

# The Limits of Hegemony: Banks, Covert Actions, and Foreign Firms\*

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## Abstract

Economic sanctions and covert actions from hegemonic states are common policies to influence the behavior of foreign countries. However, less is known about the role of non-state actors and their economic impact on foreign agents. We use novel firm-level data from Chile to document a substantial decrease in financial relations with U.S. banks after socialist Salvador Allende took office in 1970. An analysis of links with banks from other countries reveals that part of the decrease was related to credit risk and another was specific to the U.S. banking sector. Data from business reports and the stock market suggest that firms were mostly unaffected by the destruction of links with U.S. banks. Substitution of financial relations towards state-owned banks appears to be the key mechanism to explain these findings.

**Keywords:** firms, banks, Cold War, United States, Richard Nixon, Salvador Allende.

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# 1 Introduction

Hegemonic countries use economic sanctions and covert actions to limit international relations and influence foreign institutions. Travel bans, embargoes, lending cuts, and asset freezes have traditionally been used as policies to change foreign behavior. These “strategic sanctions” abound, from the U.S. embargo on Great Britain in early 19th century and existing sanctions on Cuba and Iran, to recent ones imposed by the European Union in response to the Russian invasion of Ukraine.<sup>1</sup> Despite their ubiquity and extensive research in the social sciences since the 1960s (Galtung, 1967; Doxey, 1971), systematic evidence on their impacts is scarce, particularly when non-state agents such as multinational corporations or interest groups are involved (Aidt et al., 2021). Moreover, the effectiveness of these actions remains debated among scholars and policymakers (Frankel, 1982; Heifetz, 2015), but their use continues to rise. We provide new evidence on the impact of covert actions by multinational banks on foreign firms in the context of the Cold War.

“Make the economy scream [to] prevent Allende from coming to power or unseat him” was the direct order of U.S. President Richard Nixon shortly after socialist Salvador Allende was democratically elected president of Chile in 1970 (Kornbluh, 2003; Harmer, 2011). The rise to power of a left-wing coalition caused significant political concern in the U.S. due to the impact it might have on other Latin American countries. In fact, the fear of growing Soviet influence in the Global South led to well-documented political efforts to prevent Allende from taking office and to the creation of a recently declassified Covert Action Program that aimed to create instability in the Chilean economy (U.S. Senate, 1975; Gustafson, 2007). The economic impact of U.S. foreign interventions during the Cold War has been documented by previous research (Dube et al., 2011; Berger et al., 2013). Yet the role of non-state actors and the consequences for foreign firms has been hypothesized but elusive to put under empirical scrutiny (Sigmund, 1974; Aidt et al., 2021).

In this paper, we empirically study the existence and evolution of international business relations between U.S. banks and Chilean firms before and after the democratic election of Salvador Allende as president in 1970. By doing so, we provide novel evidence of the political role of the financial sector in international business networks. For the empirical analysis, we collected and digitized annual business reports with financial information about the most important firms in the

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<sup>1</sup>Morgan et al. (2009, 2014) document more than 1400 economic sanctions worldwide since 1945. Economic sanctions are different from political interventions (e.g. CIA interventions in the 20th century) and non-coercive interventions such as conditional loans from multilateral banks and preferential market access programs.

Chilean economy during the period 1967-1973. A key feature of our data is that it reveals the existence of relations between firms and banks across the globe. We classified all banks that appeared in the reports and document that a large share of firms had financial links with U.S. banks and other international banks in Europe and elsewhere in the late 1960s. We then study if these financial links changed differentially after the arrival of socialism, their consequences for affected firms, and the mechanisms through which these impacts might appear in the economy.

The empirical strategy looks at firms with links to U.S. banks in the period 1967-1970 as the group potentially affected after the arrival of Salvador Allende. Other firms operating in the same industry and with links to (non-U.S.) international banks constitute the control group. The availability of a control group allows us to take into account any changes that affected all firms in the country such as credit risk, inflation, and political instability, among others. Comparisons within industry and year permit further adjustment for industry-specific shocks over time. Beyond firm-bank relations, we also observe firm-level assets, debt, sales, board members, and hand-collected stock market prices from contemporary newspapers. Crucially for our research design, we show that both groups of firms were similar in terms of observable characteristics before the arrival of the left-wing coalition and were evolving in the same manner in the late 1960s. These empirical facts motivated us to implement a difference-in-differences econometric strategy.

We begin by documenting a destruction of financial relations between Chilean firms and U.S. banks after Salvador Allende took office. Difference-in-differences estimates reveal one fewer link with a U.S. bank among firms with U.S. links in the late 1960s. The destruction of one international link is large considering that the average firm had fewer than three links with international banks. In contrast, we do not observe a systematic change in financial links with international banks different from the U.S. Although a contraction of the U.S. banking sector could explain these results, we fail to find evidence of differential financial trends across the U.S. and other countries in our bank data. Taken together, these patterns suggest that the U.S. banking sector differentially reacted to the rise of socialism in Chile, a result which to the best of our knowledge has been hypothesized but not documented before. Importantly, all of these results are robust to a wide range of empirical checks, including recent methods that conservatively adjust difference-in-differences estimates by relaxing the key identification assumption (Rambachan and Roth, 2021; Roth, 2021).

Did the differential destruction of financial links with U.S. banks lead to economic losses for firms? To answer this question, we use financial data from balance sheets, income statements, and

the stock market. We find little evidence of negative impacts on firms. Debt, assets, sales, and stock returns all evolved similarly across firms with and without U.S. links. All of these results are robust to different specification decisions and estimation techniques (Crump et al., 2009; Sant’Anna and Zhao, 2020). Moreover, we confirm the lack of a negative impact by analyzing data from the country’s manufacturing census. These data is available at the industry-by-region level, and we identified industry-region pairs linked to U.S. banks in the late 1960s. Employment and value-added measures again evolved similarly across affected and unaffected economic areas.

Why are firms unaffected by the destruction of financial relations? We hypothesize that Salvador Allende’s policies were key. A leading characteristic of his term was the nationalization of firms and banks. In the late 1960s, there was a single state-owned bank while more than half of domestic banks were controlled by the state in 1971. The economic program of the left-wing coalition reveals that the idea was to channel credit from national banks to firms to fuel the economy. We classified domestic banks into private and public and, using the same difference-in-differences strategy, document that banks with fewer links to U.S. banks were also the ones creating financial links with public banks during Allende’s term. Moreover, a re-analysis of economic consequences using heterogeneous impacts reveals that firms without links to (soon to be) public banks in the late 1960s were indeed harmed by the destruction of U.S. links. Overall, the evidence suggests public banks were key to counteract the negative impact of U.S. banks on firms.

This paper relates to an empirical literature documenting the economic impacts of foreign interventions. The majority of previous articles have studied the economic and financial impacts of U.S. interventions during the Cold War. Authors have documented that U.S. led coups changed the stock market value of multinational companies (Dube et al., 2011), CIA interventions affected international trade patterns (Berger et al., 2013), and estimated the impact of U.S. military bombing during the Vietnam War (Miguel and Roland, 2011; Kocher et al., 2011; Dell and Querubin, 2018). A recent survey of the economics literature studying foreign interventions emphasizes the potential role played by non-state actors (Aidt et al., 2021) but the empirical evidence is scarce. Our main contribution is to depart from state interventions to focus on the political role of non-state actors such as the banking sector and its impact on foreign firms through international financial networks.

We also contribute to a large literature across the social sciences which aims to understand and document the effectiveness of economic sanctions by state and non-state actors. To the best of our knowledge, the vast majority of work in this area focuses on sanctions from hegemonic state

actors or intergovernmental organizations such as the United Nations. In those cases, the rationale behind their use is to avoid the costs associated to military interventions but at the same time create (or signal the possibility of) an economic threat with the goal of changing foreign behavior (Baldwin, 1985; Kaempfer and Lowenberg, 1988). Early research is generally pessimistic about the effectiveness of sanctions (Hufbauer et al., 1985; Pape, 1997) mostly due to the negative consequences for civilians in the targeted country (Peksen, 2009). Recent evidence suggest sanctions have significant economic consequences as they depress economic activity, increase inequality, affect trade flows, and create political instability (Marinov, 2005; Allen, 2008; Neuenkirch and Neumeier, 2015; Afesorgbor and Mahadevan, 2016; Afesorgbor, 2019). In terms of consequences for firms, a few studies document negative firm-level impacts of recent sanctions against Russia and Iran (Draca et al., 2019; Ahn and Ludema, 2020). We also study firms but focus on covert actions by non-state actors, a dimension which has been overlooked and thus evidence is lacking.

The focus on banks and their impact on foreign firms makes this paper related to another economics literature studying financial contagion through international networks and substitution of credit across banks. Authors have emphasized how internal and external banking crisis can have direct and indirect impacts on firms, workers, and the local economy more generally (Peek and Rosengren, 2000; Chodorow-Reich, 2014; Huber, 2018). There are also a few articles documenting how bank liquidity shocks in foreign countries affect domestic firms through domestic banks (Schnabl, 2012). We contribute to this literature by analyzing a deliberate destruction of financial links and the lack of an impact on foreign firms. The role of public banks in counteracting the destruction of links is related to previous research documenting credit compensation after liquidity shocks among large firms with strong business and political ties (Khwaja and Mian, 2008).

## **2 Background: Salvador Allende and U.S. Policies**

Twenty two months after the arrival of president Richard Nixon to the White House in January 1969, the U.S. witnessed how socialism and thus Soviet influence spread in Latin America. In November 1970, socialist Salvador Allende defeated candidates from conservative political parties and became president of Chile with the support of a large left-wing coalition. His election was perceived by the U.S. as critical given the context of the Cold War, and president Nixon was far from oblivious from these and related events in the region. In this section, we provide a historical

discussion of the arrival of the Salvador Allende government, the policies that were implemented, and the U.S. foreign policies that were triggered as a consequence.

Salvador Allende was democratically elected president of Chile in September 1970 with little more than 36 percent of the vote. Given that the winner of the election had obtained less than 50 percent of the vote, the law mandated that the Congress had to confirm the winner. The two months that followed were politically turbulent. Although members of the Congress had always confirmed the most voted candidate, this time there were special political interests in preventing this from being the case. The U.S. government was particularly keen in preventing Salvador Allende from taking office and lobbied for members of the Congress to vote against his confirmation. Moreover, recently declassified documents also reveal that the CIA was involved in creating conditions for a coup (Kornbluh, 2003).<sup>2</sup> A critical actor was the Commander-in-Chief of the Army René Schneider, a constitutionalist who stood firmly against a political role of the military (Harmer, 2011, p.57-60). Schneider was killed in October and the political support for a constitutional path and Allende's confirmation as president increased as a consequence. Sixty days after winning the election, Salvador Allende was confirmed by the Congress and took office in November 4th.

Less than a week after socialist Salvador Allende became president, Richard Nixon decided to implement a policy of "covert hostility" (Qureshi, 2009, p.75). The National Security Decision Memorandum 93 summarizes this strategy under the subject of "Policy Towards Chile." This documents reveals that "The President has decided that (1) the public posture of the United States will be correct but cool, to avoid giving the Allende government a basis on which to rally domestic and international support for consolidation of the regime; but that (2) the United States will seek to maximize pressures on the Allende government to prevent its consolidation and limit its ability to implement policies contrary to U.S. and hemisphere interests."

A memorandum from National Security advisor Henry Kissinger to Nixon presented the five principal elements of the their policy (Figure A.1): (1) Political action to divide and weaken the Allende coalition; (2) Maintaining and enlarging contacts in the Chilean military; (3) Providing support to non-Marxist opposition political groups and parties; (4) Assisting certain periodicals and using other media outlets in Chile which can speak out against the Allende Government; and (5) Using selected media outlets [...] to play up Allende's subversion of the democratic process and

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<sup>2</sup>The U.S. was an important political actor during this period and had a key role in the 1964 election when Allende had a real chance of becoming president. U.S. Senate (1975) confirmed that the CIA covertly spent more than 3 million dollars to support the moderate candidate Eduardo Frei to prevent Allende from winning the election.

involvement by Cuba and the Soviet Union in Chile. The reasons for the hostility were grounded on two arguments. First, the U.S. was concerned about the impact of the democratic election of a socialist president on other Latin American countries which could potentially also fall under the influence of the Soviet Union. Second, the U.S. was concerned about the economic threat that socialism imposed on U.S. assets through, for example, unfair expropriations. To implement this strategy, the plan was to legally overthrow Allende or to create conditions for a military coup. All of this had to be done covertly due to a fear of exacerbating hemisphere hostility and to maintain the U.S. reputation of protector of democracy worldwide (Harmer, 2011, p.58).

A key event occurred in July 1971. Salvador Allende decided to nationalize the remaining American ownership in copper companies. This action constituted a threat to U.S. assets and therefore enabled Richard Nixon to use the Hickenlooper Amendment to justify the suspension of assistance to Chile (Sigmund, 1974; Qureshi, 2009). As a consequence of the copper nationalization and related policies, U.S. banks reduced their loans and the U.S. Congress enacted the Gonzalez Amendment instructing their representatives to vote against additional loans from multilateral lending institutions to countries expropriating U.S. assets (Qureshi, 2009, p.89). The unfolding of these events has been previously covered by Sigmund (1974, p.326) who argues that “it is hard to distinguish between what could have been seen by many to legitimate reasons for not making loans and credits available (serious doubts about Chile’s likelihood or capacity for repayment) and illegitimate ones (economic warfare in defense of private corporations or in order to promote a military coup).” Nevertheless, Chile secured loans from other non-U.S. countries like Australia, Canada, the U.K. and the U.S.S.R. among others (Sigmund, 1974, p.336).

