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# THE "INVISIBLE BLOCKADE" AND THE OVERTHROW OF ALLENDE

*By Paul E. Sigmund*

**A** STRIKING aspect of the world reaction to the military coup that overthrew Salvador Allende as President of Chile in September 1973 has been the widespread assumption that the ultimate responsibility for the tragic destruction of Chilean democracy lay with the United States. In a few quarters, the charge includes an accusation of secret U.S. participation in the coup. However, a subcommittee of the Senate Committee on Foreign Relations, headed by Senator Gale McGee, has just investigated this accusation and concluded that there is no evidence of any U.S. role whatever.

More commonly, however, the bill of particulars relies on what President Allende himself, speaking before the United Nations in December 1972, called the "invisible financial and economic blockade" exercised by the United States against his government. Articles taking this line have appeared, for example, in *The Washington Post*, the *National Catholic Reporter* and *The New York Review of Books*. On the other hand, *The Wall Street Journal* has been critical of what it calls a "simplistic plot" theory espoused by members of the academic community—that "Washington by simply turning off the spigot of low-interest loans" was able to bring down Allende.

Was there in fact an undeclared economic war between the Nixon administration and Salvador Allende—to use Allende's own words, "an oblique underhanded indirect form of aggression . . . virtually imperceptible activities usually disguised with words and statements that extol the sovereignty and dignity of my country"? Did this warfare have a direct relationship to the bloody events in Santiago? A critical examination of the considerable evidence on this subject available in this country and in Chile can help to answer these questions, and possibly suggest whether wider conclusions are in order about the relations between capitalist nations and a democratic Socialist regime.

## II

Even before Allende won a 36.2 percent plurality in a three-way popular election for the Presidency on September 4, 1970,

American business interests in Chile, including the International Telephone and Telegraph Company (ITT), which owned 70 percent of the Chilean Telephone Company, had been concerned over the possible effect on their investments of Allende's accession to power. The Chilean constitution provided that in the event that no presidential candidate received an absolute majority, the Chilean Congress was to choose between the top two candidates 50 days after the popular election. Unquestionably Allende's election produced an immediate financial panic and run on the banks in Chile. Is there persuasive evidence that U.S. interests or the U.S. government deliberately contributed to the panic, or otherwise attempted to prevent Allende's election by use of their financial and economic influence?

The most important available evidence on this question appears in the confidential ITT papers published by Jack Anderson in March 1972, and in the hearings on these papers conducted by the Senate Foreign Relations Committee a year later. This material establishes that offers of financial aid aimed at stopping Allende were made by ITT president Harold S. Geneen to the CIA in July 1970 and to Henry Kissinger's office in September. The record indicates that the July offer was rejected by the CIA and that the September offer was never passed on to Kissinger by the assistant who received it. However, the ITT papers also include a report to Geneen from his senior vice president, E. J. Gerrity, describing a discussion on September 28 with William Broe of the Clandestine Services Division of the CIA, in which Broe outlined a program "aimed at inducing economic collapse" in Chile before the congressional runoff election in late October. The Broe proposals, said Gerrity, included 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. Gerrity reported to Geneen that following his conversation with Broe, ITT's New York office had contacted several other companies about the plan, but those companies had responded that "they had been given advice which is directly contrary to the suggestions I received." Broe himself testified to the Senate committee that Gerrity had been negative about his plan, and subsequent documents confirm that the other companies were unwilling to cooperate. When questioned by the Senators, Charles Meyer, Assistant Secretary of State for Inter-American Affairs at the time, in-

sisted that U.S. policy had been strict nonintervention and described the Broe conversations as merely an exploration of "the possibility or a series of possibilities which might have been inputs to changed policy but were not." The only contrary evidence in the papers and hearings is a report on October 15 to the ITT Washington office by its Chilean representative that the American ambassador, Edward Korry, had indicated that he was reducing the amount of U.S. aid "already in the pipeline" as much as he could. The report added: "The ambassador said that he had difficulty in convincing Washington of the need to cut off every possible assistance to Chile."<sup>1</sup>

The Senators also questioned representatives of the major New York banks with interests in Chile about their lending policies in the period between the popular election in Chile on September 4 and the runoff on October 24. All denied being contacted by ITT or putting economic pressure on Chile. First National City Bank testified that it had made available \$5.4 million in credits to Chilean government agencies in the last three months of 1970; Manufacturers Hanover reported that by the end of November its "exposure" in Chile had increased from \$68 million to \$72 million; Chase Manhattan explained that a slight reduction of its lines of credit in the last quarter of 1970 was due to the failure of one customer to utilize its facilities; and the Bank of America testified that its correspondent banks in Chile had been asked to hold their short-term lines of credit at an approximately constant level—a policy which was followed until December 1971.<sup>2</sup>

Thus there appears to be no substantial evidence in the ITT papers or 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. There is no doubt, however, that such a policy was discussed in at least one instance.

