

**The attitude of the Chilean newspaper ‘El
Mercurio’ towards the main economic policies of
the Popular Unity government of Salvador
Allende (1970-73)**

by Paul Francis Llewellyn

Thesis Advisor – Professor Åsmund Egge

History major (Hovedfag)

Institute of History

University of Oslo, Norway

Autumn 2002

Foreword

I would like to thank the Department of History, University of Oslo for giving me financial aid towards my trip to Chile in 2000 – 2001.

I would also like to show my appreciation for the staff of the Periodical and Microfiche Section, National Library of Santiago, Chile for helping me obtain and photocopy my source material, without whose expertise and professionalism I would not have been able to complete my task.

I would like to thank my thesis advisor, Åsmund Egge, for supplying me with patient and wholly constructive advice during the course of my labour.

Finally, I would like to display my gratitude to my wife, Rosemary Lichnovsky, without whose translation skills I could not have carried out this project, and whose support and encouragement made all the difference.

Oslo, Autumn 2002

Paul Francis Llewellyn

Contents

Foreword	1
Contents.....	2
Map page	4
Abbreviations	5
Chapter 1 – Introduction	6
1.1 Presentation and delimitation of topic	6
1.2 Brief historical introduction	7
1.3 UP economic policy	8
1.4 The Chilean media.....	10
1.5 Earlier research and literature.....	11
1.6 Theory and methodology.....	13
1.7 Issues and perspectives concerning the area of enquiry	14
1.8 Sources	14
1.9 Disposition.....	14
Chapter 2 - Historical background	16
2.1 Presentation	16
2.2 Chile – brief economic and socio-political résumé	16
Chilean society	16
The economy and <i>laissez-faire</i>	17
The Great Depression and ISI	18
The rise of the copper industry	19
The failure of ISI	20
Political diversification.....	21
The Cold War and polarization	22
2.3 Eduardo Frei Montalva’s “Revolution in liberty” (1964-70)	24
Background.....	24
Agrarian Reform under Frei	25
The ‘Chileanization’ of the copper industry.....	26
The beginning of the end	27
Summary.....	28
Chapter 3 - The UP Government	30
3.1 Presentation	30
3.2 The Popular Unity Basic Program of Government	30
The program	30
The economic aims of UP	31
Agrarian Reform.....	33
Summary.....	34
3.3 The UP government of Salvador Allende (1970-73)	36
Background.....	36
Diagnosis	37
In practice	39

Summary.....	47
Chapter 4 - UP's Economic Policies as seen by <i>El Mercurio</i>	49
4.1 Presentation	49
4.2 The Chilean newspaper <i>El Mercurio</i>	49
<i>El Mercurio</i> 's connections with the USA	49
The CIA and <i>El Mercurio</i> during Allende's presidency	52
Summary.....	53
4.3 The initial newspaper reaction to the government's economic plans	54
<i>El Mercurio</i> 's view of the UP economic plans.....	57
Imprecision and misinformation.....	59
Summary.....	61
4.4 <i>El Mercurio</i> 's presentation of the APS polemic.....	61
Definition of the APS	63
The Project of the Three Areas.....	66
The 'Vuskovic strategy' affair.....	74
Summary.....	76
4.5 <i>El Mercurio</i> 's coverage of the nationalisation of the banking sector.....	76
Nationalisation bill delay.....	78
The results so far	80
The 'single bank account'	82
Summary.....	86
4.6 <i>El Mercurio</i> 's treatment of the copper industry under Allende	87
Nationalisation vs. Chileanization.....	89
Production, Production Costs and the Price of Copper on the World Market	90
Summary.....	94
4.7 <i>El Mercurio</i> 's exposure of the agrarian reform under Allende	95
The motivation for the reform	96
Production levels	97
The Chonchol-Locke polemic	98
The acceleration of expropriations	99
Price fixation	101
The legality of the reform process.....	102
The effect of the reform on government popularity	104
The effect of the reform in the countryside	105
Summary.....	106
Chapter 5 - Conclusion.....	108
5.1 Summary.....	108
5.2 Commentary/difficulties encountered	109
5.3 Recommendations for further investigation	110
Bibliography and sources	111
Literature	111
Published source material.....	111
Periodicals	111
Reports/documents	112
Sources	Error! Bookmark not defined.

Map page

Abbreviations

APS	Area of Socialized Property
CIA	Central Intelligence Agency
CORFO	Corporation for the Fomentation of Production
CORA	Corporation for Agrarian Reform
DC	Christian Democrat Party
DIRINCO	National Committee of Industry and Commerce
DR	Radical Democracy Party
FOCH	Workers' Federation of Chile
FRAP	Popular Action Front
FRENAP	National Front for Private Activity
GMC	Copper Mining Industry
ISI	Import Substitution Industrialisation
ITT	International Telephone and Telegraph Inc.
MAPU	United Popular Action Movement
MCR	Peasant Revolutionary Movement
MIR	Revolutionary Movement of the Left
PC	Communist Party
PN	National Party
PR	Radical Party
PS	Socialist Party
UP	Popular Unity coalition

Chapter 1 – Introduction

1.1 Presentation and delimitation of topic

This investigation will attempt to show in what manner the conservative daily newspaper *El Mercurio* presented the main economic policies of the Chilean left-wing Popular Unity (UP) government its term in office.¹ This will be achieved through a systematic study of articles from the newspaper that deal specifically with several distinct areas of UP government economy. The aim will be to analyse the attitude of the newspaper in its coverage of the subject matter and evaluate its objectivity as a journalistic medium, and in doing so provide a greater understanding of the period under study.

Thematically, it would be too comprehensive to involve *all* of the right-wing media opposition to Allende's government, and as such it was decided to concentrate on the biggest and most important opposition newspaper at the time. Likewise, it would be too much to include the newspaper's presentation of *all* the UP government's policies, and therefore it was decided to concentrate on the economy, as it was the economic situation which eventually prompted the country's military forces to act decisively. It will also be necessary to limit the investigation to the government's *main* economic policies, since to include all UP economic policies would also be too comprehensive.

Chronologically, the period under study can be limited from the 4th September 1970, when Salvador Allende Gossens was elected president of Chile, to the 11th September 1973, when the Chilean armed forces deposed the president in a coup d'etat, involving an armed attack on the country's presidential palace. Although Allende did not take office until 4th November 1970, his election caused a panic withdrawal of savings from banks, loss of investor confidence and flood of capital from the country due to fear of his coalition's plans for the country's economy, and for this reason the investigation will commence from the date of his election.

¹ The concepts "Popular Unity (UP) government" and "presidency of Salvador Allende" are synonymous.

1.2 Brief historical introduction

On 4th September 1970, Salvador Allende Gossens was elected president of Chile with 36.2% of the popular vote, at the head of the Popular Unity (UP) coalition. The UP alliance consisted of a wide spread of the Chilean political left, but was characterised as Marxist due to the overwhelming influence of the two largest parties; the Communists (PC) and the Socialists (PS). This was the first time in Chilean history that a socialist had been elected leader of the country by democratic means. The UP coalition's political program proposed the construction of a socialist state and was therefore radical in its aims compared to previous governments. It included the nationalisation of the copper industry, the creation of state, private and mixed property areas, extensive social reforms and increased expenditure in many areas. It also involved agrarian reform on a far more extensive scale than previously experienced in Chile.

The program moved at an ambitious pace and Allende's first year was characterised by an upturn in the economy. Although things looked good for a while, reactionary and working class discontent soon started to catch up with the government. The landed oligarchy and business interests were naturally resistant to any reform that threatened their privileged position at the top of society. The peasants and unions were dissatisfied because they considered the reforms as moving too slowly or not being far reaching enough. By the end of 1971, imbalances in the government's economic strategy, as well as a US economic blockade, began to have a considerably negative effect on the country's economic state.

The centre Christian Democrat party (DC) had originally been receptive to Allende's policies at the start of his term, and had in fact begun the process of reform in Chile during their own government previous to that of Allende. However, in 1971, in response to the increasingly volatile situation the country was experiencing, the DC began to move towards the right of the political spectrum, attacking the government and blocking legislation in Congress. Chile's worsening economic situation deteriorated further due to inflation and shortages in consumer goods and basic necessities, in particular during the transport strike of October 1972. In August 1972, a political alliance between the DC and the right (primarily the National Party - PN) was officially established and termed the Democratic Confederation - CODE. Long buried dissent within the UP coalition

also surfaced, with two factions emerging. The first one, including the PC and Allende, supported Allende's program of peaceful institutional change - 'the Chilean road to Socialism'. The other faction, including the PS and former members of the DC, supported a more militant strategy. They desired to implement an armed revolution and were not adverse to the thought of overthrowing Allende in the process. Ironically, their desire was to become a reality.

On the 11th September 1973, the military forces in Chile under the command of General Augusto Pinochet took power in a coup d'etat. The governing coalition was deposed and Salvador Allende died during the takeover (reportedly by suicide) after the seat of government was bombed and stormed by troops. American business interests had been extensively threatened by the UP program envisioning 'the Chilean road to Socialism', and the coup was welcomed by the Nixon administration, although direct US involvement in the coup was never proven. General Pinochet's intention was to halt what he saw as the ruination of the country under the auspices of Marxism. A curfew was imposed and the military operated under the assumption that it was fighting a war against dangerous, well-armed and organised bands of workers. The left-wing parties were severely repressed in the first weeks of the coup, with arrests, imprisonments, assassinations, disappearances, and executions of many members. The ruling Junta announced that the military regime was a temporary measure in order to put the country back on its feet. A return to democracy could then be discussed at a future date. However, Pinochet was to remain in power for almost 17 years before he eventually handed over the reins to a democratically elected leader in March 1990.

1.3 UP economic policy

The UP program was radical in its aims. The overall objective was to achieve a transition to socialism by democratic means. This would involve a combined political and economic program aimed at resting control of the economy out of the hands of a small elite and placing it in the hands of the state. It would then be easier to dismantle the various institutions connected with Western capitalism. The following economic measures were deemed necessary;

- a. Nationalisation of the country's basic resources.

- b. Nationalisation of large foreign enterprises, which were seen to be draining the wealth out of the country.
- c. Agrarian reform: the breaking-up of the 'latifundios' (large landed estates) and redistribution of land to the peasants.
- d. Transferring control of banks and large businesses into state property.
- e. A massive redistribution of income.

These measures were seen as the first phase and, in theory, would form the basis of a popular social movement. Having gained the popular support of the masses, the government could then make a successful transition to a socialist society.²

The key figure in the economic policy of Salvador Allende's UP government was the first Minister of the Economy, Pedro Vuskovic. He wanted to implement a massive redistribution of revenue by raising salaries and increasing public expenditure, through which the buying power of the population would increase and accordingly consumption in general. These measures would activate the idle capacity of the Chilean productive apparatus (which was relatively large) and generate a climate of prosperity. If this strategy paid off, it would have the effect of strengthening the government's position and allowing it to advance its revolutionary program much faster.³

The gamble paid off in the short term, with the Chilean economy growing 9% in 1971 and unemployment sinking to 3.8%. However, the price of copper took a nose-dive in the same period and production also went down, with correspondingly negative results for the economy. A commercial deficit was recorded at the end of 1971 and private investors shied away. The US economic blockade also began to take effect. US President Richard Nixon had made it known that he wanted to "make the (Chilean) economy scream" and this policy was outlined in National Security Decision Memorandum (NSDM) 93 of November 1970: "All new bilateral foreign assistance was to be stopped, although disbursements would continue under loans made previously. The US would use its predominant position in international financial institutions to dry up the flow of new multilateral credit or other financial assistance. To the extent possible, financial assistance or guarantees to US private investment in Chile would be ended, and US businesses would be made aware of the government's concern and its

² Bitar, p.17.

³ *Nueva Historia de Chile*, p.523.

restrictive policies...The United States accounted for around 80% of Chilean copper production (approximately four-fifths of Chile's foreign exchange earnings) and US foreign economic policy concerning Chile had a profound effect on its economy.”⁴

In 1972, the Chilean economy took a turn for the worse. Exports fell, imports rose alarmingly and inflation rocketed. The growth in GDP went from 9% in 1971 to -1.2%, while the rate of inflation went from 22.1% the previous year to 163.4%. Vuskovic had been replaced as Minister of Economy but the damage was already done. Chile had entered a major recession, with hyperinflation, a negative growth in GDP, a lack of supplies and spare parts, as well as a state of general political and social disorder. By September 1973, inflation had reached 381.1% and the growth in GDP stood at -4.2%.⁵ The damage done to the Chilean economy would take many years of hardship and sacrifice to repair. Ironically, it would be the same lower classes that Allende was trying to help that would suffer the most during the Pinochet regime's application of strict neo-liberal policies designed to rectify the UP government's economic mistakes.

1.4 The Chilean media

The Chilean media of Allende's day consisted of a wide range of politically and non-politically related newspapers and periodicals, as well as a number of radio and television stations. The major newspapers; *El Mercurio*, *La Segunda*, *La Tercera*, *La Nación*, and *Las Ultimas Noticias* are all currently in circulation, as well as the official organ of the PC *El Siglo* and *Punto Final* of the MIR. Other left-wing publications included *Puro Chile* (related to the PC) and *Las Noticias de Ultima Hora* (related to the PS). The government acquired periodical *Clarín* was one of the main outlets for the policies and proclamations of Popular Unity. The DC also sponsored several publications, including *La Prensa* and *La Tarde*.⁶

The Chilean media underwent a radical polarisation during the period of Salvador Allende's administration. At the beginning of his accession to power, the opposition to the new President was limited to the DC periodical *La Prensa* and one or two radio stations. Chilean television was also generally favourable to the UP government. The

⁴ *Covert Action in Chile 1963 - 1973*, p.32.

⁵ *Nueva Historia de Chile*, p.526.

⁶ Gonzalez Pino and Fontaine Talavera, 1997.

left-wing newspapers were in a state of euphoria, believing that the country had set out on the road to socialism from which there would be no return. However, as the effects of the US economic blockade began to be felt, and as the country began to be affected by the government's program, the opposition became more and more vocal. After the summer of 1971, the newspaper *El Mercurio* launched a progressively more virulent campaign against the government. It was joined by the television station *Canal 13* (run by the Catholic University), the radio stations *Agricultura* and *Balmaceda*, and finally the newspaper *La Tercera*.⁷

1.5 Earlier research and literature

There exists a great deal of literature concerning the Allende period of government and the reasons why it failed in its objectives. One in-depth investigation concentrating purely on the relations between the political parties of the Allende years is given by professor of history Luis Corvalán Marquéz, entitled "*The Political Parties and the Military Coup of September 11th*". The book draws on source material such as newspapers, documents and secondary literature to produce an objective and factual account of what happened politically during the UP government period, and is useful in providing a political background to events.⁸

"*Chile: Experiment in Democracy*" was first published in Mexico in 1979 and in the USA in 1986, and is written by Sergio Bitar, a former minister of Allende's cabinet and current senator of Congress in Chile. The writing began immediately after the coup in 1973 in an attempt to give some answers as to what went wrong, while the author was being held prisoner by the military authorities together with other former members of the UP government. This book gives a well-researched political and economic synthesis of the period immediately before and during the Popular Unity government. This study is important as the reader experiences a balanced criticism of UP policies by a former member of the UP government itself.⁹

A "*New History of Chile*" was released in 1999 by the 'Institute of History of the Catholic University of Chile' for teachers, students and the public in general. This has

⁷ *Nueva Historia de Chile*, p.532-534.

⁸ Corvalán Marquéz, Luis; *Los Partidos Politicos y El Golpe del 11 de Septiembre*, CESOC, Santiago de Chile, 2000.

⁹ Bitar, Sergio; *Chile: Experiment in Democracy*, Pehuén, Santiago de Chile, 1995.

proved to be invaluable for reference and providing an overview, in particular because of the tradition the Catholic University of Chile has for objectivity.¹⁰ Additionally, the author has seen fit to consult at least one historical text researched and written by non-Chilean historians, namely that of Collier and Sater, in order to provide a balanced view of the events of the period in question.¹¹

“*The 1000 Days of Allende*” is a two-volume reference work released by the ‘Centre of Public Studies’ in Santiago, Chile, which compiles newspaper articles from the era of Allende taken from a wide range of the journalistic spectrum, as well as photographs, documents, political cartoons and speeches. Prior to each presentation, a brief explanation is given placing each item in historical context.¹²

In relation to economy, “*A Century of Chilean Political Economy (1890-1990)*” by Patricio Meller covers periods of growth, development, crisis, and turning points in the economic history of the country and provides immense help in understanding this area.¹³ In addition, the University of Finis Terrae, Chile, provides a short yet specific examination of the Chilean economy during the period of Allende’s government entitled “*1000 days, 1000 percent*”.¹⁴ An invaluable source for reference concerning the explanation of unfamiliar and sometimes complex economic terms and concepts was found in the Samuelson and Nordhaus textbook “*Economy: 16th Edition*”, originally published in English.¹⁵

Although much has been written about the period in question, the author was unable to find any literature relating specifically to the political or ideological stance of *El Mercurio* in relation to its opposition to the UP government’s economic policies.

¹⁰ Universidad Católica de Chile (ed.); *Nueva Historia de Chile*, Zig Zag, Santiago de Chile, 1999.

¹¹ Collier, S. and Sater, W.; *A History of Chile, 1808 - 1994*, Cambridge Univ. Press, 1996.

¹² Gonzalez Pino, M. and Fontaine Talavera, A.; *Los Mil Dias de Allende*, Centro de Estudios Publicos, Santiago de Chile, 1997.

¹³ Meller, Patricio; *Un Siglo de Economía Política Chilena (1890-1990)*, Editorial Andres Bello, Santiago de Chile, 1996.

¹⁴ Universidad Finis Terrae, *Mil Días, Mil Por Ciento; La Economía Chilena Durante el Gobierno de Allende*, 1993, Santiago de Chile.

¹⁵ Samuelson, P. and Nordhaus, W.; *Economía – 16. Edición*, McGraw-Hill, Madrid, 1999.

1.6 Theory and methodology

Before commencing the investigation, it is necessary to establish what preconceptions and expectations exist which might affect the understanding of the source material.¹⁶ This is essential since it is recognised that all source material is subject to a process of interpretation, which is in turn governed by the subjective pre-conceptions of the researcher. In order to clarify the starting point of the investigation, these subjective pre-conceptions should be identified and expressed in the form of general theories, which will develop into the framework around which the investigation's arguments and conclusion will be built.

My preconceptions were that it would be natural to expect a certain degree of professionalism and objectivity from the most prominent Santiago daily of the period. This was due to the age and reputation of the newspaper in question. As de Vylder ascertained, *El Mercurio* enjoyed the reputation of a well informed, conservative but independent publication at the beginning of Allende's presidency.¹⁷ This determined my starting point, also influenced by my personal experience of other conservative newspapers, such as *The Times* of Great Britain, and *Aftenposten* of Norway. These periodicals have a reputation for conservative yet objective reporting, normally positioned on the right of a country's political spectrum.

When selecting the articles, the process will involve scanning the headlines of the various pages of the daily editions of the newspaper from the period under study, and identifying which articles are concerned with the economic situation of the country. We can assume that the most relevant articles will be editorials that specifically express the political and ideological standpoint of the newspaper. The source material will be grouped into identifiable categories reflecting the main economic policies of the Allende government. The articles will be interpreted on the basis of comparison between the articles themselves and secondary literature. The more secondary literature referred to, the more points of comparative reference which will facilitate the process of interpretation.

¹⁶ Kjeldstadli, p.134.

¹⁷ de Vylder, S; *Chile 1970-73 : The Political Economy of the Rise and Fall of the Unidad Popular*, doctoral thesis at the Stockholm School of Business Studies (Handelshögskolan i Stockholm), 1974, p.19.

1.7 Issues and perspectives concerning the area of enquiry

The investigation will focus on the manner in which the newspaper *El Mercurio* presented the main economic policies of the UP government and their progress over a three-year period. A number of questions naturally arise in connection with the area of investigation. Why did *El Mercurio* take this form of opposition to the policies of the UP government? What tradition existed within the newspaper for right-wing support? How did the ideological standpoint of the newspaper affect its presentation of the events? Did the newspaper's attitude change over the course of time? How did the newspaper's funding by the CIA affect its sense of impartiality and objectivity to the events it was reporting on? Was the freedom of the press threatened during the period of Allende's government? The author will attempt to answer these questions at the conclusion of the investigation. Particular attention will also be paid to the newspaper's use of language in relation to its right-wing ideological standpoint in opposition to the left-wing government of Allende.

1.8 Sources

This investigation used the newspaper archives of the National Library of Chile, situated in the city centre of the capital of Santiago, as the main archive for its source material. The material for the period in question took the form of newspaper pages stored in microfiche format, which are available to the general public for viewing and photocopying. In the course of the research, some pages from the library's collection of *El Mercurio* were found to be unavailable due to mutilation; specifically pp.59-60 of the issue dated 09/09-1973, pp.18-19 of 10/09-1973, pp.13-14 of 11/09-1973, and with no issue released on the 12/09-1973 (the day after the coup). It should also be noted that practically all the articles were unsigned and the author(s) therefore remained unknown. However, one must assume that they represented the opinion of the newspaper since the material had been approved for publication by the editorial staff.

1.9 Disposition

After the Introduction, Chapter 2 will trace the development of the most relevant events during the course of 20th century Chile, leading up to the election of Salvador Allende as President in September 1970. Chapter 3 will give a brief presentation of the UP alliance's 'Basic Program of Government', placing particular emphasis on the economic

plans of the Allende government, and recount the events of the period in question. Chapter 4 will examine the source material and take the form of a categorisation into the different topics concerning the UP government's main economic policies; e.g. the initial newspaper reaction, the areas of property, the copper industry, nationalisation of banks, and agrarian reform. Chapter 5 will include the conclusion, difficulties encountered, final reflections, and any recommendations for further research.

Chapter 2 - Historical background

2.1 Presentation

The purpose of this chapter is to present the historical background necessary to understand the events of September 1970 to September 1973, enabling the reader to place the ensuing investigation into context. Section 2.2 will briefly trace the development of the main economic and socio-political events in Chile until 1964.

Section 2.3 will present the government immediately previous to Allende - Eduardo Frei Montalva (1964-70).

2.2 Chile – brief economic and socio-political résumé

Chilean society

Since Chile had gained independence from the Spanish crown in 1810, the oligarchy had possessed a strong controlling influence over the country. The upper classes consisted of a combination of traditional landed aristocracy and commercial interests. This small elite controlled the majority of the land in the form of ‘latifundios’ - large landed estates and they held back industrial development whenever it went against their interests. The small middle class was ill defined and consisted of a number of groups in transition, mainly concerned with aspiring towards and imitating the upper class. The extensive lower social strata consisted of workers in the cities and mines, and peasants toiling the land with few rights, little or no form of representation and a level of economic existence so precarious that they were denied social mobility.¹⁸ This situation was to change in the 1920s with the election of a president representing the interests of the middle class, but the effect on the lower class was minimal and they were mostly left to themselves. However, the formation of several workers’ organisations took place during this period and the left began to gain ideological and political impetus in a society traditionally dominated by a small elite adhering to classic liberalist economic practices.

¹⁸ *Nueva Historia de Chile*, pp.376-383.

The economy and *laissez-faire*

In the War of the Pacific in 1879, Chile gained access to extensive nitrate deposits when it annexed the northern desert regions of Tarapacá and Antofagasta from Peru. Nitrate became the dominant export, with the British being mainly responsible for its extraction and the Germans for its shipment to Europe for use in fertiliser. These foreign investors played an important role in developing the Chilean mining industry and its links to the outside world. The nitrate boom generated huge revenues for the Chilean government in the form of export taxes, allowing a tremendous amount of investment in the country's infrastructure. This included the development of the country's ports and the construction of over 4000 km of railway tracks, with international connections to Bolivia and Argentina. Chile remained neutral during the First World War, the principal effect of the war being a boom in nitrate exports, which was used in the manufacture of explosives. However, a cheaper artificial substitute for nitrate was invented during the war, which over time replaced the original product. The Chilean economy remained principally dependant upon this export until the nitrate era came to a close with the onset of the Great Depression in 1929.

From the beginning of the century onwards, a slow but steady increase in North-American investment in the Chilean copper mining industry took place, shown by a gradual increase in copper exports. The rise of the copper industry was parallel to the decline of the nitrate industry, resulting in a gradual transfer of influence from Britain to the United States, although copper never achieved the economic importance that nitrate had. A small but significant agricultural sector existed, which prior to the nitrate era had exported wheat, enabling the large landowners to maintain control of the government. However, the export of wheat declined during this period due to competition from Argentina and Australia. There also existed a coal mining industry situated in the gulf of Arauco financed and managed by Chileans, producing more than a million tons of coal up to 1920.¹⁹ Overall, the Chilean economy experienced an era of prosperity during the twenties, mainly due to the rapid expansion of the world economy combined with Chile's easy access to international credit.²⁰ The attitude of the Chilean government

¹⁹ *Nueva Historia de Chile*, pp.370-375.

