

# The State of the Chilean Economy

*Chile caught the imagination of Western Europeans in the 1970s as did Spain in the 1930s. There were similarities between these two countries in a call for a structural transformation of their societies. The nature of the current military junta in Chile is being sufficiently highlighted in the daily press, but very little is being reported on its economy. We summarise therefore two significant articles on the Chilean economy today. One is written by the Financial Times columnist Hugh O'Shaughnessy and the other by the well-known Third World economic theorist Andre Gunder Frank. O'Shaughnessy's account squares with that of Gunder Frank, though he makes no attempt to explain the political context of the Junta's economic policy. Gunder Frank's observations are expressed in an open letter to Milton Friedman and Arnold Herberger, the two Chicago University professors, the chief economic advisers to the Junta and architects of Chile's policy. In a letter published in "Retrieval" September 1976, he brands their policy 'Economic Genocide'.*

## Hugh O'Shaughnessy

"The result of Junta policies on the productive sector of the economy came to light fully just over a month ago when the final analysis of 1975 was published. It is little exaggeration to say that the economy looked as though it had been hit by a hurricane. On a per capita basis the Gross Domestic Product dropped 16.2 per cent, manufacturing industry fell back 27 per cent and the building industry's output fell by 35 per cent. The motor industry which in 1972 had turned out 26,613 units produced no more than 7,809 in 1975 and 1,557 in the first quarter of 1976. Output of tyres, rayon yarn, and glass production all fell last year to less than half the total of 1974. The official unemployment statistics showed that in the last quarter of 1975 16.3 per cent of the active population in Greater Santiago was unemployed and 23.1 per cent of manual workers were out of job. In the first quarter of 1976 both percentages worsened. Officials have said that in provincial cities like Arica, Coquimbo and Concepcion, it could be even worse".

Further, inflation is no less than it was in the last days of the Allende Government: officially it is now 340.7%, a Latin American record.

The Chilean people have paid a "terrible" price for this failed economic policy. The situation in Santiago is so bad that the Catholic Archbishop is running 247 soup kitchens "which give 23,876 children of the capital one meal a day to keep them from starvation".

The Chilean Government tried to reverse its failures with a new set of policies in July 1976: revaluation, consumer incentives, and a small measure of price control. "The effect of these was rather spoiled when, on July 4, the price of milk was allowed by the Junta to rise 26%".

## ECONOMIC GENOCIDE IN CHILE

### Andre Gunder Frank

In Santiago the Catholic Church reports that there are "urban districts with 86% unemployment—and 92% malnutrition.....frequent cases of children fainting in school from weakness caused by lack of food..... Even the few public kindergartens have now been ordered to accept only children who are undernourished". Such are the consequences of the economic policy of General Pinochet and the Chilean Junta.

Gunder Frank sums up their policy as follows:

- \* Remove price control, restrict wage increase.
- \* Sell state-owned enterprises to private (especially foreign) business at bargain rates.
- \* Reverse agrarian reform by returning some 2 million hectares of land appropriated during the Allende and Frei administrations to former owners or new owners.
- \* Cut back wages, employment, and expenditure on the public sector.
- \* Turn much of the social security and public health systems over to private business.

\* Reduce tariffs and other import restrictions; extend every kind of favour to foreign capital, including payment of "compensation" to US copper companies in excess of the value of their former properties.

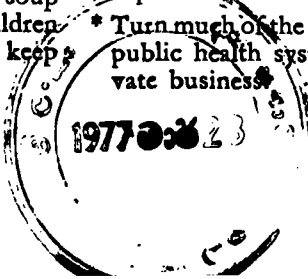
\* Redress the balance of payments by reducing imports of goods necessary to meet essential consumption needs of the people. Devalue the currency repeatedly to boost exports of Chilean goods, both food and manufactured items; the aim being to get foreign exchange, regardless of the consequences for Chileans.

Gunder Frank shows that this last item, the exporting of necessary food-stuffs has had a disastrous effect on the life and health of the Chilean people. ("An hour's work buys 160 grams of bread and it is necessary to work more than 6 hours to buy one kilo of bread in Chile at the minimum wage..... To earn the so-called 'living wage', you have to work 241 hours a month, or 55 hours a week, and walk to work—if you can get it!") Using the Junta's own figures Gunder Frank illustrates the 'economic genocide'.

Since the Junta seized power in September 1973, inflation has been rampant with price levels increasing 9,200% in just over two years. The price of bread, the main consumption staple in Chile has increased by 22,700% while the official minimum hourly wage has increased 2,500%.

In February 1974, a family's bread consumption and bus fares to get to work accounted for 80% of wages, people started walking to work to save money—bus passengers declined by 32%.

But those figures assume that Chileans can get work. According to government figures, unemployment increased from 4% in August 1973 to 17.4% in October 1975. Other estimates, says Gunder Frank, go as high as 25% "and this is not counting the 40,000 or so murdered by the Junta, the 10,000 still in concentration camps (through which about 300,000 have passed at one time or another since September 11, 1973), and it leaves out of account the several hundred thousand who have sought to escape from the Chicago/Junta political repression and eco-



conomic genocide by emigrating from Chile....."

