case with Fidel Castro's Cuba, which has had to endure an almost total U.S. economic blockade. Against Chile the American government preferred to act with more caution, the principal form of retaliation being the curtailment of Chilean access to credit from U.S. banks and credit institutions and from various international organizations under U.S. control.

But exactly how much the copper conflict contributed to making the United States suspend new lending to Chile is difficult to tell, of course. The U.S.-UP relations were strained long before the Gran Minería was nationalized in July 1971, and American economic and political pressure against Allende had, as we recall, been initiated even before Allende had taken office. And because of the economic policies pursued by the UP Chile's creditworthiness rapidly declined, too - there existed good commercial reasons for being careful in granting Chile new loans. Among international credit agencies the Allende government's capacity to handle development projects was seriously questioned.<sup>27)</sup>

The "invisible blockade" undoubtedly contributed to aggravating the overall economic situation in Chile in 1972 and 1973. As for foreign trade the Chilean position was less vulnerable since Chile had the great advantage of not being too dependent on the United States as a trade partner. Less than ten per cent of exports went to the U.S. in 1970, and most of the import trade could be re-directed, albeit not without certain difficulties, towards other suppliers.

There existed, however, an informal "trade blockade" against Chile as well; there were many instances when Chilean companies were frequently denied spare parts, machinery, etc. from former U.S. suppliers (and from many a company in Western Europe as well). In part as a result of this discrete, unofficial blockade the U.S. share of total Chilean imports fell from 37,2 per cent in 1970 to about ten per cent in 1972.<sup>28)</sup> The effects of the problems thus created were felt in mining, above all, and especially in copper mining to which sales of American capital goods were drastically curtailed and for which certain specialized machinery and equipment could not so easily be obtained from other suppliers. Before Nov. 1970 over 95 per cent of all capital goods to the Gran Minería of copper came from the United States - two years later this had virtually been reduced to nothing.<sup>29)</sup>

But, in addition, in the case of Chile's import problems purely commercial reasons were often important. With her foreign reserves approaching zero Chile found it increasingly difficult to get even current commercial credit and was more and more forced to pay in cash to American suppliers.

To the problems encountered in obtaining goods and loans from the United States the Allende government soon became involved in a struggle to protect Chilean interests abroad from various forms of attacks by the expropriated copper companies. Both Kennecott and Anaconda thus tried - successfully - to get a court in New York to block several assets belonging to Chilean state agencies operating in the state of New York. The battleground was extended to other countries as well; claiming that all copper coming from El Teniente was "stolen property" Kennecott repeatedly tried to seize Chilean export earnings by urging the purchasers of copper to pay not to Chile but to Kennecott.<sup>30)</sup> These and similar legal actions directed against Chilean copper sales created uncertainty among buyers and was an ever-present source of apprehension in Chile, and in three test cases (France, Holland and Sweden) Kennecott got consumers of El Teniente copper to block payments to Chile. The quantities affected were small, but as a result of Kennecott's actions Chilean sales of El Teniente copper to France, Holland and Sweden had to be suspended, and Chile temporarily ran into problems when trying to sign new contracts with other purchasers (up to March-April 1973 the world market of copper was quite depressed - after that, it became a seller's market).

#### Evaluation

It is of course impossible to quantify the damage done to Chile through the United States' and Kennecott's and Anaconda's retaliation. The income side of the UP's nationalization without compensation of the Gran Minería is perhaps easier to assess, at least in terms of foreign exchange: with the American companies' being the owners of the mines annual profit remittances would amount to some 50 to 100 million dollars, depending on the level of copper prices. The nationalization of Kennecott and Anaconda was, in this respect, a good illustration of the argument advanced almost twenty years ago by Martin Bronfenbrenner who maintained that the appeal of confiscation in no way should be discarded as "'pure propaganda' in the sense of economic fallacy"; confiscation was, quite the contrary, often likely to bring "the pragmatic results desired" by "shifting income to developmental investment from capitalists' consumption, from transfer abroad, and from unproductive 'investment'".<sup>31)</sup>

But to evaluate the "pragmatic results" of the Gran Minería takeover we also need to take into account what happened within the mines. Should we to the

"costs of nationalization" in terms of international repercussions and foreign economic aggression add any direct costs associated with problems for the new owners in running the mine? To try to estimate such costs would be difficult indeed, but a few words must finally be said about the performance of the Gran Minería under the new Chilean administration.

The UP did have a lot of difficulties with its copper mines. First, there was the problem of the flight of technicians that took place; in Chuquibambilla, for example, all the 54 American managers and technicians that had held important posts in the company abandoned Chile after the nationalization. 97 Chilean professionals, offered jobs elsewhere by Anaconda, also left in 1971.<sup>32)</sup> In all the mines repercussions were similar, and not only the top management positions had to be refilled but a large number of both American and Chilean technical and administrative cadres had to be replaced. Transition problems necessarily arose, although technical difficulties caused by the lack of trained personnel appear to have been far less serious than many people, including high CODELCO officials, had initially feared, and also less serious than problems caused by the lack of spare parts and equipment.

Still more troublesome were however the attitudes of the mine workers and the conflicts that arose with the Chilean technical staff. The rigid capitalist discipline that ruled under American administration was in no way replaced by socialist discipline; absenteeism increased markedly on all levels, and the comparatively quite privileged miners of the Gran Minería - politically much to the right of the great majority of Chilean workers - had endless disputes over wages with the UP government. In Chuquibambilla, where these problems were most pronounced, 67 partial work stoppages are said to have taken place only in 1972<sup>33)</sup>, and in El Teniente, for a long time renowned for its good working conditions and for the responsible and conscientious spirit of its workers, a large group of miners went on strike for a couple of months in April-June 1973.<sup>34)</sup> As from mid-72 the technical and office staff openly began to show hostility towards the new administration, and minor strikes were very common.

What role the possible incapacity of the new management played in these conflicts is impossible to assess, however; the trade unions for supervisors, technicians and office personnel were traditionally controlled by Christian Democrats, and the strikes were basically directed against the UP government in general.

But despite these and similar problems output was maintained and, thanks to the good performance of the El Teniente workers, even slightly increased in 1972:

Table VI:9. Gran Minería of Copper, production levels 1970-72  
(thousands of metric tons)

	<u>1970</u>	<u>1971</u>	<u>1972</u>
Chuquicamata	263	250	235
El Teniente	177	147	191
El Salvador	93	85	83
Sub-total old mines	533	482	509
Exótica	2	35	31
Andina	6	54	54
<u>Total</u>	<u>541</u>	<u>571</u>	<u>594</u>

Source: CODELCO. The junta's provisional figures for 1973 (El Mercurio, International Edition, Jan. 20-27, 1974) show a 2,1 per cent decline of output during the first nine months of the year.

#### Mining Other Than Copper

Chile's gaining of control of her iron, nitrate and coal mines was carried through after direct negotiations with the foreign interests involved and was thus much less dramatic than was the case with copper.

The UP decided to act at once. In 1971, when almost all the above negotiations were concluded, the Allende government's political power reached a peak, a circumstance which could not but affect Chile's bargaining position positively. Since the foreign companies' interest to remain in Chile under the new regime in general was quite limited it was not difficult to convince them to sell out, and a common opinion in Chile was that the agreements that the UP reached were highly advantageous to Chile.

Most of the formerly very prosperous but during recent decades quite stagnant nitrate industry was nationalized early in 1971 as a result of the Chilean state's purchase of the American majority holder's 61 per cent controlling interest in Anglo Lautaro Co., the most important nitrate company in Chile. The second largest nitrate establishment, Salitrera Victoria, was already owned by the Chilean state, which through the incorporation of Anglo Lautaro acquired the control of over 95 per cent of total production of nitrates and nitrate products. The price paid for the Anglo Lautaro shares amounted to eight million dollars, to be paid over a period of two years - a sum which could be compared with the cost of the Frei administration's "Chileanization" of the same company: 24,6 million dollars for little more than one-third of the share capital and with no direct control over the administration of the company.<sup>35)</sup>

A similar deal was reached with the main foreign investor in the field of iron, Bethlehem Iron Mines Co. (a subsidiary of Bethlehem Steel). For twenty million dollars the Chilean state bought the totality of Bethlehem's mining interests, and after the acquisition of the huge steel and metallurgical complex, Pacific

Steel Company (CAP), - a mixed company with CORFO and a couple of American mining enterprises as major shareholders - and of most of the remaining metallurgical industries the Chilean state became the owner of almost the whole iron and steel sector.

The UP government also purchased the large Chilean owned coal mine Lota Schwager, accounting for more than 95 per cent of Chile's total output of coal (most of the remainder was produced by an already nationalized mine, Arauco). Like many other Chilean mining companies Lota-Schwager had, during the last few decades, entered a period of outright decadence, and the about 14 000 workers - living in the perhaps most miserable of all Chile's urban agglomerations - had for long struggled to get the state to take over the mine. The owners offered little resistance when the poorly managed and loss-making company only a few months after Allende took office was sold to the state at a very low price.

Numerous similar deals were reached. By early 1972 the mines exclusively owned by the state had increased to 34, as against only one in December 1970. Four more had passed to the area of mixed state-private ownership.<sup>36)</sup> One of the prime objectives of the UP for its first year was thus virtually reached; Allende had promised to nationalize all basic mineral resources before the end of year one, and in fact no private mining interest of importance had survived any longer. Remaining in private hands was only small-scale mining - of copper, above all - accounting for less than ten per cent of the value of Chile's mineral production. The projected increase in the integration of the mining sector with the rest of the economy was also initiated. No more "enclaves" were to be permitted, and the Allende government transferred almost all major mineral-processing industries to the area of social ownership and began to launch ambitious investment plans for their future development.

This "constructive" phase of the UP's mineral strategy did not have time to advance very far, however, and our only safe conclusion with respect to the government's policy towards the mineral sector is that it did achieve all its major nationalization objectives within a short period of time.

A final word should be said about the development of output in mining other than copper. My data are provisional, especially for 1973 - and they do not distinguish between private and state owned companies - but even if they are only approximately correct they reveal a rather general pattern: the good or acceptable performances in 1971 were followed by great difficulties in 1972 and 1973. The problems that arose were usually attributed to the lack of spare parts and machinery, particularly of foreign origin, but other factors, the relative importance of which I have no possibility of assessing, certainly contributed. But what is clear is that political problems of the kind that affected the Cran Minerfa of copper were totally absent

in the iron, coal and nitrate mines; here the Chilean Left had a very solid and fervent core of adherents, and no strikes or major labor conflicts broke out.

Table VI:10. Percentage Variations of Production (volume) in Iron, Coal and Nitrate Mining 1971-73

	1971	1972	1973 <sup>a)</sup>
Iron	-0,4	-20,0	+7,2
Nitrate	+18,9	-13,0	-7,0
Coal	+6,9	-9,0	-3,9

a) January-September compared with the same period in 1972.

Sources: 1971: Banco Central, Boletín Mensual No. 540, Febr. 1973, p. 223.

1972: Panorama Económico No. 276, April 1973, p. 11.

1973: El Mercurio, International Edition, Jan. 20-27, 1974. No primary source indicated.

## Industri

It was in the manufacturing industry that the most bitter fights between the Left and the rightist opposition took place after December 1970. The struggle for and against the incorporation into the "social area" of those "strategic monopolies" that the UP had undertaken to expropriate was conducted on all fronts with an intensity that perhaps no other political issue could arouse; the Congress, the mass media, the courts of justice, the streets, and, last but not least, the factories themselves were converted into battlefields over the question of the state area of the economy.

It is quite understandable that the UP met with such hard resistance here. The strategic importance in the national economy of the manufacturing sector was recognized by government and opposition alike, and no other point in the UP program so directly affected and clashed with the Chilean bourgeoisie's immediate economic interests as did the one promising the rapid elimination of private ownership of all industrial "monopolies".

A few other circumstances contributed to make the Allende government's policy towards private manufacturing likely to produce contradictions and confrontations. First, there was the lack of clear-cut criteria within the UP itself with respect to the dimensions of the nationalization program. What should be understood by "strategic industries", "monopolies", etc.? And should the UP program be interpreted as merely anti-monopolistic or should the outright socialist connotations be stressed as well? The legal and institutional situation was, furthermore, considerably less favorable to the government in manufacturing than in, say, mining and agriculture, where the opposition's possibilities to block the realization of the program were smaller: in mining mainly foreign interests which were either anxious to sell out or else so discredited that no leading Chilean politician



could oppose their nationalization were involved, and as for the agrarian sector there already existed legislation which permitted the complete abolition of all large fundos. In manufacturing, however, the situation was far more complicated.

#### Legal and Political Aspects

"The limits of the private, mixed and social sectors of the economy will be established with precision", Allende declared in his first state-of-the-nation address to Congress.<sup>37)</sup> In order to try to avoid what the UP regarded as unjustified insecurity among small and medium-scale entrepreneurs the government, at least in the beginning, repeatedly announced its willingness to give companies not included in the category of "strategic monopolies" absolute guarantees against expropriations if the opposition, in turn, would allow new legislation regulating the legal rules of the game for the three-sector economy to be passed in Congress.

But the congressional deadlock was complete. By the time the government presented its first expropriation bill it was already too late to reach an agreement with the congressional opposition (if this possibility ever existed, and I believe it never did).

In October 1971 a detailed legislative project was presented in Congress by the UP. The bill proposed that a number of important activities - large-scale mining, air and road transportation, banking, postal and telegraphic services, electricity, and a few others - should be exclusively reserved for the public sector. Private stock companies, in manufacturing and elsewhere, with a capital exceeding 14 million escudos by Dec. 1969<sup>38)</sup> were to be wholly or partially expropriated, i.e. would be transferred to either the social or the mixed area of the economy. Smaller companies were, according to the proposed legislation, to be given absolute guarantees against expropriation.

As to the question of compensation, the bill suggested that the amounts to be paid to the owners should be equivalent to each company's book value at the end of the year preceding its nationalization. As a rule indemnification was not to be paid in cash but in so-called social area bonds to be amortized over a longer period of time but which could, under certain circumstances, be exchanged for ordinary shares in companies within the private or mixed area.

Small shareholders were favored, while the larger ones were offered quite disadvantageous terms; for holdings up to twenty sueldos vitales a full compensation for inflation would be added each year to the value of the bonds, while the bonds exchanged for larger stockholdings were to get a seventy per cent adjustment for inflation only.<sup>39)</sup>

All "social area bonds" were, furthermore, to carry an interest of three per cent per year.

With the bill briefly described above the UP wanted to fulfill two of its old electoral promises: first, to nationalize the "strategic" industries while giving guarantees to small and medium-scale business and, second, to safeguard the interests of all small shareholders.

Although not explicitly stated it was taken for granted that all or almost all enterprises whose share capital exceeded 14 million escudos were to be transferred to the social area, and it is thus of interest to see what the UP bill would have signified in figures. Altogether the number of companies satisfying the size criterion of 14 million escudos comprised 253 individual enterprises (some of which had already by Oct. 1971 been nationalized, for instance the large-scale mining companies) which accounted for approximately ninety per cent of the whole share capital of all the 1 978 joint-stock companies that existed in Chile.<sup>40)</sup> Of these 253 a little more than 150 were manufacturing industries; a tiny minority of the about 35 000 industrial establishments that existed, of course, but a very powerful minority in terms of shares of employment and, particularly, of output. According to the conservative daily El Mercurio, this time anxious to exaggerate the Chilean economy's degree of monopolization, the UP's nationalization bill would, if accepted, signify the "virtual suppression of the whole private sector by means of a law."<sup>41)</sup> It would also, according to the same source, transfer to the public sector over 95 per cent of all commercial advertising in television, radio, and other mass media.<sup>42)</sup>

The latter point is not without importance for an understanding of the unified political opposition's fierce resistance to the social area of manufacturing. Although the El Mercurio figure of 95 per cent appears far too high there can be little doubt that the expropriation of the 150 largest industrial enterprises would threaten to wipe out most of the commercial advertising supporting the rightist mass media. This was, no doubt, one of the reasons why the opposition always attacked the industrial expropriations much more violently than it attacked the UP's virtual elimination of privately owned mining companies and latifundios.

Now, let us return to the stalemate in Congress. In view of the vital interests that were involved for the Chilean non-socialist opposition it is hardly surprising that the government's legislative project was rejected by the congressional majority. And in spite of the fact that the number of companies to be expropriated was being reduced by the government all new proposals continued to be rejected. In January 1972 a list of only ninety enterprises to be transferred to the social and mixed areas was released by the UP<sup>43)</sup> - by now a number of firms had already come under public control, but many strategic companies with share capital exceeding 14 million escudos and which remained in private hands had now been excluded from the government's expropriation plans.

The UP's clear retreat from earlier positions was heavily criticized by the UP Left, but was imposed on the group and defended by Radicals and Communists who wanted to give an unmistakable demonstration of the government's good will with respect to adherence to a strictly anti-monopolistic strategy. The new legislative project was officially backed by the National Association of Small Manufacturers (whose members had nothing to fear from Allende's bill - the seventy-four manufacturing establishments that were on the list of the ninety employed an average of 755 workers each), a circumstance which was heavily utilized by the PR and PC in their propaganda against the UP Left; it proved, they argued, the viability of the alliance between the working class and the petty-bourgeoisie.

The government's conciliatory posture - which was accompanied by a cautious policy in other fields as well, the time had come for the Communists' "consolidation of gains"-defensive struggle - in no way appeased the rightist opposition, however, whose response was prompt and negative. A "constitutional reform" which would impede the government from expropriating or taking the control of private companies through other means without congressional approval in each individual case was presented by two Christian Democrats<sup>44</sup>) and accepted by the congressional majority. The "reform" was clearly unacceptable to the UP - not only did it block the further formation of the social area, it also contained a retroactive clause calling for the return to their owners of all companies which had come under state control since Oct. 14, 1971 - but the government, in an effort to reach an agreement with the "progressive sectors of the DC", took up conversations with a number of Christian Democratic senators.

No compromise was ever made, however. After several months of negotiations the talks were unilaterally interrupted by the DC and Allende, in turn, later vetoed all important points in the opposition's constitutional amendment. These vetoes were never accepted by the rightist parties or the Constitutional Court (Tribunal Constitucional) to which the dispute was finally submitted<sup>45</sup>), but Allende insisted on the government's (in this author's judgement quite correct) interpretation of the Chilean Constitution and acted as if the opposition's "reform" had never existed.

The legal situation thus remained unchanged; it continued to be what it had been before the UP's assumption of power and the government had to continue to make use of the old legislation. A legislation which, as both sides were well aware of, was flexible enough to permit a substantial expansion of the social area of the economy.

Most important among the legal prerequisites that stood at the government's disposal were a couple of forty-year old laws which Marmaduke Grove's Socialist Republic of 1932 left behind. The legislation that came into existence during this short-lived (thirteen day long) experience had not been repealed by subsequent governments, and a completely forgotten and never before used law, the so-called DFL No. 520, was

found to be quite useful to a socialist administration.<sup>46)</sup>

According to DFL 520 any private enterprise producing or dealing with "goods of prime necessity" could be expropriated as a result of non-compliance with the law. And the laws were plentyful: both "price speculation" and "stockpiling" could, for example, be worthy the sanction of expropriation. In cases of interruption of production or refusal to use installed capacity in times of "shortages" of the commodity in question the DFL 520 also permitted expropriation to take place. Through simple decrees from DIRINCO (Dirección Nacional de Industria y Comercio), a public agency supervising the price control system among other things, the government could also oblige firms producing goods of prime necessity to raise, under the threat of expropriation, the level of output by a certain percentage (the so-called production contingents).

In short, DFL 520 was flexible enough to allow the expropriation of virtually all existing industrial and commercial establishments. The "only" problem was that full compensation had to be paid to the owners, and it had to be paid in cash and in quantities determined by a civil court (which was almost always firmly controlled by conservatives).

The first expropriation by the Allende government took place already in December 1970 and affected the large textile company Paños Bellavista Tomé, whose activities had been paralyzed after owner-instigated sabotage. The political effects of the government's resolute action were considerable - the opposition's legal experts were all taken by surprise - but the inconveniences in having to pay in cash, and pay well, made the CP reluctant to use this legal tool very often. During the first two years only seven companies, of which five had a share capital over 14 million escudos, were expropriated this way.

DFL 520 stipulated another possibility, however: for the same offences that could result in expropriation a company could be "requisitioned". According to later and little known legislation from the "Popular Front's" administration in the 1940's another mechanism, "intervention", with the same legal consequences as requisition, could be applied in cases of serious labor conflicts such as prolonged strikes. Both requisitions and interventions were conceived as temporary solutions only; the state took, via an interim manager, control of the administration of the plant in question but could not through this procedure become the owner of the company.

At the beginning the Allende government regarded interventions and requisitions mainly as expedient means by which industrialists could be forced to obedience. One of the crucial preconditions for the success of the short-term reactivation program was, as we recall, that private business refrain from economic resistance, and the drastic sanctions that DFL 520 made possible were initially used as threats - blackmail, the Right said - in order to safeguard output and employment against

obstruction. These measures soon lost their emergency character, however; no legislation facilitating nationalization was passed, and since both the government and the workers were anxious to attack private business and implement the UP program more and more companies were subjected to intervention and requisition. In practice the interventions and requisitions tended to be either indefinite or else they resulted in the old owner selling out to the state. They became, in fact, the UP's prime instruments for increasing the number of companies under public control.

Although always accounted for separately the enterprises that had thus been put under "temporary" state management were by most people referred to as belonging to the "social area". The owners of the factories, mobilizing the oppositional parties "public opinion" (i.e. the rightist mass media), the courts and the Contraloría General<sup>(47)</sup>, naturally launched violent campaigns against the use of DFL 520 and the other "legal roads to socialism" that the UP legal experts had unearthed, but interventions and requisitions continued to take place in spite of all the inconveniences that were connected with the use of these means.<sup>(48)</sup>

In many cases, however, and especially when foreign interests were involved, the government tried to avoid the more brutal methods described above. An arrangement often suggested by the UP to foreign investors was the creation of mixed companies, or joint-ventures, with the Chilean state holding a 51 per cent controlling interest in the company in question.

Against North American property the attitude was tougher, though. From the very beginning the Allende government calculated on strained relations to the United States, and sanctions against U.S. companies were common. The very first interventions that the UP undertook, in fact, affected two predominantly U.S. owned industries - the foundry NIBSA and the food-processing industry Purina. In both cases the interventions were motivated by almost total - and, according to the UP, quite intentional - cessations of production. Other interventions in American interests which attracted much attention involved Ford Motor Co. in May 1971 - the plant had been closed down by the owners - and the International Telephone and Telegraph Co. (ITT), well-known in Chile for its subversive actions in 1970, where intervention occurred in September 1971.

As to the cases where ownership and not only control was transferred to the state the most commonly used means was to buy the whole company in question after having reached an agreement with the owners. For the Treasury this procedure in general turned out to be much cheaper than to expropriate, since in the latter case the civil courts were absolute rulers while the government in direct negotiations often had a very good bargaining position vis-à-vis the capitalists. With the state controlling import licences and from 1971 also bank credits and with access to legal threats and penalties ranging from the establishment of "production contingents"

to intervention or requisition the government's position was quite favorable, especially when - as was usually the case - full support could be counted on from the workers involved.

The bargaining strength of the owners, on the other hand, depended to a large extent on their own possibilities to take to economic retaliation against the government. Companies which relied heavily on foreign licences, royalties, spare parts, etc. or which were wholly or partially owned by foreign interests from countries with which the UP wanted to maintain friendly relations were in the very best positions to be well compensated. As indicated earlier the industrialists could also count on an increasingly efficient support from the legislative and judiciary powers and, of course, from the rightist opposition and its mass media. The talks between the government and the industrialists often took place in a quite heated atmosphere, with various forms of pressure put from both sides. The workers themselves often went on strike or even occupied the plant in question during ongoing negotiations, for example, while the bourgeois press openly would accuse those capitalists who agreed to sell out to the state of "treason".

Public acquisition of shares without previous negotiations with any of the owners was another method through which the state area of the economy was enlarged, and practically the whole commercial banking system was in fact purchased this way. Resistance to sell was quite stubborn when it came to industries, however, and when the government through the state development concern CORFO early in 1972 decided to start buying shares in a number of companies that were on the "list of the ninety" it was politically too late; the overwhelming majority of shareholders refused to sell, and not one single industry was bought this way. Even the smallest shareholders, to whom very favorable prices were paid, were reluctant to accept the generous offer - in part, no doubt, as a consequence of the massive propaganda campaign launched by the rightist newspapers, a campaign which among other things consisted of letting the conservative daily La Segunda, part of the El Mercurio empire, occasionally publish lists of "traitors" who had sold shares to CORFO.

The Allende government's purchases of companies through negotiations or acquisitions of shares were criticized from the revolutionary Left as well. "Are they trying to buy capitalism?" was a typical remark<sup>49)</sup>, and in many factories the workers grew impatient and seized the plants against the will of the Ministry of Economy. The government often found itself obliged to try to dissuade the workers from occupying an industry that it did not want to nationalize - loss-making companies, foreign owned industries, and small and medium-sized firms the taking over of which would destroy the hoped-for alliance with the petty-bourgeoisie were for instance placed in this category - but as worker militancy increased the

government often gave way to the workers' demands and named a state interventor. It also happened that the workers presented two separate wage readjustment demands depending on whether the industry remained in private hands or not; this was, for example, the case in the copper processing industry MADECO where the workers early in 1971 put forth two different alternatives: either a general 35 per cent wage increase or only 25 per cent plus state intervention.