²⁰ *Nueva Historia de Chile*, p.417.

during this period was one of *laissez-faire*, with the state playing an intermediary role between foreign investors and Chilean society, but with no direct role in the economy.²¹

The Great Depression and ISI

Chile was the one of the countries most affected by the Great Depression of 1929. The prosperity generated in the decade of the 20s had been largely artificial, as it had been based on foreign loans, a scenario repeated in many other countries. This had permitted spending way over sensible limits, making countries' financial systems extremely vulnerable in the event of an economic crisis. Due to the bottom falling out of the New York Stock Market on 'Black Thursday' (October 24th 1929), lending and credits were suspended abruptly. As prices fell, so did demand, and production dropped sharply. The continent's buying power diminished and Latin-American trade was considerably reduced, resulting in rising unemployment. In Chile, the government's response was to introduce control over monetary exchange, allowing the printing of money in order to finance the deficit. Unfortunately, this resulted in spiralling inflation and in 1932, the Chilean economy hit rock bottom.²²

The Great Depression brought about the end of the nitrate era of the Chilean economy. The lack of demand in world markets caused recognition of the need to achieve economic independence and reduce external vulnerability. It was reasoned that the easiest way to do this was through developing and promoting home industry, enabling the internal generation of otherwise imported products. Consequently, the abandonment of *laissez-faire* policy and the end of economic orientation towards the export of a single product took place. From then on, the policy of ISI - the substitution of industrialisation for imports - was actively pursued.²³ Subsequent governments began to protect fledgling industries with high tariff walls, giving special incentives to manufacturers in the form of cheap credit and special access to foreign currency, and gearing public spending towards the development of infrastructure. The support given to ISI was due to the rationale that its development was self-sustaining. The process started with the production of end-line goods (easy stage); after which the production of industrial products was incorporated through backward linkages, ending with the

²¹ Meller, p.57.

²² *Nueva Historia de Chile*, pp.418-421.

²³ Meller, pp.48-50.

production of machinery and fixed assets (difficult stage).²⁴ During the 1950s, the industrialisation process advanced rapidly and the larger Latin American countries enjoyed relatively high growth rates. As such, we can see that the hardships of the 1929 world economic crisis had brought about a turning point in Chilean economic history, providing the incentive for the development of national industries and the opportunity to break out of the pattern of single-product export dependency.

The rise of the copper industry

Copper had been one of the country's principal exports since the first half of the 19th century, but only on a small scale and involving deposits of a high mineral content. This required a low technological base but was very labour intensive. However, at the beginning of the 20th century, a global increase in the demand for copper came about due to the development of the electrical industry and the expansion of the construction industry. In addition, a new technology was invented in the United States enabling the large-scale extraction of minerals with a very low copper content. However, this technology was expensive to develop and required large amounts of capital input. At the start of the century, North-American firms had made investments in the Chilean mines 'Chuquicamata' (the world's largest open copper mine) and 'El Teniente' (the world's largest underground mine). Output gradually increased during the ensuing decades until the copper trade was making up 80% to 90% of the country's exports. However, the Chilean state was receiving very little of the profits and this became a major bone of contention between it and the American firms involved. The principal headache of each successive government thus became how to increase Chilean participation in the copper mining industry in order to achieve greater returns for use in further developing the Chilean economy.

Before 1925, an attitude of *laissez-faire* had existed, where the revenues generated from the nitrate industry were of a sufficient amount to allow the copper industry a large amount of flexibility. The revenue generated from copper during this period was around 1% of its export worth. In the ensuing decades, the Chilean government gradually increased export taxes so that by the 1950s the average revenue generated was around 38%. Another mechanism used was the passing of legislation to fix wages of workers in

²⁴ Meller, p.51.

the copper industry at a certain level. However, this did not affect the overall figure by much. A further tactic was the introduction of a separate rate of currency exchange for the copper industry. The operational costs of the North-American companies involved in copper mining in Chile required the exchange of foreign currencies to the local currency at the Central Bank of Chile. A separate exchange rate gave a greater return for the Chilean economy. However, the general approach by the Chilean government was mostly lacking in any long-term effectiveness to solve the problem. Only in 1955 was a Department of Copper created with the objective of supervising and compiling studies and statistics about the operations of the North-American mining companies in Chile.²⁵

The failure of ISI

By 1960, however, it was becoming evident that the Latin American economies were suffering from failures in the structure of the economic models applied since the Great Depression. Firstly, it could be seen that the problem of trade deficit was not really solved. Although some countries *did* reduce their imports of manufactured consumer goods to as little as 5% of total imports, the reduction was offset by a growing need for imported industrial raw materials and capital goods. As industry in the larger countries advanced to the stage of producing capital goods, it developed a need for greatly increased volumes of capital, higher levels of technology and modern corporate management, all of which were scarce in Latin America. Thus, it was seen that industrial development became a derivative process dependent upon external factors, rather than an indigenous process based upon what was available locally (e.g. abundance of low-cost labour). The limited size of national markets, extraordinarily high protective tariffs, the high cost of capital and entrepreneurial weakness kept the prices of domestic substitutes for imports high. Latin American industries settled in their captive national markets and showed little interest in or aptitude for export. Additionally, while going about subsidising ISI, Latin American countries did very little to promote agricultural import substitution. The overall result was that while the amount of imported manufactured goods went down, food imports rose in proportion to total imports, offsetting the gains of ISI.²⁶

²⁵ Meller, pp.31-38.

²⁶ Levinson and de Onís, p.22.

Although Chilean economic growth in the years since 1952 was not low, it was not sufficient to respond to the demands of the country's growing population. Consistent inflation hampered the efforts of governments and was caused by a combination of problems in the social-economic structure (mainly in the area of foreign commerce), social pressures on the state and the agrarian sector. Due to the policy of ISI and the corresponding decision to concentrate the country's entrepreneurial forces on developing the internal industry, exports had been neglected and had not diversified. Accordingly, by the 1950s, half of Chilean foreign commerce revolved around the export of copper to the North-American market. As such, fluctuations in the international mineral market had a tremendous effect on the Chilean economy, something which was outside the control of national governments. The period outlined above was characterised by a succession of ineffective short-term efforts by the various Chilean governments to improve the overall economic situation of the country. This lack of success, coupled with a failure to address important social issues along with an expanding working class consciousness, laid the basis for the future political accomplishments of left-wing reformist elements, resulting in the election victory of Salvador Allende as president in 1970.

Political diversification

The Chilean political scene had been severely shaken by the economic ramifications of the Great Depression. In its wake, a trend of political diversification took place with the birth of numerous parties across the spectrum, each presenting its own particular response to the situation. Politics had changed from a convenient game reserved for the oligarchy to a fierce struggle for control between the different sectors of society. In 1935, the directive went out from Moscow for the formation of 'Popular Fronts'. According to Stalin, it was considered necessary to unite socialist and bourgeoisie sectors in the fight against fascism, reflecting the troubled political times of Europe. Obedient as always to Moscow, the Communist Party of Chile sought to fulfil this latest directive. The 'Popular Front' was established by the PC, joined by the Radical Party and the Socialist Party, and ran successfully for government in 1938. Although the front officially ceased to exist in 1941, left-wing cooperation continued, enabling the election of two further Radical presidents in 1942 and 1946. The creation of the Popular Front had set a new trend of left-wing alliances, a trend that would be repeated in the future.

The success of the left-wing alliances had its effect on working class organisation. More workers' organisations were created in the first three months of the Popular Front than in the previous 13 years. There was a strong build up of the trade union movement during the years of the Radical governments. Between 1941 and 1949, the number of members of the Workers' Confederation of Chile (CTCH ²⁷) increased by 40%. Both communists and socialists gained strong positions within the CTCH, and continued to express the grievances of the working classes through strikes as well as legal channels. As a result of the disorder caused by the economic crisis, the political stage was redrawn and the scene was set for the country's political, economic and social development for the next 40 years.

The Cold War and polarization

Although Chile did not take part in the Second World War, the ideological struggle being played out on the world stage was to have its effect on the country. With the onset of the Cold War, the political scene in Chile began to have more than just local significance. The United States showed increasing interest, especially in 1946 when Gabriel Gonzalez Videla became president of Chile at the head of a left-wing coalition that, for the first time in Chilean history, included members of the Communist Party in the cabinet. Due to pressure from the West, however, Videla expelled them from his government in 1948, outlawing the PC and forcing them to go underground for a decade. These measures provoked strong reaction in the political establishment and eventually resulted in a loss of political authority and voter confidence.

In 1959, Fidel Castro overthrew the US-backed regime of Fulgencio Batista in Cuba. Castro's subsequent declaration in favour of communism and leanings towards Eastern Block countries for support was seen as a threat to stability and US hegemony in the region. This event was the turning point for Latin American Cold War policy planners in Washington. It was now perceived that problems of social unrest were allies of communism and had to be addressed more directly. The US had previously supported anti-reformist dictatorial or oligarchic regimes as champions of anti-Communist stability in the region. It now began to back moderate civilian reformers who placed priority on developing national reform programs to correct social imbalances, which

²⁷ CTCH - Confederación de Trabajadores de Chile - Workers' Confederation of Chile

were viewed by the US as breeding grounds for leftist revolutionary tactics. Based upon this new policy, US President John F. Kennedy initiated the Alliance for Progress in 1961.²⁸ Yet although Chile became the country that received more aid per capita from the program than any other in the hemisphere with the aim of preventing another Castro, this only had the effect of slowing down rather than stopping the advance of the left.

In the 1958 presidential elections, Jorge Alessandri Rodriguez, supported by the Right had obtained 31.6%, with Salvador Allende, candidate of the left-wing Popular Action Front coalition coming a close second with 28.5%. A fifth independent candidate obtaining 3.2% of the vote was all that had stopped a Socialist/Communist backed candidate from becoming democratically elected as the leader of an important Latin American country. This showed that the forces of the left held significant potential in the country. Alessandri's economic program had been liberal in character and had involved initiating changes in the economic structure of the country in order to 'free up' private enterprise, which was considered the motor of development. Freed from state interference, it was reasoned that the natural dynamic initiative of the private sector would ensure growth. It was deemed that the need for redistributive measures was unnecessary, since society's less well-off sectors would benefit in the long run (the 'trickle-down' effect).

Accordingly in 1959, the government initiated a strong expansion, especially in housing and public works. The same year, a plan of economic stabilisation was put into effect, which strongly controlled inflation, types of exchange and provoked a big rise in imports. This meant an improvement in the short-term economic situation. A limited attempt at land reform was also set in motion. This, however, had the effect of alienating the oligarchic members of his own coalition. In the economic sector, a sudden devaluation of the Chilean peso and rising inflation meant the end of the economic successes so far achieved. Despite overall growth and stability, the economic situation of the country was still unsatisfactory to many and the Right as a governing force political gradually lost credibility. This turned out to be the last chance voters would give the Right to make any credible political impact at governing the country for the remainder of the century.

²⁸ Sprout and Sprout; *Foundations of International Politics*, Van Nostrand, Canada, 1962.

During the term of Alessandri, the Liberal and Conservative parties who had supported the president's election began to approach the Radical Party, with regards to forming a political front in view of the next presidential elections. They had taken note of the support that Allende had received from the electorate in 1958 and perceived the danger of his possible election as president. The National Anti-Marxist Front was therefore formed and presented a Radical as the candidate in the 1964 presidential elections. Encouraged by his second place in the previous presidential race, Salvador Allende again presented himself as the candidate of the left. The recently formed centre Christian Democrat party (DC) presented Eduardo Frei as its candidate. A three-way race for president was shaping up. The same year, the United States became massively involved in covert activity in Chile. US policy-makers saw this involvement as being consistent with overall American foreign policy and the goals of the Alliance for Progress. The aim was to prevent the election of a left-wing leader of the country at all costs.

2.3 Eduardo Frei Montalva's "Revolution in liberty" (1964-70)

Background

Eduardo Frei Montalva of the centre Christian Democratic Party (DC) won the presidential election in 1964 with a decisive majority of 56%. Salvador Allende of the left-wing FRAP coalition gained second place with 37% of the vote, and Julio Durán of the Radical Party got 5%. Frei's electoral victory had been supported by the country's traditional right, which had decided to switch its backing from the Radical candidate to Frei due to their fear of Allende winning the presidency. Frei's candidature had also received covert aid from the United States, who did not wish to see a Marxist or Communist influenced government appear in what they regarded as their 'backyard'.²⁹ Frei's program was entitled 'Revolution in Liberty' and proposed social and economic reform within a democratic framework. Unlike Alessandri's program, however, Frei sought to create economic growth *and* redistribute the country's income simultaneously. His program contained three main aspects; agrarian and social reform, industrial

²⁹ "The United States was involved on a massive scale in the 1964 presidential election in Chile. The Special Group (a sub-Cabinet level body of the Executive Branch) authorized over three million dollars during the 1962-64 period to prevent the election of a Socialist or Communist candidate." *Covert Action in Chile 1963 - 1973*, p.14.

modernisation and an increase in exports. Frei's intention was to undertake initiatives traditionally associated with the left in order to usurp their political support among the electorate.

Agrarian Reform under Frei

Agrarian reform was seen as necessary by the Frei government in order to break the traditional stranglehold of the landed oligarchy on the socio-economic structure and production of the agricultural sector. The 'latifundio' – large landed estate – was a remnant from colonial days that retarded the social and economic development of the country. It encompassed a semi-patriarchal regime in which the word of the owner was law, the workers were paid low salaries mostly in non-monetary forms and the maximum aspiration of a peasant was to have a 'good boss'. Primitive technologies were used to exploit the land, the work was labour intensive, the peasants were unorganised and there were no incentives to introduce costly modern labour-saving technologies. In addition, the large landowners maintained a fair amount of political control through the manipulation of the peasants working on their land, which signified an ability to resist any attempt to alter the *status quo*.³⁰

The proposed agrarian reform had a three-fold intention; it would increase agricultural productivity, it would make many thousands of peasants into landowners, and it would incorporate the marginalized peasant masses into society and the market.³¹ It was also supported by the Alliance for Progress planners as being a step towards containing dangerous social unrest, which could result in revolutionary movements imitating the path followed by Castro in 1959. In Chile, 9.7% of landowners owned 86% of agricultural land, while 74.6% of landowners possessed 5.2% of land.³² Frei proposed to change this by settling 100,000 peasants on their own land during his six years in office. The DC agrarian reform law fixed a basic family farm unit of 192 acres of irrigated land; any farm larger than this was subject to expropriation. It provided for payment primarily in 25-year negotiable bonds, partially readjustable against inflation, and it based purchase value on the low valuation traditionally claimed by landlords for

³⁰ Meller, p.85.

³¹ Furtado, p.274.

³² *Nueva Historia de Chile*, p.475.

land-tax payments. It also nationalised all irrigation water.³³ The DC planned to gain support from the urban and peasant classes through this type of reform, presenting itself as an alternative to the political left.

The Agrarian Reform law took three years to get through Congress, with opposition from both right and left political elements. Between 1965 and 1970, the DC government expropriated 1,408 properties, covering an area of 3,563,554 hectares, including 290,000 hectares of irrigated land.³⁴ The reformed sector received technical assistance and support in the form of credit, which helped to achieve an increase in agricultural production, rising from 1.762 million escudos in 1964 to 1.993 million escudos in 1970. In addition, the simultaneous Peasant Syndicalisation Law (passed in March 1967) enabled the amount of syndicates to rise from 24 in 1964 to 413 in 1970.³⁵ However, the reform also caused problems in the very sector it was trying to help. In some cases, impatient peasants mobilised by the far left took control of estates without waiting for the authority of the state to do so. In other instances, landowners resisted expropriations, firing workers or using violence to resist the taking of the land. Some workers even resisted expropriations ordered by the government Corporation for Agrarian Reform³⁶, preferring to continue working for their landowners. This agitation brought criticism from both sides of the political spectrum; the right defending the rights of ownership while the left charging the government with not going far enough.

The ‘Chileanization’ of the copper industry

Frei proposed the ‘Chileanization’ of the country’s foreign owned copper mining industry – a plan to reverse what many saw as a draining of the wealth out of the country. The copper companies were preparing to expand their output considerably in the not-to-distant future. By purchasing an equity position through investment in this expansion, the Chilean government would acquire not only a share of their earnings but also a voice in their management, and thus, in the view of the economic importance of copper to Chile, enhanced political sovereignty.³⁷ The acquisition of these companies would increase exports and help offset the upset the planned economic and social

³³ Levinson and de Onís, p.235.

³⁴ Furtado, p.274.

³⁵ *Nueva Historia de Chile*, p.478.

³⁶ CORA - Corporación de Reforma Agraria - Corporation for Agrarian Reform

³⁷ Levinson and de Onís, p.157.

restructuring would cause. The program's objectives included doubling copper production by 1972, incorporating into the Chilean state the property of the productive businesses, refining the majority of copper in Chile, achieving the active participation of the Chilean state in the commercialisation of copper in world markets, and improving the situation of the industry's workers.³⁸

Mixed mineral enterprises consisting of North American companies and the Chilean state were formed to carry through share purchases. In 1967, the state bought 51% shares in 'El Teniente', 30% in 'Andina' and 25% in the 'Exotica' copper mines. In 1969, during the second phase, the Chilean state purchased the 'Chuquicamata', 'Salvador' and 'Potrerillos' mines, and bought 51% of shares in the 'Anaconda' mine. The investments made by the Chilean state in the copper mining industry between 1965 and 1970 consisted of 760 million dollars. Output went up from 390 million tons in 1964 to 750 million tons in 1970.³⁹ In addition, the US government, in accordance with Alliance for Progress objectives, offered to help finance the copper companies' expansion plans if the Chilean government played an active role. The Chilean government had to grant the companies special concessions and guarantees for domestic financing.⁴⁰ Due to the world demand for copper (partly thanks to the ongoing Vietnam war), the Chilean government benefited greatly from its timely nationalisation of the country's copper industry, although left-wing political elements (including also members of the DC) grumbled that settlement terms for the US business interests had been too generous. Additionally, it was later found that the expansion programmes were over-optimistic and had been based on inadequate technical studies. In 1970, these criticisms found a consensus in the intentions of the UP coalition to nationalise the copper industry.⁴¹

The beginning of the end

Towards the end of Frei's term, the government was experiencing difficulties, in particular from the appearance of three separate factions within its own party. As time went by, these three factions moved further and further apart, resulting in an overall weakening of the government. The political left and right also continued to attack the

³⁸ *Nueva Historia de Chile*, p.479.

³⁹ *ibid.*

⁴⁰ Levinson and de Onís, p.157.

⁴¹ Furtado, pp.192-193.

government - the right due to its opposition to the agrarian reform program and the left due to its dissatisfaction with the extent of the reforms.

The year of 1968 saw the formation of the Maoist MIR (Revolutionary Movement of the Left) inspired by the Cuban Revolutionary hero Che Guevara and made up of idealistic young Chilean University students. They proposed to transform the country into a socialist state through armed revolution and used terrorist tactics to mobilise the workers, peasants and slum dwellers in furthering their cause. Armed expropriations of land, occupations of schools and colleges, and demonstrations and marches became common in the last two years of the Christian Democrat government. Facilitating the formation of unions and syndicates had also been one of the DC's objectives, inadvertently resulting, however, in an increase in strikes due to better worker organisation. The DC had precipitated a state of 'hyper-mobilisation' or agitation in Chile by awakening the people's social awareness through reform programs such as the Agrarian Reform and the enactment of peasant syndicalisation laws. This was to work against it when it became evident towards the end of Frei's term that he was not going to be able to fulfil all of his ambitious promises concerning agrarian and social reform.

One year before the presidential elections in 1970, the Communist Party called for the formation of a Popular Front. The Popular Unity coalition presented its political program - Basic Program of Government of Popular Unity - in December 1969 (see Chapter 3). The UP alliance consisted of a wide spread of the Chilean political left, but was characterised as Marxist due to the overwhelming influence of the two largest parties; the PC and the PS. Other political forces included the Radical Party, the Movement of Popular Radical Action (MAPU), Popular Independent Action (API), and the Social Democratic Party (PSD). Salvador Allende ran once again as the candidate for the left. The DC presented Radomiro Tomic as its candidate and Jorge Alessandri ran again for the right. The stage was set for the 1970 presidential elections.

Summary

As we have seen, the socio-political situation in Chile became extremely polarized during the course of the four decades leading up to 1970. The country's wealth was concentrated in the hands of an elite few, generating growing resentment from the poor majority. Government had swung back and forth across the political spectrum, with a

consequent lack of continuity in planning and development. More recently, neither the Alessandri government of the right (1958-64), nor the reforms of the centre Frei administration (1964-70) had fulfilled the expectations or growing demands of the lower social strata. Furthermore, an increase in voter participation and lower class organisation was experienced during the 1960s.⁴² This, in addition to the covert anti-communist involvement of the United States, created the opportunity for change that presented itself in the 1970 presidential elections.

⁴² Meller, p.96.

Chapter 3 - The UP Government

3.1 Presentation

In December 1969, the UP coalition first publicly presented its political and economic plans for Chile in its 'Popular Unity Basic Program of Government'. The program was the most complete formulation of the UP's objectives, setting forward the coalition's views on the state of affairs in the country and the changes it intended to make should it win the forthcoming elections in September 1970. In section 3.2, the program will be presented in brief summary form, concentrating primarily on the economical aspects. Section 3.3 will give a brief résumé of the Allende years, in order to provide the background to the main UP government economic policies to be presented in chapter 4.

3.2 The Popular Unity Basic Program of Government

The program

In its Introduction, the program set out a frank appraisal of the country's woes, giving an overview of the situation and dictating that the current system had failed because it did not correspond to the needs of the time. "Chile is a capitalist country, dependent upon imperialism and dominated by sectors of the bourgeoisie structurally linked to foreign capital, which cannot resolve the fundamental problems of the country that are generated precisely by its class privileges, which they will never voluntarily renounce."

⁴³ The program criticised the efforts of previous so-called 'reformist' governments, making specific mention of the presidency of Eduardo Frei (1964-70). Although Frei's centre-left Christian Democrat government had recognised the need for social and economic reform, instigating agrarian reform and the 'Chileanization' of the country's copper mining industry (see chapter 2.3), it did not go far enough in the eyes of the UP coalition. Particular reference was made to Frei's support for the 'Alliance for Progress', a program of financial assistance for Latin-American countries initiated by US President John F. Kennedy. However, the UP Basic program offered only general criticism and no in-depth analysis of any failings or successes of Frei's government or the 'Alliance for Progress'.

⁴³ *Popular Unity Basic Program of Government*, 1969.

According to the UP coalition, imperialist exploitation of the country's resources has extracted around twice the amount already invested in the country, and the dominant classes have only contributed to this situation by plunging the country into extreme foreign debt. Chilean legislation favoured the capitalists and companies who dominated the economy and the large landowners, all of whom were only interested in earning more money and were oblivious to the needs of the people. In addition to controlling the economy, this group also controlled the press and the political system, and thwarted the state when it attempted to intervene on behalf of the people. This group of privileged people amounted to less than 10% of the population and yet monopolised half of the national revenue. The rising cost of living, the capitalist structure of society, and the inability of the agricultural system to feed the population were all to the detriment of the majority of the people. The continuation of the 'latifundio' (large landed estate) system was particularly responsible for the situation, something that previous governments had failed to deal effectively with. Economic growth had been sluggish, with the average Chilean having been better off in the mid-1960s than today.

In summary, the UP coalition pointed to the country's problems as being caused by a combination of North American business interests, a compliant upper class, an outdated agricultural model and an inability or unwillingness by the governing elites to improve things. The rest of the program continued along the same lines, criticising the situation of the country and past efforts to resolve things. It presented the UP program as the viable alternative, outlining how the coalition will change things for the better in the different areas of the state, economy, social welfare, culture and education and foreign affairs. At the end of the Introduction, the program dictated that; "the only valid popular alternative, therefore, and the fundamental task which the Government of the People faces, is to end the imperialist domination of the monopolies and the landed oligarchy, and to initiate the construction of socialism in Chile." ⁴⁴

The economic aims of UP

The section of the program dealing with the economy opened with "the united popular forces have as their central political objective to replace the current economic structure, ending the power of foreign and national monopoly capitalism and that of the large

⁴⁴ *op.cit.*

landed estates, in order to initiate the construction of socialism.”⁴⁵ Central planning would play an important role in the new economy and decisions would be made executively at the highest level. The program stipulated that the economy would be divided into three areas - state, mixed and private, and would be subjected to the creation of “...a dominant state area, formed by companies currently owned by the state, in addition to the companies to be expropriated.”⁴⁶ The state area, or area of social or socialized property (APS)⁴⁷, would be the biggest and the most important, and would include ‘strategic monopolies’ from all sectors contributing to the economic growth of the country, such as mining (copper, saltpetre, coal and iodine industries), steel and iron industries, the country’s financial network (in particular the private banking and insurance sectors), foreign trade and commerce, large businesses and distribution monopolies, the farming sector, and in general any activities which contributed to the economic and social development of the country.