Far less is known regarding the foreign actions of the U.S. private sector regarding socialist governments worldwide and Chile in particular during this period. There is research documenting the political actions of U.S. firms which had economic interests in Chile: the ITT Corporation owned 70% of the Chilean Telephone Company, financed a right-wing newspaper, and provided monetary resources to Henry Kissinger and the CIA to “induce economic collapse” in Chile (Sigmund, 1974, p.323). Other foreign policies from the private sector were also discussed. For example, William Broe from the CIA proposed the “nonrenewal of bank credits, a slowdown in deliveries of spare parts, pressure on Chilean savings and loan companies, and withdrawal of technical help by private companies.” However, according to investigations of the time “there appears to be no substantial evidence in the ITT papers on hearings of an effort by the government or by private companies or

banks to create an economic crisis to prevent Allende from coming to power in 1970.” But the same investigation also states that “there is no doubt, however, that such policy was discussed.” Existing evidence suggests that by October 1971 the U.S. government had not made any effort to influence the decisions of private banks (Sigmund, 1974, p.332).

Whether the U.S. foreign policy had an impact on the collapse of the Chilean economy during Allende’s term is highly debated. Some scholars claim that it contributed to the economic collapse. One argument is that the Ex-Im Bank decreased imports and this contributed to trucker strikes (Oct 1972-Sept 1973). Other scholars argue that U.S. policies had only a minor influence on the Chilean economy: “The argument that an American invisible blockade was responsible for a major contributing factor to the overthrow of Allende is therefore not persuasive” basically because it substituted loans from the U.S. to other countries (Sigmund, 1974, p.337).

### **3 Data construction**

#### *3.1 Business reports, 1967-1973*

Our main data source are business reports submitted by firms to a regulatory agency in charge of regulating ownership and the financial sector. This agency is an important state entity and its role can be compared to the one played by the Securities and Exchange Commission in the U.S. today. Listed firms and companies with a large number of shareholders were mandated by law to submit reports with detailed financial information about their business activities. Similar business reports from the 1980s and 1990s have been previously used to understand the consequences of privatization, democratic transitions, and the formation of political connections in the same country (González and Prem, 2018, 2020; Aldunate et al., 2020; González et al., 2020). We digitized a new wave of reports from 68 firms operating between 1967 and 1973, before and after the arrival of Salvador Allende. These are large, important firms, which controlled the most relevant sectors in the economy (Alaluf, 1971; Larrain and Meller, 1991). Examples include large mining companies, electricity firms, wine companies, and manufacturing firms in rural and urban areas, among others.

Figure 1 presents the three key parts of the reports we use in the empirical analysis. This report in particular is from a manufacturing firm operating in the agricultural sector in 1967. Panel (a) shows the front page, which reveals the firm name, the business year, all names of people appointed



in the board of directors, the name of managers, the list of existing bank relationships, and the name of the accounting firm in charge of auditing the report, in this case Deloitte, Plender, Griffiths and Company. Panel (b) shows the balance sheet, which reveals information about assets and debt, and their corresponding subcategories. Lastly, panel (c) shows the income statement submitted by this firm with information about total sales. At the time, the information which was mandated to be reported to the agency was unfortunately not standardized, meaning that some firms reported certain subcategories and some did not. Therefore, we use or construct coarse categories (e.g. assets) to make the information from the reports comparable across firms. We also transform all monetary variables to 1967 Chilean Escudos using the price index from the Central Bank.

After digitizing the business reports of the 68 firms in the period 1967-1973, we are able to observe the following time-varying variables: assets, fixed assets, sales, and debt. With these, we are able to construct a firm's reliance on external credit as measured by its leverage (i.e. debt over assets), sales over assets, and returns over assets. In addition, we also read the description of business activities to determine whether firms were exporting their products or importing inputs for their production lines or distribution activities. The former is easy to detect given that firms were mandated to report their international operations. Imports can be detected in the same manner or by inspection of the financial value of products in customs revealed by balance sheets.<sup>3</sup>

The reports also reveal exporting and importing activities. Before disclosing balance sheets and income statements, managers write a general statement declaring the amount of sales to customers in foreign countries. The vast majority also states the name of countries where their products were sold. We read all general statements in business reports produced by firms in our data to construct (i) an indicator for firms exporting their products, and (ii) the export destination in three categories relevant for the purpose of this study: United States, Latin America, rest of the world. Additionally, we can infer if the firm engages in importing activities by looking at a specific account in the balance sheet which declares the amount paid in customs. We again construct an indicator for importing activities, although in this case we unfortunately do not observe the source country.

We also collected data measuring firm-bank financial relationships in the period 1967-1973 from the same business reports. Panel (a) in Figure 1 provides an example of this information. The first page reveals the list of banks with a financial relationship with the firm. In this particular

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<sup>3</sup>For example, the business report of a manufacturing firm in the metallurgic industry reveals that the firm "manufactures and distributes [their] products in Argentina, Uruguay, Peru, Bolivia, and Ecuador."

example, the firm declared to have had relationships with seven banks in 1967. Three of the seven banks were domestic (e.g. Banco de Chile), two were international non-U.S. banks (e.g. Banco Panamericano), and two were U.S. banks, (First National City Bank and Bank of America). We collected all bank names and classified them in these three categories following the work of Behrens (1985). Originally, the author classified all banks operating in Chile in 1969 into domestic or international banks. Given the objective of our analysis, we take one step further and classified all international banks we found in the reports as based in the U.S., Europe, or elsewhere. Table A.1 presents the list of all banks and their main country of operation. Between 1967 and 1973 we found a total of 20 national banks, seven U.S. banks, and eight non-U.S. international banks.

We complement our firm-level panel dataset with stock market data. We use stock prices to study the response of financial investors to the arrival of a socialist government during the Cold War (Girardi, 2020). Expected negative impacts on firms with U.S. relationships should drive investors to bet on firms without these links and thus presumably decrease the stock market valuation of the former (Fisman, 2001). Stock market prices at the firm-level can be found in newspaper *El Mercurio*, the largest and most important media outlet at the time. Historical editions of this newspaper are publicly available in the microfilms archives of the National Library. In terms of data collection, we digitized daily prices for a five-month period around the 1970 presidential election. We also digitized weekly prices between January 1st 1970 and December 30th 1973. The latter period includes the 1970 presidential election, all of Salvador Allende’s term, and the 1973 military coup. Overall, we found stock price data for a total of 46 firms in our panel dataset.

### 3.2 Summary statistics in 1969

Table 1 presents summary statistics for all firms and sub-samples of subsequent econometric interest in 1969, the year before Salvador Allende took office. Panel (a) shows the average and standard deviation (in parenthesis) of all firm-level variables we extracted and constructed from the business reports. The first five rows are related to firm performance, the following two measure participation in international markets, and the latter three reveal the industries of operations.

Column 1 in Table 1 presents the characteristics of all 68 firms in the data. The first two variables are the logarithm of assets and fixed assets. On average, two-thirds of all assets were fixed. The third row reveals that the average firm had annual sales equivalent to 67% of their assets. Given our interest on firm-bank relationships and bank credit, we note that the average

leverage was 35%, which means that more than one-third of assets were externally financed. In fact, we observe that more than a quarter of firms had a leverage larger than 50%, so the majority of their operations were financed with external funds. We mentioned that these were large firms, which is confirmed by the fact that many participated in the international market: almost half were importers and one-third sold their products abroad. In terms of industries, more than half operated in the secondary sector (manufacturing), and remaining firms were roughly equally split in primary – extraction and production of raw materials (e.g. forestry, mining) – and tertiary sectors (services).

Panel (b) in Table 1 describes firm-level relationships with different types of banks. The first two rows in column 1 show that the majority of firms interacted with banks as 85% and 57% of them had financial relationships with national and international banks respectively. Column 2 also shows that 41 of the 68 firms in the data had at least one business link to a U.S. bank. The remaining 27 firms in column 3 had substantially fewer financial relationships with the international banking sector as only one-third had links with non-U.S. international banks. Moreover, the reports reveal that the average firm had business relations with 4.3 national and 1.2 international banks and thus the share of international banks was close to 20%. Overall, the summary statistics in this panel reveal substantial differences across firms in their bank relationships before the arrival of Allende in November 1970. Below we propose to exploit this heterogeneity econometrically.

## 4 Empirical Strategy

### 4.1 *Firms linked to international banks*

Given that firms with and without links to U.S. banks are different, the main empirical challenge is to find a set of firms which can serve as control group which by the virtue of being similar to firms exposed to the U.S. economy. After carefully reading all annual reports in our data, we realized that 15 out of the 27 firms without U.S. links are small domestic companies which are relatively unconnected to the world economy. The majority of these firms are involved in recreational activities or the real estate business in narrow geographic localities within the country. As such, these firms are unlikely to constitute a valid counterfactual as they are significantly different from firms exposed to the U.S. This fact motivated us to drop them from the analysis and focus only on firms with at least one link to any international bank (U.S. or non-U.S.) in the period 1967-1969.

Column 5 in Table 1 offers an empirical description of the 53 firms which had at least one link to an international bank before Salvador Allende rose to power in 1970. Columns 6-8 describe differences across the two groups of interest. Overall, once we remove the set of small domestic firms, we find that the 41 firms with and the 12 firms without links to U.S. banks are similar to each other. As before, panel A examines differences in firm-characteristics in 1969, panel B firm-bank relationships, and statistical differences use permutation tests to account for the small number of firms in the control group. As expected, removing small domestic companies creates balance in all characteristics across the two set of firms. Most notably, firms with and without U.S. links are now similar in terms of size, debt, leverage, and exporting activities. Regardless, we always check if results change once we control for these variables. Similarly, both firms have relationships with a similar number of international banks (1.56 vs. 1.24 per year), most have at least one relationship with a national bank (86 vs. 90%) and similar shares of international banks (22 vs 26%).

#### 4.2 *Estimating equations*

We exploit the similarity of firms in the estimating sample in a differences-in-differences framework during the years 1967 and 1973, i.e. three years before Salvador Allende rose to power and the three years of his mandate. The set of firms with existing financial links to U.S. banks before Allende’s period constitute the treatment group. Those firms with links to international banks but without links to U.S. banks represent the control group. Based on the previously discussed empirical comparison across these groups, and a battery of checks we present below, we argue that the latter constitutes a valid counterfactual for the former set of firms.

The empirical analysis begins with a semi-parametric estimation of the differences across firms exposed to the U.S. financial sector and the corresponding comparison firms. In particular, we use ordinary least squares to estimate the following regression equation:

$$Y_{ijt} = \sum_{k=1967}^{1973} \beta_k (\text{U.S. bank}_i \times D_k) + \phi_i + \phi_{jt} + \epsilon_{ijt} \quad (1)$$

where  $Y_{ijt}$  is an outcome of firm  $i$ , which operates in industry  $j$  and we observe in year  $t$ . The indicator “U.S. bank $_i$ ” identifies exposed firms and takes the value of one for those with financial links to at least one U.S. bank during the years 1967-1969 and zero otherwise. Note that an important economic variable which changed after Salvador Allende’s rise to power was credit

risk as perceived by private banks. In fact, private bankers described that credits were gradually suspended in response to the worsening economic situation (Sigmund, 1974, p.332). Fortunately, the existence of Chilean firms without U.S. links allows us to control for perceived risk changes.

The indicators  $D_k$  in equation (1) take the value of one for each year and zero otherwise, e.g. when  $k = 1971$  then  $D_{1971}$  equals one for the year 1971 and zero for the remaining years. To avoid multicollinearity, we omit  $D_{1969}$  from the set of year indicators. The fixed effects  $\phi_i$  capture observed and unobserved heterogeneity across firms that is fixed over time, and  $\phi_{jt}$  captures observed and unobserved heterogeneity which changes over time across clusters of firms in the same industry.<sup>4</sup> Robust standard errors  $\epsilon_{ijt}$  are clustered at the firm-level to allow for arbitrary correlation within firms over time. The coefficients of interest are  $\beta_{1971}$ ,  $\beta_{1972}$ , and  $\beta_{1973}$  and measure the differential outcomes of firms exposed to the U.S. economy during the period of interest. As discuss below, the coefficients  $\beta_{1967}$  and  $\beta_{1968}$  serve as checks for the validity of the empirical approach.

In addition to the previous econometric specification, we always present results from a relatively more parametric regression equation. The motivation is to add some structure suggested by the data and thus increase the precision of our estimates. We do this by estimating:

$$Y_{ijt} = \beta(\text{U.S. bank}_i \times \text{Allende}_t) + \phi_i + \phi_{jt} + \epsilon_{ijt} \quad (2)$$

where everything is defined as in equation (1) but we replaced the set of year indicators by the single indicator “Allende<sub>*t*</sub>” which takes the value of one for the period 1971-1973 and zero otherwise. The coefficient of interest is now  $\beta$  and measures the *average* differential outcomes of firms exposed to the U.S. economy during Allende’s period. The added structure comes from imposing that  $\beta_{1967} = \beta_{1968} = \beta_{1969} = 0$  which as shown below is supported by the data.

