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978-0-521-10757-0 - Allende's Chile: The Political Economy of the Rise and Fall of the Unidad Popular

Stefan de Vylder

Excerpt

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Introduction

It is easy to understand why the evolution of political events in Chile under Salvador Allende and the Unidad Popular (UP) attracted attention all over the world. The scarcity of previous attempts at a 'constitutional' transition to socialism made the UP experiment pretty well unique, and undoubtedly the political and economic development during the Allende period had a significance which went far beyond the Chilean borders.

Today we all know that the UP's 'Chilean road to socialism' was a blind alley, leading the Chilean people not to socialism by peaceful means but to fascism by violent means. It can also be debated whether the class character and the objectives of the Allende government really were such as to warrant the designation 'socialist'. What is certain, however, is that with the overthrow of Allende and of Chilean democracy the question of the viability of the 'Chilean road' has already been answered: it didn't work. The Unidad Popular was defeated.

But *why* it didn't work remains an important question, and the purpose of this study is to analyze one aspect of the UP's failure, the economic aspect. What was the nature of the UP's economic project? How was it implemented, and with what consequences? In what sense is it correct to say that the Allende government's economic strategy failed, and most important of all: if it did fail – and I will assert that it did – why? To answer these questions is the main object of this study.

In view of the complete military defeat suffered by the Chilean Left on 11 September, 1973, the economic issues discussed below might appear irrelevant. 'So what,' the reader might say to himself when reading about, say, inflation, foreign trade or the production of corn in 1972, 'as long as the working class was unarmed and the enemy armed, the whole UP experiment was doomed to failure.' To this I can only say: the question of the armed forces and the UP's lack of military preparations, despite being of obvious importance, will not be analyzed in what follows. I will concentrate on economic and, to a certain extent, political matters – the latter mainly in so far as they are of importance for an understanding of economic events (and they very often are). Many of the

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most interesting aspects of the social and political development in 1970–73 will be almost completely neglected; this is, for example, the case with the different forms of mass mobilization and organs of working class power that more or less spontaneously emerged as the political polarization proceeded. And the Right's extra-parliamentary means to precipitate the overthrow of Allende will be dealt with only when they are directly related to the economic situation; strikes, lockouts, capital flight and economic sabotage will thus be subject to analysis – or at least description – while the growth of fascist movements and rightist paramilitary organizations will not. The international situation and the impact of political events in Chile's neighboring countries is another topic which, for reasons indicated above, largely falls beyond the scope of this study.

In no way do I pretend to cover the whole Chilean process, let alone attempt to explain the UP's eventual defeat with reference to economic factors only.

There are several major themes running through this study. Almost all are connected with the UP's economic program – its theoretical foundations, its political and economic implications, its internal contradictions and the efforts to implement it in a hostile environment in which the government's political adversaries, in addition to holding economic power, controlled most of the vital institutions of the Chilean state apparatus. Although the analysis concentrates on conditions specific to Chile – much space is in fact devoted to lengthy institutional descriptions which I have found necessary to include – the discussion of the above aspects of the UP program might also serve to clarify some questions of importance for our understanding of certain general problems connected with so-called constitutional transitions to socialism.

Disposition

The first three chapters are intended as background information of a political and economic character.

Chapter 1 is a brief survey, without any analytical pretensions, of a few characteristics of the state of the Chilean economy before the Unidad Popular took office. It begins with a description of the Chilean people's living standards prior to 1970, and some of the salient features of Chile's economic structure are then presented. Special attention is paid to aspects which are of interest for an understanding of the UP's economic program. This introductory chapter ends with a summary of

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major economic achievements – or lack of major achievements – during Eduardo Frei's Christian Democratic administration in 1964–70.

In the next chapter the economic and political climate at the time of the 1970 presidential election is presented, together with a first overview of the main programmatic objectives of the new government. The purpose is to familiarize the reader with the political environment in Chile in 1970 and with some of the most important strategic differences that existed within the ideologically heterogeneous UP coalition.

In chapter 3 some general observations regarding the Allende government's position are made. Emphasis is here put on the institutional framework – in particular on the division of power between the different bodies of the Chilean state apparatus – and on the composition of social and economic forces in Chile by the time the Unidad Popular initiated its task.