Let us now summarize the above and somewhat lengthy overview of the legal and institutional aspects of the formation of the state area of the economy. There existed five different alternatives for taking over private business: three which signified a real change in ownership - expropriation, direct agreements with the owners, and public acquisition of shares - and two - intervention and requisition - through which control but not ownership was transferred to the state. Which method was used was a matter of circumstance and depended on such different factors as the size of the establishment in question, the attitude of the owners and the political position of the workers, the existence or non-existence of technological dependency and foreign ownership, etc. Every company that the government wanted to take over was subject to detailed analysis by the Ministry of Economy in the above respects, and often a combination of, say, intervention and conversations with the owners was used. In the final analysis it was the political strength of the opponents, the correlation of forces - and here the militancy of the workers themselves was extremely important - that determined the outcome.

To illustrate the flexible strategy sometimes employed by the government an internal document elaborated by a group of officials (all members of MAPU) at the Ministry of Economy deserves to be quoted. The document, published in El Mercurio<sup>50</sup> (which had agents everywhere), discussed the situation of the companies on the "list of the ninety" in March 1972 - that is, after it had become clear that the UP's nationalization bill would never pass Congress and before Pedro Vuskovic was suspended - and it also, albeit very briefly, recommended possible lines of action in the following way:

"CCU. Requisitioned. Acquisition of shares initiated.

Cía Industrial. Acquisition of shares initiated. Agitation followed by requisition Recommended.

Grace y Cía. Wait and see.

Nadensa. Acquisition of shares should be initiated.

Acero Andes. Requisition should be prepared.

Cía Chilena de Fósforos. Conversations with the Swedes should be taken up.

Interoceánica. Negotiations finished. Agreement to be signed on March 21.

Nieto Hermanos. Agitation among workers, to be followed by requisition.

Caupolicán. Requisitioned. Acquisition of shares initiated.

Induro. Negotiations with the SIRCO group should continue.

CIRAT. Wait and see."

etc.

Now, the few examples given above illustrate the opinion of the government - or at least of part of the government - with respect to how one should proceed with these companies - "the ninety" - which all the UP parties had agreed to nationalize in one way or another. But most divisions of the UP were by no means content with taking over such a reduced number of industries only, and within the UP and the whole Chilean Left there were sharp differences over the question of the size of the social area and the forms of struggle for it. The divergencies that thus arose were only natural expressions of the strategic differences that have been presented several times above; we recall that the PC and PR defined the UP program as democratic and anti-monopolistic rather than anti-capitalistic, while the majority faction of the PS, MAPU and the whole revolutionary Left outside the UP (the NIE, above all) stressed the revolutionary and socialist aspects of the struggle.

This debate turned especially heated when medium and small-scale industry was affected by strikes or occupations. In line with their general strategic outlook the "consolidationist" sectors of the UP feared that such actions would render impossible the hoped-for anti-monopolistic alliance between the working class and the petty-bourgeoisie, while the UP Left discarded this way of reasoning as reformist while often supporting both state interventions of non-monopolistic firms and the workers' own actions directed against medium and small-scale business as well.<sup>51)</sup>

In practice the industrial working class sided with the revolutionary line. Strike and occupations continued, and most workers in small and medium-sized establishments could see no reason why they should not be allowed to participate directly in the struggle against capitalism. Objectively this latter sector of the working class had - and herein lies an important aspect of the failure of the UP's strategy - much more to win from a radical change of the economic system than had the large-scale industrial workers who enjoyed comparatively much better economic and social conditions.

An exclusively anti-monopolistic struggle would, then, affect but a small part of the industrial population, leaving the majority of workers - and the poorest ones, too - without any immediate prospects for a different future (similar phenomena producing similar political contradictions, were very well reflected in the problems that confronted the UP in the agrarian sector). An outright anti-capitalist strategy would, on the other hand, clash at once with the interests of the whole bourgeoisie and would thus leave the working class without vital support "from above", from those petty-bourgeois sectors which especially the PC and PR considered as both indispensable and possible allies.

We thus see that one of the basic structural characteristics of the Chilean economy - the existence of a relatively modern and high-productive manufacturing sector employing only a small minority of the labor force - gave rise to contradictions



which the UP program had not taken into account. And this will become even more clear when we look at the size of the state area of industry in terms of relative shares of output and employment.

### The Social Area in Figures

Available statistics on the rate at which industries were integrated into the social area of the economy are quite incomplete, at least for the last year of the Allende government. But despite certain shortcomings they are sufficiently clear for our purposes, and in what follows a few aggregate data on the pace of the UP's implementation of its nationalization program will be presented.

In Table VI:11 we can see how the number of industries brought under state control through either transfer of ownership or permanent intervention or requisition grew between November 1970 and May 1973. Table VI:12, which is mainly of political interest, illustrates the distribution in time of the government's use of the methods of intervention and requisition; here not only manufacturing establishments but also companies in other sectors have been included, and another difference with respect to Table VI:11 is that temporary interventions and requisitions have not been deducted.

Table VI:11. Number of Industrial Establishments Controlled by the Chilean State  
in Nov. 1970, Dec. 1971, Dec. 1972, and May 1973

Form of control	Nov. 70	Dec. 71	Dec. 72	May 73
State Ownership <sup>a)</sup>	31	62	103	165
Under intervention or requisition	-	39	99	120
<u>Total</u>	<u>31</u>	<u>101</u>	<u>202</u>	<u>285</u>

a) Both social and mixed areas and including six new industries that were created by the Chilean state after Nov. 1970.

Sources: Nov. 1970 and Dec. 1971: Instituto de Economía, La Economía Chilena en 1971, op.cit., pp. 455ff.

Dec. 1972: Instituto de Economía, La Economía Chilena en 1972, op.cit., p. 135.

May 1973: Article by Pedro Vuskovic in Ultima Hora, June 7, 1973.

It should be observed that the sources are of quite different quality. The data from the Instituto de Economía are based on detailed specifications of all individual companies, while Vuskovic in his June 1973 article only gives aggregate figures on the number of industries taken over by May 1973.

During most of 1973 - and especially during periods of military presence in the cabinet - the rate of intervention and requisition declined appreciably. Shortly after the aborted military coup on June 29 the government however made a once-and-for-all decision to take over a large number - about fifty - of mostly small and medium-sized companies which had been occupied by their workers in

Table VI:12. Number of Requisitions and Interventions by Time Periods,  
Nov. 1970 - Nov. 1972

<u>Period</u>		<u>Interventions</u>	<u>Requisitions</u>	<u>Total</u>
Nov.-Dec.	1970	37	1	38
Jan.-Feb.	1971	23	-	23
Mar.-Apr.	"	1	5	6
May-June	"	12	12	24
July-Aug.	"	9	6	15
Sept.-Oct.	"	24	7	31
Nov.-Dec.	"	21	9	30
Jan.-Feb.	1972	13	6	19
Mar.-Apr.	"	14	7	21
May-June	"	16	3	19
July-Aug.	"	7	18	25
Sept.-Oct. a)	"	23	48	71
Nov.	"	2	4	6
<u>Total</u>	<u>Nov.70-Nov.72</u>	<u>202</u>	<u>126</u>	<u>328</u>

a) During the "October events" a large number of enterprises were subjected to intervention or requisition for participation in the general lockout. Most of these companies were later returned to their owners, however.

Source: Based on Instituto de Economía, La Economía Chilena en 1972, op.cit., pp. 116ff.

response to the attempted coup and which the workers refused to give up.<sup>52)</sup>

The UP's own, official figures on the total number of companies that were brought under state control during the whole Allende period will probably never be known, but a little more than three hundred would be a fairly good estimate. According to the Pinochet junta the sum total of expropriations, purchases and permanent interventions and requisitions had reached 323<sup>53)</sup> by September 11, 1973 - a figure that could be compared with the around 35 000 industrial establishments then existing in Chile.

This was less than one per cent, then. But in terms of capital, output and employment the social area of the economy naturally became much more important than this statistic indicates. "Strategic monopolies" were the most sought-after objects for nationalization, and although quite a few of those defined as monopolies escaped<sup>54)</sup>, while several small establishments were taken over, the average size of companies under state control was far above the average for the economy as a whole.

Exactly how much above average we don't know, though. No reliable and up-to-date quantitative analysis of just this aspect of the situation was ever presented. According to estimates by the Institute of Economics at the University of Chile the state owned sector's share of all industrial production was, in December 1972, about 22 per cent, and a common hypothesis in mid-73 was "some thirty per cent", but nobody really knew. In some branches state industries undoubtedly reached a "dominant" position, to use a phrase often used by the UP when defining its pro-

grammatic objectives, but in others the private sector's supremacy continued to reign.

In order to get a notion of the impact of the UP's nationalization program we can, however, draw upon some calculations made in a study<sup>55)</sup> on the relative importance of the public sector in the manufacturing industry "in the future", i.e. if the plans of the government had really been implemented. The companies that were considered when defining the "UP's plans" were those which were either already owned by the state in 1970 or had been purchased by the Allende government by the time the study was made (early in 1973) or were on the "list of the ninety" or had been explicitly mentioned in a bill that Allende (in vain) presented to Congress in January 1973. All subsidiaries to companies satisfying one of the above criteria were also included.

Two tables from the above study will be presented below. Table VI:13, to begin with, shows the relative importance of state owned companies (including mixed companies) in different sub-sectors of manufacturing in 1970 and after a complete

Table VI:13. Relative Importance of the State Owned Sector of Manufacturing in 1970 and According to the UP's Plans (percentages of gross value of production)<sup>a)</sup>

<u>Industry</u>	<u>1970</u>	<u>"Planned"</u>
Food	13,8	30,4
Beverages	1,5	33,6
Tobacco	-	100,0
Textiles	-	38,5
Clothing	-	18,0
Footwear	-	18,8
Leather and leather products	-	8,0
Wood and wood products	5,3	18,5
Paper and paper products	10,7	85,0
Printing and publishing	2,3	14,3
Industrial chemical products	23,2	64,8
Other chemical products	3,1	35,7
Refined petroleum	79,7	100,0
Petroleum and coal derivatives	83,3	89,2
Rubber products	-	75,3
Glass and glass products	-	55,2
Other non-metallic mineral products	0,4	72,0
Iron and steel	49,5	76,2
Non-ferrous metals	-	93,0
Non-electrical machinery	14,4	44,8
Electrical machinery	0,4	46,5
Other metal products	1,9	33,0
Transport equipment	21,4	97,2
Miscellaneous	10,9	10,9
<u>Total, weighted average</u>	<u>11,8</u>	<u>43,9</u>

a) Percentage estimates based on production values in 1967. The choice of 1967 as base year thus signifies that the estimates given above correspond to the "true" percentages only if all industries developed in a parallel way from 1967 and onwards. The procedure used for companies created after 1967 is not indicated in the source, Panorama Económico.

carrying through of the UP's nationalization plans as defined above. The material thus indicates which branches the UP considered "strategic", and indirectly it also tells us something about which branches were most monopolized.

Table VI:14 below provides aggregate information about the ("future") role of the social and mixed areas in terms of their shares of the whole manufacturing sector's output, capital, exports, imports and employment. This table gives yet another illustration of the high degree of concentration in Chilean industry (we recall that the state controlled sector would comprise at the most one per cent of all industrial establishments) as well as of the great differences in productivity between large and small-scale industry.

Table VI:14. Estimates of the Social and Mixed Areas' Relative Shares of Fixed Assets, Gross Value of Production, Employment, and Foreign Trade (percentages of manufacturing total) 1970 and according to "UP plans"

<u>Share of</u>	<u>Social area</u> <sup>a)</sup>		<u>Mixed area</u> <sup>b)</sup>		<u>Social and mixed areas</u>	
	<u>1970</u>	<u>Planned</u>	<u>1970</u>	<u>Planned</u>	<u>1970</u>	<u>Planned</u>
Value of fixed assets <sup>c)</sup>	16,9	53,3	11,5	16,1	28,4	69,4
Gross value of production <sup>c)</sup>	7,6	27,7	4,2	15,2	11,8	43,9
Industrial employment <sup>c)</sup>	4,6	15,4	1,9	6,8	6,5	22,2
Industrial exports <sup>d)</sup>	3,2	34,7	17,9	33,6	21,1	68,3
Industrial imports <sup>d)</sup>	14,3	41,4	2,3	25,9	16,6	67,3

a) Public ownership exceeding 80 per cent.

b) Public ownership falling between 51 and 80 per cent.

c) Base year 1967 (Cf. Table VI:13 above).

d) Base year 1969.

Let us finally turn to some important socio-economic and political implications of the figures presented above. We see that the state owned sector's very low "planned" share of the whole industrial work force - 22,2 per cent of total - adds further evidence to our previous remarks on the limitations of the Allende government's nationalization program in terms of number of workers directly affected. The amount of industry included in Table VI:14 goes considerably beyond the Communist Party's strictly anti-monopolistic strategy, but nevertheless almost four-fifths of all industrial workers would, after the full implementation of these far-reaching plans, continue to be employed by private enterprise.

The essence of the UP strategy thus amounted to trying to nationalize some two-thirds of the whole industrial capital with the active help of only about twenty per cent of all industrial workers. The remaining eighty per cent, the vast majority of the Chilean workers, should vote for socialism, and defend the government in confrontations with the Right, and support the "struggle of production", but they should not undertake any militant actions against their own

employers who were, in theory, their own allies, allies of the working class.

But it did not, and could not, work this way. The Chilean working class, and wide sectors within the UP leadership as well, did not accept the above philosophy, and for this reason - and for several others - the contradictions inherent in the UP's political and economic strategy became more and more manifest as the overall polarization in society proceeded.

Without denying the importance of purely ideological factors we can thus conclude, that the failure of the UP's strategy was in part only the political expression of the underlying economic conditions in the Chilean society which gave rise to contradictions which the UP could not solve and which could never have been solved within the narrow confines of the "Chilean road to socialism". For either this road was to be solely "Chilean" - strictly anti-monopolistic, parliamentary and with much use of state repression against the great majority of the working class not content with the PC's anti-monopolistic strategy - or else it had to be socialist, but in the latter case the "Chilean" road would have to be replaced by something quite different than what was envisaged in the UP program, namely socialist revolution.

So far our discussion has dealt with the formation of the public sector's share of manufacturing: its legal, political and socio-economic prerequisites and the quantitative growth of state controlled industries. But how did the companies actually work after they had been taken over? What criteria did the UP apply in price and investment decisions? What were the effects of the "social area" on the overall economic situation in Chile?

It is not easy to give accurate answers to the above questions. Only very vague guidelines were given to the state appointed managers, and conditions varied appreciably from plant to plant. Statistics from the state controlled sector - growing in size and always changing in composition - are, furthermore, incomplete or non-existent, particularly for 1973. We will, then, have to confine ourselves to some rather general observations on problems connected with the economic performance of the social area of manufacturing.

But first a few remarks on the formal organization of management in the typical state enterprise and on the achievements made in the field of industrial democracy.<sup>56)</sup>

### Worker Participation

As we have seen, in the struggle for the creation of the social area the workers themselves often took the initiative while the government lagged behind, and once the battle of a particular factory was won the workers demanded not a mere change of masters but a genuine transformation of the social relations and power structure within the plant. The government's official policy, as reflected in the UP program

and in statements and documents of various kinds, was to support these aspirations, to avoid bureaucracy and paternalism and provide scope for democratic forms of management. Industrial democracy was an ever-present issue in Salvador Allende's Chile, and in spite of constant and well-founded complaints about bureaucracy and inefficiency in the forms of participation that were tried a lot was in fact accomplished in the state controlled industries.<sup>57)</sup> It should be emphasized, however, that the issue was participation and little more; the role of the state as an institution and final decision maker was questioned only by the most leftist contingents within and outside the Unidad Popular.

In December 1970 the Allende government and the CUT (Central Union of Workers) had already signed a general agreement regulating, among other things, norms for economic democracy. Representatives of the CUT were granted participation and influence in the overall planning of the economy (a planning which by and large failed to materialize, however), and within the individual industries power and responsibility were to be shared between the workers themselves and the state managers. According to the formal organization model agreed upon factories should be run by "Administrative Councils" made up of one government-appointed president and five representatives of the workers<sup>58)</sup> and five of the state. This system thus gave the government more votes than the workers in the top decision-making body of the enterprise but the workers could, on the other hand, force the government to recall anyone of its representatives at any time subsequent to a censorship vote in the general "Workers' Assembly" (many politically unfit or otherwise little competent state appointed managers were in fact ousted by the workers in this way).

In addition to this formal worker representation in the Administrative Council there also existed a host of other "committees", "councils" and more informal channels for worker participation in plants. The role of the trade unions also changed in the state controlled companies; their traditional "economistic" tasks declined somewhat in importance, but now the unions began to take a very active part in matters concerning production targets, cultural and educational activities, etc. They also did a lot of conciliatory work when, as often happened, conflicts between management and workers arose.

In practice the general CUT-government blueprint was seldom copied in detail, and concrete forms of participation varied enormously from plant to plant. The system of formal representation in the Administrative Council often remained a scrap of paper, while other, more informal expressions of industrial democracy flourished. As from 1972, and particularly after October 1972 when the danger of a rightist military coup was first felt to be imminent, the organs of worker control that gained importance were to an increasing extent those which were

directed towards broader and more explicitly political objectives than the economics of the individual plants; "defense committees", "distribution brigades", "coordination committees", etc. mushroomed, while interest in administrative matters stagnated. Whole areas were becoming integrated into so-called industrial belts (cordones industriales) comprising all industry within a particular region. The comandos comunales were in charge of such different matters as distribution of foodstuffs, health services, defense against rightist sabotage or military attacks and united both workers, students, housewives, unemployed and others within a whole community. "People's power" (poder popular) became the battle cry of Chile's revolutionary Left, but despite their having gained much importance during the last few months of the Allende regime the industrial belts, comandos comunales, etc. were never really accepted by the most reformist groups within the UP which argued that the authority of the government was jeopardized by the embryonic organs of "dual power" that proliferated.

But this is another story, and let us return to the situation within state controlled enterprises. We have seen that the social area of manufacturing was at least a partial success in terms of worker participation and mass mobilization, the picture becomes less favorable when we turn to economic performance, however. This was certainly not the fault of industrial democracy - in factories where this worked well production and cost control also tended to be better handled than in plants where the system of participation was poorly developed - but rather it was due to the vacillating and contradictory industrial policy followed by the government and to circumstances connected with the overall economic and political situation that prevailed and which were far beyond the control of each individual industry.

#### Neither Plan nor Market

"Planning will be our principal instrument for the allocation of our productive resources ..." - this and similar phrases frequently recurred in the speeches and writings of the UP leaders.<sup>59)</sup> Through planning the "anarchy of the market" was to be at least partially overcome, and by means of planning the UP's medium and long-term development objectives such as downgrading the external sector as the engine of growth and restructuring production so as to correspond to a new, more egalitarian pattern of demand were to be achieved. Within the social area imperative planning was to rule, and well-defined investment criteria were to be established. The investible surplus generated within the state enterprises would constitute the pillar of the capital accumulation process in the future.

This was, in very few words, the Allende government's blueprint. But things did not work this way. The anarchy of the market was replaced by the anarchy of

neither plan nor market.

Guidance to the socially owned companies was exceedingly vague. The social area should be oriented towards "raising the standards of living of the poor majority of the people", in the words of Américo Zorrilla (Minister of Finance Nov. 1970 - June 1972) who by adding "while keeping the requirements of accumulation in mind" admitted the existence of a trade-off between these objectives.<sup>60)</sup> The expression used by Zorrilla clearly indicates where emphasis was put, and to increase output while trying to keep costs and prices low became the prime success criterion for the running of a state controlled enterprise. The output goal dominated; to "produce as much as possible" was a rule of thumb oft repeated by managers and workers alike.

And production did rise, particularly during 1971 when output in the state controlled industries increased by 14.9 per cent over 1970.<sup>61)</sup> The policy of massive mobilization of idle industrial capacity and manpower gave very good results initially, but it was not followed by a more sophisticated development policy when the easy period of "extensive" growth approached an end and bottlenecks began to spread.

With the new situation disguised unemployment appeared and work discipline - already weakened as a result of easily understandable political circumstances - was further relaxed. Total employment in the social area of manufacturing increased about ten per cent in 1972 over 1971, or considerably above the rise of output.<sup>62)</sup> Part of this decline in labor productivity could perhaps be explained by various bottlenecks and particularly by the greater needs of manpower caused by difficulties in getting spare parts and machinery from abroad - a highly labor-intensive import substitution was forced upon many industries - but in part it was also the result of scarcity of experienced administrative personnel. It was, of course, necessary to fill almost all high managerial posts in the state enterprises with people of confidence, but political dedication and responsibility did not always compensate for lack of economic and technical training among the new industrial leaders. Adaptation problems necessarily arose.

It is, however, very difficult to apply ordinary efficiency criteria to the UP's social area of manufacturing, and this not only for political reasons. The violent inflation beginning in 1972 and concomitant distortions in relative prices made planning and accounting in monetary terms both troublesome and little meaningful; right or wrong, both workers and managers soon got used to thinking in physical units rather than in escudos when assessing if a particular industry was doing well or not, and in many companies even elementary economic controls such as book-keeping and cost calculation became deficient or almost absent. Neither was easy access to cheap state credit conducive to economic discipline, though this built-



in distortion should rather be blamed on the UP's general economic policy. Another built-in waste mechanism was the fact that enterprises kept under intervention or requisition continued to be the property of their private owners; in part it was the money of the latter that was being spent, and who cared about the capitalists' capital?

Many formerly highly profitable companies began to incur heavy losses after having been taken over by the state. According to informed guesses<sup>63)</sup> seven out of the ten major industrial sectors in the social area ran cash deficits in 1972, deficits which altogether amounted to some 20 000 million escudos.<sup>64)</sup> Instead of being able to "generate its own surplus", as the UP had conceived, the social area became a leaking bucket, adding fuel to the money supply and the galloping rate of inflation.

Some of the reasons behind the substantial financial deterioration of most state controlled enterprises have been indicated above: shortages of managers, impaired work discipline, production bottlenecks, and difficulties caused by inflation and by the undefined legal status of companies run under intervention and requisition. To assess the relative importance of these more or less interdependent factors would be hard and to give figures impossible, but nevertheless I believe that two other causes deserve to be singled out as even more important when explaining the losses made in the social area: the good but expensive improvements in material benefits to the workers and, last but not least, the price policy pursued by the government. As illustrations of some crucial weaknesses in the UP's industrial policy these two aspects deserve a few explanations.

The bargaining position of the workers in state enterprises can be described as excellent. The government, happy to be able to improve miserable working conditions and anxious to avoid conflicts, offered little resistance to many of the workers' demands, especially since the entire rightist opposition willingly sided with the working class by fomenting, through its mass media and organizations, virtually all wage claims presented in the social area.<sup>65)</sup> Wage-drift above the periodic general readjustments was, then, common.

It was not primarily higher wages that characterized the state owned companies, though, but rather a wide range of fringe benefits that did not exist in private business. Child care centers were created, and women workers were given time off during their shifts to visit their children. Good, nutritious and cheap meals were served at the work-places. Medical and dental services were introduced in all factories employing more than a minimum number of workers. In-plant libraries were installed, and space and money for various other educational and cultural activities were put at the workers' disposal, etc.

All these facilities did not exist everywhere in the social area, of course, but a truly admirable - and for the individual companies, which were charged all the costs, quite expensive - effort was made to ameliorate work conditions. Apart from creating striking benefits for the workers many of these improvements should also be regarded as badly needed investments in human capital.

So far the positive aspects. But once again we can consider some of the deeper implications of the UP's anti-monopolistic strategy. The policy of "nationalizing" no more than some twenty per cent of the industrial labor force, giving these twenty per cent vast material and non-tangible (influence, prestige, etc.) privileges while leaving the situation for the great - and, let me repeat, the poorest - majority of workers more or less unchanged was bound to give rise to new inequalities and to generate (or, perhaps, accentuate) splits within the working class. The UP was certainly not totally unaware of what its industrial strategy de facto was leading to in this respect, but as in the case of the agrarian reform - where the above tendencies were even more pronounced and inequality greater - it lacked the political strength to carry through more egalitarian policies. The workers remaining outside the social area were promised wage increases, social reforms and new legislation regulating their working conditions, true, but most reform projects were either not passed in Congress or else insufficiently implemented. Profits arising in state enterprises should be used to build new factories and to improve living standards for all workers and unemployed; the problem was, however, that profits disappeared and were converted into losses. As inflation and shortages grew worse it was the real wages of privately employed workers, who received no or poor fringe benefits and whose bargaining positions remained poor, which first began to deteriorate.

The masses grasped these contradictions much better than the UP leadership, and it was only natural that a large number of small-scale workers, unemployed and pobladores abandoned the anti-monopolistic strategy and called for a socialist revolution, thus further undermining the official strategy of class alliances upon which the UP program rested.

Before leaving the social area of manufacturing a final word should be said about how the government's price policy contributed to turning profits into losses.

The cornerstone of the price policy was simple, and aimed at favoring consumers rather than producers. To keep the prices of products from "its own" industries low was a matter of special honor for the UP, and since companies belonging to the social area also stuck to official price guidelines to a far greater extent than did private businesses losses were bound to arise as official prices turned increasingly unrealistic. Instead of being granted decent price rises the state owned companies were given bank credits to cover their losses.

The effects of the government's price policy were quite arbitrary and often unwarranted. The concentration of public ownership to sectors like energy, transportation, intermediate industrial goods and heavy industry rather than to the consumer goods industry signified, for example, that good-sized subsidies were being given to private companies using cheap inputs from the state sector. On top of this, within the private sector thus favored it was large-scale, modern industry using little labor (which was relatively expensive) that was inadvertently most privileged.<sup>66)</sup> And with respect to the general aim of subsidizing consumers it must be said that a clearly undesirable side-effect of the artificially low prices of consumer goods was the enrichment of a large but unknown number of speculators.