In order to interpret  $\beta_k$  with  $k = 1971, 1972, 1973$  in equation (1) and  $\beta$  in equation (2) as the causal impact of the U.S. economy on firm-level outcomes, we need to assume that the set of firms in the control group constitute a valid counterfactual for firms with U.S. links before Allende’s term. Although this identification assumption is essentially non-testable, we provide a battery of empirical exercises which suggest this is a reasonable conjecture. The fixed effects help us to flexibly incorporate industry changes over time, and to further control for other time-varying

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<sup>4</sup>The double-way fixed effect  $\phi_{jt}$  is useful to control for any industry-specific policies which affected all firms. For example, the impact of agricultural policies during the Allende government are captured by this fixed effect.

differences at the firm-level we also estimate versions of equations (1) and (2) in which we include variables  $X_i$  measured before Allende' terms and interacted by the indicator "Allende $_i$ " as controls. In particular,  $X_i$  includes an indicator for exporters, another indicator for importers, and firm size as measured by assets in balance sheets. Other exercises include checking for the estimates  $\widehat{\beta}_{1967}$  and  $\widehat{\beta}_{1968}$  – which should be close to zero if the two sets of firms are indeed comparable – and similar exercises which formally test for the existence of differential trends across firms.

Finally, in terms of the outcomes we examine and the order of the empirical analysis, we proceed in four steps. First, we begin with an estimation of changes in relationships between firms and different types of international banks. Given our interest in the U.S. economy during Nixon's term, we look at firm-level relationships with U.S. banks and non-U.S. international banks. We use number of relationships with banks as the main dependent variable, but results are robust to different definitions such as the share of U.S. banks. Second, we explore the impact of these evolving relationships on real firm-level outcomes such as assets, debt, and sales, and also on stock returns over different time horizons. Third, we explore the robustness of these results to changes in specification decisions and estimation strategies. And finally, we engage in an exploration of mechanisms which can potentially explain our findings.

## 5 Results

### 5.1 *Disruption of firm-bank relationships*

We begin by estimating the differential evolution of firm relationships with international banks. Figure 2 presents estimates of equation (1). These figures show important changes in financial links over this time period. In particular, panel A shows that the number of links with international banks decreased markedly after the arrival of Salvador Allende. By 1972, firms with previous U.S. links had 1.5 fewer relationships with international banks. The average firm had links with approximately six banks before 1970, which means a decrease of 25% in the total number of bank relationships and almost a 100% decrease in relationships with international banks. Panels B and C in the same figure make clear that the destruction of international relationships comes from U.S. banks as the changes in non-U.S. banks are smaller and not statistically different from zero.

Three additional results are worth mentioning regarding non-parametric estimates of changes

in bank relationships. First, estimated coefficients  $\widehat{\beta}_{1967}$  and  $\widehat{\beta}_{1960}$  are economically small and not different from zero. In fact, the  $p$ -values associated to the  $F$ -test for the joint significance of both pre-Allende coefficients are 0.15 in panel A, 0.16 in panel B, and 0.18 in panel C. The conjunction of  $p$ -values and small point estimates provide empirical support for the existence of parallel trends between treated and control firms before Allende and constitute suggestive evidence in favor of the parallel trends assumption in the period afterwards. The second result is related to a natural question that arises from this figure: Are these changes in bank relationships permanent or transitory? To answer this question, we extended our analysis until 1980, right before the onset of a large economic crisis. Figure A.2 presents these results and shows that the pre-Allende levels returned by 1978-1979. Third, there is some attrition in our firm-bank data but Table A.2 shows that the missing data is similar across treated and control firms.

Table 2 presents the relatively more parametric estimates derived from equation (2). Overall, this table confirms the evidence from Figure 2. This is, there is a large and statistically significant decrease in the number of relationships with international banks coming mostly from the destruction of links with the U.S. economy. Panel A presents a simplified version of equation (1) imposing  $\beta_{1967} = \beta_{1968} = \beta_{1969}$  and panel B estimates of equation (2). In addition, we present results from three specifications to be sure about the robustness of results: (i) using only firm and year fixed effects (columns 1, 4, 7), (ii) equation (2) (columns 2, 5, 8), and (iii) an extended version with predetermined controls interacted with an indicator for Allende's term (columns 3, 6, 9). The first three columns confirm the decrease in the number of relationships with international banks, while columns 7-9 show that most of this effect comes from fewer relationships with U.S. banks. The estimated coefficients are remarkably similar in each year of Allende's government and are robust to the flexible inclusion of predetermined controls. In all, using our preferred specification we document a 36% decrease in relationships with international banks ( $-0.96/2.64 = 0.36$ , column 2) and a 72% decrease in relationships with U.S. banks ( $-0.85/1.18 = 0.72$ , column 8)

Why were relationships with U.S. banks changing differently after the arrival of the left-wing government in Chile? We posit that the main reason behind these patterns is grounded on a U.S. economic strategy associated to the Cold War and the threat of communism coming from Salvador Allende. However, a simple alternative explanation comes from a potential differential trend or idiosyncratic shock in the U.S. bank sector. To test for it, we gathered annual data for the bank sector in the home countries of all the international banks in the annual reports. Reassuringly,

Figure 3 suggests the U.S. sector was evolving similarly to bank sectors in Europe and elsewhere; trends in deposits over GDP and bank credit over GDP are similar across locations. If anything, both panels suggest that the U.S. bank sector became stronger after 1970 relative to Europe.

## 5.2 *Participation in international markets*

Given the economic importance of the firms in our data, their relative large size, and their active participation in the world economy, it is natural to ask if the disruption of bank relationships affected their participation in international markets. To answer this question, we study within-firm changes in exporting and importing activities after Salvador Allende’s rise to power. In addition, we also look at the direction of trade flows by analyzing changes in the probability of exporting to the U.S., Latin America, and the rest of the world.<sup>5</sup> Theoretically, the impact of lending cuts from a subset of banks depends on the ability of firms to substitute across banks. With imperfect substitution, firms might need to reduce their operations and trade flows could be affected.

Table 3 presents estimates of equation (2) using indicators for exporting and importing activities as dependent variables. Panel A represents the baseline specification and panel B adds pre-determined covariates interacted with time indicators as control variables. Column 1 shows that firms exposed to lending cuts from U.S. banks decrease their exporting patterns by 8-14 percentage points from a base of 35%, but the difference is imprecisely estimated and it is not statistically different from zero. Importing activities remained stable after 1970 among the firms exposed to lending cuts when compared to their control group. We present the corresponding non-parametric difference-in-differences in Figure A.3. When we zoom in to analyze export destinations, we observe that firms decrease their exports to other countries in Latin America, *not* the U.S. or the rest of the world, although again these estimates are not different from zero.

In all, we observe little robust changes in the participation of affected firms in international markets, at least as measured by their exporting and importing activities revealed in business reports. Of course, international transactions are only one potential margin of adjustment and firms could have suffered from the lending cuts in other parts of their operations. We now explore these.

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<sup>5</sup>Column 1 in Table 3 reveals that 35% of firms exported their products in 1969. Columns 3-6 clarify that we observe the destination of exports for almost but not all firms (29 percentage points of the 35%, or 83%).



### 5.3 Firm-level performance

What were the consequences for firms after the disruption of relationships with U.S. banks? We answer this question using three different types of economic outcomes. We begin by looking at firm-level outcomes available in the annual reports. Additionally, we follow González and Prem (2020) to collect weekly stock-prices from newspapers available at the National Library, and construct abnormal returns for each firm (Campbell et al., 1997). Finally, we combine our firm-level data with a different historical industry-level dataset. Theoretically, the impact of fewer credit sources depends on the ability of firms to substitute credit from U.S. banks to other sources of credit, either domestic or international. Imperfect information, a politicized context, and credit constraints likely introduce market frictions and thus imperfect substitution. We hypothesize that as a consequence of the imperfect substitution, firms could have experienced lower performance. Although evidence is scarce, recent research has found the opposite: more bank relationships is associated with lower firm value (Jادیyappa et al., 2020), with monitoring costs being a possible mechanism. Therefore, the impact of fewer sources of credit is ultimately an empirical question.

Figure 4 presents non-parametric results using firm-level outcomes as dependent variables. Overall, we observe little evidence of negative impacts on firm performance. Importantly, we also observe parallel trends across treated and control firms, with  $p$ -values for the joint significance of pre-Allende coefficients being 0.25, 0.57, 0.46, 0.62, 0.16, and 0.19 in panels A-F respectively. Moreover, most coefficients point towards positive impacts as we observe higher sales and more assets after 1970. Table 4 presents the corresponding parametric results for Allende's term, i.e. the average of coefficients in the 1971-1973 period. Panel A presents result without predetermined controls interacted by Allende's term and panel B adds those to check for the robustness of results. Again, we observe little evidence of lower performance among affected firms. Only columns 6 and 7 suggest negative impacts, but the coefficients are fairly small in terms of economic magnitude.

To further understand potential economic impacts on the economy, we also combined our firm-level data with annual information from the country's manufacturing census.<sup>6</sup> Unfortunately, the micro-data is missing and the information is only available at the industry-by-region level. We observe a total of nine (two-digit) industries and 10 regions every year between 1968 and 1973. In

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<sup>6</sup>The National Statistics Bureau collects annual information about establishments in the manufacturing industry which have more than 50 employees. The census are comparable across years and each firm is assigned to an industry using the International Standard Industrial Classification of All Economic Activities (ISIC).

this case, we geo-coded the location of operations of all firms in our data and define the treatment group as an indicator that takes the value one if at least one firm in a given industry-region had a relationship with a U.S. bank between 1967 and 1969. Given the more speculative nature of this analysis, we present descriptive evidence and leave econometric results for the appendix. Figure 5 again shows few differences between affected and control areas of the country. In contrast to previous results, Table A.3 documents fairly small negative impacts on employment, value added, and payroll, although none of these estimates is statistically different from zero and appear to be explained by pre-trend differences across treatment and control locations (Figure A.4).

#### 5.4 *Additional results and robustness exercises*

Additional results and robustness exercises provide further support for the negative impact of Allende's government on links to U.S. banks and the consequences for firms. We begin with evidence from recent statistical tests and alternative assumptions regarding parallel trends across treatment and control firms. Figure 2 showed that all pre-Allende coefficients are not statistically different from zero, which suggests both sets of firms were evolving similarly before the period of interest. This evidence is also supported by a statistical test of differential linear pre-trends. Column 1 in Table 5 focuses on the pre-Allende period and presents the coefficient associated to a potentially different linear trend among firms with links to the U.S. Reassuringly, we cannot reject that firms with and without links had similar trends. We can also take a more conservative stand and allow for deviations from the parallel trends assumption. In this case, we follow the recent literature and allow linear and non-linear deviations to check for the sensitivity of each one of our results (Rambachan and Roth, 2021; Roth, 2021). Results are presented in Figure A.5 and Table A.4 and suggest that even under conservative scenarios we find a sizable destruction of U.S. links.

The destruction of U.S. relationships and the lack of negative impacts on firms are robust to several specifications decisions we made. First, those results are not driven by any specific firm in the data. Figures A.6 and A.7 show that our estimates are remarkably stable when we check their sensitivity to excluding single firms from the corresponding estimation. Second, we reach similar conclusions regarding U.S. bank links if we replace the number of firm-bank relationships by (i) the number of U.S. relationships over all relationships (i.e. share), or (ii) an indicator that takes the value of one for the existence of a relationship with at least one U.S. bank (i.e. any). The upper three panels in Figure A.8 show the results for the former, and the bottom three panels for

the latter. Third, columns 2 and 3 in Table 5 show that results are similar if we measure the links to U.S. banks in the year 1967 or 1969 instead of doing it during the period 1967-1969. And fourth, the use of panel data can produce inconsistent standard errors due to serially correlated outcomes (Bertrand et al., 2004). Reassuringly, column 4 in Table 5 shows that results are again similar when we collapse the seven time years of data (1967-1973) into one before and one after periods.

Finally, we show that all results are robust to the use of alternative estimation methods which use more conservative assumptions in difference-in-differences models. Columns 5 through 8 in Table 5 present these exercises which further support our results. In columns 5 and 6, we follow Crump et al. (2009) and estimate each firm's probability of having a U.S. bank relationship based on their observables in the 1967-1960 ( $\tau$ ) period ( $p_i = \phi[X_{i\tau}]$ ). After obtaining  $\widehat{p}_i$  for all firms in the sample, we restrict the estimation to two sub-samples which focus on firms with overlap in the distribution of  $\widehat{p}_i$ , i.e.  $\widehat{p}_i \in [0.08, 0.92]$  and  $\widehat{p}_i \in [0.10, 0.90]$ . Finally, columns 7 and 8 show that results are robust to semi-parametric estimators (Abadie, 2005) and recently developed difference-in-differences estimators proposed by Sant'Anna and Zhao (2020) which rely on parallel trends conditional on observables.

## 6 Mechanisms

This section discusses and empirically scrutinizes different mechanisms that can explain the simultaneous destruction of links between firms and U.S. banks together with the lack of an impact on the operations of affected firms in Chile. Motivated by prominent public policies implemented in the 1971-1973 period, we examine the role of state-owned banks, the nationalization of firms, and the role of political connections between firms and the left-wing coalition in power.

### 6.1 *The importance of domestic and state-owned banks*

Salvador Allende's nationalization program is perhaps one of the most well-known policies of his period in office. The idea was radical and aimed to transform the economy by putting the state as the leading economic and financial actor. Besides price controls and wage increases, one of the pillars of the Allende programa was to take control of firms and banks, and then use the newly state-controlled banks as a source of credit for state-owned firms (Popular Unity, 1969).

