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Boston University

**Center for
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Studies**



CHILE UNDER ALLENDE

P.N. Rosenstein-Rodan

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Discussion Paper Series

Number 4 May 1973

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CHILE UNDER ALLENDE*

P. N. Rosenstein-Rodan

The election of Salvador Allende as President of Chile in September 1970 - after three previous vain attempts - was a world sensation. It created a panic first of all in Santiago rather than in the United States. I don't know whether the "low profile" was due to a low harmonic count or to increased political intelligence. The election of a Marxist president was taken as a double signal: first of a decisive move to the left, and second of a general impatience - both in Chile and Latin America - of evolutionary methods of reform and a preference for revolution. The first signal is correct, the second is doubtful.

The events have to be put in historic perspective if they are not to be out of focus. At the middle of the last century Chile was the most advanced and the richest of the Latin American countries. Only a generation later did Argentina catch up and, in the late 1880's, surpass it. Chile had developed a strong ruling class with the ability and the will to govern, largely based on land ownership and supported by the church. A second political elite gradually emerged in opposition to the conservatives. Since these were based on land ownership and support of the church, the liberal group mobilized the emerging middle class and was anti-clerical.

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Talk given at Boston University on November 29, 1972.

The conservatives and the liberals were oligarchies, as Ernst Halperin has reminded us, like patricians and plebeians in ancient Rome. They relied on the rule of law and created a functional and efficient civil service, relatively independent of whichever party was in power. Their reliance on the rule of law and on the constitution make Chile a model sui generis. Even a Marxist like Regis Debray recognizes that while the rule of law was devised originally as an instrument of domination by the ruling class, it gradually acquired its own momentum, became an independent political force and made the Chilean model different from those of other Latin American countries. Chile is today the politically most highly developed country in Latin America. It has the third highest income per head, a homogeneous population and a good education system capable of producing and using the technical cadres and personnel required for modern development. Santiago is perhaps one of the most lively centers of intellectual life in Latin America and intellectuals and experts form a valuable part of Chile's invisible exports. Combined with its human capital, Chile has also an excellent resource endowment: there are ample natural resources and enough good land to assure an adequate food supply and - if properly managed - even some agricultural export surplus. Chile has a developed form of parliamentary democracy, a substantial middle class, and a lively labor movement. For most of the century, the articulate political language of the country was progressive and center left, but the social and political structure was

nonetheless conservative. The liturgical language and the heart was on the left, but the reality and a not badly packed wallet was on the right. It was almost like Herbert Luethy's France where everybody worshiped "La Revolution", where moderate parties called themselves "Radical" or "Progressive" yet the framework of the society and the administrative system changed very slowly. The politics were very similar to those of the third and fourth republic with two fundamental differences: they had neither a DeGaulle nor a Jean Monnet. Since 1920, there has been a continuous historical trend - accelerated in 1964 by the Frei government -- for a growing diversification of social structure and a corresponding change in political power and participation.

Three elements characterize this trend. The first one, growing participation (mainly through political parties): in 1958, in the Alessandri election 850,000 people voted; in 1964 in the Frei election, over 1 1/2 million people voted; in 1970 in the Allende election, about 3 million people voted. Second: radicalization, movement towards the left; the Christian Democracy and the Popular Front had 67% of the votes in 1964 and 64% of the votes in 1970. Third, a polarization of political groups - a growing exacerbation beginning in 1967 was so vastly accelerated in 1970 that velvet gloves were removed but a thinner covering still masks the iron fist. 1970 saw the taking of power by organized labor with its own political and ideological consciousness. Organized labor

was a political loser in 1920, made the team in 1938, was a serious competitor in 1964 and came in first - albeit by a very small plurality - in 1970. This is not an episode. 30% of the marginals (the subproletariat) is not yet incorporated (the majority of them voted against UP in 1970). The major question is who will incorporate them. Every election in the last twenty years showed only a marginal advance towards the left; is 1970 a difference in kind?

What distinguishes Chile, however, is not only a vocation of freedom and respect of the law - important, but still abstract for the majority of the people - but also a growing stratification of social forces: Army, church, trade unions, professional associations and Gremia, student movement, etc. These are the pillars of Chilean society. This stratification and crystallization of groups is perhaps the main reason for a lack of economic dynamism. The problem is not to discard these groups but to see how they can be made to function with greater social efficiency.