How did the program substantiate this? The UP parties drew on the year 1967 as an example in which “of the 30,500 industries...150 controlled all the markets through a monopoly, concentrating state help and the extension of bank-credit, and exploiting the rest of the industrial companies in the country by selling raw materials expensively and buying their products at cheap prices”.⁴⁸ The UP coalition projected the running of the economy through a national system of state-planning utilising mechanisms of control, orientation, extension of credit for production, technical assistance, internal and import taxes, and state intervention in the management of the sector. This was based on the Marxist concept of the transfer of control of the means of production to the state, enabling the undermining of the political and economic power of the dominant groups. This would facilitate the development of a new economic model designed to increase the country’s autonomy and improve the welfare of the general population. At the same time, the rights of the workers to fair salaries and conditions of work would be guaranteed.⁴⁹

⁴⁵ *op.cit.*

⁴⁶ *op.cit.*

⁴⁷ APS - Area de Propiedad Social - Area of Social Property

⁴⁸ *Popular Unity Basic Program of Government*, 1969.

⁴⁹ *op.cit.*

What mechanisms did the proposed UP government intend to put into practice in order to achieve the construction of the new economy? The redirection of the country's manufacturing base away from the production of expensive, superfluous goods for the elite sectors of society towards the production of less expensive yet good quality articles for general consumerism was projected. Also indicated was the design of a policy geared towards the generation of high employment through the correct application of the country's technology and resources, thus guaranteeing paid work of an adequate income to all Chileans old enough to work. The country would be freed from subordination to foreign capital through policies including the expropriation or regulation of foreign capital, steadily increasing self-finance, and independence in areas of technology and foreign transport. A rapid and decentralised economic growth was projected, making optimum use of all available resources to increase productivity and satisfy the demands of the economy and the population. In the area of foreign commerce, a policy designed to develop and diversify exports, open new markets, achieve technological and financial independence and avoid devaluations of the Chilean monetary unit would be put into practice. Monetary stability and low inflation through the aforementioned changes would be achieved. Measures would be put into practice designed to control and redistribute credit, prohibit profiting from the use of money in commerce, and control the amount of money in circulation according to the real needs of the market. Efforts would be made to stabilise prices, and to hinder that supply and demand caused by high interest rates would encourage price rises.

Agrarian Reform

An important part of the construction of the UP economy was the program of agrarian reform, which was considered to be - "a simultaneous and complementary process along with the general changes wanting to be made to the social, political and economic structure of the country."⁵⁰ Agrarian reform had already been experimented with previously in Chile and the first agrarian reform law had been passed in 1962 during Jorge Alessandri's conservative technocratic government (1958-64), authorizing the expropriation of under-used land in large estates. However, there had been fierce opposition from oligarchic interests in Alessandri's own coalition and as such the reform law passed had been weak and had had little real effect on the country's overall

⁵⁰ *op.cit.*

economic situation. The next attempt had been more comprehensive and had occurred during the DC government of Eduardo Frei (1964-70). However, this reform had also caused problems in the very sector it was trying to help (see chapter 2.3), and had only served to heighten the expectations of peasants.

The UP government intended to carry on with this tradition. However, the coalition's policy of agrarian reform was to be far more extensive and ambitious than previously experienced in the country. The UP Basic Program called explicitly for "the acceleration of the process of the agrarian reform...without the owner having any right of preference to choose the areas (of land) in question".⁵¹ The aim was to create a 'reformed sector' within the agricultural sector made up of small farms and co-operatives. The reform also projected the immediate utilisation of previously abandoned and poorly exploited areas of state property for cultivation purposes. The expropriated lands would be organised as best as possible into co-operatives and the peasants would have deeds accrediting them with the right of ownership of any assigned houses or arable lands. In qualified cases, land would be assigned to small farmers, tenants, partners and farm workers judged capable of working in farming and animal husbandry. A re-organisation of small farmstead properties through organisation of a progressively co-operative nature would be carried out. The incorporation of small and medium farmers in the advantages and services of the co-operatives that operate in their area would be effected. The Mapuche and other indigenous people would be assured sufficient lands, technical help, appropriate credit and be defended from usurpation.

The aim of the UP agrarian reform was quite clear in its intention to re-organise the agricultural structure of the country along socialist lines, to the benefit of small and medium sized farmers and the state, and to the detriment of large land-owners.

Summary

The UP Basic Program of Government was evidently Marxist and included many accordingly identifiable characteristics, such as blaming capitalism for the country's problems, envisioning the enemy as imperialist monopolies and the oligarchy, and assigning the mission of transforming the state and its institutions to the people's power.

⁵¹ *op.cit.*

The program was the political consensus of the many parties that made up the left-wing Popular Unity coalition. Although the UP alliance consisted of a wide spread of the Chilean political left, it was characterised as Marxist due to the overwhelming influence of the two largest parties - the PC and the PS. It would be natural to assume that the program might reflect this influence (it should be noted that the PS had endorsed armed revolution as the predominant means of gaining power as far back as 1967⁵²). However, upon comparison with the policies actually put into practice (see section 3.3), the program can be regarded as somewhat moderate. Why was it not more specifically Marxist or revolutionary in its rhetoric?

It is possible that the authors understood the need for a ‘toning down’ of the content, in order to present an air of legitimacy to the coalition’s attempt to win government. Fears of communism had been fanned by reports of disregard for human rights and restriction of individual liberties from the Soviet Union, Eastern Europe and Cuba, and the program authors may have wished to distance themselves from this. The Cold War was at its height and the Cuban Missile Crisis (1962) was still fresh in the minds of many. The coalition may have wanted to avoid inflaming US anti-Communist passions to the point of a possible armed intervention. Furthermore, Salvador Allende had already lost the presidential race three times previously (1952, 1958 and 1964) at the head of left-wing fronts with strong Marxist shrouds, and it may be that the UP alliance did not wish to associate itself with this, and therefore placed greater emphasis on the program as a substitute for government than on Allende as a person.

In order not to scare off the necessary support of the middle classes, the program carefully presented the projected state economic transformation of the country as a strictly selective process, one affecting only certain groups; the banks, the ‘latifundios’, a handful of strategic industries and some foreign investors (especially those connected to the copper mining industry). There would be no threat to small and medium businesses; on the contrary, the banks under the direction of the state would place themselves at the disposal of this group and aid in their development and well-being.⁵³ As we will see in the next section, this wasn’t exactly what happened. Additionally, the program also detailed the UP coalition’s intentions for only a single period of

⁵² Furci, Carmelo; *The Chilean Communist Party and the Road to Socialism*, London, 1984.

⁵³ *Mil Días, Mil Por Ciento*, pp.10-11.

government. The intended transformations mentioned in the program were drastic and long term. Yet there was no mention of what might happen at the end of Allende's six year term in office, or how the alliance would preserve or safeguard these changes from a future government of the right. One reason might have been that the alliance had not yet planned that far ahead in time. In reality, the UP program was put together from the programs of past left-wing front campaigns, and not as a result of a long process of development or study.⁵⁴ Furthermore, the PS and the PC supported different routes to socialism - the PC had adopted the 'peaceful road' strategy back in 1956.⁵⁵ Accordingly, it would have been difficult to agree on a long-term strategy, when there remained such wide differences between the two main parties. In fact, disagreement within the coalition concerning political strategy was one of the major factors that led to its downfall.

3.3 The UP government of Salvador Allende (1970-73)

Background

On the September 4th 1970, Dr. Salvador Allende Gossens won the presidential elections in Chile with 36.2% of the popular vote, at the head of the left-wing Popular Unity coalition. This was the first time in history that a socialist had been elected leader of the country. It is possible to explain Allende's election by pointing to various factors. Economically, the situation was extremely favourable towards change. There existed an extensive public sector, a relatively weak private sector, the preponderance of the urban-industrial component and previous agrarian reform. Ideologically, full criticism of the system was permitted and change was allowed.⁵⁶ Furthermore, an increase in voter participation was experienced during the 1960s. The working classes, in particular, had become more politically aware during the period of Frei, whose peasant syndicalization laws had enabled the effective organisation of workers in the countryside. This inadvertently gave Allende the grassroots support he needed to win the presidency on his fourth attempt.⁵⁷

⁵⁴ *Mil Días, Mil Por Ciento*, p.4.

⁵⁵ Furci, Carmelo; *The Chilean Communist Party and the Road to Socialism*, London, 1984.

⁵⁶ Bitar, p.26.

⁵⁷ Meller, p.96.

Diagnosis

According to the UP coalition, the Chilean economy in 1970 had four principal characteristics that needed attention – monopolism, (external) dependency, oligarchism and capitalism. In the 1960s, 3% of industrial firms controlled more than 50% of the total value of industry and almost 60% of the capital. In the agricultural sector, 2% of estates owned 55% of the land. In the mining sector, three north-American companies controlled the production of Chilean copper, which represented 60% of the country's exports in 1970. In commerce, 12 companies accounted for 44% of sales. In the banking sector, the State Bank controlled almost 50% of deposits and credits. Monopolism was clearly widespread in the country's economic structure. Chile's export of copper plainly signified a situation of dependency on a single export product. This made the country's economy extremely vulnerable to fluctuations in the international price of copper, something which was beyond the control of individual governments. In addition, of the 100 biggest industrial firms at the end of the 1960s, 61 retained some form of foreign participation. Technology used for copper mining also had to be imported from abroad. This meant that much of the profits earned through the mining of copper remained in foreign hands.

In the agricultural sector, the oligarchial tradition signified that the richest 10% of the sector had access to 40% of the wealth, while the poorest 10% retained only 1,5% of available income.⁵⁸ The structure of land-ownership in Chile had been preserved since the colonial days in the form of large landed estates – 'latifundios'. The large landowners produced only enough to satisfy their financial requirements and were in favour of maintaining the *status quo*. The 'latifundio' was seen as one of the prime obstacles towards increasing the efficiency of the agricultural sector. In 1925, around 90% of the land belonged to less than 10% of landowners. During the 20th century, the agricultural sector became largely marginalized in the economic debate, due to the fact that the economic development of the country had concentrated mainly on the export of mineral resources (nitrates and copper). The oligarchic interests held considerable power and political influence well into the late 20th century and managed to avoid any real tackling of the issue until the 1960s. However, as early as the 1930s, it was recognised that the structure of the agricultural sector was helping to retard the

⁵⁸ Meller, pp.111-112.

country's economic development. The large estate owners were unwilling to make any move towards changing their favourable situation, and they held back industrial development whenever it went against their interests. The answer to the problem was seen to lie in agrarian reform – namely the breaking up of the large estates and their distribution to small- and medium-sized farmers.⁵⁹

Taking into account the characteristics mentioned above, it is not difficult to understand why the UP coalition viewed the Chilean economy as concentrating the wealth in the hands of a privileged few. In the wake of the election, the UP economic program was designed to function on two levels - a short term plan to rapidly reactivate the economy (see chapter 4.3), and a series of reforms designed to implement a socialist economy.⁶⁰ According to the analysis of the UP Minister for Economy, Pedro Vuskovic, the unequal distribution of wealth generated a specific pattern of consumption and demand. Companies produced goods principally to satisfy the high-income sectors of society, and this type of demand dominated the market. A dual system of production was diagnosed, with a modern high-technology sector producing goods for the high-income groups, alongside a second less advanced sector that remained permanently stagnated. This duality was further reinforced by foreign investment. The overall effect resulted in the technologically advanced firms operating inefficiently, caused by the condensed demand from the high-income sectors and the wide range of consumption. The small scale of manufacture led to a greater concentration of production, which in turn reinforced the initial bias of the pattern of income distribution. This vicious circle strengthened the inequalities in income and wealth distribution and resulted in the concentration of power. The inter-relation between political and economic power in the country only served to further reinforce this situation.⁶¹

From his analysis of the economy, Vuskovic diagnosed the existence of a large idle capacity of the Chilean productive apparatus, mainly in the industrial sector. He proposed to raise salaries and public expenditure while at the same maintaining price levels, thereby implementing a massive redistribution of revenue. According to him, this would increase the buying power of the people and, as a consequence, consumption in

⁵⁹ Meller, pp. 85-90.

⁶⁰ *Mil Días, Mil Por Ciento*, p.22.

⁶¹ Meller, pp.113.

general would also rise. This would require neither investment nor, in theory, have an inflationary effect, since it would be backed by increased production. This would in turn generate greater employment and a climate of prosperity, which would feed a process of rapid and permanent growth.⁶² If this approach worked, it would reinforce the government's position and permit it to press forward its revolutionary program much faster.

In order to change the economic conditions, a substantial altering of the structure of property was required. This would generate a different pattern of demand that would stimulate production of basic goods, in order to benefit the up until now marginalized majority - the workers, peasants, and small and medium business owners. In this manner, economic resources would not be squandered in the production of non-essential goods. Two main elements would be required – the transition of the ownership of the means of production to the state, and greater popular participation. This transition to socialism was historical by nature in that it would be carried out *within* the existing institutional democratic structures, enabled by the political support of the masses.⁶³

In practice

Upon assuming office on November 4th 1970, Allende confronted an economic situation with certain identifiable tendencies. Although the Chilean economy had grown slowly during the last five years, unemployment and industrial idle capacity had increased in 1969 and 1970. These characteristics had been further accentuated by the post-electoral crisis. On top of an already high rate of inflation in the first semester of 1970, came a strong expansion in public spending and credits designed to relieve the post-electoral crisis. This swelling supply of money could later generate even greater inflationary pressures if it was not contracted as soon as the liquidity preference dropped to normal levels. Labour turmoil continued throughout the post-electoral period with strikes and seizures of estates. The UP government would have to confront the demands of very large groups for pay increases, groups which saw in Allende's triumph the possibility of realizing long postponed aspirations. Finally, international reserves were substantial,

⁶² *Mil Días, Mil Por Ciento*, p.23.

⁶³ Meller, p.114.

allowing a certain amount of flexibility, but the price of copper had already begun to drop on the international market by August 1970.⁶⁴

The UP economic program was put into effect with great alacrity from the moment the coalition took over. The program was designed in the interim to widen the coalition's base of support amongst the populace, since it had been elected to government with little more than one third of the popular vote (36.2%). The short-term objective was to achieve a majority in the April 1971 municipal elections, which would allow the UP coalition to push its transformations through Congress more easily. In the event, the UP alliance polled 49.8% in the municipal elections, claiming a victory for its strategy. Many economic indicators at the end of 1971 were also positive, with a 7.7% growth in GDP. The drop in unemployment was considerable, with the figure for Greater Santiago falling from 8.3% in December 1970 to 3.8% in December 1971.⁶⁵ General consumption rose by 13% and salaries went up by 20%. Inflation as measured by the price consumer's index diminished from 35% in 1970 to 22% in 1971.⁶⁶ These initial signs appeared to indicate that Vuskovic's approach had been successful.

However, these results were achieved at the cost of other less visible yet equally important economic factors. For example, the fiscal deficit ascended from around 2,000 million escudos in 1970 to approximately 10,200 million in 1971, so that 31% of state expenditure had to be financed by issuing money. This meant that the amount of money in private hands went up by 122% compared to 1970. The tremendous expansion in demand and production meant that industrial and company stocks of raw materials and finished products diminished rapidly to critical levels during 1971. Additionally, the drop in private sector profits caused by price freezes guaranteed a lack of financial reserves to replace stocks, also prohibiting further investment. National expenditure, having been channelled strongly into consumption, caused a fall of 16% in national investment and 19% in the value of capital goods imports. Behind the 9% rise in national production were also hidden signs of stagnation in relation to investment in the sectors of agriculture, fishing, mining and industry. Exports in 1971 diminished by 11% compared with the previous year, although this had much to do with the drop in the

⁶⁴ Bitar, pp.39-40.

⁶⁵ Bitar, p.46.

⁶⁶ *Mil Días, Mil Por Ciento*, p.31.

price of copper on the world market and an increase of only 3.3% in copper production. In addition, non-mining related exports fell by 2.2% in 1971, compared to the previous year, and imports in 1971 rose by 6%. Overall in 1971, Chile lost US\$257 million in international reserves and gained US\$223 million in external debt.⁶⁷

Attempts to warn the UP coalition of the damaging effects of its policies, in particular by *El Mercurio* (see chapter 4), were viewed by the left as political rivalry or opposition from the country's reactionary forces. However, the reality of the situation began to be felt from the end of 1971 through a gradually increasing deprivation of foodstuffs and basic products. Government salary increases and excessive monetary emissions (in order to pay the fiscal deficit) had caused an explosive increase in demand, yet production levels had grown by only 10% in the best of cases. The government had maintained a fixed exchange rate in order to keep prices down, but this had provoked a depression in exports. In an attempt to correct this, the government had decided to resort to increasing subsidies in order to recharge the fiscal budget and had ordered the Central Bank to print money in large quantities. Unfortunately, this had fuelled inflation and further worsened things.⁶⁸ Despite serious debate, however, the government's political and economic course remained unchanged, mainly due to internal coalition differences and indecision concerning corrective measures.⁶⁹

In November 1971, President Allende announced that Chile was unable to service its foreign debt obligations and unilaterally suspended payments. In December 1971, the government negated its election promise of avoiding currency devaluations by creating different rates of exchange for four different areas of the economy – foods and combustibles, raw materials, luxury goods, and machinery and spare parts. This attempt to combat inflation however only led to further distortions in the economy. The country was unable to increase copper production in order to compensate for the fall in the price of copper on the international market. This meant that it was also unable to increase imports in food and other supplies to make up for the drop in production in the

⁶⁷ *Mil Días, Mil Por Ciento*, pp.32-33.

⁶⁸ *Mil Días, Mil Por Ciento*, pp.61-63.

⁶⁹ Bitar, p.82.

agricultural and industrial sectors. These conditions were in turn attractive to neither foreign nor local investment.⁷⁰

Compared to the previous year, the Chilean economy began 1972 with serious disadvantages. There were no reserves to sustain short-term growth, the idle productive capacity formerly diagnosed was now in use, and bottlenecks had appeared in some areas and were spreading. The foreign currency reserves built up by the DC were now minimal so as to hinder importing large quantities to make up for the deficiencies, and the inventories that had served to meet demand in 1971 were now exhausted. The fiscal budget submitted to Congress in December 1971 proposed a deficit of 19.2% and forecast a balance of payments deficit of \$362 million, figures that eventually proved to be hugely under the mark. However, despite recognition by the government for a change in its economic strategy and a major government conference in February, policies were not modified. This was due to both internal and external political restrictions, and the fact that the coalition leadership possessed very little understanding of the economic situation it was attempting to deal with.⁷¹

The situation became acute halfway through 1972, with disorder at workplaces, deficiency of raw materials for production, exhaustion of funds, and the lack of compensation for fixed low prices all contributing towards worsening the situation. One side effect was an increase in the black market, with basic products in short supply being sold for increasingly higher amounts. Additionally, since inflation caused money to rapidly lose its value, people preferred to invest in and pay in the form of goods instead. This government responded by installing a system of rationing but this only encouraged people to hoard products, which in turn led to greater scarcity and fuelled the black market even more. An entire system of informal commerce came into being, with links being formed directly from the producer to the customer to avoid government controls, and even a system of barter taking over in some areas.⁷²

By June 1972, the political situation had polarized dramatically. The centre DC and the Right had formalized their alliance through the creation of the CODE (Democratic

⁷⁰ *Mil Días, Mil Por Ciento*, p.65.

⁷¹ Bitar, pp.84-89.

⁷² *Mil Días, Mil Por Ciento*, pp.63-64.

Confederation) and were able to block the passing of government legislation in Congress. The institutional system was becoming paralysed and there existed less and less willpower to compromise from both sides. In the steadily worsening economic and political climate, a serious blow was dealt to the government as the all-important middle classes began switching their support to the Right.⁷³ Internal differences also surfaced within the UP coalition concerning the effect of the economy on the political program. The communists espoused a strategy of slowing down the transformations in order to consolidate the advances of the government. The socialists, however, believed that the chaos favoured the government's intentions of transforming society and advocated speeding up the process. President Allende, however, preferred the communist strategy and this led to the replacement of Vuskovic as minister of the economy and a new economic policy entitled "Fase II" being introduced in August.

This new economic strategy entailed attempting to eliminate the disequilibrium between supply and demand by raising prices. The exchange rate in the four different areas of the economy was adjusted and official prices were increased, in some cases up to three times their original value. However, in order to give the impression that workers' salaries still maintained their value, public sector wages were doubled at the beginning of October. The government attempted to convince everyone that inflation produced by these rises was a transitory phenomenon on the way to a new and stable level of prices, and as such did not correspond to a conventional process. Unfortunately, this was not to be the case. The immediate effect of the first adjustments was to diminish the value of people's savings, thereby reducing the population's purchasing power. However, this attempt by the authorities to cut demand and put a stop to the shortage of commodities and growth of the black market was offset by the raising of public salaries little more than a month and a half later, which only served to increase the fiscal deficit. This coupled with the huge amount of state sector industries now operating inefficiently meant that the country's economic situation was only becoming worse.⁷⁴

In October 1972, indications that the government was using the state transport and distribution network to move goods prompted a nationwide trucker's strike. This was rapidly joined by merchants, professionals and students, using the occasion to express

⁷³ Bitar, p.96.

⁷⁴ *Mil Días, Mil Por Ciento*, pp.70-75.

their discontent with the authorities. It quickly came under the orchestration of the Right, evidenced by the introduction of political demands that the government had problems meeting. Despite government attempts to resolve the situation, the dispute lasted almost a month. It was only called off after the entrance of the military into the cabinet, which was taken by the protestors as a sign that the government would modify its policies. However, the authorities instead placed the blame for the country's precarious economic condition on the irresponsibility of the strikers and promised retribution. The government's implication was that the country had been functioning normally up until October, and that it had been the strike that had caused irreparable damages to the economy rather than the government's policies.⁷⁵ Bitar asserts that from this point on, economic policy lost any element of choice and became almost entirely constrained by strong political limitations.⁷⁶

In November 1972, the severe lack of wheat forced the government to decree its replacement with flour for making bread. The result was chocolate coloured bread nicknamed "war bread" or "black bread", which was an illustrative indication of the economic state of the country. In the same month, a report issued by Economic Committee of Ministers defined the situation as one of hyperinflation. In December, a constitutional impeachment against the Interior Minister was launched in Parliament by the opposition, but Allende merely switched him to Economy. In an effort to beat the black market, the new Interior Minister announced the introduction of a new stricter distribution system for goods. A tightly controlled quantity of thirty of the most basic products would be assigned to every family, including sugar, rice, cooking oil, coffee, meat, etc. Each 'hamper' would be allocated to the individual families by the already established JAP (Supply and Price Committees) network, the neighbourhood level government food and distribution organisation. This plan, however, was categorised by the opposition as a clear UP endeavour to gain totalitarian control over the country, since if people did not agree with government policy their food could be withheld. In the end, the government did not go through with the scheme due to fear of losing popularity in the upcoming parliamentary elections.

⁷⁵ *Mil Días, Mil Por Ciento*, pp.75-76.

⁷⁶ Bitar, p.100.