The list of explanations of the cash deficits that arose in the state controlled industries has now been exhausted. We have seen that the "socialist embryo" which the UP tried to create in the midst of a hostile political and economic environment was an expensive undertaking, but in no way should we pretend to evaluate its significance with reference only to profit-and-loss accounts in escudos. If a Chilean industrial worker should read the above picture and argue that it was very biased and "economistic", that the innumerable unquantifiable advances that the Chilean working class made precisely in the socially owned factories have been neglected, I would whole-heartedly agree. But to analyze these questions would require another study.

The critical appraisal of the social area's economic performance should neither be interpreted as an attempt to put the blame on the individuals running the plants. The situation within state controlled industries was difficult: the "rules of the game" were thoroughly changed, and workers and managers could not - and were, despite recurrent government calls for financial discipline, not expected to - act in accordance with capitalistic, profit-maximizing criteria. It was rather the political struggle and the confrontation between planning and market forces - or, we could say, between administrative improvisations and black markets - which gave the economics of the social area such a chaotic character. The capitalist rationality was not replaced by a socialist rationality, whatever is to be understood by the latter. What ruled was neither plan, nor market, but rather a combination of the two whose results could be described by means of an expression often used by Allende when explaining the difficulties that confronted the economy: "We suffer from all the disadvantages of capitalism without enjoying any of the benefits of socialism."

On the political level the half-way implementation of the nationalization program expressed itself as a strategic failure: the bourgeoisie was neither defeated nor appeased. Or in Pedro Vuskovic's Chilean version of the old Oskar Lange dilemma<sup>67)</sup>:

"During this period", Vuskovic wrote at the end of 1972, "the advances in the implementation of the (UP) program have been great enough to provoke furious reactions on the part of imperialism and the bourgeoisie, but quite insufficient to deprive the domestic bourgeoisie of its possibilities to use the economic power that it still maintains for all kinds of obstruction and economic sabotage".<sup>68)</sup>

## Other Sectors

Mining and large-scale manufacturing were not the only activities that the UP had planned to nationalize in order to take control of the "commanding heights" of the Chilean economy. Banking, "monopolies" in the fields of distribution, communications and foreign trade were also regarded as being of vital importance for the creation of a dominant state owned sector capable of directing the economy along planned lines.

We should therefore complete this overview of the formation of the social area of the economy with a brief account of the UP's achievements in the above sectors.

The banking system was an obvious target, and already in December 1970 President Allende made public the government's plans to take over all domestic and foreign banks operating in Chile.<sup>69)</sup> The method suggested was simple - public acquisition of shares.

This initiative shocked the opposition, which despite a violent campaign against the UP's unexpected offer was unable to prevent the shareholders from selling out. The prices paid for the shares were high<sup>70)</sup> and the government had a powerful arsenal of reprisals to resort to against banks whose owners were unwilling to sell. It was made clear that the government could easily force any bank offering resistance into liquidation, and that it was prepared to do so; concerns about employment, production and know-how were less present in banking than in the directly productive sectors, and the number of individual banks that were to remain did not matter very much since it was part of the UP's intentions to merge all commercial banks into one single state owned bank. The shareholders were in effect offered a choice between selling voluntarily or being left with worthless stock in bankrupt banks.

Subsidiaries to foreign banks operating in Chile - Bank of America, First National City Bank, Bank of London and a mixed French-Italian bank - found themselves in equally awkward bargaining positions and decided to sell out rapidly following direct negotiations with the Chilean government.

With the exception of the Bank of Edwards - whose principal owner immediately after Allende's taking office willingly let his bank go into bankruptcy (reporting a loss of seven million dollars, while most of the bookkeeping turned out to be missing) and left for the United States - all major commercial banks were

gradually bought by the state.<sup>71)</sup> In November 1971 the Minister of Finance Américo Zorrilla could announce that "... the nationalization of the banking system is practically completed. The state now controls sixteen banks which together provide over ninety per cent of all credit ... This process of nationalization ... has signified that the links between financial and industrial monopoly capital have been broken".<sup>72)</sup> A little later no commercial bank of importance remained in predominantly private hands.

To break the links uniting the dominant sectors of the Chilean bourgeoisie was one important objective of the government, but not the only one. Credit policies were to be changed in accordance with the UP's development priorities, and a redistribution of bank credit favoring mainly state controlled enterprises, agriculture, export industries and small-scale business was initiated. Real - in 1971 even nominal - interest rates were drastically lowered, and the overall volume of bank loans expanded.

The government's plans to merge all banks into one in order to centralize the provision of credit and provide scope for strict control of investment decisions were never realized, however. In part as a result of opposition from the staff of bank employees the original project gradually became modified. In 1973 the UP agreed upon the amalgamation of the individual banks that existed into three large state banks: the Banco Central was to be in charge of monetary policies and external transactions, the Banco del Estado should specialize in agricultural credits, and, finally, the Banco Nacional should finance investments in other sectors, mainly industry and commerce. But the application of this three-bank formula was also delayed, and the banking system continued to operate in the same, relatively decentralized way as before.

The following upright answer given early in 1973 by Fernando Flores, then Minister of Finance, indicates why advances were so slow in the above respect (and in some others as well, perhaps):

"Interviewer: Why haven't you made any progress in centralizing the banking system?

Flores: One and a half years ago nothing could be done because of PIR (i.e. because of staunch opposition from the Partido de Izquierda Radical, at that time participating in the cabinet, SV). And after that, well there were other reasons. As you know we are often very good at talking but when it comes to achieving concrete results we are not quite as good."<sup>73)</sup>

Transport and communications were sectors where public ownership was considerable even before 1970, and where private interests did dominate the UP failed to increase the relative scope of the social area. Railroads and airlines had, for example, been run by the state since their very start, but in the highly strategic field of road transportation nothing was done to break the almost complete control that private companies held in both freight and passenger traffic.

Although the UP eventually became perfectly aware of the political dangers connected with letting such a vital activity as road transportation remain in private hands there was little that the government wanted to do against a sector which was not classified as controlled by "monopolies".<sup>74)</sup> After October 1972 it became increasingly urgent but also politically more difficult to intervene; the agreement which put an end to the "October crisis" and which was supervised by the three high military officials that entered the cabinet contained guarantees against expropriations of anything that had to do with road transportation. And without support from the mass of small proprietors - who decidedly sided with the large companies in the struggle against Allende's government - the UP was effectively trapped, and the self-assured transportistas of truck and bus owners knew how to make use of the situation. The entire last year of UP rule was characterized by escalating confrontations following a very simple scheme: lock-outs and blackmail, concessions from the government, new lockouts and new concessions. The military take-over in September 1973 was preceded by, among other forms of sabotage, a seven-week long paralyzation of road transportation, and the head of the Chilean Association of Truck Owners, León Vilarín, was after the coup immediately appointed travelling ambassador by the Junta in reward for services rendered.

With respect to telecommunications most of these had since long been controlled by private foreign investors headed by the U.S. giant ITT which monopolized the telephone network in most of Chile.<sup>75)</sup> The taking over of this company with its many subsidiaries was an obvious UP target - not only because of the poor quality of telephone services ITT provided the Chilean people with but for political and nationalistic reasons as well. In September 1971 ITT was quite expectedly intervened, and later it appeared at the very top on the UP's list of the ninety companies to be nationalized.

After the publication of the "ITT Documents" revealing the role played by ITT in the late 1970 plots against Allende the government decided to expropriate the company with all its subsidiaries. According to the bill presented to Congress - where it was passed as a gesture by the rightist majority just a few weeks before the military take-over - no compensation was to be paid as a penalty for the anti-Chilean activities that the ill-famed company had indulged in.

All other private firms engaged in the field of telecommunications - that is, Transradio Chilena, Cables West Coast and All American - were also to be nationalized, and negotiations with the foreign owners were almost completed by September 1973.

The crucial importance of distribution escaped neither the government's nor the Right's attention, and the UP's advances in reducing the private sector's

supremacy in this field were erratic and met with fierce opposition. A firm alliance between the gremios of truck owners, wholesale traders and small merchants was soon created to defend their members against real or, as a rule, invented threats, and with the help from the rightist political organizations - which found a fertile ground for undisguised fascist propaganda among frustrated self-employed workers - this coalition became strong enough not only to protect private business but to play a very active role in precipitating the overthrow of Allende. To these conflicts, and to some of their causes, we will have occasion to return.

In wholesale trade the government undertook to compete with the private sector. A new state company DINAC was founded through the merger of four private distributing enterprises (Duncan Fox, Agencias Graham, Gibbs and Williamson Balfour) which were gradually being purchased after direct negotiations with their British owners. DINAC's field was groceries, where its market share early in 1973 reached about 29 per cent; the remainder was totally handled by private firms.<sup>76)</sup> In some lines of distribution, particularly in the trade of perishable foodstuffs, the UP established completely new state controlled enterprises; SOCOAGRO for the distribution of meat, ENAVI for the distribution (and production) of poultry, SESCOOP for the buying and selling of vegetables, etc. But most of these new companies experienced substantial setbacks and managed to take over only a very small share of the trade; with black markets for all kinds of food flourishing the state distributors had great difficulties in competing with private intermediaries offering the producers much higher prices than the official ones.<sup>77)</sup> Political factors were also involved, and market shares remained in general very low for the public sector which rose to importance only in trade of imported commodities.

Retail trade was dominated by small-scale merchants who constituted the Chilean petty-bourgeoisie par excellence, and in addition to the approximately 125 000 retail establishments there existed a huge army of ambulant traders of all kinds. Large supermarkets or chain stores were essentially non-existent.<sup>78)</sup>

An aggressive policy vis-à-vis retailing would, then, have signified the death-blow to the UP's strategy of class alliances: the small merchants were supposed to be closely allied with the working class in the struggle against monopolistic interests. But here, too, contradictions emerged. The JAPs (Price and Supply Committees) were actively fostered by the government, and in relations between organized consumers and traders frictions inevitably arose.

Behind the growth of the JAPs stood the UP government's price decrees. In order to enforce official prices speculation and hoarding were attacked both from below - the JAPs - and from above - DIRINCO's price inspectors. And although most tradesmen - and of course particularly the unscrupulous ones - were far better

off under Allende than ever before, tensions were becoming aggravated, and as in so many other cases in history the petty-bourgeoisie tended to side with the extreme Right as polarization in society as a whole intensified. From mid-72 and onwards the powerful National Association of Merchants, headed by the well-known extremist Rafael Cumsille, initiated and intensified strikes and boycotts directed against the government. In October 1972 most shopkeepers in Chile went on strike together with the gremios of truck owners, wholesalers, professional trade unions, etc.<sup>79)</sup>

The government did not quite know what to do. One innovation that arose first spontaneously during the "October events" and which later developed in a more organized form was a system for the direct distribution of goods of prime necessity (above all groceries). This elimination of intermediaries was in the beginning envisaged as nothing more than an emergency solution to problems caused by the shopkeepers' closing down, but the consumers, the obvious beneficiaries, were quick to realize the great advantages in getting their food without the mediation of retailers.<sup>80)</sup> In some poblaciones the consumers, organized in JAPs, managed to force the government to continue to deliver goods in the same way as when the shops were kept closed, and many a tradesman who re-opened his shop after the "October crisis" had been solved had to face the fact that trucks from DINAC now provided his old customers with groceries far more inexpensive than he himself had ever been able to provide.

DINAC's low priced "popular baskets" (Canastas populares) were naturally looked upon with great concern by established commercial interests, but DINAC's capacity was limited and could only cater to a small part of the population's needs. In 1973 the number of families in Greater Santiago (in the poblaciones of which the system was most developed) receiving commodity baskets from DINAC once a week or once every two weeks never exceeded 120 000 to 130 000, and the baskets received were relatively small containing only a limited selection of groceries. The importance of this form of direct distribution was above all political - the pobladores themselves mobilized to raise demands and to take care of the concrete on-the-spot delivery of the commodities, and the JAP's thus vested with new functions often turned into nuclei around which other, more far-reaching embryos of "popular power" were created.

Within the government the attitudes towards the canastas populares ranged from enthusiastic support to hostility, and the directors of DINAC were incessantly fired - now for having "done too little", now for having "gone too far".

After October 1972, when the dangers of being overly dependent on the unreliable private sector in such a vital field as distribution of foodstuffs had become



evident, the UP gradually began to establish state owned supermarkets. Early in 1973 a chain of slightly over one hundred "popular supermarkets" had been created throughout the country<sup>81)</sup> - considering the number of retail establishments that existed in Chile this was only a drop in the ocean, but it was quite enough to cause a further deterioration in the Allende government's relations with private tradesmen and their powerful gremios.

In retail trade, as in so many other fields, the UP's strategy thus turned out to be politically very dangerous. The general economic policy was, to begin with, bound to create apprehension among merchants, despite the fact that commerce as a whole benefited - at least initially - thanks to the sellers' market that emerged. The combination of inflationary pressures, price controls, and supervision by government officials and by JAPs was pregnant with tensions of all kinds. Producers, consumers, merchants and government all had some reason to complain, and they often blamed one another for the spectacular growth of black markets and the ensuing disruptions of established distribution channels that took place. Stockpiling, infrastructural bottlenecks (above all lack of storage and transportation facilities) and recurrent strikes and lockouts among merchants and truck owners contributed to making the delivery of goods quite erratic, and the political costs of the government's failure to cope with distribution problems were high; surprisingly many people thought, for example, that the easily visible shortages of several products "proved" that the total supply of commodities, and especially of foodstuffs, actually declined dramatically during the Allende government. Scarcities and queuing were time-wasting and provoked widespread irritation, and since no serviceable system of rationing was ever developed (an undertaking which would have met with huge political and administrative obstacles) quite arbitrary injustices frequently occurred.

With the above general background in mind it is easy to understand that relations between the Allende government and the merchants became strained, and the measures undertaken by both sides only served to escalate confrontations. Although no part of the UP had initially intended to let the public sector compete with private retailers the latter's fears - nurtured by the Chilean Right - eventually turned into self-fulfilling prophecies; the merchants' protests and strikes "forced" the government to intervene more directly than was ever envisaged at a beginning, and the rightists' propaganda thus "proved" to have been true. The UP's encroachment upon the private sector's control of retail trade was thus quite sufficient to cause alarm within the petty-bourgeoisie, whose reactions occasioned further public interference, but the methods used by the UP (DINAC and canastas populares, "people's supermarkets", JAPs, etc.) further increased antagonisms without being drastic enough to permit any rational solution along socialist lines.

And similar failures were, as we have seen, characteristic of the whole UP strategy towards the private sector. Wanting to attack "monopolies" only, while maintaining good relations with the small and medium-sized entrepreneurs, the Allende government nevertheless found itself in open conflict with the most modest layers of the petty-bourgeoisie. The struggles had ideological aspects, of course, but they were also the result of contradictions inherent in the "Chilean road to socialism", contradictions which made the middle-of-the-road solution sought by the dominant factions of the UP an illusion.

In the UP's agrarian policies, which will be studied in the following chapter, these contradictions were no less manifest than they were in the fields of industry and distribution.

- 1) It deserves to be mentioned that the UP in no way rejected all cooperation with foreign capital interests. A number of important projects with mixed foreign-Chilean capital were in fact initiated, in general with CORFO holding a 51 per cent majority interest. The agreements thus reached tended to be quite favorable to the foreign investor who was, for example, often guaranteed a minimum annual rate of return of five per cent on invested capital (a maximum rate of twelve per cent was sometimes also established).

Among industries of importance where such mixed companies were created can be mentioned the automobile industry (Citroen, Peugeot), the commercial vehicles industry (Spanish PEGASO), the rubber and tire industry (General Tire Co.), and the electrical industry (PCA International).

- 2) Vía Chilena, No. 2, Nov. 1971.
- 3) Allende in Second Message, p. XIII.
- 4) Minister of Finance, First Exposition, p. 33.
- 5) Cf., Ch. II, p. 34 above.
- 6) This particular quotation is taken from Gonzalo Martner, head of ODEPLAN, in Lineamientos de la Estrategia de Desarrollo, Revista de la Universidad Técnica del Estado, No. 11-12, Nov.-Dec. 1972 - Jan.-feb. 1973, p. 27.
- 7) Basic Program.
- 8) In Debray's interview with Allende in Punto Final, Feb. 16, 1971, p. 54.
- 9) Instituto de Economía, La Economía de Chile en el Período 1950-63, op.cit., Vol. II, Table 216, p. 176, and ODEPLAN, Antecedentes ..., op.cit., Table 309, p. 423.
- 10) Clark Reynolds in Mamalakis & Reynolds, Essays ..., op.cit., p. 297.
- 11) Some 19 000 altogether, as against 17 000 in Gran Minería. Liliana Muñoz Rioseco, Estado Ocupacional de la Minería del Cobre, 1971, p. 134.
- 12) Exhausted in 1959 and replaced by El Salvador.
- 13) In 1886, José Manuel Balmaceda was elected president on a nationalistic program which included promises to nationalize all foreign mineral companies and to raise taxation of the domestic ones. Five years later, when trying to materialize the election program, Balmaceda was overthrown in a military coup financed by foreign and domestic mineral and commercial interests. It took, however, more than a traditional coup d'état to eliminate Balmaceda - a bloody, though short, civil war broke out, in which British naval ships (on a mission like this, not too impressed by the Monroe doctrine) also participated on the side of the rebellions.  
See, especially, Hernán Ramírez Necochea, Balmaceda y la Contrarevolución de 1891, 1958.
- 14) See Panorama Económico, La Situación del Cobre, No. 31, 1951, pp. 10-14. A brief review of the losses Chile suffered due to the American price policy is also found in Salvador Allende, Por que se Nacionaliza, in Gonzalo Martner (ed.), El Pensamiento Económico del Gobierno de Allende, op.cit., pp. 127-147.
- 15) Cited in Panorama Económico, No. 46, 1951, where this year's parliamentary debate on copper is summarized.

- 16) The results of this arrangement were partly successful, but a boycott from American customers and the copper companies' drastic reduction of output made the Chilean government abandon this strategy in 1955, when a new agreement was signed. Through this "new deal" (nuevo trato) the control over export sales was handed back to the American owners, who in turn had to promise to invest and increase production.
- 17) Salvador Allende in Martner (ed.), El Pensamiento Económico ..., op.cit., p. 133.
- 18) Ibid.
- 19) According to the companies' own bookkeeping gross investment in Gran Minería between 1930 and 1960 amounted to 359 million dollars; little more than 10 million a year, or hardly enough to keep the equipment intact. During the same period net profits amounted to 849 million dollars, and net transfers abroad in the form of capital consumption allowances, repatriated profits, interest and other payments in foreign exchange to 1 539 million. Based on Max Nollf, Los Problemas Básicos del Cobre, in Martner (ed.), El Pensamiento ..., op.cit., Table i, pp. 134-85.
- 20) Chilean sources on the details of the agreements are, of course, abundant; among those I have utilized for the exposition below the following should be mentioned. ODEPLAN, Antecedentes ..., op.cit., pp. 127-189; Lucio Geller & Jaime Estévez, La Nacionalización del Cobre, in Instituto de Economía, La Economía Chilena en 1971, op.cit., pp. 565-568; Panorama Económico, No. 246, July 1969; Posición, No. 13, July 1972 and No. 23, Sept. 1972, and various publications from the Central Bank of Chile. The best exposition of the "Chileanization" program written in English is, to the author's knowledge, Ch. 4 in Keith Griffin, Underdevelopment in Spanish America, and ECLA, Economic Survey of Latin America 1969.
- 21) Kennecott's main reasons are summarized in an exposition made in 1969 by one of its top executives, G.D. Michaelson - a document which is partly reproduced as an appendix in Martner (ed.), El Pensamiento ..., op.cit., pp. 137-89. The idea to suggest a majority share for the Chilean state was based primarily upon political considerations - Kennecott hoped that such an arrangement would reduce the risk of labor disputes, heavier taxation and pressure for nationalization. Kennecott also expected the Chilean state to contribute more willingly with capital for future investments if it were made majority owner.
- 22) See Keith Griffin, Underdevelopment ..., op.cit., pp. 153-54. "No matter which procedure we use", Griffin concludes, "Kennecott was overvalued".
- 23) Underdevelopment ..., op.cit., p. 164.
- 24) Based on Banco Central, Balanza de Pagos de Chile, various issues.
- 25) The only liability that Chile refused to take over was the 92,7 million dollar credit granted by Braden/Kennecott in 1967. The credit corresponded to the compensation paid to Braden/Kennecott for the sale of 51 per cent of its share capital to the Chilean state.
- 26) Said, for example, the Under Secretary of the Treasury, John Petty, when he on Jan. 19, 1972, explained the reasons behind Nixon's earlier announcements of a "hard line" against Chile: "We hope that it (the U.S. government's retaliation policy) will make any other government contemplating such steps (to expropriate American property) think twice before taking them."

Cited from NACLA, Chile: Facing the Blockade, Jan. 1973, p. 12, where a large number of similar statements can be found.

- 27) In the words of the World Bank: "The report of the economic mission which returned Oct. 15 stated clearly that Chile's economic policies would prevent the effective utilization of Bank lending even if the country were somehow deemed capable of servicing its debt ... While nationalization of and compensation for foreign held assets was a concern of the Bank, particularly in late September and early October (1971), the report of the economic mission in mid-October that Chile could not use development funds effectively under current economic policies was the decisive reason for the suspension of new lending."
- Chile and the World Bank, mimeographed document dated Nov. 30, 1973, in which the World Bank attempts to justify the position it took vis-à-vis the Allende government.
- 28) Minister of Finance, Third Exposition, p. 58.
- 29) Interview in Chile Hoy, No. 5, July 14-20, 1972, with Jorge Arrate, then Vice President of CODELCO. Cf. also speech by Clodomiro Almeyda in the Chilean Senate, reproduced in El Mercurio, Dec. 28, 1972.
- 30) Describes Time Magazine (Nov. 6, 1972): "Kennecott officials are determined to keep the threat on Chile. The Manhattan office of General Counsel Pierce McCreary, who is directing the campaign, has the air of a war room. His desk is strewn with shipping reports, and on one wall hangs a large map for plotting ships' courses. From here, McCreary keeps a close watch on vessels entering or leaving the Chilean port of San Antonio, the only place from which El Teniente copper is shipped. At present he is monitoring the movements of at least six ships headed for Europe, loaded with El Teniente metal; when they arrive he wants his agents to be there to greet them with court orders."
- 31) The Appeal of Confiscation in Economic Development, in Bronfenbrenner & Randall (Eds.), Economic Development - Evolution or Revolution?, p. 55. Bronfenbrenner's article was first published in Economic Development and Cultural Change, Vol. III No. 3, April 1955.
- 32) Figures from document written by Jorge Arrate, published in Ultima Hora, Feb. 22, 1973.
- 33) Salvador Allende, speech delivered on Jan. 19, 1973. See El Mercurio, Jan. 20, 1973.
- 34) This was almost the first time that the UP did not cede to the miners' wage demands, and only after the aborted military coup on June 29 did the striking miners go back to work.
- 35) For details on these deals, see Sergio Ramos, Chile: Una Economía de Transición?, op.cit., pp. 48-49 and Allende, First Message, p. XVI.
- 36) A complete list of nationalized mining companies is found in ODEPLAN, Nueva Economía, No. 2, Jan.-April 1972, pp. 23-24.
- 37) First Message, p. XXI.
- 38) At that time the brokers' rate of exchange was about ten escudos to the dollar.
- 39) The latter bonds would undoubtedly have become the most common ones; in fifty-six per cent of all companies with 14 million escudos or more in share capital the ten largest shareholders owned more than ninety per cent of the shares, and in only twelve per cent of the cases did their share fall below fifty per cent. For further data on the concentration of shareholding in the 253 companies liable to expropriate according to the government's bill, see CEREN, No. 11, Jan. 1972.

40) Ibid.

41) El Mercurio, Nov. 19, 1971.

42) Ibid.

43) The sectoral distribution and relative importance of the ninety enterprises was as follows:

<u>Sector</u>	<u>Number of companies</u>	<u>Share of Gross Value of Production within each sector (percentage)</u>
Manufacturing	74	18
Commerce	6	9
Electricity, Gas, Water	4	18
Transportation and communications	6	18
<u>Total</u>	<u>90</u>	<u>-</u>

Fifty-two of the ninety corresponded to the social area, the remaining thirty-eight to the mixed area.

Source: ODEPLAN, Nueva Economía, No. 2, Jan.-April 1972, pp. 132ff.

44) Renán Fuentealba and Juan Hamilton, representatives of the "Left" and "Right" wing, respectively.

45) In July 1973 this court, especially assigned (during the Frei administration) to settle conflicts between the executive and legislative powers, declared itself "incompetent" to deal with the matter.

46) For a detailed analysis of different legal proceedings concerning the social area of the economy see articles by Eduardo Novoa, the UP's first and foremost legal expert. Of special interest are Vías Legales para Avanzar hacia el Socialismo in Revista de Derecho Económico, No. 33-34, Oct. 1970 - March 1971, and El difícil Camino de la Legalidad in Revista de la Universidad Técnica del Estado, No. 7, April 1972.

47) The role played by the Contraloría General (C.G.) deserves a brief explanation. Formally the function of the C.G. was one of supervision, to see to it that the government acted in accordance with existing legislation, and each intervention and requisition was to be accepted and signed by the C.G. When, as often happened, the C.G. refused to do so the executive could enforce its own will only through the issuing of a so-called insolvency decree (decreto de insistencia) signed by each and every member of the cabinet. In general it was no problem - though politically a little embarrassing - to get the signatures of all the ministers, but in periods of military presence in the government this expedient was more or less closed; a circumstance which the C.G. was quick to take advantage of by ordering the return to their owners of a large number of companies at the end of 1972.

48) These inconveniences were not confined to strong political opposition and conflicts with the C.G. and with the courts only. The undetermined legal status of industries kept under intervention or requisition created uncertainty among both workers and management and was a serious obstacle to all investment planning. How could one make correct decisions for the future when nobody knew who would become the owner of the plant? Another difficulty: according to the legislation certain important decisions could not be taken by the state manager alone since they required the approval from a representative of the legal owners. It sometimes happened that state appointed interventores were fined or even thrown in jail after accusations from the owners.