In chapter 4 the UP's short-term economic policy is studied: the main objectives and principal results of the drastically expansionary 'reactivation program' launched early in 1971.

The repercussions – inflation, bottlenecks and shortages, and stagnation of output – in 1972 and 1973 of the short-term program and of the sharpening of the political struggle are analyzed in chapter 5: Here we can study how the Allende government tried in vain to cope with the mounting economic difficulties that arose and which were in part self-made, in part created by the rightist opposition and, last but not least, the consequences of the limitations of Chile's rigid, dependent and underdeveloped economic structure.

The last part of the study is devoted to the UP's program of 'structural transformations', i.e. the formation of the state area of the economy and the agrarian reform.

The objectives of the nationalization project and the difficulties encountered in implementing it against fierce resistance are discussed in chapter 6. The internal disagreements within the UP about the question of the size of the state controlled sector and the methods to be applied in the struggle against private capital are here used to analyze further an issue touched upon on several occasions earlier in the study, namely the political and economic implications of the fundamental strategic differences that existed between the 'anti-monopolistic' and the 'anti-capitalistic' factions of the UP.

This divergency within the Chilean Left will also be used to illustrate some of the reasons for the Allende government's relative failure in carrying through a viable land reform. The analysis of the huge difficulties

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confronting the UP in its agrarian policies adds further support to several of the arguments advanced in the previous chapters. For in the study of the agrarian sector it becomes apparent how almost all contradictions inherent in the UP's program, in the socio-economic structure of Chile and in the general economic and political situation that prevailed during the Allende regime, converged, thus confirming the infeasibility of the strategy advocated by the dominant opinion within the Unidad Popular.

A few words should finally be said about the degree of accuracy of the statistical data and other sources used in this study.

A note on the quality of Chilean statistics

The overall reliability of Chilean national accounts is, to begin with, fairly high. Since the early 1940s most of the items have been calculated in accordance with basically the same norms as those applied in the United States and Western Europe, and although the statistical error in the estimates is often appreciably greater – in part due to Chile's endemic inflation, the large distortions in relative prices and the rather crude techniques used in the deflating procedure – there are few serious biases or inconsistencies. Economists in Chile and abroad seldom hesitate to use most of these statistics, although data on physical production volumes are always regarded as preferable when assessing trends in output over time.

The degree of accuracy, however, varies substantially between the different components of the national accounts and in Chile's statistical production in general. It is easy to point out items for which the accuracy is in general regarded as 'high': population and employment statistics for the census years, volume of mineral and industrial production, balance of trade and general government, among others. Figures on agricultural production, construction, income distribution and several other areas could be classified as 'moderately accurate', while population and employment statistics for the intercensus years, in particular from rural provinces, and savings, investments, profits and inventories are among the least reliable of Chilean statistics.

There are also great differences in the methods used to make the estimates. Various survey and sample techniques naturally play a dominant role for all those items for which data covering the whole statistical population cannot easily be obtained. Simple extrapolation of population statistics is often made for the intercensus years, and a kind of regional extrapolation is sometimes used in those cases where results

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from Santiago are extended to cover the rest of the country. The procedures used to correct for the most obvious distortions have gradually been refined and systematic errors reduced.

A few points specifically related to the present study need to be made. One problem is rampant inflation. Although, after decades of experience, Chile's statisticians have become skilled in taking a normal rate of price increases in the range of twenty to forty per cent a year into account, the levels reached in 1972 and 1973, and the problems arising out of the UP's efforts to enforce strict but largely inoperative price controls, made much of the statistical price indices, and consequently calculations based on them, almost meaningless. For this reason physical units rather than escudos have been used below whenever possible.

Another problem has to do with time. Some – for 1973 virtually all – data I have used are of a preliminary character. This is, for example, the case with the external sector, where other circumstances also contributed to render the collection of accurate data difficult: the UP government was quite reluctant to make certain information about capital movements and the increasingly deteriorating foreign exchange situation public. There are, of course, also many sectors from which the official figures had not yet been gathered, let alone been published, by the time Allende was ousted.

The question of *whose* figures to use also deserves a brief comment. The general principle applied has been simple: I have mostly relied upon official statistics provided by the UP government, in general taken from publications by the Central Bank, the National Institute of Statistics or the Chilean Planning Office ODEPLAN. Two studies made at the Economic Institute of the University of Chile have also been very useful.