By the end of 1972, the sheer magnitude of the disturbances made a financial correction practically impossible and only an advance toward tighter administrative and popular controls over the economy could have any effect. This approach, however, required a balance of power that was difficult to obtain.⁷⁷ During the year, the GNP had decreased by 1.2% in relation to the previous year, while the rate of inflation rose to 163.4% compared to 22.1% in 1971. The amount of money issued by the government rose by 164.9% in relation to the previous year, while the budget deficit equalled 41% of total state spending. The copper mining industry increased production by no more than 1.2%, despite huge investments in production realized during the term of Eduardo Frei. The industrial sector registered an overall increase of 2.5% in production, while iron and saltpetre also diminished by 22% and 13% respectively. Production in the farming and animal husbandry sector dropped by 6.7%, and food imports rose correspondingly by 55% to arrive at 37% of total imports. Exports dropped by 32% and a commercial deficit of US\$ 500.8 million was recorded. By October 1972, wages had dropped in real terms to 8.3% lower than in the same month in 1970.⁷⁸ The trade balance showed an alarming deficit of \$438 million, compared with \$88 million at the end of 1971, mainly caused by an increase in imports and a drop in exports. The situation was made still worse by various hostile US measures - the cutting off of spare parts and machinery necessary for previously American run businesses, a reduction of international financing from both the US and other agencies, capital outflow, and a sharp decline in trade with the US, all of which were only partially compensated through other channels.⁷⁹

In 1973, the black market expanded at an even greater rate than the previous year. What was described as 'speculative capitalism' took hold, with the population searching for activities involving high returns and liquidity. The parallel economy dealt in dollars, cars and any other scarce goods controlled to a lesser extent by the state, and was deliberately stimulated by the Right in order to create additional economic distortions. According to Bitar, the black market was an inevitable consequence of the financial imbalances, and a manner by which the Chilean capitalist system attempted to avoid the UP transformations and continue with the old income structure.⁸⁰

⁷⁷ Bitar, p.133.

⁷⁸ *Mil Días, Mil Por Ciento*, pp.76-77.

⁷⁹ Bitar, pp.125-127.

⁸⁰ Bitar, pp.130-132.

In the parliamentary elections of March 1973, the UP coalition obtained 43.9% of the vote, with the opposition alliance CODE gaining 54.7%. Despite this result, the opposition spoke of electoral fraud. In the wake of the election, the cabinet resigned and Allende appointed a new cabinet without the participation of the military. In April, a strike in the El Teniente copper mine commenced, which was to cost the country over US\$40 million and last until September. In May, the government absorbed 93 more companies into the APS, continuing with its plans of state expropriation of the industrial sector regardless of the condition of the economy. A state of emergency was introduced in the capital after disturbances caused many injuries and a death. In June, an attempted coup by the 2nd armoured regiment of Santiago was successfully subdued by the constitutionalist C. in C. of the Army. This was an indication of the level of discontent in the country and of the influence of the Right within the Armed Forces, and also served as a premonitory warning to Allende. By July 1973, it was calculated that wage earners' purchasing power had dropped by 36% with respect to the previous year, and lay at 31% below the level existing prior to the start of Allende's term. The country was having to pay large sums in compensation to shipping companies due to their cargoes not being unloaded at Chilean ports because of labour conflicts. The wheat harvest in 1973 was almost half the amount of the previous year, while agricultural production had dropped 22%. Industrial and food production were down, and the fiscal deficit was equivalent to a quarter of the total value of the country's production. One small cheer was that the external deficit had gone down with respect to the previous year. This was partly due to the price of copper going up on the international market, but mainly because international reserves were exhausted and other countries were unwilling to lend Chile more money.

The end was near as a new transport and commerce strike told hold of the country at the beginning of August, further worsening the economic situation. Social unrest reached a new high with an increase in urban terrorism and the assassination of Allende's aide-de-camp. The constitutionalist head of the Army resigned and was replaced by General Augusto Pinochet. Last minute attempts at dialogue between the DC and the UP bore no fruits and the Armed Forces gave signals of distancing itself from the government. By September 1973, the country was paralysed, the opposition was openly calling for Allende to step down, and an atmosphere of imminent civil war existed. Food and

supplies were scarce, the growth in GDP stood at -4.2%, and inflation had reached 381.1%.⁸¹

The end came on September 11th, when the Armed Forces stepped in and the UP government was deposed by a coup d'état. The 'La Moneda' seat of government was bombed from the air and stormed by troops and Allende died during the takeover. A four man military junta composed of the heads of the Chilean Army, Navy, Air Force and Police took charge with General Pinochet at its head. It released a proclamation pronouncing the Armed Forces' intention to end the political and economic chaos and restore Chile to its former state. Pinochet's intention was to halt what he saw as the ruination of the country under the auspices of Marxism. A curfew was imposed and many members of the left suffered arrests, imprisonments, assassinations, disappearances, and executions in the first weeks of the regime. The dictatorship was originally pronounced as a temporary measure to get the country back on its feet but Pinochet was to remain in power for almost 17 years before democracy was eventually restored in 1990.⁸²

Summary

According to Meller, UP economic policy was of a populist character and fell into three stages. The first phase involved achieving a rapid reactivation of the economy in the wake of the election and an accelerated redistribution of wealth. The result was an initial period of expansion and growth, in which an increase in salaries took place while inflation was contained through price controls. This period was characterised by successful growth, low inflation and an increase in the purchasing power of the workers. The second phase, however, showed increasing disequilibrium generated by the strong increase in demand. Production could not keep up as industrial stocks of raw materials slowly depleted. The external sector acted as an escape valve but this used up existing currency reserves. This in turn had a negative effect on inflation, with capital flight and demonetisation of the economy. The public sector deficit increased considerably through diverting subsidies towards massive import of consumer goods, maintaining fixed exchange rates, while at the same time state revenues fell in real terms. The third stage consisted mainly of attempts of the government to apply anti-inflationary policies,

⁸¹ *Nueva Historia de Chile*, p.526.

⁸² *Nueva Historia de Chile*, p.545.

reducing subsidies and decreasing salaries.⁸³ According to Bitar; “The program of the left gave limited attention to the design of short term policies. It concentrated on structural transformations within a long-term perspective. Furthermore, the economy was a technical matter to which the leaders of the coalition gave little attention, preferring to delegate it on the understanding that it was less important than the necessity of widening the popular base of support. The economic program was poorly elaborated, rarely discussed and was formulated neither in a consistent nor quantified manner.”⁸⁴ However, he also reminds us that economic policy has to be interpreted in the framework of a conflict between two adversaries and hence permanently circumscribed by the actions of the opposition.⁸⁵

⁸³ Meller, p.117.

⁸⁴ Bitar, p.97.

⁸⁵ Bitar, p.133.

Chapter 4 - UP's Economic Policies as seen by *El Mercurio*

4.1 Presentation

The purpose of this chapter will be to examine the source material by means of a systematic study of chosen articles that deal specifically with the main areas of UP government economy. The articles will be categorised into different topics - the initial newspaper reaction to Allende's election, the areas of property, the copper industry, nationalisation of banks, and agrarian reform. The aim will be to analyse the attitude of the newspaper in its coverage of the subject matter and evaluate its objectivity as a journalistic medium, and in doing so provide a greater understanding of the period under study.

4.2 The Chilean newspaper *El Mercurio*

El Mercurio is one of Chile's oldest newspapers and can be regarded as the equivalent of the English newspaper *The Times*. It was originally founded in Valparaíso on 12th September 1827 and started in Santiago on 1st June 1900. The newspaper was owned by the Edwards family, which in the late 1960s supplied over half of the total circulation of dailies in the country. Its publishing house *Lord Cochrane* supplied an even greater share of the weekly magazine market and in conjunction with the closely associated *Editorial Zig-Zag*, the Edwards clan retained control over almost the entire Chilean market for periodicals. At the beginning of Allende's government, the newspaper was considered a well informed, conservative but independent publication.⁸⁶

El Mercurio's connections with the USA

However, *El Mercurio* was not as independent as many people believed, and the newspaper in fact played a significant role in the undeclared war against the UP government. In reality, the connection between the newspaper and the United States extended back over some years. Since the beginning of the Cold War, US interest in Chile had increased dramatically as it recognised the strong political advance of left-wing elements there. The aim of US covert activity in Chile became to prevent the

⁸⁶ de Vylder, p.19.

election of a communist/socialist president. US covert involvement was particularly substantial in the successful election of centre DC president Eduardo Frei in 1964, with the CIA secretly paying over half of his campaign.⁸⁷ With the 1959 Cuban revolution still fresh in the minds of many, the US particularly feared a result in favour of candidate Allende, who had also run in the same election at the head of a left-wing coalition. The US was again involved in the 1970 presidential elections, with CIA inspired editorials being inserted almost on a daily basis in *El Mercurio*, and CIA controlled assets possessing considerable influence over the paper's international news section from 1968 onwards.⁸⁸

Despite efforts to the contrary, Allende was elected president on September 4th 1970 with 36.2% of the vote. However, since no candidate had obtained a majority, the Chilean Constitution stipulated that a joint session of its Congress decide between the two candidates obtaining the most votes. This session would be held in October and, as such, Allende could still be prevented from assuming office, since there existed the possibility of influencing the votes of the senators. Shortly after Allende's election victory, *El Mercurio* owner Agustín Edwards travelled to the US for an audience with President Richard Nixon. This most certainly had a pronounced effect on the meeting between Nixon and CIA director Richard Helms on September 15th, in which Nixon ordered Helms to prevent Allende from taking power.⁸⁹ *El Mercurio* became one of the front-line voices for the opposition and receptive to a great deal of CIA activity. One particular incident during this period involved Allende directly criticising the newspaper for its anti-UP stance. The CIA countered by organising "cables of support and protest from foreign newspapers, a protest statement from an international press association, and world press coverage of the association's protest." Furthermore, "journalists -agents and otherwise- travelled to Chile for on-the-scene reporting. By September 28, the CIA had agents who were journalists from ten different countries in or en route to Chile. This group was supplemented by eight more journalists from five countries under the direction of high-level agents who were, for the most part, in managerial capacities in the media field."⁹⁰ This indicated that the combination of the newspaper's dominant position in the Chilean media, together with its links to the powerful US interests

⁸⁷ *Covert Action in Chile 1963 – 1973*, p.14.

⁸⁸ *op.cit.*, p.19.

⁸⁹ *op.cit.*, p.11.

⁹⁰ *op.cit.*, p.24.

operating in the country, made it a formidable right-wing opposition tool for the UP alliance to contend with.

That the UP government-in-waiting was upset by the newspaper's anti-communist attitude was clearly demonstrated by a visit paid by one of Allende's lieutenants, Alberto Jerez, to the representative of Agustín Edwards during this period. According to a confidential ITT memo dated September 17th 1970, Jerez wanted the newspaper to stop its anti-Allende campaign and told the representative in no uncertain terms that the attitude of the newspaper and Edwards was suicide. Furthermore, the intention of the Allende government was to expropriate the periodicals and destroy what they represented. Jerez also indicated that other Edwards' interests in Chile would be affected to a greater or lesser degree depending on their attitude in the following weeks. According to him, the periodicals were inciting sedition, and if this continued, they would not be able to control the MIR, who wanted to burn down the (newspaper) plant. Furthermore, Jerez added that if the newspaper's owner returned to Chile and the newspaper's attitude refused to change, Edwards would be hung in the Plaza de Armas after Allende assumed the presidency.⁹¹

During the election campaign, Allende had indicated his intention to nationalise the country's service industries. This included the national telephone company that was at the time a subsidiary of the North American ITT (International Telephone and Telegraph Co.) giant. This caused concern for both ITT and the US government, and both the CIA and ITT channelled money into the hands of persons connected with *El Mercurio* in the general anti-Allende effort, a practice that continued after Allende assumed office.⁹² The importance of the paper and its sister periodicals was recognised by the ITT Corporation. A confidential company memo outlined events since Allende's election victory and stated the importance of maintaining these publications in print in the face of strong pressure, due to their being the only openly anti-communist voice left in Chile after Allende's election. The memo's judgement was that they could very well turn into the Achille's heel of Allende and his associates.⁹³

⁹¹ Gonzalez Pino and Fontaine Talavera, p.1078.

⁹² *Covert Action in Chile 1963 – 1973*, p.13.

⁹³ Gonzalez Pino and Fontaine Talavera, p.1074.

By the 20th October, another ITT memo to the head of the company, Harold S. Geneen, disclosed that Allende had proceeded to take control of the country's communications in the manner of dictatorships of the proletariat. Only *El Mercurio* and *Radio Cooperativa Vitalicia* were still resisting the threats and intimidations. Once the UP coalition was governing the country, their fate would also be sealed.⁹⁴ A stream of memos and reports concerning the situation flowed between Santiago and ITT headquarters in the US, and this shows the importance the North Americans attached to the threat presented to their financial interests in Chile. In fact, documents were published in Chilean newspapers in April 1972 detailing attempts by ITT to intervene in the country's political affairs of this period. This was part of a sensationalist investigation by a North American journalist, Jack Anderson, to expose links between the company and the US government. The 'Confidential ITT Papers' as they became known were published in *El Mercurio* in complete version on the 3rd and 4th April 1972, in an effort to present the full picture concerning the ITT 'intervention'.⁹⁵

The CIA and *El Mercurio* during Allende's presidency

In spite of all attempts, Allende assumed the presidency on November 4th 1970 and the UP government began its program of nationalisations and expropriations almost at once. Although the UP government did not attempt direct action against *El Mercurio*, it did try to affect the paper negatively through other means, such as intervention in the newsprint market and the withdrawal of government advertising. In 1971, the CIA station in Santiago evaluated that the newspaper could not continue to endure this type of financial destabilization. As a result, the US government secretly authorised US\$700,000 for *El Mercurio* on September 9th, 1971, and added another \$965,000 to that authorization on April 11th, 1972.⁹⁶

The US government authorizations in 1971 and 1972 for passing financial support to *El Mercurio* were based on field reports that the Allende government was trying to shut down the *El Mercurio* chain. However, according to the US Senate '*Covert Action in Chile 1963 – 1973*' report, the opposition press remained unrestricted throughout the term of the UP government, in spite of endeavours to muzzle and financially limit it. In

⁹⁴ *op.cit.*, p.1094.

⁹⁵ *op.cit.*, p.1072.

⁹⁶ *Covert Action in Chile 1963 – 1973*, p.8.

reality, reports on which the authorizations were based gave a slightly different picture than intelligence community analyses. For example, a US National Intelligence Estimate in August 1971 ascertained that the government was endeavouring to control the press, but remarked that *El Mercurio* had managed to preserve its autonomy. However, US\$700,000 were authorised only one month later in order to help preserve the newspaper. Additionally, CIA documents from 1973 recognized that *El Mercurio* and, to a lesser degree, the periodicals belonging to political parties in the opposition, were the only publications under pressure from the government.⁹⁷

The ‘*Covert Action in Chile 1963 – 1973*’ report also stated that during the period of the UP government, the CIA station in Santiago produced more than one editorial a day for *El Mercurio*. The newspaper’s editorials were broadcast throughout the country on several national radio networks, signifying broad exposure. Furthermore, *El Mercurio* was one of the most influential Latin American newspapers, especially read in business circles abroad. It was estimated that anti-communist press and radio items reached an audience of well over five million listeners in 1970.⁹⁸ According to the same report, “*El Mercurio* was a major propaganda channel during 1970-73, as it had been during the 1970 elections and the pre-inauguration period.”⁹⁹ The CIA even concluded that; “*El Mercurio* and other media outlets supported by the Agency had played an important role in setting the stage for the September 11th, 1973 military coup which overthrew Allende.”¹⁰⁰

Summary

As we can see, it is a well-documented fact that *El Mercurio* received financial assistance from the US both before and during the period of the Allende administration. Based on the above evidence, there can be no doubt that the newspaper was biased in its presentation of events during the Allende period. However, an issue far more serious was that the newspaper allowed editorials to be composed for it by the CIA. This certainly damaged its credibility and indeed, a common slogan appearing on street walls at the time was “¡*El Mercurio* miente!” signifying “*El Mercurio* lies!” Members of the populace evidently realised that certain articles published by the newspaper were giving

⁹⁷ *op.cit.*, p.29.

⁹⁸ *op.cit.*, p.22.

⁹⁹ *op.cit.*, p.29.

¹⁰⁰ *op.cit.*, p.8.

a distorted picture. In fact, on one occasion, members of the Radical Party declared in Congress that *El Mercurio* was noted for its permanent attacks on government measures, and also for the fact that the people knew perfectly well that the newspaper represented the right and for that reason did not read it.¹⁰¹ Several questions naturally present themselves in conjunction with the above - how far did the newspaper go in its twisting of reality when reporting upon the situation in the country from day to day, whether this distortion increase over time, and whether it had any effect on the presentation of its coverage of the UP government's economic policies. It is these questions we will attempt to answer through our examination of articles from *El Mercurio* in the following pages.

It is possible to speculate concerning the newspaper's motives for conducting the anti-Allende campaign. Perhaps the newspaper's owners foresaw the gradual monopolization of media outlets by the nationalisation program of the government and feared the same happening to *El Mercurio*. They most certainly dreaded expropriation and government control and must have seen that the newspaper's freedom and independence would suffer under a socialist regime, not to mention its financial prosperity. As such, their willingness to co-operate with the North American multinationals and the US government to try to avoid such a scenario can be understood in this context.

4.3 The initial newspaper reaction to the government's economic plans

Despite the presence of rising inflation and stagnation in production during the last years of Eduardo Frei's DC government, there did not exist any critical circumstances on the macroeconomic level in the run up to the 1970 presidential election. On the contrary, there existed a high level of international reserves due to the elevated price of copper on the international market and a realistic exchange rate policy, combined with a multitude of restrictions on imports.¹⁰² Immediately following Allende's election victory, however, the country experienced a period of panic and economic instability. The most immediate effect was a sharp rise in the preference for cash. The demand for cash in the private sector increased by 35% and deposits were withdrawn en masse, creating pressure on the banking system. The Central Bank reacted by transferring large

¹⁰¹ *La Nación*, 16/09-1971, "Derechistas Niegan la Libertad de Opinion a los Periodistas".

¹⁰² *Mil Días, Mil Por Ciento*, p.21.

amounts of money to the commercial banks, in order to avoid a collapse of the system. Simultaneous transfers took place with the savings and loan associations. In order to deal with the demand, the outgoing Frei government printed money in vast quantities. Purchases of foreign currency increased and the Central Bank was forced to take measures to limit remittances of profit and interest payments. Other phenomena triggered by Allende's election victory included an abrupt drop in construction and a decrease in the demand for non-essential goods. This continued on into the first months of 1971. The demand for durable consumer goods decreased far more than for everyday items. In the construction industry, a decline in sales and a corresponding rise in unemployment were registered. This in turn led to a swelling of stocks, a decrease in buying of raw materials and a trend of suspension of payments on outstanding accounts. In addition, a crash on the Santiago Stock market was registered as the price index for stocks fell from 135 to 71 during September and remained at this level in October. All this contributed towards the financial crisis.¹⁰³

Articles concerning the post-election economic crisis appeared in *El Mercurio* from the date of Allende's election and continued after he assumed the presidency two months later. The solemn tone set in the newspaper reflected the condition of the country's economy and also emphasised the ideological conflict involved. For example, an editorial appeared in the newspaper on 25th September 1970 entitled "Uneasy Economic Situation". The article pointed to a recent government report presented by the outgoing DC government's Minister of Finance, Andrés Zaldívar, concerning the change in the economic situation due to the election and the steps being taken by the Frei administration to contain the crisis. The full text of the address had been reproduced in *El Mercurio* the previous day. According to the article, the report had plainly shown that the DC government could not be held responsible for what was going on, despite attempts by the UP coalition to prove the contrary. The article specifically interpreted the post electoral economic crisis as being the expression of the people's fear of the thought of a socialist-Marxist government. It ascertained the panic as being caused by a large number of Chileans experiencing insecurity with respect to their jobs, savings, houses, or businesses, and not a rich minority concerned about the protection of their monopolies or privileges. The newspaper concluded that the country had not only been

¹⁰³ Bitar, pp.37-38.

taken by surprise regarding the very real possibility of heading down the road to communism, but also the realisation that the country was facing the possibility of an economic catastrophe.¹⁰⁴

However, Bitar asserts that Zaldívar's economic report in fact *contributed* to the climate of economic uncertainty by conjuring up the image of a crisis flying out of control, despite government efforts to contain it.¹⁰⁵ The DC government had decided to make the report available to the general public as it wanted there to be no doubt that the economic crisis had been brought on by the election results and not the economic policies of the Frei administration. The conclusions of the report naturally substantiated this and the effect would have been one of reinforcing the climate of uncertainty in the country, something which the editors of *El Mercurio* almost certainly knew when they decided to publish the report in full on the 24th September. Yet, one should also bear in mind that much social unrest already existed in the country before Allende's election victory. The Frei government had precipitated a state of 'hyper-mobilisation' or agitation in Chile by awakening the people's social awareness through reform programs, such as the Agrarian Reform and the enactment of peasant syndicalisation laws. Armed expropriations of land, occupations of schools and colleges, and demonstrations and marches were commonplace in the last two years of the DC government. The social unrest at the time undoubtedly contributed to the instability of the financial situation.

Furthermore, according to Bitar, an analysis of the post election economic crisis reveals an interesting element. The panic of the first few days was mainly limited to the nation's capital, and only slightly registered in the provinces. In addition, the pattern of savings withdrawal was much more widespread from the accounts of middle- and upper-income groups (savings and loan associations) than among low-income groups (The State Bank). This shows that it was wealthy Chileans who reacted most sharply to the election of a socialist president. The above-mentioned trends started spontaneously among high-income social groups, but were later deliberately stimulated by anti-UP forces in order to foment a post-electoral economic crisis, with the aim of intensifying the general uncertainty and demonstrating that it would be impossible for the UP to manage the economy in these conditions. The majority of the country, however, consisting of

¹⁰⁴ *El Mercurio*, 25/09-1970, p.3, "Inquietante Situación Económica".

¹⁰⁵ Bitar, p.37.

salaried employees, did not change its behaviour with regards to the withdrawal of money.¹⁰⁶ As such, the picture of events that *El Mercurio* would have its readers believe was not so black and white as it presented.

El Mercurio's view of the UP economic plans

El Mercurio spent time and effort on placing the new government's plans for the economy in a bad light. In the October 8th 1970 edition, an editorial with the headline "International U-turn by Chile?" examined various international aspects of the Popular Unity Basic Program of Government. According to the article, the program contained a rejection of Chilean economic integration in Latin America. This would represent an about-turn in the direction of the country's economic policy. Chile's continuing participation in ALALC¹⁰⁷ and the Andean Pact¹⁰⁸ would be placed in doubt unless, in the eyes of the UP, all the participating countries became "liberated from imperialist forms of dependency and exploitation". Furthermore, this statement of principle (amongst others) prevented Chile from developing a common policy regarding foreign investment, or competing favourably for the formation of multinational corporations, which were steps foreseen as imminent within the Andean Pact. The article concluded by stating that this hostility towards foreign capital and a narrow-minded idea of socialist solidarity could represent a bitter economic clause for the country.¹⁰⁹ The newspaper showed it recognised the tremendous importance of foreign investment for Chile, and the negative effect a literal interpretation of UP program foreign trade policy would have on the country's future.

More evidence of the newspaper's antagonistic attitude towards the UP government-in-waiting was displayed on October 10th 1970, in an extended article criticising the economic program of the Allende government. The central objective of the program was stated as "to replace the existing economic structure, in order to initiate the construction of socialism". Additionally, the government signalled the existence of too many monopolies and the inefficiency of important sectors of the economy. According to the article, this was the same as diagnosing the incapacity of the private sector and the article asked whether this situation was due to the barriers imposed by the policies

¹⁰⁶ Bitar, pp.37-40.

¹⁰⁷ ALALC – Latin American Free Trade Agreement

¹⁰⁸ Andean Pact – a similar free trade agreement within South America

¹⁰⁹ *El Mercurio*, 08/10-1970, p.3, "¿Viraje Internacional de Chile?"

of foreign commerce or the policies of development continued by governments over the years. The government's arguments would not be valid unless it stated alongside that the private sector did not have the capacity to contribute to the development of the country, that private capital property was undesirable, or that the capacity of the state was large and efficient enough to administrate the private sector. The article asked pointedly whether the state had, in fact, ever shown the capacity to administrate.

Concerning economic development, the article pointed to the UP's intention to redirect the country's productive capacity away from superfluous goods towards 'articles for general consumerism'. The article criticised the lack of concrete information concerning the change; presumably it would be in the form of direct state action through the companies under its control. This was criticised as being an old aspiration of many without any particular validity for the country, since there existed an international market that in many cases could provide better products at cheaper prices. The change in the productive structure would imply a transfer of resources, and the quicker the transition, the more profound the effect on the production of 'superfluous' articles. According to the program, careful control over the process of change was required, in order to provoke a minimum of unemployment. However, the article stated that unemployment would be produced immediately anyway, and would be accentuated by the strong drop in demand.

The second objective of the economic policy was cited as "guaranteeing employment and adequate recompense to all those desiring it". The article postulated that the only way to achieve this would be to maintain a level of growth of the national product compatible with these aspirations. Since a change in the structure of production would have a negative effect on the national product, the economy would be delayed in returning to normality, and this would not allow any satisfactory short-term recompense.

The third objective was quoted as "liberating Chile from the subordination of foreign capital". The article noted that, regardless of the method chosen, the important thing would be to make sure that greater national investment replaced the rejected foreign capital. This would have to be preceded by a considerable growth in national savings.