- 49) The strategy of trying to "buy capitalism" might sound absurd and alien to all Marxist tradition, but it has sometimes been practiced. In China, for example, a lot of private industries were gradually nationalized this way during the 1950's. And both Marx and Lenin refused to rule out this procedure in principle. Writing in 1918 Lenin argued that it under certain conditions could be more expedient to "... buy out the whole lot of them" (that is, landlords, industrialists, bankers, etc.) and continued: "Marx taught that - as an exception, and Britain was then an exception - the idea was conceivable of paying the capitalists well, of buying them off, if the circumstances were such as to compel the capitalists to submit peacefully and to come over to socialism in a cultural and organized fashion, provided they were paid." 'Left Wing' Childishness and Petty-Bourgeois Mentality, here cited from Lenin on Socialist Economic Construction, Moscow 1967, p. 149.
- 50) April 4, 1972.
- 51) A salient manifestation of these different strategic concepts within the UP was the debate that arose after the presentation early in 1973 of the so-called Millas Project which promised the return to their owners of about fifty small and medium-sized industrial establishments that had been intervened or requisitioned. The project, named after the chief exponent of the conciliatory line, Orlando Millas, then Minister of Economy, provoked violent reactions from the PS and MAPU and from the workers affected who immediately went on strike to express their indignation. The conflict, which threatened to break the already weakened unity within the government, was settled by Allende who this time supported the Left: the project was withdrawn, and the companies remained under state control.
- 52) El Mercurio (International Edition) July 16-22, 1973, and Chile Hoy, No. 54, July 27 - August 1, 1973.
- 53) El Mercurio (International Edition) Nov. 19-25, 1973.
- 54) After the last wave of interventions and requisitions in June-July 1973, for example, 22 of the 74 large companies that stood on the "list of the 90" remained in private hands. Chile Hoy, No. 59, July 27 - August 2, 1973.
- 55) Sergio Bitar & Arturo MacKenna, Impacto de las Areas Social y Mixta en la Industria Chilena. A preliminary version of this study was presented in Panorama Económico, No. 278, June-July 1973, from which all information below has been taken.
- 56) Although the exposition below deals with the situation within manufacturing proper much of what is said was true for state owned companies in other sectors as well.
- 57) Within private industry no democratic experiments were undertaken; relations between management and workers were characterized by conflict and tension and the only form of workers' control that became widespread were the so-called vigilance committees formed by the workers to supervise the owners.
- 58) To be exact, three representatives were elected by the directly productive workers, one by the clerical staff and one by the technical staff.
- 59) This particular quotation is taken from Allende's First Message, p. 52.
- 60) Second Exposition, p. 24.

- 61) Instituto de Economía, La Economía Chilena en 1971, op.cit., pp. 447. Employment increased by 8,5 per cent, thus indicating a rise in labor productivity during 1971.
- 62) Instituto de Economía, La Economía Chilena en 1972, op.cit., p. 433.
- 63) Claes Groner, Area Social. Una Evaluación Necesaria, in Chile Hoy, No. 59, July 27 - August 2, 1973.
- 64) Or, for comparison, almost one-third of the sum total of fiscal expenditures in 1972.
- 65) The perhaps most spectacular of these cases was the prolonged conflict over wages in the El Teniente copper mine when virtually all rightist trade union leaders, senators and journalists rallied to the support of the miners' stiff demands and for the almost two-month long strike that followed (only a minority of the workers participated in the strike, however - it was, above all, a strike by the technical and white-collar staff).
- 66) This point is emphasized by Ruy Mauro Marini and Cristián Sepúlveda in their excellent article La Política Económica de la Vía Chilena in Marxismo y Revolución, No. 1, July-September 1973. The authors argue convincingly that much of the UP's price and credit policy in practice tended to favor the monopolistic sectors of the Chilean bourgeoisie rather than the medium and small-scale entrepreneurs.
- 67) Cf., Ch. III, pp. 45-46.
- 68) Dos Años de la Política Económica de la Unidad Popular in Revista de la Universidad Técnica del Estado, No. 11-12, Nov.-Dec., 1972 - Jan.-Feb. 1973, p. 57.
- 69) Allende's speech presenting the bank nationalization project can be found in Martner (ed.) El Pensamiento Económico del Gobierno de Allende, op.cit., pp. 245-252.
- 70) Especially for minor holdings - compensation was paid according to a differentiated scale, and the UP stuck rigorously to its old commitment to protect all smallholders.
- 71) Only in a few cases was the entire share capital purchased by the state, though; private interests generally maintained minority holdings, and in the boards of directors these minority interests were guaranteed a proportional representation.
- 72) Second Exposition, p. 15.
- 73) Interview in Chile Hoy, No. 31, August 12-18, 1973.
- 74) It was in no way characterized by free competition, however; about fifty per cent of all trucks and an ever higher percentage of buses and "micro-buses" were owned by a few very large companies upon which many of the small hauliers were dependent through a complicated system of subcontracting. For an analysis of ownership and control in Chilean road transportation, see Chile Hoy, No. 60, August 3-9, 1973.
- 75) ITT's refusal to extend its network to certain distant provinces had forced earlier Chilean governments to create a new telephone company, ENTEL, which exclusively worked in isolated regions. Altogether there existed only some 33 000 telephones in Chile in 1970, or little more than three per one hundred inhabitants.



- 76) Data given by the President of DINAC in Ultima Hora, Feb. 2nd, 1973.
- 77) Cf., Ch. VII, pp. 199ff.
- 78) For a statistical overview of Chilean retail trade see Chile Hoy, No. 31, Jan. 12-18, 1973.
- 79) Far from all tradesmen who closed their shops did so out of ideological conviction or in protest against the PP's economic policies, however. Fear of reprisals from the Gumsille gang, which closely supervised (often with the help of para-military groups from "Fatherland and Freedom") which shops were closed and which were not, forced a lot of UP adherents into joining the actions.
- 80) A number of artisans and small industrialists also began to sell their products directly to consumers; all kinds of fairs and outdoor markets flourished. To speak of "elimination" of intermediaries is perhaps not quite accurate, though - it was rather a question of a lot of petty producers' own transformation into middlemen in order to reap for themselves the speculative type of profits that arose in commerce. These initiatives were naturally felt to be threats to established retail trade.  
Cf. also Ch. VII below for a discussion of the distribution of foodstuffs.
- 81) See the interview with Luis Inostroza, ex-director of DINAC, in Punto Final, No. 179, March 13.

## Chapter VII

# The Agrarian Sector

The modest size of agriculture in the Chilean national economy - in the late 1960's it accounted for only some eight per cent of GDP and employed less than one quarter of the whole work force - makes Chile quite exceptional in the so-called Third World. In this limited sense, Chile would also appear to be the country with the most "modern" economic structure among those countries where a transition from capitalism to socialism has been attempted. But being the result of a long and deep stagnation, the low statistical weight of agriculture indicates the agrarian sector's decisive role in the future development of Chile rather than the economy's modern, industrialized character.

Ever since the 1930's Chilean agriculture has become less and less capable of satisfying the domestic demand for food. A high and rising share of total export earnings has, as will be shown below, been absorbed by agricultural imports. Once a large net exporter of agricultural products Chile has gradually become heavily dependent upon imports. To make Chile self-sufficient in foodstuffs in ten years would require, if we look at the situation by 1970, a more than doubling of the historical rates of growth of domestic production, and if the Chilean people were to enjoy nutrition standards comparable to those in Western Europe even higher rates would be necessary.

This was the nature of the task confronting Chilean agriculture. The gap between deficiency and self-sufficiency had grown steadily for over four decades and had taken a heavy toll in both undernourishment and burdensome food imports; clearly the most important long-range objective of agrarian policy in Chile must be to reduce this gap and bring production closer to the needs of the country.

An almost equally crucial, and interrelated, aim must be to achieve an expansion of the agrarian sector's manpower-absorbing capacity. Un- and underemployment has been an ever-present yoke in rural areas, and migrating job-seekers have by far exceeded the number of meaningful urban occupational opportunities; just the provision of employment for the mass of unemployed and marginally employed people in the Chilean cities would entail huge efforts. Chile is since long hyper-urbanized, and infrastructural bottlenecks - particularly abundant in Greater Santiago - also makes a geographically more evenly distributed population desirable. The availability of housing and sanitary facilities, means of communication, etc. is inadequate in all urban areas, and little progress can be

made unless the sparsely inhabited countryside starts absorbing a larger share of Chile's population growth. For these reasons, too, better employment opportunities in agriculture and in rural-based activities are required.

An augmentation of output and employment in agriculture is, then, of utmost importance for Chile's overall economic development. One purpose of this chapter is to study if or to what extent the Allende government's agrarian policies, and above all its land tenure reform, were likely to provide scope for such improvements. Much of this discussion should be relevant for other countries as well, countries with agrarian structures similar to Chile's.

Most of the discussion will however be devoted to the specific conditions prevailing in Chile between 1970 and 1973. A rather detailed analysis of how the UP's agrarian reform was actually implemented will be presented, and we will also analyze some of the political restrictions which limited the Allende government's freedom of action, restrictions which greatly contributed to render the development of a consistent agrarian reform policy difficult, if not impossible. In view of the agrarian sector's importance from a political point of view and the UP's heavy stress on explicitly political objectives we will also study some of the more important aspects of rural political development under the Unidad Popular.

But first the historical background: the Chilean countryside's traditional land tenure structure and the Christian Democratic government's agrarian reform.

## The Situation prior to 1964

Whether basing their arguments on social justice or on economic efficiency the advocates of agrarian reform had an easy case in the early 1960's.

Inequality in land ownership was startling. Most of the agricultural population - comprising a work force of some 700 000 - 750 000 people - had no land at all, and as seen in Table VII:1 below the 11 000 largest estates occupied about four-fifths of all land and covered an area over one hundred times larger than all minifundios together.

Since yield per hectare - but not per worker - was higher on the small farms than on the large estates (see Tables VII:2 and VII:3 below), agricultural income was not quite as unevenly distributed. Still, the about 11 000 large landholders received an income substantially higher than all agricultural workers and minifundistas together.<sup>1)</sup>

Conditions of life were miserable and deteriorating prior to the Christian Democrats' agrarian reform. Agricultural workers' real wages, which had declined

Table VII:1. Distribution of Agricultural Land by Size Groups 1965

<u>Size unit</u>	<u>Number of units</u>	<u>%</u>	<u>Surface covered</u> <u>(thnds. of hectares)</u>	<u>%</u>	<u>Average</u> <u>size</u>
Sub-family	124 000	48,7	207	0,7	1,7
Family	97 000	38,4	3 000	9,9	30,0
Multi-family medium	22 000	8,7	3 200	10,4	145,0
Multi-family large	11 000	4,2	24 200	79,0	2 200,0
<u>Total</u>	<u>254 000</u>	<u>100,0</u>	<u>30 600</u>	<u>100,0</u>	<u>129,5</u>

Source: Ministerio de Agricultura, ODEPA, Plan de Desarrollo Agropecuario 1965-80, Vol. 1, p. 1-40.

somewhat already in the 1940's<sup>2)</sup>, fell by 23 per cent between 1953 and 1964<sup>3)</sup>, and what social and economic progress had been made in Chile was out of reach for the great majority of the agricultural population<sup>4)</sup> - a fact which the continual exodus from the countryside and the concomitant transfer of rural poverty into urban slums provided ample proof of.<sup>5)</sup>

The polarization in the countryside was reinforced rather than counteracted by the earlier administrations' agricultural policies. The voice of the poor campesino was weak and seldom heard; while the big landowners had a firm control of legislation and policy implementation at all levels the agricultural workers and smallholders remained poorly educated, badly organized<sup>6)</sup> and without representation whatsoever in decision-making institutions. Under these circumstances it is quite natural that the economic gulf separating the two poles existing in rural Chile continued to widen; agricultural policies consistently tended to serve large landowners and urban pressure groups, not agricultural workers and minifundistas.<sup>7)</sup>

Credit policy can serve as an example. Although the agricultural sector as a whole received benevolent treatment when it came to access to capital - in 1964 agricultural loans made up 35 per cent of all public and private institutional credit - small producers had little or no contact with the organized credit market. The bulk - 93 per cent - of all credit went to the latifundistas, not to the family-sized or minor producers who instead of benefiting from the negative real rate of interest the former enjoyed through institutional loans were forced to the black market run by storekeepers and other local moneylenders where the nominal rate of interest generally exceeded fifty per cent.<sup>8)</sup>

Tax policies also served the interests of the wealthy. Virtually all taxes were indirect, and the extremely light taxation on land, capital, income, and inheritance enabled the large estates - and especially the idle ones - to get off almost scot-free.<sup>9)</sup> A study from 1961 on tax paying and consumption habits of twenty large landowners (all with tax assessments exceeding the equivalence of 150 000 dollars each) revealed that of an average income of 45 865 dollars

a year 42 600 remained as disposable income after taxes. Of this, some 84 per cent was spent on personal consumption.<sup>10)</sup>

Smallholders and agricultural workers, on the other hand, suffered badly from heavy use of sales and turnover taxes. With average per capita incomes of less than 100 dollars a year almost all of these groups' commercial transactions were in foodstuffs, and since the tax system changed the terms of trade between consumption and production to their disadvantage they were penalized both as producers and consumers.

The growing realization of the necessity of an agrarian reform and of a revision of agrarian policies was however not only the result of compassion for the pauperized campesinos. The small and shrinking agricultural sector - accounting for some 10 per cent of GDP and occupying slightly above 25 per cent of the economically active population - had since long been unable to satisfy the people's demand for foodstuffs - let alone their needs, - and poor agricultural performance came to an increasing extent to be held responsible for the stagnation of the economy as a whole. Agricultural production per capita declined at an annual accumulative rate of 0,4 per cent between 1946-53 and 1962-65<sup>11)</sup>, and the deficit in Chile's foreign trade balance in agricultural products spiralled upwards.<sup>12)</sup> While idle land and manpower were abundant, foodstuffs produced in Chile were not. Production of livestock products had turned especially critical - while the population practically doubled between the mid-thirties and mid-sixties, the stock of animals remained about the same: 2,8 and 2,9 million cattle, respectively.<sup>13)</sup> Despite heavy imports consumption of meat per capita fell considerably during the whole postwar period<sup>14)</sup>, thus causing the agricultural crisis to be felt not only by the poor, who had always suffered from malnutrition, but also by wide sectors of the middle classes who found it increasingly difficult to maintain their traditional food standards.

A few data can illustrate the extent of under-utilization of the Chilean soil. According to René Dumont only some 1,8 per cent of the land area was ploughed in the early 1960's "although it could reach at least seven per cent".<sup>15)</sup> Other studies<sup>16)</sup> confirm, that only about one-fourth of the arable land was actually being cultivated intensively; even in the irrigated parts of the extremely fertile Central Valley one-third of the land was not ploughed but kept as unimproved pasture.

Along with the prevalence of poorly utilized latifundios there existed a super-exploitation of the land in the hands of smallholders whose parcels - covering less than one per cent of Chile's arable land - produced four per cent of total output and employed thirteen per cent of the agricultural work force. With a labor productivity far below the sectoral average - which, in turn, amounted to no more than some 30 per cent of the national average - these minifundistas can

hardly be said to have been rationally occupied; as indicated by Tables VII:2 and VII:3 below, the potential gains from a reallocation of manpower within the various divisions of the agricultural sector were considerable.

Table VII:2. Distribution of Agricultural Land, Agricultural Work Force and Value of Agricultural Production by Farm Size and Class (percentages), 1955

<u>Size group</u>	<u>Per cent of total</u>		
	<u>Agricultural land</u>	<u>Agricultural work force</u>	<u>Value of production</u>
Sub-family	-	13	4
Family	8	28	16
Multi-family, medium	13	21	23
Multi-family, large	79	38	57
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>

Table VII:3. Relative Value of Production as Percentage of that of Sub-Family Farms

<u>Size group</u>	<u>Per hectare of agricultural land</u>	<u>Per hectare of cultivated land</u>	<u>Per agricultural worker</u>
Sub-family	100	100	100
Family	14	47	165
Multi-family, medium	12	39	309
Multi-family, large	5	30	437
<u>Total</u>	<u>7</u>	<u>35</u>	<u>292</u>

Source: Solon Barraclough, Agricultural Policy and Land Reform, op.cit., p. 928; and CIDA, Tenencia de la Tierra ..., op.cit., p. 327.

In their ambitions to reform the Chilean agrarian structure president Frei and the Christian Democrats could, as we have seen, count on the support from wide but utterly heterogeneous interest groups. Urban industrial workers, as well as their employers, wanted agricultural efficiency so as to reduce the inflationary pressures originating from an insufficient supply of foodstuffs, the campesinos, when asked, and the radicals urged for justice and decent living conditions for the rural poor, liberals in Chile and abroad advocated reform in order to contain peasant radicalism and forestall revolutionary upsurges, etc. Among the political parties, only the latifundista-dominated conservative parties<sup>17)</sup> showed overtly their opposition to an agrarian reform - first by refusing to make use of their own laws from 1962, later by trying to impede any revision of the old legislation.

## The Christian Democrats' Land Reform

### Legal Aspects

The legislation from 1962 - which the Frei government had to work with until 1967 when, after almost three years of debates, compromises and bureaucratic transactions the Congress finally accepted the Christian Democrats' reform proposals - only permitted the expropriation of estates which were "badly run" by the owner or "abandoned". The number of estates subject to these conditions was considerable, however, which made it possible to initiate expropriations without having to wait for the new laws to come into force. During the first three years of Christian Democratic rule 562 fundos<sup>18)</sup>, covering about 1,2 million hectares, were taken over by CORA, the land reform agency.

The legislation of 1967 made expropriations easier mainly for two reasons:

1. It was no longer necessary to prove that a fundo was badly run or abandoned - excessive size was added as a legal ground for expropriation. The upper limit was set at 80 "basic hectares" (B. Hres.) - that is, the equivalence of 80 hectares of good, irrigated land in the Central Valley, which in less fertile, non-irrigated districts could amount to several hundred hectares. Every fundo larger than this was a potential object for expropriation, but the owner was, if he wanted, free to keep 80 "basic hectares" for himself (the so-called "reserva").

This important modification of the old law also signified that the beneficiaries could take possession of the land and begin to cultivate it much earlier than before, since the landowners' possibilities to delay the handing over of the estates through various legal procedures were now curtailed.

2. The 1967 legislation also made it possible to compensate the owners with long-term bonds, running up to thirty years, while that of 1962 stipulated full compensation in cash. This released an important financial constraint - now only between one and ten per cent, depending on the cause of expropriation, had to be paid in cash.

### Implementation

Despite the new legislation the execution of the land reform was slow and partial; about the same land area was affected between 1968 and 1970 as during the first three years. The initial political target of creating 100 000 new peasant proprietors in six years remained what it had perhaps always been: an electoral promise and nothing more. By the end of 1970 1 408 expropriations had been carried out, some 18 per cent of the arable land had been reformed, and the number of beneficiaries amounted to no more than 20 970 families.

Relatively little use was made of the new possibilities to expropriate land because of excessive size. Of all the estates taken over during the first five years about three quarters were either expropriated because they were badly run or abandoned or else were offered voluntarily to CORA by the owners.<sup>19)</sup>

Public expenditures for the reform were high. Cash outlay amounted to between six and ten thousand dollars per campesino family. Of this, more than half constituted credits to the beneficiaries (credits which very often had the character of gifts, since repayment rates were low). Administration costs were also high: almost twenty per cent of total cash outlay, or approximately equivalent to indemnity payments to the owners of the expropriated property.<sup>20)</sup>

A partial excuse for both the high costs and the low number of expropriations can be found in the extraordinary institutional mess found within the administration; even if the Christian Democrats had had a clear reform strategy - which they, always compromising with someone as they were, did not - their chances to implement it were reduced due to the complexity of the decision-making apparatus within the agricultural bureaucracy which the Christian Democracy lacked the political power and/or will to destroy. As pointed out by Jacques Chonchol (agricultural minister 1964-68 and 1970-72) agricultural policy was, in 1964 when the new government took over, decided by twenty-one different public institutions dependent upon five different ministries. In several important areas - for example the granting of credit to the agricultural sector - the influence the agricultural ministry could exercise was almost nil.<sup>21)</sup>

So far the legal and quantitative aspects of the reform. The shortcomings of the Christian Democrats' agrarian reform were however not limited to the fact that it was slow, bureaucratic and expensive. The way of selecting the beneficiaries and of organizing the reformed areas had such serious defects that it can be doubted whether the cautious steps that were taken to "revolutionize" the land tenure system were even steps in the right direction.

#### The Asentamiento System

The cornerstone of the reform was the transformation of each expropriated estate into a so-called asentamiento<sup>22)</sup> which was a transitional system of managing the estate until the land, after a lapse of three to five years, was to be put at the disposition of the beneficiaries who were then to decide whether to run the farm collectively or split it up on individual holdings. CORA and other public institutions were officially neutral with respect to the campesinos' decision on how to organize the estate after the asentamiento period, but in practice they often tended to favor some kind of cooperative solution.<sup>23)</sup>



The asentamiento system was very favorable to the beneficiaries. The asentados who were to become individual or collective owners of the land consisted almost exclusively of tenant farmers and share-croppers (inquilinos<sup>24</sup>) who "belonged" to the expropriated estate by virtue of their living on the fundo in question, and the fundos were, as we have seen, in general both very large and underutilized. A new rural elite thus arose - the average land area per asentamiento family amounted to fourteen hectares of irrigated land plus 155 hectares of non-irrigated land-, a class of comparatively well-to-do asentados who enjoyed both a lot of land and a benevolent treatment from the government, which poured money and technical assistance into the reformed areas. At the same time very little was done to improve the situation for the poor majority of campesinos whose status disqualified them from becoming asentados. As described by Solon Barracough:

"The permanent laborers on expropriated estates, and a few others who received land, obtained welfare, employment, and income. But the more than two-thirds of the campesinos who are minifundistas or unattached landless laborers had no prospects of benefiting from the reform, and many became even worse off as a result."<sup>25</sup>

#### Performance

Historically, experience with agrarian reform in different countries and under different circumstances indicates that our expectations with respect to the short-run effects on production should not be high; the reasons why production should be expected to fall immediately after the initiation of the reform are many and strong (uncertainty, organizational and distributional disruptions, etc.). This did not happen in Frei's Chile, where production increased<sup>26</sup> - presumably because of the fact that in Chile, in contrast to most other countries where agrarian reforms have been carried through, no institutional break in the form of a social revolution preceded the reform. The uncertainty that undoubtedly existed among many landholders seems rather to have been beneficial for production, since the legal arrangements put some pressure on the latifundistas to work their estates better (compensation was given at considerably less favorable terms when estates that were "badly run" were expropriated). Indeed, the most positive short-run effects of the reform were attributed to the fundos which were not taken over; the "threat of expropriation" was said to have produced a substantially better performance among those who were threatened, especially with regard to land utilization.

Evaluations<sup>27</sup> made of reformed areas reveal that progress was fairly small on the expropriated estates, however, in part due to the substantial de-capitalization that had taken place (since only the land was taken over the latifundistas were quick to sell all existing capital - including the stock of animals - on the future asentamientos, or else transfer it to their own reservas). Production rose slowly, if at all, and the marketable surplus from the asentamientos actually de-

clined: the beneficiaries tended to take out much of their economic gains in large increases in their own consumption of foodstuffs, thus accentuating somewhat the country's dependence upon food imports.

This is, of course, a "problem" which every change in agricultural policies that improves living standards of poor and underfed peasants must confront, but in Chile it was aggravated by the fact that the asentados' heavy indebtedness constituted a strong incentive against marketing the output: all cash incomes had to be shared with the creditors.

A more serious problem involving the way the reform was conducted was, however, that it promised no solution for the eternal Chilean problem of poor land utilization. Total area under cultivation was not raised through the 1965-70 land reform; in 1969-70 it was, in fact, slightly lower than in 1964-65.<sup>28)</sup> The limitation of beneficiaries to tenant farmers and permanent workers on the large estates signified that the man-land ratio remained practically unaltered; the extremely irrational allocation of manpower was thus perpetuated through the asentamiento system, the ideological foundation of which was the traditional populist slogan: "The land to those who work it!" (which, we note, can never be the motto of a viable land reform in countries with the Chilean type of land tenure structure). Fearing that their holdings would have to be split up among more individuals the asentados were in many cases even more reluctant to accept new permanent settlers on their land than the old owner had been, and the workers employed by the asentados were mainly temporary day-laborers lacking both land and job security.

Work incentives on the asentamientos were also unsatisfactory. Each member received a state-guaranteed minimum wage, quite high and independent of his own work efforts - a remuneration principle which resulted in high leisure preferences. On many asentamientos work performed by hired labor exceeded that of the asentados, who often came to constitute an inflated group of collective employers and supervisors. Thus, in many cases an important consequence of the agrarian reform was the replacement of one idle person with several who did little - a good example of the old cliché 'one step forward and two steps back'.

It is, however, no longer possible to make an evaluation of the long-run effects of the Christian Democrats' agrarian reform. We know that the government failed to come even close to its own quantitative goals - which, in turn, promised a solution for only a small minority of the rural population - and we also know that their method of organizing the reformed areas contained several doubtful aspects which, if unchanged, would have guaranteed the persistence of a considerable amount of both inequality and inefficiency in the Chilean countryside. But we will never know whether the Christian Democrats, if reelected, would have been

able to elaborate and implement a new agrarian strategy. 1964-70 was, as Eduardo Frei liked to put it, only to be the beginning of a long era of Christian Democratic rule in Chile, and although the PDC towards the end of the sixties had to recognize that the agrarian "revolution" had been delayed somewhat they did promise to correct some of the mistakes made and to accelerate the agricultural transformation.