### III

The next crucial period runs from Allende's accession in November 1970 to early 1972. During this period the Chilean government moved to nationalize American interests and carried

<sup>1</sup> *Multinational Corporations and United States Foreign Policy*, Hearings before the Subcommittee on Inter-American Affairs of the Senate Committee on Foreign Relations, Washington: G.P.O., 1973, pp. 101, 244, 599 (Geneen offers), 402 (Meyer statement), 626-27 (Broe statement), 644, 656 (report of Korry position).

<sup>2</sup> Hearings, pp. 344, 359, 367, 386.

out internal economic policies with serious effects on both domestic investment and its international economic position. Finally, in November 1971, Chile declared a moratorium on most of Chile's foreign debts, while on the U.S. side President Nixon issued a formal policy statement in January 1972 that, unless there were "major factors" to the contrary, the United States would not itself extend new bilateral economic benefits, and would oppose multilateral loans, to countries expropriating significant U.S. interests without taking "reasonable steps" toward compensation.

In July of 1971 the Chilean Congress unanimously passed a constitutional amendment nationalizing the remaining American ownership in the Chilean copper companies (part having already been taken over in 1967 and 1969 under President Frei). The amendment provided for an independent evaluation of the foreign-owned assets by the Controller-General, but added a provision for deducting from that evaluation a sum to be fixed by the President covering excess profits since 1955. When the evaluation and excess profits figures were announced in October, the two major copper investors in Chile, Anaconda and Kennecott, were to receive no compensation whatsoever, since the excess profits figure exceeded the Controller's evaluation of their copper holdings. ITT's telephone holdings were also taken over in this period, when the Chilean government "intervened" the Telephone Company in September.

As for Allende's domestic economic policy, designed to stimulate the sluggish Chilean economy by massive government spending and income redistribution, its initial success obscured for a time its fundamental economic weakness. One of his first measures was to use the annual wage readjustment to increase the purchasing power of the lowest economic groups without reducing that of other groups. Combined with stricter enforcement of price-control laws, this resulted for a time in an expansion of industrial production without serious inflationary pressures (by Chilean standards), because Chilean industry had been operating well below capacity, especially after the September election. The government also sharply accelerated the agrarian reform program, but this did not have a serious adverse effect on the 1971 harvest because the planting season was already completed before Allende came to power. The result for 1971 was an increase in production and consumption, a decline in the inflation rate, and a considerable drop in the unemployment rate.

Yet there were problems with Allende's apparently successful policy of "socialist consumerism." Even with a 5.8 percent increase in agricultural production, the increase in mass purchasing power necessitated a \$100-million increase in food imports in 1971. Investment, especially in the private sector, dropped sharply, and by the end of the year it was apparent that the government refusal to grant price increases or to devalue the escudo sufficiently (it was partially devalued in December 1971) was creating serious economic dislocations. Moreover, a sharp drop in the world price of copper had begun almost at the time of Allende's accession, and continued through 1971 and 1972.<sup>3</sup>

In sum, the year 1971 saw a series of quasi-confiscatory measures against U.S. economic holdings in Chile, and the development of internal economic conditions that, as the end of the year approached, appeared fundamentally unsound for the longer term. Relations with the United States became increasingly strained. By the end of 1971 U.S. banks had sharply reduced their short-term loans and the Export-Import Bank had deferred indefinitely all new loans and guarantees to Chile, and in early 1972 the Congress enacted (without visible opposition from the Administration) the Gonzalez Amendment instructing U.S. representatives in multilateral lending institutions to vote against loans to countries expropriating U.S. companies without compensation.

The problem, of course, is to sort out motives. Progressively, the negative long-term economic outlook provided an excuse for those who wished to put pressure on the Allende government by cutting off credit. That excuse, a bit flimsy at the outset but increasingly persuasive by the end of the year as Chile's economic problems mounted, was that the Chilean government was not "credit-worthy." It is thus hard to distinguish between what could have been seen by many to be 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). While not finally conclusive, a review of the policies of various institutions during this period may be helpful in making this assessment.