The fourth objective was to assure “rapid and decentralized economic growth” in order to satisfy the necessities of the economy and the aspirations of the population. The article agreed with this, saying that it would be the result of efficient policies applied to the different sectors of the economy.

The fifth objective was the execution of a foreign commerce policy designed to develop the export sector and “avoid scandalous devaluations of our currency”. The article pointed to the fact that devaluations were a consequence of and directly linked to the control of internal inflation, which was the responsibility of the government. If the country did not periodically devalue its currency in accordance with its internal rate of inflation, the country would see its exports reduced to just copper. This would place in danger the supply of goods and capital, not to mention raw materials, which wouldn’t be manufactured due to lack of currency.

The sixth objective was the pursuance of monetary stability, which would be achieved through the aforementioned structural changes. Finally, the guarantee of the fulfilment of the six objectives lay in the control of power by the people. The article concluded by stating that in recent days, all attention had been concentrated on the negotiation of the statute of democratic guarantees.¹¹⁰ However, greater attention should be paid to the principal characteristics of the UP program, as well as the phenomena that characterized the functioning of the economy.¹¹¹

Imprecision and misinformation

One of the immediate tasks carried out by the new government was a state-of-the-economy address by the new UP Minister of Finance, Américo Zorilla. On November 29th 1970, an editorial appeared in the *El Mercurio* referring to this presentation as being a mere ‘diagnostic’, one which could be qualified as impeccable from the point of view of Marxist-Leninist ideology. However, according to the newspaper, this diagnostic was not accompanied by an accurate description of the economic measures

¹¹⁰ After the UP election victory on 4th November 1970, the coalition realized it was isolated in Congress and would need support to pass any future legislation. The DC had let it be known that it would be willing to give backing to the UP in Congress on the condition that it agreed to a pact of constitutional reform, which the DC saw as being necessary in order to preserve the nature of Chile’s democratic process. A “Statute of Constitutional Guarantees” was put together by a joint UP-DC commission, passed through Congress and eventually became law on 9th January 1971. This was essentially a promise by UP to respect the country’s democratic institutions in exchange for political support.

¹¹¹ *El Mercurio*, 10/10-1970, p.2, “El Programa Económico de la Unidad Popular”.

the government would take. The only precise point was the readjustment to salaries and pensions. Yet this had more of a populist effect, and the presentation did not indicate how this would be financed. The Minister did not explain the mechanisms he would use to satisfy employment and production. In order to combat inflation, prices would be frozen by decree, as well as the price of the dollar. However, the exposition did not dissipate doubts with respect to conciliating large readjustments of remunerations with a stabilizing policy, the promotion of exports with a frozen exchange rate, a policy of large fiscal investments with a low world copper price and with the fight against inflation. The article pointed to two elements scarcely mentioned in the exposition; the possibility of better labour discipline, and a demand for bigger public and private savings. In summary, the article signalled that there existed a lamentable lack of economic information in the first public and official exposition of the economic policy of the government. The Chilean public was sufficiently mature to know the real content of the government's policy. It wasn't enough to simply release already known policies. In a democratic regime such as the Chilean one, the newspaper would expect a public debate concerning the adoption of concrete measures, a discussion of projected social advances, and specific knowledge of the sacrifices necessary for any progress. The article concluded by stipulating that this was the first time an official exposition concerning the state of the public finance consisted of a 'diagnostic', and not an explicit communication of what the government was going to demand and expect from its citizens.¹¹²

An editorial entitled "Reality of the Government's Economic Plan" appearing on 6th December 1970 continued on the same theme. The newspaper asserted that the public was misunderstanding the government's economic intentions due to the government's imprecise manner of informing the country. According to the article, people's reactions showed that they assumed certain criteria and motivation that the government did not possess. The article went on to warn of some possible consequences of introducing a state run economy.¹¹³ Here, the newspaper was not only implying that UP economic policies would lead to trouble, but also that the way in which they were being presented to the public was tantamount to misdirection on the government's part.

¹¹² *El Mercurio*, 29/11-1970, p.31, "Exposición del Ministro de Hacienda".

¹¹³ *El Mercurio*, 06/12-1970, p.31, "Realidad del Plan Económico del Gobierno".

Summary

As we have seen, the newspaper's initial response to the UP economic program upon Allende's election victory was one of alarm. This most likely reflected the fears of the section of the population that *El Mercurio* represented. The newspaper emphasised the ideological conflict involved and focused on the economic upset the country suddenly experienced immediately in the wake of the UP election victory. We saw that the newspaper was merciless in its condemnation of the UP government economic intentions on several occasions. *El Mercurio* even asserted that the public was misunderstanding the government's plans due to its imprecise manner of informing the country. According to the newspaper, the way that government policies were being presented to the public was tantamount to misdirection on the government's part. *El Mercurio* also directly implied that UP economic policies would lead to trouble.

However, it was also noted that the situation was not as clear-cut as *El Mercurio* would have its readers believe. We saw how the newspaper spent time and effort on placing the new government's plans for the economy in a bad light. It was more than probable that *El Mercurio* itself was contributing to the economic instability during the transition period between governments, by projecting mistrust and lack of confidence in the new government's economic policies. Furthermore, the newspaper was criticising the UP alliance's plans for changing the structure of the economy from a right-wing ideological standpoint, which could hardly be called objective journalism. It can be seen that *El Mercurio* was very much employing a strategy of discredit and mistrust as part of its anti-Allende campaign.

4.4 *El Mercurio*'s presentation of the APS polemic

Apart from the general statements in the 'Basic Program of Government' concerning the division of the economy into three areas and the creation of a dominant state area (see chapter 3.2), there existed no specific guidelines at the beginning of the UP term of government as to the formation of the Area of Socialized Property. Although the expropriation of the copper, nitrate and iron industries and the banking sector were referred to in the program, no list of businesses, nor procedures to follow, nor form or amount of compensation were explicitly set out. These issues were to be taken care of

along the way, and left very much up to ministerial discretion.¹¹⁴ In the event, things moved quickly in the first year of UP government. Congress approved the nationalisation of the copper-mining industry in July 1971, and the large copper mining firms were nationalised by the end of the year. The same also took place with the large foreign owned corporations producing iron, coal and nitrates. In the agrarian sector, the government expropriated almost as many estates in its first year as the previous DC administration had during the whole of its term. In the banking sector, all foreign banks were acquired by the state by the first half of 1971, while the government attained a majority share in 11 of the 23 national banks. This gave the state direct control over approximately 90% of the total available credits. Additionally, 20 of the 23 biggest manufacturing businesses were in state hands by the end of 1971, with the government in control of 68 private firms. The same went for the largest distributors and retailers of construction materials and consumer goods. The import of food and primary materials also became centralized, bringing foreign trade under control of the state. However, due to the government's manner in handling the affair, the APS became one of the most polemical issues of Allende's administration.

As might be expected, *El Mercurio* was opposed to UP government policy regarding the creation of a state area of property. An editorial criticising the government's methods of expropriation appeared in the newspaper on 18th September 1971, making specific reference to a conflict of interests between the state agency DIRINCO¹¹⁵ and the independent office of the Controller-General. Since the economy was centrally planned, DIRINCO had the power to fix prices at will and the government could direct it to freeze certain prices at times of rapid salary increases, and so artificially induce a state of economic crisis within a firm. A government appointed administrator would then step in and, once again, it would not take long before the company owners would sell to recoup at least some of their losses.¹¹⁶ The article accused the agency of subordinating the law and the constitution to directives from the government, by intervening and taking over companies with the aim of transferring them to the Area of Socialized Property. The requisition laws were originally designed to restart a company's production in the event of work stoppages caused by labour conflicts. According to the

¹¹⁴ Bitar, p.43.

¹¹⁵ Dirección Nacional de Industria y Comercio – National Committee of Industry and Commerce

¹¹⁶ Meller, pp.146-147.

article, it appeared that worker unions were conspiring to cause the work stoppages, in order to give the government a pretext to intervene. The article referred to these tactics as being “deviated administrative behaviour” – in other words, illegal, since the requisition laws were not being used for the purpose they were originally intended. Although the Controller-General had not taken too much notice of these incidents, he had requested evidence of the supposed production stoppages in order to justify the requisitions. Unfortunately, even this reaction had been too much for the government media and Marxists, which had orchestrated a campaign of injuries in the government press. Despite claims by DIRINCO that the contested requisitions had been resolved, there was still no return of any companies to their owners. Furthermore, the authority and integrity of the Controller-General was being suffocated by inside influence, and an internal inquiry ordered by him had also been attacked by government press. Finally, the promise by the President to bring about a legislative initiative to define the three areas of property only confirmed the general opinion of the irregular nature of procedures concerning the APS. According to the article, the attitude of DIRINCO functionaries in still claiming legal backing for their actions could probably be explained by the fact that its director had prolonged prior experience in Cuba.¹¹⁷ Here, *El Mercurio* was not only attempting to throw a shroud of illegality over the actions of the government, but also invoking the ideological fear of Marxism.

Definition of the APS

For its own reasons, the UP administration showed an inability to clearly define the Area of Social Property anytime soon after its election. *El Mercurio* did not refrain from criticising the government for this, as well as its methods in forming the APS and the effect on the economy. An editorial appeared on September 6th 1971 entitled “Three Undefined Areas”, which pointed to a contradiction in government statements. The country’s sectors of production had asked for, had been promised, and had been waiting for a year for the government to release criteria for inclusion of companies in the APS, in order to allay the fears of large businesses that feared expropriation. However, the Under-Secretary for the Economy, Oscar Garretón Purcell, had recently stated in an interview with the newspaper that the contents of the APS were determined in the Basic Program of Government, and as such, there already existed a government definition of

¹¹⁷ *El Mercurio*, 18/09-1971, “DIRINCO y las Requisiciones”

the three areas of property. Based upon this remark, *El Mercurio* ascertained that there would be no more information forthcoming from the government concerning the subject, and that the unease expressed by the country's sectors of production for not knowing the fate of individual companies was fully justified. In May that year, the government had expropriated Chile's five biggest textile companies. In light of this, the article criticised the reaction of the Under-Secretary to the outcry at what were considered illegal methods of expropriation of some of the textile companies, through his comment that "they clamoured for the definition of the areas, and when the social textile area was defined, instead of applauding...they raised their voices in protest." The newspaper remarked that this was a strange way of defining an area, by systematically violating the constitutional guarantee of the right to property. The conclusion was that Under-Secretary could not be bothered to take the trouble to reassure anyone, since he had made clear that in the future the areas of property would continue being defined by the expropriation of companies.¹¹⁸

An extended article published on September 11th 1971, discussed the issue of definition of the areas of property in more detail. The newspaper repeated the necessity for the government to clarify the criteria for inclusion in the APS, and demanded to know which specific enterprises would suffer this fate. It also indicated the existence of discrimination and arbitrary function on the part of the government in matters of compensation and asked how such conduct could be avoided. In addition, the article deemed it necessary that the general procedure by which companies would be transferred to the APS be set out precisely, and placed emphasis on the all activities taking place within the accordance of the law. The government definition of the areas of property, as set out in the Basic Program of Government, was criticised as being "clearly insufficient" and suffering from vagueness which additional clarifications since had not dispelled. As a result, many companies had been intervened in indefinite form without compensating their owners, there had been considerable variations in the length of time for payments, stockholders had been discriminated against on no particular basis, and that compensations had often depended on the seller's ability to negotiate a good price. The article called for a law to clarify the issue once and for all.

¹¹⁸ *El Mercurio*, 06/09-1971, "Tres Areas Indefinidas"

The article then entered into a discussion of the disadvantages mentioned by members of the government that might occur in the event a definition was put forward. Firstly, it might create the image that the revolutionary process had ground to a halt instead of being innovating and constantly moving forward, and this could damage the image of the government. Secondly, a law clearly stating the legal definitions of the area of property as desired by the UP administration would be impossible to get through Congress, and as such the government preferred to keep the country guessing as to its intentions for a short period, while at the same time paying the price of frightening off private investment. Thirdly, a definition would only complicate the situation unnecessarily since the state did not possess sufficient bureaucrats or administrators to simultaneously take over all companies to be nationalised. Finally, the publication of a list of criteria would affect the running of the companies under threat of imminent nationalisation, since production would be bound to suffer.

Whether the newspaper was making an attempt to understand the reasons behind government actions or merely being cynical is difficult to ascertain. However, the article went on to discuss the chief disadvantages of the current process of expropriation. The government was using enormous amounts of currency buying up companies, with a corresponding drop in public investment taking place. Simultaneously, the government's policy concerning non-definition of the APS had led to a virtual suspension in private investment. Since the government was not assuming a dynamic role in creating new investment, the country's reserves were rapidly being depleted. The article's conclusion was that the government's primary objective was the achievement of political power, while at the same time destroying the economic base of the country's bourgeoisie.¹¹⁹ The implied conclusion was that the UP government knew exactly what it was doing in creating these particular conditions, and that its behaviour was irresponsible and showed a lack of concern for the country's economic situation.

Why did the UP government not define the criteria for inclusion in the APS as early as possible after taking power, and so avoid so much uncertainty among Chilean entrepreneurs (and bad press from *El Mercurio*)? It is certain that the publication of a list of enterprises to be expropriated would have helped clear up much insecurity, and

¹¹⁹ *El Mercurio*, 11/09-1971, "Temas Económicos: Definición de las Areas de Propiedad"

counter-acted the opposition's scare campaign directed at small and medium business owners indicating that they would be next. Bitar speculates that one reason might have been to prevent the formation of an effective opposition by keeping everyone guessing. Indeed, the political opposition was initially forced to proceed with care since no one knew exactly which firms the government would attempt to expropriate. Any firm finding itself on the expropriation list would reasonably respond by cutting production, ceasing investment and neglecting the maintenance of equipment. Keeping this in mind, the state possessed neither the means nor the personnel to take over all the factories at once. Furthermore, it was reasoned that workers not employed by firms on the list (consisting of a majority) would most likely become discouraged and demobilized and negatively effect output.¹²⁰ As such, it can be seen that the government had its own reasons for not defining the creation of the APS more clearly and *El Mercurio's* criticism of this issue can be placed within the context of its being the leading government opposition newspaper.

The Project of the Three Areas

Despite numerous indications and announcements commencing from the time Allende took office, the government postponed submitting an APS project to Congress until October 1971. As stipulated in the UP APS project, the Executive would be authorised to form the social area from existing monopoly enterprises, at the same time guaranteeing small and medium sized businesses as being safe from expropriation. Additionally, the project fixed the amount of compensation for the owners of expropriated industries, the mechanisms for reclaiming material, and the criteria for the participation of workers in the social area. If the project were approved, the eradication of big monopoly businesses without resorting to a case-by-case examination in Congress would be permitted.¹²¹

Why did the government wait so long before eventually submitting an APS project to Congress? It appears that the government gained flexibility and room to manoeuvre by deliberately dragging its heels. However, there were those within the UP coalition itself who opposed sending an APS bill to Congress, on the grounds that it would give the opposition the chance to distort and limit the final version, leaving the government with

¹²⁰ Bitar, pp.75-76.

¹²¹ Corvalán Marquéz, pp.122-123.

weakened powers in this area (as it turned out, this was exactly what happened). The UP was unable to reach a consensus and in the end opted for putting off the issue until the government was in a stronger position, and in the meantime going ahead using the existing legal framework.¹²²

Why, after waiting so long before sending an APS project to Congress, did the government then change its mind? A constitutional impeachment brought by the PN against the Minister of the Economy, Pedro Vuskovic, for use of irregular methods of expropriation had been rejected shortly before. According to *El Mercurio* on 21st October 1971, this was most likely due to the fact that the DC leadership had spoken to the President before voting on the impeachment and come away convinced that the government would change its heart and send a project of definition of the areas of property to Congress. As such, the DC decided not to back the constitutional impeachment.¹²³ The newspaper's implication here was that this piece of political bargaining had the effect of forcing the government to subject its plans for the APS to the approval of the Legislative.

Perhaps another reason for the government's change of heart was the introduction a week earlier by the DC of an alternative bill concerning the areas of property. The DC project was designed to limit the extent of the changes the government was attempting to make and envisioned *four* areas of property - state, social, mixed and private. The state area would concern businesses that were owned *and* run by the state. The social area would include enterprises that were administrated by the workers, and as such they would benefit from them. The mixed area would be made up of businesses whose property would be divided between the state and private owners. Other aspects of the project dictated that in order to transfer a company from one area to another, a law would have to be passed concerning *each* individual case. Also, small and medium businesses could not be the object of nationalisation, except in very particular circumstances, and following the payment of an indemnification by the state to owners corresponding the total value of the assets. Additionally, the project stipulated the discontinuation of Law 520 and other means that the Ministry of Economy had been

¹²² Bitar, p.74.

¹²³ *El Mercurio*, 21/10-1971, p.3, "El Proyecto de las Tres Areas"

using to intervene in companies.¹²⁴ It also declared null and void all acts of the State or its agencies that, from the October 14th 1971, were directed towards the acquisition of shares in banks or companies with the aim of transferring them to the Area of Social Property.¹²⁵

The DC project presented an alternative to the socialism of the government, one that was more decentralised and more democratic in its nature. It enabled the opposition to retard the implementation of the UP project, and it allowed the DC to do so maintaining its own distinctive profile to that of the right. It also endangered the government's plans to create the Area of Social Property in accordance with its own designs. The UP APS project and the existence of the alternative DC project turned out to be one of the most conflictive issues of the Allende period. It allowed the DC and the parties of the right to unite in Parliament against the government and also delayed government legislation in Congress, as the UP parties expended time and effort criticising and countering it. This further contributed to the polarised political situation that the country began to experience in the second half of 1971.¹²⁶ Moreover, it contributed towards a split in the UP coalition itself, as there were those who preferred negotiating a parliamentary accord with the DC, and those who favoured going ahead with the expropriations.¹²⁷

An editorial published on 21st October 1971 drew attention to the government project of the three areas presented to Congress that month. The article criticised the manner in which the project was worded as in reality permitting the government to expropriate any company that had an economic contribution to make to the country. Furthermore, despite a reference in the project exempting from the proposed law any business existing on the 31st December 1969 valued at less than 14,000,000 escudos, this strictly speaking meant that such businesses could be expropriated by other means. As such, the announcement did not bring peace of mind to business owners. Another aspect of the project was that the President could emit decrees nationalizing all or part of any enterprise covered by the terms of the project with instantaneous effect. In other words,

¹²⁴ Law 520, approved in August 1932, allowed for the expropriation of industrial and commercial businesses dedicated to production and distribution of basic consumer goods for any of the following reasons – productive recess, monopolizing of goods, and non-utilization of productive capacity in times of scarcity. Although this law had never been used, it had been left on the books and was still valid and the UP government was able to use it to its advantage. Meller, p.146.

¹²⁵ Corvalán Marquéz, p.121.

¹²⁶ Corvalán Marquéz, pp.122-123.

¹²⁷ Bitar, p.93.

this meant that the independent fiscal office of the Controller-General would be bypassed in the process. The Controller-General had made decisions to reverse some of the government expropriations and this was clearly a tactic to get around this power.¹²⁸ The article concluded that this project was the government's attempt to impose itself legally on the private sector of the country's economy and as such, no enterprise would be safe.¹²⁹

El Mercurio also thought it important to present the effect of government policy on the area of *private* property. In the second half of 1971, the country was experiencing a gradually worsening economic crisis. In an editorial on 16th December 1971, the newspaper examined the strong showing of solidarity in the private area, commenting that this apparently bothered the communists who were in charge of government economic policy. The private area was the sector with the greatest production, and was growing stronger and consolidating due to objective reasons, and not because of any individual calculations by ministerial actions or declarations. The communists' policies had led to the country's current state of scarcity of capital, climbing inflation and a provisions crisis. This situation had only made it harder for the government to absorb more private enterprises into the APS, since they naturally tended to present a united front against the scarcity of supplies or the lack of freedom to make their own decisions. The article made reference to a recent speech by the President of the Confederation of Small Industries and Craftsmen, in which he claimed that, due to the economic situation, the small industries spent 50% of their time getting hold of indispensable raw materials, with consequent negative affects for production. The same speech also attacked the government for fomenting what it called 'parallel trade unionism', through which it had temporarily gained the support of a small group of industrialists, clearly for political ends. Furthermore, a recent declaration by the UP had not rejected in principal a statement by the MIR proposing the disappearance of small private industries, saying instead that they were only inopportune due to tactical reasons. The implication was that only one type of socialism could exist, and the existence of the private area of property

¹²⁸ The Controller-General was an independent branch of the executive whose task it was to rule on the legality and constitutionality of government acts, in addition to employing financial and auditing controls over the Treasury. The position was for life and was appointed by agreement between the president and the senate. Bitar, p.80.

¹²⁹ *El Mercurio*, 21/10-1971, p.3, "El Proyecto de las Tres Areas"

would only be allowed to continue for a while. As such, the solidarity of the private area was justified and signified another failure of government policy.¹³⁰

In January 1972, the UP government announced that an ensemble of 91 strategic industries would go together to form the area of social property. These companies made up the power base of Right in Chile, and as such constituted a decisive moment in the conflict. Of the firms, 74 were industrial, 6 commercial, 4 transport and communications, and 6 involved in electricity/gas/water. The 74 industrial firms were the critical point, since the DC agreed that the others should be transferred to the APS. The enterprises involved controlled the production of widely used intermediate goods, and Bitar asserts that most of them were either monopolies or dominant in their sector.

131

Under the heading “How 91 Companies Can Stagnate A Country”, *El Mercurio* published an in-depth analysis concerning the government’s announcement. In an extended article, the newspaper criticised the government’s justifications for creating the APS - that monopolies should be eliminated, that this would be accomplished through nationalisation, and that the government would capture the surplus currently possessed by the monopolies and be able to redirect it into national development. The government saw it as indispensable for planned economic development that the country could count on an area of state production of a determined significance, whose function was not governed by market considerations (such as competition, maximum utilisation and economic efficiency) but by predetermined goals of production of the program of development. However, the article proposed that, from an economic point of view, there was no basis whatsoever to nationalise the heart of private Chilean economy, and that on the contrary, it represented a step backwards for the development of the country.

The article dealt with three issues; a) whether a monopoly would disappear if the company were nationalised into the state area, b) what would happen to the famous ‘surplus’ if a company were nationalised, and c) that the formation of a dominant state area would in fact preserve the country’s under-development. It made compelling arguments for each issue. Concerning monopolies, the government had never defined

¹³⁰ *El Mercurio*, 16/12-1971, p.3, “Solidaridad del Area Privada”

¹³¹ Bitar, pp.94-95.

what it meant by ‘monopoly’. The article offered a definition based upon economic criteria that “a company is a monopoly when it is the only productive unity offering a determined product or service in a market, and said product always has no competitors or close substitutes”. In that case, the majority of monopolies were already in state hands. Furthermore, the bulk of the 91 companies in the announcement had some greater or lesser form of competition, and as such, were not monopolies (this is in stark contrast to Bitar, who claims that the 74 industrial companies *were* monopolies or dominant in their sector). However, in the case that there still existed monopolies in the private sector, the article asked if transferring them to the state area would be a valid reason to deprive them of their monopolistic status. The answer was ‘no’ for several reasons. The power of a monopoly could be eliminated through other means, such as creating new companies to compete with the monopoly, or price controls to avoid exploiting the consumer, or opening up the monopoly sector to foreign competition. The article reasoned that far from eliminating its power, nationalising a monopoly tended to have the effect of reinforcing it, due to the element of political influence enjoyed by state appointed administrators. As such, the correct thing for the government to do would be to identify the ‘real’ monopolies in the private sector and then apply the above-mentioned procedures.

The second issue regarded the government’s argument that nationalisation of private enterprises would allow the surplus to be captured by the state and redirected towards national development. Although the government had never defined what it meant by ‘surplus’, the article would assume it referred to the profits of private companies. As such, the article made the following points. Firstly, the profits of the principal private enterprises constituted a negligible percentage of the total savings of the country. This was reinforced considering that, through nationalising the companies, the Treasurer would have to pay a compensation that not only diminished the significance of the ‘captured’ surplus, but also rendered it negative. Secondly, a significant amount of the profits of private companies were in actual fact already captured by the state in the form of taxation, meaning that the government’s argument was only valid for part of the profits. Thirdly, the surplus of private companies had a tendency to disappear upon nationalisation. This had been already demonstrated with the copper industry, the banking sector and the textile sector. The bureaucratic and inefficient management of the state led to rises in production costs and made any possible surplus disappear. In this

respect, the only way state monopolies could make surplus profits would be to raise prices or taxation. Lastly, although a surplus existed and was significant, it would only result in greater savings for the country if the Treasurer took the surplus that normally went into private hands (less than 50% of the profits) and directed it towards inversion in greater proportion than the private sector has habitually done. Given the Treasurer's record of decreasing investment in machinery and equipment in 1971, and the fact that Chilean enterprises had been significantly financed by reinvesting their profits, the likely outcome of the transferring of possible surplus to the state would result in a decrease of savings and investment for the country. As such, the article pronounced the government's argument for nationalising private enterprise in order to capture the surplus to be an economic absurdity.