The acceleration of the process instead became the responsibility of the government of Salvador Allende which, as will be seen below, had to work with exactly the same legal tools as its predecessor but under different circumstances and inspired by different intentions.

Before leaving the 1964-70 agrarian reform we must, however, give credit to the Christian Democrats in one important respect: they did succeed in stimulating the active participation of the campesinos.

#### Campesino Mobilization

The rapid abolition of all remaining legal bans on agricultural trade unions was one of the first steps taken by the new government in order to permit the campesinos to express their opinions and fight for their interests collectively. Encouraged by active support from CORA and other public institutions, as well as by a virtual invasion of the Chilean countryside by cadres from different political parties anxious to gain influence in the awakening campesino movement, the rural poor did not fail to grasp the opportunity:

Table VII:4. Agricultural Trade Unions 1964-70

<u>Year</u>	<u>Number of Unions</u>	<u>Number of Members</u>
1964	24	1 658
1965	32	2 118
1966	201	10 647
1967	211	47 473
1968	325	71 721
1969	385	101 232
1970 <sup>a)</sup>	488	127 680

a) June 1970

Source: Alaluf, et.al., El sector agrario ..., in Instituto de Economía, La Economía Chilena en 1971, op.cit. p. 493.

Not only trade unions underwent a spectacular growth - campesino cooperatives and similar organizations, non-existent before 1964, absorbed another 100 000 members, mainly minifundistas and small tenant farmers. The cooperatives' concrete economic achievements were insignificant but they did serve as educational centers for large groups of peasants who had earlier been almost deprived of both elementary education and regular contact with other campesinos.

During the first few years the Christian Democrats monopolized almost all organizational activity in the countryside, and as late as 1970 about two-thirds of all agricultural trade union members belonged to unions led by the governing party. A shift was under way, however - campesino disappointment increased as promises were betrayed, and with the emergence of militant, revolutionary movements even the traditional Left had to face the fact that it was unable to control wide sectors of the rural proletariat. The situation became more and more explosive, and the last two years of the Frei regime witnessed confrontations, sometimes violent, of an intensity which few political leaders had foreseen when they had supported the organization of the campesinos. The latter's interpretation of the Christian Democrats' slogan "participation" diverged more and more from that of the government, which often responded with severe repression against illegal strikes, land seizures, etc.

This is not to say that the process of radicalization had reached all rural areas and sectors. The campesino movement was badly split into rival organizations, and fear of or respect for el patrón still prevented many from engaging in activities directed against the still powerful landowners.

One of the results of the discriminatory selection of beneficiaries was, furthermore, that the conflict of interests between diverse campesino groups tended to grow - the creation of "collective latifundistas" through the asentamientos tended to divert many campesinos' attention away from the remaining individual ones, and in many cases the large landowners and the rightist political parties managed to create alliances with the asentados against the groups whose interests lay in a radicalization of the agrarian reform.

But despite the political and organizational weaknesses of the campesino movement the incorporation of hundreds of thousands of people into trade unions and cooperatives must be considered a very important achievement. This is the main reason why the years 1964 to 1970 will be remembered as an extraordinarily dynamic period in the Chilean countryside; for subsequent events in rural Chile the existence of an organized mass of campesinos, increasingly aware of their new possibilities, was of far greater importance than the Christian Democrats' 1 400 expropriations and creation of 20 970 petty kulak families.

## The Agrarian Reform 1970-1973

"Agrarian reform", Salvador Allende argued, "is, in itself and seen in isolation, recognized as one of the so-called bourgeois-democratic transformations. ... In our case, however, the agrarian reform is not carried through within the context of preserving capitalism, but within that of destroying its basic nucleus: domestic and foreign monopolistic capital. For it is not a question of developing

capitalism in the countryside, but of making agrarian relations march towards socialism ... (29)

We thus see that - and this was heavily emphasized in the UP's 1970 program as well - the agrarian reform was to be implemented as but one part of a general strategy aimed at transforming the whole of society along socialist lines. From the point of view of political power this was often put forward in a crude, slightly mechanical way: the destructive phase of the land reform, the expropriation of all large land holdings, would, it was said, eradicate the material base of rural conservatism. Deprived of their economic base the latifundistas would be forced to give up their strongholds in the countryside; the positive side was, of course, to provide opportunities for the poor campesinos to take their place in economic and political matters and for the political parties of the UP to gain influence as well as votes in future elections at the expense of the PV and PDC. The general democratic aspects of the agrarian reform played a very important role in the UP's program, and to give power to the campesinos ranked as high as the other objectives, i.e. above all to increase production and employment and improve the living standards of the rural poor.

Besides the expropriation of all latifundios the program of the UP also called for the transfer of all agricultural supply, marketing and processing "monopolies" to public or cooperative ownership. This would, together with the nationalization of all commercial banks and private credit institutions, guarantee a more or less direct state control of all major financial and commercial transactions connected with the agrarian sector. Agriculture was to be integrated with the overall planning of the economy, although state farms should be of only marginal importance. Expropriated land should preferably be organized on a cooperative basis, and with the exception of those small garden plots to which all campesinos in the cooperatives should be entitled individual ownership of land was to be permitted only in "special cases".

As regards overall agrarian policies the UP program was very vague. All peasants and agricultural workers - i.e. not only those who benefited directly from the land reform - were to be favored, and rural incomes were to be raised to levels equal to those of urban industrial workers. Credit on advantageous terms and in large quantities was to be provided to agriculture, and the producers would be guaranteed high and stable prices, known to them in advance, for all crops produced in accordance with the plans made up jointly by the government and representatives of democratically elected "Peasant Councils". The relative position of agriculture vis-à-vis the other sectors of the national economy was to be improved considerably, and this could, according to Jacques Chenchol (Minister of Agriculture 1970-1972), only take place if agriculture received subsidies from the remainder of the economy.

Whereas other socialist countries had to a certain extent financed their development in industry and other sectors with surpluses extracted from agriculture, Chonchol argued, the outstanding characteristic of the Chilean socialist model lay in the circumstance that in Chile agriculture during a long period of time would be unable to finance even its own development, and that capital for agricultural investment thus would have to be drawn from elsewhere.<sup>30)</sup>

Not so in the future, however. The constant underexploitation of Chile's rich agricultural natural endowment was emphasized in the UP program as well as in most of Chonchol's interventions, and rather than acting as a brake on the overall economic development agriculture ought to be able to play the role of one of its driving forces. Exploitation of idle land, intensive cultivation, crop specialization and a close integration with domestic industry was Chonchol's formula, a formula which would help to solve both production and employment problems and would provide scope for a better utilization in domestic and foreign trade of certain regions' natural advantages.<sup>31)</sup>

Little was accomplished in terms of Chonchol's formula, however. Despite the many great achievements that no doubt were made during Allende's three years - achievements systematically destroyed by the Pinochet regime after September 11, 1973 - the UP's land reform promised no solution to Chile's agrarian problems even if the reform had been allowed to be completed along the 1970-73 lines. A different strategy - and a different political environment - would have been required, and the reasons for the Unidad Popular's relative failure will be the focus of the analysis presented below.

#### The Legal Heritage

The UP's 1970 agrarian program was constructed on the assumption that the existing agrarian reform legislation of 1967 would be revised, since a large number of the program's vital points were clearly impracticable in terms of the existing legal framework. But having failed to take over parliament shortly after having assumed office - the UP did not, as we know, even make an attempt - the government was obliged to accept the old legal provisions and try to make the best possible use of them; to delay the initiation of the reform and expect the parliamentary opposition to carry through a new and better proposal was for many reasons out of the question.<sup>32)</sup>

The government's intentions were thus at odds with the legal framework. With the exception of "badly run or abandoned" estates only those huge fundos covering more than 80 "basic hectares" (B. Hres.) could be expropriated, and a sizeable and well-to-do class of farmers was thus left out of reach.<sup>33)</sup> In the eyes of most of the UP leaders this was politically dangerous, and it clearly reduced the scope for the "socialist" relations of production, although nobody denied

that a large number of those medium-sized farms were quite efficiently run and accounted for a disproportionately large share of the marketable surplus of food-stuffs.

The obligation to grant the expropriated landowner a reserva of 80 B. Hres. was an even greater hindrance to the realization of the UP's agrarian objectives. The UP had argued that the future planning of the reformed part of the agrarian sector was to be conducted not on an artificial estate-to-estate basis but by whole areas; this was rendered impossible by the right of the former owner to retain his reserva and by the fact that the agrarian reform law stipulated that every expropriated fundo was to form a unity of its own and that only permanent workers and sharecroppers could become members of the cooperatives that were to be established (save in cases when the affected campesinos themselves agreed to take in others. If CORA and the beneficiaries were in agreement, they could organize the expropriated areas as they liked). Furthermore, the law allowed the expropriation of land only. Buildings, machinery, equipment, inventories, cattle, etc. were not included, and neither was the control of irrigation works; in choosing his reserva suitably the landowner could, and did in many cases, direct and re-direct the supply of water.

The legal restraints to a more radical agrarian reform were thus numerous, and since the correlation of forces in the countryside and in the Chilean society as a whole did not develop favorably enough for the Left, the UP's ambitions had to be reduced. What could, at best, be achieved was a successful bourgeois-democratic agrarian reform, not a socialist one, and in most vital aspects the reform of the UP was only an extension and acceleration of the work initiated by the Christian Democrats.

## Implementation

### The Destructive Phase: the Death of the Latifundio

In two years Chile will be liberated from all latifundios; this was the promise given by the new government when taking office. Both in order to respond to the strong pressure from the campesinos and to preempt the spread of uncertainty the UP decided to act immediately<sup>34</sup>), and more fundos were expropriated in the first fourteen months than during the whole Christian Democratic administration. By the end of 1972 virtually no estate liable to expropriation due to excessive size remained, although the actual taking possession of the land by CORA and the campesinos was very often delayed for six months, or even a year - while in the meantime, a tremendous decapitalization occurred.

It was in a climate of social turmoil that this massive expropriation took place. The electoral victory of the UP had given the campesino movement a new

impetus, and rural conflicts - now over wages and working conditions, now over the question of land - increased manyfold. The forms in which the peasants expressed their discontent also grew more militant as fear of violent repression faded away, and the number of land occupations ("tomas de fundos") multiplied: in 1967 nine tomas took place, in 1969 148 and in 1971 1 278.<sup>35)</sup> The immediate objective of these tomas was in general the expropriation of the estate in question, but a large number of tomas de solidaridad also occurred - a clear sign of the qualitative change in class consciousness and organization that the campesino movement was undergoing.

The time had thus come to eradicate the latifundios from Chile (temporarily, we could add today, with hindsight). Possessing the necessary legal tools, the executive power and support from below, from the mass of workers on the large fundos, the Unidad Popular had both the right and the power to set to work. The big landowners had to face the fact that their vast holdings were to be drastically reduced, and quite a few of them drew desperate conclusions: they slaughtered their cattle, sold their tractors and packed their bags. Others, who did not want to sell out so cheaply, engaged in a capital flight of a somewhat unusual kind; it is estimated that some 160 000 cows undertook a long march over the Andes and crossed the Argentine border during the months that followed the presidential election.<sup>36)</sup>

But the majority of landowners stayed to protect their interests; they were, after all, guaranteed good-sized reservas - a right which was, however, frequently disputed by the militant campesinos - to which they were soon to withdraw most of their cattle and machinery, and compensation for the land was given on appreciably more favorable (less disadvantageous) terms if they stayed.<sup>37)</sup>

No land tenure reform which really hurts the interests of powerful groups - and if it does not, it is hardly worth the name - can be an altogether peaceful process, and Chile 1970-73 was certainly no exception. But by and large the government complied scrupulously with all legal requisites of the Land Reform Law of 1967, and in view of the antagonism involved and the number of confrontations that did occur the immediate social cost of the elimination of Chile's latifundios must be said to have been relatively low. Despite the Right's efforts to create uncertainty and even panic among medium scale producers no serious disruptions in production took place, let alone massive material destruction. The violence, destruction and killing took place afterwards, when the latifundistas took revenge after September 11, 1973.

In March 1973, when the first phase of the land tenure reform can be said to have been completed, a sum total of 5 036 fundos had been expropriated since 1965. Of these over seventy per cent were taken over after Nov. 1970, and in terms of



surface area and number of beneficiaries the UP's share amounted to slightly over sixty per cent. (Table VII:5)

Table VII:5. Expropriations 1965 - March 1973

Period	Number of estates	Area covered (hectares) <sup>x)</sup>		Total	Number of beneficiaries (families)
		Irrigated land	Dry-farming land		
1965-Nov. 1970	1 508	290 601	3 273 952	3 564 553	20 976
4.11.70-22.3.73	3 628	394 777	5 190 850	5 585 327	33 948
<u>Total</u>	<u>5 136</u>	<u>685 378</u>	<u>8 464 802</u>	<u>9 149 880</u>	<u>54 924</u>

x) Including non-cultivable land.

Source: Third Message, p. 272

An additional number of some 300-400 medium and small scale estates were "intervened" as the result of prolonged labor conflicts or sabotage by the owners.

If converted into "basic hectares" the total surface area that was expropriated corresponded to slightly less than 800 000 B. Hres; that is, between eleven and twelve physical hectares were, on average, estimated to be equivalent to one basic hectare. Since the size of the landowners' reservas was based on those calculations - the lower the estimate of the value of the land was in terms of B. Hres., the larger would the reserva be - these figures indicate that the landowners were quite successful in their attempts to get favorable land evaluation coefficients, and their success in this respect was a constant source of complaint from the UP and from the campesinos.<sup>38)</sup>

But even more important for the reduction of the land area liable to expropriation was the process of subdivision of large estates that had taken place after 1965. Rough estimates of the magnitude of these efforts by the latifundistas to avoid becoming expropriated by splitting up their fundos indicate that some 1 500 subdivisions were made after the Christian Democrats' initiation of the land reform, and the area covered by estates between 40 and 80 B. Hres. increased its share of total agricultural land dramatically.<sup>39)</sup> In 1965 it was estimated that some 55-60 per cent of all Chile's agricultural land was subject to expropriation for excessive size, and as late as in 1971 Chonchol asserted that by 1972 more than half of all land would have become integrated into the reformed area.<sup>40)</sup> When however practically all fundos over 80 B. Hres. had been expropriated it turned out that almost two-thirds of all productive land still remained in private hands (see Table VII:6 below).

Subdivisions and generosity when calculating the size of the reservas thus made the reformed sector's share of land fall appreciably short of the UP's early expectations. By 1972, when the "destructive phase" of the land reform was virtually

completed, the medium-sized multi-family estates between 20 and 80 basic hectares large had a clear dominance over the other two poles of land tenure in existence, i.e. minifundios and reformed cooperatives.

And campesino pressure for land continued. The 34 000 families which were the direct beneficiaries of the Allende government's rapid elimination of Chile's remaining latifundios constituted but a tiny minority of the whole agrarian population. The strictly anti-latifundista strategy advocated by the dominant sectors of the UP could not satisfy the aspirations of the mass of small-holders and landless day-laborers, and tens of thousands of poor campesinos mobilized to struggle for a radicalization of the reform. Dissatisfaction with the pattern of land ownership that had emerged was widespread within the government as well, although the PC and PR were quite reluctant to try to carry the land reform further to an attack against the medium-sized landowners; such an attack would no doubt destroy the very foundation of the official UP strategy of rural class alliances. Late in 1972 a UP compromise was reached, however, and the government began to call for a lowering to 40 B. Hres. of the upper limit of private estates to be permitted. In this initiative the UP had the obvious support from the campesino organizations, which constantly demanded a more drastic expropriation policy, but not from what counted in legislative matters, namely the Congress.

#### Land Tenure Structure by 1972

No agricultural census which could have provided us with exact information about the relative importance of the various forms of land tenure that existed after the full implementation of the UP's land reform was ever undertaken. The best estimates available are those made by Barraclough and Affonse in their "Diagnosis" and which are presented below in Table VII:6. Although their study refers to the

Table VII:6. Estimate of Land Tenure Structure in Chile<sup>a)</sup> by Size Groups. July 1972

<u>Size group</u> <u>(B. Hres.)</u>	<u>Number of Units</u>	<u>—</u>	<u>Total Area Covered</u> <u>(B. Hres.)</u>	<u>—</u>
<5	190 000	79,3	200 000	9,7
5-40	35 000	15,1	510 000	24,6
40-80	9 800	4,1	566 000	27,3
>80	200	—	60 000	2,9
Subtotal	235 000	99,9	1 336 000	64,5
Reformed Sector	4 564 <sup>b)</sup>	0,1	731 818	35,5
<u>Total</u>	<u>239 564</u>	<u>100,0</u>	<u>2 067 818</u>	<u>100,0</u>

Source: Diagnosis ..., p. III-2

a) The data cover, to be exact, only the provinces from Coquimbo in the North to Llanquihue in the South, but outside this "Greater Central Chile" very little agricultural production is carried on. The exclusion of the geographical extremes of Chile cannot affect the estimates materially.

b) Does not correspond to the number of reformed units, since some estates were merged into larger holdings.

situation by mid-72 the fact that only about 200 fundos over 80 B. Hres. then remained to be expropriated means that the data are good enough to illustrate the possible impact of carrying through a land reform in the absence of new legislation.

If we divide the whole agrarian sector into three types of exploitation - minifundios and family farms up to 20 B. Hres., medianos between 20 and 80 B. Hres., and the reformed area - we get the following, very approximate, picture of the relative importance of each category in terms of land area, employment, output and marketable surplus:

Table VII:7. Hypothesis Concerning the Approximate Distribution by Sector of Agricultural Land, Work Force, Agricultural Production and Marketed Production in July 1972 (in percentage of total)

<u>Category</u>	<u>P e r c e n t a g e o f</u>				
	<u>Land</u> (B. Hres.)	<u>Work</u> <u>force</u> <sup>a)</sup>	<u>Gross value</u> <u>of production</u>	<u>Value of</u> <u>marketed</u> <u>production</u>	<u>Share of sector's</u> <u>production that</u> <u>is marketed</u>
Smallholders ( <u>minifundistas</u> and small farms less than 20 B. Hres.)	22	60	28	15	45
Medium and large farms (20-80 B. Hres.)	42	22	43	56	95
Reformed sector	36	18	29	29	30
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>76</u>

a) Including temporary laborers and unemployed.

Source: Diagnosis ...

The disproportions in the various sectors' shares of land, employment and output thus remained very large, with concomitant huge differences in productivity per agricultural worker and per hectare. If data on the distribution of capital were available these would undoubtedly also show great differences in this respect; the medianos - including all reservas - would by far rank highest in capital intensity<sup>41)</sup>, followed by the increasingly mechanized reformed sector.

Little was thus achieved in terms of a modification of the very uneven distribution of labor in relation to available land. Operating within basically the same legal structure as the Christian Democratic government, although more determinedly and with different aims, the UP failed to alter the man-land ratio significantly. To achieve such a change a different kind of land reform would have been necessary, a reform which could have brought forth a real redistribution of land and labor and not merely a change in the titles of ownership of the large,

sparsely populated fundos (however important the latter was for other reasons). Between 1965 and Nov. 1970 the average amount of land per beneficiary family amounted to 169 physical hectares, of which 13,8 were irrigated - in the period Nov. 1970 - March 1973 the corresponding figures dropped only insignificantly, to 165 and 11,6 hectares, respectively.<sup>42)</sup> The 100 000 smallest minifundistas, on the other hand, continued to have at their disposal less than two physical hectares of land per family, and they continued to overexploit their tiny holdings just as before while vast amounts of land in other parts lay idle.

From Table VII:7 we also note that the expropriation of all medianos in itself would have changed little in this respect; the abundance of land in relation to manpower was as pronounced on the estates between 20 and 80 H. Hres. as it was in the reformed area (the man-land ratios were, in fact, almost identical). Only the full integration of smallholders and unattached day-laborers as beneficiaries would have made possible a radical improvement in the poor and irrational utilization of rural Chile's land and manpower. Such an integration would also have been required to relieve the misery of the hard core of rural poor, who benefited little or not at all from the Unidad Popular's land tenure reform.

## The Constructive Phase of the Agrarian Reform

### Obstacles to a Clear Strategy

That mere expropriations were not enough stood quite clear to the UP, and the separation of the powerful and not too productive latifundistas from their vast landholdings was seen as a necessary though far from sufficient condition for the future development of Chile's agriculture.

In this the whole Chilean Left agreed. But what next? Who were to replace the latifundistas, how was production to be organized, how could those who had been marginalized from the benefits of the expropriations be employed rationally and be given decent incomes, and how were future relations between agriculture and the rest of the economy to take shape? To these questions, and many others, the UP's 1970 program had no or only very vague answers, and it is hardly an exaggeration to say that in no other field of economic policy were inconsistency and internal disagreement so pronounced.

There were several reasons for this. "The agricultural problem has never been thoroughly discussed within the UP" complained Chonchol in April 1972<sup>43)</sup>, manifestly disappointed at the lack of interest and/or knowledge of agrarian problems exhibited by the governing parties.<sup>44)</sup> The urban industrial dominance in the UP's social base and the parties' close contacts with their cadres in the factories of Santiago and Concepción had molded the whole Chilean Left's way of thinking<sup>45)</sup>, and instead of leading and directing the militant but ideologically quite hetero-

geneous campesino movement the UP usually found itself tailing behind. The UP was also unable to control the huge agrarian bureaucracy - in which the majority of officials were Christian Democrats but where anything from friends and relatives of latifundistas to revolutionaries could be found - in a coherent way, and the confusion as to what the government's agrarian policies really consisted of added to the always present party rivalry and sectarianism in the offices of CORA, INDAP, ODEPA, SAG, INIA, ICIRA, IDI, CORFO, etc.

There also existed profound ideological and strategic divergencies within the UP coalition. The "right wing" - Communists and Radicals, above all - put their main emphasis on the "battle of production", prescribed an alliance with the medium-sized landowners and maintained a very negative attitude towards land occupation and other "excesses". They argued, moreover, that the majority of the campesinos were not ideologically ready for collective forms of ownership, and that private landownership therefore might be necessary during a transitional period. The Left, on the other hand, denied the possibility and even desirability of reaching political agreements with the medianos, emphasized the primacy of the class struggle over the "battle of production", called for collective forms of working the land, for planning rather than relying on market forces, and worked for an integration of the rural "subproletariat" into the struggle for land - and for socialism.

There was, in short, ample room for friction within the UP, whose freedom of action was also quite limited; confronted with a strong political opposition and with serious and in part unforeseen economic problems ad hoc measures often had to replace conscious, strategic action.

Let us now look at the result of all these wills and circumstances.

## The Reformed Sector

### Forms of Organization

The asentamiento system, the weaknesses of which were indicated above and which constituted the cornerstone of the Frei government's agrarian reform, remained in fact though not always in name the model used by the UP in organizing expropriated estates. Of the three other forms of organization that were introduced after 1970 one, the so-called "Comités Campesinos" or "Comités de la Reforma Agraria", had a structure almost identical to that of the asentamientos, the only difference being some minor organizational innovations. The Comités were also transformed into cooperatives with joint CORA-campesino management, and they shared the asentamientos' fundamental weakness of being organized on an estate-to-estate basis which impeded both zonal planning and specialization and the integration of landless laborers and minifundistas who lived in the area without

being attached to the particular fundo in question. The system was, of course, very advantageous to those workers and former sharecroppers who became members and who, in general, were quite reluctant to let the other sectors of the rural proletariat enter the cooperatives and share all the benefits.

New privileges and large differences in economic status and security were thus inevitable consequences of this new social stratification introduced on all asentamiento-like settlements.

To overcome these and other deficiencies the UP sought to replace the above system with so-called "Agrarian Reform Centers" (Centros de la Reforma Agraria, CERA's) which were also of an essentially cooperative character but which differed from asentamientos and comités in that they were formed through the merging of several neighboring farms into larger units. (There existed several other differences as well, but these had mainly to do with questions concerning decision making. The CERAs were thus much more democratic than the asentamientos; women and men had equal rights, the afuerinos had a higher degree of participation, etc.) This was not always possible, however - the landowners' reservas hampered the full integration of whole areas, and the CERAs also met resistance from many of the inquilinos who were in a much better bargaining position than the mass of unattached day-laborers and smallholders. The violent campaigns against the CERAs from the political opposition frightened many campesinos; the story was told that the CERAs were to be converted into state farms with not even private garden plots permitted. Even within the Unidad Popular knowledge of the CERAs - which also were provisional forms of organization only and which could not be transformed to state farms unless the campesinos working there so accepted when the transitional period of three to five years had come to an end - was lacking and scepticism widespread, and especially the Communists were afraid that the CERAs would constitute a too advanced form of collective farming.<sup>46)</sup>

The fourth form of settlement that arose, the "Production Centers" (Centros de Producción, CEPROS), was radically different from the others, however, in that the state was made definite owner of the land. Defined by the UP as an "exceptional" form of operation the number of CEPROS established was very limited - 54 up to March 1973 - but they were large and covered an area representing some 14 per cent of the whole reformed sector.<sup>47)</sup> The CEPRO was the only kind of production unit which made no distinction whatsoever between "members" and "non-members" and where all workers were guaranteed steady employment and social security.

The distribution of units between the different forms of organization was as follows:

Table VII:8. Organization of the Reformed Area in 1971 and 1972. Number of units

<u>Year</u>	<u>Asentamientos</u>	<u>Comités</u>	<u>CERAs</u>	<u>CEPROs</u>
1971	246	628	25	18
1972	752	779	238	36
<u>Total</u>	<u>998</u>	<u>1 407</u>	<u>263</u>	<u>54</u>

Source: Third Message, p. 272ff.

With regard to working conditions and wage principles the systems introduced on the cooperative settlements were rather similar to each other, although the CERAs tended to develop the most radical forms of collective farming. In general, however, local political and economic circumstances rather than official designation of a particular form of organization determined the differences that existed. They all shared the basic defect of having a remuneration system providing very poor work incentives.