We empirically assess the importance of state-owned banks in counteracting the destruction of U.S. bank relationships using equations (1) and (2). The main difference with our previous analysis is the use of three other dependent variables: (i) number of links with all types of banks, i.e. domestic and international; (ii) number of links with all types of domestic banks; and (iii) number of links with state-owned banks which are by definition a subset of domestic banks. We detect the latter banks by reading through the annual reports of the Production Development Corporation (*Corporación de Fomento de la Producción*, CORFO). We define a bank as state-owned any time the state has more than 50 percent of ownership, which happened in 14 of 22 banks in our data in 1971. In contrast, only the Bank of the State was state-owned before Salvador Allende's term.

Panel A in Table 6 presents estimates of equation (1). As before, we present results from three specifications to check for the robustness of results, and parametric results (equation (2)) in panel B. Columns 1-3 reveals that the total number of bank relationships remains similar across firms with and without U.S. links before Allende. These coefficients are both economically small when compared to the sample average and also statistically indistinguishable from zero. Columns 4-6 examine the number of links with domestic banks defined as both private and public banks. We observe a clear increase in the number of relationships with domestic banks starting in 1971. The average firm with a U.S. link in 1967-1969 experienced the creation of one more link with a domestic bank during Allende's term, a 20 percent increase from an average of five bank links. Interestingly, columns 7-9 reveal that most of the newly created links can be explained by relationships with state-owned banks that were controlled by Salvador Allende during these years.

The existence of new links between firms exposed to U.S. banks and state-owned banks motivated us to examine if the null effects we documented in Table 4 could be masking heterogeneous impacts on different types of firms. In particular, we hypothesize that firms with U.S. links which also had an established relationships with a (soon to be) state-owned bank were less harmed than similar firms without these established links. The rationale lies on the idea that creating links with new banks is presumably more expensive than using an existing link. To test for this hypothesis, we augment equation (2) in the following manner:

$$\begin{aligned}
Y_{ijt} = & \alpha (\text{U.S. bank}_i \times \text{Allende}_t) + \beta (\text{U.S. bank}_i \times \text{Allende}_t \times N_i) \\
& + \gamma (\text{Allende}_t \times N_i) + \phi_i + \phi_{jt} + \epsilon_{ijt}
\end{aligned} \tag{3}$$

where  $N_i$  is the share of (soon to be) state-owned banks in the firm  $i$ 's bank portfolio as measured

in 1969. The parameters of interest are now  $\alpha$  and  $\beta$ . The former measures the average impact of pre-Allende U.S. links on firm-level outcomes and the latter the differential impacts on firms with different shares of  $N_i$ . If these banks controlled by the state during Allende's term allowed firms to counteract the negative impacts of U.S. links, we then expect  $\beta > 0$  and  $\alpha + \beta > 0$ . All remaining variables and parameters are defined as before.

Table 7 presents estimates of equation (3). To facilitate the interpretation of the econometric results, we always present results from the statistical test  $-0.2 \times (\alpha + \beta) = 0$  which captures the impact on firms with U.S. links and with relatively few links with (soon to be) state-owned banks. We use the number 0.2 as it represents approximately one fewer bank link. Columns 1-5 constitute what we interpret as suggestive evidence of negative impacts on firms with restrictive ability to counteract the destruction of links with U.S. banks. Firms with fewer links to state-owned banks during Allende's term experienced a decrease in their total debt (column 2), assets (column 3), and sales (column 4). As a consequence of lower debt and assets, we observe null impact on leverage. In contrast, columns 6 and 7 show that firms with fewer links to state-owned banks experienced lower stock returns during Allende's term, which we interpret as financial investors underestimating or under-appreciating the role of state-owned banks during this period. Table A.5 shows that all of these results are similar when we control for predetermined firm characteristics interacted with an indicator for the 1971-1973 period.

How sustainable is a substitution of loans from international to domestic banks as a mechanism to counteract foreign lending cuts? Several characteristics of our analysis are worth stressing in order to answer this question. The historical context only allows us to provide short-run estimates because of the 1973 coup which abruptly ended the Allende government. A priori, it is unclear how sustainable the new lending patterns are from the point of view of the domestic banking sector. The sustainability likely depends on the general equilibrium effects of the newly created relationships. Theoretically, there are at least two possibilities. First, new financial relationships might be displacing existing ones with firms outside of our data. In that case, the sustainability depends on the relative performance of new loans relative to the replaced ones. Second, domestic banks could have been providing additional loans to affected firms. The domestic banking sector could be worse off if the additional loans perform poorly, thus damaging their financial reliability and potentially even creating inflation due to the additional supply of money in the economy. The context and limited availability of data restrict our ability to provide more evidence in this regard.

## 6.2 *Alternative explanations*

The Allende government not only took control of banks, but also nationalized a large number of firms. The findings presented so far can be theoretically explained by these purchases. For example, it could be the case that Salvador Allende nationalized firms with previous U.S. links precisely because those firms lost value. After the buy, the government could have work with these firms to prevent them from experience negative impacts. However, patterns in the data suggest this is unlikely to be the explanation behind our findings. To test for the role of the nationalization program, we collected data on all firms bought during Allende’s term and then detected that 32 out of the 53 firms (60%) in the estimating sample were nationalized. Reassuringly, this number is similar across firms with and without links to U.S. banks in the 1967-1969 period.

Beyond the nationalization program, it is plausible that the Allende government took control of affected firms by placing some of their people in key managerial positions. To test for this possibility, we digitized the names of all board members ( $\mathcal{B}$ ) and constructed a set with the names of people in Allende’s inner circle ( $\mathcal{I}$ ).<sup>7</sup> Board members are key positions in the firm and are in charge of the most important business decisions. We then took the intersection between both sets ( $\mathcal{B} \cap \mathcal{I}$ ) to find firms who were under indirect control of Salvador Allende through his social network. We found only one person in the intersection of both groups and, therefore, we conclude this is unlikely to be an explanation behind our findings.

Overall, the empirical evidence presented in this section suggests that the creation of new links between firms and state-owned banks during the 1971-1973 period are the most likely explanation behind our results. The negative firm effects associated to the destruction of bank links appears to have been neutralized by the creation of new links with state-owned banks.

## 7 **Conclusion**

We have shown evidence of the international role of non-state actors located in hegemonic countries in the context of the Cold War. After the rise of socialist Salvador Allende in Chile, we empirically document a disproportionate destruction of financial links between firms located in

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<sup>7</sup>The names include all secretaries of state during this period, the names of people who were members of the Group of Personal Friends (*Grupo de Amigos Personales*, GAP), and prominent leaders of left-wing political parties.

Chile and U.S. banks, a destruction which data from business reports suggests had little impact on the subset of affected firms. Substitution of financial links towards state-owned banks appears to be the key mechanism for the lack of impacts in a growingly state-owned domestic banking sector. These findings are important because a potential role of the U.S. financial sector for foreign economies during this period of time had been hypothesized before, but the evolution of international business relationships had been difficult to put under empirical scrutiny.

We believe there are at least two lessons from our analysis. First, although the recent conflict between Russia and Ukraine reveals that economic sanctions can arise from non-state actors such as multinational corporations, we showed that they have also been important in previous international conflicts such as the Cold War. Second, the lack of impacts on foreign firms suggests that for non-state actors to exert economic damage, they might need to coordinate their actions with other agents. The results also suggest that non-state foreign actions might have had more limited scope for damage in the past due to the relatively less interconnected worldwide economy. More recent conflicts reveal that coordination among foreign hegemonic states is critical to achieve large-scale economic damage. The patterns in our empirical analysis show that coordination with non-state domestic actors could be as important as coordination with other foreign states.

Finally, the results in this paper open new questions about the role of the financial sector – and other non-state actors – in international business networks during the twentieth century and their potential impacts across borders. Our analysis highlights that domestic countervailing forces and contemporaneous developments of the local economy can be critical to understand the scope of non-state foreign actions. However, the results also raise the question whether non-state actors can in fact exert some damage on foreign agents under some conditions.

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Figure 1: Firm-level annual reports

AGRICOLA NACIONAL S. A. C.	
VIGESIMA MEMORIA Y BALANCE ANUAL	
<p>Constituida por escritura pública de 8 de enero de 1948, ante el Notario de Santiago, don Carlos Figueroa Unzueta, y modificada por escritura de fecha 27 de septiembre de 1948, ante el mismo Notario. Autorizada y declarada legalmente instalada por Decreto Supremo N° 925 del Ministerio de Hacienda, de fecha 18 de febrero de 1948, modificada por Decretos N° 7.944, de 4 de noviembre de 1948; N° 5.439, de 12 de junio de 1950; N° 3.305, de 6 de abril de 1953; N° 10.241, de 22 de diciembre de 1955; N° 2.817, de 14 de marzo de 1958; N° 11.901, de 25 de octubre de 1960 y N° 618, de 16 de junio de 1966, del mismo Ministerio.</p>	
DIRECTORIO	
PRESIDENTE	
VICTOR BRAUN PAGE	
VICEPRESIDENTE	
JOSE VALDES FERNANDEZ	
DIRECTORES	
MAXIMO VALDES VIAL	
RAUL LARRAIN VALDIVIESO	
OFICINA PRINCIPAL	
GERENTE GENERAL	SUBGERENTE
GUILLERMO BRUCHER ENCINA	RAFAEL UNDURRAGA LIRA
CONTADOR	JEFE COMERCIAL
ENRIQUE PIZARRO PANTOJA	RICARDO SATELER GELCICH
BANQUEROS	
BANCO DE CHILE	
BANCO DEL ESTADO	
BANCO DE A. EDWARDS Y CIA.	
BANK OF AMERICA	
BANCO PANAMERICANO	
BANCO SUD AMERICANO	
THE FIRST NATIONAL CITY BANK	
AUDITORES	
DELOITTE, PLENDER, GRIFFITHS & CO.	

(a) Bank relationships

AGRICOLA NA		BALANCE GENERAL AL	
		PARCIALES	TOTALES
ACTIVO		PARCIALES	TOTALES
I DISPONIBLE		PARCIALES	TOTALES
Caja	33.025,61	175.182,50	60.366,60
Bancos	142.156,87		
II REALIZABLE		PARCIALES	TOTALES
a) Inversiones:			
Acciones (Nota I)	648,82		
b) Existencias:			
Mercederías generales (Nota II)	3.951.468,03		
Mercederías en tránsito	102.448,87		
Anticipos a proveedores	623.579,11		
c) Valores por cobrar a corto plazo:			
Documentos por cobrar	2.037.862,21		
Cuentas por cobrar	1.138.324,78		
Menos: Provisión para deudores	191.211,56	2.084.973,63	
Valores deudores	62.335,06		
Cuentas del personal	32.133,95		
Depositos en garantía	447.903,34		
d) Valores por cobrar a largo plazo:			
Documentos por cobrar	34.165,00	8.256.682,91	10.231,07
III TRANSITORIO		PARCIALES	TOTALES
Seguros	14.543,84		
Adiantos para ejercicios futuros	42.568,68	57.114,32	69.004,81
SUMAS PARCIALES		PARCIALES	TOTALES
IV INMOVILIZADO (Nota I)			
Bienes raíces	877.162,60		
Maquinarias	547.447,68		
Instalaciones	166.928,84		
Vehículos	491.755,34		
Muebles, herramientas y útiles	368.965,78		
Menos:			
Depreciaciones anteriores, menos deducciones	412.310,17	539.669,39	
Depreciaciones del ejercicio	127.150,22	1.912.980,85	
Obras en construcción	3.364,09		
Otras inversiones:			
Plan habitacional	139.742,62	2.053.697,56	1.751,00
PERDIDAS:			
Del ejercicio	145.466,39		
TOTALES		PARCIALES	TOTALES
		10.692.142,78	12.112.423,6