During the UP period the rightist opposition often published figures from, say, Chile's National Association of Manufacturers, which were less encouraging – or, toward the end of the Allende regime, even more gloomy – than those from the different ministries and public institutions. I have almost consistently abstained from making use of these and similar sources. In the official data released between 1970 and September 1973 there existed, as far as I could judge, a political bias only in the *way* the UP government presented its economic statistics – not in the material in itself.

All departures from the above principle for the selection of data have been indicated in the text or, usually, in the notes. For lack of official data I have, for example, on a few occasions had to utilize figures on the economic development in 1973 published in Chile after the military take-

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over. These are however exceptions; everybody who is the least familiar with the Pinochet regime's grotesque manipulation of information knows that such data should be taken with great care.

Facts and opinions of all kinds have been obtained from Chilean newspapers and magazines, as well as from conversations with public officials, economists, politicians, and Chileans in general. Most of this information is of a qualitative nature – policy statements by leading politicians, documents, newspaper editorials, etc., which perhaps constituted the most valuable sources of all for my understanding of the social, economic and political development in Chile. Sometimes certain economic statistics have, however, also been taken from second or third hand sources such as Chilean mass media. The biases and errors that can be found in this kind of information are well known and need not be repeated here, but I should stress that the very occasional use that has been made of such sources for quantitative data can in no way affect the main conclusions of this study.

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CHAPTER I

An introduction to the Chilean economy¹

LIVING STANDARDS

Chile's *per capita* income has historically been quite respectable. It was once the highest in Latin America, and although Chile lost this position a long time ago the estimated national income of some six hundred US dollars *per capita* in the late 1960s still made Chile a country with one of the highest income levels in the Third World.

For most of the Chilean people this statistical average was out of reach, however. The vast majority of the population received far less than six hundred dollars a year:

Table 1.1 *Income distribution in Chile in 1968. Estimates of relative shares of personal income and of total income-earning population*

Income group	% of income-earning population	% of total personal income	Approximate <i>per capita</i> income ^a (US dollars)
Lower	71.5	26.0	220
Middle	24.1	28.5	710
Higher	4.4	45.5	6,200

^a Based on the assumption of equal family sizes.

The purchasing power of the officially established subsistence wage, the so-called *sueldo vital*, at or below which about half of Chile's income earners used to be paid, was appreciably lower in 1970 than in the early 1950s.

If we look at a selection of 'social indicators' we also find many signs of widespread misery. In 1970 the rate of infant mortality was still 79 per 1,000 live births, or considerably above the average for Latin America as a whole. The availability of medical services was low and stagnating.

Rural areas, as always in Chile, stood out as particularly underprivileged. While, for example, Santiago could count on one physician

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for every 938 inhabitants in 1969 – close to the national average of the United States – the corresponding figures in rural provinces reached one per several thousand, in Arauco almost 9,000 inhabitants per doctor. Other measures of health standards reveal a similar picture, with extremely high mortality rates and few doctors, nurses and hospitals in the Chilean countryside (as well as in the urban slum districts).

The worst enemy of the Chilean people's health was malnutrition, estimated to have been responsible for the death of at least 7,000 children a year at the end of the 1960s. According to a nation-wide nutrition survey covering the period 1965–9 more than one-third of the adult population consumed less than 2,000 calories *per capita* per day, and women and children especially in the low-income groups suffered from huge deficiencies of calories and proteins.

Various other studies indicate that perhaps half of the youth was underfed at the end of the 1960s. Of a large sample of seven-year-old children, mainly from rural provinces, 60 per cent showed clear signs of undernourishment, often serious enough to cause permanent neurological damage. At the age of two a child from a working class family was, on average, five centimetres shorter than one from the middle and upper classes.

A large and growing housing shortage and inadequate sanitary facilities constituted another problem affecting Chile's low-income groups. The average number of individuals per existing housing unit rose from 6.8 to over 7.0 between 1960 and 1970, and in the latter year the Chilean people disposed of 6.7 per cent fewer square metres of housing space *per capita* than ten years earlier. In 1970, 26.8 per cent of all existing dwellings in the cities lacked drinking water, and in rural areas the corresponding figure was 87.3 per cent.