All socios, full members of the cooperatives, were guaranteed a minimum basic income for their participation in collective work, and in addition to this they were to receive a share in the profits made by their cooperative.<sup>48)</sup> Although the beneficiaries were often very proud of this egalitarian character of the cooperatives - a typical remark was: "We are all equals here!" - it is quite clear that the majority of them were not prepared for such advanced distribution principles, and neither was the Chilean society as a whole, with all its flagrant inequality.

There also existed a third source of revenue, a source which was of far greater importance than the share in common profits (which were usually non-existent), namely the sales from the socios' individually owned garden plots. These "plots" were quite large - in 1972 they occupied 13 per cent of the whole surface area of the reformed sector<sup>49)</sup> - and with the high prices prevailing on the parallel, black markets for foodstuffs the fortunate members of the cooperatives were able to increase their cash incomes appreciably. Many peasants gave priority to these private micro-exploitations coexisting with the collective areas and afuerinos<sup>50)</sup> as well as tractors provided by CORA often did the collective work while the members dedicated themselves to individual farming. The existence of these micro-exploitations also reinforced the tendency to use the collectively owned land area mainly for extensive cultivation, with a resultant loss in employment opportunities.<sup>51)</sup>

These private parcels were thus essentially competitive vis-à-vis collective farming rather than complementary to it<sup>52)</sup>, with negative consequences both for agricultural planning and for the promotion of socialist consciousness in the countryside.

Campesino resistance to the introduction of accounting systems on the cooperatives was another problem. In part due to lack of knowledge - most of the adult members, until very recently working under the semi-feudal system of inquilinaje, were illiterates - and in part out of fear that CORA would use the results against them in their negotiations the peasants were quite reluctant to accept cost calculations and profit-and-loss accounts, and little concern was generated for profitability and productivity in collective work. The distorted price structure - including the cost of credit, which fell sharply in real terms as prices skyrocketed - also hampered the making up of cost calculations worth the name, of course, and the arbitrary character of almost all estimates based on current prices increased the campesinos' scepticism towards bookkeeping in general.

Although the UP became more and more aware of these and other shortcomings of the asentamiento-like cooperatives they could nevertheless do little to transform the reformed estates into both ideologically and economically more suitable forms of organization. The Unidad Popular was too weak politically to be able to resist the "spontaneous" drift towards the old type of settlements, which had the support both from the rightist political opposition and from most of the beneficiaries themselves. The verdict that Rolando Calderón (Socialist, Minister of Agriculture Nov. 1972 - March 1973) gave upon the asentamientos in an interview (see below) would perhaps not have been shared by the whole UP, but the magnitude of the discontent that existed is indicated by Calderón's harsh words:<sup>53)</sup>

- Question: Which forms of organization in the so-called reformed sector do you think ought to be promoted?
- Answer: There is, to begin with, one form of organization which ought not to be promoted: the asentamiento. All the peasant organizations agree in that on the asentamientos there exist no incentives for the worker; that irresponsibility, alcoholism and absenteeism develop there; that they are a failure from the point of view of production, that the asentados start exploiting their own class brothers, etc. ... There are exceptions, but in general it works that way ... I would like to make clear that I am not criticizing the individual campesinos who are members, many of which have made great efforts to raise production, but I am criticizing the very system of asentamientos ... Secondly: Frankly speaking I do believe that the Comités Campesinos, CERAs, etc. are to a large extent mere armchair products. In practice, you go to a CERA and you notice that it works in much the same way as an asentamiento ...

#### Credit Policies and Mechanization

The members of the reformed cooperatives were in no way in a position to finance necessary purchases of machinery and equipment, seeds, fertilizers, etc. They also lacked the means to renew the stock of cattle, which had been either brought to the former owner's reserva or else stayed at the fundo but had to be paid for in cash. The UP was thus obliged to provide the reformed sector with financial and technical assistance so as to satisfy the needs of working capital and funds



for reinvestment; only the normal working of the land called for vast public support.

But the actual assistance to the cooperatives very soon turned out to exceed by far the requirements dictated by the above circumstances. The UP, in fact, decided upon a policy aimed at promoting rapid mechanization and allocating financial support through huge subsidies to the whole reformed sector.

The total amount of credits granted the agrarian sector is estimated to have increased by 56,9 per cent in 1971 over 1970 in real terms and with another 19,2 per cent in 1972; of these, over three-fourths went to the reformed areas.<sup>54)</sup> The members of the cooperatives received in 1971 an average of almost 32 000 escudos per family<sup>55)</sup>; that is, a sum equivalent to the wages of one man working for over 1 000 days at the legal minimum wage rate.<sup>56)</sup> Interests on the loans were kept down (see Table VII:9), and so were prices on agricultural inputs of all kinds.

Table VII:9. Nominal Interest Rates on Credits to the Reformed Sector and Increases in the Consumer Price Index in 1971-72 (percentages).

<u>Period</u>	<u>Rate of Interest</u>	<u>Rate of Inflation</u>
1971	12%	22,1%
Jan.-Sept. 1972	12%	} 163,4%
Sept.-Dec. 1972	75%	

Source: Banco Central, Boletín Mensual, various issues.

The cooperatives had, nevertheless, great difficulties in repaying the credits. The entire reformed sector was like a leaky bucket, and the "rate of recovery" of interest and amortization payments on the credits granted by CORA fell from 25,1% in 1970 to 15,6% in 1971.<sup>57)</sup> The campesinos came to regard the funds as handed over to them almost gratuitously, like the land had been<sup>58)</sup>; a circumstance which impeded the development of an awareness of real costs and which reinforced the campesinos' preference for asking for new credits in order to finance labor-saving investments.

To assess the exact value of all the different forms of subsidies involved in the UP's assistance to agriculture is a difficult task indeed, but in order to get an idea of the magnitudes we could compare the total amount of credit granted the agrarian sector in 1971 with the gross value of total agricultural output the same year: 5 200<sup>59)</sup> and 8 500<sup>60)</sup> million escudos, respectively. For the reformed sector, which received the bulk of public support, credits exceeded the value of production considerably, and the gift element in these credits must have been greater by at least thirty per cent of the value of total production on the cooperatives.

That agricultural development was to be in part financed with surplus from other sectors in the economy was, as we recall, emphatically pointed out by Jacques Chonchol. But certainly nobody in the UP had expected the subsidies to take such gigantic forms. The production response from agriculture, and above all from the reformed cooperatives, was a clear disappointment to the government; capital productivity fell noticeably.

The destination of the credits granted differed greatly. Large infrastructural investments were made, housing and sanitary facilities on the cooperatives were improved, and seeds, cattle, pesticides and fertilizers were purchased. And quite a few campesinos grasped the opportunity to equip themselves with clothing and other badly needed consumer goods, of course - much of the short-term credit was nothing more than a (quite irrational) form of consumption subsidy. The larger part of the credits was used to mechanize the reformed areas, however; a process symbolized by the mounting importance of the tractor.<sup>61)</sup>

In 1970 some 10 000 tractors were in use in all Chile, or about one per each seventy-five people working in agriculture. In 1971 the number of tractors reached 14 500, in 1972 over 20 000. Of those that were put into use during 1971/72 the majority - some 70 per cent - went to the reformed sector, and the rest to private medianos and to public tractor-stations put at the disposal of smallholders.<sup>62)</sup> According to President Allende<sup>63)</sup> one objective of the UP's mechanization program was to increase the number of tractors in the reformed sector to 50 000 units over a period of five years. The realization of this goal would thus have resulted in the cooperatives and CEPROs, controlling some 36 per cent of Chile's agricultural land and 18 per cent of the agrarian work force, gaining possession of five times as many tractors as existed in the whole of Chile in 1970. This in turn would have meant that the members of the reformed settlements would then dispose of an average of almost one tractor per family.

How should this veritable technological revolution be evaluated?

To begin with it deserves to be pointed out that the initial direct costs of mechanization, even on this massive scale, were not insurmountably high. A good tractor could be bought for 4 000 dollars, and even the full implementation of Allende's "tractorization" program would have cost no more than some additional 160 million dollars, or considerably less than fifty per cent of Chile's annual food imports.

But to these direct costs of mechanization we should add several others: the training of tractor drivers and mechanics, infrastructural investments and, last but not least, maintenance costs such as spare parts, oil, etc. The import-intensity of agricultural production rises rapidly as mechanization proceeds, and the dependence on the external sector increases; agricultural workers have to -

or, at least, ought to - be maintained whether they work or not, while the use of machinery requires extra imports.<sup>64)</sup>

Finally, a few words should as well be said about the likely effects on employment. Apparently, the UP did not see a conflict between the goals of increasing production through mechanization and raising employment, although there undoubtedly existed one. There was a trade-off, and if the UP did recognize this trade-off they gave priority to the production objective - this is clear from most public statements as well as from the policies actually followed. It is very likely that the gradual deterioration in the overall economic and political situation and the acute shortage of foodstuffs pushed the UP further and further in this direction; a serious drop in production would have been felt almost immediately in the large cities while a decrease in agricultural employment would not, and the cynical propaganda<sup>65)</sup> from the opposition made it difficult indeed to turn the attention from the housewives lining up outside Santiago's grocery stores to unemployed afuerinos.

The UP felt it to be an economic and political necessity to increase agricultural output rapidly and to gain (or avoid losing) political support from the campesinos in the reformed sector; hence the heavy reliance on mechanization policies. An alternative, more "Chinese" model with massive undertakings of collective works in land improvement, reforestation, soil-erosion combatting, irrigation, draining, residential construction, etc. would no doubt have given much better results in terms of employment creation and, in a few years, also in terms of production. But too many institutional and political obstacles stood in the way of more systematic efforts to implement agrarian policies along these lines.

#### Price Policies and Marketing

In theory, price policy played an important role in the UP's agrarian project. Prices were to meet three fundamental requirements: they should serve as instruments in the struggle for a change in the income distribution, they should stimulate agricultural producers to raise production and, last but not least, they should serve to guide the producers in their choice of crops, preferably towards exportable and high manpower-absorbing products.

As to the income distribution goal both producers and consumers should be favored. Public subsidies should, and did in many cases, help to achieve these apparently contradictory objectives, but it was also thought that they could be achieved simultaneously at the expense of intermediary profits.

Prices on agricultural inputs were to be kept down; a means which, like the former one, was also meant to stimulate production.

The abnormal monetary situation that arose soon made the application of more sophisticated price policies impossible, however. Official prices to producers were raised more and more often and more and more drastically, but they almost always tended to lag behind those prevailing on the parallel, black market. To take one example: between January 1972 and January 1973 official potato prices were raised several hundred per cent, from 30 to 420 escudos per 100 kilo, but even so they remained much below the prices paid by private purchasers on the parallel market. Official prices to consumers were raised from 2,5 to 10 escudos per kilo in the same period, but it would have been difficult to find someone who bought potatoes for less than 15 or, towards the end of the year, 25-35 escudos per kilo on the streets of Santiago. This is an extreme example - the potato shortage was notorious - but it does indicate the magnitude of the figures that were sometimes involved, i.e. the violent inflation, the large differences between official and unofficial prices both for producers and consumers, and the large profit margins obtained by intermediaries. The middlemen who were most fortunate - those who managed to buy at official and sell at unofficial prices - could indeed make handsome profits.

Under these circumstances speculation and stockpiling became the order of the day, and very little could be done by the government to cope with the situation. Price decrees and other administrative measures could attack the symptoms only, they were arbitrary and quite inefficient and the share of transactions closed in official prices declined steadily. Governmental efforts to force the campesinos to sell directly to state agencies at fixed and regulated prices were largely inoperative.<sup>66)</sup>

The public sector's share of the distribution of agricultural products was small - except for imported foodstuffs, the wholesale trade of which was mainly handled by a state company -, far too small to permit a stricter implementation of the official price policy. Extensive state influence over distribution channels would not have prevented prices from rising rapidly, and neither would it have prevented the distortion of relative prices that took place (quite the opposite, perhaps), but it would have permitted the Treasury and/or the consumers to absorb part of the profits that now arose in trade with agricultural products. But the government failed to come to grips with the private sector's dominance in distribution; the gaining of control of the "monopolies" engaged in the processing and distribution of agricultural products was an integral part of the UP's agrarian strategy, but despite pressure from the government the owners of the firms that were to be taken over refused to sell out, and state companies were of only marginal importance.

The marketing of foodstuffs was, then, handled by pretty much the same companies and individuals as before, although the chaotic price situation caused a disruption of many old distribution channels, and the products often had to find their way to the consumers in new and, certainly, illicit ways.<sup>67)</sup> Exactly what prices were paid and how the gains were shared between producers and intermediaries is, of course, impossible to tell, but the latter, with their superior knowledge of market conditions and means of transportation, were in a very good position; the hypothesis that it was they who grasped the lion's share of the profits made is supported by the huge differences that existed in producers' and consumers' prices on the parallel markets.

Even the reformed sector traded primarily with private interests, as is evident from the figures presented below in Table VII:10.

Table VII:10. Estimated Distribution of the Reformed Sector's Sales of Agricultural Products by Category of Buyer, May 1971 - April 1972 (percentages).

<u>Category</u>	<u>Share (%)</u>
Private firms and middlemen	55,3
Mills and industries	16,1
State organizations	14,1
Agrarian cooperatives	7,3
Campesino organizations	4,5
Traditional forms of distribution <sup>a)</sup>	2,7
<u>Total</u>	<u>100,0</u>

a) Fairs, markets, etc.

Source: Diagnosis, Anexo No. 12.

#### Policies Towards the Rural Poor Outside the Reformed Sector

While some 50 000 families were integrated into the reformed sector as members of cooperatives and about 5 000 as wage earners on CEPROs the problems of land, employment and social security for the vast majority of the agricultural population were in no way solved by the land reform. The over 100 000 minifundistas continued to work their sub-family holdings and continued to try to get some incidental earnings through odd-jobs on neighboring estates, and some 350 000 landless workers continued to sell their labor-power, when jobs were available, to private landowners and now also to reformed cooperatives. For the miserably poor, indigenous Mapuche Indians, a people bearing the additional burden of constant discrimination<sup>68)</sup>, the direct benefits of the land reform also remained out of reach; of a rural Mapuche population of some 450 000 individuals the great majority lived in "indigenous reservations" (comunidades or reducciones indígenas) outside the expropriated estates, the rest being mainly day-laborers

unable to enter the asentamientos as members.

We already know the reasons why the land reform failed to benefit these groups. But they were, nevertheless, affected in many ways by the government's overall agrarian policies, and at least the smallholders were, in comparison with the situation in the past, paid considerable attention.

#### Smallholders

The most important ingredient of the UP's policy towards smallholders was to actively support the formation of cooperatives, and both economic and ideological persuasion was applied to make the minifundistas merge their plots and work the land collectively.

The response from the smallholders was positive - often even enthusiastic - and over two thousand cooperatives or so-called "Committees of Small Producers" were established during an apparently very successful campaign.<sup>69)</sup>

The mere formation of cooperatives does not increase land area per capita by one single acre, however, and the main problem on those miniature cooperatives was hardly lack of work incentives, as on the larger ones, but of work opportunities. Underemployment remained high, despite considerable efforts to create new jobs through the undertaking of various infrastructural projects: drainage, irrigation, land improvement, etc. The formation of cooperatives widened the scope for these types of undertakings - in addition, badly needed from the point of view of raising productivity - but even with very intensive cultivation and vast improvements in soil and production techniques the majority of these cooperatives were too small to be able to provide decent incomes and employment opportunities for their members.

A sizeable increase in financial and technical assistance - including education - was also part of the UP's program for smallholders. The amount of credits granted to this sector more than doubled in two years (see Table VII:11) - they still received but a fraction of what went to the reformed sector, though - and tractor-stations whose services the minifundistas cooperatives could buy inexpensively were established in some areas.

Table VII:11. Credits to Smallholders 1970-72

<u>Year</u>	<u>Number of beneficiaries</u>	<u>Total amount (E<sup>o</sup> of 1971)</u>	<u>Average per beneficiary</u>
1970	38 341	78 544 277	2 022
1971	74 124	177 660 100	2 396
1972	90 048	n.d.	n.d.

Source: 1970-71: Diagnosis, Anexo I, Table 15-A. 1972: Third Message, p. 299.

Literacy campaigns, courses in farming techniques, in tractor driving, in bookkeeping, etc. were initiated. Much attention was paid to the indigenous population: schools were constructed on the reservations, the number of scholarships to Mapuches was raised drastically<sup>70)</sup>, etc. The people were stimulated to organize themselves to fight for their interests.

In short: a lot of good work was done, and compared with the achievements of earlier administrations the UP's deeds and, above all, intentions, undoubtedly constituted one step forward. But only one, perhaps.

### The Rural Proletariat

As regards the landless farm workers, it is very difficult to assess the effects that the agrarian reform and the UP's policies in general might have had on their working situation. They neither received nor could lose any land, they formed no cooperative and were given no credits; they were affected only indirectly, only in so far as their situation as sellers of labor-power and buyers of commodities was affected. In contrast with the smallholders they were, then, affected mainly by changes in the market. The violent inflation beginning in 1972 and the lack of statistics even in nominal terms make estimates of the movement of real wages for the rural proletariat almost impossible, however.

But a few points deserve to be made. The first one bears relation to the institutional change that took place on the labor market as manifested, above all, in the workers' trade-union activity, the trend of which not only continued but accelerated upward. By 1972, 277 000 agricultural workers, or more than twice as many as in 1970, were organized. Supervision of minimum wage and social security legislation was improved both from above and from below, and implementation was, at least in the reformed sector, comparatively strict.<sup>71)</sup> The political situation that prevailed in 1970-73 was also likely to improve the bargaining power of the rural proletariat, since the landowners were quite anxious to avoid labor disputes with in part unforeseen consequences. Neglect to pay the legal minimum wage - which was raised drastically by the UP in 1971 - could also occasion either state intervention or, when the fundo was to be expropriated, more unfavorable terms when compensation was paid.

As for the employment situation, the higher wages that private landowners were forced to pay should have stimulated a substitution of capital for labor. The political climate reinforced this tendency: the rural bourgeoisie feared the workers, fired "agitators" and were reluctant to contract unknown workers they could not "trust". For both economic and political reasons private landowners tended to prefer tractors to manpower.

The preference for labor-saving technologies was, as we have seen earlier, very much pronounced in the reformed sector as well. The first phase of the

agrarian reform, the expropriation of the latifundios, witnessed a rapid de-capitalization of the expropriated areas and a subsequent mechanization of the reservas; in the next stage, the first tendency was more than amply compensated, however, since assistance from COMA soon exceeded the initial losses. Both the private multi-family estates and the reformed cooperatives - i.e. the agricultural workers' only possible employers - were thus becoming more and more capital-intensive, and Allende's promise of 50 000 tractors to the reformed sector pointed to a further development in this direction.

Labor productivity in Chilean agriculture was indeed very low - only about one-third of the national average - and needed to be increased. Mechanization is a blessing for those who benefit from it; it lightens the burden of labor, it raises labor productivity, it is the necessary condition for all long-range economic progress. But were the the un- and underemployed mass of landless day-laborers in rural Chile able to share these benefits, or was the surplus of men over jobs to be perpetuated or even increased by the developments that took place? This we will never know with certainty, but it is quite conceivable that the Allende government's way of promoting technological progress in the long run could have served to accentuate unemployment and poverty among large peasant groups.

## Availability of Foodstuffs 1970-72

### Domestic Production

We have seen earlier that agricultural production went up markedly in 1970/71, and that a modest increase followed in 1971/72. But in 1972/73 there came a very poor harvest; as Table VII:12 shows, the total area under cultivation fell by almost 20 per cent, with consequent drops in the production of most major crops.

It is difficult indeed to assess the relative importance of the various reasons behind the relatively good harvests of 1971 and 1972 and the serious crop failure in 1973. Weather conditions affected output, of course; these were very favorable in the agricultural years 1970/71 and 1971/72, but quite adverse in 1972/73. But several other factors interacted.

It might have been expected that the most serious production problems would arise during the initial phase of the land reform, when uncertainty was widespread and ownership of more than one quarter of Chile's agricultural land changed hands, and that the situation would stabilize when all latifundios had been expropriated. But the pattern was, as seen, quite the opposite, the main reason probably being that outside the agrarian sector the former half of the Allende period was characterized by relative tranquility, while as of middle 1972 galloping inflation, infrastructural bottlenecks, political turbulence and rightist sabotage occasioned



Table VII:12. Area Under Cultivation (thousands of hectares) and Harvests  
(thousands of metric tons) of Major Crops 1969/70 to 1972/73

Crop	1969/70		1970/71		1971/72		1972/73 <sup>a)</sup>		Index 72/73 (69/70 = 100)	
	Culti- vated area	Pro- duction	Culti- vated area	Pro- duction	Culti- vated area	Pro- duction	Culti- vated area	Pro- duction	Area	Pro- duction
Wheat	740,3	1 306,9	727,4	1 368,0	711,8	1 195,0	470,0	827,2	66,4	63,3
Barley	47,4	97,4	52,5	113,6	67,1	139,0	67,0	147,4	141,5	151,4
Rye	8,3	10,7	8,9	12,3	9,2	12,4	9,0	12,5	108,4	116,8
Oats	72,6	110,5	75,3	112,0	83,8	111,3	70,4	97,5	96,1	88,1
Rice	25,2	76,2	27,3	67,1	25,7	86,3	18,0	61,2	71,4	80,3
Maize	73,9	239,1	77,0	258,3	84,5	283,0	108,0	388,8	148,8	162,6
Pulses	96,5	89,6	114,2	99,8	131,1	113,6	112,2	105,3	116,3	117,5
Potato	71,7	683,8	80,0	835,8	79,2	733,0	70,4	605,4	98,1	87,1
Sun- flower	20,2	28,2	15,3	20,3	14,8	19,9	13,4	16,0	66,3	58,2
Rape	53,7	69,9	49,4	82,1	56,1	78,0	40,0	52,0	74,5	74,4
Sugar- beets	41,7	1 655,1	35,1	1 390,7	31,4	1 201,6	26,0	936,0	62,3	56,5
Total	1 251,5	-	1 262,4	-	1 294,7	-	1 004,4	-	80,3	-

a) Preliminary data.

Source: 1969/70 - 1971/72: Instituto Nacional de Estadísticas, Encuesta Nacional Agropecuaria de Mayo de 1972, pp. 3ff. 1972/73: Third Message, p. 278.

much more disruption and disorganization than the social struggles in the countryside over the land question had caused earlier.

We can distinguish three main factors which in particular affected the 1972/73 harvest adversely:

1. Bad weather conditions. Huge rainfalls in the South during the Chilean spring (September-November) delayed or even impeded completely the sowing of several major crops (wheat, rape and sugar-beets, above all). This was the prime reason for the decline in area under cultivation that took place in most of the southern provinces.

2. The "October events". The prolonged transportation strike (rather "lockout", as it ought to be called) occurred during the most hectic agricultural season, or right when spring sowing was going on. The delivery of seeds, fertilizers, pesticides, etc. was cut off almost totally for more than three weeks, and the time that was lost could only partially be recovered. According to very rough and preliminary estimates by CORA about three per cent of the whole year's crop was lost due to difficulties directly caused by the "October events".<sup>72)</sup>

3. Disorganization. Here we must include a great many factors which influenced the normal farm work in a negative way: continuing strikes, land seizures and social struggles of various kinds, outright sabotage from ex-latifundistas and medianos linked to the political opposition, the disruption of traditional mar-

keting channels, transportation difficulties, the poor organization and lack of work incentives in the reformed sector, etc. Naturally, the effects of these different but in part interrelated circumstances cannot be isolated, let alone estimated in quantitative terms.

The comparatively good performance of the livestock sector in 1972/73 may indicate a fourth reason for the substantial drop in production of foodgrains: the UP's agrarian policies and the changes in relative prices that took place might have turned many campesinos' attention to high-priced animal products (on which price controls were less effective and competition from imports not so pronounced) at the expense of cereals and industrial crops. But without a better knowledge of how the government's policies and the black market prices affected the relative profitability of different agrarian activities - and how this, in turn, affected the campesinos' production decisions - this can be no more than an untestable hypothesis. What is a fact, though, as is shown in Table VII:13, is that production of several livestock products was sustained or even increased in 1973.

Table VII:13. Livestock Production 1969/70 to 1972/73

	1969/70	1970/71	1971/72	1972/73 <sup>a)</sup>	Index 1972/73 (1969/70=100)
Beef and veal <sup>b)</sup>	127	125	111	119	94
Lamb and mutton <sup>b)</sup>	34	30	27	26	76
Pork <sup>b)</sup>	48	43	50	53	110
Poultry <sup>b)</sup>	62	67	81	92	148
Milk <sup>c)</sup>	1 071	1 169	1 242	1 329	124
Eggs <sup>d)</sup>	903	1 104	1 300	1 391	154

a) Preliminary figures

b) Thousands of tons

c) Millions of litres

d) Millions of units

Source: 1969/70-1970/71: Second Message, p. 244. 1971/72-1972/73: Third Message, p. 279.

#### Foreign Trade

We could illustrate the mounting importance of agricultural imports for Chile after 1970 in two ways. First, imports as a share of total domestic agricultural product consumption rose: Chile's degree of self-sufficiency in agricultural products dropped from about 80 per cent in 1965-70 to 74 per cent in 1971 and 67 per cent in 1972.<sup>73)</sup> This took place despite a not insignificant rise in Chile's own production and was, then, a mere reflection of the virtual explosion of demand for foodstuffs<sup>74)</sup> (stimulated not only by wage increases and income redistribution but also by the UP's exchange rate policy which made imported foodstuffs very cheap). In 1973 - when domestic production did fall off - the dependence on imports rose further.

