

Alternative Economic Development Strategies in the Third World: Chile under Salvador Allende Gossens

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Abstract

The Chilean experiments of formulating and implementing capitalist and socialist economic development strategies in the late 50s through early 70s form the core of this study. Because of the commitment of the United States Government to the development and protection of private property interests and **mutatis mutandis**, direct foreign investments in the Third World, Dr. Salvador Allende's comprehensive programme of socialising the means of production in Chile from 1970–1973 engendered United States Government's hostile reactions, contributing to Chile's “invisible economic blockade”, and eventually, a violent overthrow of the Allende Presidency through a **bloody coup de'tat** on September 11, 1973. The study highlighted the lessons to be learnt from the Allende socialist experiment by any Third World country.

Introduction

Important pronouncements on economic policies of many Third World Governments have one dominant theme, namely, to increase the living standards of the people through a programme of rapid industrialisation. Third World Governments may be subdivided into three groups in terms of economic policies. At the extreme, are countries relying on the public sector as the main driving force for industrialisation, and at the other, are those countries expecting to rely exclusively on private (foreign and domestic) enterprises. Between these two are a large number of countries where the attitude is more or less **pragmatic**: these countries declare themselves to be “mixed” economies in the sense of having both the public and private sectors complement each other. Thus, three economic development strategies can be discerned: first, we have those countries that adopt the **capitalist** road to development; second, we have countries that adopt the **socialist** path to development; and third, we have countries adopting features of capitalism and socialism. Most Third World countries operate along this continuum.

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Chile Before Salvador Allende: Capitalist Road to Development

Until the military **coup d'etat** which overthrew the first democratically-elected **Marxist** Government of Dr. Salvador Allende Gossens on September 11, 1973, Chile has had a reputation, almost **alone**, among Latin American nations of being a show-piece of Western democracy. There has been the ready acceptance by defeated parties in the election of their rivals and the ordered succession of one government by another. Political violence has been unusual and the army has not intervened in politics. The bureaucracy has been characterised as maintaining a firmly non-political stance while still managing to balance and arbitrate between conflicting demands of the various interest groups making the Chilean society. More important, for a Latin American country, Chile is highly industrialised and highly urbanised. She has copper and other important mineral resources, and, not surprisingly, has provided useful opportunities not only for direct foreign investments by United States' nationals, natural or juridical, but also for United States' involvement in Chilean politics though such an involvement is invariably and always denied by the United States Government and/or its spokesman.

True, it is that there had been a reassuring adherence in Chile to the norms of constitutionalism and pluralism and that Chile is highly industrialised and highly urbanised through the capitalist road to economic development embarked upon by successive Chilean Governments. A number of **disturbing** features do suggest that Chile is not different from any other Latin American country². One of them is the long-standing resentment of United States' penetration of the economy and the corresponding influence of United States' Ambassadors and United States-based multinational corporations. Thus, United States' direct foreign investments, far from relieving "underdevelopment" in fact constantly reinforce it (underdevelopment) while the local bourgeoisie, far from being able to achieve an autonomous and on-going process of development, can be no more than the junior partners of foreign capitalism in the exploitation of their economies.³

Therefore, United States' economic assistance and direct foreign investments to the Third World, particularly Latin America, while able to achieve an unbalanced, if profitable, **growth**, cannot achieve **development**.⁴ This is because such investments take place only in restricted sectors of the economy while investment decisions are defined by the needs of foreign-based MNCs. The commodities produced are to a great extent exported out of Chile as are profits accruing mainly to the foreign firms while that portion of the profits remaining in Chile are appropriated by the local bourgeoisie (**compradors**) who use their share to purchase foreign luxury goods. This process, it is contended, is in sharp contrast with a genuine development of the economy where production is oriented towards the satisfaction of social needs, and where there is a corresponding improvement in the living standards of the whole population. As a result of the pursuance of **growth** rather than **development**, thanks to the capitalist path to development, the gap between the

advanced and backward sectors of the economy continues in addition to the gap between the rich and poor. Additionally, the cities have become more and more affluent “enclaves” surrounded by shanty towns (ghettos) and an impoverished countryside, thus, compounding the problem of the ruling class in maintaining a stable social order.

That a combination of poverty, social unrest, anti-Americanism and anti-imperialism are highly conducive to the adoption of the ideas and policies of socialism is not in dispute. However, many factors, which vary from one country to another, inhibit revolutionary change. These include fragmentation of the labour movement compounded by timid and reformist leadership; and the determination of the United States to **prevent** revolution at all cost by whatever means necessary and available in times of crisis.

From the standpoint of the revolutionaries, Chile is a country in which there is both an **unusual** degree of respect for the outcome of the electoral process as well as a relatively powerful labour movement led by parties of the Left and that a Marxist regime might emerge one day in Santiago. From the standpoint of the reformist, a combination of a powerful labour movement and respect for constitutionalism has presented a challenge and an opportunity, of a progressive and viable alternative to the Marxist parties emerging in Chile at a time when the traditional political forces have been coming under increasing pressure. However, a number of Chilean Marxists doubted whether there is any real possibility of a revolutionary government **surviving** and **maintaining** its revolutionary impetus because the conservative forces, sooner or later, will ensure its defeat by exploiting its difficulties including application of financial pressures by the United States' Government and/or United States' – based MNCs and creating a climate of opinion in which a **coup d'etat** would become not only possible but also inevitable.⁵ To be sure, while the parties of the Left were committed to the promotion and achievement of socialism by entirely legal and democratic means, the emergence of a Marxist regime in Santiago from the standpoint of the U.S. Government cannot be tolerated because of the lessons that it would provide for the rest of Latin America, namely, “domino effect.” At the 1958 Chilean Presidential election, the candidate of the right-wing Nationalist Party, Mr. Jorge Alessandri, who supported a free private enterprise system, was elected President for a six-year term while the parties of the Left led by Dr. Salvador Allende, was defeated by only a fairly **narrow** margin. And, 1959, the Cuban Revolution heralded not only a challenge to United States' hemispheric power, but also the beginning of socialist experiments in Latin America as the Castro began a programme of expropriating all privately-owned property within the framework of a centrally-planned (socialist) economy.⁶