It is true that in the last election, 1/3 voted against everything (Conservative, Christian Democracy, Socialism) but more important is the fact that 2/3 agreed and voted for two things: first a major change and second, an open multiparty society. To anticipate: the transition to socialism will either take place in a free democratic way - or it will not take place at all. This is not only of Chilean, Latin American, but of international interest.

It is in this framework that we have to view the recent events.

In September 1970, Allende won the Presidential election with 36.3% of the votes, a plurality of not quite 38,000 (out of 3,000,000) votes over Jorge Alessandri. The Christian Democratic candidate, Radomiro Tomic, remained far behind with 27.7% of the votes. His radically worded program had no appeal. People felt: "If I like the revolution, let me vote for the original and not a second-hand article." When a Presidential candidate obtains less than 50% plus one vote, the election goes to Congress and the Senate, according to the Chilean constitution, which then has to elect one of the two candidates with the higher number of votes. In 1958, Alessandri won with a plurality of only 38,000 votes (850,000 people voted) which was a majority of 4% of the voters. The Congress and Senate voted for the candidate with the higher number of votes. In 1970, Allende had a plurality of only 38,000 (a mere 1.3% of the voters). There were forty-five days between the election and the Congress and Senate vote which allowed for the maximum amount of agitation, scheming, etc. Does a 1.3% plurality represent the will of the people? If it were so, the constitution would not provide for the nomination of the President by the Congress and the Senate. After all, almost 64% of the people voted against Allende. Alessandri announced that he would not be a candidate and appealed to Congress and the Senate not to vote for him. If he were elected, he would not accept and would resign the presidency. This, in

political parlance was an appeal to vote for him. When elected, he would resign but he would have been President for a minute or so. There is no Vice President in the Chilean constitution. After the resignation of a President, new presidential elections would have to be held. No one in Chile doubted that in such an event, Eduardo Frei (who according to the Chilean constitution could not succeed himself) would be elected with a landslide majority. If President Frei had moved a finger, if he had appeared at the meeting of the Christian Democratic Party on Saturday and Sunday preceding the vote on Monday, and recommended they vote for Alessandri, Frei would be President of Chile now. In spite of considerable pressure from many quarters, Frei felt, however, that it would not be dignified, he did not want to gain office by a legal gimmick, and, far more important, he did not want to contribute to a general feeling that the Left is prevented from taking office by formal legal tricks. So Allende was confirmed as President of Chile.

Does that signify a decisive movement to the Left of public opinion and popular will? According to a normal political interpretation of the election results, this would not be the case. The Popular Front (UP) had in fact gained a smaller percentage of votes in 1970 (36.3%) than it had in the previous (1964) election (38.6%). It had in fact lost 0.7% of the vote. This is, however, largely irrelevant. Of the 64% anti-Allende vote, the majority (in a

nowadays typically democratic situation) voted for a minor evil. They voted for flu in order to avoid dysentery. Half of those who voted for Allende, say 20%, voted in a revolutionary euphoria. We have to analyze elections not by counting votes one by one but by the intensity of preference; as in a children's game, how much out of ten do you want it, one or two, or nine or ten? The fact of the preference intensity is basic for an understanding of Chilean events. During the first year following the election, 20% of the Chilean people were in a revolutionary euphoria, 10 to 20% were in a spasm of violent (un-Chilean) hatred, 60% of the people were paralyzed by the shock of the unexpected and were anesthetized. It took a year for half of them to recover and actively oppose the regime. Meanwhile, however, especially within the next six months, the middle class and the upper class lived in a fin de siecle mood: tomorrow we die. Instead of saving, everybody spent. One had to phone to find a seat in a luxury restaurant. Santiago almost became a swinging town reminiscent of the unreal atmosphere in midst of despair and doom of Vienna in the 1920's.

Being a revolutionary is like being in love; one does not believe that anybody else was ever in love before. So one does not learn from other people's experience but makes the same mistakes, over and over. This is perhaps the main characteristic of what happened during the first year of Allende's regime, which we are going to examine in detail. In Poland it took years before the growing