<sup>3</sup> For a fuller discussion of Chilean economic policy in this period, especially the nature of "socialist consumerism," see Paul E. Sigmund, "Chile: Two Years of 'Popular Unity,'" *Problems of Communism*, November-December 1972.

## IV

In January 1971, *The Inter-American Development Bank* approved two loans to Chile, \$7 million for the Catholic University in Santiago and \$4.6 million for the Universidad Austral in Valdivia. These were the last IDB loans made to Chile during the Allende administration, although according to figures published in the Senate ITT hearings, \$54 million from earlier loans was also disbursed by the Bank between December 1970 and December 1972.<sup>4</sup> Loan proposals submitted by earlier Chilean administrations for a \$30-million petrochemical complex and for electric power and natural gas projects were "under study" throughout the period, but never came up before the IDB board for a vote. The Allende government also submitted proposals for educational loans to the Catholic University of Valparaiso and the Universidad del Norte, and these proposals too were never acted on.

It appears almost certain that U.S. influence was exercised to delay the submission of Chilean projects to the Bank board, on which the United States controlled 40 percent of the votes, sufficient to block approval at least of the university loans under Bank rules requiring a two-thirds affirmative vote for this lending category. On the other hand, non-U.S. Bank officials now assert that by the time of the coup the two university projects were well on the way to being financed by the Bank using Norwegian resources, and that very substantial political pressures from member-nations were building up for some kind of loan to Chile before the next annual meeting of the IDB, scheduled for Santiago in early 1974. What the U.S. position would have been by that time can only be speculated. What is not true, however, or at least is misleading, is the report carried by *The New York Times* and other newspapers that following the September 1973 coup the Bank promptly approved \$65-million worth of new loans, a move which would have lent weight to the charge of a prompt and decisive U.S. policy reversal; it appears from Bank sources that the \$65-million figure was based only on tentative budget planning for 1974, and at this writing no new IDB loans to the military government have been approved.

Turning to the *World Bank*, it sent several missions to Chile in

<sup>4</sup> Hearings, p. 533. Over the same period Chile's payments to the IDB for interest and amortization on past loans totalled \$44 million.

early 1971 to review projects which were under consideration. Chile had been the first recipient of a World Bank loan shortly after that institution's establishment and in 25 years had received approximately \$250 million in World Bank assistance. In February 1971, at the annual country review conducted by the Inter-American Committee of the Alliance for Progress (CIAP), the World Bank representative noted that there was "an element of uncertainty in the short-run economic outlook" and warned that "the basic criteria of rationality and efficacy apply to socialist as well as capitalist oriented economies." The issue of economic rationality was relevant to the Bank's consideration of a pending loan for electric power; when the Allende government, concerned to keep the inflation rate down, rejected Bank advice to raise its rates for electricity, the Bank dropped further consideration of this loan. Consideration of the second stage of a cattle breeding program was postponed in April 1971, when it was discovered that there were sufficient funds in an earlier loan to last at least another year. This left only a fruit and vineyard development project on the Chile docket, and this project moved rapidly through the preparation and appraisal stages so that by September it was nearly ready to be considered by the Bank's board of directors.

In the intervening period, however, the Chilean Congress had nationalized the copper mines, and in late September Chile was notified that although work on the loan was nearly completed there were questions concerning both Chile's credit-worthiness and the pending issue of compensation for the copper properties. A World Bank mission was sent to Santiago from mid-September to mid-October, in order to study the question of credit-worthiness. When Chile objected to consideration of the copper compensation, the Bank replied that the very large excess profits determination raised a question whether the "reasonable progress" toward the settlement of nationalization disputes required by the Bank's long-standing lending policies was likely to be made. When the Bank's mission returned from Chile in mid-October it reported that declining investment, the rapid run-down of Chilean foreign reserves, and the creation of sharp inflationary pressures put in doubt not only the effective utilization of any loans, but also Chile's ability to continue to service past debts. This prediction appeared to be confirmed in November when Chile suspended service on all debts except those to inter-

national lending organizations, and (although this was not publicly announced) past military assistance loans.

