U.S. vs. Allende

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By Oscar Berger

An autographed drawing of Allende.

TO EVEN the most casual scanner of newspaper headlines, it should be clear by now that Chile, long a stronghold of democratic traditions in Latin America, is in deep trouble: minor military revolts, strikes, bouts of street fighting, food shortages, inflation and assassinations.

Some of this turbulence has been inevitable, ever since Salvador Allende, 64, took office in late 1970 as the Western hemisphere's first elected Marxist president (with 36 per cent of the popular vote). Disappointing Chile's ultraleftists, he has sought to develop his version of social justice without repression, without liquidating the basic freedoms and his political foes.

But Allende lacks a majority in the Chilean Congress; his foes are skilled at blocking presidential legislation (just as his supporters frustrated his predecessor, Christian Democrat Eduardo Frei, in the 1960s). His own coalition, ranging from socialist moderates to oldline Communists to Maoists, is torn by doctrinal disputes over how to handle income redistribution, land reform, "worker participation" in management and foreign investment. Skilled managers and technicians have left the country; some of Allende's well-intentioned reforms were poorly planned and badly executed.

In brief, Allende's regime would have met difficulties, by this time, under any circumstances. But U.S. policy has aggravated the country's plight. The extra economic burden imposed by Washington—through a cutoff of grants and loans since 1970—has helped push Chile closer to civil war, giving the population the increasingly polarized choice of a military dictatorship or a dictatorship of the far left.

"A New Ball Game"

WASHINGTON'S ACTION has a narrow official rationale: Allende has nationalized U.S. companies, notably Kennecott Copper and Anaconda, without "adequate compensation."

As President Nixon laid it out in a January, 1972, policy statement on expropriation of U.S. business abroad, beyond cutting off bilateral "economic benefits," the United States would oppose loans "under consideration in multilateral development banks." Thus, Chile can't get much help anywhere in the West. John Petty, assistant secretary of the Treasury and a key figure in U.S.-Chile policy, put it this way: "I think you'll find the U.S. less prepared to turn the other cheek. It's a new ball game, with new rules."

Who stands to win the "new ball game" remains unclear. The old ball game was, in Chilean eyes, rigged in favor of foreign (U.S.) capital.

Keep in mind that Chile has a population of 9 million, not much larger than that of New York City, with a far smaller middle class than New York's. Thus, foreign capital can quickly have a significant influence in domestic affairs. When foreign industry was given major incentives and tax breaks to enter Chile in the 1960s, it did so smoothly and efficiently. By 1968, according to one government study quoted in the left-wing magazine Punto Final, foreign interests, mainly American, controlled 60 per cent of Chile's chemical and metal product industries, almost 50 per cent of the shoe production, and almost 100 per cent of such key industries as petroleum distribution and rubber and tobacco production. The net return on invested capital doubled during that decade, increasing to 23 per cent in 1969 (almost double that of U.S. firms in other Latin American countries).

Although foreign control of key industries was galling to Chileans, what mattered most was that this control was not used to increase production or bring needed dollars into the country. The profits were not plowed back into the domestic economy but were sent home to stockholders.

A Question of Dollars

UNTIL ALLENDE took office, foreign corporations in Chile had the unlimited right to exchange local currency for dollars. This is called convertibility, and is the key to foreign investment abroad. A Chilean businessman who earned escudos, the Chilean currency, could not go to the bank and exchange them for dollars. An American businessman could.

Yet these dollars are crucial to Chile's success, for only with dollars can Chile buy needed imports of food or equipment or replacement parts. Chile's dollar reserves are low, and it can get dollars only through export sales or by borrowing from international sources. But until recently, the same industries—primarily copper—which exported products sold for dollars were controlled by U.S. corporations which were remitting those dollars to the United States at a rapid rate. According to one study, the outflow of exchange from amortization and depreciation of foreign capital rose from $25 million in 1950 to $272 million in 1963 and a high of $284 million in 1968.

There were other effects of U.S. investment. One was the concentration of industry into fewer and fewer hands, since foreign investment tended to go into the largest Chilean firms. By the late 1960s, the owners of small and medium-sized businesses in Chile were beginning to complain about this increasing concentration at home.

Equity or Confiscation?