discontent led to the overthrow of Gomulka. But in Poland there was the Russian army. The Chilean army is apolitical. The public discontent will have to be controlled in a much shorter time in Chile. During the first few weeks there was a run on the banks, an attempted capital flight and an emigration of many technicians since Chile is still the only Marxist country with complete freedom of emigration. The capital flight at the beginning may have, incidentally, been overestimated; it takes two to realize a capital flight--those who want to buy dollars (everyone in the first few weeks) and those who want to buy escudos (no one in the first few weeks), so the total transactions in the black market did not amount to very much. Gradually, however, when the black market rate of the dollar soared fantastically and luxury goods of those who were emigrating (luxury automobiles, villas, etc.) were selling at one third of the price in dollars they commanded a few weeks earlier, some people took out their dollar notes from the mattresses, under their beds, and acquired escudos. It was then that the capital flight took place; hoarded dollar notes emerged and many of them were exported. In addition, for a short while, there was a peculiar capital flight on four legs -- masses of cattle were driven over the Cordillera into Argentina. Gradually, however, the panic subsided. The economic policy of the Allende regime, for the short run of the first year, was in one respect an outstanding success. The Allende economic program consisted of a short-run policy which was Keynesian and a long-run policy of a tradition to

socialism which is both structuralist and very vaguely articulated. The short-run program had three objectives:

- 1) considerable redistribution of income, raising the incomes of the lower strata by more than the loss of purchasing power due to inflation,
- 2) reaching full employment,
- 3) stabilizing prices and reducing or abolishing inflation.

Thus formulated, Allende's plan was very similar to that of Frei in 1964-65. There was, however, a difference in degree, since the program was more expansive, more progressive and redistributionist, and more restrictive, relying on price controls to stop an increase in prices. 1969-70 were years of depression with considerable unemployment and unused capacity of installed capital. The Keynesian policy was that by raising wages substantially, (they were raised on the average of 50% -- 35-40% for higher wage earners and 50% for the lowest income brackets) the increased demand would lead to the absorption of excess capacity and be, therefore, in a way self-financed. Absorbing excess capacity could lower costs per unit; in addition, reducing profits, which were believed to be very high in the monopolistic Chilean industry, would make it possible to stop an increase in prices. A fixed low exchange rate would keep import prices low. Their algebra may have been partly right, but their arithmetic was quite incredibly wrong. Some of the Allendista leaders talked as if one could stop inflation

by decree. The main actors of their demonology - imperialists, private monopolistic capitalists, and landowners - were to be properly squeezed and eviscerated. Money, which is only a bourgeois veil, was increased at an unprecedented pace of 10% per month and price controls imposed at first a stable level and only gradually, after six months, allowed a 20% increase in prices, i.e., half of the inflation experienced during the last Frei year. There is a story of a Chinese bandit general occupying a province and calling in the thirty bankers telling them: "Tomorrow you deliver to me \$10 million in bank notes." The bankers said: "General, sir, the whole money circulation in our province is only \$30 million. If we increased it by \$10 million the quantity theory of money says the prices will rise by 30%." "Quantity theory, eh," says the General. "Tomorrow you deliver \$10 million. If prices rise 10%, ten of you will be hanged. If prices rise 20%, twenty of you will be hanged and if prices rise 30%, all thirty of you will be hanged." Prices did not rise, but most unfortunately the story is apocryphal.

The increased purchasing power, after a considerable redistribution of income, led indeed to a great increase in demand, and to an increase in production and employment which - if it could have been sustained - would have made the first year of Allende an economic triumph. Industrial production was increasing at a rate of 11-12%. Unemployment - in spite of the fall in private investment - was

almost halved and economic well-being undoubtedly improved. But it is not only obvious now, but should have been then, that this desirable result could not possibly be sustained. Excess capacity in industry may have been 30%, but it was not equally distributed among the wage goods for which a demand was increasing. Many of the inputs for the production of goods were scarce and had to be imported. The Government inherited \$400 million of foreign exchange reserve and, in addition, more than half as much of inventories of stocks which had accumulated during the last two-year recession. Moreover, there certainly was no excess capacity in agriculture and radical and more drastic measures of agrarian reform -- whatever the long-run structural effects -- were more likely to reduce than to increase agricultural production. So food imports had indeed to be more than doubled. It would have been a simple arithmetical exercise to calculate that foreign exchange reserves and stocks and inventories would be exhausted within one or two years. Only an increase in national production, which requires, after the absorption of excess capacity, increased investment, could provide for it. But the redistribution of income which went to the lower income classes was not accompanied by any measure designed to increase the savings of the workers. The squeeze and reduction of profit in private enterprise led to a decapitalization of the private sector and a fall in private investment. And last, but not least, the price policy of public enterprises and of enterprises

nationalized under the Allende government intended to keep prices low, vastly reduced investable funds in the public sector. Output and employment increased, but investment, in fact, fell by 20% in 1971. Not only was further improvement in income distribution and growth impossible, it was only a question of time when even the already realized redistribution of income would not be maintained.