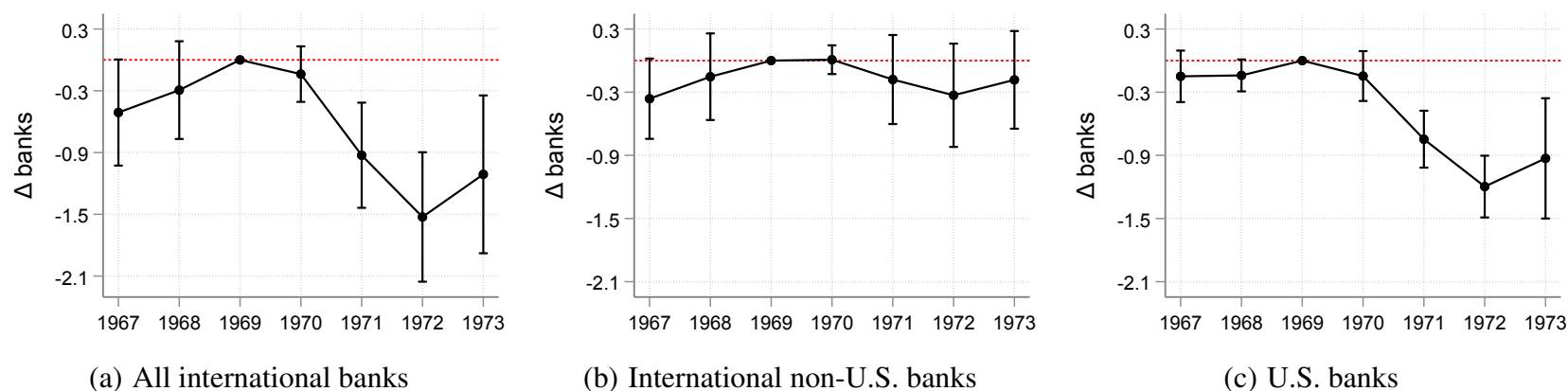
(b) Balance sheet

PERDIDAS		Cuentas de	
		PARCIALES	TOTALES
		PARCIALES	TOTALES
1) DEPRECIACIONES Y CASTIGOS		PARCIALES	TOTALES
Inmovilizado	127.150,22		
Realizable - Deudores	61.667,54	188.817,76	116.380,75
2) GASTOS		PARCIALES	TOTALES
a) Gastos generales:			
Sueldos y jornales	1.561.115,87		
Loces sociales	506.868,69		
Seguros	93.764,73		
Conservación Activo Inmovilizado	96.852,14		
Propaganda	118.920,13		
Varios	1.167.142,38		
b) Gastos tributarios:			
Contribuciones	16.974,82		
Impuestos varios	95.985,17		
Patentes	20.457,14		
Otros	960,16		
c) Gastos financieros:			
Intereses y descuentos	827.005,20	4.506.052,43	3.563.314,94
3) PROVISIONES		PARCIALES	TOTALES
Impuesto renta	3.717,62		
Participaciones del personal	276.850,77		
Otras	42.143,19	322.711,58	624.852,47
4) REMUNERACIONES DEL DIRECTORIO		PARCIALES	TOTALES
Día por asistencia a sesiones	15,90		
N° 3 Art. 35 ley de la renta			114.400,19
5) REALUZE CAPITAL PROPIO		PARCIALES	TOTALES
Utilidad líquida	5.017.596,77	4.418.951,05	270.316,25
TOTALES		PARCIALES	TOTALES
		5.017.596,77	4.689.167,30

(c) Income statement

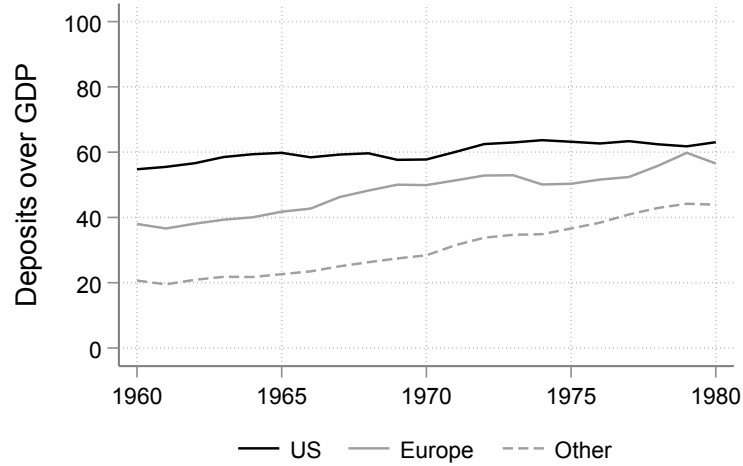
Notes: This is an example of a business report submitted to Chile's regulatory agency. In this example, all three pieces of information in panels (a) through (c) are part of the 1967 report submitted by the "Agrícola Nacional" company, a manufacturing firm in the agricultural industry which is part of our data. More details in section 3.1.

**Figure 2:** Firm relationships with international banks, 1967-1973

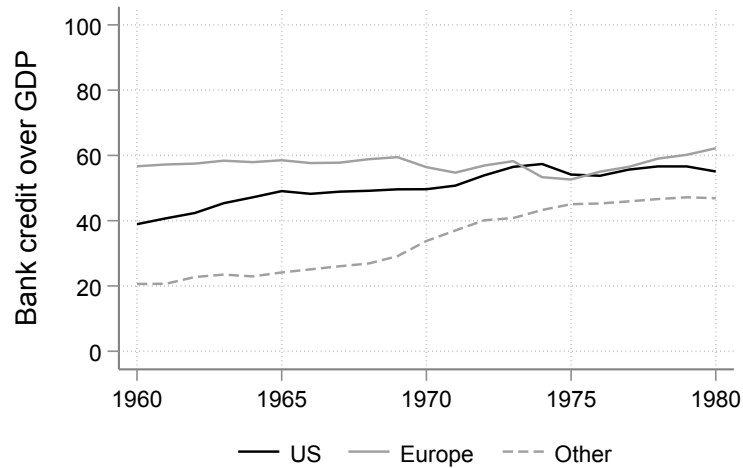


Notes: These figures show the change in firm-bank relationships before and after socialist Salvador Allende rose to power in 1970. In particular, we present difference-in-differences estimates of equation (1) using firm-level data for the 1967-1973 period. The omitted category is the indicator for firms with U.S. links in 1969. The dependent variable is always the number of bank relationships as revealed by the business reports. The y-axis presents the coefficient and thus the change in the number of bank-relationships. Point estimates are presented as black dots and vertical black lines represent 95% confidence intervals. U.S. and non-U.S. banks are mutually exclusive categories which added up constitute “All international banks.” More details in section 5.1.

**Figure 3:** Bank sector in the United States and elsewhere, 1960-1980



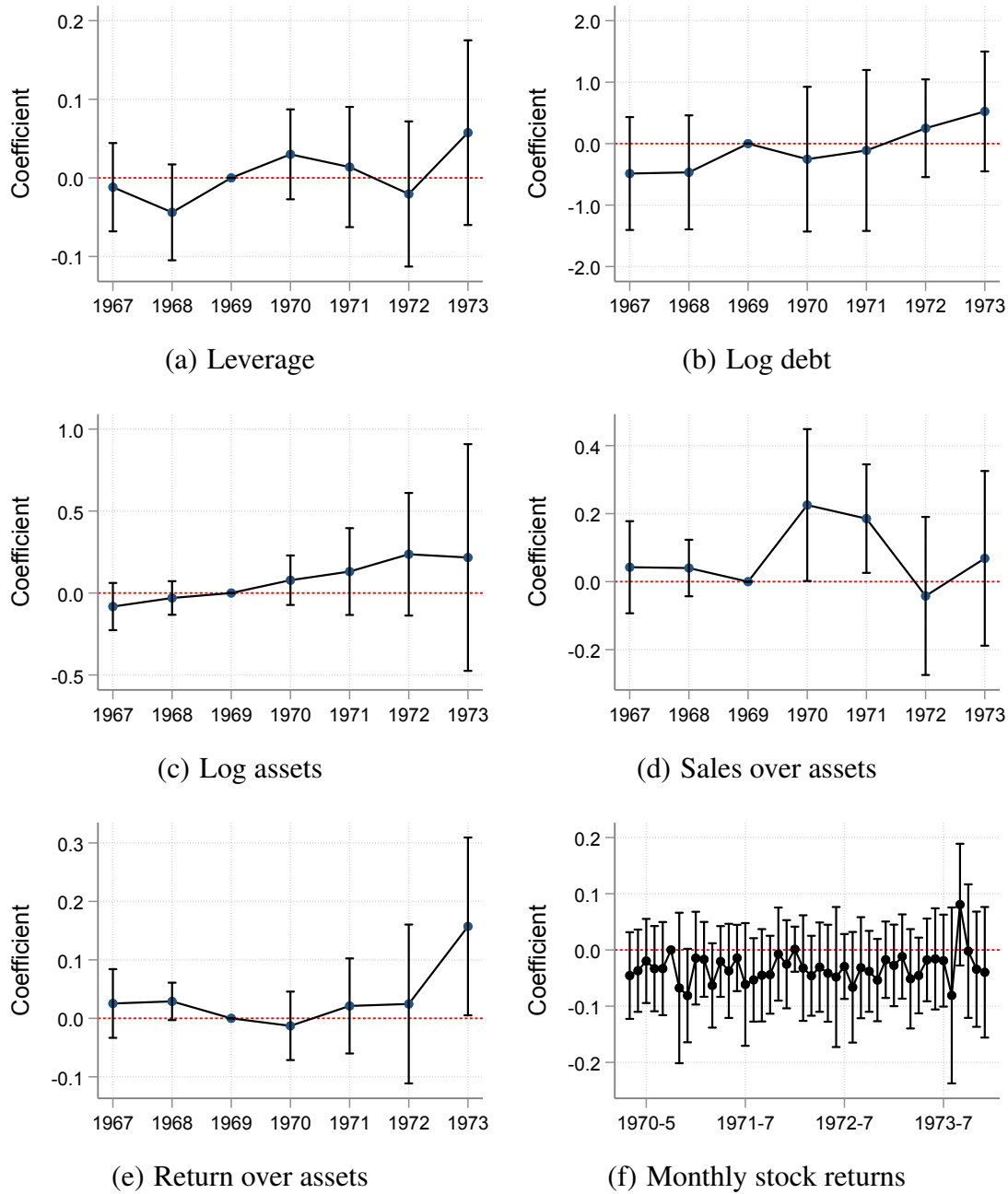
(a) Deposits over GDP



(b) Bank credit over GDP

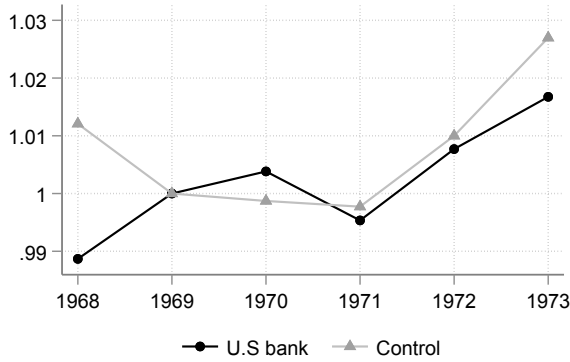
Notes: These figures present the evolution of the bank sector in the U.S., Europe, and elsewhere. Time series of deposits over GDP (panel A) and bank credit over GDP (panel B) in the U.S. and selected countries in Europe and elsewhere. We select the home countries of banks mentioned in the business reports. Country-level data from the World Bank. More details in section 5.1.

**Figure 4:** Firm-level outcomes before and during Allende's term, 1967-1973

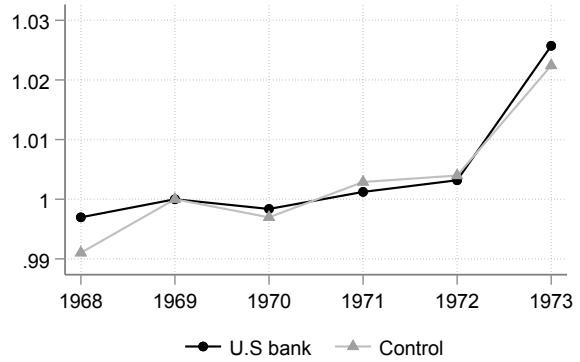


Notes: These figures show the change in firm outcomes before and after socialist Salvador Allende rose to power in 1970. In particular, we present difference-in-differences estimates of equation (1) using firm-level data for the 1967-1973 period. The omitted category is the indicator for firms with U.S. links in 1969. The dependent variable is always a firm outcome as revealed by business reports, except in panel (f) where we use monthly stock prices. The y-axis presents the estimated coefficient and thus the change in the outcome of interest. Point estimates are presented as black dots and vertical black lines represent 95% confidence intervals. More details in section 5.3.

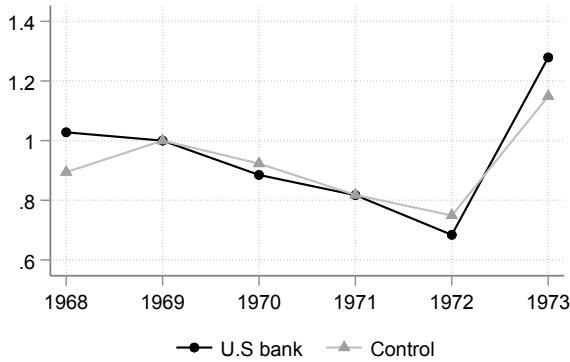
**Figure 5: Evolution of industry-by-region outcomes, 1968-1973**



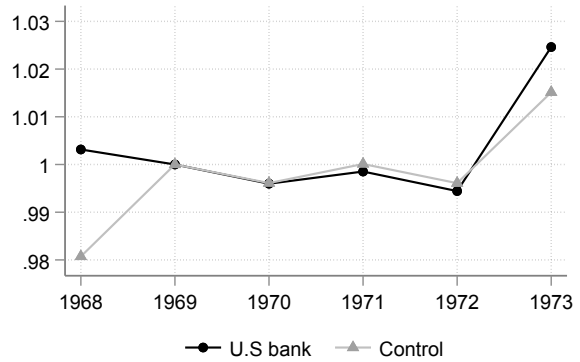
(a) Employment



(b) Value added



(c) Value added over payroll



(d) Payroll per employee

Notes: These figures characterize the evolution of economic areas that were exposed and not exposed to the U.S. financial sector before Salvador Allende rose to power in 1970. We define an area as an industry-region pair. In particular, we present averages of industry-by-region data from historical collections constructed from the annual Manufacturing Census. We classify industry-regions as linked to U.S. banks or not based on firm-level annual reports, and the industry and region where firms operate. More details in section 5.3.