The third point the article made was that the formation of a state area of property would in fact preserve the country's state of under-development rather than changing it. The central problem facing socialist economies throughout the world from the point of economic development was inefficiency in deciding where and when to invest. This was due to the policy of price fixation, which led to distorted prices. This prevented the authorities from knowing which activities would produce the maximum return on investment, leading to economic stagnation. Those socialist countries that in fact did achieve economic growth only managed it through gigantic investment disproportionate to the results achieved. The article pointed to a similar pattern in Chile; a strong intervention by the state, control of credit, prices, interest rates, foreign currency and foreign trade, which had produced a distortion in the system of prices and incentives to such an extent that it has resulted in an appalling assignation of private and public resources for investment, leading to poor growth. From before, the Chilean economy had possessed many of the deficiencies related to centralized socialist economy. As such, the nationalisation of new companies would not constitute any qualitative change, but a change of intensity only serving to sharpen the inefficiency and poor assignment of resources that have prevented the growth of the economy. In reality, many of the explanations for the country's slow development could be found in the consecutive economic policies of the governments of the last thirty years. However, many of those who were now nationalising private enterprises had not taken this into account and were only concerned by the question of ownership of the means of production. Such a way of thinking would only serve to produce a growing tendency towards economic stagnation.

Taking into account the low level of investment in 1971, and the even lower level forecast for 1972, the conclusion was that Chile was heading for prolonged economic stagnation. Furthermore, in this context it was incomprehensible of the government to divert scarce resources of investment to buying existing companies instead of creating new ones.

The article concluded by categorically stating that the economic arguments for nationalising the 91 companies could not stand up to any analysis whatsoever. The only explanation had to be in the government's desire to have complete power. Unfortunately, as could be seen by the recent election results, control over the country's economic sector had not achieved the same effect with the individual, and only implicated an imminent economic disaster for the country.¹³²

Another editorial published on 20th March 1972 accused the government of having the ultimate objective of creating only one area of property, and thereby having a complete disregard for the law. By this stage, the DC project had been passed by Congress and had become law.¹³³ However, the government showed no signs of heeding the resolution, instead using propaganda to argue a rejection of the constitutional reform based on the grounds that Congress needed a two-thirds majority to pass the bill. As such, the UP administration refused to hold a plebiscite and maintained that this was a matter for a Constitutional Tribunal to solve, all the while continuing to absorb more and more enterprises into the social area (as it happened, the issue was never resolved and was one of the major factors contributing to the institutional paralysation which later brought down the government). The government showed every sign of intending to keep every expropriated company within the APS, and the article pointed out that the doctrine of the Marxist government parties stipulated that the final objective would be to constitute a single area of property, in order to constitute the dictatorship of the proletariat. The conclusion was that the socialization of the country was being conducted outside of legal norms. The government was clearly not taking seriously the concept of the three areas it had originally proposed, since its intention was for the proletarian class to exercise dictatorship through its party and oppress the country's middle classes after having destroyed the high bourgeoisie. The legal vagueness and the

¹³² *El Mercurio*, 22/01-1972, "Temas Económicos: De Cómo 91 Empresas Pueden Estancar un País"

¹³³ *El Mercurio*, 20/02-1972, "Congreso Pleno Aprobó Reformas Para Delimitar Expropiaciones"

statements of the Marxist parties would allow one to imagine that the freedom to work and political freedom were standing on very shaky ground.¹³⁴

The ‘Vuskovic strategy’ affair

On 7th April 1972, the newspaper published part of a confidential document attributed to the Minister of the Economy, Pedro Vuskovic, containing an analysis of the strategies destined to accomplish the transfer of 91 private enterprises to the social property area. The document described the state of affairs existing on the 15th March 1972, and noted sector by sector the names of the companies, whether negotiation or intervention would be used to transfer them to the state, and at what stage the process was. The sectors included telecommunications, energy, maritime transport, forestry, food, textile, copper, electronics, distribution, mechanical, chemical, fisheries, and leather and shoes.¹³⁵ The following day, the newspaper printed more of the same document, going into a more in-depth examination of some of the businesses mentioned. Each company was described in various categories, such as how much stock was controlled by the government, the leanings of the remaining stockholders (pro/anti-government), the labour situation (number of and political loyalties of the workers/unions, and whether for or against nationalisation), the names of possible government-appointed managers, information about production, distribution and marketing, the technological situation (whether there existed foreign dependency), and the financial situation of the enterprise. The document also estimated the likelihood of success of different policies of intervention, for example, price restriction in order to force government requisition.¹³⁶ As presented by the newspaper, the document appeared to be a review of the government’s economic strategy, with the intention of nationalising all the mentioned companies by whatever means necessary. Also published in the same edition were responses from the Ministry of the Economy and the government party MAPU, both refuting the importance of the document and accusing opposition press of distorting the facts with sensationalist intent. In its statement, MAPU claimed that the document printed by *El Mercurio* was in fact a rough draft of a study concerning the area of social property prepared for the leadership

¹³⁴ *El Mercurio*, 20/03-1972, p.23, ¿Tres Areas Económicas o una Sola?”

¹³⁵ *El Mercurio*, 07/04-1972, “En Descubierto la Estrategia Vuskovic”

¹³⁶ *El Mercurio*, 08/04-1972, “La Estrategia del Equipo Económico de Unidad Popular”

of its party, in order to clarify legal issues surrounding the corresponding bill of constitutional reform.¹³⁷

On the 19th April 1972, the newspaper followed up with a summary editorial concerning the ‘Vuskovic strategy’ affair. It noted that the Minister had not been pleased when the MAPU documents had been attributed to him. However, in the view of *El Mercurio*, it was the Minister’s own fault that this had happened, since he was in such a prominent position concerning the dictation of government policy. In addition, the similarity between the content of the documents and Vuskovic’s economic policies was evident for all to see. The article gave a historical summary of the state’s takeover of industries, emphasising the government’s use of all legal methods at its disposal to accomplish its objectives. The article also called attention to the fact that the MAPU document included a complaint concerning the Minister of Mining, regarding his authorisation of a rise in prices of lubricants. This had allowed a company producing this material to actually make some profit in this area, and this reference displayed the government’s policy of restricting prices in order to force companies into financial trouble, in order to take them over or force them to sell out. Furthermore, industries that had befallen this fate had included small and medium size industries, in addition to large companies. The article concluded that the ‘Vuskovic strategy’ was causing the economy to accelerate towards collectivism and dictatorship. The government’s economic pressure was already quite considerable, and the reader might imagine what it would be like once there existed no employment or business outside the social area.¹³⁸

It seems clear that the intention of *El Mercurio* was to damage the government and create fear and alarm among its readership, by sensationally exposing government economic strategy. However, what is less clear is whether the intention of the newspaper in printing the refutations was motivated by fairness, or whether it wished its readers to decide for themselves whether or not to believe the government statements. The decision to print appeared to indicate a belief on the part of the newspaper that the documents did indeed stem from the Ministry of the Economy, and a reading of them placed in historical context indicates that the newspaper probably was correct, and that the government refutations were no more than hurried damage control.

¹³⁷ Gonzalez Pino and Fontaine Talavera, pp.345-346.

¹³⁸ *El Mercurio*, 19/04-1972, p.3, “Estrategia del Ministro Vuskovic”

Summary

We have seen that *El Mercurio* was opposed to UP government policy regarding the creation of a state area of property. Through its reports and editorials, we saw that the newspaper was not only attempting to throw a shroud of illegality over the actions of the government but also invoke the ideological fear of Marxism. It criticised the government on various occasions for its failure to set out clear definitions of the areas in its first year, and for the steps taken to form the Area of Socialized Property. It condemned the APS initiative as representing a step backwards for the development of the country and argued that it would lead to disaster from an economic standpoint. It also slated the government for not adhering to the law once Congress had passed the DC project in 1972. We also saw how the intention of *El Mercurio* was to damage the government and create fear and alarm among its readership, by sensationally exposing government economic strategy in the ‘Vuskovic strategy’ affair.

It can be seen that the newspaper was intent on using any opportunity to attack the government. However, it is also interesting to note that the newspaper’s criticism of the UP APS strategy only began late in 1971. Why was this so? Several factors may have contributed. Firstly, there was a general nationwide consensus concerning the nationalisation of the copper industry and other foreign owned companies right from the beginning of Allende’s term. This would have dampened the effect of any criticism in this area. Furthermore, the economy was doing extremely well in 1971 and the government was riding a wave of popularity. As such, it seems that *El Mercurio* was perhaps afraid to criticise the UP government APS strategy at a time when it seemed to be a such a success, rather than having criticised it on principal from the beginning. It may be said that the newspaper’s opposition to government policy in this area underwent a gradual transformation over the period in question.

4.5 *El Mercurio*’s coverage of the nationalisation of the banking sector

In 1970, the concentration of economic power was significant in the banking sector. Although the State Bank was a limiting factor, three of the 26 private banks controlled more than 50% of deposits and credits. In its Basic Program of Government, the UP coalition stated its intention to absorb the country’s financial system, in particular the

private banks and insurance companies, into an area of state property. Soon after assuming the presidency, Allende commenced the campaign to nationalise the banking sector. The government used similar tactics in the banking sector that it had used in the other sectors of the economy. All foreign banks were acquired by the first half of 1971 through negotiating with their head offices, yet these represented only a tiny portion of the country's banking sector. The real challenge would be to absorb the local banks into the state area, since these constituted the core of the Chilean bourgeoisie's wealth.

As in the case of the formation of the APS, the government reasoned that there was little chance of getting a law through Congress allowing it to expropriate banks at will. Therefore, it turned to a very simple method. It created a purchasing power for shares in banks at very attractive prices. The state agency CORFO permitted the State Bank to acquire banking shares, and instructed the Central Bank to establish a line of credit to finance the operation. Simultaneously, the government began intervening in banks based on two justifications – the detection of a financial irregularity, or the existence of labour conflicts that might jeopardise its smooth running. Faced with the option of selling their shares at a good price, or watching the value of the stock diminish as a bank experienced further difficulties, the shareholders normally chose the former option without hesitation. In this manner, CORFO obtained a majority share in 14 commercial banks, and a minority share in the three remaining banking institutions.¹³⁹ Of a total of 23 national banks, the state attained a majority share in eleven. As such, by the end of 1971, the state exercised control over almost 90% of the total credits; in other words, practically the entire banking system.¹⁴⁰

El Mercurio took a negative view of the government's plans concerning the banking industry and attacked them repeatedly in its articles. The most common issues were the government's repeated failure to send a project of nationalisation to Congress, and the debate over whether or not its methods were breaking the law. On 3rd January 1971, the newspaper published an editorial criticising the government's procedure to nationalise the country's banks. The tone was distinctly negative, referring to the government's methods as creating a disturbing precedent. While recognizing that the Constitution acknowledged the legal right of expropriation, it pointed out that the government had a

¹³⁹ Meller, pp.147-149.

¹⁴⁰ Bitar, pp.44-45.

choice. It could either acquire the properties it desired by force using expropriation, or it could negotiate with the owners, respecting the laws of private property, paying prices asked for by the owners, and respecting their wish not to sell if they so chose. However, the government's procedure drew attention due to its method of making an offer to shareholders of banks, while at the same time warning them that upon refusing they would be subjected to nationalisation, leaving them worse off than if they had accepted. The government was using its authority and weight to induce a convenient transaction, simultaneously omitting to explain that the transaction could be placed in legal doubt due to lack of unanimous consent. The article viewed this as a grave matter, since by using this mechanism the government was able to avoid using expropriation, not failing to mention that nationalisation would be just around the corner in case of resistance. Additionally, the article commented that the government had called upon banking authorities to voluntarily delegate their managing capacities to persons designated by the government. This, however, was a violation of their legal obligations to their shareholders to protect their interests. In the opinion of the article, this state of affairs clearly had to cease, and the government should either opt for free and voluntary negotiation or lawful expropriation.¹⁴¹

Nationalisation bill delay

On 24th February 1971, an editorial was published reviewing the nationalisation of the banking sector so far. The President had pledged at the end of the previous year to send a project to Congress, promising to establish the nationalisation of the banking system by the end of the first week of 1971. Unfortunately, as the newspaper took pains to point out, this had not taken place. Furthermore, the deadline for the government's offer to buy shares had passed on 30th January 1971 and had been extended for a further forty days, still without the project having arrived at Congress. Both the press and Congress had noted that the method used by the government to buy up shares in banks excluded the Legislative from being able to discuss, form and dispatch a law in accordance with the Constitution. The government's delay had strengthened the hypothesis that the executive was carrying through the nationalisation of the banking sector through private negotiations and administrative measures, which tended to put pressure on indecisive shareholders to sell, so avoiding the subjection of the whole issue to Congress. The

¹⁴¹ *El Mercurio*, 03/01-1971, p.19, "Procedimiento para Estatificar la Banca"

article drew the conclusion from this that the presidential assessors preferred to continue stretching out the period of negotiations to their advantage rather than submit a project to Congress that would inconvenience them constitutionally. Even more worrying was the fact that those banks that had not given in to the government were precisely those that were receiving severe and numerous administrative sanctions, through interventions, inspections and heavy fines. The article thought it lamentable that the weight of the banking sector's recourses were falling upon those banking institutions that still maintained their private character, since this was interpreted as pressure on the administrators and shareholders. The article concluded by observing that it was about time the project was sent to Congress and when this took place, the government would be free of negative interpretations and the President's promise would have been honoured.¹⁴²

The same theme was taken up in an editorial published on 14th March 1971, in which the newspaper commented on a recent announcement by the Chancellor of the Exchequer that the government would send a project of constitutional reform to Congress concerning the nationalisation of the banking sector *after* the municipal elections in April. The article reminded its readers of President Allende's promise to do just this within the first ten days of the year. It also mentioned that the nationalisation procedure used by the government had been considered "irregular" and had caused "legal apprehensions", although these had since been dissipated by a report from the Controller-General, who considered the methods used to purchase bank shares as valid. However, the article commented that it was illustrative to consider that the government had only bought 39,445,759 of 343,802,859 total available shares in the sector by the 17th February 1971. The government had set a new deadline for the 19th March for the selling of bank shares, and after this date the results of the operation would be known. It appeared that instead of sending a project to Congress dealing with the nationalisation of the banking sector, the government had decided to present a special project, whose text was currently under development. This naturally would enable CORFO to continue its practice of buying banking up shares in the lengthy period before the new project was presented. CORFO would undoubtedly continue to extend the deadline for the stockholders to sell their shares. The special project appeared to put forward a law that

¹⁴² *El Mercurio*, 24/02-1971, p.3, "Nacionalización Legal de los Bancos"

would guarantee the methods used by the government up to now with retroactive effect. However, the process of nationalisation would be well under way by the time said project came up for debate in Congress.¹⁴³

On the 28th July 1971, *El Mercurio* published an editorial bringing to the attention of its readers that the DC were now about to present a project of its own concerning the nationalisation of the banking sector before Congress. The DC had done a similar thing in 1967 when last in government, but both the content and the circumstances had been appreciably different then. The article then made a summary of the UP government's history of delaying the presentation of the government banking project before Congress. Instead, the state had proceeded to buy up bank shares offering a rate three times more attractive than on the market. The article commented that it appeared that the nationalisation of the private banking sector was being carried out without the approval of Congress. Conceivably, not even this fact was pleasing some of the government's own militants, since in 1967 the then president of the Banking Federation and current Superintendent of Banks had stated that "in our judgement, it is our patriotic duty to nationalise private banks without their owners receiving any form of payment of compensation." The aim of the current DC banking project was to avoid the state monopolizing the banking and credit activity of the country, instead of which the banking sector would be managed by a co-operative including the government, Congress, bank employees, account holders, share holders and owners. The article concluded by stating that the DC initiative would certainly cushion the effects of the imminent fiscal monopoly of banking credit.¹⁴⁴

The results so far

On 30th October 1971, *El Mercurio* published an extended article where it discussed the results of the nationalisation of the banks. The article concentrated on three themes – the structure of the banking sector in December 1970 when the process of nationalisation began, the reasons the government used to justify nationalisation, and the results that could be shown at the end of the first semester of 1971. Firstly, the newspaper noted that the enormous influence of the state in the banking system prior to the commencement of nationalisation. This influence approximated to state control over

¹⁴³ *El Mercurio*, 14/03-1971, p.31, "La Nacionalización Bancaria"

¹⁴⁴ *El Mercurio*, 28/06-1971, p.21, "Una Reforma Bancaria"

roughly 62% of available currency, with the commercial banks retaining influence over the remaining 38%. However, the most recent figures available implied that, since December 1970, the state had assumed control over only 22.9% of currency through the nationalisation of the sector, and this figure could be further adjusted down to 18%. The unambiguous conclusion was that the aim of nationalisation was not to solve a problem of an economic nature, but to gain political control over the entire financial system. The article then examined two of the arguments used to justify the nationalisation process. The first was that many objected to the banks' huge amounts of profits. Secondly, some said that the problem did not lie with the banks themselves but with the relation between the economic groups that controlled the banks and those that controlled the industries. The article reasoned that the first argument was invalid, given that the government had at its disposal numerous means to enable it to determine the amount of profits earned by the banks, such as the ability to set interest rates, the amount of bank reserves to cover obligations, the rate of interest for inter-bank loans, the permissible amount for inter-bank loans, and so on. The second argument, that the banking sector tended to concentrate its credit in the hands of the economic groups closest to it, was only valid when the rate of interest was low, since a high interest rate would prohibit any form of profit and make the borrowing of credit negligible. Here again, nationalisation as an argument was invalid since the authorities could fix the rate of interest, and furthermore, the state could fix independent rates of interest for different economic activities. The article commented that the fact that the government had lowered interest rates showed a form of ignorance in matters of this nature, in relation to the real attributes of the methods at its disposal. The results of the policy were, according to the article, quite unsatisfactory. A number of banks had shown a loss at the end of the first semester of 1971, caused by the financial policies of the government, which had led to the financial collapse of the sector. The cost of this political operation had been extremely high, not even counting the cost of acquiring the shares of the private banks. The article concluded by stating that if the same situation occurred in the other sectors that the State had decided to intervene directly, one could not expect a positive situation to develop for the country's economy.¹⁴⁵

¹⁴⁵ *El Mercurio*, 30/10-1971, p.3, "Temas Económicos: Resultados de la Estatización de los Bancos"

On the 5th May 1972, an article commented on the government's decision to nationalise the entire banking system through administrative means, instead of sending a bill to Congress, as the government had declared on previous occasions. This announcement by the Minister Zorilla, Chancellor of the Exchequer, had caused the consternation of the workers of the banking sector, whose interests clashed with the aims of the project, not to mention the interests of the economy. The government intended to assign control of all foreign commerce and credit for large businesses to the Central Bank. The State Bank would in turn be responsible for the agrarian sector, long-term credit and savings. Finally, the National Bank would absorb all the remaining private banks in the country, as well as controlling short-term credit to industry and commerce. President Allende had now announced that this system would be put into practice, apparently forgetting his earlier promise to send a project to Congress. Similarly, the leaders of the Banking Federation, who had previously received assurance from the President that the private banks would retain their individuality after nationalisation, were now facing the fusion of these banks. The aims of the nationalisation were, according to the article, ostensibly more political than economic. The aim of the communists was to concentrate all credit in the hands of the Central Bank. The current decentralization had permitted the banks acquired by CORFO to preserve many independent characteristics and impersonal relations with their clients. However, the UP project stated that the banking system was not nationalised, nor transferred to the social area, in order to maintain its traditional structure. Yet this change in the structure of the system had not been mentioned when the banks' shares were being bought up. As such, the government conceived the initiative as "a powerful instrument in the transformation of the social relations of production". According to the article, this meant that the banking system was being used with the aim of imposing the dictatorship of the proletariat. Furthermore, by centralizing all credit, the government could wipe out the losses of the nationalised banks and provide credit necessities for those requisitioned companies operating at a loss, without the public knowing.¹⁴⁶

The 'single bank account'

The single bank account was part of the UP government's economic policy to weaken the economic base of the Chilean bourgeoisie. By placing control of the authorisation of

¹⁴⁶ *El Mercurio*, 05/05-1972, "Nuevos Pasos en la Estatización Bancaria"

all credit in the hands of the all-powerful Central Bank, the state could decide which businesses to grant credit to. Since access to credit was a necessary aspect of the functioning of any economic transaction, it was clear that this became a weapon of tremendous influence engineered by the government. Despite government claims that the policy would not affect small and medium businesses, there was much concern and uncertainty in the country, something that the opposition media capitalized on, in particular *El Mercurio*.

An editorial published on the 1st January 1972 discussed the general fears concerning the Central Bank's intention, responding to government direction, to create a single bank account, and the bank's inability to allay those fears. Although this particular initiative would only apply to large businesses, there remained uncertainty as to whether the consequences would be beneficial or inconvenient. According to the article, the argument that the small entrepreneurs would remain outside of the effect of the new arrangements only meant that the dangers of the initiative would be less than was originally conceived, and that this was only an attempt to improve the policy concerning credit. In the opinion of the article, the single bank account represented an upheaval with negative consequences. The Central Bank had not denied that one of the consequences of the policy would be the disappearance of the small banks. Apart from the fact that competition between the different institutions would suffer and negatively affect credit-borrowers, the sound financial organisation of large businesses would become impossible, since the very success of these depended upon the availability of more than one bank account. Furthermore, the establishment of this procedure as the only way to obtain credit would result in a tool of tremendous political and economic pressure. One of the Central Bank's arguments was that the policy to suppress credit to suppliers would not bring about a suppression of credit to consumers. If this was true, and the manufacturers could not give credit to the distributors, and the distributors could not give credit to the merchants, the article asked whether the authorities really thought that the merchants would give credit to the public? The Central Bank claimed that the small and medium businesses would not be affected by these measures, whereas the large businesses would be. The article asked why the small and medium businesses would be allowed to operate with credit and the large ones wouldn't, and whether this meant that large businesses would have to transform themselves into small businesses just to survive. Furthermore, the concept of banking credit substituting for suppliers

would not achieve anything other than giving consumers fewer possibilities to obtain credit. To date, the process had functioned with a bank authorising credit to a manufacturer, the manufacturer in turn authorising credit to the distributor, and so on. If there were only one source of credit, one would have to recur automatically to the bank at each stage of the production. As a consequence, the distribution process and the system would break down. Finally, the article concluded that the Central Bank could come up with numerous theoretical explanations, but the end result would be greater state control, something that had never been recognised as respecting the will of consumers.¹⁴⁷

The newspaper published an editorial on the 7th January 1972 in which it covered a recent analysis by the National Front for Private Activity (FRENAP) concerning the government's proposed project of credit control. The analysis expressed the opinion that the project was the first visible indication of that the Chilean community would have to pay for having permitted such a concentration of banking power. In the judgement of the organization, this concentration of power now lay in the hands of the Marxist groups. At this stage, it was possible to measure more accurately the effects of the nationalisation of the banks. The private area had been weakened by the nationalisation and the second step in this process would be the stern control of credit. The analysis destroyed government insistence that this policy would not affect small businesses, and ascertained that the decision to grant credit was governed by the political affiliations of the applicant, despite claims to the contrary. FRENAP used the metaphor of a bird in a cage of ever-decreasing size to describe the effect of the government's control of credit on small businesses. Furthermore, the suppression of credit from business to business was likely to produce a considerable contraction of the economy, if commercial credit was *not* replaced by banking credit, or an extensive additional emission, if commercial credit *was* entirely replaced by banking credit. The imminent risk of a violent contraction or inflation would then appear as an effect of this measure. The analysis also noted the difficult situation certain groups, such as the construction companies and the shops, were in due to the government's anti-economic policies of raising costs and restricting profits, which would give rise to extremely dangerous situations for the economy taking into account the proposed credit control project. According to the

¹⁴⁷ *El Mercurio*, 01/01-1972, "Aclaraciones del Banco Central"

article, the projected measures profoundly compromised the structure of the country, along with the project of taxation for the finance of the fiscal budget. The article pointed to the government's consistency in following a policy of utilizing legal and administrative means with a different aim to that for which they were created. For example, the industrial requisitions were not established in order to carry out expropriations behind Congress' back, tributary obligations were not imposed in order to antagonize the taxpayers, and the extensive regulatory powers for controlling credit possessed by the Central Bank were intended to impose order and make the economy more dynamic instead of destroying it. Apparently the government thought that legality was respected by maintaining appearances, although the procedures employed were slowly eliminating the judicial order, reducing or limiting freedom through administrative resolutions. As such, the organisations of the private area were officially calling the attention of all their affiliates to the political and economic danger of the measures of credit control. Of more concern was the fact that these calls did not appear to be heard by the authorities and nothing was being done to avoid the impending upsets in the economy.¹⁴⁸

An editorial on the 29th February 1972 addressed the determination of the communists to reintroduce the policy of Central Bank credit control, which had been suspended by the government after energetic opposition by the Radical Party of the Left. An article written by the vice-president of the Central Bank in support of the policy had been published recently in 'Principios', the doctrinal journal of the central committee of the PC. The editorial presumed that this meant that the PC party leaders shared this view and were attempting to persuade President Allende of the same. However, the article in 'Principios' made little or no reference to economic reflections or figures concerning the Chilean economic reality, referring instead to the ideological-political principles of Lenin. As the editorial pointed out, the reader would be surprised to realise that the economic initiatives of the communists were not related to events in Chile, nor national public necessities, but were fulfilling part of a political plan elaborated abroad, a form of conquest of power which had been uniformly applied in all other communist countries. The editorial placed repeated emphasis on the Central Bank of Chile's vice-president taking inspiration from and quoting Lenin in order to justify the project of the

¹⁴⁸ *El Mercurio*, 07/01-1972, "Area Privada Analiza Política Crediticia"

single bank account. According to the editorial, Lenin's very words justified the opposition to the policy by those sectors that saw in it a grave threat to liberty, a factor gone unmentioned by the policy's supporters. The editorial summarised by noting that the policies of the single bank account and selective credit control were not a project for the solution of Chilean problems, but a part of the "world historic struggle of communism against the spontaneous bourgeois anarchy; that we would refer to as economic liberty", an affair that would be resolved by a growing ideological struggle. The editorial concluded by ascertaining that the very fact that a key Chilean banking problem was being raised in the pages of journal of Marxist-Leninist theoretical thinking would undoubtedly cause unease in democratic layers, as well as within the UP government.¹⁴⁹

Summary

El Mercurio evidently took a negative view of the government's plans concerning the banking industry and attacked them repeatedly in its articles. The most common issues were the government's repeated failure to send a project of nationalisation to Congress in its first year in power, and the debate over whether or not its methods were breaking the law. The newspaper implied that the government was deliberately delaying the passage of a law in Congress because it knew perfectly well that such a law would never get through. The delaying tactics used by the government were enabling it to proceed with the nationalisation anyway, using its own more favourable methods to achieve its objective.