The reaction of Washington to the Cuban experiment in Cuba was not only the abortive 1961 Bay of the Pigs operation but also the Alliance for Progress⁷ which witnessed a phenomenal increase in the volume of United States'

bilateral economic assistance to Latin America on the **assumption** that this would provide a political and economic leverage for the United States Government and United States' investors and also that economic assistance, with the accompanying direct foreign investments, would promote a satisfactory growth in the development economies, and that Latin American nations would come closely to the United States model of a consumer society. Specifically, with improved living standards, it was hoped that Latin American nations would cease to be anti-American and refuse to listen to the siren song or rhetorics of the Marxists.⁸

At the 1964 Chilean Presidential elections, the leader and candidate of the Christian Democratic Party, Mr. Eduardo Frei was elected the President with 56 percent of the vote as against Dr. Salvador Allende's 39 percent, thanks to the infusion of United States campaign funds of about \$3 million during the 1964 election campaign, mostly on behalf of Mr. Eduardo Frei.⁹ **The New York Times** has noted:

The victory is a great relief to every important capital in the Western Hemisphere from Washington to Buenos Aires. Only Havana will fail to rejoice in it. The Chilean election had everywhere been rated as the most important in Latin America in years. It represents a notable boost for the entire Christian and Social Democratic Movement throughout Latin America... Christian Democrats, by definition, is democratic. Hence, Chile will remain an orthodox member of the Organization of American States, aligned to the West. Where the rival group, the FRAAP (Allende's coalition of parties) would have nationalized the copper and nitrate industries (about 90% American-owned), the Christian Democrats merely plan to have all copper refined in Chile. Mr. Frei's program is "revolutionary" only in the sense of the Alliance for Progress. His victory is, in fact, a reprieve for the Alliance, which is an added reason why the Johnson Administration is rejoicing.¹⁰

Thus, before Dr. Allende took office on November 4, 1970, Chile had the **second highest foreign debt in the world**, namely, about \$1 billion. In terms of foreign aid, "between 1961 and 1970, Chile was the largest recipient of any country in Latin America, on a per capita basis, of U.S. Alliance for Progress loans, approximately \$1.3 to \$1.4 billion."¹¹ Table 1 shows the extent of United States' bilateral economic assistance to Chile during the Frei Administration, 1964-1970 while Tables 2 and 3 show United States bilateral economic assistance and United States assistance by selected Agencies and

Organisations between 1961 and 1968 as well as between 1966 and 1973 respectively.

Table 1: Loans Authorised or Approved during the Frei Administration (4-11-64 to 3-11-70)

AID	\$301,963,000
IDB	192,457,000
IBRD	98,050,000

Source: United States, Congress, Senate, Sub-Committee on Multinational Corporations, **Multinational Corporations and United States Foreign Policy**, Part 2 (Washington, D.C.: Government Printing Office, 1973), p. 532

Table 2: United States Bilateral Economic Assistance to Chile 1961–1968

1961	\$132.8m
1962	169.5m
1963	83.7m
1964	127.4m
1965	130.9m
1966	107.7m
1967	284.6m
1968	99.8m
Total	\$1,136.4m

Source: United States, Congress, Senate, Sub-Committee on Multinational Corporations, **Multinational Corporations and United States Foreign Policy**, Part 2 (Washington, D.C.: Government Printing Office, 1973), p. 629

Table 3: Foreign Aid to Chile from Selected U.S Agencies and International Organisations 1966-1973

	(\$ m.)							
	1966	1967	1968	1969	1970	1971	1972	1973
USAID	93.2	15.5	57.9	35.4	18.0	1.5	1.0	0.8
US FOOD FOR PEACE	14.4	7.9	23.0	15.0	7.2	6.3	5.9	2.5
EXIMBANK	0.1	212.3	13.4	28.7	----	---	1.6	3.1
US MILITARY ASSISTANCE	10.2	4.2	7.8	11.7	0.8	5.7	12.3	15.0
IBRD	2.7	60.0	---	11.6	19.3	---	---	---
IDB	62.2	31.0	16.5	31.9	45.6	12.0	2.1	5.2

Source: United States, Congress, Senate, **Covert Action in Chile 1963-1973**, p. 34; J. Petras and M. Morley, **The United States and Chile** (New York: Monthly Review Press, 1975), pp. 166-7

In spite of the massive amounts of United States' public and private investments in Chile during the Frei Administration, 1964-1970, the Frei era witnessed a gradual polarisation of political opinions within the ruling Christian Democratic Party while the reformist programme of the Frei

Administration proved to be largely a sham.¹² Thus, the radicals within and outside the Christian Democratic Party became increasingly alienated while the threat of the gathering of the Left and the failure of the Frei Administration to resolve fundamental problems facing Chile drove the Right, once again, to take its traditional attitude. While Jorge Alessandri re-emerged as the candidate of the Right which wholeheartedly supported a free private enterprise system unable to solve Chilean monumental problems, the leadership of the Christian Democratic Party fell on a more “radical” figure, Mr. Radomiro Tomic, “who has a deep-grained hatred for Frei and the U.S.,” and favoured a programme of gradual “Chileanisation” of the key sectors of the economy.

As a consequence of the ‘rupture’ of the Centre of Chilean political life, it was small wonder then that the September 1970 Presidential election produced the results shown in Table 4.