**Table 1:** Descriptive statistics for firms in 1969

	All firms with reports				Firms with relations to international banks			
	Relation with U.S. bank?				Relation with U.S. bank?			
	All	Yes	No	Difference (2)-(3)	All	Yes	No	Difference (6)-(7)
A. Firm characteristics	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log assets	16.57 (2.75)	17.22 (3.11)	15.59 (1.72)	1.63*** [0.00]	17.11 (2.81)	17.22 (3.11)	16.76 (1.41)	0.45 [0.62]
Log fixed assets	16.02 (2.86)	16.76 (3.17)	14.89 (1.86)	1.87*** [0.00]	16.58 (2.89)	16.76 (3.17)	15.99 (1.60)	0.77 [0.41]
Sales over assets	0.67 (0.47)	0.71 (0.45)	0.59 (0.51)	0.12 [0.30]	0.68 (0.45)	0.71 (0.45)	0.58 (0.44)	0.13 [0.39]
Log debt	15.14 (3.25)	15.97 (3.36)	13.84 (2.62)	2.14*** [0.01]	15.83 (3.12)	15.97 (3.36)	15.34 (2.15)	0.63 [0.60]
Leverage	0.36 (0.18)	0.39 (0.16)	0.31 (0.20)	0.08* [0.07]	0.38 (0.17)	0.39 (0.16)	0.33 (0.18)	0.06 [0.27]
Int'l market: Indicator exporter	0.29 (0.46)	0.39 (0.49)	0.12 (0.34)	0.27** [0.03]	0.36 (0.48)	0.39 (0.49)	0.25 (0.45)	0.14 [0.50]
Int'l market: Indicator importer	0.45 (0.50)	0.56 (0.50)	0.25 (0.44)	0.31** [0.02]	0.53 (0.50)	0.56 (0.50)	0.42 (0.51)	0.14 [0.53]
Industry: Primary sector	0.19 (0.40)	0.20 (0.40)	0.19 (0.40)	0.01 [0.99]	0.21 (0.41)	0.20 (0.40)	0.25 (0.45)	-0.05 [0.69]
Industry: Secondary sector	0.56 (0.50)	0.66 (0.48)	0.41 (0.50)	0.25** [0.05]	0.64 (0.48)	0.66 (0.48)	0.58 (0.51)	0.08 [0.74]
Industry: Tertiary sector	0.25 (0.44)	0.15 (0.36)	0.41 (0.50)	-0.26** [0.02]	0.15 (0.36)	0.15 (0.36)	0.17 (0.39)	-0.02 [0.99]
B. Bank relationships								
Any national bank	0.85 (0.25)	0.86 (0.24)	0.84 (0.27)	0.02 [0.77]	0.87 (0.23)	0.86 (0.24)	0.90 (0.21)	-0.03 [0.70]
Any international bank	0.57 (0.42)	0.73 (0.34)	0.32 (0.42)	0.41*** [0.00]	0.73 (0.33)	0.73 (0.34)	0.73 (0.31)	0.00 [0.99]
National banks	4.29 (2.43)	5.20 (2.50)	2.86 (1.47)	2.34*** [0.00]	4.84 (2.39)	5.20 (2.50)	3.63 (1.49)	1.57** [0.04]
International banks	1.18 (1.08)	1.56 (1.07)	0.57 (0.79)	0.99*** [0.00]	1.49 (1.00)	1.56 (1.07)	1.24 (0.71)	0.32 [0.32]
Share national banks	0.82 (0.14)	0.78 (0.11)	0.88 (0.16)	-0.10*** [0.00]	0.77 (0.12)	0.78 (0.11)	0.74 (0.15)	0.04 [0.37]
Share international banks	0.18 (0.14)	0.22 (0.11)	0.12 (0.16)	0.10*** [0.01]	0.23 (0.12)	0.22 (0.11)	0.26 (0.15)	-0.04 [0.35]
Number of firms	68	41	27		53	41	12	

Notes: Mean and standard deviation (in parentheses) for a cross-section of firms observed in 1969, i.e. before the government of Salvador Allende (1970-1973). Standard errors in square brackets in columns 4 and 8. Statistical significance in columns 4 and 8 using permutation tests: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. More details in section 4.



**Table 2:** The evolving relationships between firms and international banks, 1967-1973

	Dependent variable: Number of bank relationships with								
	All international banks			Non U.S. banks			U.S. banks		
Panel A	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Link to U.S. bank in 1969									
× Year 1971	-0.86*** (0.24)	-0.71*** (0.25)	-0.67** (0.28)	-0.14 (0.20)	-0.06 (0.22)	-0.11 (0.24)	-0.72*** (0.11)	-0.64*** (0.13)	-0.56*** (0.20)
× Year 1972	-1.47*** (0.28)	-1.31*** (0.27)	-1.24*** (0.33)	-0.31 (0.24)	-0.21 (0.23)	-0.26 (0.26)	-1.16*** (0.11)	-1.09*** (0.13)	-0.98*** (0.22)
× Year 1973	-1.00** (0.40)	-0.89** (0.38)	-0.77* (0.42)	-0.12 (0.21)	-0.07 (0.23)	-0.09 (0.24)	-0.88*** (0.32)	-0.82*** (0.29)	-0.68** (0.33)
Panel B									
Link to U.S. bank in 1969 × Years 1971–1973	-1.10*** (0.25)	-0.96*** (0.25)	-0.88*** (0.28)	-0.19 (0.20)	-0.11 (0.21)	-0.15 (0.23)	-0.91*** (0.14)	-0.85*** (0.13)	-0.73*** (0.20)
Observations	305	305	305	305	305	305	305	305	305
Firms	53	53	53	53	53	53	53	53	53
Firm fixed effects	X	X	X	X	X	X	X	X	X
Year fixed effects	X	X	X	X	X	X	X	X	X
Industry × Allende fixed effects		X	X		X	X		X	X
Controls × Allende			X			X			X
Avg. dependent variable	2.64	2.64	2.64	1.46	1.46	1.46	1.18	1.18	1.18

Notes: This table presents estimates of different specifications of equations (1) and (2). Robust standard errors clustered at the firm level are presented in parenthesis. Statistical significance: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. More details in section 5.1.

**Table 3:** U.S. bank relationships and participation in international markets, 1967-1973

	Exports products	Imports inputs	Firm exports products to...		
			Latin America	U.S.	Rest of the world
Panel A: Without controls	(1)	(2)	(3)	(4)	(5)
Link to U.S. bank in 1969 $\times$ Allende's term	-0.08 (0.08)	-0.01 (0.09)	-0.07 (0.04)	0.00 (0.02)	0.09 (0.10)
Panel B: With controls					
Link to U.S. bank in 1969 $\times$ Allende's term	-0.14 (0.08)	0.01 (0.11)	-0.09 (0.05)	-0.01 (0.02)	0.10 (0.11)
Observations	355	354	355	355	355
Firms	53	53	53	53	53
Firm fixed effects	X	X	X	X	X
Year fixed effects	X	X	X	X	X
Industry-Allende fixed effects	X	X	X	X	X
Avg. dependent variable	0.35	0.72	0.16	0.04	0.09

Notes: This table presents estimates of different specifications of equations (1) and (2) using the annual panel of firms. Robust standard errors clustered at the firm level are presented in parenthesis. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . More details in section 5.3.

**Table 4:** U.S. bank relationships and firm-level outcomes, 1967-1973

	Leverage	Logarithm debt	Logarithm assets	Sales over assets	Returns over assets	Weekly stock returns	
						1970-71	1970-73
Panel A: Without controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Link to U.S. bank in 1969 $\times$ Allende's term	0.02 (0.04)	0.52 (0.45)	0.21 (0.19)	-0.00 (0.08)	0.06 (0.04)	-0.02 (0.02)	-0.01 (0.01)
Panel B: With controls							
Link to U.S. bank in 1969 $\times$ Allende's term	0.01 (0.04)	0.24 (0.31)	0.20 (0.15)	0.04 (0.08)	0.06 (0.04)	-0.02 (0.01)	-0.01 (0.01)
Observations	344	344	346	346	268	2,394	6,686
Firms	53	53	53	53	44	39	41
Firm fixed effects	X	X	X	X	X	X	X
Year fixed effects	X	X	X	X	X		
Week fixed effects						X	X
Industry-Allende fixed effects	X	X	X	X	X	X	X
Avg dependent variable	0.37	15.7	17.1	0.68	0.19	-0.02	-0.02

Notes: This table presents estimates of different specifications of equations (1) and (2) using the annual panel of firms in columns 1-4 and a weekly panel of stock prices in columns 6 and 7. Robust standard errors clustered at the firm level are presented in parenthesis.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1. More details in section 5.3.

**Table 5:** Robustness exercises for main results

	Specification decisions				Estimation methods			
	Statistical test: Different pre-trend	Treatment measure: U.S. link in 1969	Treatment measure: U.S. link in 1967	Bertrand et al. (2004) Collapse pre-post	Crump et al. (2009) Restricted	Crump et al. (2009) Full	Abadie (2005) IPW estimator	Sant'Anna and Zhao (2020) Doubly robust estimator
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>A. Firm-bank relationships:</b>								
All international banks	0.02 (0.01)	-1.17*** (0.33)	-1.40*** (0.33)	-1.04*** (0.28)	-1.10*** (0.25)	-1.33*** (0.25)	-1.20*** (0.31)	-1.12*** (0.25)
International non-U.S. banks	0.01 (0.01)	-0.29 (0.29)	-0.18 (0.24)	-0.19 (0.23)	-0.19 (0.21)	-0.34 (0.21)	-0.34 (0.32)	-0.24 (0.20)
U.S. banks	0.00 (0.01)	-0.88*** (0.19)	-1.22*** (0.25)	-0.85*** (0.17)	-0.91*** (0.11)	-0.99*** (0.10)	-0.86*** (0.16)	-0.88*** (0.15)
<b>B. Firm-level outcomes:</b>								
Indicator exporter	0.00 (0.00)	-0.10 (0.08)	-0.03 (0.06)	-0.10 (0.08)	-0.12 (0.08)	-0.08 (0.06)	-0.09 (0.12)	-0.10 (0.09)
Indicator importer	-0.01** (0.00)	0.06 (0.13)	-0.14* (0.08)	-0.00 (0.10)	-0.01 (0.10)	-0.05 (0.07)	0.01 (0.12)	0.05 (0.14)
Leverage	0.00 (0.00)	0.02 (0.05)	0.05 (0.04)	0.03 (0.04)	0.02 (0.04)	-0.03 (0.04)	0.07** (0.04)	0.07* (0.04)
Log debt	0.01 (0.02)	-0.10 (0.38)	0.32 (0.46)	0.59 (0.45)	0.22 (0.30)	-0.11 (0.28)	0.49 (0.35)	0.49 (0.38)
Log assets	0.01** (0.00)	0.02 (0.16)	0.03 (0.14)	0.24 (0.19)	0.20 (0.18)	0.01 (0.15)	0.08 (0.14)	0.05 (0.13)
Sales over assets	0.00 (0.00)	-0.05 (0.11)	-0.02 (0.10)	0.01 (0.08)	0.02 (0.08)	0.11 (0.09)	-0.01 (0.09)	0.01 (0.07)
Return over assets	-0.00 (0.00)	0.07 (0.04)	0.09* (0.05)	0.06 (0.04)	0.06 (0.04)	0.08* (0.04)	0.08 (0.05)	0.06 (0.05)
Stock market returns (70-71)	0.00 (0.00)	-0.00 (0.01)	-0.00 (0.01)	-0.02 (0.02)	-0.02 (0.01)	-0.02 (0.01)	-0.01 (0.01)	-0.00 (0.01)
Stock market returns (70-73)	0.00 (0.00)	-0.00 (0.01)	-0.00 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.00 (0.01)

Notes: Each estimate and standard error comes from a different regression. Columns denote the robustness exercise and rows the outcomes. Robust standard errors clustered at the firm level are presented in parenthesis. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . More details in 5.4.

**Table 6: Creation of bank relationships**

	Number of relationships with...								
	All types of banks (domestic & international)			Domestic banks					
				All			State-owned		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Panel A</b>									
Link to U.S. bank in 1969									
× Year 1971	0.24 (0.44)	0.57 (0.48)	0.34 (0.57)	1.10*** (0.40)	1.27*** (0.46)	1.01** (0.47)	0.75** (0.31)	0.80** (0.36)	0.53 (0.38)
× Year 1972	-0.45 (0.67)	-0.08 (0.73)	-0.33 (0.83)	1.02 (0.62)	1.23* (0.65)	0.91 (0.67)	0.96* (0.53)	1.02* (0.55)	0.69 (0.54)
× Year 1973	-0.07 (0.81)	0.25 (0.87)	0.09 (0.94)	0.92 (0.65)	1.14 (0.69)	0.86 (0.71)	0.83 (0.53)	0.91 (0.57)	0.60 (0.57)
<b>Panel B</b>									
Link to U.S. bank in 1960	-0.08	0.26	0.05	1.02*	1.22**	0.93	0.85**	0.90**	0.60
× Years 1971-1973	(0.59)	(0.65)	(0.73)	(0.51)	(0.56)	(0.57)	(0.42)	(0.45)	(0.44)
Observations	305	305	305	305	305	305	305	305	305
Firms	53	53	53	53	53	53	53	53	53
Firm fixed effects	X	X	X	X	X	X	X	X	X
Year fixed effects	X	X	X	X	X	X	X	X	X
Industry × Allende fixed effects		X	X		X	X		X	X
Controls × Allende fixed effects			X			X			X
Avg. dependent variable	7.47	7.47	7.47	4.83	4.83	4.83	3.59	3.59	3.59

Notes: This table presents estimates of different specifications of equations (1) and (2). Robust standard errors clustered at the firm level are presented in parenthesis. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. More details in section 6.