At the 1972 annual meeting of the Bank, in September, Alfonso Inostroza, the president of the Central Bank of Chile, attacked the Bank's actions on these matters as "manifestly precipitate and prejudiced," and argued that they demonstrated that the World Bank was acting "not as an independent multinational body at the service of the economic development of all its members, but in fact as a spokesman and instrument of private interests in one member country." Replying to this criticism at an emotion-laden meeting of the U.N. Economic and Social Council in October, President McNamara of the World Bank recalled that in instances involving Bolivia, Guyana and Iraq the Bank's board of directors had approved projects despite nationalization disputes, but that in the Chilean case "that question has not yet arisen because the primary condition for Bank lending—a soundly managed economy with a clear potential for utilizing additional funds efficiently has not been met."

Whether it was due to its lack of credit-worthiness or its nationalization policies—or, more likely, to both—the Allende government did not receive any further new loans from the World Bank, although it continued to receive disbursements from loans approved earlier. In the three fiscal years between July 1, 1970 and June 30, 1973, Chile received a total of slightly over \$46 million from the World Bank. At the time of Allende's overthrow, \$22 million still remained undisbursed under existing loans to Chile.

On the other hand, neither the issue of credit-worthiness nor that of copper compensation seemed to discourage the *International Monetary Fund* from lending to Chile in the same period. In December 1971, it lent Chile \$39.5 million and in December 1972 \$42.8 million in three-to-five-year loans to offset the drop in the price of copper on the world market. The Fund's willingness to aid Chile doubtless reflected the fact that it is not a bank but a mechanism to assist member-countries with foreign exchange difficulties; moreover, since the Fund had clear authority to make compensatory loans for this type of foreign exchange shortfall, the United States did not object. However, the Fund was not able to enter into a so-called "standby" agreement with Chile for the provision of additional foreign exchange, since under standing Fund practice this would have required austerity

measures which the Chilean government was unwilling to undertake.

A verdict on the relative weight of credit-worthiness and copper compensation as factors in denying Chile assistance is clearer in the case of the U.S. *Export-Import Bank* than in the case of the World Bank. The sequence of events and external evidence both clearly indicate which factor was operative. In mid-August of 1971, one month after the nationalization of copper and two months before the final decision on compensation, the Export-Import Bank informed the Chilean ambassador that a pending request for \$21 million in loans and loan guarantees for the purchase of three Boeing passenger jets for the Chilean airline was being deferred, pending, it was said, further information on the compensation question. The ambassador immediately held a press conference in which he denounced the deferral decision as a blatant attempt to pressure the Chilean government. On August 14 a *New York Times* story quoted an anonymous State Department official to the effect that the decision had been "basically political" in nature and made "at the White House level" under pressure from business interests. The head of the Bank then commented that "the door is open" for this and other loans if Chile demonstrated her credit-worthiness. Referring to the Export-Import Bank's earlier guarantees of loans by the copper companies to Chile under the preceding administration, he added, "If and when Chile assures us it has assumed the obligations of the companies it has taken over, we may be able to justify new extensions of credit." Disbursements under existing loans continued until June 1972, but after the moratorium of November 1971 Chile was notified that no new loans or guarantees would be made.

In defense of its actions, the Bank could perhaps appeal to its own concern about the status of earlier loans it had guaranteed, but as the *Times* story indicates, its response on the Boeing loan seems to have been related to a broader governmental review of policy toward the expropriation of American interests. In March 1969, in the case of Peru, the Nixon administration had decided not to invoke the Hickenlooper Amendment to cut off U.S. aid after that country nationalized a subsidiary of Standard Oil. However, in July 1971 the copper nationalization, the balance-of-payments crisis, and not least the strong influence of John Connally as Secretary of the Treasury seem to have stimulated

an intense policy debate which culminated in the January 1972 policy statement on expropriation. The exact wording of the statement was the subject of lengthy negotiations between the Treasury and State Departments.<sup>5</sup> Its net effect was a clear-cut new American position, framed in general terms but obviously aimed directly at Chile.

By the time the presidential statement was made, Chile had announced a payments moratorium, so that the arguments against her as a credit risk were by then valid. However, credit-worthiness would have to be defined broadly enough to include willingness to pay all claims by foreign companies, if the August decision by the Export-Import Bank is to be defended on those grounds.