Table 4: Results of the 1970 Chilean Presidential Elections

S/No	Candidate/Party	Score	%
1.	Allende and Popular Unity	1,075,616	(36.3)
2.	Alessandri (National Party)	1,036,278	(35.3)
3.	Tomic (Christian Democratic Party)	824,849	(28.4)

Thus, Dr. Allende had a **plurality**. And, in accordance with the Chilean Constitution, the Chilean Congress met on October 24, 1970 to vote between Dr. Salvador Allende and Mr. Jorge Alessandri as President. With support of Mr. Radomiro Tomic, Dr. Salvador Allende Gossens was confirmed as the first elected Marxist President in Latin America in spite of political manoeuvring by the United States' business community with the covert support of the United States' Government.¹³

Chile under Salvador Salvador Allende 1970-1973: The Socialist Alternative

Dr. Allende's **socialist** alternative to economic development entailed, first, and foremost, the nationalisation of private foreign-owned enterprises. A primary goal of economic nationalism in many less-developed countries in the Third World is to increase national control over their economies and reduce the role of alien-owned enterprises even at the expense of economic growth and **technical** advantages allegedly gained from association with the developed market economies.¹⁴ MNCs are expropriated by governments of LDCs not only because of the power and influence exercised by them but also because they contributed to widening income inequalities. They are also expropriated because they are instruments for the transfer of scarce capital resources from poor countries to rich countries through many devices, some of which are patently illegal such as transfer pricing, over-invoicing of imports and under-invoicing of exports.¹⁵ President Allende did not mince words:

Foreign investment – so it is said – is one of the mechanisms that can contribute to raising the standard of living and increasing the rate of development in the underdeveloped countries. As a matter of fact, however, this mechanism has been converted into just one more element which, in conjunction with financial dependency and unequal interchange, has served to mold the subordination of the backward nations to the economically powerful countries.¹⁶

Essentially, what Dr. Allende was saying was that the economic benefits of direct (private) foreign investments in LDCs are not particularly visible to the masses of the people who believe that their **valuable** and **irreplaceable** natural resources, especially minerals resources such as copper and petroleum, have been and are being exploited much more for the benefit of foreign firms, shareholders and their home countries rather than the host economies.

Although the Frei Administration embarked on the “Chileanisation” of the communication and extractive sectors of the economy, and in spite of massive United States’ economic assistance through the **Alliance for Progress**, “Chile lives in a deep crisis that is shown in the economic and social stagnation in the generalized poverty and postponements of every type of agony suffered by workmen, countrymen and other exploited classes.” What can we then say about Allende’s Socialist Economic Alternative?

The Allende Administration nationalised the mining extractive sector of the economy followed by interventions in the communication industry, which entailed taking over the management of such enterprises pending eventual nationalisation.

Specifically, a Socialist Economic Alternative entails not only the restructuring of the society, redistribution of national wealth, land-redistribution, collectivisation of farms; workers’ management of public enterprises but also the nationalisation of the “commanding heights of the economy” within the framework of a centrally-planned economy. These decisions had consequences which included massive government spending; price control; income redistribution through measures as huge salary increases for the lower economic groups as shown in Tables 5 and 6.

Table 5: Percentage Increases in Real Wages 1970-71

Years	Wages and Salaries	Real Prices	Real Wages ^(a)
April – April	43.2	28.1	11.8
July – July	53.0	20.2	27.0
October – October	51.9	16.5	34.1

(a) Derived from first two columns

Source: Alee Nove, “The Political Economy of the Allende Regime,” in **Allende's Chile**, edited by P. Obrien (New York: Praeger, 1976), p. 59

Table 6: Percentage Increases in Real Wages 1968-1971

Years	Wages and Salaries (Index, Unknown Base)	Percentage Increase Over Previous Figures	Price Increase	Real Wages Percent Increase
October 1968	1187.0	-	-	-
October 1979	1605.4	35.2	27.2	6.2
October 1970	2450.7	52.7	35.6	12.6
July 1971	3529.3	44.0	12.2	28.3

Source: Nove, p. 60

The implementation of these far-reaching measures by the Allende Administration was not without any problems. First, massive government spending was not matched by increased government revenue as the prices of copper **slumped** almost at the time of Dr. Allende's accession to power and continued throughout 1971 and 1972, and this was predictable. Second, price control which resulted in bringing down inflation in the first year, was an unsound economic policy and indeed, a fatal and a sure step on the road to economic and political disaster. Third, a large increase in purchasing power, which had favourable effects on industrial production, which rose by 12 percent in 1971 was not matched by new investments in the public and private sectors. Thus, there could be no increased production. Fourth, because the bulk of the food and agricultural production was insufficient to meet the demand, this had meant that food had to be imported in large quantities while imports of capital goods fell, reflecting falling investments. Therefore, Chilean reserves fell precipitately and virtually dried up at the end of 1972 as shown in Table 7. Fifth, Government's refusal to grant price increases, to reduce purchasing power and government's failure to **reform** the entire tax system because of the opposition of the Chilean Congress as well as its refusal to devalue **escudos** sufficiently (escudos was partially devalued in December 1971) created serious economic dislocations. Sixth, Chile's National Debt (some \$1.4 billion) at the time of Dr. Allende's accession to power continued to pile up as foreign reserves dried up to pay for increased food imports. Seventh, Allende's Doctrine of (Excess Profits) Deduction strained United States-Chilean relations, and these not only affected United States' bilateral economic assistance to Chile (as shown in Tables 8 and 9) but also compounded the economic and political problems of the Allende Administration.¹⁷

Table 7: Balance of Payments, 1970–72 (\$m)

	1970	1971	1972
Exports	1129	1076	853
Imports	1020	1123	1287
Balance of Services	-39	-45	-10
Net Commercial Balance	71	-122	-444
Net Foreign Remittance	-129	-90	-120
Net Current Account	-57	-212	-564
	1970	1971	1972
Capital Movements	149	-100	-17
Net Balance of Payments	91	-311	-581
Renegotiation of External Debt	-	-	200
Imports of Foodstuffs	178.2	314.2	444
Imports of Machinery	-	178	137

Source: Nove, p. 61

Table 8: Loans Authorised/Approved During Allende Administration (\$)

AID	NONE	(Because of Allende's Doctrine)
IDB	11,600,000	(Educational – January 1971)
IBRD	NONE	(Because of Allende's Doctrine)

Source: United States, Congress, Senate, Sub-Committee on Multinational Corporations, **Multinational Corporations and United States Foreign Policy**, Part 2, p. 533

Table 9: Loan Disbursements during Allende Administration

AID	5,570,000
IDB	54,290,000
IBRD	26,179,000

Source: United States, Congress, Senate, Sub-Committee on Multinational Corporation, **Multinational Corporations and United States Foreign Policy**, Part 2, p. 533

As a result of a series of expropriation proceedings which affected United States-based MNCs which were not initially predisposed to an Allende Administration, United States sharply reduced short-term loans and credits to Chile through EXIMBANK and IDB as shown in Tables 8 and 9.