**Table 7:** The importance of previous relationships with state-owned banks

	Leverage	Logarithm debt	Logarithm assets	Sales over assets	Returns over assets	Weekly stock returns	
						1970-71	1970-73
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Link to U.S. bank $\times$ Years 1971-1973 [ $\alpha$ ]	-0.01 (0.05)	-0.24 (0.53)	-0.15 (0.21)	-0.13 (0.13)	0.11** (0.05)	0.01 (0.01)	0.01 (0.01)
$\times$ Share state-owned banks 1969 [ $\beta$ ]	0.18 (0.27)	3.81** (1.51)	2.54** (1.15)	0.91** (0.45)	-0.14 (0.18)	-0.19** (0.08)	-0.17** (0.07)
Years 1971-1973 $\times$ Share state-owned banks 1969	-0.17 (0.22)	-4.04*** (1.39)	-1.95* (1.05)	-0.67 (0.40)	0.28** (0.12)	0.16** (0.08)	0.14** (0.06)
Test: $-0.2 \times (\alpha + \beta)$	-0.04 (0.05)	-0.72*** (0.24)	-0.48** (0.21)	-0.16** (0.07)	0.01 (0.03)	0.04** (0.02)	0.03** (0.01)
Observations	344	344	346	346	268	2,394	6,686
firms	53	53	53	53	44	39	41
Firm fixed effects	X	X	X	X	X	X	X
Year (week) fixed effects	X	X	X	X	X	X	X
Industry $\times$ Allende fixed effects	X	X	X	X	X	X	X
Avg. dependent variable	0.37	15.73	17.09	0.68	0.19	-0.02	-0.02

Notes: This table presents estimates of different specifications of equation (3). Robust standard errors clustered at the firm level are presented in parenthesis. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . More details in section 6.

## ONLINE APPENDIX

### The Limits of Hegemony: Banks, Covert Actions, and Foreign Firms

*Felipe Aldunate, Felipe González, and Mounu Prem*

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Figure A.1: Memorandum for the President

(un-log)

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INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger

SUBJECT: Covert Action Program -- CHILE

In addition to the actions outlined in my memorandum of November 25 (subject: Status Report on Chile), the 40 Committee has been reviewing a covert action program keyed to the overall policy towards Chile which you established at the NSC Meeting on November 5. The program has five principal elements:

1. Political action to divide and weaken the Allende coalition;
2. Maintaining and enlarging contacts in the Chilean military;
3. Providing support to non-Marxist opposition political groups and parties;
4. Assisting certain periodicals and using other media outlets in Chile which can speak out against the Allende Government; and
5. Using selected media outlets [REDACTED] 25a(1)  
[REDACTED] to play up Allende's subversion of the democratic process and involvement by Cuba and the Soviet Union in Chile.

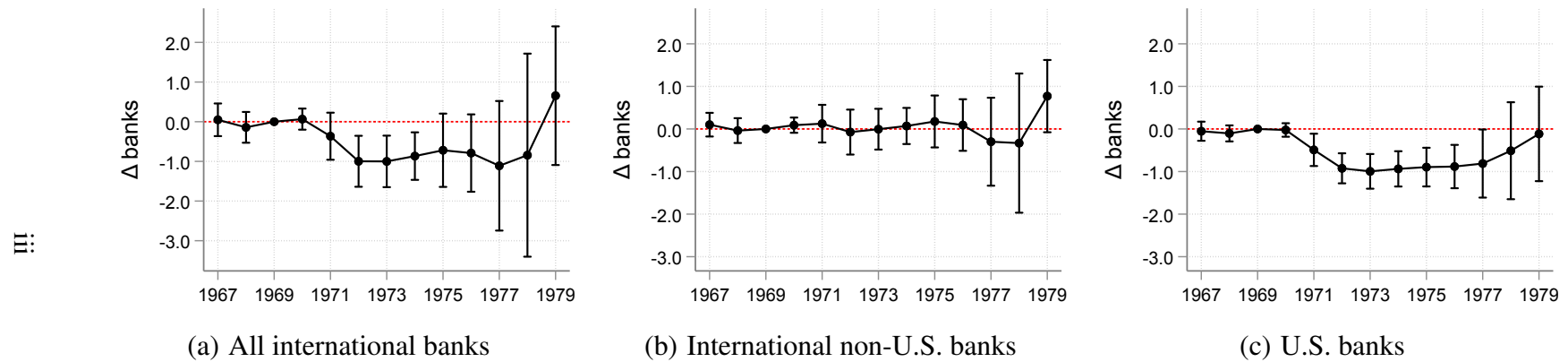
The Committee approved development of the general plan proposed by CIA and a contingency budget, but will review each specific operation on a periodic basis.

Nachmanoff/vmr 11-25-78 ~~UNCLASSIFIED~~  
~~SECRET SENSITIVE EYES ONLY~~

Source: National Security Archive.

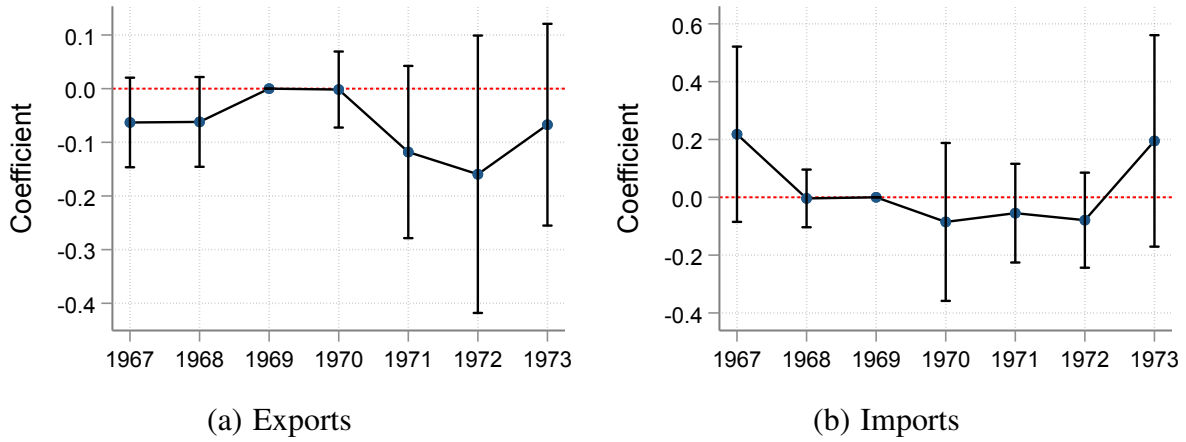


**Figure A.2:** Long-run impact on relationships with international banks



Notes: These figures show the change in firm-bank relationships before and after socialist Salvador Allende rose to power in 1970. In particular, we present difference-in-differences estimates of equation (1) using firm-level data for the 1967-1979 period. The omitted category is the indicator for firms with U.S. links in 1969. The dependent variable is always the number of bank relationships as revealed by the business reports. The y-axis presents the coefficient and thus the change in the number of bank-relationships. Point estimates are presented as black dots and vertical black lines represent 95% confidence intervals. More details in section 5.1.

**Figure A.3: Participation in international markets**



Notes: These figures show the change in import and export patterns before and after socialist Salvador Allende rose to power in 1970. In particular, we present difference-in-differences estimates of equation (1) using firm-level data for the 1967-1973 period. The omitted category is the indicator for firms with U.S. links in 1969. The dependent variable is always an indicator for export or import activities as revealed by the business reports. The y-axis presents the coefficient and thus the change in the probability of exporting or importing. Point estimates are presented as black dots and vertical black lines represent 95% confidence intervals. More details in section 5.1.

**Figure A.4:** Industry-by-region difference-in-differences estimates



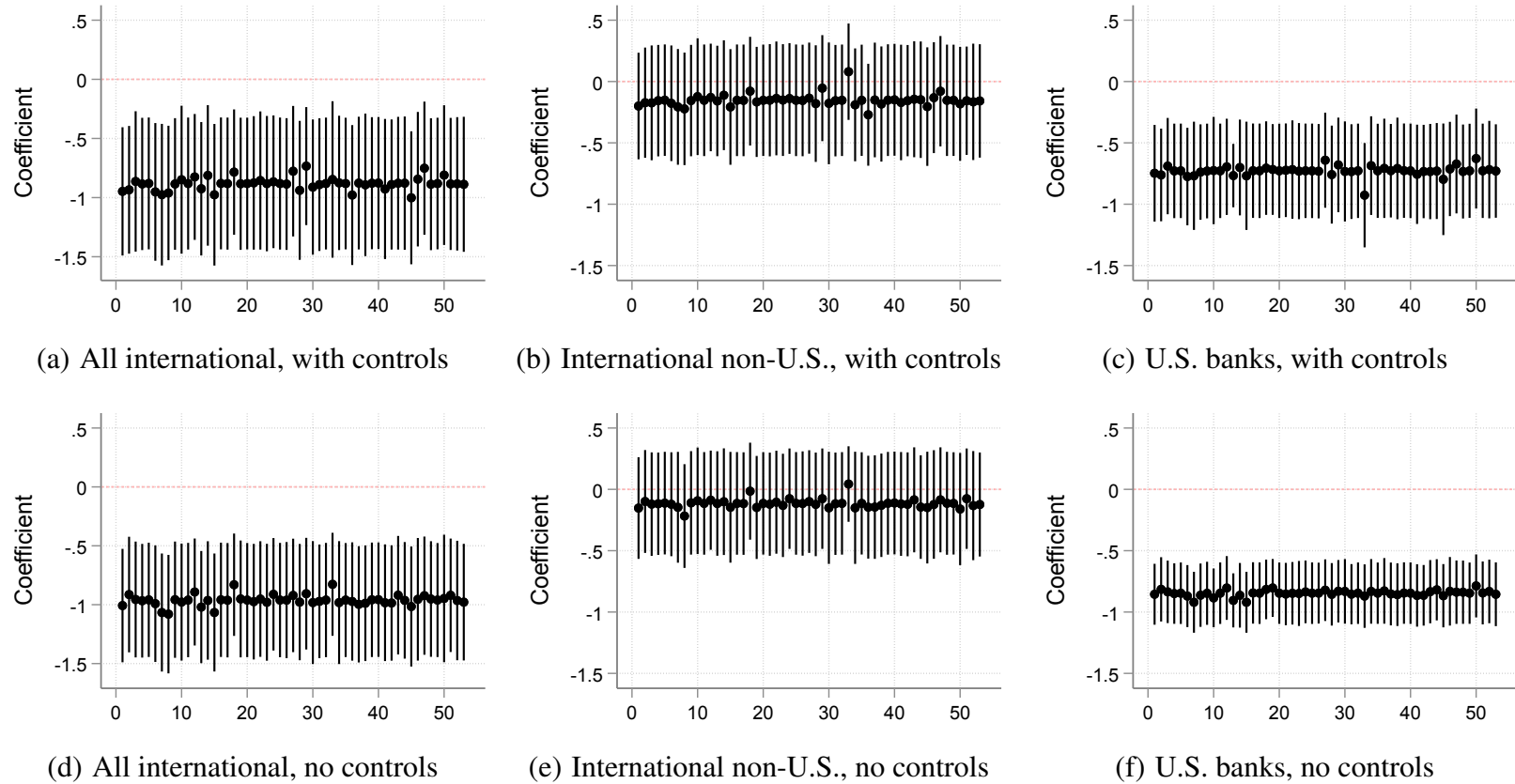
Notes: Difference-in-differences estimates using the industry-region panel data. Point estimates are presented as black dots and vertical black lines represent 95% confidence intervals. More details in section 5.3.