El Mercurio was without doubt in favour of banks retaining their private character, and shareholders maintaining their freedom to sell without being subjected to government pressure. The newspaper again raised the spectre of Marxism with observations to the effect that the government was using the nationalisation of the banking system with the aim of imposing the dictatorship of the proletariat. However, it is interesting to note that the newspaper also supported the parliamentary banking project initiative put forward by the DC, which while in government (1964-70) had proposed and carried through reforms curtailing the rights of the propertied sectors. This contradiction gives an indication of the polarisation of the political situation. It also shows the failure of any

¹⁴⁹ *El Mercurio*, 29/02-1972, p.3, "Insistencia en Cuenta Bancaria Unica"

UP government policy to keep non-government parties from uniting into an effective opposition. *El Mercurio* nailed its colours to the mast by indicating that the government's plan for the banking sector would not only be detrimental to Chile from an economic perspective, but also from an ideological standpoint.

4.6 *El Mercurio*'s treatment of the copper industry under Allende

In its 'Basic Program of Government', the UP alliance stipulated "...all types of foreign impositions with respect to the primary materials of Latin America, such as copper, will be rejected".¹⁵⁰ Furthermore, the economy would be transformed by the creation of "...a dominant state area, formed by companies currently owned by the state, in addition to the companies to be expropriated."¹⁵¹ These referred to the intention to nationalise any activities contributing to the economic and social development of the country, including the copper mining industry. In 1970, three north-American companies controlled the production of Chilean copper, which represented 60% of the country's exports. Chile's export of copper made up more than 75% of exports, signifying a situation of dependency on a single product. This made the country's economy extremely vulnerable to fluctuations in the international price of copper, something which was beyond the control of individual governments. In addition, technology used for copper mining also had to be imported from abroad. This meant that much of the profits earned through the mining of copper remained in foreign hands.¹⁵²

The UP alliance had been in government for little more than a month when, on 21st December 1970, President Allende signed and sent the project to nationalise the copper industry to Congress. It was decided to submit a bill of constitutional reform instead of an ordinary bill of law in order to signal the importance of the affair to all parties, and also to allow the government to call a plebiscite in case Congress rejected the bill. In the event, this did not become necessary since there was general accord on all political sides concerning the project, built up over the years during the Frei government. In July 1971, Congress unanimously approved the bill and the nationalisation of the copper industry begun. The state was established as sole owner of the mines, with the right to exercise absolute control over all minerals within Chilean territory. All contracts previously

¹⁵⁰ *Popular Unity Basic Program of Government*, 1969.

¹⁵¹ *op.cit.*

¹⁵² Meller, pp.111-112.

established in the GMC ¹⁵³ were automatically declared null and void. Furthermore, the bill established the method of compensation for the North American copper companies. The Controller-General of the Republic ¹⁵⁴ would determine the discounts for mining rights, for property in poor physical condition, and for revaluations of assets occurring after 1964. These sums would be discounted from the 1970 book value. However, the calculation of deductions for “excess profits” would be left to the President, with any claims resulting being deemed outside the competence of ordinary courts of law.

In September 1971, Allende announced that the final sum for the deduction of excess profits lay at US\$774 million. This meant that, with the exception of two of the smallest firms, none of the companies would receive any compensation at all. In fact, the foreign companies would actually *owe* money to the Chilean State. Naturally, the copper companies objected to this and took the matter to foreign courts, without achieving any particular success. The US government reacted with predictable hostility, the no-compensation decision and the principle of deducting for excess profits being unacceptable both because of the loss they represented and for the precedent they set. This undoubtedly had the effect of further strengthening US resolve to have Allende removed from power, reflected in the imposition of US economic pressure towards Chile. ¹⁵⁵

In an editorial published on 30th September 1971, *El Mercurio* discussed the issue of compensation for the North American copper companies. This was just after the president announced his ‘no compensation’ decision. The newspaper did not specifically disagree with the idea of nationalising the GMC. Nor did it explicitly disagree with the decision of the President not to award any compensation to the north-American copper companies. It did, however, emphasise that this was the first time that this type of issue had been presented before the Chilean courts. According to the article, the more important issue was the successful running of the GMC and everyone should concentrate on this. The issue of indemnity calculations was a judicial matter for the

¹⁵³ GMC - Gran Minería de Cobre - Copper Mining Industry

¹⁵⁴ The Controller-General was an independent branch of the executive whose task it was to rule on the legality and constitutionality of government acts, in addition to employing financial and auditing controls over the Treasury. The position was for life and was appointed by agreement between the president and the senate. Bitar, p.80.

¹⁵⁵ *Covert Action in Chile 1963 - 1973*, pp.27-28.

courts alone to decide.¹⁵⁶ In other words, the newspaper was indicating that the President had no right deciding on the issue of compensation for the foreign companies. This should be a judicial and not an executive affair. The original GMC nationalisation bill sent to Congress had proposed that the Controller-General should determine the final amounts of compensation. However, Congress had changed the bill under way, resulting in the decision for discounting excess profits being left to the President. According to Bitar, this had the effect of exposing him to conflict and controversy. If Allende decided to award an amount considered too high, he would be subject to attack by the opposition and perhaps even sections of his own governing coalition. If the president awarded a sum considered too low, however, the government could be blamed for the consequences of US retaliation.¹⁵⁷

Nationalisation vs. Chileanization

On 18th March 1971, an editorial entitled “The Grave Problem of the Copper” dealt with the imminent nationalisation of the copper industry and reflected upon the different approaches by the Frei government and the Allende administration and its effect on the country. The article stated that a real liberation of the country’s copper resources would mean an increase in income, task efficiency, capacity and correction in administrative interventions. The Frei government had considered it justifiable to pay for factors such as both Chilean and foreign technical and commercial experience and technological development in order to continue productive capacity and work without interruption or disorder and avoid the country’s ruin. The UP alliance, however, believed in a drastic nationalisation involving none of the above factors and this was well known. As such, production had gone down and technicians were leaving the country to find work abroad, taking with them their technical experience. In addition, the situation concerning offers to purchase copper had not managed to convince anyone of an international conspiracy, but rather counter actions on the part of international copper authorities. As such, the article warned that for an authentic liberation of Chilean copper, slogans concerning the construction of socialism and the anti-imperialist fight were not enough. What was really needed was technical and administrative capacity so

¹⁵⁶ *El Mercurio*, 30/09-1971, “Rebaja a Indemnizaciones del Cobre”

¹⁵⁷ Bitar, pp.69-72.

that control over the copper industry actually benefited the country and did not turn against it.¹⁵⁸

The newspaper reflected on the theme of state control of the Chilean copper industry in an editorial dated 7th July 1971, in which the newspaper expressed the idea that nationalisation could be beneficial for the country if the government carried it out properly. *El Mercurio* did not show itself to be explicitly negative to the idea of nationalisation of the GMC by the UP government. Perhaps it did not wish to alienate political or financial support, or any of its readers. However, it presented constant warnings to the effect that the running of such an enterprise entailed complexities, the necessity of considerable experience, and involved much responsibility and commercial and technical competence. Factors the government should be aware of were mentioned; such as the presence of inexpert personnel, delayed decision-making due to excessive red tape, lack of care in the selection of particulars, or businesses that took the role of sub-agents could occasion great losses.¹⁵⁹ The implication was that the government held the future of the country in its hands and should tread with great care.

Production, Production Costs and the Price of Copper on the World Market

The Allende government had originally intended its various reform policies to increase the country's earnings in order to finance its future plans. Such was the case with the nationalisation of the copper industry. However, certain factors came into play that the UP government had not anticipated. One was the price of copper on the international market, a dynamic that the Chilean government had no control over. Although this commodity had risen steadily during the administration of Frei, peaking at 65.4 cents per pound in the year 1969,¹⁶⁰ it declined in value from 64.2 cents per pound in 1970 to 49.1 cents per pound in 1971.¹⁶¹ This drop in export revenues affected negatively the UP government's capacity for import and room for economic manoeuvre.

An editorial appeared on the 5th June 1971 that explored the costs of production compared with the drop in price of copper on the world market. The article warned that the country should be prepared for even lower prices than the current level of 46 cents

¹⁵⁸ *El Mercurio*, 18/03-1971, p.3, "El Grave Problema del Cobre"

¹⁵⁹ *El Mercurio*, 07/07-1971, p.3, "Control Estatal del Comercio de Cobre"

¹⁶⁰ Meller, p.356.

¹⁶¹ Bitar, p.63.

per pound. This was regardless of whether the drop in prices was due to ‘international manoeuvres’ as some government officials believed, and not factors such as the opening of new mines, the expansion of existing ones, or the decline in theatres of conflict such as the Vietnam War. Furthermore, the cost of production had risen as a whole, with non-governmental estimate of 42 cents per pound at ‘El Teniente’ and 34 cents per pound at ‘Chuquicamata’ not being challenged by the government. This meant that not only the government’s policies were in danger but also the country’s economy and the very welfare of its inhabitants. While the government was not to blame for the fall in the price of world copper, it was however responsible for the rise in production costs, since the running of the mines was under the control of the Ministry of Mining and CODELCO.¹⁶² The article pointed to the cause of indiscipline and absenteeism in the mines as being due to the policy of placing government party members in positions of authority, regardless of their expertise in the field, and establishing a climate where politics and not efficiency determined issues of disciplinary action and authority. In addition, the absence of official statistics and information was lamentable. Lastly, the gravest aspect of the situation was the government’s silence concerning the fact that the costs of production were approaching the level of world copper prices, if they had not already been surpassed. The public deserved an explanation concerning this vital point that affected the people of Chile on such a decisive scale.¹⁶³

The newspaper touched upon the same topics in an analysis on 11th July 1971, in which it analysed the current situation of the copper industry in detail. The article reiterated how the state of the country’s copper mining industry was cause for concern because, for the first time in the metal’s history in Chile, the GMC companies were showing notoriously insufficient levels of production and extremely high costs in the face of a recent drop in the international price of copper. The price of copper on the international market had gone from a high of 79.0 cents per pound in April 1970, to a low of 45.8 cents to the pound in January 1971. Two additional factors were of interest; the inability of Chilean marketing technicians to adequately explain the enormous variations in the price of copper, and the inability of CIPEC¹⁶⁴ to ensure stability in international copper prices. The article was unable to produce an answer as to the drop in the price of copper.

¹⁶² CODELCO – Coporación del Cobre – National Copper Confederation

¹⁶³ *El Mercurio*, 05/06-1971, “Costo de Producción del Cobre”

¹⁶⁴ CIPEC – Consejo Intergubernamental de Países Exportadores de Cobre – Inter-governmental Council for Copper Exporting Countries

In addition, production costs had risen dramatically at the different mines that made up the GMC. In particular, the cost of producing copper at 'El Teniente' rose to 52.18 cents per pound in May 1971, bypassing the actual price on the international market. As such, 'El Teniente' was now producing copper at a loss. The article pointed to problems with the workforce and the fact that the GMC was actually producing less copper altogether than in 1964, despite programs of investment to the contrary, and demanded an explanation from the government.¹⁶⁵ The title of the article; "Copper: the Economic Reality" showed that the newspaper was certainly not making any attempt to support the government by exposing the situation with the GMC.

On 7th October 1971, an editorial criticised the way the GMC was being run by the government. Despite an increase in overall production, the return for exported copper had gone down compared to 1970. The newspaper criticised the government for running the copper industry at a loss. In addition, in some government circles, the view existed that it didn't matter whether copper was being produced at a loss because what interested the country was obtaining the necessary foreign currency to cover imports of an equal amount, regardless of the internal cost of production. According to the article, this argument was espousing a financial policy that was corroding the value of the Chilean currency and was neither valid. The GMC was being run without economic sincerity and this was unacceptable. The newspaper hoped that government put this situation right before the rest of the country's currency reserves were used up.¹⁶⁶

Once again, the newspaper touched on the topic of production in an editorial on 31st March 1972, making particular reference to the copper mine 'El Teniente'. Production costs had risen dangerously close to the actual selling price of copper, and the article pointed to excessive labour costs as being responsible. In its role of executive at the mine, the state was paying the workers out of proportion to their input. However, the government was not capable of an objective viewpoint in this matter due to its Marxist-Leninist leanings. The UP government was now paying the price for previously supporting labour conflicts and strikes when it was in the opposition. In addition, a drop in production at the mine had been recorded in 1971, compared with the previous year. As such, the article emphasised that the various factors involving the deteriorated

¹⁶⁵ *El Mercurio*, 11/07-1971, p.22, "El Cobre: Realidad Económica"

¹⁶⁶ *El Mercurio*, 07/10-1971, p.3, "Mas Cobre, Menos Divisas"

situation at the mine was due to the government assuming its management. The article ended by appealing to the workers of the mine that, considering the precarious financial state of the country, they should forget the irresponsible promises made to them by their syndicate leaders and adapt to the realities of the situation.¹⁶⁷

On 10th June 1972, an extended article looked at the serious situation concerning the state of the GMC in general, and specifically the deteriorating state of the country's largest copper mine, 'Chuquicamata'. While the previous year 'El Teniente' had been the focus of attention due to its problems, now it was Chuquicamata's turn. Production at this mine in 1972 had declined by around 30% with regards to production in 1966. In addition, the amount of personal employed by the GMC had gone up by 7.8% (609 persons). The article pointed to factors such as high rotation of personnel, lack of labour discipline, and an increase in unaccounted absences as contributing to the drop in production. The article concluded by reminding the government that it should maintain the public permanently well-informed concerning the state of the GMC.¹⁶⁸

Was the government responsible for the decline in copper production and the rise in production costs? Although overall production at the mines actually increased compared with the previous year, it failed to reach the targets specified by the government by the end of 1970, and further decreased in 1971. Several factors were to blame for this. Upon learning of the imminent nationalisation, the owners of the largest mine, 'Chuquicamata', had decided to operate a policy of short-term maximization to get as much out of the mine as possible before it was handed over. This meant that other processes, such as removing waste and by-products were neglected, negatively affecting copper production after nationalisation. At this and other mines, plans for an expansion in production encountered problems and technical failures, which were only partially resolved in 1971. Additionally, the Chilean State had no experience running the copper industry and this affected the efficiency of the large mines after the transfer of management. Tasks such as overseeing production, installing a new sales organisation, supply of primary materials and spare parts, and overall management took time to organise. The issue of spare parts was another problem; this had always been handled from head offices in the US, and crucial information concerning technical

¹⁶⁷ *El Mercurio*, 31/03-1972, p.3, "Conflictos y Problemas en el Cobre"

¹⁶⁸ *El Mercurio*, 10/06-1972, p.3, "Temas Económicos: El Cobre: Ahora Chuquicamata"

specifications, frequency of replacement and supply sources was withheld from the Chilean government. Furthermore, the sale of many spare parts manufactured in the US was blocked by foreign companies; for example, the huge trucks used to shift metal and ore. Chile had to resort to cash purchases through third parties.¹⁶⁹

A further factor that contributed to the situation was that of labour conflicts. The government stopped the traditional practice of paying professional salaried workers in dollars, causing relationships to suffer. Workers also began to lobby for the dismissal of a number of executives who were identified with the former North American management. The workers were understandably under the impression that the Allende government was on their side. These factors caused the lines of command to weaken and a lack of respect for authority to grow. Demands for wage increases, labour indiscipline and absenteeism occurred at a crucial time for the success of the project. It is clear that the government had not considered the consequence of reconciling a strong management authority with greater worker participation.¹⁷⁰

Summary

It is interesting to note that although *El Mercurio* was one of the foremost proponents of the right to own private property, it was not prepared to condemn the government for the expropriation of the GMC. This could be explained by the fact that the nationalization of the North American owned copper industry had nationwide support, and the newspaper would have certainly risked alienating much of its readership if it spoken against it. However, the newspaper *was* prepared to criticise the negative effects nationalisation had on the production of copper. It pointed to the dangers of what it saw as the consequences of a poorly thought-through reform policy. Compared to the previous government's reform program, the Allende government seemed less willing to strike a compromise that would benefit all parties and not lead to problems for the country. As a result, production and export earnings had gone down, something that the government blamed on an international conspiracy. This simplified view of the left presented by the newspaper was part of its anti-UP campaign, stating quite plainly that the government was incapable of running the country.

¹⁶⁹ Bitar, pp.63-64.

¹⁷⁰ Bitar, p.64.

The newspaper also indicated that it disagreed with the decision of Congress to leave the indemnity question up to the president, although it did not implicitly say so. One particular aspect *El Mercurio* placed emphasis on was the link between government labour policy and the drop in production. The practice of installing UP coalition party members in positions of authority, in spite of their lack of experience within the industry, had created an environment in which issues of disciplinary action and authority were decided by political affiliation. This, coupled with worker expectations of wage increases, had resulted in increased indiscipline and absenteeism in the mines. The implication was that government incompetence was to blame for the rise in production costs, and that it was deliberately trying to mislead the public by keeping quiet about the whole situation and telling them that everything was fine. According to Bitar, however, the nationalisation of the copper industry suffered from the same problems as the agrarian reform; namely overemphasis on the changes in ownership and insufficient regard for subsequent management.¹⁷¹

We can see that, although the UP government was ultimately responsible for carrying through the nationalisation of the GMC and also for the administration of the mines after nationalisation, it was not directly responsible for some of the factors that made production costs increase and production go down. *El Mercurio* did not detail these adverse factors explicitly and this showed a clear bias on the part of the newspaper in its failure to give its readers the whole picture.

4.7 *El Mercurio*'s exposure of the agrarian reform under Allende

Agrarian reform in Chile was different from that of other Latin-American countries, as the agricultural sector had declined in importance over the decades to such an extent that it did not provide the country's main source of employment. It was estimated that the sector as a whole contributed less than 10% to the national product, and that as much as one-third of the population living in the countryside was unemployed. Successive Chilean governments had shown growing concern with the agricultural sector's inability to keep up production to meet the twin trends of a growing population and urbanisation, and the corresponding increase in food imports in order to feed the population. Despite the extensive arable lands possessed by the country, labour and land

¹⁷¹ Bitar, p.187.

were utilised in a particularly wasteful manner. In addition, the standard of living for the average peasant was extremely low, having declined in relative terms over the past few decades. Given the above scenario, it did not take much difficulty to recognize the necessity for some kind of land reform.¹⁷²

In *El Mercurio*, the progression of the UP government's land reform was reported upon at intervals throughout the period. However, it did not have as much prominence in the news compared to other issues, such as the nationalisation of the banking sector, for example. The newspaper's coverage of the reform dealt with a variety of issues triggered by its development, involving matters such as the reasons for the reform, the drop in production, the reasons for the drop in production, the accelerated process of expropriations, the fixation of prices, the legality of the reform, the effects of the reform on the government's popularity, and the effects of the reform on the country's economy.

The motivation for the reform

El Mercurio touched upon the reasons for the reform on various occasions. However, it emphasised the ideological aspect as being the principal motivation behind the reform. The Allende government had made no secret of the orientation of its ideas and proclaimed in its Basic Program of Government; "the fundamental task... is to end the imperialist domination of the monopolies and the landed oligarchy, and to initiate the construction of socialism in Chile."¹⁷³ This Marxist-Leninist slant was emphasised in editorials, such as on the 5th January 1971, when an editorial appeared entitled "The end of private agriculture," making reference to what it saw as the government trend to abolish private landed property. According to the article, "responsible studies" had shown that the true stimuli for Chilean agriculture have lain in prices, syndicate organisation and in the policy of salaries and expenses. As such, the agrarian reform was in fact a political affair rather than a technical one, aimed at breaking the power of the large landowners and agricultural entrepreneurs through a Marxist-Leninist style campaign, implying that they were responsible for all inefficiencies in the agricultural sector.¹⁷⁴

¹⁷² Furtado, p.273.

¹⁷³ *Popular Unity Basic Program of Government*, 1970.

¹⁷⁴ *El Mercurio*, 05/01-1971, p.3, "El Fin de la Agricultura Privada"

Again, on the 23rd February 1971, an editorial appeared arguing the failure of the agricultural model being put into practice in Chile. This drew comparisons with other more successful agricultural models, as in the USA and countries of Western Europe, countries which have had high rates of agrarian production, and with less successful models such as in China, Russia and its eastern European satellites, countries which have had to import food on a regular basis in order to feed their populations. According to the article, those countries that possessed a deficient agricultural sector were characterized by a state collectivist regime, by the dispossession of the productive farmer, and by the annihilation of the human individual. The article drew a comparison with the mistakes of Russia, China and Cuba and indicated that Chile was in the process of choosing one of the worst models of agrarian reform.¹⁷⁵

Production levels

One issue concerning the agrarian reform that caused debate was production. The right argued that the reform would cause production to drop sharply. The government argued the opposite. In fact, production did drop in 1972 and the country encountered a state of chronic food shortage. Was this directly due to the agrarian reform policies of Allende's government? Another question was whether there was any link between the *speed* of the reform and the drop in production.

According to Bitar, three main factors could be said to have negatively influenced production. Firstly, under the new system, there was a lack of incentive among peasants to work the collective land. This was due to the government paying them a fixed wage regardless of the quality or amount of work done. In addition, since the reformed estates generated no profits in 1972, there could be no distribution of surplus earnings that year, and this provided another lack of incentive to raise yields. As a result, the peasants began to spend more time and effort farming their own land and selling their produce on the black market for a higher price. Secondly, former landowners of expropriated lands kept hold of their machinery and livestock. This factor of *decapitalization* meant that workers and tenants taking charge of reformed land did not possess the necessary physical means for intensive cultivation. Thirdly, the state, which took over the functions of the landlord after expropriation, provided inadequate technical assistance.

