

Loans From Abroad Flow To Chile's Rightist Junta

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By ANN CRITTENDEN FEB 20 1976

Since Chile's right-wing military Government took power in a coup two and a half years ago, it has received some \$2 billion in foreign credits, despite extremely adverse economic problems, a compilation from World Bank sources shows.

This is in marked contrast to the situation during the previous leftist regime of President Salvador Allende Gossens when loans from international organizations and private commercial banks virtually ceased.

Moreover, in spite of the fact that the current Government is effectively bankrupt and is unable to meet the payments on its massive foreign debt without outside assistance, it is expected to receive an additional \$500 million a year through 1980 from foreign lenders, according to World Bank estimates.

Most of the credits received by Chile have been provided

by private commercial banks and by international organizations such as the Inter-American Development Bank and the World Bank, formally known as the International Bank for Reconstruction and Development.

Robert S. McNamara, president of the World Bank, explained the previous cutoff of his institution's funds to the Allende Government by pointing to Chile's economic mismanagement, reflected in mounting inflation rates, a huge external debt and growing balance-of-payments deficits.

Critics of the World Bank's policies note, however, that the country's economic situation has worsened under the current authoritarian Government.

Chile is currently in the grip of its worst depression since the 1930's. Last year it suffered a 22 to 25 percent drop in industrial production, unemployment of more than 16 percent, an inflation rate of 340 percent and an increase in the foreign debt to \$4.4 billion, up \$900 million since the fall of the Allende Government.

Early this month the World

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Bank approved a \$33 million loan to the nationalized Chilean copper industry, although countries representing 41 percent of the voting stock in the bank either voted against the loan (as did the Scandinavian countries) or abstained (as did all the other European countries).

The United States supported the loan, although the day before the vote Mr. McNamara was asked to postpone the credit by a delegation representing the National Council of Churches, the International United Auto Workers and Amnesty International.

Representative Thomas R. Harkin, a Democrat from Iowa, also asked that the credit be postponed. Mr. Harkin is the author of the human rights amendment to the foreign aid bill, which was recently passed, and to the foreign military assistance bill, which is pending in the House. The amendment stipulates that no American aid be given to countries that engage in a "consistent pattern of gross violations of human rights."

Accusations Made

The Chilean administration has been charged with violating basic human rights by the United Nations Human Rights Commission, the Organization of American States, Amnesty International and the International Labor Organization.

Investigative teams of these organizations have found mass arbitrary arrests, torture of political prisoners, abolition of the Chilean Congress, leftist political parties and the nation's largest labor union and the imposition of government control over the press and universities.

According to Representative Harkin, Mr. McNamara was told that postponement of

further assistance to Chile "would be a clear signal" of disapproval that could influence the Government there to modify its harsh character.

In response, Mr. Harkin says, Mr. McNamara indicated that the Articles of Agreement of the World Bank state that only economic considerations—not politics—could be taken into account in making loan decisions.

Economists' Views

A similar argument—that economic support does not constitute political support—has been made by Milton Friedman and Arnold Harberger, professors of economics at the University of Chicago.

They have engaged in economic consulting activities in Chile and have encountered criticism for doing so. Economic policy in Chile is dominated by some of their former students who have been taught conservative, monetarist economic doctrines. In Chile these former students have been dubbed the "Chicago boys."

Witnesses before the Senate Select Committee on Intelligence Activities testified recently that Chilean protégés of the two University of Chicago professors received funds from the Central Intelligence Agency in 1973, before the right-wing coup, for covert economic research that was later implemented by the junta.

Mr. Friedman and Mr. Harberger deny that their advisory roles in Chile or their visits and public statements there have reinforced dictatorship in that country.

Battling Inflation

Mr. Friedman maintains the opposite. He has declared, "The likelihood that the junta will be or can be temporary and that it will be possible to restore democracy hinges critically on the success of the regime in improving the economic sit-

uation and eliminating inflation."

Critics say, however, that the methods urged by both Mr. Friedman and the World Bank would be difficult to enforce without repression. (The World Bank's recommendations have closely paralleled those of the monetarist economist—including sweeping cuts in government services and uncontrolled prices.) The critics of Mr. Friedman and Mr. Harberger include a number of their colleagues at the University of Chicago.

In an interview with the Chilean magazine *Ercilla* during a visit to Santiago last year, Mr. Friedman contended that wages, which have fallen 50 percent in real terms since the junta assumed power, must be set by "free competition."