My remarks are dictated by the fear, not by the hope, that Allende will fail. Allende won, during his first year, the battle of consumption and thereby lost the war by not fighting a battle of production. Even Fidel Castro is supposed to have observed: "This is not a true socialist revolution. It should be a revolution of production - this is a revolution of consumption." In fact, the reliance on income redistribution without provision for growing savings has more in common with Populism than with Marxist Socialism. If the redistribution of income had been half of what it was -- coupled with other measures -- it might have been sustained. As things were, it led to a foreseeable growing scarcity of goods with both foreign exchange reserves and the inventories exhausted and the excess capacity already largely absorbed. Only an increase in investment could have helped, but there were no savings and no funds for that investment. So a drastic revision of policy is necessary. During the first year or so I thought that on the 1st of May, the Socialist holiday, Allende would proclaim: "The first

year was a year of revolution; the second year now has to be a year of consolidation, of stabilizing prices, profits and wages." It might have been a proclamation of a Chilean NEP (which Lenin introduced in the USSR in 1921). That did not happen, partly because of a lack of foresight, but largely because of political opposition. Meanwhile, the increased money supply and the growing shortages produced a predictable inflation which accelerated to a level unparalleled even in Chile -- to 120% in the current year. Belatedly, prices were allowed to rise, the rate of exchange was raised in August of this year. The current policy will quite undoubtedly reduce the real wage gains and the income redistribution achieved in the previous two years. The measures taken now might have been sufficient a year ago, but they are too little, and too late.

It might be interesting to speculate why economists in the Allende government permitted such an obvious mistake. There are two schools of thought on it: one school maintains that Marx never provided the rules for running a socialist economy. He only criticized the capitalist economy. Moreover, as a classical economist he was only interested in long-run trends and paid no attention to what happened in the short run. All monetary policy considerations are part of the money illusion, don't affect real things, and only matter in the short run. The short run in itself does not matter, however. That may explain a mistake by one group within the Allende

government. The other interpretation, however, says that many of the true revolutionaries in the Allende government had as their main aim the destruction and evisceration of private enterprise. It does not matter if, in the process, economic damage be done. The political aim is worth its economic cost. I needn't add that this group is partly composed of sons of wealthy families who have this orgastic conception of the revolution as an end in itself. The Allende government is not homogeneous and both interpretations are right. The truth is that the program of the Allende government was not carefully worked out, the ends and the means were not coordinated and made compatible. It seems that the party was not prepared or perhaps did not expect to win and to govern in 1970.

Besides the short-run event of winning the battle of consumption but losing the battle of production, the Allende government honestly and literally realized what it promised to do: to change the structure of economic power, to prepare the transition to socialism and to nationalize the large units of industrial enterprises, both national and foreign which held a dominant role and economic power, in the country. Public investment during the Frei administration was 68% of total investment (50% direct public investment and 18% publicly financed and controlled private investment). Under the Allende government public investment will amount to 85%. Is that a difference in degree or a degree in kind? The nationalization of Chilean enterprises under Allende proceeded partly by buying up

all the banks and paying freshly issued money for them, partly by invoking Law 527 of 1932 which allowed government intervention in taking over an enterprise whenever a strike or a breakdown would be against the public interest. But the intervenors and the new managers were even far less competent than the effete and monopolistic private entrepreneurs. Both the volume of production and any surplus for investment have fallen instead of increasing. And the hope that the Allende government might more easily induce labor discipline than could a non-socialist government has not materialized. True, some enthusiasts are still saying: "It may be a bad government, but it is ours", but in the factories they behave without any national solidarity, pursuing strictly sectoral and short-term aims.

The real problem is, therefore, can the policy change? So far, after the consumption drive there are growing shortages. Lest anyone say it is another proof that socialism cannot work, let me hasten to add, it doesn't prove anything of the kind. It is not inherent in socialism to promulgate two laws: 1) that left shoes are only to be worn on right feet, and 2), that right shoes are only to be worn on left feet. These were the two mistakes of the Chilean monetary policy and foreign exchange policy in 1970. They are not inherent in socialism. In fact, one need not be inefficient in order to be a socialist. Other socialist governments (and there is ample experience by now) have not committed these mistakes.

