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Article

The way to socialism

Intereconomics

Suggested Citation: Breuer, Bernd (1971) : The way to socialism, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 6, Iss. 1, pp. 18-21, <http://dx.doi.org/10.1007/BF02927016>

This Version is available at:

<http://hdl.handle.net/10419/138432>

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The Way to Socialism

by Bernd Breuer, Santiago

The election of Salvador Allende, the representative of the Marxist parties, as Chile's new president on October 24, 1970, meant the end of an important phase in the country's development. We take the opportunity of this event to reflect upon the last five years of Christian-Democrat rule under the Frei government as well as on the achievements during this period and the problems still left unsolved.

With the program under the slogan "Revolution in Liberty" of his Christian-Democrat Party (PDC) Eduardo Frei was victorious in the 1964 presidential elections. Agricultural reform stood in the fore of his aims. The problem of the prevailingness of latifundia was to be solved by means of creating 100,000 new agricultural landowners which would, at the same time, lead to substantially higher agricultural production.

Failure of Agricultural Reform

The economic and social differences between urban and rural areas were to be lessened, and the system of land distribution and cultivation was to become more effectful and better balanced socially. Germany with about the same acreage of arable land as Chile does feed some 36 mn people, but Chile succeeds in providing for only six of its ten mn inhabitants. Agricultural imports have risen steadily after World War II; food imports amounted to approximately US \$ 2.700 bn between 1945 and 1969.

Up to now, however, the system of land distribution and cultivation stood in the way of higher production. In Latin America land ownership is synonymous with prestige but the social functions coupled with it are largely ignored. In 1964 no more than 3,250 landowners possessed between them 50 mn acres which is equal to 72 p.c. of all arable land. This situation was considered tolerable no longer because, as a rule, on the fundia only 5 to 15 p.c. of the arable land was kept under cultivation and the utterly impoverished agricultural labourers as well as smallholders moved to the slums in cities and towns.

Following the approval given by Congress in January, 1967, of the draft for the Reform, all fundia of a size larger than 200 acres basic of best yielding arable land can now be expropriated if proved unproductive and/or falling behind the minimum social tasks towards the domiciled agricultural population. About 2 p.c. of all farms and estates are thus "threatened". But the expropriation is not without compensation although only a part of 1 to 10 p.c. of the value of the property is paid on the day of expropriation.

Up to May, 1970, the Agricultural Reform Corporation (CONRA) has confiscated 1,224 fundia with a combined area of nearly 8 mn acres and made some 28,000 families landowners. The minimum wage for farm workers was brought up to that paid in industry and the organisation of trade unions was encouraged after decades of suppression. There were 24 farm workers' unions with 1,658 members in 1964. By the beginning of 1970 the number had risen to about 500 trade unions embracing over 200,000 affiliated members. As a result of Agricultural Reform the growth rate of agricultural production has, it is true, more than doubled to 4.1 p.c. during the period from 1964 to 1968 after having stagnated at less than 2 p.c. in the previous thirty years. Nevertheless the targets set for 1970 have not been reached. Agriculture has still not become a stable pillar of the economy, nor has the purchasing power of the agricultural populace made it a strong market for the sale of industrial goods.

Copper Continues to be Decisive

The growth of industrial production has between 1955 and 1964 been steady, but slow, at a rate

of 3.5 p.c. annually. The production range was to be diversified in order to be competitive also in world markets. Besides copper and steel, the most important sectors, all at comparative cost advantages, are petro-chemicals, paper and pulp, the electrical industry and fish processing. Motor-car assembly expanded particularly fast: in 11 plants 22,000 units were completed in 1969; the respective figures for 1964 were 8,000 units in 22 assembly plants. 58 p.c. of all parts and accessories (against 26 p.c. in 1964) were of Chilean origin.

The protectionist measures taken by the State have so far not resulted in the development of an efficient industry. Most of the privileges were done away with in January, 1970. Excepting luxury goods, motor vehicles and spare parts as well as electrical goods, on principle everything may now be imported. At the initial stage the high import tariffs are scaled down within a five-year period and the export subsidies (draw back) reduced in order to alert the domestic producer in Chile to the necessity of holding his own against the keen international competition. During the last five years industrial production increased by just about 5 p.c. annually. Up to 1968 industry's share in national income went up by 0.8 p.c. to 27.6 p.c., but this has not yet made it a dynamic factor of the economy—such as copper mining.