Moreover, the question of pressing Chile still harder, in fact of engaging in government-directed economic warfare, came up in October 1971 after the intervention of the Telephone Company and the announcement of the copper compensation decision. Two days after the Chilean announcement on October 11 that most of the expropriated copper mines would not be paid for, Secretary of State Rogers issued a statement criticizing the excess-profits deduction and warning that "should Chile fail to meet its international obligations, it could jeopardize the flow of private funds and erode the base of support for foreign assistance."<sup>6</sup> A few days later, when Rogers held a meeting to discuss the situation with the principal U.S. companies with investments in Chile, ITT submitted to the State Department what it described as a Chile White Paper. This proposed a seven-point program which included an embargo on Chilean exports to the United States, a halt to all AID assistance in "pipeline," a veto on Chilean loan projects before the Inter-American Development Bank (ITT memo-writers noted with dismay that after the July 1971 earthquake the Allende government had received additional IDB assistance from previously approved projects), the use of "a U.S. veto or pressure" to shut off pending or future World Bank loans, and advice to the U.S. banking community and "if possible" to international banking circles to refrain from extending any further credits to Chile.<sup>7</sup>

<sup>5</sup> See articles by Dom Bonafede and Mark Chadwin in *The National Journal*, November 13, 1971, January 15, 1972, and January 22, 1972.

<sup>6</sup> Hearings, p. 957.

<sup>7</sup> Hearings, pp. 946, 971.

The ITT memo on the meeting reports that the reaction to its proposals both on the part of the other participants and of the State Department was mixed if not negative. Secretary Rogers responded to ITT's suggestion for curtailment of IDB loans by saying that the United States does not have veto power on loans (a statement actually not accurate, as already noted, for certain loans by the IDB). When Rogers raised the question of an embargo on spare parts, the ITT memo reports that "the consensus of the group was quite mixed." The Ford Motor Company representative indicated that Ford would continue to supply spare parts "with firm letters of credit on reputable banks." When Rogers asked for comments on the Export-Import Bank refusal to finance aircraft purchases, "the view that the Ex-Im loan refusal was helpful to the U.S. position was shared by two or three and was 'questionable' on the part of the others." The ITT memo concludes that despite Secretary Rogers' repeated statements that "the Nixon administration was a business administration," Rogers "is pretty much going along with the . . . soft-line low profile policy for Latin America" of Assistant Secretary Meyer.<sup>8</sup>

## v

On this record, the term "invisible blockade" appears something of an exaggeration when applied to the policies adopted by the U.S. government in the last half of 1971. Pipeline credits and aid from multilateral lenders were not cut off; only new projects were "deferred." If the ITT memo is to be believed, at least by October 1971 the U.S. government had not made any effort to influence the decisions of private banks. As the private bankers later described it to the Senate investigators, credits were in fact gradually suspended in response to the worsening Chilean economic situation. The Bank of America representative testified that short-term credits remained at approximately their 1970 level until December 1971, when following the debt moratorium announcement all such credits were suspended, to be resumed later "on a lower level with selected borrowers." Chase Manhattan testified that "the Chileans made an honest effort to pay American banks in the year or so following the election" (i.e. between September 1970 and September 1971), but that "because of our own appraisal of the deteriorating economic conditions in Chile" lines of credit were reduced from \$31.9 million in the

<sup>8</sup> Hearings, pp. 975-979.

first quarter of 1971 to \$5 million in the last quarter. Manufacturers Hanover testified that: "We cancelled lines or withdrew little by little over a period of a year and a half. . . . The first cancellation occurred in early 1971 and the last ones in early 1973."<sup>9</sup>

As described in November 1972 by Chile's Finance Minister, Orlando Millas, Chile's lines of short-term credit from American banks had been reduced by that time from \$219 million to \$32 million. It appears, however, that this was the result not of a coordinated strategy but of many individual responses to an increasingly cloudy economic outlook in Chile. The lack of short-term credits plus the exhaustion of the dollar reserves built up at the end of the Frei regime, the nearly total lack of new foreign investment coming into Chile after Allende's election, and the drop in the price of copper on the world market in 1971 and 1972 (in early 1973 it rose again to record levels of over \$1 a pound) meant a serious dollar shortage for Chile. But none of these factors appear attributable to a U.S. government-initiated "invisible blockade."