In January 1972, President Richard Nixon issued a Policy Statement, which came to be known as the **Nixon Doctrine**. Specifically, the Policy Statement forcefully stated that countries which take United States' assets **without** compensation as provided by international law as **defined** by the United States should not expect United States' bilateral economic assistance (**Hickenlooper Amendment to the United States Foreign Economic Assistance Act**) nor United States' support for loans from multilateral financial

institutions such as the IDB and the IBRD, a forerunner to **the Gonzalez Amendment** to the United States Foreign Economic Assistance Act.¹⁸

Thus, in his Speech at the United Nations General Assembly in December 1972, President Allende made a reference to an “invisible financial and economic blockade” of Chile when it is recalled that William Broe, Head of Clandestine Services, Latin America Division of the CIA, had suggested proposals to ITT officials to cause economic disruptions in Chile through: non-renewal of bank credits; slow –down in the deliveries of spare parts for use in Chile; pressures on Chilean Savings and Loan Associations, thus, creating a general “run” on the banks; and withdrawal of technical assistance to Chilean economic and business interests by private companies.¹⁹

Paradoxically, while Chile was denied all forms of United States' bilateral and multilateral economic assistance, and while the United States made it impossible for the Allende Administration to govern Chile, United States Military Assistance to the Chilean military continued throughout the Allende Presidency!

To be sure, the Chilean elite and business community including United States' business interests closed ranks against the Allende Administration which had the support of the trade unions, working poor and the parties of the Left. Roger Burbach had noted:

From 1970 to 1973 Chile became a country in which the historical roles of the different social classes were reversed. In the past.. trade unions... working poor and ... leftist parties... [had] ... gone out on picket lines. Now it was the powerful...²⁰

The “powerful” included large commercial houses and shopkeepers, large landowners (creating food shortages), owners of means of transportation and women led by Army Officers' Wives while the Nixon Administration, in a bid to foment domestic discontent and violence in Chile and precipitate a **coup d'etat**, cut off United States bilateral and multilateral economic assistance to Chile, and erected what was regarded or came to be regarded as an “invisible financial and economic blockage.”²¹

On September 11, 1973, when President Salvador Allende had intended announcing a **Plebiscite** on whether the Popular Unity Coalition should continue with the Socialist (Alternative) path of economic development,²² the entire Chilean military rebelled against constitutional order, and called on President Allende to **Resign** or **Go on Exile**. Not **prepared** to take either of these options, President Allende at 9.15am made a broadcast over **Magallanes**, the last free radio station:

This is the last time I will address you... My words are not spoken in bitterness but in disappointment... Foreign capital and imperialism united with the internal forces to create a climate so that the armed forces would break

with tradition... There will be a moral judgment against those who betrayed the oath they took as soldiers of Chile... They have the strength; they can subjugate us, but they cannot halt social advances by either crime or force. History is ours and the people will make it... Long Live Chile! Long Live the People! Long Live the Workers! These are my last words. I am convinced my sacrifice will not be in vain. I am certain that this sacrifice will be a moral lesson that will punish cowardice, treachery and treason.²³

As he spoke, the Chile military began a bombardment of **La Moneda**, the Presidential palace, with President Salvador Allende making it clear that “he would not leave **La Moneda** alive, that he would die fighting or commit suicide rather than surrender.”²⁴ Ultimately, President Allende committed suicide, and General Augusto Pinochet, who became the GOC of the Chilean Army on August 23, 1973 in succession to General Carlos Prats (who had succeeded General Rene Scheneider, a brilliant officer committed to democracy and constitutionalism)²⁵ became the head of a repressive military regime that ruled Chile from 1973 to 1990 following his defeat in a plebiscite on October 5, 1988 and inauguration of the Alwyn Administration on March 11, 1990.

An Assessment of the Chilean Socialist Economic Alternative

That the Chilean expropriations generated “a hostile and conflictive response on the part of U.S. policy makers,”²⁶ eventually culminating in the violent overthrow of the Allende Administration, is not in doubt. Those who sought to justify and rationalise the September 11, 1973 military **coup d'etat** have attributed Chile's internal economic problems to sheer **incompetence** on the part of the Allende Administration. During his confirmation hearings as Secretary of State, Henry Kissinger noted:

It was the politics of the Allende Government, its insistence on forcing the pace beyond what the traffic would bear much than our policies that contributed to their economic chaos.²⁷

Paul Sigmund was much more blunt:

The argument that an American invisible blockade was responsible for a major contributory factor to the overthrow of Allende is... not persuasive... The basic causes of Allende's overthrow lie.. in ... (1) eventual runaway inflation... caused not by lack of foreign

assistance but by a domestic economic policy, initiated well before the steps taken by the Nixon Administration in the latter part of 1971.. (2) Allende's ideologically motivated policy of intensification of the class struggle... (3) an Allende... policy of circumventing the law through legal "loopholes" or non-enforcement of its provisions... and (4) complicity on the stockpiling of arms by leftist groups, the discovery of which finally moved the Chilean armed forces to act... The economic and political policies of the Allende government were a failure, in and of themselves.²⁸

These claims were **controverted** by the revelations of the CIA Director, William Colby before the House Armed Services Subcommittee on Intelligence on April 22, 1974 concerning CIA covert operations in Allende's Chile,²⁹ and by President Gerald Ford Press Statement on September 16, 1974, that covert operations aimed at destabilising the "constitutionally elected government of another country" are "taken in the best interest of the countries involved,"³⁰ namely, Chile and the United States. Henry Kissinger was more forceful and **patronising/paternalistic**:

I don't see why we need to stand by and watch a country go communist due to the irresponsibility of its own people.³¹

Thus, Petras and Morley have noted that United States "sustained policy for direct and indirect intervention culminated in a general societal crisis, a **coup** and military government."³²