¹⁷⁵ *El Mercurio*, 23/02-1971, p.3, "Agricultura Estatista, Modelo Fracasado"

Due to the priority placed on the rapid expropriation process, a lack of personnel and an overloading of the administrative capacity of the state, organisational matters suffered. All these combined factors contributed towards a general drop in production. This in turn affected the food supply of the country. Increasing food imports was not a long-term solution to the problem, as other sectors of the economy also suffered detrimental effects of the UP government's policies, leading to negative growth in GDP in 1972 and 73.¹⁷⁶

El Mercurio provided a concrete example of the reform's negative effects on production on the 16th February 1971, when an article appeared entitled "Consequences of the Agrarian Intervention". This made reference to a recent government intervention in the lumber plant of "Agua Fria" in the province of Talca. Production had actually diminished by 10% since the government intervention, due to the lack of authority and low worker efficiency. According to the article, the government-appointed manager had made decisions that had brought a previously well-run plant to the brink of ruin and anarchy. The article indicated the negative effects of the reform by pointing to the lack of respect towards the law and the absence of property rights in the countryside, and stated that if 'institutionalised violence' existed in the agricultural sector, it would have a detrimental effect on the harmony and stimulation of work and production in this important sector.¹⁷⁷

The Chonchol-Locke polemic

On 18th January 1972, *El Mercurio* published an essay by economist James Locke, member of the Faculty of Economic Science at the University of Chile, which gave a negative assessment of the effect of the reform. A few days later, the newspaper published a refutation from the Ministry of Agriculture, then a response from Mr Locke on the 25th January, and a further response from the Minister of Agriculture, Jacques Chonchol, on the 8th February. Finally, on the 10th February, an editorial entitled "Agrarian Panorama for 1972" detailed the polemic carried out in the newspaper's pages between the Minister of Agriculture and James Locke. Both persons were of opposing viewpoints and both had used statistical information from the agricultural sector to support their arguments. The article noted that Minister Chonchol ascertained

¹⁷⁶ Bitar, pp.118-120.

¹⁷⁷ *El Mercurio*, 16/02-1971, p.3, "Consecuencias de Intervención Agrícola"

that the harvest would be greater than in previous years due to the increased usage of fertilizers and careful selection of seeds, on a total area of land whose size had scarcely changed. However, his opponent predicted that the 1972 harvests would not improve, since the total land area under cultivation had decreased due to the disturbances caused by the agrarian reform. Although this article was strictly a straight-forward summary of the controversy, it also added that there were other factors which the Minister should also take into account, such as insecurity concerning daily life, work and property, and the state of agitation and fear agricultural producers were currently experiencing. The article concluded that while the Minister's statistics might serve to furnish his optimism, the fundamental problem was how to restore the norms of human respect and the rule of law characteristic of a civilised community, whose only desire was to work and produce.¹⁷⁸

The following day an editorial entitled "Agrarian Reform and a Percentage" was published. The article used six paragraphs to summarise the situation to date concerning the agrarian reform. It posed many rhetorical questions along the way, and accused the Minister of Agriculture of manipulating figures in order to belittle the chaotic situation in the countryside. At the very end, the article referred to the percentage mentioned in the title, reporting that the Minister claimed that his policy, in the worst case, had only affected 0,2% of the total number of estates in the provinces concerned. However, what the Minister did not mention was the negative effect his policies had on the future production and distribution of food in the country.¹⁷⁹ Here it may be observed that although the newspaper had willingly presented Minister Chonchol's views on previous occasions, it was still leaving its readers in no doubt as to where it stood. It is also interesting to note that the first article in the series was by Locke and coincided with the newspaper's anti-government stance. The question arises as to whether or not the newspaper would have printed government releases concerning the sector if Mr Locke had not criticised the reform in the first place.

The acceleration of expropriations

The UP government had originally planned to carry out the reform over the term of its 6-year administration. However, a political decision was made to speed up the reform

¹⁷⁸ *El Mercurio*, 10/02-1972, p.3, "Panorama Agrícola De 1972"

¹⁷⁹ *El Mercurio*, 17/02-1971, p.3, "Reforma Agraria y Un Porcentaje"

process in order to prevent the large landowners from having time to put together an effective opposition. As such, the Allende government expropriated 1,379 estates in 1971, 2,189 estates the following year, and 836 in its last year of government.¹⁸⁰ Accordingly, the process of expropriation was practically completed by the end of 1972. However, the newly reformed estates suffered from a lack of organization and assistance, which in turn affected harvests at a time when the demand for foodstuffs was increasing. It may be argued that the acceleration in the expropriation process diverted administrative resources away from improving the production of the agricultural sector at a time when it was most needed.

With regards to this issue, the newspaper published an editorial on the 7th March 1971, stating that the government had adopted the principal outlined in a UP document of policy that “the dynamic of the process and the pressure for land would determine the number and speed of the expropriations”. This suggested that the government’s policy concerning agricultural reform was being improvised on a daily basis, rather than having been set out and executed in a pre-planned, systematic way. The article concluded that instead of carrying through an acceleration of the agrarian reform, the Minister was in fact affecting a rapid transfer of land to the state.¹⁸¹

Again, on the 26th March 1971, the newspaper attacked the acceleration of the reform, indicating amongst other things that it had been badly thought through and that this was affecting production. Which estates to expropriate and which to leave alone was something that should have been determined from the beginning. Expropriated estates were not able to continue producing, and those that feared expropriation had the tendency to reduce their labour and investment accordingly. The article stated that, perhaps because of political reasons, the government had accelerated the reform, and that this gave the impression of large-scale expropriation rather than a scientific, socially considerate reform. The article concluded that although the government’s desire was to reach socialism at an overwhelming speed, it ought to be done at a rate demanded by the transformation of the economy, feeding the country and economizing available funds at the same time.¹⁸²

¹⁸⁰ Meller, p.143.

¹⁸¹ *El Mercurio*, 07/03-1971, p.31, “Aceleración de la Reforma Agraria”

¹⁸² *El Mercurio*, 26/03-1971, p.3, “Reforma Agraria y Alimentos”

However, according to Bitar, further factors must be taken into consideration before determining whether or not to pin the blame for the drop in production squarely on the agrarian reform. We have to bear in mind that the success of each year's harvest depended on the previous year's sowing. The winter sowing period of 1972 (June to July) was affected by unfavourable climatic conditions. In addition, the spring planting season (September to October) of the same year was severely affected by the October transport strike that paralysed the country. These factors can explain the poor production in 1973, rather than laying the blame on the reform. Indeed, production jumped once again in 1974 under the military regime of Pinochet, clearly due to the successful sowing and planting season under Allende the previous year. In addition, it may be argued that the imbalance caused in the market for foodstuffs was primarily due to the expansion in demand (caused by the increase in wages) and only secondarily due to the decline in supply caused by the reform.¹⁸³

Price fixation

One particular aspect of the reform was the government policy of price fixation. Apart from making food products more cheaply available to the consumer, the idea behind this was to hold down inflation. Producers would be forced to increase output in order to make up for declining profit margins.¹⁸⁴ However, as *El Mercurio* pointed out in an editorial on 3rd August 1971, there were certain negative effects to be taken into account. Since prices were artificially kept lower than production costs, the producer inevitably made a loss. This led to a decline in production, causing growing deficits in many foodstuffs. In order to make up the deficit, it became necessary to import. However, the government sold the imported produce at a lower fixed price than the cost of its import. As a result, it ended up paying the difference from its budget. The article referred to the ironic contradiction of paying the extra costs to the foreign producer, when they should have been paid to the local producer in the first place. As such, the reason that many Western European countries, and others such as the US, Canada and Australia, had become strong suppliers of the socialist countries, was because of their belief in the principal that the producer should be given a reasonable return on his labour and sacrifice. The article concluded that price fixation led to lower production,

¹⁸³ Bitar, p.183.

¹⁸⁴ Williamson, p.500.

scarcity, police persecution of producers and merchants, the black market and rationing. Although a fair price might be more expensive than an ideal price, it was in reality cheaper compared to the alternative.¹⁸⁵

The legality of the reform process

One of the agrarian reform's strongest points was that the government acted within the confines of the law in carrying it out. The government was using the existing law passed by the previous administration to expropriate areas greater than 80 hectares. Certain sections of the UP coalition wanted to go even further by expropriating areas down to 40 hectares in size. Yet, due to the government's minority in parliament the decision was made to work with the existing law.¹⁸⁶ However, other factors also affected the imposition of the agrarian reform. One particular aspect was the 'tomas' or illegal takeovers of land or farms by impatient peasants or native-Indians, acting without the government's authority. Often these takeovers were given impetus by extreme left-wing extra-governmental organizations, such as the MIR or MCR, and received sympathy from elements inside the government who believed in a more rupturist line of approach. However, the occupied land frequently belonged to small- and medium-sized farmers whom the reform was supposed to protect. As such, the government faced the dilemma of either forcibly removing the illegal occupants it was supposed to be helping, or giving the signal that the law could be broken with impunity. The number of illegal takeovers was not insignificant, reaching 1,278 in 1971, and 1,228 the following year. By comparison there were only 214 'tomas' during the whole of the Frei government.¹⁸⁷ It can be seen that the Allende government clearly tolerated a certain element of illegality concerning its agrarian reform process.

El Mercurio looked at the issue of illegality in an editorial published on the 22nd January 1971 entitled "The Two Agrarian Reforms". The newspaper argued the existence of *two* parallel reforms instead of one. The article recognised the official government land reform, the future result of which would be large state-owned 'latifundios', which would maintain the rate of employment in the sector and create a healthy state of competition between the state agricultural sector and the small- and medium-sized

¹⁸⁵ *El Mercurio*, 03/08-1971, p.3, "Precios Agrícolas"

¹⁸⁶ Meller, p.143.

¹⁸⁷ Meller, p.143.

privately owned estates. However, there also existed a parallel agrarian reform, characterised by violent occupations of some estates, extended labour conflicts, rises in farming costs, upsets in production, and land awards to native Indians. These conditions would affect an estate's efficiency and give the government the excuse to step in and appoint a manager to run things until the voluntary handover of the estate to CORA, simultaneously removing all of the normal rights, guarantees and benefits usually reserved in the event of an expropriation. As such, the existence of two agrarian reforms could be ascertained; one legal, planned, democratic and respectful of the small- and medium-sized farmers; the other chaotic, above the law, easily leading to plundering, making no distinction in size of estate, and readily accepted by CORA and the Ministry of Agriculture. The article concluded that the second type of agrarian reform would overcome the first due to social peasant pressure and the communist desire for a rapid revolution.¹⁸⁸

On 30th April 1971 there appeared an editorial entitled "In Defence of Agrarian Production". This placed in context the most recent reports concerning the damage suffered by the corn harvest in the southern provinces of Valdivia, Osorno and Llanquihue, due to the severe rainy climate being experienced by the country. The article called for adequate and speedy measures to be taken to try to save some of the harvest from ruin. In addition, the need to normalise the difficult situation in the countryside was recognised, echoing the sentiments of President Allende himself. The re-introduction of stable conditions was imperative since the agricultural sector was in the sowing stage of the season. This was a critical process necessary for the success of the following year's harvest. The illegal takeovers of land and similar incidents were counteractive to the planting phase on the estates concerned due to the interruption of work, and neighbour estates had to use precious manpower in guarding their perimeters. The consequences for the country would be extremely unfortunate if things did not change for the better, but since the President himself supported the carrying out of the reform within the bounds of the law, there was hope that all would be well.¹⁸⁹

¹⁸⁸ *El Mercurio*, 22/01-1971, p.3, "Las Dos Reformas Agrarias"

¹⁸⁹ *El Mercurio*, 30/04-1971, p.3, "Defensa de la Producción Agraria"

The effect of the reform on government popularity

Upon assuming power, the UP government had reasoned that its support would increase by rushing through reforms benefiting the lower- and middle-class sections of society. The agrarian reform clearly benefited the peasant population of the country and the government expected its support base to grow as a result of its policies. It would not be unreasonable to think so, since peasants who had previously been exploited under the 'latifundio' system were now being given land by the government.

However, *El Mercurio* pointed to peasant discontent on several occasions to emphasise the unpopularity of the government's policies. On the 10th April 1971, for example, the newspaper commented the effect of the agrarian reform on the recent April 4th municipal elections. Previous to the elections, the government had chosen the rural province of Cautín (about 600 km south of the capital) as the showcase for its agrarian reform. The results of the municipal elections for that area however, were unfavourable towards the government. Opposition parties (the PN, DC and the DR) managed to get 68 magistrates elected as opposed to 21 for the government parties. Of the registered voters in the districts of Cautín, 76% supported the opposition and only 24% were in favour of the government. Furthermore, in other zones of the south affected by illegal takeovers and plundering, support for the left-wing parties was comparatively less than in other regions. Therefore, the article ascertained that the election results had confirmed that these voters were unhappy about the conditions of anarchy that had reigned in recent months. As such, it appeared that the government itself was responsible for the situation, which could have a definitive effect in future elections.¹⁹⁰

The newspaper picked up again on peasant discontent with reform policy in an article published on 17th January 1972, in which *El Mercurio* reported on opposition victories in by-elections held the previous day. In the provinces of O'Higgins and Colchagua, a DC candidate beat a socialist to win the seat by 51.4% against 47.6% of the votes. In Linares (approx. 280 km south of the capital), a member of the PN had defeated a UP candidate with 57.7% to win the seat in parliament. The article placed emphasis on these results as being a reversal from the previous elections and mentioned the female vote as being particularly adverse for the government. This support had been mirrored

¹⁹⁰ *El Mercurio*, 10/04-1971, p.3, "Efectos Electorales de la Reforma Agraria".

in all the rural communities, clearly showing the agricultural sector's dislike for the UP government and its policies.¹⁹¹

The effect of the reform in the countryside

The UP government's solution to implementing the reform in the countryside was through the institution of Centres of Agrarian Reform (CERA). These were created to establish a system of state property, and were an attempt to tackle certain deficiencies existing from the previous government's reform process. As the law stood, only tenants and not part-time workers had the right to administer and share in the profits of expropriated estates. In addition, the state administrative apparatus forced a paternalistic style on existing 'asentamientos'¹⁹², or settlements. Also, the original territorial division of the expropriated property was not altered; the new productive unit included the whole area of the former 'latifundio'. The Agrarian Reform Centres had the objectives of better enabling worker participation in the running of the enterprise, giving peasants autonomy and a greater voice in the Worker's Assembly, and merging expropriated estates to create more efficient farming units. However, the CERAs experienced problems in trying to achieve their objectives, with only 25 being established in 1971. The process was delayed tremendously by an endless debate on the best way of organizing the expropriated land, the task of state enterprises, the CERAs, the settlements and the extent allowed by individual property.¹⁹³

The newspaper dealt with the effect of reform policy in the countryside in an editorial in the 22nd September 1971 edition, concentrating in particular on the Centres of Agrarian Reform. An accelerated transition was taking place in the countryside, with the traditional system of the colonial 'hacienda'¹⁹⁴ being replaced by the growing influence of the peasant organisations. The process was creating a new peasant class, which was replacing the previous owners in the sector. However, this new peasant class was primarily motivated by the desire to own land, and was not particularly keen on the government's intentions to collectivise the entire agricultural sector through the establishment of the centres of agrarian reform. This constituted a manifestation of

¹⁹¹ *El Mercurio*, 17/01-1972, "Repudio Campesino a la UP"

¹⁹² 'asentamiento' – a provisional system of land management under which expropriated land could be managed jointly by resident workers and the state for a transition period of 3 to 5 years, or until the definitive character of the property ownership could be decided.

¹⁹³ Bitar, p.67.

¹⁹⁴ 'hacienda' – Latin American ranch or country estate.

independent peasant expression and could not be attributed to the discontent of the dying 'latifundio' class of landowners. However, new centres of agrarian reform were being created on a daily basis, something that showed the determination of the government to carry through its reform, despite all objections. Unfortunately, the resultant negative effect on production had called attention to a paradox; an agrarian reform with the intention of increasing the country's food supplies and avoiding the need to import food, which had in fact the effect of extensively draining resources and creating conflicts, which would extend into the foreseeable future.¹⁹⁵

In keeping with the topic of production, *El Mercurio* published an editorial on 12th February 1972, in which it presented figures to show that the government had over-estimated the amount of reformable land from the beginning and that the actual amount was in fact far less. As such, contrary to what the government said, the agrarian reform in terms of objectives had already been achieved. In that case, the government needed to concentrate on production and development. Any one who called for an increase in the rate of expropriation was either out of touch with reality or only doing so for political ends. The article concluded that the use of such a tactic for political purposes would not be profitable, as had been demonstrated in the recent by-election defeats for the government in the provinces of Colchagua and Linares (see *El Mercurio* 17/01-1972), where the greatest number of expropriations (after Santiago) had taken place.¹⁹⁶

Summary

El Mercurio emphasised themes of motivation, ideology, legality, economy, organisation, production, and government popularity in its treatment of the agrarian reform process. The newspaper showed itself to be critical to the reform and the way it was carried out. However, it did *not* explicitly pronounce itself to be against the reform, suggesting that it recognised the need for reform of the sector, although disagreeing in principle with the way it was carried out. The newspaper portrayed the government's agrarian policy in a negative manner through proportioning ideological blame, while overlooking its more positive practical aspects. The intention was clear; namely to demonstrate that the election of a socialist agricultural model would be to the detriment of the country and lead to problems. The newspaper implied that a *real* agrarian reform

¹⁹⁵ *El Mercurio*, 22/09-1971, "Rechazo a la Hacienda Estatal"

¹⁹⁶ *El Mercurio*, 12/02-1972, p.3, "Temas Económicas: La Reforma Agraria en Cifras"

would be beneficial to the country, whereas what was being done was no more a change of ownership.

El Mercurio was negative towards the acceleration of the reform for not just political but also practical and economic reasons. However, we noted that there did not seem to be such a clear-cut connection between the agrarian reform and the drop in production as the newspaper was suggesting. The newspaper indicated that the government's agricultural policies were having the opposite effect on its popularity than intended. We also saw that *El Mercurio* argued a strong case against price fixation. Furthermore, the newspaper's reaction to the illegal land takeovers showed that it was aware of their effect on the situation in the countryside and of the UP government's toleration towards them. *El Mercurio* took an unambiguous stand against the illegal takeovers, and considered the government's attitude to be a sign of its willingness to look the other way when the law was being broken in its favour.

Overall, it may be said that in its coverage, the newspaper omitted to give its readers a clear picture of the main reason for the reform; namely, to reorganise the land more efficiently in order to increase production so that food imports for the country could be reduced. Since the newspaper represented conservative interests connected with the ownership of land, it couldn't very well argue for the government's policy of expropriating all land above a size of 80 hectares. This would be tantamount to supporting a usurpation of the right to own private property. As such, one may understand why the newspaper attempted to draw its readers' attention in other more ideologically rooted directions.

Chapter 5 - Conclusion

5.1 Summary

It was ascertained by de Vylder that at the beginning of Allende's term, *El Mercurio* was considered a well informed, conservative but independent publication. Yet my investigation revealed links between the newspaper and the United States stretching back to the early 1960s, established through US fears of communist expansion in Latin America. Due to long traditions connecting the newspaper with the country's propertied class, it was only natural that it would become the main organ of opposition to the Allende government. The revelation that *El Mercurio* had both published CIA inspired editorials *and* received large sums of money from the US government and the private North American company ITT can leave no doubt as to its reporting bias. We can safely ascertain that *El Mercurio* was not an objective newspaper by the time the UP coalition entered government and that its impartiality had suffered considerably.

This conclusion is substantiated by my examination of the articles I selected to represent the opinion of the newspaper. It was noted that although *El Mercurio* did not directly mislead its readers with regards to UP government economic policies, it did prove to be somewhat biased, even alarmist, in its interpretation of them. In its criticism of the UP government, the newspaper placed repeated emphasis on issues such as illegality, Marxist-Leninist ideology, misdirection and misinformation, incompetence, negation of the right to private property, and the spectre of future economic disaster. Here, it can be seen that *El Mercurio*'s ideological standpoint affected its presentation of UP government economic policies. It was further noted that the newspaper sometimes omitted facts of importance that might have contradicted its own views and presented a broader, more complete picture of events to its readers. Additionally, it was recognised that the attitude of the newspaper became more accentuated as time went by, reflecting the growing economic crisis affecting the country. Overall, it may be said that its credibility came more and more into question during the period due to its progressively anti-government stance.

Was the freedom of the press threatened during the period of Allende's government and if so, how did this affect *El Mercurio*'s presentation of UP economic policies? My

investigation revealed that although attempts were made to muzzle and financially limit the opposition press, for example the attempted nationalisation of the paper industry, at no time was *El Mercurio* in any danger of having to shut down its operation. However, during the course of gathering the source material, I did come across issues of *El Mercurio* towards the end of Allende's term with large blank areas on some pages. The newspaper itself claimed that this was due to government censorship. Although the government did have at its disposal this particular means, it is also conceivable that the newspaper faked its own censorship in the extremely tense atmosphere of social unrest prior to the coup for purely dramatical reasons. However, whether real or false, I did not perceive that this prevented the publication of any articles concerning the economic state of the country, which was anyway well known by then.

5.2 Commentary/difficulties encountered

I primarily encountered difficulties in two main areas. The first was the lack of literature concerning the history of *El Mercurio*. In order to place the newspaper in its correct historical context, I was forced to rely on interpretation of the source material itself, in addition to occasional passing references in secondary literature. *El Mercurio*'s role as the main opposition newspaper appeared to be well known to a great many but less well documented. As such, my preconception of the newspaper's role in the drama changed during the course of the investigation, from a willingness to readily accept the content of the articles to a healthy dose of scepticism concerning their credibility. My continuing assessment of the periodical's position in the ideological landscape reflected the considerations towards objectivity any researcher should have when investigating the history of an ideologically split country such as Chile.

Secondly, I encountered difficulty concerning the nature of the language used by *El Mercurio* in its articles. As a native English speaker with a rudimentary knowledge of Spanish, I was unprepared for the high level of linguistic complexity I met in the composition of the source material. Fortunately, I was aided in my comprehension by my prolonged stay in Chile and the invaluable assistance of a professional translator, who brought to my attention both the complexity of the Spanish language and the linguistic failings of some of the authors of the articles I examined. Upon close scrutinisation of the articles, I became aware of many different styles of writing, over

complexity, density and even repetition, leading me to conclude that more than one person of not too high an academic standard had been responsible for their penning.

5.3 Recommendations for further investigation

During the course of my investigation, I came across articles of great interest that were not directly connected with the economy but still critical of the UP government. I would definitely recommend further research into the attitude of the newspaper regarding other specific areas of UP government policy and also towards the UP government in general. Based upon the CIA conclusion that *El Mercurio* had played an important role in setting the stage for the September 11th, 1973 military coup, I would absolutely recommend further investigation into this particular area. Finally, in light of *El Mercurio*'s involvement in Chilean political and social affairs, I would urge the compilation of a book documenting the history of the newspaper from its conception to the present day.

Bibliography and sources

Literature

- Bitar, Sergio; *Chile: Experiment in Democracy*, Santiago de Chile, 1986.
- Corvalán Marquéz, Luis; *Los Partidos Politicos y El Golpe del 11 de Septiembre*, CESOC, Santiago de Chile, 2000.
- de Vylder, S; *Chile 1970-73 : The Political Economy of the Rise and Fall of the Popular Unity*, doctoral thesis at the Stockholm School of Business Studies (Handelshögskolan i Stockholm), 1974.
- Furci, Carmelo; *The Chilean Communist Party and the Road to Socialism*, London, 1984.
- Furtado, Celso; *Economic Development of Latin America*, Cambridge University Press, 1981.
- Kjeldstadli, Knut; *Fortida er ikke hva den engang var*, Oslo, 1999.
- Levinson, J. and de Onís, J.; *The Alliance That Lost Its Way*, Quadrangle, Chicago, 1970.
- Meller, Patricio; *Un Siglo de Economía Política Chilena (1890-1990)*, Editorial Andres Bello, Santiago de Chile, 1996.
- Sprout and Sprout; *Foundations of International Politics*, Van Nostrand, Canada, 1962.
- Universidad Católica de Chile (ed.); *Nueva Historia de Chile*, Zig Zag, Santiago de Chile, 1999.
- Universidad Finis Terrae, *Mil Días, Mil Por Ciento; La Economía Chilena Durante el Gobierno de Allende*, Santiago de Chile, 1993.
- Williamson, E.; *The Penguin History of Latin America*, Penguin Books, 1992, London.

Published source material

- Gonzalez Pino, M. and Fontaine Talavera, A.; *Los Mil Dias de Allende*, Centro de Estudios Publicos, Santiago de Chile, 1997.

Periodicals

El Mercurio

Reports/documents

Popular Unity Basic Program of Government, Santiago de Chile, 1969.

United States Senate; *Covert Action in Chile 1963 - 1973. Staff Report of the Select Committee to Study Governmental Operations with Respect to Intelligence Activities*, Washington, 1975.