To get an impression of the agrarian sector's increasingly crucial role for Chile's balance of payments situation we could also relate agricultural imports to total export earnings; while the former rose fast, the latter dropped. As an average 1965-70 agricultural imports<sup>75)</sup> absorbed 13,3 per cent of all goods export earnings; in 1972, this figure had risen to 56,0 per cent. (Table VII:14)

Table VII:14. Exports of Goods and Agricultural Imports 1965-70 (yearly average), 1971 and 1972. (Millions of dollars)

	<u>1965-70</u>	<u>1971</u>	<u>1972</u>
Exports of goods	939	964	836
(of which agricultural products)	(24)	(29)	(19)
Imports of agricultural products	184	311	468
Agricultural imports as percentage of total export earnings	19,6%	32,2%	56,0%

The dramatic rise in the above indicator was, however, to a very large extent a mere reflection of the changes in relative prices that took place between the late 1960's and the early seventies, which were very disadvantageous for Chile. Thus, while copper prices in 1971 decreased by about 25 per cent below their 1970 level - which, in turn, was lower than in 1968-69 - and remained equally low in 1972, foodstuffs rose sharply: prices of a weighted average of Chile's agricultural imports increased by eight per cent in 1971 and with another 41 per cent in 1972. 1972 was, then, an extreme year for Chile, with the terms of trade between copper exports and food imports falling to nearly 50, if 1970 is set at 100.

Early in 1973 copper prices started to recover spectacularly; in July, copper sold at twice its price (in current dollars) one year earlier. But wheat and other heavy items in Chile's import trade did not lag far behind.

#### Total Supply of Foodstuffs

That the serious food shortage that began to develop as of early 1972 was conditioned by a massive increase in demand and not by a reduction in supply is obvious from the data on production and imports presented above. The overall availability of foodstuffs in Chile is estimated to have been some 27 per cent higher in 1972 than in 1970.<sup>76)</sup> Actual consumption might have increased somewhat less rapidly - some smuggling to neighboring countries took place<sup>77)</sup>, and stockpiling of non-perishable goods such as sugar, rice, edible oil, coffee and tea, etc. was notorious - but there can be little doubt that the Chilean people had both more and better food at their disposal in 1971 and 1972 than before. This is also confirmed by the data on per capita supply of foodstuffs given in Table VII:15.

Table VII:15. "Apparent Consumption" - Domestic Production Plus Imports, Smuggling and Hoarding Disregarded - of Major Crops and Livestock Products 1970 and 1972 (kilos per capita).

	1970	1972	Percentage change
Wheat	152,7	178,1	16,6
Maize	54,1	64,0	18,3
Rice	9,7	11,9	21,6
Potato	51,6	55,8	8,1
Sugar	32,0	33,6	23,8
Edible oil	7,0	7,6	8,6
Wine <sup>a)</sup>	47,0	52,6	11,9
Beef and Veal	17,4	15,4	-11,5
Lamb and Mutton	3,5	2,8	-20,0
Pork	4,9	6,1	24,5
Poultry	6,4	7,6	18,7
Milk <sup>a)</sup>	123,9	171,8	38,7
Eggs <sup>b)</sup>	93,0	117,3	26,1

a) Litres

b) Units

Source: Third Message, p. 282.

## Political Developments

The main political tendencies from the preceding period were all confirmed after 1970. Campesino mobilization accelerated, and more and more militant forms of struggle came into use.<sup>78)</sup> The reinforcement of the trend towards a strengthening and radicalization of the farm workers' organizations is evident from the rapid growth of strikes and land seizures and from the great head-way made by the pro-UP trade unions (Table VII:16 and Table VII:17). Voting patterns in general elections also corroborate that the Left did make substantial progress in widening its popular support in rural Chile, although they also reveal that the point of departure was disadvantageous indeed and that the conservative forces continued to dominate. In the parliamentary election in March 1973 the UP's share of the votes was 37 per cent in the predominantly agrarian provinces, as against the 29 per cent reached by Allende in the same provinces in 1970.<sup>79)</sup>

Table VII:16. Number of Rural Conflicts Resulting in Strikes or Land Seizures ("Lomas") 1967-71.

	1967	1968	1969	1970	1971
Strikes	693	648	1 127	1 580	1 758
Lomas	9	26	148	456	1 278
Total	702	674	1 275	2 036	3 036

Source: Diagnosis, pp. V-18ff, and Juan Carlos Marín, Las Tomas, in Marxismo y Revolución, No. 1, July-Sept. 1973, p. 59.

Table VII:17. Membership in Farm Workers' Trade Unions 1969 and 1972.

Organization	Political tendency	Number of members			
		1969	%	1972	%
Ranquill	PC-PS	30 912	29,8	132 294	47,6
Unidad Obrero-campesino <sup>a)</sup>	MAPU	-	-	40 561	14,6
Sub-total	pro-UP	30 912	29,8	172 855	62,2
Libertad	"non-political" <sup>b)</sup>	23 024	22,2	39 421	14,2
Triunfo Campesino	PDC	47 610	46,0	61 187	22,0
Miscellaneous	Anti-UP	2 098	2,0	4 432	1,6
Sub-total	Center-Right	72 732	70,2	105 040	37,8
Total		103 644	100,0	277 895	100,0

a) Formed in 1971 as a consequence of a split within Libertad (and in the whole Christian Democratic Party).

b) Formally "non-political" but tended to support the PDC.

Source: Based on Third Message, pp. 310ff.

Together with the above trade unions mainly pursuing "traditional" objectives, i.e. to protect the economic interests of the workers against their employers, there also developed a new form of campesino organization, the so-called "Peasants' Councils", with more extensive tasks. These provincial and country-wide "Councils" - the membership of which was not confined to farm workers but included minifundistas and members of the reformed cooperatives as well - should in theory have had a large influence in the actual carrying out of the agrarian reform, they were supposed to develop into democratic organs of campesino decision-making rather than playing a purely advisory role. Their implementation was delayed, however, by opposition from the rightist forces within the UP which long regarded the "Peasants' Councils" as a threat to the legal authority of the government. Only late in 1972 did the formation of the Councils, which were supported by parts of the UP, by the MIR and by the campesinos themselves who began to regard the Councils as alternatives to the hopelessly bureaucratic state apparatus, gain speed. A kind of "dual power" thus emerged in the countryside, too.

But not all campesinos took part in the general mobilization and radicalization. As to the direct beneficiaries of the land reform, the privileged members of the reformed cooperatives, it must be said that this group removed itself more and more from the rest of the campesino movement. The formerly so militant inquilinos formed organizations of their own once they had become integrated into the reformed sector, they reduced their political activity appreciably and came often in conflict with the landless laborers and with the smallholders. In general they tended to side with the political Center, the Christian Democrats<sup>80)</sup>,

i.e. the political force which best represented their objective interests against possible attacks from the Right (revengeful latifundistas and their hangers-on) and from the Left (all groups calling for a radicalization of the land reform). The UP government's rapid expropriation of remaining latifundios and its policy of granting the reformed sector generous subsidies made many members of the cooperatives very sympathetic towards the UP, of course, but they could hardly be expected to work for a development along socialist lines. And since future interests count more than actually received benefits in political matters the members of the cooperatives were, as a group, inclined to abandon the Left and pin their faith upon the Center-Right instead. For the Christian Democratic/Unidad Popular agrarian reform worked, as we have seen, to weaken the solidarity between different groups of campesinos; the objective conditions for a split between the minority of beneficiaries and the great majority of "outsiders" receiving no land or security at all were inevitably being created by the attempts to apply an anti-latifundista strategy on the socio-economic structure of Chile. And the ex-latifundistas and the rightist political parties, anxious to form an alliance between old and new privileges, understood perfectly well how to take advantage of the situation.

## Concluding Remarks

The Chilean land reform of 1970-73 differed greatly from experiences in other Latin American countries (despite certain similarities in scope and extent with the ongoing land tenure reform in Peru). To begin with it differed from those projects - the majority - which remained reforms essentially in name only, those which were carried out reluctantly by bourgeois governments in order to forestall peasant radicalism and/or to qualify for U.S. aid according to Alliance for Progress requisites. Today, more than ten years after the North and South American discussion of these types of reforms reached its peak, land reforms are buried even officially in most countries on the continent.

The Chilean reform also took place under completely different circumstances than those which did bring forth profound changes in existing land tenure structures, i.e. the Mexican, Bolivian and Cuban agrarian transformations. In these countries new land holding relations were the result of social upheavals and ensuing changes in the overall power structure in society; in Mexico and Bolivia uprisings from below rather than legislation from above accomplished the bulk of expropriations, and in Cuba a social revolution preceded the land reform legislation. In Chile, however, it was neither armed masses nor post-revolutionary legislation but the combination of campesino pressure and bourgeois legislation which achieved a - temporary - extinction of all latifundios in Chile

and the - also temporary - creation of semi-collective forms of ownership on more than one-third of the productive land.

As regards the kind of land tenure structure that emerged Chile also differed from other Latin American countries where - except in Cuba - land reforms have typically been characterized by an initial phase of expropriations of large estates and subsequent subdivisions of the land for further distribution among smallholders and landless laborers. In Chile no such redistribution took place, the reformed sector being formed by production units whose boundaries almost always coincided with those of the expropriated fundos and whose workforce remained essentially the same as before.

But international comparisons are full of pitfalls. What can we, concretely, learn from Chilean agrarian experiences 1970-73?

It is easy, but also somewhat unfair, to point out all the shortcomings of the UP's agrarian reform. One can find faults almost anywhere: in the government's lack of clear strategy, in the system of selecting the beneficiaries of the land reform with its negative impact upon equality and land utilization, in the organization of the reformed sector with its lack of work incentives, in the bolstering up of the cooperatives with tractors and large consumption subsidies, in the price and import policy with all its quite arbitrary effects on relative prices, in the incapacity to cope with the serious distribution problems that arose, etc. The analysis of all those difficulties and inconsistencies has occupied most of the space in this overview of the Unidad Popular's agrarian reform, while the great achievements made have perhaps not been emphasized enough.

But what I wanted to illustrate was above all the huge obstacles confronting a left-wing government working with inadequate legal tools in a hostile political and chaotic overall economic environment. The UP's freedom of action was from the very beginning very limited, later to become further and further reduced, and consistency in agrarian policies could not easily be achieved. What Dr. Allende's government had to do was constantly to decide where to move on a specific trade-off between conflicting economic and/or political objectives, and the choices tended more and more to have the character of choices between the lesser of two evils.

The Unidad Popular, or at least part of it, was quite aware of the tremendous problems affecting the agrarian reform and Chilean agriculture in general, but few good solutions could be thought of or, when thought of, implemented. And, given the legal and political framework and the socio-economic heritage: did there ever exist any really good ones?

- 1) Aranda & Martínez in Chile Hoy, 1970, p. 142.
- 2) Ricardo Lagos & Kurt Ullrich, Agricultura y Tributación - dos Ensayos, 1965, p. 11.
- 3) Solon Barraclough, Notes on Land Tenure, p. 67.
- 4) Various data on living standards in rural Chile and on socio-economic differences between urban and rural areas can be found in Comité Interamericano de Desarrollo Agrícola (CIDA), Chile: Tenencia de la Tierra y Desarrollo Socio-económico del Sector Agrícola, 1966, and in Frederick S. Weaver, Regional Patterns of Economic Change in Chile 1950-64, 1968. ODEPLAN's Antecedentes ... also contains much useful information.
- 5) Net urban immigration in Chile between 1950 and 1960 is estimated to some 685 000 people (Barraclough, Notes on Land Tenure, p. 154) - a figure approximately equivalent to the increase of inhabitants in the poblaciones callampas ("mushroom settlements") surrounding Santiago.
- 6) Still in the early 1960's only a tiny minority of the farm workers had the legal right to organize themselves in trade unions, and the informal power structure in the countryside was sufficiently rigid to prevent this type of activity even when permitted.  
For various aspects of power relations in rural Chile, see Chonchol's article Poder y Reforma Agraria, in Chile Hoy, 1970.
- 7) Cf. Solon Barraclough, Agricultural Policy and Land Reform, in The Journal of Political Economy, July-August 1970.
- 8) Charles T. Nisbet, Interest Rates and Imperfect Competition in the Informal Credit Market of Rural Chile, in Economic Development and Cultural Change, Oct. 1967.
- 9) Cf. Solon Barraclough, Agricultural Policy and Land Reform, op.cit. pp. 912-13. In view of the agricultural sector's low and falling share of total tax revenues - in 1964, 1,2 per cent - and the existence of a wide range of subsidies to the large producers (cheap credit, technical assistance, export subsidies, etc.) it seems safe to assume that the Chilean agriculture's net fiscal contribution was in fact negative.
- 10) Marvin Sternberg, Investment and Consumption Patterns of Large Landowners, 1961, cited by Solon Barraclough, Notes on Land Tenure, op.cit., p. 62.
- 11) ODEPA (Oficina de Planificación Agrícola), Plan de Desarrollo Agropecuario 1965-80, Vol. I, p. 1-2.
- 12) -91,7 million dollars as a yearly average 1960-64 as against -57,3 millions 1950-54 and -9,8 million in 1942-44. Kurt Ullrich in Lagos & Ullrich, Agri-cultura y Tributación - Dos Ensayos, op.cit., p. 35.
- 13) El Siglo, 27.4.72.
- 14) Consumption of beef and veal per capita amounted to 32,8, 23,4 and 20,2 kilos in 1946-50, 1960, and 1964, respectively. Consumption of pork, lamb and mutton also declined.  
Figures from ECLA, La Economía de Chile 1957, p. 287; and El Siglo, 27.4.1972. Cf. also FAO, Production Yearbook 1970, Table 116, p. 354.



- 15) Lands Alive, 1965, p. 66.
- 16) See especially CIDA, Chile: Tenencia de la Tierra y Desarrollo Socio-económico, op.cit.
- 17) That is, the Conservative and the Liberal Parties, which in 1966 got together to form the National Party (Partido Nacional).
- 18) Figures on the agrarian reform 1965-70 are found in, among others, Alaluf, Barraclough, et.al., Reforma Agraria Chilena: Seis Ensayos de Interpretación, 1970; and Alaluf, et.al., El Sector Agrario ..., in Instituto de Economía, La Economía Chilena en 1971.
- 19) ECLA, Economic Survey of Latin America 1969, p. 155.
- 20) Jorge Godoy & Manuel Krants, La Corporación de la Reforma Agraria y su Gestión - Análisis Financiero para el Período 1964-70, 1971, Table 14, p. 164.
- 21) Article in Cuadernos de la Realidad Nacional (CEREN), June 1970, pp. 77-78.
- 22) The average asentamiento comprised about 40 families and was managed jointly by CORA and a committee elected by the members. For a brief description, see Solon Barraclough, Alternative Land Tenure Systems Resulting from Agrarian Reform in Latin America, in Land Economics, August 1970.
- 23) This was undoubtedly the opinion of Jacques Chonchol, too, although hardly of Eduardo Frei and his rightist followers within the Christian Democracy. The legislation favored the splitting up of the land; Article 65 of the Land Reform Law stipulated that unless the campesinos decided otherwise, "... the land acquired by CORA will be assigned to the campesinos as private property".
- 24) An inquilino usually had usufruct right to cultivate a small plot of land for his own consumption, paying for this right with labor obligations to the landowner. In the early 1960's the number of inquilino families amounted to slightly more than 80 000.
- 25) Agrarian Reform and Structural Change in Latin America: The Chilean Case, in The Journal of Development Studies, Jan. 1972, p. 168. It should be pointed out, however, that real wages of permanent agricultural workers almost doubled between 1965 and 1970 due to the equalization of legal minimum wages of agricultural and industrial workers. Since the landowner was free to fire the workers he now found unprofitable a large number of permanent workers were however turned into unattached day-laborers as a result of the new legislation.
- 26) Whether "in spite of" or "thanks to" the agrarian reform I dare not say, but the index of agricultural output developed as follows between 1965 and 1970: 1965=100, 1966=111,8, 1967=116,4, 1968=117,0, 1969=109,3, 1970=114,7 (1965 prices used). Source: ICIRA, Diagnóstico de la Reforma Agraria, (hereafter Diagnosis) op.cit. p. iv-30.
- 27) See especially Alaluf et.al., Reforma Agraria Chilena: Seis Ensayos de Interpretación, op.cit., and ICIRA, Diagnosis.
- 28) See Instituto Nacional de Estadística, Encuesta Nacional Agropecuaria, various issues.
- 29) In interview made by Régis Débray, Punto Final, March 11, 1971, pp. 48-49.

- 30) See "La Política Agraria en una Economía de Transición al Socialismo: el Caso Chileno" in Martner (ed.) El Pensamiento Económico ... op.cit., p. 229, or Chonchol's speech The Agrarian Policy of the Popular Government in Ann J. Zammit (ed.) The Chilean Road to Socialism, 1972, pp. 107ff.
- 31) Cf. La Política Agraria ... , op.cit. The crops which Chonchol mentioned as especially favorable for Chile to specialize on were wine, fruit, and horticultural products, and elsewhere (in Panorama Económico, No. 265, Dec. 1971, p. 31) he suggested that Chile ought to be able to export for between 300 and 400 million dollars per year of these products.
- 32) Later on, in 1973, the parliamentary opposition enforced a completely new land reform legislation all of its own, but being a step back even in comparison with existing legislation the bill was vetoed by Allende.
- 33) We recall that 80 "basic hectares" corresponded to 80 hectares of the very best land available in Chile - irrigated, good soil in the Central Valley - and in some provinces the equivalence was set to several hundred hectares of cultivable land and far above one thousand hectares of unimproved pasture. This is indeed a lot of land. The legal definition is quite arbitrary, and many large estates below 80 B. Hres. ought rather to be called latifundios, too. To make one comparison: when Mao Tsetung once discussed his father's economic status he classified him as a "middle peasant" since he owned as much as fifteen mu, or one hectare, of arable land.
- 34) Cf. Chonchol's own explanation in Zammit (ed.) The Chilean Road ... , op.cit., pp. 107ff.
- 35) Diagnosis, p. V-20.
- 36) Figure taken from the Communist daily El Siglo, April 30, 1972.
- 37) The maximum the landowners could hope to get in cash was ten per cent of the assessed value of the land. The remainder they received in long-term bonds, running up to thirty years. The values of these latter bonds were readjusted with only seventy per cent of each year's inflation.
- 38) In many cases the landowners did accept reservas smaller than 80 B. Hres., but the value of the difference then had to be paid for in cash. The struggle over conversion coefficients was especially intense in the South, where antagonisms were most pronounced and where, furthermore, West Germany intervened - under the threat of blocking the renegotiations over Chile's foreign debt - in order to guarantee "fair" estimates of the reservas of the numerous German landowning colony. In the South one could find German descendants with reservas covering a couple of thousand hectares of good land.
- 39) From some 12,8 to 27,3 per cent of all productive land, i.e. a difference which cannot but very partially be explained by the existence of some 4 000 reservas in 1972. See Diagnosis, pp. III-2ff.
- 40) La Reforma Agraria y la Experiencia Chilena, in CESO-CEREN, Transición al Socialismo y Experiencia Chilena, op.cit., p. 152.
- 41) The fast but unmeasured increase in this sector's capital-intensity was to a large extent a consequence of the way the agrarian reform was carried through and of the tense political situation in general. I have already mentioned the expropriated latifundistas' concentration of cattle and machinery to their reservas, and the landowners' fear of conflicts with their workers also acted as a strong incentive for a further replacement of labor with capital.

- 42) Estimated from Table VII:5 above. In "basic hectares" the average amount of land per family in the whole reformed sector amounted to about twenty.
- 43) Interview in Que Pasa?, No. 51, April 6, 1972.
- 44) It deserves to be mentioned that Chonchol, who had conducted the expropriative phase of the land reform almost to its end, resigned in Nov. 1972, threatened (together with three other ministers) by impeachment for "violation of the Constitution" by the parliamentary opposition. Chonchol was also subject to criticism from various groups within the UP who wanted to make him the scapegoat for the agrarian problems. In the period that followed trial-and-error characterized the appointments of agricultural ministers, and three more (Rolando Calderón, Pedro Hidalgo and Ernesto Torrealba) were for different reasons forced to resign within ten months.
- 45) With the noticeable exception for the MIR, the Movement of the Revolutionary Left, which, although rather small on a national scale, had one of its strongholds among agricultural workers and Mapuche Indians in the South.
- 46) Both the Communists' and the campesinos' hostility towards the CERAs gradually passed off, however, and in 1972 both the PC and the large pro-UP campesino organizations gave their full support to the CERAs while rejecting the asentamiento system.
- 47) Revista Agraria, No. 5, May 1973, p. 11.
- 48) There existed some minor differences in this respect between the asentamientos and the CERAs. On the former the campesinos were free to distribute all net profits among themselves if they wanted to, but on the CERAs 10 per cent of profits should go to a "social fund", 50 per cent to finance new investment, and the remaining 40 per cent should be distributed among the members. Very few cooperatives made any net profits, however, and the practical importance of this difference was thus very small.
- 49) Revista Agraria, No. 2, January 1973, p. 3.
- 50) Literally "those who are outside", i.e. those who used to be unattached day-laborers on the large fundos and whose status thus prevented them from becoming integrated as socios in the cooperatives.
- 51) The amount of manpower needed per hectare varied greatly between different crops. It was estimated that cereals, with existing production techniques, required only some 10 to 30 man-days per hectare and year, as against 45-110 for industrial crops (oil seeds, sugar beets, etc.), 80-130 for fruits and 100 to 300 for vegetable products.
- 52) Several reasons for this "competitiveness" are given in Revista Agraria, No. 2, January 1973, which contains an analysis of the role of the private plots in the reformed sector.
- 53) In Chile Hoy, No. 25, July 1-7, 1972, p. 15.
- 54) Figures from Second Message, p. 248, and Third Message, p. 298.
- 55) Diagnosis, p. III-18.
- 56) The minimum wage was twenty, later in 1971 thirty, escudos per day.
- 57) Diagnosis, p. IV-38. In nominal terms the rate rose to forty per cent in 1972 which, however, signified a stabilization in real terms.

- 58) The reformed sector was, furthermore, exempted from all kinds of taxes.
- 59) Third Message, p. 247.
- 60) ONEPLAN, Cuentas Nacionales de Chile 1960-71, p. 23.
- 61) The tractor is used as an example only; imports of other forms of agricultural machinery rose in an almost parallel way. (See Diagnosis and Third Message for figures.)
- 62) Third Message, pp. 282ff.
- 63) Speech given in Valdivia, see La Nación August 2, 1972.
- 64) The effects on the balance of payments would, strictly speaking, be equally negative even if domestic heavy industry and oil production were sufficiently developed to be able to satisfy the demand from agriculture (which is not the case in Chile), since the potential surplus could then be exported.
- 65) One example can be enough: "CHILE: WORSE THAN BIAFRA". Headline on the front page of the Christian Democrats' official daily La Prensa, February 11, 1972. We recall that the total supply of foodstuffs was much larger than in 1970 - not to mention 1974 - and its distribution more egalitarian than earlier.
- 66) The law permitted state owned purchasing agencies (there existed a few, the most important one being ECA - cereals - and SOCOAGPO - meat) to take over the buying of agricultural products in times of general shortage of food. This possibility was used - against violent protests from the opposition - on some occasions by the UP, but results were quite poor. The only significant achievement was the purchase of slightly over 300 000 tons of wheat, or about one-third of the whole harvest, in 1973.
- 67) Many truck owners did, for example, abandon their normal activities in order to engage in direct distribution of agricultural products for the black market. This "smuggling" was illegal, but flourished nevertheless. A serious consequence of the existence of parallel markets was that many products were channeled to other uses than the "normal" ones. Much foodgrain was, for example, sold to the breeders of cattle, pigs, poultry, etc., since all kinds of meat commanded very high prices on the black market. While bread for human consumption was short, many pigs and chickens thus got an excellent diet.
- 68) The Mapuches are the by far most important indigenous people living in Chile, but apart from them there exist some minor groups of pre-colonial origin - quechuas, aymarás, changos, huilliches, etc. - who altogether number some 140-160 000 people. Deprived of their land - a process which continued up to World War I - the indigenous peoples have been constantly discriminated against in all economic, political, social and cultural matters, and constitute the poorest of all Chilean poor. The indigenous population has since long been claiming the right to vast areas of land which have been stolen from them, and in 1971 and 1972 they did regain some of their lost land - about 70 000 hectares, as against 1 400 during the whole preceding decade (their right to recover lost land was "in principle" recognized by law in 1961).

- 69) Since priority was given to collective forms of working the land when credit or technical assistance was provided by INDAP the above figure should be taken with some caution; it sometimes happened that the cooperatives were cooperatives only nominally, and many committees acted as mere intermediaries of INDAP credits.
- 70) From some 900 to over 10 000 between 1970 and 1972 (Third Message, p. 312).
- 71) The private sector was more difficult to supervise, of course, but the medianos were given some economic incentives - e.g. easier access to credits and imported machinery - if they fulfilled their obligations to the workers.
- 72) See La Nación, Nov. 12, 1972.
- 73) These and the other data below are either based on "Diagnosis" or else obtained directly from the Central Bank of Chile.
- 74) We recall that Chile's earlier development from a net exporter to a larger and larger net importer was the consequence of stagnating per capita production and not of a rise in average food standards.
- 75) Only products destined to consumption - immediately or after further processing in Chile - are included here; seeds, fertilizers, tractors, oil to the tractors, reproductive cattle, etc. should thus be added if we were to estimate the value of all imports related to the agrarian sector.
- 76) Diagnosis, p. IV-13. This figure is provisional and possibly slightly exaggerated.
- 77) That smuggling was a profitable activity might sound surprising in view of the high prices that foodstuffs commanded on the black market in Chile. But it was, to begin with, only quite few products that were really scarce and thus expensive - overall prices of foodstuffs were very low. There existed, furthermore, a black market for foreign exchange, where dollars were sold for increasingly fantastic amounts of escudos. To bring dollars to Chile, change them there and buy Chilean cigarettes, razorblades, coffee, tea, records, beef, etc. was a both rewarding and much practiced business.
- 78) Especially as from 1971 this was also true for the campesinos' adversaries, who in many regions formed para-military "white guards" which terrorized the poor peasants.
- 79) Figures refer to the typically agrarian provinces of Colchagua, Curicó, Maule, Linares, Ñuble, Malleco, Cautín and Chiloé.
- 80) The central confederation of asentados in fact turned openly pro-DC. And why shouldn't it? The description below of a (typical?) Chilean asentamiento is a good illustration to the reasons behind this stand:  
"On El Cerillo in Chile the asentados did less than one-third of all work themselves. They made twice as much money as their workers. They lived in houses built for them by the Agrarian Reform Corporation, while their workers had taken over the old, decrepit houses they used to live in themselves. They defended the privileges they had only recently received just as doggedly as the old landowner had earlier defended his privileges. In only a few years one of Molina's most militant groups of workers had, in short, changed position and gone over to the side of the employers."  
Sven Lindquist, Jordens Gryning. Jord och Makt i Latinamerika, 1974, p. 203.

