The Other 9/11: Chile and Third World Shock

Salvador Allende and the Chilean Way to Socialism

- 1970 Salvador Allende elected president leading Unidad Popular coalition (UP)
- Allende's vision: mix of market economy and nationalizing foreign owned industry.
- The Chilean Way: State takes back the common sources of wealth (e.g. copper) and use the revenue to benefit working people. Certain areas of life should not be instruments of profit: education; health care, family life, nature, art and culture

Allende's Socialist Project: the Balance Sheet

- About 80% of manufacturing, some banking and financial institutions, were "expropriated," most important copper mines—U.S.-owned companies Anaconda Copper Co. and Kennekott Copper Corp.
- $30 million investment in copper mines yielded est. $4.5 billion in profits over several years. UP government did *not* compensate copper firms.

  – By the end of 1971, Chile reported an 8.9% increase in real GDP:
  – Industrial production up 11%
  – Real wages increased 22%
  – Agricultural output up by 6%
  – Govt expenditures on housing increased by 12%
  – Unemployment rate dropped from 8.3% when he took office to 3.8%.
  – Rate of inflation dropped from 35% to 22.1%
- LAND REFORM: Redistributed 5.5 million acres

Sabotage and Other Challenges

- With global recession, Chile increased money supply and devalued currency, raising inflation rate to 140%. Workers, students, and middle class strike 1972
- "The Ad Hoc Committee on Chile," D.C. based corporations committed to ending UP govt: U.S. mining firms, Purina, Bank of America, Pfizer Chemical, and esp. International Telephone and Telegraph Co.
- Planned to destroy economy by blocking loans to Chile
- U.S. stockpiled copper rather than buy from Chile (undeclared boycott)
- ITT prepared strategy for the Nixon administration that contained a plan for a military coup. Plotted with leaders in the Chilean army

The Chicago Boys

- During 50s and 60s, U.S. funded Chilean students to study economics at Univ of Chicago, mainly under Milton Friedman and Arnold Harberger. They introduced neoliberal economic theory to the Pontificia Universidad Católica (PUC) where many held faculty positions
- 1973 wrote 500 page plan to liberalize the economy, known as "The Brick." Called for privatization of state-owned enterprises, free trade, market reforms, weakening Left and labor unions.
- Friedman visits Chile 1975, recommends "shock treatment" to bring down inflation (rose to 350%). Entailed drastic cuts to social welfare, education, health, etc.; eliminating tariffs; privatizing state-owned enterprises. Inevitable increase in unemployment
- Economy Minister Sergio De Castro ("Chicago Boy"), privatized almost five hundred state-owned companies and banks. Resulted in collapse of many local businesses and loss of 177,000 jobs between 1973 and 1983.

The Chilean Way to Neoliberalism

- Shock treatment DID slow inflation but deepened income inequality
- U.S. tipped the scales in favor of Pinochet and the military junta, after waging economic warfare on Allende:
- U.S. helped renegotiate Chile's debt (denied to Allende) and pumped money into the Chilean economy
- Import-Export Bank loaned Pinochet $183.6 million after denying substantial loans to Allende
- Between 1973 and 1976, World Bank and the Inter-American Development Bank gave large grants and loans as Pinochet agreed to compensate all the American companies expropriated.
- 1980 Chile adopted a new (neoliberal) Constitution--weakened collective bargaining rights; privatized healthcare, education, and social security; legitimized the military junta as the governing authority; guaranteed Pinochet eight more years as president (unelected)

Myth of the Chilean Miracle: The Balance Sheet

- Unemployment averaged over 17%, compared to 3.9% average under Allende
- By September 1980 real wages were half of what they were in September 1973
- Poverty created public health crisis-- malnutrition, alcoholism, stress-related mental illness, spike in typhoid cases
- Leftists and working-class Chileans subjected to mass repression and torture; 2 percent of the population driven into exile
- Chilean dependency on external credit and foreign investments made economy vulnerable: between 1977 and 1981, Chile's foreign debt tripled, from US$5.2 billion to US$15.6 billion.
- Military spending remained high, accounting for 18 percent of total expenditures