For many decades copper has been the leading export product and thus the backbone of Chile's economy. In the past most of the copper reserves were exploited by North-American concerns. Nor had Chile any influence on the copper prices on the London Metal Exchange. In order to end this dependence, the Frei government had aimed at the "Chileanisation" of copper and indeed negotiated agreements with this aim in mind. From 1970 on Chile pays, by annual instalments corresponding to the balance-sheet value, the present shareholders towards the surrendering of their holdings. Copper production is to be doubled to 1.2 mn metric tons by 1972 which would make Chile the world's largest producer of copper. Between 1964 and the end of 1969 foreign exchange earnings doubled from 32.5 to

the record amount of 76 cents per lb of copper, and in fact amounted, in 1969, to US \$ 850 mn. Formerly Chile had participated only up to the price limit of 50 cents lb in the proceeds of the sale of its copper, but the State now gains foreign exchange also from the price difference above 50 cents. Meanwhile, Chile has also become a 51 p.c. partner in all large copper mines.

Inflation Is Problem Number One

Since the inauguration of the Frei government the total value of Chile's export has more than doubled and in 1969 exceeded the one-billion-mark for the first time ever. Imports went up by only 31 p.c. so that the balance of foreign trade—having shown an import surplus up to 1964—has been reversed to showing a steady export surplus each year since 1965. According to estimates by the Banco Central it amounted to \$ 225 mn in 1969. The balance of payments, too, has developed favourably. Prior to 1965 it had shown a deficit. After that, the development has been unique for Chile: the annual surplus averaged \$ 101 mn during the period 1965/69. Currency reserves were strengthened accordingly. For the first time in ten years the Central Bank showed an active balance of \$ 42 mn net reserves, and the Banco Central estimates them to have grown to \$ 211 mn in 1969. This inflow of foreign exchange is used for the import of capital goods, particularly for the mining industry, and for debt repayments. In addition there has been an improvement in the structure of foreign trade: exports of industrial goods increased by 84 p.c., which speaks for the success of diversification of production and export. The import of capital goods and spares belonging to them went up by 36 p.c. reflecting the efforts towards intensified industrialisation.

Chile, too, has its problem of inflation, indeed it is about a century old. It was the Frei government's intention to solve it step by step until 1970. It is true the rate of inflation fell during the first years of his government from 43.4 p.c. (1963) to 17 p.c. (1966), but it went up again subsequently to 29.3 p.c. in 1969. In 1965 and 1966 wages had gone up too fast. The increase



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is now automatically in step with the previous year's rate of inflation. In spite of most prices being controlled and price increases subject to permission, the wages-prices spiral has since 1967 become apparent once again. A flight of capital and insufficient investments have added heat to the problem.

Surrounded by military regimes also Chile has been drawn into the rearmament race. Defence expenditure is higher by 353 p.c. than in 1964. Following the military coup in October, 1969, all pay and pensions for the armed forces were increased by an unscheduled 90, instead of 29, p.c.

High Public Spending

State expenditure also went up as never before: by 80 p.c. since 1964. Its share in the GNP, too, rose from 35.7 p.c. in 1964 to 43.2 p.c. in 1968. As the result of the growing public sector there has been a leap upwards of indebtedness abroad. In 1964 all foreign liabilities amounted to \$ 2.4 bn. Thereafter the annual real net indebtedness was reduced from \$ 164 to \$ 140 per head of the population. In order to increase revenue (up to now +109 p.c.) a long overdue tax reform was carried out, several taxes were increased and new ones introduced. As a result the share of taxes in the State's total revenue (1969 almost US \$ 1.7 bn) went up from 78 to 90 p.c. Since 1967 there has been no need to call upon international financial aid towards a budgetary equilibrium. Up to 1969 net public savings increased by 400 p.c. to more than US \$ 340 mn which, however, did not prevent a setback in total savings whose share in the GNP fell from 17.8 to 13.8 p.c. Public investments inclusive of State enterprises have nearly doubled. The emphasis has been on infra-structure and social investments.

In order to facilitate the opening up of Chile for economic purposes and the tourist traffic, about 1,900 miles of roadways were concreted under the Frei government. Also new road cross-connections, two of them even extending into Argentina, were built. Ports and airports were enlarged or built in addition to existing ones, and more than 100 bridges were built. The construction of the first news-service satellite installation in Latin America, on Chilean territory, had the result of Chile now being linked to the modern tele-communications system. The number of telephones installed has doubled, and the majority of people have a TV set. Up to 1969 60 p.c. more dwelling units were completed than under the previous government. The worst slums in the towns have largely been cleared and replaced by satellite towns which are often models of modern living.

With its continuous 50 p.c. share in the GNP the services' sector is for a development country, like Chile, too prominent. Particularly the efficiency of public administration is rather poor as the red tape burdens the budgets increasingly more. The change of government, at intervals of six years, automatically brings in its wake an enlargement of the administrative machinery: the most important posts are newly filled but there are no dismissals. In view of the growing State influence on the economy as a whole, this development is rather disquieting. It is open to doubt whether the "Special Commission for the Rationalisation of Public Administration", set up by Frei is tackling the evil at its root: the waste of manpower in the tertiary sphere.

