

The Chilean Road to Socialism

Edited by J. Ann Zammit

The victory of Salvador Allende in Chile's presidential elections in 1970 focused the attention of social scientists everywhere on the possibility of a viable parliamentary road to socialism. Could Chile's peaceful revolutionaries succeed where Latin America's violent ones had failed? Could the experience of the Popular Unity Government prove valuable to other countries where definitions of socialism and strategies to achieve it had become increasingly hazy?

In March 1972 a unique international gathering of economists and other social scientists assembled in the Chilean capital of Santiago to discuss the Chilean road to socialism. They were joined by Chileans in government, actively engaged in putting the Popular Unity's programme into practice. The Round Table, organized jointly by the Chilean National Planning Office and the British Institute of Development Studies, examined a wide range of problems facing the Popular Unity government, particularly in the economic sphere.

The participants came from Britain, the United States and the Soviet Union, from East and West Europe, from Asia and Africa, as well as from other parts of Latin America. Prominent Chileans who addressed the Round Table, or participated in its discussions, included President Allende himself; the Christian Democrat presidential candidate, Radomiro Tomic; the Minister of Economics, Pedro Vuskovic; the Minister of Agriculture, Jacques Chonchol; the head of the planning office and Minister of Planning, Gonzalo Martner; the head of the Copper Corporation, Jorge Arrate; and the president of the Trade Union Federation, Luis Figueroa.

Included in this volume are the speeches by the principal participants and a summary of the discussions that followed prepared by the editor, J. Ann Zammit. In addition, the Round Table was presented with a number of papers throwing light on the nature of the socialist road in Cuba, Yugoslavia, Hungary and Tanzania. These, too, are reprinted here, together with the Popular Unity's programme.

Rarely, if ever before, has a revolutionary government revealed its aspirations and difficulties so frankly to a group of foreign observers. As a record of a significant occasion, examining an important political experiment, this book will provide useful insights for all those concerned with socialism and development.

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Edited by J. Ann Zammit With the cooperation of Gabriel P.



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Table March 1972

Edited by J. Ann Zammit

with co-operation from Gabriel Palma

Institute of Development Studies
at the University of Sussex, England

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Edited by Gabriel Palma
with the cooperation of J. Ann Zammit.

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*Chapter 4***THE HISTORICAL BACKGROUND TO THE PRESENT
ECONOMIC SITUATION IN CHILE**

Ricardo Lagos*

One of the first elements to emerge in an historical analysis of Chilean experience is the country's institutional evolution and its effect on Chilean political development.

If one main thread links and characterizes the different parts of the Chilean process, it is the slow but steady incorporation of the different social classes into political life. The very restricted oligarchic classes associated with the aristocratic landowners in the 19th century were joined by the financial and mine-owning classes. Then, in the first 20 to 30 years of this century, the middle class was incorporated, especially during the first Arturo Alessandri Government beginning in 1920. In 1938 active participation of the working class began with the Popular Front Government. Participation by the working class has been limited, acting more like a pressure group through the trade unions or through the political parties, which mainly represent workers and which have nearly always been in opposition. Increasing participation at political level is demonstrated by the distribution of seats in the National Congress, and can be measured by many other indicators such as the proportion of people entitled to vote. The rise in the number of affiliated trade unions is impressive, as is the concomitant easing of procedure for establishing trade unions. Thus, whatever the indicators used, it is evident that Chilean political and social evolution has been characterized by the increasing incorporation of different social groups. If full participation has not yet been achieved, there is at least a sizeable degree of political participation by the different social classes.

However, this political evolution has not been exactly paralleled by economic evolution. The year 1930 is crucial for understanding the process of economic evolution resulting from the crisis. Countless works deal with the types of growth before and after the crisis and they largely ignore this issue.

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Because the Chilean economy was oriented largely towards foreign trade and was dependent on one or two basic products, the crisis severely affected the balance of payments and brought about a change in the economic system. The export dominated growth model which existed prior to 1930 became impossible after 1930, a partial change occurred in the economic structure, and different sectors of the economy experienced different rates of growth. A slow process of industrialization began, and, although some authors trace this back to 1914, the process gathered strength at this point. In broad terms, the evolution of the various productive sectors from 1930 onwards is as follows. Agriculture, which had played a relatively major role in the country's development, began to account for a declining share of the national product. Mining, dependent basically on the price of copper in the international market, maintained its share; likewise services maintained a large share of the national product (nearly 45% in the whole post 1940 period). Industry increased its share, becoming the most rapidly growing directly-productive sector. This fact to some extent explains Chilean evolution in more recent years. The higher rate of urbanization which accompanies industrial development also helps to explain the increase in political participation already mentioned.