The truth of the matter is that Chile's national debt before Dr. Allende came to power stood at \$3.83 billion. From 1964 to 1958, Chile received a total of \$253.6 million from the United States, of which \$154.8 million were EXIMBANK loans. As Table 10 reveals, Chile received approximately \$1.4 billion from the Alliance for Progress; \$254.4 million from EXIMBANK; and over \$290 million from the World Bank and the Inter-American Development Bank. Because United States' bilateral economic assistance was extended to Chile to help avoid and/or prevent any swing to the Left, loans chased old debts; indeed, loans poured into Chile at such a rate that by 1970, Chile after Israel had the second highest per-capita debt in the world. Most of the debts were contracted with public, private, and international lending institutions subject to United States' **influence**, and payments on these largely **unproductive** debts became **due** during Allende's Presidency. Additionally, United States DFIs in Chile by 1970 amounted to \$1.8 billion. In fact, Chile's dependence on United States-based MNCs was increasingly becoming a dominant force in the largest and most dynamic sectors of the Chilean

economy all of which accounted for 75.8 percent of the total value of Chile's commodity export in 1970).³³

Table 10: United States Bilateral Economic Assistance to Chile 1961-70(\$)

Alliance for Progress Loans Agency for International Development Funds		Approx.	1.4 billion
	1963		41,300,000
	1964		78,800,000
	1965		99,500,000
Political Risk			
Insurance (OPIC) ^a		Approx..	1.8 billion (1965-70)
Bilateral Assistance	(1964) ^b		
Program Loan			55,000,000
EXIMBANK Credit ^c			15,000,000
Treasury Exchange Agreement			15,000,000
EXIMBANK Loans (1967-69)			254,400,000
Overall – All Aid Programme			
Increased dramatically from \$97.7 million in 1963 to \$260.4 million in 1964 (266.5 percent increase), followed by a sharp drop to \$92.5 million in 1965.			
1964 allocation included a \$40 million General Economic Development Grant to alleviate unemployment in an election year.			
United States' Support for Multilateral Economic Assistance to Chile 1965-70(\$)			
	World Bank		98,000,000
	Inter-American Development Bank		192,100,000
	Loan for Commodity Imports (1964)		15,000,000
	Total Public and Private Debt End – 1970		3.8 billion

^aOverseas Private Investment Corporation is the successor to the Agency for International Development Special Bank Investment Guarantee Agreement.

^b1964 was an Election Year and Eduardo Frei's major opponent was Salvador Allende Gossens, candidate of the Left Coalition (FRAP).

^cEXIMBANK – Export and Import Bank was established by an Act of the United States' Congress in 1945.

Source: Petras and Morley, **How Allende Fell**, pp. 23-25.

That the United States regarded Chile as “a sober and steady influence in hemispheric affairs” if she “remains on our side of the ideological fence” was evident from the United States' Government and corporate intervention in the 1964 Presidential election with approximately \$20 million channelled into the Eduardo Frei campaigns while the United States provided support services and top officials of Kennecott and Anaconda bolstered Mr. Eduardo Frei's reformed electoral fortunes by accepting Frei's Programme of ‘Chileanisation’ of the copper industry as the only **viable** alternative to nationalisation of the copper industry proposed by Dr. Salvador Allende and the Left Coalition.³⁴

In any event, Mr. Eduardo Frei became the Chilean President from 1964 to 1970. Commenting on Frei's electoral victory, the **New York Times** noted:

The victory is a great relief to every important capital in the Western Hemisphere... only Havana will fail to rejoice in it. The Chilean election had everywhere been rated as the most important in Latin America in years... Hence, Chile will remain an orthodox member of the Organization of American States, aligned to the West. Where the rival group, the FRAP (Allende's coalition of parties) would have nationalised the copper and nitrate industries (about 90% American-owned), the Christian democrats merely plan to have all copper refined in Chile... Frei's program is "revolutionary" only in the sense of the Alliance for Progress.³⁵

Under Eduardo Frei, the Chilean Government acquired 51 percent equity interests in Anaconda and Kennecott though many important and critical decisions, as the experiences of Zambia, Sierra Leone, and Ghana have shown,³⁶ remained in the hands of the **junior** partners. Compensation was high for the shares bought, and a new tax agreement made it possible for the two companies to triple their profits. In 1969 alone, Anaconda and Kennecott made \$79 million and \$35.5 million profit respectively; and between 1965 and 1971, Anaconda and Kennecott netted \$426 million and \$178 million profit respectively.³⁷ Under an expansion programme presented to President Frei and accepted by his Government, the copper enterprises contrived an astute strategy making the nationalisation of the copper industry **politically costly** and **embarrassing** by contracting a government-guaranteed loan of \$632.4 million from a **consortium** of public and private lenders in the United States, Western Europe and Japan.³⁸

Although the Chilean balance of trade had remained positive, export revenues being greater than imports of goods, Chile had had persistent balance-of-payments deficits, primarily caused by profit remittance by local MNC subsidiaries, necessitating massive United States' foreign economic assistance and loans from private international financial institutions to cover these deficits. As debt service charges consumed about 30 percent of the total value of Chilean exports, the Chilean Government was forced not only to obtain new foreign loans and aid but also to negotiate and reschedule debt payments. Unfortunately, by the time Dr. Salvador Allende became the President in October 1970, Chile was placed in "a weak bargaining position over both internal and external policies with its main creditors, the United States and the international financial community... This gave the United States, with its power to ensure that the flow of aid and credits to Chile could cease, a powerful tool for disrupting the Chilean economy."³⁹ Finally, and more important, because 70 percent of Chilean imports (which included crucial spare parts and machinery for the critical sectors of the economy came from the United States, this gave the United States Government an added powerful

political leverage to **disrupt** the Chilean economy through invisible economic blockade if it so desired. In short, when the Allende Administration came to power in October 1970 in spite of efforts to block Dr. Allende's election although not without the loss of General Rene Schneider, General Officer Commanding the Chilean Armed Forces who was assassinated,⁴⁰ it was "confronted with a situation of external control over copper production, technology and spare parts, and manufacturing, making the economy extremely **vulnerable** to financial and commercial pressures."⁴¹