THROUGHOUT THE 60s, the Chilean left, led by Allende, was calling for restrictions on foreign capital. It demanded that the government set a fixed rate of return on invested U.S. capital, or a limit on the amount that could be remitted, or a multiple exchange rate for dollars leaving Chile. Though they fell well short of nationalization, such conditions were viewed by many American corporation managers as tantamount to confiscation of property; most foreign loans and grants had been given to Chile on the implicit condition that no such restrictions would be imposed.

When Allende took office in 1970, almost every Chilean political faction supported the nationalization of certain sectors of the economy owned by U.S. interests. Most important, this meant the two major copper companies, Anaconda and Kennecott.

Both far left and far right believed that Frei's 1967 agreement with the copper companies,—giving the government 51 per cent control of Kennecott's Chilean operations and 25 per cent of Anaconda's in exchange for lowered taxes and promises of increased production—had proven a windfall to the companies. Allende has charged that Kennecott, without investing any significant new capital in Chile or significantly raising production levels as promised, raised its return on invested capital to 113 per cent in 1968 and 205 per cent in 1969.

The agreement also saddled Chile with increased debts: Under its terms, the companies borrowed heavily from the U.S. Export-Import Bank and other sources in order to boost production capacity; the government was committed to sharing in the companies' debts.

Arguments with Washington

WHEN ALLENDE nationalized the copper companies in 1971 with Congress' approval, he agreed to pay compensation, but cited the poor condition of the mines and the excess profits the companies had made during the 1960s as reasons for cutting the total $700 million compensation sought by Kennecott and Anaconda. Washington said Allende's position violated international law. Chile has since proposed using a 1914 agreement with the United States, which provides for mediation of outstanding disputes; discussions with Washington are continuing on the proposal.

When the Nixon administration moved to cut off credits to Chile it was easy for people familiar with Chile's situation to foresee the results. Thanks to columnist Jack Anderson, we have at least a glimpse into policymaking inputs. In October, 1971, ITT vice president and Washington lobbyist William Merriam wrote to Peter G. Peterson, then assistant to the President for international economic policy, proposing an "economic squeeze" on Chile through the denial of international credit, a ban on imports of copper and on vital exports to Chile so that sufficient "economic chaos" would develop to convince the armed forces to "step in and restore order."

Whether this policy suggestion has been implemented in a coordinated and conscious manner we may never know. Yet the situation has worked out much as Merriam suggested. The Export-Import Bank, which had loaned Chile $600 million in direct credits over the past 25 years, has refused to loan any more to Chile. By 1972, not surprisingly, private banks and suppliers were staying clear of Chile. Only $35 million in short-term bank credits were made available that year to the Allende government, compared with an annual line of credit of $220 million to Frei's administration in 1966-67. All suppliers' credits were cut off last year.

In 1971, Allende had asked Chile's creditors for talks to work out rescheduling of the country's $3.7 billion foreign debt. Renegotiation meetings with the United States did not begin until last December, and soon ran into State Department insistence that Chile first pay the $700 million in compensation claims on nationalized U.S. assets. Although the U.S. position has become more flexible recently, the impasse remains; U.S. economic aid, and most Chilean debt payments to the United States, both remain suspended.

Swelling Inflation

THE ECONOMIC CHAOS that Merriam predicted has been staved off — but production bottlenecks and parts shortages have nevertheless begun to hurt Chile's industrial production, which fell 5.6 per cent in the first quarter of 1973. Export earnings, which peaked in 1969 at $1.3 billion, partly due to high world copper prices, were down to $811 million last year, with lower prices and production.

In Frei's day, U.S. grants and loans in effect helped Chile balance her budget; Allende gets no such help. About one-third of the country's state-owned buses are immobilized for lack of imported spare parts or tires, along with one-fifth of the privately owned taxis. Agricultural machinery imports are near zero. Inflation this year is expected to run 400 per cent.

The worsening of the economy has led to the worsening of the social and political situation in Chile. Allende had made it clear, in both his party's platform and in public statements after taking office, that there would be a redistribution of income and privilege. But he also tried to make clear two things: (1) that the Chilean revolution would not lead to the proletarianization of all classes, as had occurred in Cuba, and (2) that Chile is rich enough in natural resources to raise everyone's standard of living to adequate levels without impoverishing any class.

At first, these statements were warmly supported by Chile's middle class, and even skilled sections of the working class who fancied themselves middle class someday. But Washington's embargo on aid and credit has made such predictions by Allende impossible to fulfill (the far left in Chile said they would be impossible to fulfill in any case).