**Figure A.5:** Additional results, conservative pre-trend adjustments



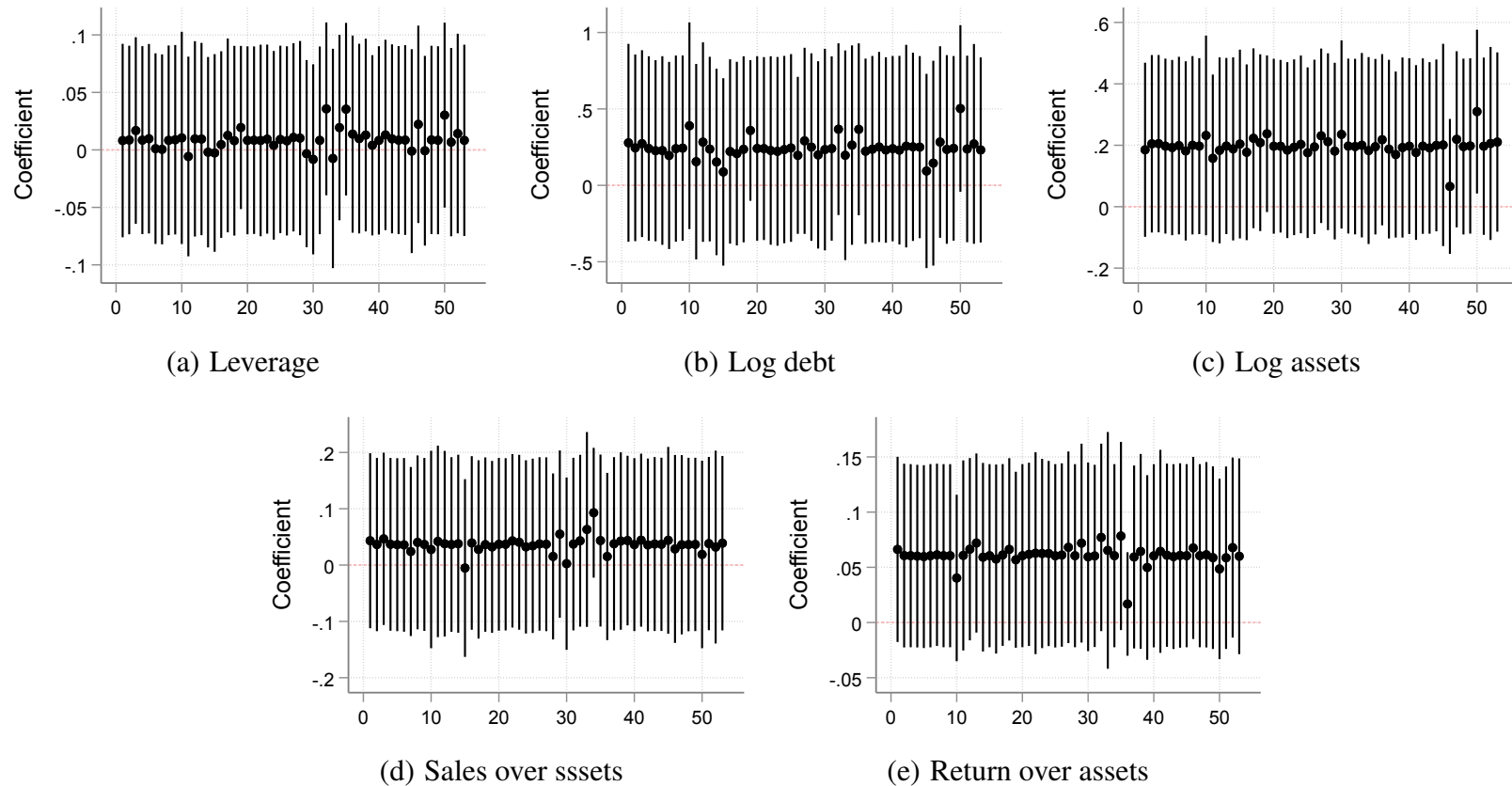
Notes: This figure presents the confidence set at 90% for linear and non-linear violation of the parallel trends assumption (Rambachan and Roth, 2021). The figure is shown for the coefficient in 1973.  $M$  measures the size of the change in the trend between consecutive periods. Thus  $M = 0$  is a linear violation of the parallel trend assumption. The maximum value of  $M$  is equal to the trend that has a 50% power of being detected given the precision of the estimates in the pre-period (Roth, 2021). More details in section 5.4.

**Figure A.6: Robustness, excluding single firms from the estimation, bank results**



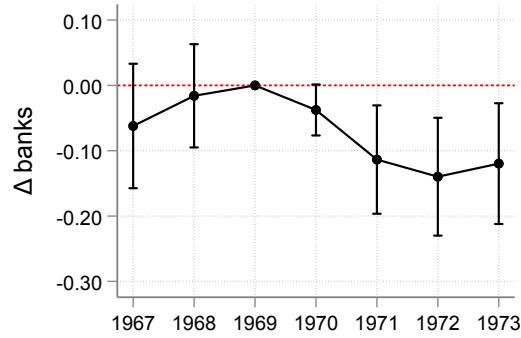
Notes: Each panel checks the robustness of results for a different dependent variable. Estimates are presented as black dots and vertical lines denote 95 percent confidence intervals. Each estimate comes from a different estimation of equation (2) dropping a single firm from the sample. The firm excluded from the sample is indexed by the  $x$ -axis. More details in section 5.4.

**Figure A.7: Robustness, excluding single firms from the estimation, firm-level results**

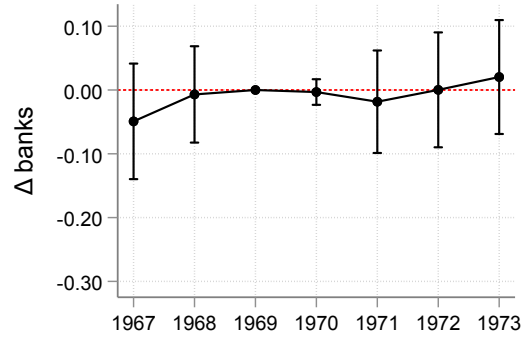


Notes: Each panel checks the robustness of results for a different dependent variable. Estimates are presented as black dots and vertical lines denote 95 percent confidence intervals. Each estimate comes from a different estimation of equation (2) dropping a single firm from the sample. The firm excluded from the sample is indexed by the  $x$ -axis. More details in section 5.4.

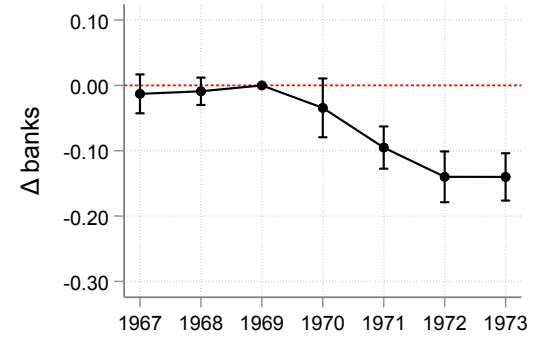
**Figure A.8: Robustness, firm-bank relationships**



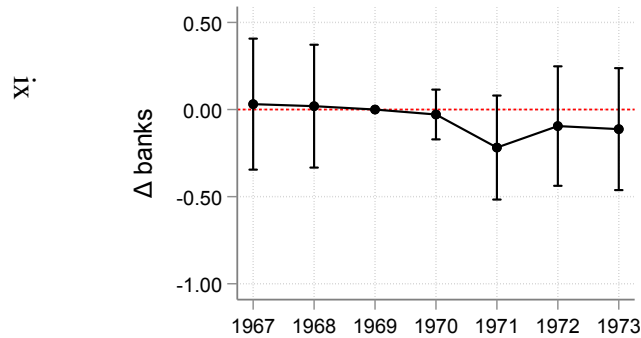
(a) Share of international banks



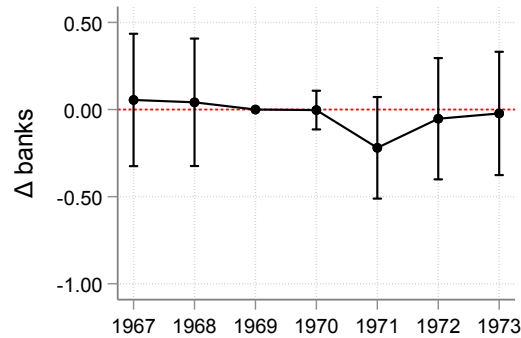
(b) Share of international non-U.S.



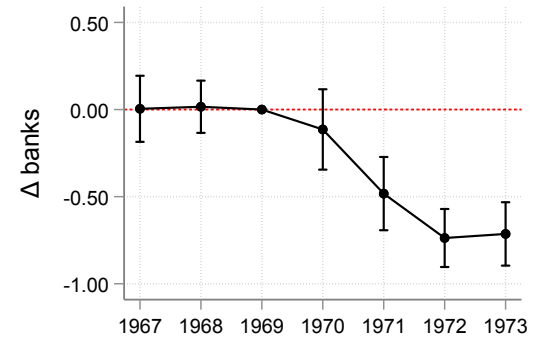
(c) Share U.S. banks



(d) Any international bank



(e) Any international non-U.S.



(f) Any U.S. bank

Notes: These figures show the change in firm-bank relationships before and after socialist Salvador Allende rose to power in 1970. In particular, we present difference-in-differences estimates of equation (1) using firm-level data for the 1967-1973 period. The omitted category is the indicator for firms with U.S. links in 1969. The dependent variable in panels (a) through (c) is the number of bank relationships of certain type (e.g. international) over all bank relationships and an indicator for any relationship of that type in panels (d) through (f). The y-axis presents the coefficient and thus the change in bank-relationships. Point estimates are presented as black dots and vertical black lines represent 95% confidence intervals. U.S. and non-U.S. banks are mutually exclusive categories which added up constitute “All international banks.” More details in section 5.4.

**Table A.1: Banks by nationality**

Bank type	Banks
National	Banco de Chile, Banco del Estado, Banco Edwards, Banco de Créditos e Inversiones, Banco Español-Chile, Banco Comercial de Curicó, Banco O'Higgins, Banco de Concepción, Banco Nacional del Trabajo, Banco Osorno y la Unión, Banco de Talca, Banco Industrial y Comercial, Banco Israelita, Banco de Valdivia, Banco Chillán, Banco Sur, Banco, de Llanquihue, Banco Central de Chile, Banco Chileno-Yugoslavo, Banco Regional de Linares
United States	First National City Bank, Continental Bank, Bank of America, Marine Midland Bank, New York Bank, Republic National Bank, Manufacturers Hanover Trust Co.
European	Banco Frances e Italiano de la America del Sud, Banco de Londres y America del Sud Ltda., Lloyd & Bolsa International Bank, Banco Italiano, London Bank
Other	Banco Panamericano, Banco do Brasil, Banco Sud Americano

Notes: Own classification based on firm-level reports and the work of Behrens (1985). More details in section 3.1.



**Table A.2:** Attrition in firm-bank data

	Attrition			
	(1)	(2)	(3)	(4)
US bank (1967-70)	0.05 (0.06)			
Link to U.S. bank $\times$ Allende		0.06 (0.11)	0.02 (0.12)	-0.02 (0.13)
Observations	346	346	346	346
Firms	53	53	53	53
R-squared	0.052	0.476	0.512	0.533
Firm fixed effects	No	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Industry-Allende fixed effects	No	No	Yes	Yes
Controls-Allende fixed effects	No	No	No	Yes
Avg dependent variable	0.139	0.139	0.139	0.139

Notes: Robust standard errors clustered at the firm level are presented in parenthesis. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. More details in section 5.1.

**Table A.3:** Industry-by-region outcomes, 1968-1973

	Ln employment	Ln value added	Ln value added per emp	Ln value added over payroll	Ln payroll per emp
	(1)	(2)	(3)	(4)	(5)
Link to U.S bank $\times$ Allende's term	-0.08 (0.06)	-0.12 (0.07)	-0.07 (0.07)	-0.00 (0.06)	-0.06 (0.07)
Observations	401	401	401	401	401
Industry-region fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Avg. dependent variable	6.915	21.16	14.33	1.384	12.94

Notes: This table shows the evolution of industry outcomes. US Bank is a dummy that takes the value one if at least one firm in the industry-region had a relationship with a US bank between 1967 and 1969. Post is a dummy that takes the value one from 1970 onwards. Robust standard errors clustered at the industry-region level are presented in parenthesis. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . More details in section 5.3.

**Table A.4:** Robustness, bias from hypothesized linear pre-trend

	(1)	(2)	(3)	(4)
	Estimate	Slope	Unconditional bias	Conditional bias
All international banks	-1.10	0.22	0.57	0.61
International non-U.S.	-0.19	0.17	0.43	0.49
U.S. banks	-0.91	0.10	0.26	0.25
Leverage	0.02	0.03	0.07	0.07
Log debt	0.52	0.42	1.04	1.05
Log assets	0.21	0.07	0.16	0.16
Sales over assets	-0.00	0.06	0.15	0.15
Return over assets	0.06	0.02	0.05	0.07

Notes: This table presents the estimated parameter from our baseline specification in Tables 2 and 4, and the main estimates based on Roth (2021). In column 2, we present the pre-trend that has a 50% power of being detected given the precision of the estimates in the pre-period. In column 3, we present the average bias suggested by this trend, while in column 4, the bias from the adjusted pre-trend that takes into account the pre-testing bias that arises from the fact that the analysis shown is conditional on passing a pre-test. More details in section 5.4.

**Table A.5:** The importance of previous relationships with state-owned banks

	Leverage	Logarithm debt	Logarithm assets	Sales over assets	Returns over assets	Weekly stock returns	
						1970-71	1970-73
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Link to U.S. bank $\times$ Allende [ $\alpha$ ]	-0.03 (0.06)	-0.47 (0.48)	-0.11 (0.20)	-0.09 (0.13)	0.08 (0.05)	0.02* (0.01)	0.02** (0.01)
$\times$ Share state-owned banks [ $\beta$ ]	0.18 (0.27)	2.44 (1.55)	1.99** (0.86)	0.92** (0.45)	0.11 (0.20)	-0.20*** (0.05)	-0.18*** (0.04)
Allende $\times$ Share state-owned banks	-0.19 (0.22)	-3.43*** (1.22)	-1.60** (0.76)	-0.65 (0.40)	0.08 (0.15)	0.17*** (0.05)	0.15*** (0.04)
Test: $-0.2 \times (\alpha + \beta)$	-0.03 (0.05)	-0.39 (0.26)	-0.38** (0.15)	-0.19** (0.07)	-0.04 (0.04)	0.04*** (0.01)	0.03*** (0.01)
Observations	344	344	346	346	268	2,394	6,686
Firms	53	53	53	53	44	39	41
Firm fixed effects	X	X	X	X	X	X	X
Year (week) fixed effects	X	X	X	X	X	X	X
Industry $\times$ Allende fixed effects	X	X	X	X	X	X	X
Controls $\times$ Allende fixed effects	X	X	X	X	X	X	X
Avg. dependent variable	0.37	15.73	17.09	0.68	0.19	-0.02	-0.02

Notes: Regression estimates of an augmented version equation (3) which includes control variables interacted with Allende's term. Robust standard errors clustered at the firm level are presented in parenthesis. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. More details in section 6.