The socialist experiment embarked upon by the Allende Administration thus represented a new nationalist challenge to the United States in Latin America, while Chile's attempt to opt out of the Western capitalist orbit directly challenged the political and economic hegemony of the United States in the Western Hemisphere. This is because democratic socialism represented not only a systemic challenge but also a conflict between capitalist and socialist modes of production. Because the nationalisation of United States' DFIs in Chile was carried out within the framework of a socialist economy, confrontation between the Allende Administration and the United States Government, teleguided by the business community, was therefore **predictable**. More important, the existence of capitalist development poles in Brazil and Peru strengthened United States' efforts to destroy Dr. Allende's socialist experiment. A second consideration was the **domino** effect or ripple effect in Latin America of a successful socialist democracy in Chile, particularly after the Allende Government announced in September 1971 that \$774 million would be deducted as "Excess Profits" from any compensation due to Anaconda and Kennecott Corporations though most estimates placed the book value of their nationalised assets at \$500 million. Concern was expressed "at very high levels of [US] government," first, that a successful socialist transformation in Chile would encourage economic nationalists **everywhere** and **anywhere**, and, second, that a "soft" response to the Allende Doctrine of "Excess Profits" Deduction would encourage expropriations (**without compensation**) especially in Latin America and Africa.

In an official reaction, Secretary of State, William Rogers condemned the "excess profit" concept as a "serious departure from accepted standards of international law." At a meeting in October 1971 with top executives of six United States corporations with investments in Chile who had come to express great concerns that the decision on the "Excess Profit" Deduction could have a **domino** effect throughout Latin America in the absence of strong United States' Government retaliatory action, Secretary of State Rogers expressed the possibility of imposing an embargo on spare parts and materials to Chile as well as suspending United States' bilateral economic assistance to Chile under the Hickenlooper Amendment to the United States Foreign Economic Assistance Act unless Anaconda and Kennecott received "swift and adequate compensation."⁴² Supporting United States' Government position on the

treatment of foreign governments expropriating United States' investments **without** appropriate compensation, Robert S. McNamara, then President of the World Bank and former United States Secretary of Defence, "warned developing countries that a 'disquieting' trend by governments to annul agreements with foreign governments could 'seriously' imperil their creditworthiness and inhibit investments in their entire region."⁴³

In essence, since United States policy makers perceived Chile as "the linchpin in the Latin American struggle to redefine its political and economic relationships with the United States," it should not surprise anyone who has studied the role of the United States in Latin America and less developed countries in general that the overall United States response to the socialist experiment in Allende's Chile was two-fold:

a combination of severe economic pressures whose cumulative impact would result in internal economic chaos and a policy of disaggregating the Chilean State through creating ties with specific critical sectors (the military) and supporting their efforts at weakening the capacity of the State to realize a nationalist development project. This sustained policy of direct and indirect intervention culminated in a general societal crisis, a **coup** and a military government.⁴⁴

Pursuant to the Nixon Doctrine issued in January 1972, the United States responded with policy decisions which included denial of EXIMBANK loans to purchase three United States Boeing passenger jets and termination of all EXIMBANK loan guarantees to United States commercial banks and exporters having business links with Chile; denial of applications for IDB (Inter-American Development Bank) long-term development loans; denial of new World Bank loans and refusal to renegotiate Chile's Public and private debts to the United States Government and investors.⁴⁵

Interestingly enough, in 1972, the United States Government, granted a Chilean request for a \$5 billion loan for military purchases in mid-1971 and approved in December 1972 a \$10 million loan for the Chilean military. While Secretary of State Rogers justified the provision of military assistance to Chile, for the reasons we think it would be better not to have a complete break with them,⁴⁷ in May 1973, President Richard Nixon exercised his powers under Section 4 of the Foreign Military Sales Act to allow five Latin American countries including Chile to purchase F-5E military fighter aircraft, on the grounds that such action was "important to the national security of the United States."⁴⁷

On September 11, 1973, a military **coup** overthrew the democratically-elected Government of Dr. Salvador Allende Gossens because of the Chilean armed forces so-called "historic and responsible mission of fight for the liberation of the fatherland from the Marxist yoke."⁴⁸ Undoubtedly, the

“invisible blockade” was a major or contributory factor in the Chilean economic crisis. While the fact of United States' involvement in the planning and execution of the military **coup** was expected to be **denied**, the United States' Government did play a crucial role in establishing the political and social conditions for the **coup** through a well-coordinated policy of credit squeeze and informal “invisible blockade.” Specifically, the United States Government denied any involvement in the **coup**. Jack Kubisch, Assistant Secretary of State for Inter-American Affairs in a testimony before the House Foreign Affairs Committee on September 20, 1973 forcefully stated:

I wish to state as flatly and as categorically as I possibly can that we did not have advance knowledge for the coup that took place on September 11... in a similar vein, either explicitly or implicitly, the U.S. government has not been charged with involvement or complicity in the coup in any way.⁴⁹

This Statement seems to have been **controverted** by the testimonies of William Colby before the House Foreign Affairs Sub-Committee and Arthur Richard Helms, former CIA Director, before the Senate Foreign Relations Committee. Asked to comment on CIA's activities in Chile after Salvador Allende's inauguration, William Colby had this to say:

If I might comment, the presumption under which we conduct this type of operation is that it is a covert operation and that the United States hand is not to show. For that reason we in the executive branch restrict any knowledge of this type of operation very severely and conduct procedures so that very few people learn of any type of operation of this nature.⁵⁰

In his own testimony, Arthur Richard Helms told the Committee that he had **lied** in his earlier evidence that the CIA was not involved in Chilean politics during the Allende Administration, adding: “I know that Nixon wanted it (**sic**, the Allende Administration) overthrow, but there was no way to do it that anybody knew of.”⁵¹

Assuming that the United States Government was not the prime promoter of the **coup**, at least, it assisted in the making of the **coup**. First, the CIA with agents posing as “workers friends” spent \$8 million (equivalent of \$40 million to \$80 million on the Chilean black market) on covert operations to financing opposition parties, newspapers, and activities, especially trade union strikes from 1970 through 1973.⁵²

But what reasons can we advance for the differences in United States' Government responses to expropriations in Venezuela and Chile? Whereas the Chilean expropriations generated “a hostile and conflictive response on the

part of U.S. policy makers,” the United States' response to the Venezuelan expropriations

was not confrontational because the expropriations were sectoral rather structural; a sectoral and fragmented nationalization policy in Venezuela neither displaced other foreign capitalist interests nor encompassed measures threatening the continued dominance of the capitalist mode of production. In any event, the business community welcomed the expropriations, and above all, the Perez Government paid appropriate compensation to U.S. investors whose assets were expropriated⁵³.