Considerable progress in educational standards was made during the postwar period. The rate of illiteracy was reduced from 19.6 to 11.4 per cent between 1952 and 1970, and both the government of Jorge Alessandri (1958–64) and, in particular, that of Eduardo Frei (1964–70) managed to keep school enrollment far above the rate of population growth. University education expanded especially rapidly; faster, in fact, than employment opportunities for professionals with university degrees.

Higher education was, however, still a privilege for a very small minority. Although more than 95 per cent of the children entered primary school at the age of six in 1962, only 32 per cent remained enrolled until completion seven years later. Out of every 100 students who did enter secondary school in 1965 sixty-six dropped out before 1969 without

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having graduated. Conditions outside the classrooms were such that no educational reform, however ambitious it might have been (and the Christian Democrats' reform of 1965 was quite ambitious), could prevent most of the working class youth from leaving school early in order to help support their families.

To find a job was not easy, though. Unemployment and underemployment were high. The Chilean economy continued to be a labor surplus economy, and the excess of people over productive employment opportunities showed a pronounced tendency to grow. Most of the new job seekers ended up in the services sector. The absolute number of farm workers was only insignificantly higher in 1970 than in 1930, but few of the urban immigrants could be absorbed by the industrial sector. In relative terms manufacturing employed less people in 1970 than twenty years earlier. After a marked rise during the interwar period the percentage of the labor force working in manufacturing industry experienced a slight decline in the 1950s and 1960s. The services sector was, in short, bolstered up for lack of other employment alternatives.

Although the postwar process of exclusion of wide sectors of the Chilean population from the regular labor market was mitigated somewhat during the early 1960s, the decade ended with a miserable employment situation. Out of a labor force of some 3.2 million people 260,000 were officially registered as unemployed, and about 600,000 were occupied in what ODEPLAN, the Chilean planning ministry, characterized as 'marginal activities' – that is, mainly various services with extremely low income and productivity levels. Another 150,000 people outside the labor force, appearing as 'inactive' in occupational statistics, constituted a reserve of disguised unemployment; they were willing to work, but knew that no job was available. Thus, without taking the notorious rural underemployment into account, the number of unemployed or marginally employed Chileans comprised about one-third of the economically active population.

STRUCTURAL CHARACTERISTICS

Great but poorly utilized development potentials

A concise depiction of the Chilean economy's achievements during the present century would be 'secular stagnation'. Or, to use an expression currently in vogue, 'stagflation'; the average rate of inflation between

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1920 and 1970 exceeded 25 per cent a year. The following appraisal from the mid-1960s could in part illustrate what the poor economic record has signified for most of the Chilean people: 'While a relatively important and prosperous middle sector has developed, average living standards in Chile have not risen much. The conditions of the overwhelming majority of the population have probably not improved at all . . . Some important groups have suffered a substantial deterioration in their living standards.'²

At first glance the Chilean economy's secular stagnation might appear astonishing. Generously favored by nature and sparsely populated as it is Chile has more natural resources *per capita* than most nations in the world. A well diversified and easily exploitable physical endowment provides Chile with virtually all the prerequisites for agriculture and for manufacturing and mining industries. In general, other factors to which beneficial development effects are sometimes attributed, such as high export earnings, foreign aid and foreign investment, have not been in short supply.

But the Chilean economy as a whole has never 'taken off'. Ever since the sixteenth century temporary upswings have been followed by crises and stagnation. A wide gulf has always existed between the country's huge development potentials and the living standards that it has actually offered the majority of its inhabitants.³ Where progress occurred it failed to spread to the other parts of the economy, or else it was of short duration. As formulated by Marto Ballesteros and Tom Davis: 'Even a brief review of Chile's economic history reveals that the growth of a particular sector has not succeeded in eliciting a strong, expansive response from the remaining sectors of the economy.'

Sectoral distribution of output and employment

This is not the place to attempt an analysis of how the above incapacity of the Chilean economy has expressed itself in the course of its history. But it must be stressed that Ballesteros and Davis' observation points to a fundamental structural defect of the economy which has historical roots dating back to colonial times. Time after time certain sectors have experienced temporary 'booms', usually generated by foreign demand and affecting mineral exports (gold and silver during colonial times, nitrates between 1880 and 1930, copper in the 1950s and 1960s). These booms have largely failed to benefit the economy as a whole, however, and once having come to an end they have left stagnation and misery behind.