"Blockade" is also the wrong term to use with reference to U.S. bilateral assistance in the Allende period. It is true that the U.S. reaction to Allende's election was quite different from its response to the election of Eduardo Frei in 1964. A month after Frei took office, an \$80-million program loan for general budget support was signed. Additional program loans for \$80 million and \$20 million were signed in 1966 and 1968, as well as \$130 million in loan agreements for specific purposes between 1965 and 1969. (The considerable foreign reserves built up at the end of the Frei regime made new loans unnecessary in the last part of the Frei regime.) No new assistance projects were requested or developed by the Chileans after Allende's accession to power, and of course it was clear after President Nixon's January 1972 statement that there was no possibility of new bilateral loans. In his November 1972 budget message, the Chilean Finance Minister mentioned \$45 million in pending AID projects, but he seems to have been referring to projects under previously negotiated loans. According to a State Department report submitted to the Senate ITT hearings, a total of \$5.5 million in AID loan disbursements from previously negotiated loan agreements went to Chile in 1971 and 1972, although this was more

<sup>9</sup> Hearings, pp. 387, 367, 360, 364.

than counterbalanced by Chilean payments of amortization and interest charges on loans contracted by previous governments, even allowing for the cessation of such payments after November 1971.<sup>10</sup>

In addition to disbursements under earlier loans, Chile continued to receive technical assistance grants averaging about \$800,000 a year, between 26 and 50 Peace Corps people continued to work there, and the Food for Peace Program distributed \$10-million worth of food between November 1970 and September 1973. Total food shipments under the Program actually rose during the Allende period (40,051,000 pounds in 1973 against 37,875,000 pounds in 1971). Ironically a part of this assistance was used to fulfill an Allende campaign promise: 10,738,000 pounds of powdered milk, delivered in 1971, helped President Allende to carry out his pledge to give a daily free pint of milk to every school child. In January 1973, *El Mercurio* of Santiago carried a report of the ceremonies accompanying the arrival of the billionth pound of food shipments to Chile from the United States under the Food for Peace Program.<sup>11</sup>

Finally, U.S. aid to the Chilean military forces, under the Military Assistance Program in operation since the early 1950s, continued throughout the Allende regime. In June 1971 a new \$5-million credit for the purchase of C-130 transport planes and paratrooper equipment was approved. U.S. military advisers remained in Chile, the Chilean navy continued to lease U.S. naval vessels, and Chile continued to participate in the Inter-American Defense Board. In May 1972, well after the Nixon statement, another \$10-million loan to the Chilean military was approved.

Critics have noted the inconsistency of the continuation of military aid after the announcement of a policy against new bilateral and multilateral economic assistance, and have attributed this to an American effort to strengthen a group which was known to be out of sympathy with Allende. The fact that the Chilean military had made it clear that it would oppose any effort by Allende or his supporters to impose a Marxist dictatorship must certainly have been in the minds of U.S. government policy-makers. But what alternative policy would the critics have recommended? The loans had the full support of the

<sup>10</sup> Hearings, p. 533.

<sup>11</sup> Food for Peace figures were provided by the Santiago AID office, July 18, 1973.

Allende government, which from the outset had been careful not to alienate the military (a policy which was successful until late 1972, and in the case of the top commanders of the army and the national police until just before the September 1973 coup), and the loans were certain to be repaid since Chilean legislation specifically earmarked a percentage of foreign-exchange earnings from Chilean copper for use by the military, so that payments for past military loans were not affected by the November 1971 debt moratorium.

## VI

By early 1972, it was clear that Chile was indeed no longer credit-worthy. In a little over a year she had run through most of the substantial foreign exchange reserves built up at the end of the Frei regime. Inflationary pressures were building up, and finally exploded in the period from July to September when the official inflation rate since the beginning of the year climbed from 33 to 99.8 percent. Chile had stopped paying most of her international debts, copper production and prices were falling, and there was an incipient crisis in agriculture.

Yet despite all this a total collapse of Chilean international credit was somehow avoided. In January 1972 the Chilean Central Bank arrived at a refinancing agreement with private banks, covering all of Chile's outstanding debts to the banks and providing for what the Chilean Finance Minister called a "symbolic payment" of 5 percent in 1972 and 1973 and higher payments thereafter—most of them after the Allende regime was to go out of office in 1976. And in April Chile arrived at an agreement with the members of the "Club of Paris" (the United States, Canada, Japan and the Western European countries to which Chile owed money). That agreement provided that 70 percent of the debt payments due between November 1, 1971 and December 31, 1972 would be postponed until 1975, and debt payments due in 1973 would be renegotiated at the end of 1972. (The 1973 debts were still being renegotiated at the time of Allende's overthrow, and no payments were made to any debtors in 1973 pending successful conclusion of the negotiations. No payments at all were made to the United States after November 1971, since Chilean and U.S. negotiators could not arrive at the bilateral agreement called for by the April 1972 meeting.) Chile also agreed in Paris to accept "the principles of payment of a just

compensation for all nationalizations in conformity with Chilean and international law," a formula which left a good deal of leeway for divergent interpretation in the copper dispute.

