

restoration of the enterprise system and the restitution of many property rights, they face the biting criticism of being "anti-democratic" and supportive of a regime imposed by brute force. They are chastised for their ideological bias that allegedly surrenders basic human rights in order to achieve a particular economic order. But if they choose to disapprove of the Chilean system they find themselves in the uncomfortable company of communists and socialists everywhere, and in agreement with radical critics and commentators.

### Allende Deposed

Communists and socialists the world over spurn and despise the military regime because it overthrew the Marxist-dominated government of President Allende. On September 11, 1973, the armed forces arrested some 6000 known Marxist activists in the country, including several hundred foreigners. All resistance by partisans of the *Unidad Popular* coalition of communist and socialist parties was crushed. Allende died in the national palace, refusing to surrender.

Salvador Allende had been the first freely elected Marxist president in the Western hemisphere. As candidate of the *Unidad Popular* he had won over two opponents with 36.3% of the vote in the September 1970 elections. In the March 1973 con-

gressional elections, the UP had won 44% of the vote. But Allende never won majority control over the legislature, which kept the Marxist executive branch at odds with a congress dominated by the opposition parties. Nevertheless, he proceeded to socialize Chile. He expropriated the U.S.-owned copper companies and ordered wage increases of up to 40%. He imposed stringent price controls and ordered production to be doubled. He inflated the currency at accelerating rates. In 1973 inflation reached almost 1000% and the wholesale price index increased 1,147%.<sup>1</sup> When the government exhausted its financial reserves it defaulted on international obligations and sought aid and support from the Soviet Union and other communist countries.

As students of economics would expect, economic chaos soon descended on Chile. Strikes and demonstrations were crippling the country, and food shortages brought mass exodus from the cities. Farmers stopped producing for fear of either legal nationalization of their products or illegal seizure by roaming hungry workers. Businesses were failing by the thousands, unemployment was soaring, and living condi-

<sup>1</sup>Juan Carlos Mendez G., *Chilean Socioeconomic Overview*, Santiago, 1980, p. 15; also *Chilean Economic Policy*, edited by Juan Carlos Mendez G., Santiago, 1979.

tions were deteriorating everywhere. In short, the division of labor, which is an essential condition of human existence, was disintegrating rapidly, giving way to economic chaos and civil strife.

### Economic Reconstruction

After the 1973 coup the junta headed by General Augusto Pinochet Ugarte hastened to make peace with Chilean businessmen and foreign investors. The nationalization of American copper companies was declared irreversible, but the compensation claims of Cerro Corporation, Anaconda Company and Kennecott Copper Corporation were settled amicably. A new foreign investment law was designed to lure foreign investors by guaranteeing remittance of profits and safeguarding their property. The government also began to return private companies, seized by the previous regime, to their owners. In September 1975 Chile conducted a currency reform introducing a new monetary unit, the peso, equal to 1000 old escudos.

Gradually the government budget was balanced and the rate of inflation reduced. In 1974, prices rose 375.9%, in the following year 340.7%, then 174.3%, 63.5%, 30.3%, 38.9%, 27.5%, and an estimated 10% in 1981. The central bank's stock of money, which stood at some 200 billion escudos at the time of the coup, rose to 836.7 billion in December 1974, to

3,279 billion escudos (or 3.279 billion new pesos) in 1975, 9.6 billion pesos in 1976, 18.3 billion pesos in 1977, 30.5 billion pesos in 1978, 47.4 billion pesos in 1979, and 50.3 billion in 1980.<sup>2</sup>

At its best, such statistical evidence is rather dubious and inconclusive. When offered by government it is especially suspect of crude political manipulation and interpretation. Nevertheless, it may be concluded without much contradiction that the Pinochet junta indulged in rampant inflation throughout most of the 1970s. It reported its first balanced budget in 1979.

When labor unions all over the Western world threatened to block shipments to and from Chile the junta hastened to make peace with the labor union movement. It enacted the 1979 labor code which restored the right to form labor unions. But the code also established the right to work without labor union affiliation, and made union dues voluntary. It allowed collective bargaining although negotiations were restricted to individual plant and company level. Labor agreements were made legally binding and had to be made for at least two years. Strikes were permitted after a secret ballot, but only for 60 days after which workers would be assumed to

<sup>2</sup>*Encyclopaedia Britannica*, Books of the Year, 1974-1981.