Crash: 1982 Debt Crisis

- Global recession, falling copper prices, rising interest rates, currency devaluation, provoked debt crisis 1982. Result: hyperinflation and 30% unemployment
- Only the *state-owned* copper mine company, CODELCO (Pinochet refused to privatize) was a hedge against financial disaster: it generated 85 percent of Chile's export revenues.
- National protests erupted in May of 1983, led by Copper Workers Confederation (CTC). Political crisis and economic downturn convinced Pinochet to dismiss the Chicago Boys [temporarily]
- State took over some enterprises and Central Bank bailed out others *against* advice of Milton Friedman
- By 1988, 45 percent of the population had fallen below the poverty line, while the richest 10 percent of Chileans increase income by 83 percent. In 2007, Chile was one of the most unequal societies in the world.

A New International Economic Order (1974)

- Plan adopted in 1974 by the UN General Assembly to remake the world economy: to transform the governance of the global economy so that the transnational integration of "the developing nations" can proceed on a more equitable and just basis. Called for:
- (a) an absolute right of states to control the extraction and marketing of their domestic natural resources;
- (b) the establishment and recognition of state-managed resource cartels to stabilize (and raise) commodity prices;
- (c) the regulation of transnational corporations;
- (d) no-strings-attached technology transfers from north to south;
- (e) the granting of preferential (nonreciprocal) trade preferences to countries in the south; and
- (f) selected or targeted debt forgiveness for states in the south owed to the north.

Gangsta! G-7 Resists the NEIO

- Some in IMF supported a transfer of wealth from North to South.
- Neoliberals take over GATT; oppose NIEO based on principle that economic domain (dominium) should not be democratized.
- G7 formed in 1975 – response to OPEC and NIEO (France, West Germany, Italy, Japan, UK, U.S.A., and in 1976 Canada)
- Henry Kissinger, et. al., used international aid, debt, and threat of military intervention to force nations in line.
- G7 countries also installed people at IMF and World Bank sympathetic to neoliberalism -- Tom Clausen of BankAmerica (World Bank); Michel Camdessus (headed IMF after 1987).

Third World Debt Crisis

- The decade after 1973,Third World debt to global banks quintupled, rising by nearly half a trillion dollars.
- U.S. Treasury Secy. Paul Volcker raised interest rates leading many governments to default. (Mexico defaulted first (1982), followed within months by Argentina, Poland, Chile, Peru, and Venezuela, etc.)
- Between 1980 and 2002, the developing countries made $4.6 trillion in debt payments. This represents about eight times what they owed at the beginning of this period ($580 billion in 1980).
- After making these payments, countries now owed $2.4 trillion!!!

Third World Debt Crisis

- IMF takes over loans and impose Structural Adjustment Policies.
  - devaluing their currency, wage freezes or reductions, allowing creditors to claim actual assets, i.e. ownership of companies or resources in exchange for the money they were owed,
  - privatizing public assets (e.g., water, mines, electricity)
  - radical cuts to social service spending
  - removing subsidies on essential commodities (rice, heating oil, bread)
  - opening economy to foreign ownership; export profits
  - closing government-controlled grain storages pressure to "green revolution" techniques (pesticides, fertilizers, GMOs) and it also means greater debt.
  - Land privatization and land grabs

The Poverty of Microfinance

- Small loans to poor ($100 and $1,000), intended to integrate them into the market economy.
- Introduced in the early 1980s in Colombia, backing of private orgs, NGOs, the Inter-American Development Bank (IDB) and the US government. [Well-known example of Grameen Bank founded by Muhammad Yunus in Bangladesh.]
- **The World Bank also promoted microcredit -- as the great economic savior.
- By 2014 -- 1,045 microcredit agencies with 112 million clients, 81%; were women; owed total of $87 billion. 57% of borrowers from rural areas.
- Real interest rates exorbitant – between 25%-50% (includes added commissions)
- Lenders usually require land as collateral. Consequences: reduce food consumption; more loans to cover debt; migration to cities and/or export processing zones for wages; loss of land.