Russia did not increase the money supply by 100% a year. - The myth of Castro in Latin America fizzled out when rationing and food queues were introduced in Cuba. Rationing and shortages will now have to come in Chile. The Allende myth will not spread in Latin America. The Peruvian generals rather than the Chilean socialists may impress Latin American public opinion. Will the present Chilean political system be capable of correcting their mistakes and reversing the trend? A few words about the structure of political parties are needed here. The Communist Party is at present moderate and conservative. Its motto is that one does not build socialism overnight. The Allende Party, however, is different. It consists of three wings: more than one-third are old-fashioned, well-meaning individuals of the left, rather like Leon Blum's French Socialists of the 1930's, who discuss problems in highly intellectualized styles, who could be members of the existentialist clique in the Cafe de Deux Magots in Paris, out-of-date, and obsolete, but charming, cultured, and nice; one-third are Castroites, and one-third are a mixture of Trotskyists and Maoists with Don Quixote notions of la revolucion for its own sake. The radical groups of MIR and VOP comprise the extreme left. It is a remarkable achievement of Allende that using the Chilean myth of the presidency, he managed to keep the coalition of the Popular Front, and indeed the most difficult part of it: his own party, in some semblance of cooperation. Allende himself comes from a good family (with the solitary exception of Spartacus, all revolutionary leaders came

from a higher class); he has been a member of the Senate for twenty years which means he knows the rules of the game and knows that certain things are not done. He likes food, wine, and women. My coffeehouse theory is that if Robespierre had slept around, the terror in the French Revolution would not have happened. Allende will not ferment a civil war. Unless one of "los locos" kills either Eduardo Frei or Allende, there will be no civil war in Chile. The army is apolitical. The extraordinary combination of preserving political freedom while pursuing a socialist policy will, in my opinion, continue. Chile is a sophisticated society. When after the second World War, people on Mars heard that the atom bomb was invented on earth, they decided that this was truly dangerous and called for an occupation of the earth. "Let's not do it, however, in the clumsy and obvious way they do it down there, so as to mobilize the maximum resistance of the population. Let's do it in such a way that the natives should not be aware of the fact that they are occupied." So three dozen physicists, nuclear scientists, etc. were mobilized to occupy key positions on earth. They were instructed to pretend they were Hungarians. Who knows this language, anyway? They were Martians of course. Very recently three generals joined the Allende Government, properly giving up their positions in the Army. This is not a coup but a sophisticated form of insuring order even when difficult decisions have to be made. Elections will be held in March of this year. The Popular Front, which had 36.3% in 1970 and reached 50% in municipal elections in

April 1972 may lose or gain a few points; this does not change the situation very much since even at present they have no majority in either Congress or Senate. The main problem is that the next four years, until the next presidential election, will be very difficult years of falling income per head almost like in Uruguay. When the situation becomes very bad, patriotism might call for a government of public salvation, but it is too early to expect it now. It would call for too much political sacrifice from the opposition. Chile has to suffer very much more before such a solution is to emerge in, say, 1974. Meanwhile the un-Chilean polarization and exacerbation proceed. It looks at present as though the two responsible conservative or moderate parties (Christian Democrats and Communists) are losing votes and that in the opposition it is the right wing of the Nationalists and not the Christian Democrats who are gaining votes. And there will be no return to 1964 in 1976. New forms of socialization, under whatever name, will be worked out by a non-socialist government. Discussion of workers' participation in industry will continue. At present it is the most popular topic, both in the Popular Front and among the Christian Democrats, but nothing clear or lucid emerges from it. Worker participation is like Lady Godiva of whose beautiful clothes everyone speaks but for the time being the lady is naked.

In Chile there are no political prisoners. Everyone can teach, and print and publish freely without impediments. This alone

makes the Chilean way a specific and different one. This will continue. A political science problem emerges, however. What is the meaning of political freedom when all sources of economic power are concentrated in one hand. Is it not hollow? John Stuart Mill was in favor of free emigration as a guarantee of individual freedom and also was in favor of a mixed economy with ample private (non-monopolistic) sectors -- not because it would be more efficient but because it guarantees the independence and freedom of individuals who will not have to rely on employment from only one source. In the brief quasi-Fascist interval in the U.S. when during the McCarthy period people lost their jobs in both public and international organizations if they had or were said to have had communist sympathies, a man who lost his job usually found another one in some private enterprise. This is not to be underrated as a guarantee of freedom, and this is perhaps the main reflection and puzzle of how to think out the modern problem of socialism. But this would require a different lecture.