Basically, until 1940 the pattern of growth was one in which the substitution of imports mainly takes place in items that are easily substitutable. During the 1940's industrialization concentrated on basic infrastructure sectors and this was achieved by direct state intervention, because, without new sources of energy and steel being developed, the industrialization process could not continue. The newly created Development Corporation (CORFO) was therefore a product of the ideological motivations of the Popular Front Government and of economic considerations. This stage lasted until approximately 1955. From this date, the process of industrial growth began to encounter increasingly serious difficulties; the number of easily substitutable imported items began to dwindle and, in order for the process to continue, industries requiring increasingly specialized technology and much larger sums of capital were necessary. The difficulties were compounded by the size of the Chilean market, a population of 9 to 10 million (in the late 1960's) and an unevenly distributed per capita income of around \$500 p.a. are insufficient to take full advantage of certain types of modern technology. On account of the technical considerations and the capital required, the process of Chilean industrialization, which had been based mainly on Chilean capital, became very much influenced by foreign capital.

As a result, from 1930 onwards the Chilean economy has been a dependent economy; industrialization did not lessen the degree of dependence but rather modified the form it assumed. Originally dependence was of the traditional type, with a foreign enclave constituting the principal source of foreign exchange and fiscal revenue. From 1960 onwards, another type of dependence began to emerge as a result of an extraordinarily rapid increase in Chile's foreign debt. From a public and private sector foreign debt of \$ 598 million in 1960, the level rose to around \$ 3,000 million in 1970, making the economy vulnerable and dependent in a way which had not been the case prior to 1960.

The third form of dependence is related to industrial investment. The Chilean manufacturing sector, which was originally financed by Chilean capital, suffered a process of 'denationalization' from the mid 1950's as foreign capital began to gain importance. In 1968, the last year for which figures are available, approximately one sixth of the capital in manufacturing was foreign. If accurate information were available for 1930, the proportion would clearly be less. Thus, what would appear to be the typical development sector for national capital was gradually subjected to foreign domination, a process which is now occurring in all the most developed countries of Latin America. Thus industrialization, which was intended to bring a greater degree of autonomy and independence, brings instead a new kind of dependence.

The second characteristic of the Chilean economy is the concentration of property ownership. Until 1960 the concentration of agricultural property ownership in Chile was extraordinarily high, with the greater part of cultivated land in the hands of a few large estate owners. This concentration is affected from 1964-1965 onwards, with the passing of the Agrarian Reform Law in 1962 and its later amendment in 1966. In the industrial sector, over 80% of industrial output is produced by limited companies in which, by virtue of share holding, the concentration of industrial ownership is extraordinarily high. At the same time there is a high degree of concentration in the firms themselves – in 1965 the 52 largest firms in Chile accounted for 38% of the value added in the industrial sector.¹ The third key characteristic was that the process of development and industrialization in Chile and the influence exerted by the public sector took place within a capitalist framework.

¹ This increases still further if industrial conglomerates are taken into account, rather than the individual component firms.

As a result of these factors, growth has been unstable. Analysis of the statistics from 1940, the first available, up to 1960 shows a high degree of fluctuation in growth rates. During the last decade, according to ODEPLAN studies, the average rate of growth of domestic product is in the order of 4.6%, with annual rates ranging from 7% in one year to 2.2% in another. In fact the growth rate is a low one when compared with the population growth rate, and it is erratic.

Another characteristic of the Chilean economy, which has been a permanent cause of concern for various governments, is the level of unemployment. The unemployment figures from 1956 onwards, although erratic, show an average level of unemployment of between 5% or 6% and 7%.

Further, given the concentration of income, the impetus to increase production has been the consumption of the high-income groups and to some extent this has generated unused capacity in certain industrial sectors. New economic sectors, especially in the industrial field, were intended to satisfy the needs of a specific section of the population and not the population as a whole; for example, the Chilean electronics industry hardly substitutes any imports but simply imports a greater number of components and raw materials and assembles them in Chile, indicating that production is oriented towards the requirements of a minority.

Another notable feature of the Chilean economy has been the high rate of inflation.

These characteristics have undergone little change, despite efforts to use different economic policies: The Klein-Saks model in 1956 was designed to combat inflation; the model first adopted by the Alessandri Government was supposed to make growth compatible with a slow-down in inflation, trying to contain inflation in the same way as the previous model by controlling wages and salaries and achieving development through an increase in foreign indebtedness, with a rapid increase in foreign debt from 1960 onwards. The method used from 1964, which was successful until 1967, aimed at reactivating the Chilean economy as well as keeping inflation in check by increasing demand.

The political complexion of the various governments has differed, ranging from the conservative Alessandri administration to the reformist Christian Democrat administration. Nevertheless, while it has been possible to introduce some modifications into the basic economic framework, the degree of dependence, the high degree of concentration of property ownership, the degree of monopoly in

industry and the 'denationalization' of this sector have undergone no substantial changes. These elements characterize the Chilean situation in 1970 and perhaps help to explain what has taken place since.