In addition, and of great significance in assessing the practical consequences of U.S. actions, Chile also had surprising success in securing loans from countries other than the United States—and these were by no means restricted to the Soviet Union, Eastern Europe and China. In November 1972 Finance Minister Millas reported that Chile had obtained short-term credits amounting to \$250 million from Canada, Argentina, Mexico, Australia and Western Europe and \$103 million from the U.S.S.R. He also mentioned \$446 million in long-term loans from the U.S.S.R., Eastern Europe and China as well as \$70 million in long-term loans from other Latin American countries, and unspecified amounts "of great importance" from Western European countries. The Chilean government publication, *Chile Economic News*, listed a total of over \$200 million in loans and credits from Great Britain, Spain, France, Holland, Belgium, Sweden and Finland during the period between November 1971 and December 1972. Even allowing for some overlap in these figures, it thus appears that the principal result of the half-hearted American effort to put pressure on the Chileans to persuade them to come to terms with the copper companies was a considerable increase in alternative sources of loans and credit to Chile, which more than counterbalanced reductions from U.S. and U.S.-influenced sources.

Why were so many countries willing to loan Chile money? Although the IMF report on Chile written for the Club of Paris negotiations in early 1972 is confidential, reportedly it was sufficiently optimistic about Chile's economic future so that it could be used to persuade reluctant lenders. More important, most of the loans were tied to the purchase of goods in the countries concerned and thus formed part of a government policy of encouragement of exports. Finally, as one banker put it in an interview with a reporter for the North American Congress for Latin America, "Chileans are the world's most charming mendicants."

The result of the extensive borrowing by the Allende government—much of it to finance food imports, which rose from \$165 million in 1970 to \$535 million in 1972—was to increase the Chilean debt in three years from \$2.4 billion to \$3.4 billion—an

increase which, if combined with the expenditure of foreign reserves inherited from the Frei government, substantially exceeds the total indebtedness incurred in the preceding six-year presidential term.<sup>12</sup> In fact, on August 30, 1973, Allende had more short-term credits available to him (\$574 million) than at the time of his election to office (\$310 million).<sup>13</sup>

## V

The argument that an American invisible blockade was responsible for or a major contributing factor to the overthrow of Allende is therefore not persuasive. Certainly new American aid as well as new loans from the Inter-American Development Bank and the World Bank dropped off sharply, although assistance from the IMF in 1971 and 1972 was considerable and "pipeline" aid continued from the other agencies. The termination of Export-Import Bank loans and guarantees and the gradual reduction of short-term credits from American banks also created serious problems in the flow of spare parts, which contributed to the dissatisfaction of the truckers whose strikes in October 1972 and July-September 1973 initiated the chain of events which led to Allende's downfall. In addition, the shift away from American suppliers undoubtedly caused serious dislocations in areas like the copper industry which had relied exclusively on American sources for machinery and parts. But until the end the Allende government was able by clever footwork to continue to secure the foreign assistance needed in ever-increasing amounts to cover food imports as domestic food production dropped.

To be sure, U.S. policy is open to criticism, either as too harsh—or, to a few, as too soft. If the Nixon administration had set out to promote the overthrow of the Allende government, it could have taken much more vigorous measures than it actually undertook—including embargoes on spare parts and on Chilean imports as well as a cutoff of the considerable assistance in the pipeline. Instead, in an effort to pressure Chile into a settlement with the copper companies and, more generally, to deter further

<sup>12</sup> *El Mercurio* (International Edition), August 12-19, 1973.