"Economic Genocide as a calculated policy is consciously and intentionally implemented not only through pricing and production, but also through export and import. Thus, on October 1, 1975, *El Mercurio* reported that 'Rimundo Perez, Zonal Director of Agriculture' in Talca said, that in his opinion, Chile could become an exporter of rice..... Chile, which once was a big consumer of rice, has now ceased being so because of its high price. For the Zonal Director of Talca, rice has ceased being a mass consumption food and has become a luxury food'. Under the title of "Export Diversification", *El Mercurio* (September 22 - 28, 1975, International Edition) had itself editorialised: 'Little by little the nation's agriculture is becoming an important factor in our export trade, at the same time as food becomes an ever less important item in the country's imports. Therefore, the predictions show Chile as a certain net exporter of agricultural products before the end of the decade'. Rodrigo Zavalta Illanes, Director of the Fourth Agricultural Region explained to *El Mercurio*, that, in his opinion, 'for the first time in history a government gives agriculture the priority consideration and importance that it deserves. Specifically, the plans for the Fourth Region are to orient agricultural production for export'.

Gunder Frank provides ample figures from the Junta's own statistics to show that they are 'restricting imports and encouraging exports through continuous devaluations—of 600% in 1975 alone'. He underlines the "policy of exporting more and more food while the population is increasingly starving (that is, by starving the population, since food production did not similarly increase)". He refers to the Junta's "proudest success" viz. "the six-fold increase in non-food industrial exports from 32 million to 197 million dollars which, with the four-fold increase in food exports adds up to the nearly six-fold increase from 68 million to 160 million dollars of what the Junta calls 'nontraditional' exports". But this export increase is "the result and reflection of denying these manufactures to the Chilean consumer, whose income and purchasing power has been so drastically

reduced, and of denying them also as inputs to the Chilean industry, for whose production the domestic market has been eliminated".

As these policies began to produce economic chaos in Chile, the Chicago professors were called in again (April, 1975) and they prescribed a "shock treatment" of "reducing public expenditures by a further 25% at one fell swoop, reducing wages and salaries more drastically, coupled with an expected increase in unemployment; and as an 'antidote' to 'manage' the patient in his anticipated state of shock, Friedman and the Junta agreed to create 'emergency' 'minimum' unemployment by the state and municipalities without the security and bonuses of ordinary public employment and to 'promote' 'new' employment by private enterprise by permitting it not to pay the normal social security contributions and offering it other subsidies. The result has been, of course, that the public agencies, municipalities and private employers have increasingly fired their former employees who were entitled to certain bonuses, social security, health services, etc.—all of which the Chicago/Junta policy wants to abolish as a violation of 'freedom' of the market, anyway—and have partially replaced them with 'new' employees who were sometimes the very same persons, doing the same work at still lower pay and reduced benefits. Thus, this 'antidote' really serves to strengthen the second element of the shock medicine, that is, to reduce wages and salaries. In a word: super-exploitation of labour".

#### U.S. Support for the Junta

Gunder Frank's Open Letter ends with an attack on the duplicity of the US and its role in the Junta's economic and political policies: "While the United Nations General Assembly condemns the Junta for violation of human rights, the President of the World Bank, Mr. McNamara, says that he uses only economic and non-political criteria in deciding on loans and, with US support, overrides the objections of his European board members to extend a new loan of \$33 million to the Junta. For the same 'economic' reasons Mr. McNamara had not loaned a single new penny to President Allende. But in two years of Junta rule and Chicago economics, Mr. McNamara had al-

ready loaned the Junta \$100 million before he added the above mentioned \$33 million. His sister institution, the International Monetary Fund, has loaned the Junta \$420 million, and the Inter-American Development Bank another \$400 million, so that the categorical support of the international financial institutions has amounted to \$920 million (now more than 950). By comparison, the Allende government received \$65 million.....

"The Junta has received \$680 million in loans from the United States—\$380 million or 56% of which were destined to pay off the American copper companies in turn; for, as the Junta's Minister Cuauvs observed, a country that stopped making foreign payments would soon have problems with the financial agencies! The \$920 million from the US-controlled international financial institutions plus the \$680 million from the United States and its backers add up to \$1,600 million in loans to the Junta from these sources. Adding \$120 million from Latin American sources primarily in Brazil and Venezuela, and another \$280 million from West European and Japanese sources brings the total of loans to the Junta in the 27 months before December 31, 1975, to a tidy sum of \$2,000 million or about \$3 million a day.

"The United States has delivered more armaments to the Chilean Junta than to any other Latin American country except Brazil, and very much more arms per capita, in which the Junta is exceeded only by countries such as Israel, Iran and Saudi Arabia. The Junta is now reported ready to pay \$132 million cash for armaments; that is, 83% of its 1975 earnings from food exports, and just a little more than the \$125 million increase in value of food exports from 1973 to 1975".

The economic policy of the Junta's Chicago advisers has produced stresses and strains inside the Junta and its supporters, says Gunder Frank. Critics include Junta member Air Force General Leigh, Fascist Rodrigues Grez (the leader of *Patria Libertad*) and former Christian Democrat President Frei. Friedman and Herberger are now under pressure from student groups at Chicago University who feel that they are damaging the University's reputation.