Source of Credits

He also was asked whether the social cost of his policies would be excessive, in view of the sharp decline in purchasing power and record unemployment. He responded, "Silly question."

The roughly \$2 billion in credits the junta received in 1974 and 1975 included \$729 million from international organizations, including the International Monetary Fund; \$295 million from bilateral aid, almost entirely from the United States, Brazil and Argentina, and \$275 million from suppliers' credits.

In addition, in late 1973 and 1974, private banks made some

\$500 million in loans to Chile, followed by \$45 million to \$50 million in loans last year. More recently, a consortium of American and Canadian banks, including the Bank of America, extended \$150 million in credits to Chile.

"The banks have been falling all over each other to make loans," says Maria Elena Price of Business International, a private consulting firm.

The First National City Bank opened a full-service branch in Santiago last December. The Bank of America, the only other United States bank that had branches in Chile before foreign banks were nationalized four years ago, is reactivating a finance company in which it holds a 95 percent interest.

The First National Bank of Boston is planning to establish a finance company in Santiago. And the Manufacturers Hanover Trust Company, one of the first United States banks to lend to Chile's current Government, is buying into the Chilean Banco Unido de Fomento with the Banco do Brasil and the Bank of Tokyo.

Immediately after the coup United States industrial corporations were also enthusiastic about investing in Chile. The new Government moved swiftly to open the economy to foreigners with a liberal new investment code and to dismantle the socialist enterprises that had grown up under President Allende.

To date, however, only some \$240 million of foreign investments has been approved—80 percent of it in mining—and only a fraction of that amount has actually been spent.

The Chilean copper industry, partly owned by the Kennecott Copper Corporation, the Anaconda Company and the Cerro Corporation, was nationalized by the Allende Government in 1971, and the United States companies were subsequently paid \$349 million in compensation by the military Government. The companies felt their property was worth more than \$2 billion.

Development Sought

The military Government apparently has no intention of returning the mines to their former owners, but it wants foreign corporations to develop Chile's unexploited copper reserves.

The largest new investment by a United States concern has been \$10 million by the Foote Mineral Company for extraction of lithium in the Atacama desert.

The General Motors Corporation has agreed, along with the Peugeot and Fiat companies, to participate in restructuring Chile's automobile industry, with General Motors to produce trucks. But G.M. indicates that, at the moment, it does not plan to put much more capital into its present small-scale operations in Chile.

Several larger investments in natural resources are in the works. Noranda Mines Ltd. of Toronto has agreed to take a 49 percent interest in a joint venture with the Chilean Government and plans to spend at least \$240 million to develop the Andacollo copper deposit 280 miles north of Santiago.

Oil Exploration

Twenty-three foreign oil companies (including Aminoil, Gulf, Pexamin, Phillips Petroleum, Louisiana Land Associates, Union Oil and Superior Oil) have been invited to bid, by the end of February, for rights to explore for oil and natural gas in the Strait of Magellan, at the southern tip of Chile. Previously all oil exploration was in the hands of the Chilean state oil company, but the Government now lacks the capital to develop the country's oil or other natural resources.

Other negotiations are being conducted on investments of more than \$1 billion in the copper industry, \$220 million for natural gas development and liquefaction and \$250 million to \$300 million in the petrochemical industry. The possibility of selling some of the nationalized enterprises to foreigners is also being discussed.

Many companies have been hesitant to enter Chile on a large scale because of its chaotic economic situation and uncertainty about the outcome

of a Chilean proposal to liberalize the terms of the Andean Common Market's strict investment code.

Alluding to widespread complaints about the status of human rights in Chile, a recent Commerce Department report said potential investors might also "be reluctant to run the risk of incurring an unfavorable public reaction that a sizable investment in Chile might bring."

Public pressure in Europe, in particular, has reportedly given several corporations second thoughts about investing in Chile. Companies in the United States apparently prefer to keep such involvement quiet.

William Wifler of the National Council of the Churches of Christ in the U.S.A., one of several groups that tried unsuccessfully to persuade General Motors to attach human-rights conditions to its investment in Chile, has asserted that "the really big companies probably couldn't care less" about public attitudes. The companies have declined to comment.

The Overseas Private Investment Corporation, a United States Government agency, is expected to announce soon that it will resume insuring private American investments in Chile. Such insurance was suspended after the Allende Government in 1971 expropriated copper mines partly owned by American companies.