A chaotic, expensive and unfair system of social insurance and pensions bites into the country's financial resources. There is one pensioner for every four employed persons, and the total number of the former increases by nearly 10 p.c. annually. It is possible for an employee to be pensioned off after only 10 years of social contributions whereas a worker does never receive a pension before reaching the age of 65. The pensions for Members of Parliament are especially attractive; they may retire after only 4 years in Congress at a monthly pension of between US\$ 135 and 700. Without success the Government has been trying for years to eliminate these abuses.

With his reforms ex-President Frei has performed pioneer work in Latin America. The Process launched by Frei is irreversible. With a narrow majority over Jorge Alessandri, who was uncommitted to any political party, the candidate of the People's Front (UP¹), the Socialist Salvador Allende, succeeded in winning the Presidential elections on September 4, 1970. Radomiro Tomic, the PDC's successor-designate to Frei, ran for the first time as candidate and received 28 p.c. of the votes. On October 24 Congress confirmed, with a three-quarters majority, Allende as the new President. For the first time ever in Latin America, a Marxist regime thus gained power legitimately. Allende's victory caused dismay for nearly two-thirds of all Chileans who had not cast their vote for him. The first two months following the elections brought a 25 to 30 p.c. dwindling of economic activities. The sale of domestic goods and other durables suffered a setback by fifty to 100 p.c., unemployment went up particularly in the building trade, several companies saw

¹ The People's Front (United Popular - UP) is formed by the Communist, Socialist, Radical and Social-Democrat parties as well as the MAPU (Movimiento de Acción Popular Unitaria) which, as the PDC's former left wing separated from that Party in 1969, and, finally, the independent API movement (Acción Popular Independiente).

themselves forced to shut shop because of lack of orders and credit. About 45,000 Chileans left the country, but part of them have already returned. The US \$ soared by 100 p.c. in the black market. Residential villas and used motorcars are on offer cheaply. But the widely feared riots and disturbances did, apart from a few senseless bomb onslaughts, not occur.

The new Cabinet consists of Ministers from the four political parties and two UP nominees. The Minister of Economics is uncommitted partywise. No State Secretary must be a member of the same political party as his Minister. This ruling has, in fact, resulted in the first tensions: one Minister already threatened to resign. The dangers of dogmatic Socialism, or total Communism, are not inherent in Chile. They are prevented from coming to the fore, firstly, because of the heterogeneity of the members of the Cabinet and their various State Secretaries and, secondly, by the fundamental guarantees of liberty—now part of the Constitution—which the PCD successfully bargained for from the UP against their support for Allende in Congress on October 24. Conscientious as Chilean people, the opposition and the military are of democratic principles, they will keep a watchful eye on those negotiated liberties being upheld. There is, thirdly, the very composition of the UP party and the demonstrated democratic attitude of the new President that also speak against the outbreak of such dangers.

The first official statements and steps taken by the Government are aimed at strengthening confidence and reviving the economy. Judged by the first announcements of the Minister of Economics, future policy appears reasonable: the putting an end to inflation is an important aim. There is to be a dynamic drive towards industrial upswing in order to provide new places of employment and, at the same time, reduce unemployment. A further aim is a more equal distribution of incomes than in the past with the purpose of higher purchasing power of the workers and thus to provide production incentives with corresponding cost and price effects. Applications for price increases, subject as they

are to being granted, will in future be more thoroughly analysed, and be published. Price reductions have in Chile been practically unknown in the past. But talks of representatives of the textile industry in the Ministry of Economics have led to a 10 p.c. price reduction of men's wear. Other branches of industry intend to act likewise. The pay of Ministers and salaries of leading civil servants will, from now on, be increased slower, and be published. Several ministries will be re-organised with the aim of simplifying public administration and red-tape procedure. It is also envisaged to dismiss part of the ministries' surplus staff.

Chile, like the rest of Latin America, tends towards Socialism because even the Frei administration failed to change much in the economy's feudalistic structure. Chile now attempts to pursue the path of democratic Socialism which appears possible if the first measures announced so far and the main part of the UP's programme can and will be realised. In order to render this possible the understanding and support of the industrial countries is necessary, and, with this forthcoming, the possibilities of any influence exercised by East European and Asiatic totalitarian regimes would thus simultaneously be reduced. Western Europe, where the Federal Republic enjoys an astonishing degree of goodwill in Chile, could easily fill the vacuum created by the pronounced anti-American sentiment.

In the short run, an economic crisis cannot be ruled out. Nevertheless, the UP Government has a fair chance to gain the upper hand in the race between the people's expectations and the results of economic and social policies. Then, free elections will be possible also in future and a „Socialist Revolution in Liberty“ would replace the „Revolution in Liberty“ so vehemently publicised by Frei. There is little, if any, likelihood of Chile becoming a second Cuba. To the contrary, the new style of government could become a model for other Latin American countries and surpass the, as it were, somewhat knocked about emissive power of Cuba so that the dangers of civil wars and bloody revolutions be lessened.



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