## Final Reflections

The dramatic and, as it turned out, tragic development in Chile between 1970 and 1973 cannot easily be condensed into a few final pages. It remains however to summarize the political economy of Salvador Allende's aborted attempt to find a "Chilean road to socialism", and some of the issues raised in the preceding chapters deserve to be brought together and emphasized once again.

We will begin by describing the general state of the Chilean economy after almost three years of UP rule, providing a sort of photograph of the economic panorama at the time Allende was ousted. An interpretation of the most salient features of this situation will then be made in light of Chile's earlier economic history, and we will thereby indicate the continuity with respect to earlier developments that the UP's economic policies, despite their many special characteristics, in the final analysis represented.

This aspect of continuity will also be used to illustrate the implications of the Unidad Popular's economic program in a more long-range perspective. Did the UP's "structural transformations" really signify a difference in kind? What economic structure would have emerged if the Allende government had not been overthrown but allowed to continue to realize its program?

The question of the lessons to be drawn from the UP's ultimate defeat must finally be touched upon. Was the UP's failure the result of ordinary "mistakes" in the economic field, as some economists assert, or was it, as many socialists argue, the inevitable consequence of a reformist political strategy? Or was the whole project doomed from the very beginning, more or less irrespective of the policies that the UP leadership actually chose to pursue? Of course, these questions cannot be answered by a simple "yes" or "no"; nevertheless I will conclude by drawing attention to a number of substantive points of an essentially political character.

But first the economic situation under late Allende rule.

### The Economic Panorama in 1973 and its Roots in Chile's Past

Recapitulating the descriptive analysis of the previous chapters we know that the Chilean economy by mid-73 found itself in the midst of a serious crisis. The symptoms were obvious: a pace of price increases exceeding one per cent a day, a pronounced tendency to stagnation in all major sectors of activity, mounting queues and shortages and a distribution system increasingly based on speculation and black marketing.

Beneath these easily visible indicators we encounter a series of other crisis symptoms. We could, to begin with, characterize the situation as one of widespread bottlenecks: the margins of idle capacity that existed earlier had been

exhausted in sufficiently many sectors to render future growth of output difficult in the absence of large net investment in crucial activities. We could also point to all the deficits characterizing the economy: current imports exceeded exports by some thirty to fifty per cent, the fiscal deficit was immense and most of the state-controlled enterprises as well as the reformed part of the agricultural sector were running at huge losses.

Disequilibria of all kinds flourished, and the distortions in relative prices were great enough to make meaningful economic calculations with the help of prevailing price relations pretty well impossible. As for the cost of capital, for example, the annual rate of interest on ordinary bank loans was in 1973 equivalent to the rate of inflation in only a few months. The price for foreign exchange could, by August 1973, range from twenty escudos to the dollar for food imports to two thousand escudos for each dollar on the black market.

Most of the above features characterizing the economic situation in 1973 were not introduced by the Allende government but had existed since long, only that they were accentuated dramatically under the UP regime. Inflation, shortages, balance of payments problems and fiscal deficits had for decades harassed the Chilean economy, and the policy measures - price controls, multiple exchange rates, cheap credit, massive foreign lending, etc. - applied to cope with these and other problems were simply taken over by the UP. The complex arsenal of administrative controls which the UP inherited had become part of "common sense" in Chile ever since the great depression of the 1930's, but it was not primarily the result of a particular economic doctrine surviving administration after administration but rather it was rooted in the political rules of the game that prevailed and in the correlation of forces struggling for influence in the state apparatus. For in the final analysis it was based upon a clientele system of attempts to satisfy different pressure groups and electoral coalitions without jeopardizing the process of capital accumulation as a whole. What the Allende government did was to take over the existing body of beliefs and policies but now in an effort to integrate the poor majority of the Chilean people as well into the traditional range of benefits granted by the state - and without hurting the interests of the middle and upper-middle classes. But this could not be done without provoking a virtual collapse of the system, which had been created to provide selective favors but which in no way could be used to raise the living standards of the Chilean population as a whole.

When it from early 1972 and onwards became increasingly difficult to satisfy "everybody" - i.e. all but the "oligarchs" - the UP responded by making

even more drastic use of the old mechanisms that were most easily within reach. Wages, salaries and public expenditures were thus further increased, price controls were implemented in a stricter (but less realistic) way, imports were made even cheaper and the escudo correspondingly more overvalued, real interest rates were lowered further so as to safeguard a continued capital accumulation, etc. But as one was trying to attack the symptoms of the crisis the latter's causes only became strengthened.

Chile's productive capacity was, as we know, unable to meet all the demands that economic policies required it to meet. It could not provide all the favors that the UP tried to distribute - or, given the political circumstances, was "forced" to distribute. Sooner or later someone would have to pay the price for the restoration of a more equilibrated economy. And such a restoration could not possibly take place without force, without a rupture of the impasse that characterized the Chilean political scene. In short: it could not take place without a drastic break with the gradualistic "Chilean road".

This truth stood clear to both the bourgeoisie and the working class, but the dominant sectors of the UP leadership, to the very last hoping that some miraculous turn of events would palliate the crisis, refused to recognize it - at least in terms of action.

#### The Significance of the UP Program

For a different type of picture of the Chilean economy than the one presented above we could try to leave all the immediate crisis symptoms out of the account in order to concentrate on more structural characteristics. What kind of economy was being created as a result of the Allende government's program of structural reforms?

The first outstanding feature to emphasize bears relation to the increased role played by the state. In this sense the UP program signified no break with past trends but an accentuation of old ones; already before Allende's assumption of the presidency the public sector directly or indirectly controlled over two-thirds of all investments made, and state interference in the economic life of the country was significant enough to make some Chilean marxists maintain that the prevailing mode of production deserved to be classified as "state monopoly capitalism". The UP's "structural transformations" were fundamentally based on a further promotion of the state as engine and director of growth, and the main difference with respect to previous administrations was that public ownership and centralized imperative planning was to substitute - or, should we say, complement - many of the old mechanisms for indirect control.

Did this signify a difference in kind? We recall Dr. Allende stating that



the UP intended to make the public sector "quantitatively even more important than it has been up to now, but also qualitatively different".<sup>1)</sup> By making it "qualitatively different" Allende referred to, firstly, the system of centralized planning that was to dominate within the social area and, secondly, the changes that were to be made in the managing of the firms: industrial democracy was to take the place of authoritarian capitalist rule.

In the first of these two objectives very little and in the second some progress was made. What would have happened if the actual trend under Allende would have been allowed to continue - a most hypothetical question, since political developments ruled out such an alternative - is difficult to surmise, but probably few socialists would argue that the society that would have been created after the full implementation of the UP's program should merit the designation "socialist".<sup>2)</sup>

From the point of view of power the UP's program was, however, very far-reaching: its realization would have deprived all the dominant sectors of the Chilean bourgeoisie of most of their economic base and power. The Unidad Popular's economic and political program was no doubt drastic enough to be totally unacceptable to the Chilean financial, industrial and agrarian oligarchy which for very good reasons felt seriously threatened.

Who were the main beneficiaries of the program, then? This is, I believe, one of the most important questions of all when evaluating the general significance of the UP's structural reforms. And here, too, serious doubts as to the viability of the UP's "Chilean road" to development must arise. For if we look at the likely socio-economic consequences of a complete carrying out of the UP's plans we cannot avoid drawing the conclusion that even if the political circumstances had been such as to permit the Allende government to continue its reform program and even if the general economic situation would have been under control the UP's economic strategy as such promised no solution to Chile's basic development problems.

Obviously, we cannot make meaningful extrapolations from the experiences between 1970 and 1973. Neither is this the place to diagnose Chile's underdevelopment. But one crucial aspect dealt with on several occasions earlier deserves to be heavily emphasized again: the number of direct beneficiaries of the "structural transformations" undertaken by the UP was very small as a share of Chile's economically active population. This was particularly clear within the agrarian sector, where those who received land - either individually or, as was usually the case, as full members of reformed cooperatives - constituted less than ten per cent of the whole agrarian work-force, and this after the process of elimination of all large fundos had virtually been

concluded. In manufacturing perhaps fifteen per cent of the workers had been incorporated into the social area by mid-73, and if the UP had realized its whole expropriation program only some twenty per cent of the industrial workforce would, as we recall, have been integrated. As for mining, the nationalization of all large-scale mining companies had already been accomplished before 1972. But the miners were small in number: all Chile's copper, iron, nitrate and coal miners, producing over four-fifths of total export earnings, were easily outnumbered by, say, the amount of domestic servants only.

The sum total of workers (including clerical and technical personnel) directly affected by the UP's nationalization and agrarian reform programs - if these had been carried through as envisaged - can be estimated to have been somewhere between 230 000 and 260 000,<sup>3)</sup> or some eight per cent of Chile's labor force or approximately equivalent to the rate of open unemployment in 1970. Or, to make another comparison: less than one-fifth of total employment in non-basic services.

This limited number of workers thus integrated into the social area of the economy and the reformed sector of agriculture received, for reasons we already know, a wide range of material and non-tangible privileges during the UP years. Their political influence was great, their economic role strategic - it must not be forgotten that they constituted the economic "base" of the old American interests operating in Chile and of the dominant, monopolistic sector of the Chilean bourgeoisie - and their bargaining power was in general very strong. They knew from before, or learned rapidly, how to fight for their interests. They would, had the UP's project been fully implemented, never have become wealthy, but they would undoubtedly have accentuated their general position of constituting a kind of labor aristocracy in Chile (with some noticeable exceptions like the coal and nitrate miners, it should be added).

This is not to say that almost all Chileans not directly affected by the UP's program of structural reforms were poorly off economically. Although Chile's "very rich" were few indeed, the layer of professionals, medium-sized industrialists, landowners and merchants and relatively well-to-do public officials and private employees comprised perhaps one-fifth of the economically active population. But the point is that the vast majority of the Chilean people could receive no direct benefits from this part of the UP program, and this majority included the hard core of really poor: minifundistas and unattached afuerinos in the countryside, most of the indigenous population, workers in small-scale industry, pobladores, the mass of underemployed urban poor within the inflated services sector, etc. These large and underprivileged groups would continue to be dependent on market forces which would seldom favor them; they would

continue to try to make a living as temporary day-laborers, small-scale workers, shoe-cleaners, ambulant traders, domestic servants or, in quite a few cases, as petty criminals. It was not for these extremely under-privileged groups that the UP program was written, and it was not their voices that the government - and the traditional working class parties - listened to. It was not they who could see a solution to their problems in the UP's basically "anti-monopolistic strategy". Their political opinions varied between apathy, anarchy, revolutionary socialism and fascism.

It is true that the Allende government did far more for these groups than any previous administration. Almost all social services - which have been thoroughly neglected in this study - like education, health, social security, free milk to children and cheap school breakfasts - were qualitatively improved and extended to cover a much larger share of the population than before. And, perhaps most important of all when judging the long-range effects of the political, social and economic process during the Unidad Popular: expectations rose, and hitherto mostly passive masses mobilized to fight for a different and better future.

But our appraisal of the UP program must nevertheless be critical, and this even if mistakes made in its implementation and difficulties that arose as a result of the overall economic and political situation that prevailed in 1970-73 are disregarded. Not that it constituted a step back, of course, but to solve Chile's tremendous economic and social problems - the whole under-developed heritage - a qualitatively different strategy would have been called for.

#### The Defeat: Concluding Remarks

Let me first stress one thing: the emphasis put in this study on economic matters should in no way be interpreted as if I tried to attribute the eventual military intervention to the economic crisis that developed under UP rule. I am perfectly convinced that although the economic crisis has often served as a rationalization for the coup d'état in the propaganda of the Right in Chile and abroad, the decisions of the armed forces and carabineros to intervene were in no way caused by the economic problems that arose (although these economic problems in a variety of ways certainly contributed to prepare the ground for the victory of the Right). We know, for example, that this decision was taken long before the economic situation had turned critical; plots were already being initiated toward the end of 1970, and according to the junta's own statements today the key persons involved in the preparations of the coup reached preliminary agreements by mid-72. We also know that Chile's military

leadership, with a few exceptions that were gradually being ousted, did absolutely nothing to prevent the united rightist forces from sabotaging the economy and exacerbating the crisis. Particularly during the July-September-73 waves of lockouts, sabotage, terrorist actions and massive material destruction the military first passively, later on actively supported the instigation of chaos, violence and economic dislocation. The revelations of the role played by the CIA and Mr. Kissinger personally add further evidence to our hypothesis that Salvador Allende's enemies hardly based their subversive activities on concerns for the Chilean economy.

But the CIA's and the Chilean military's decision criteria are not an issue to be dwelt upon in these final comments. And neither is the military problem of the confrontation which inevitably approached as political developments ruled out all pacific, constitutional alternatives to settle the question of power. The purpose of this study has been "limited" to analyzing the economic and, to some extent, the political aspects of the Chilean process from 1970 to Sept. 1973, and our first conclusion from the whole preceding exposition must be that by the time the armed forces and carabineros won their easy military victory the UP had already been defeated on most other battlegrounds.

As to the question of why the Unidad Popular was economically and politically defeated, the explanation that might lie closest at hand is that the administration's economic policies simply didn't work. This analysis is popular among liberal economists who put the emphasis now on devastating repercussions of the short-term program, now on mismanagement by the state administrators in the social area or on distortive effects of the nationalization program and the agrarian reform.

All "inflation-and-chaos" interpretations are full of pitfalls, however, and without a proper understanding of Chile's political reality and of the political reasons behind the economic crisis that developed they can lead to the ridiculous conclusion that the whole UP experiment failed for lack of good economists.

It is imperative to grasp the main political factors at work in order to understand all the limitations that existed in the Allende government's freedom of action. The analysis of these limitations constitutes one of the leitmotifs in the above study of the UP's attempts to a "Chilean" transition to socialism, and we know how the correlation of forces and the general political circumstances that prevailed after 1970 tied the hands of the UP government to an increasingly fatal extent. We also know that the very program of the UP was pregnant with contradictions of all kinds which were reflected in escalating confrontations not only between the "Right" and the "Left" but between

different factions of the Unidad Popular itself. And since the Allende government was a coalition of quite heterogeneous political forces representing different socio-economic strata it was impossible to achieve a centralized, unified command of the process; internal UP compromises often had to be made. It was, then, not only the attacks from the opposition which made the government's margin of choice very narrow.

This is not to say, however, that the UP leadership was always "forced" to act as it did, that all important decisions were predetermined. In both economic and political matters it is obvious that poor decisions were often made by the UP when there really existed a situation of choice.

The short-term program of 1971 is one example of a choice of policy which created more problems than it solved. This choice could in part be explained as a mere reflection of the UP's belief that it was possible to construct a new society without transitional material sacrifices, but whatever were the economic and political/tactical motives behind it it turned out to have been a mistake, and the UP leadership gave proof of a serious lack of foresight in failing to assess correctly the medium-term consequences of the drastically expansionist policy with which it started. For what was visible to all by 1972, namely that a host of restrictions had arisen after the initial rapid recovery, should have been understood by the UP from the very beginning: the deep underdevelopment of Chile was known by the whole government, and in the very "Basic Program" of the UP Chile's existing productive capacity and whole economic structure - which could not possibly be changed overnight - were repeatedly proclaimed as being incompatible with economic growth and responsible for the people's misery. But this truth was forgotten when the early advances made many a UP minister talk optimistically about continued expansion along the same lines. An important sector of the UP even believed that the deficient Chilean economic structure could serve to render possible a continued improvement in living standards of not only the low-income groups but of the relatively well-to-do classes of professionals etc. as well - the illusory corollary to the UP's fundamentally 'anti-monopolistic' strategy based on a hoped-for class alliance with all the "middle strata" included in the list of enemies to the "oligarchy".

Several other examples of the UP leadership's inaptitude to forecast economic events could be given, and have been given above.

But while it is correct to say that the UP gave a huge overdose of traditional economic stimuli in its short-term policy, it is more difficult to agree with those who affirm that the government failed because it went "too fast" in its nationalization program. For in order to survive it should, I believe,

either have given up altogether its expropriation project - save the Gran Minería of copper and similar cases where a broad consensus could be reached, perhaps - or else it should have accelerated it further in a decisive attack against the most powerful interests of private business (and here we must include certain key sectors which traditionally had never been regarded as very powerful but whose strategic importance in sabotage actions was immense. Road transportation is the most obvious example). Since the former option was out of the question - such a profound betrayal of the program never even occurred to any segment of the Left - the latter alternative might have been the least impossible one. Only a firm and rapidly gained control over all crucial activities could have mitigated the effects of the rightist forces' economic obstruction and created the necessary, although not the sufficient, conditions for the UP to manage the economy in a planner manner.

I need not repeat again the detrimental effects on the economy which the UP's half-way nationalization program gave rise to. We know that both the agrarian reform and the industrial expropriations suffered badly from all the compromises that were made and antagonisms that were accentuated. One conclusion must however be that the Chilean experiences in 1970-73 illustrate very well the general dilemma that is likely to confront any left-oriented government taking over the responsibility of an economy controlled by hostile economic interests. President Allende's position was necessarily precarious: he was elected on a program which was radical enough to provoke determined resistance from the domestic and foreign economic establishment, but his government was in no way strong enough to assume the direction of the economy and force the private sector to obedience. And neither were the different forms of "popular power" created by the masses.

The above dilemma was further accentuated by specific problems caused by Chile's socio-economic structure. We know that the workers employed in industries classified as monopolies were both few and enjoying comparatively acceptable living levels. A strict adherence to an "anti-monopolistic" strategy would then have to clash with the aspirations of the great majority of Chilean workers, while such a limitation of the nationalization program could not possibly serve to placate the rightist opposition. Given the overall ideological and political atmosphere in Chile after 1970, the various contradictions that arose from the application of a basically "anti-oligarchic" program on a socio-economic structure like Chile's were bound to make the political polarization intensify. For the mass of workers had, let it be stressed once again, no objective interests in letting the government expropriate only a handful of companies while leaving all the rest in peace.

The government was challenged both from the Left and from the Right, and it lost most of the control it once had had over the process. The class struggle was converted into a virtual class war, and no solution was possible within the old, constitutional framework; the question of power had to be settled. The gradualistic "Chilean road" became blocked, and Chile was left with two quite distinct turns: revolution or counter-revolution, socialism or fascism.

And in the confrontation thus approaching, it was counter-revolution that held the winning cards. The military, to be sure, but we also know that the overall correlation of forces was unfavorable to the Left. It was, to begin with, utterly disadvantageous from an international point of view: under the patronage of the United States and Brazil a powerful rightist offensive swept over Latin America, and the installations of pro-Brazilian military dictatorships in Bolivia and Uruguay in 1971-73 had no doubt a profound impact on the Chilean political situation.

But even apart from the international development it was the bourgeoisie that was strongest. For it was not, as the UP had once hoped, the "oligarchic" interests that became politically isolated as the struggle intensified; rather, it was the industrial working class. The Left failed to neutralize, let alone win over, all those non-monopolistic and supposedly progressive sectors of private business which played such an important role in the UP's official strategy of class alliances. The alliances that took shape were of a different character; the political expression par excellence of medium and small business in Chile in 1972 and 1973 was the overtly pro-fascist gremialismo movement.

In this development strictly ideological factors played an important role. The rightist opposition maintained a firm control over the mass media industry, and its experienced anti-communist propaganda fell on fertile ground as the disintegration of the traditional society proceeded. But we also know that it was not without some very objective reasons that almost all small and medium-sized industrialists, landowners, merchants, truck-owners, etc. joined the extreme Right to precipitate the overthrow of Allende; they were quite right in seeing their - often very modest - positions as being threatened by the economic and political process that was taking place (although they failed to understand that most of them would become far worse off under a semi-fascist military dictatorship representing the interests of the big bourgeoisie. But this is another story).

When discussing the behavior of medium and small-scale business it should also be emphasized that Chile's large industrial and financial groups had a power which went far beyond the control of their own "monopolies". Through

a variety of economic and political means the few large corporations could exercise a dominant influence over a great number of non-monopolistic enterprises as well, and many UP leaders no doubt overestimated the latter's degree of independence, thereby underestimating the danger of a confrontation with the whole sector of private business when a "handful of monopolies" were attacked.

It also appears that the distinction often made by the UP between "imperialist interests" and the "national bourgeoisie" was politically quite irrelevant; no segment of the bourgeoisie showed any inclination to unite with the "popular forces" in their struggle against foreign dominance. No anti-U.S. feelings were, for example, ever expressed by the organizations that represented medium and small-scale business.

But this should, on the other hand, hardly come as a surprise. From Chapter I, especially, we recall the heavy impact of foreign investment in strategic sectors of the economy by the time the UP took office, and subsequent economic and political events in Chile added proof to Salvador Allende's previously quoted diagnosis of the Chilean bourgeoisie: "The penetration and domination of foreign capital has been so accentuated during the last few years (i.e. under Eduardo Frei, SV) that it has made the so-called national bourgeoisie virtually invisible."

To confine the influence of foreign capital only to foreign direct investment would signify a kind of optical illusion; a far larger number of companies than those directly owned by foreign capital were thoroughly dependent on foreign patents and licensing arrangements and on imports of spare parts, machinery, fuels and equipment. The UP's denunciations of the United States for economic aggression against Chile - the "ITT-documents", the "invisible blockade", etc. - only served to increase these groups' anxiety to improve Chile's relations with the United States by getting rid of Allende. Add to this the fears of the middle strata that the UP's policies were jeopardizing the availability of imported consumer goods, and we can more easily understand why the Chilean economy's foreign dependence made the number of allies in the anti-imperialist struggle fall appreciably short of many UP leaders' early expectations.

The Chilean Left had another handicap which was also in part only the political expression of economic factors inherited from the past. The Chilean society's class structure did not facilitate the Allende government's task; in particular did the low numerical weight of the industrial working class and the extreme heterogeneity with respect to socio-economic conditions and political consciousness among the "popular forces" weaken the position of the UP



tremendously, while the increasingly unified Right managed to mobilize large sectors of the petty-bourgeoisie and even of the urban subproletariat around a project which was so simple that internal contradictions could be temporarily buried. The solid core of UP supporters, the "classical proletariat" of blue-collar workers in manufacturing, mining and construction, was both relatively small in number and insufficiently prepared to replace the bourgeoisie as the dominant class of the Chilean society. If we look for explanations of the UP's failure which go beyond "erroneous strategic concepts", "reformism" or simply "mistakes" the following passage by Friedrich Engels indicates part of the answer:<sup>4)</sup>

"The worst thing that can befall a leader of an extreme party is to be compelled to take over a government at a time when society is not yet ripe for the domination of the class he represents and for the measures which that domination implies ... He who is put in this awkward position is irrevocably lost."

Now, if Allende was "irrevocably lost" from the very beginning or if he and what he represented became lost as a consequence of mistakes which could have been avoided belongs to the kind of questions which can never be answered. What is, however, certain is that the Unidad Popular never came very close to reaching its overriding objective of gaining power in society as a whole. With the exception for the executive power all vital branches of the state apparatus - the Congress, the judiciary, the armed forces, etc. - remained in the hands of the adverseries, and this in a process of radical social change when all kinds of extra-parliamentary opposition and sabotage made control of the legislative and repressive organs of state power absolutely indispensable. But these opposition-controlled bastions were never conquered by the UP, whose leadership de facto adopted a defensive, conciliatory line, thereby relinquishing all attempts to take state power. The offensive preceding and following upon the 1970 election continued on the fundos, in the factories and in the poblaciones, but on the governmental level it was gradually being replaced by a policy based on concessions. But as the government was already on the defensive the UP's bargaining position became poorer and poorer; the concessions made did not serve to reach viable agreements with the opposition but to encourage the latter, making it more and more inclined to aggressive actions of resistance and sabotage.

The struggle for power was irrevocably lost. President Allende was in practice defeated long before September 11, 1973. Whether a different strategy by a different group of leaders would have succeeded in Chile in 1970-73 is impossible to tell; all we can say with certainty is that the policy actually pursued by the Unidad Popular was doomed to failure.

- 1) See Ch. VI, p. 124.
- 2) Cf. Ch. III, footnote 1, for a brief summary of criteria often applied in the "transitional debate" over definitional questions. It should be observed that the UP's "Basic Program" of 1970 only referred to "socialism" once, and then by stating that the UP government intended to "initiate the construction of socialism".
- 3) Approximately distributed as follows: 35 000 agricultural workers (= the additional beneficiaries of the agrarian reform during the Allende government; altogether some 55 000 families were given land in individual or collective forms between 1964 and 1973), 100 - 120 000 industrial workers, 50 - 70 000 mining workers and, perhaps, 30 - 50 000 workers in miscellaneous sectors.
- 4) The Peasant War in Germany, p. 115.

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Ercilla	The Guardian
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