Indeed, United States' Government response to economic nationalism, revolutionary change or expropriation proceedings in Chile can be explained, partly, by the interests of the policy-makers who have a direct or indirect stake in the **status quo ante**, and, partly, by the “political context of nationalization – the social nature of the regime pursuing policies of State ownership, the area(s) of the economy subject to nationalization, and the extent of nationalization”⁵⁴.

By embarking on a comprehensive programme of socialising the means of production, the reactions of the United States Government and United States investors in Chile were **predictable**. As a consequence, the Chilean elite and business community closed ranks against President Salvador Allende. The period 1970-1973 was one in which the historical roles of the different social classes were reversed. Whereas the trade unions, working poor and leftist parties traditionally demonstrated against successive governments in the past and gone out on picket lines, the Allende era saw the powerful going on strike:

Large commercial houses and shopkeepers closed their doors, making goods unavailable. The **latifundistas**, the large landowners, refused to plant their fields, creating food shortage. The owners of the means of transportations, mainly trucks and buses, stopped their vehicles, while some industries curtailed or halted production.⁵⁵

What is of significance in the Chilean experiment of autonomous economic development based on a socialist order is the United States' Government response which is at variance with the provisions of the United Nations and the OAS Charters, and to that extent, violative of international law.⁵⁶

NOTES

1. Adeoye A. Akinsanya, **The Expropriation of Multinational Property in The Third World** (New York: Praeger, 1980), p. 8; Id., **Multinationals in a Changing Environment: A Study of Business-Government Relations in the Third World** (New Yor: Praeger, 1984), pp. 46-47.
2. B. Stallings, **Class Conflict and Economic Development in Chile, 1958-1973** (Stanford, CA.: Stanford University Press, 1978); J.F. Petras and M.M. Morley, **The United States and Chile** (New York: Monthly Review Press, 1975).
3. Akinsanya, **Multinationals in a Changing Environment**, pp. 51-212.
4. Id., "United States Economic Assistance and United States Direct Foreign Investments in the Third World: Lessons for Africa," *Nigerian Journal of International Studies* 15 (November 1991): 30-62; Id., **Japanese Direct Foreign Investments in the Third World** (Tokyo: Institute of Developing Economies, 1996), pp. 86-94.
5. R.R. Fagen, "The United States and Chile: Roots and Branchers," **Foreign Affairs** 53 (January 1975): 297-313; Petras and Morley, **How Allede Fell: A Study in US – Chilean Relations** (Nottingham: Spokesman Books, 1974).
6. Akinsanya, **The Expropriation of Multinational Property in the Third World**, pp. 133-140.
7. Hans J. Morgenthau, **A New Foreign Policy for the United States** (New York: Fredrick A. Praeger, 1969); Peter Wyden, **Bay of Pigs** (New York: Simon and Schuster, 1979).
8. See Akinsanya, **Multinationals in a Changing Environment**, pp. 51-212; H.R. Kerbo, "Foreign Involvement in the Preconditions for Political Violence: The World System and the Case of Chile," *Journal of Conflict Resolution* 22 (September 1978): 863-391.
9. A.F. Lowenthal, "The United States and Latin America: Ending the Hememonic Presumption," **Foreign Affairs** 55 (October 1976): 199; Roger Burbach, **The Pinochet Affair** (London: Zed Books, 2005), pp. 6-19.
10. **The New York Times**, September 6, 1964.
11. United States, Congress, Senate, **Covert Action in Chile 1963-1973** (Washington, D. C.: Government Printing Office, 1975), p. 32.
12. Petras and Morley, pp. 8-9, Supra Note 6, pp. 135-136.
13. Akinsanya, **The Expropriation of Multinational Property in the Third World**, pp. 137; United States Congress, Senate, Sub-Committee on Multinational Corporations, **Multinational Corporations, and United States Foreign Policy**, (Washington, D. C.: Government Printing Office, 1973), Parts 1 and 2.

14. Akinsanya, "Host-Governments' Responses to Foreign Economic Control: The Experience of Selected African Countries," **The International and Comparative Law Quarterly** 30 (October 1981): 769-790.
15. Akinsanya, **Multinationals in Changing Environment**, pp. 51-212; Authur E. Davies and Adeoye Akinsanya, "Multinational Corporations and Changing Consumer Behaviour in Nigeria," *Journal of Health and Social Issues* 1 (1977): 27-33; S.D. Blanchard, "The Threat to U.S. Private Investment in Latin American," *Journal of International Law and Economics* 5 (1971): 222.
16. See "Decree Concerning Excess Profits of Copper Companies, Decree No. 92 of September 28, 1971," **International Legal Materials** 12 (1973): 986; T. H. Moran, "Politics of Economic Nationalism and Evolution of Concession Agreements," *American Journal of International Law* 66 (1972): 208-210.
17. Akinsanya, **The Expropriation of Multinational Property in the Third World**, pp. 35-6.
18. Akinsanya, **Multinationals in Changing Environment**, pp. 222-318. On the Hickenlooper and Gonzalez Amendments to the United States Economic Assistance Acts, see Akinsanya, **Multinationals in a Changing Environment**, pp. 222-318, See Moran, "Transnational Corporations: Spreading the Risk and Raising the Cost of Nationalization in Natural Resources," **International Organisation** 27 (1973): 273-287.
19. See Philip O'Brien, **Allende's Chile** (New York: Praeger, 1976); B. Stallings, **Class Conflict and Economic Development in Chile, 1958-1973** (Stanford, CA.: Stanford University Press, 1978); S. deVylder, **Chile 1970-79. The Political Economy of the Rise and Fall of the Unidad Popular** (Stockholm: Unga Filosafero Forlog, 1974); P. E. Sigmund, "The 'Invisible Blockade' and the Overthrow of Allende," **Foreign Affairs** 52 (January 1974): 322-340.
20. Burbach, pp. 13-14.
21. Sigmund, pp. 322-340; Akinsanya, **Multinationals in a Changing Environment**, pp. 289-310
22. Burbach, 9.2
23. **Ibid.**, p. 17
24. **Ibid.**
25. At the height of the 1970 Chilean Presidential Elections, General Scheneider issued what later became known as the Schneider "Doctrine" when he said: "The army is the guarantee of a normal election in which the President of the republic will be the candidate who receives the absolute majority of the popular vote. If none of the candidates receives more than 50 percent of the vote, the Congress will select the President." When asked what he would do if Allende was picked as the President, General Schneider had this much to say: "I must say that our doctrine and mission is to back and respect the political constitution of the state. In accordance