"March of the Empty Pots"

THE FIRST GROUP to rebel, not surprisingly, were well-paid bureaucrats, businessmen, large landowners and diplomats. Many of the richest and most powerful had taken their money out of Chile and fled—even before Allende was elected. Among other things, the redistribution of wealth during Allende's first year in office led to increased demand for scarce beef on the part of the low-income classes, which reduced the beef available to the well-to-do. The opposition was quick to capitalize on this discontent and organize the well-publicized housewives' "march of the empty pots" in December, 1971.

By autumn of 1972, broader segments of the middle class were beginning to feel the acute shortage of goods and services. In September, a poll published in the anti-Allende magazine, Ercilla, showed that 75 per cent of the lower-income households polled stated that essential products had become easier to find, while 77 per cent of middle-income and 99 per cent of high-income households were finding them less accessible.

By October, all of Chile was convulsed in a general strike, led by middle-income people. The catalyst was a work stoppage by independent truck owners in southern Chile who were upset over the shortage of replacement parts and tires.

The nationwide sympathy walk-out showed the polarization of Chile along class lines. Local chambers of commerce and associations of manufacturers would call strikes, and their workers would come to work anyway. Truck owners would strike, and the government would establish supply and distribution centers, directly linking the farms in the south with the poor neighborhoods in Santiago. The professionals went on strike; the paraprofessionals did not. The crisis only subsided when Allende invited military leaders to join his cabinet, thereby forcing the opposition to strike directly against the military, something it was not willing to do at that time.

There was a brief postponement of violent conflict while each side geared up for the congressional elections last March. Allende's coalition did surprisingly well, considering (1) the state of the economy, with inflation then close to 150 per cent per year; and (2) the strength of a united opposition slate. The government picked up a few seats in each house of Congress, although winning only 44 per cent of the total popular vote.

The confrontation of last October was renewed in various ways directly after these March elections. The comptroller general, an opposition Democratic Radical who had barred the government from taking over 42 firms paralyzed since the October strikes, was overruled by an extraordinary decree signed by Allende and all 15 ministers of his cabinet.

Clerical Criticism

FOR THE FIRST TIME since Allende took office, the Roman Catholic hierarchy did not praise the government in its annual Easter message. Rather, the church criticized the Allende regime because "the lack of goods and the black market are all the time making the life of citizens, and particularly of the poorest, more difficult."

Then Congress passed a constitutional amendment which gave the power to nationalize private companies to the legislature, not the president, and the court to which Allende appealed (on the basis that the amendment had only passed Congress with a simple majority, whereas a constitutional amendment needs a two-thirds majority) ruled that it had no jurisdiction.

In April, a strike broke out at El Teniente copper mine, the largest in Chile, with the white collar workers from the Chuquicamata mine striking in sympathy, idling one-third of Chile's vital copper production.

In May, the opposition impeached Allende's ministers of mining and labor and the mayors of Valparaiso, Talca and Nuble. At the end of May, former President Frei was elected president of the Senate and said the Christian Democrats would give the Allende government "till the end of the month" to end the "arbitrary acts" of its Supply and Price boards (which were distributing goods to the population and controlling prices).

This, then, was the shaky state of affairs leading up to the attempted military coup at the end of June. There has been recurrent fighting on the streets of Santiago. Chile has not experienced such violence since 1891.

The country is polarized, not only into voting groups, but into opposing armed camps, willing to strike, to fight and to march with weapons outside the parliament and the voting booths. Allende has asked Congress to impose a state of seige, which would give him almost dictatorial powers. The opposition refused to permit this. The tension continues.

Death to Moderation?

IN THE EARLY 1960s, there was a widely stated belief on the part of U.S. policymakers that leftist takeovers in Latin America meant the elimination of democracy, perversion of the constitution, and an end to basic freedoms. In Chile, this did not occur when Allende's Marxists took office. Nevertheless, the United States has used its considerable powers to cause Chile—under Allende—economic anguish.

The new Nixon aid doctrine has made it eminently clear that what matters now is simply what priority a Third World country puts on U.S. investment, and what compensation it is willing to pay to American corporations—even corporations which, as in the case of ITT in Chile, have admitted trying to intervene in domestic affairs to bring down the elected government.

By this "business first" approach, the United States has helped force Chile into a political polarization its people have traditionally sought to avoid.

If political moderation finally dies in Chile, the United States can share the blame.