<sup>13</sup> *Qué Pasa* (Santiago), October 25, 1973. The Chilean Foreign Minister, in his speech to the United Nations on October 9, 1973, placed the 1970 debt at \$2.6 billion but agreed with the figure of \$3.4 billion for 1973. Since the latter figure is described by both sources as the projected debt at the end of 1973, it may be inflated by including in it unexpended foreign credits.

cases of expropriation of American property without compensation, it chose the January 1972 policy statement against new economic aid to expropriating countries. That statement was in accord with the intent of the U.S. Congress as expressed for over a decade in the Hickenlooper Amendment on U.S. foreign assistance and in the Gonzalez Amendment concerning multilateral aid which was reported out of a House committee almost simultaneously with its issuance. Given the ineffectiveness of these policies in deterring nationalizations in the Third World and the problems that they create for U.S. relations with economic nationalists in many countries, one may indeed question the advisability of linking U.S. foreign policy so explicitly to the defense of the economic interest of overseas investors. The policies pursued in the furtherance of that objective, however, do not seem to have contributed in any significant way to, or to have been aimed specifically at, the overthrow of the Allende government.

One can also criticize a certain disingenuousness in the constant references to credit-worthiness at a time when Chile was still paying her debts. (Even after the debt payment moratorium, payments continued to be made in 1972, though not in 1973, to the multilateral lending organizations.) As the Export-Import decision demonstrated, and the January 1972 policy statement confirmed, the U.S. government's concern, which it was not always willing to admit openly, was to assist U.S. companies to secure compensation when their assets were expropriated.

Additional criticism may be leveled at the World Bank and the Inter-American Development Bank for their apparent subordination to American policies. The World Bank rejects this criticism, arguing that it was following its own long-established policies and citing the credit-risk argument again. It maintains that in 1973 it was in the process of approving a \$5-million loan for pre-investment studies in Chile, but the indefinite postponement of the submission of the 1971 fruit and vineyard loan seems closely related to the copper compensation question. In the case of the IDB, the fact that no new loans were made to Chile after the copper nationalization (although some were moving, slowly, toward the final stages for submission to a vote) seems clearly related to American opposition.

The basic causes of Allende's overthrow lie elsewhere, however. They were, in my judgment: (1) eventual runaway inflation (323 percent between July 1972 and July 1973) caused not

by lack of foreign assistance but by a domestic economic policy, initiated well before the steps taken by the Nixon administration in the latter part of 1971, which relied on massive printing of money to solve all economic problems;<sup>14</sup> (2) Allende's ideologically motivated policy of intensification of the class struggle, which was more effective in solidifying middle and lower middle class opposition than in broadening his worker and peasant support; (3) an Allende administration policy of circumventing the law through legal "loopholes" or nonenforcement of its provisions—a policy which was opposed by the Congress and a majority of the voters (56 percent in the March 1973 congressional elections) and declared illegal by the courts and the Controller; and (4) complicity in the stockpiling of arms by leftist groups, the discovery of which finally moved the Chilean armed forces to act. None of these factors would have been substantially altered by increased U.S. or international assistance.

To sum up, the economic and political policies of the Allende government were a failure, in and of themselves. Our justified horror at the excesses of the September military coup has prevented us from appreciating the enormity of that failure. For in many ways the Allende experiment was not an adequate test of whether it is possible to achieve democratic socialism—in the sense of government control and direction of basic economic activity for the benefit of low-income groups—in a less-developed country. No effort was made to persuade the competing Chilean interest groups of the necessity for self-restraint and austerity in order to achieve economic independence. Allende's coalition politics were plagued by his fear of alienating the left wing of his own Socialist Party, and so, except for the adoption of the copper nationalization amendment, he never attempted to broaden his support by an appeal to nationalism ("I am not president of all Chileans"). As the experiences of Peru and the United Arab Republic (to name but two cases) have demonstrated, defiance of international corporations and foreign governments need not lead to economic or political collapse. The Allende policy, however, which combined inflation with deliberate class polarization, was a formula for disaster.

The lesson, if there is one, in the relations between the United

<sup>14</sup> The money supply increased by over 1,000 percent during the Allende administration, and in 1973 52 percent of the national budget and even greater amounts to cover losses in the nationalized industries were financed by currency emissions.

States and the Allende government is that a government which is determined to nationalize U.S. companies without compensation and to carry out an internal program which effectively destroys its ability to earn foreign exchange cannot expect to receive a subsidy to do so from either the U.S. government or from U.S. private banks. It may, however, receive some assistance from other countries either for political (aid to a fellow "socialist" country) or economic (encouragement of exports) reasons—at least for a time. What it cannot do is blame all its problems on foreign imperialists and their domestic allies, and ignore elementary principles of economic rationality and effective political legitimacy in its internal policies. No amount of foreign assistance can be a substitute for these, and no amount of foreign subversion or economic pressure can destroy them if they exist.