- with it, the Congress is the Sovereign. Our mission is to respect its decision.” What is important is that the Schneider Doctrine provoked General Roberto Viaux (who had led an unsuccessful arm rebellion against President Eduardo Frei in 1969) and the United States Central Intelligence Agency to kidnap General Schneider on October 22, 1970 in order to instigate a **coup d'etat** and/or force the Chilean Congress to back off from selecting Salvador Allende as President. General Carlos Prats himself was assassinated while in exile in Argentina by agents of General Pinochet, See Burbach, pp. 20-42, 136.
26. James Petras *et. al.*, **The Nationalisation of Venezuelan Oil** (New York: Praeger, 1976), p. 100.
 27. United States, Congress, Senate, Committee on Foreign Relations, **The Nomination of Henry A. Kissinger**, Part 2, Executive Hearings (Washington, D. C.: Government Printing Office, 1973), p. 304.
 28. Sigmund, pp. 337-339.
 29. See Seymour H. Hersh, “CIA Chief Tells House of \$8 million Campaign Against Allende in 70-72,” **The New York Times**, September 8, 1974, pp. 1, 26.
 30. See **The New York Times**, September 17, 1974, p. 22; **Newsweek** (New York), September 23, 1974.
 31. Akinsanya, **Multinationals in a Changing Environment**, p. 291.
 32. Petras and Morley, **How Allende Fell**, p. 9.
 33. **Ibid.**, pp. 11-13; O'Brien, “Was the United States responsible for the Chilean Coup?,” in **Allende's Chile**, edited by Philip O'Brien (New York: Praeger, 1976), pp. 220-224.
 34. See Lauren Stern, “U. S. Helped Beat Allende in 1964,” **Washington Post**, April 1974, pp. A1, A12; United States, Congress, Senate, Subcommittee on Multinationals Corporations, **Multinational Corporations and United States Foreign Policy**, Part 1 (Washington, D. C.: Government Printing Office, 1973), p. 290.
 35. **The New York Times**, September 6, 1964.
 36. Akinsanya, “Indigenisation or Nationalisation of Private Foreign Investments: Alternative Strategies for Dealing with Transnational Corporation in Member-States of ECOWAS,” in **Development Planning in the ECOWAS: Priorities and Strategies**, edited by R. A. Obogu *et al.* (Ibadan: Heinemann Educational, 1983), pp. 365-409.
 37. O'Brien, p. 223.
 38. Moran, “Transnational Strategies of Protection and Defense by Multinational Corporations,” pp. 273-287.
 39. O'Brien, p. 224.
 40. See Anthony Sampson, **The Sovereign State** (London: Hodder and Fawcett, 1973), pp. 230-256; United States, Congress, Senate,

- Assassination Report** (Washington, D. C.: Government Printing Office, 1973), pp. 225-254.
41. Petras and Morle, **How Allende Fell**, p. 12.
 42. See Benjamin Welles, "Rogers Threatens Chilean Aid Cutoff in Expropriation," *The New York Times*, October 1971, p. 1.
 43. See Akinsanya, "The World Bank and Expropriation Disputes in Africa," in **Conflicts and New Departures in World Society**, edited by V. Bornschier and P. Lengyel (New Brunswick, NJ.: Transaction Publishers, 1994), pp. 129-158.
 44. Petras and Morley, p. 9.
 45. Stern, "Aid Used as Choke on Allende," **Washington Post**, September 10, 1973, pp. A1, A14; Akinsanya, **The Expropriation of Multinational Property in the Third World** pp. 284-300; Id., **Multinationals in a Changing Environment**, pp. 259-299. Gillian White, **Wealth Deprivation: Creditor Contractor Claims**. (Manchester: The University of Manchester, Faculty of Laws, nda), p. 23; Alfonso Inostroza, "The World Bank and Imperialism," in **The Political Economy of Development and Development**, edited by Charles K. Wilber (New York: Random House, 1973), pp. 152-157; Akinsanya, "The World Bank and Expropriation Disputes in Africa," pp. 129-158; Akinsanya, "International Protection of Direct Foreign Investments in the Third world," **The International and Comparative Law Quarterly** 36 (January 1987): 58-75; O'Brien, p. 235. See Akinsanya, "Foreign Economic Control and Non-Alignment in World Affairs," **Pakistan Horizon** 45 (April 1992): 69-93.
 46. United States, Congress, House, Committee on foreign Affairs, March 14-23, 1972 (Washington, D. C.: Government Printing Office, 1972), p. 39.
 47. United States, Department of State, **Department of State Bulletin**, July 16, 1973, p. 9.
 48. Petras and Morley, p. 106.
 49. United States, Department of State, **Department of State Bulletin**, October 8, 1973, p. 465.
 50. Petras and Morley, p. 109.
 51. O'Brien, p. 241.
 52. Richard A. Falk, "President Gerald Ford, CIA Covert Operations and the Status of International Law," *American Journal of International Law*, 69 (1975): 354-358; Lowenthal, p. 199.
 53. Akinsanya, **Multinationals in a Changing Environment**, p. 305.
 54. Petras *et al.*, p. 100.
 55. Burbach, p. 14.
 56. See Akinsanya, "The United Nations Charter of Economic Rights and Duties of State," **Egyptian Review of International Law** 36 (1980): 51-99; Adeoye Akinsanya and Arthur Davies, "Third World Quest for a New

International Economic Order: An Overview.” **The International and Comparative Law Quarterly** 33 (1984): 208-217.