Chilean model slated for the remainder of Latin America

by Cynthia Rush

In September 1981, *Executive Intelligence Review* reported to its readers on the fraud of the "economic miracle" created by Milton Friedman's "Chicago School" for Chile, and explained why the "free-enterprise" scheme adopted by the Reagan administration for the developing sector doesn't work. A look at the Chilean economy three months later makes the point even more dramatically. Entering 1982, the Chilean government faces:

- **A precarious banking system.** In November of 1981 the government abandoned the Chicago School's "hands-off" approach and took over four banks and four financing companies belonging to the bankrupt Sahli-Tassara group. Despite statements to the contrary, the government made the move to avert a general banking collapse. Banks were delaying call-ins of loans on which payment was due until after the Dec. 31 reporting period so as not to reveal an alarming number of bad debts.
- **A $3 billion trade deficit for the year,** due to a $7.1 billion import bill and $4.2 billion export bill. To try to limit the growth of the deficit, the government implemented measures in mid-December reducing the term for import credits from 180 to 90 days.
- **A depression-wracked private sector.** Industrial production in 1981 increased by only 1 percent over 1980. The private manufacturers association SOFOFA estimated a fall of 5 percent for industrial production during the last quarter of 1981.
- **A collapse of the construction industry,** signalled by the bankruptcy of the second largest building company in Valparaiso, Construcciones Industriales.
- **The bankruptcy of agriculture.** Carlos Podlech, President of the Chilean Wheatgrowers Association, reported in November 1981 that "as a result of the inflexible application of economic policy, national agriculture is short of finance and in virtual bankruptcy." Farmers are at the mercy of Chile's private financial monopolies, which grant credit at usurious rates, and control the sales of inputs and marketing. The Jan. 18 issue of the *Wall Street Journal* reports that there have been so many failures in the wheat-growing area of Talca that Chileans call it the "Bermuda Triangle." 1981 saw the bankruptcy of the large sugar consortium CRAV, the main agricultural dairy cooperative in Ñuble, and three major fruit-exporting companies.
- **An unemployment rate of 20 percent.** In his year-end speech, Pinochet announced that the government would be studying possible wage reductions of 5 percent for the lowest-paid workers, and 10 percent for others, as a way of "helping out" the besieged manufacturing sector.

True, as apologists for the Chilean "miracle" are quick to point out, Chile has lowered its inflation rate from over 600 percent in 1974 to 10 or 15 percent in 1981. But at what price? Previously one of the more industrialized nations in South America, Chile today has no economy left to speak of; every major sector is bankrupt, and its highly educated and cultured population beggared—if not murdered. As former central bank president Alvaro Bardon admitted last November, economic growth stands at zero. As a result of the government's policy of lowering protective tariffs to force domestic industry to be more "competitive," Chile has been reduced to the status of a tropical free port. It is swamped with imports of color TV sets, electronic goods and other cheap foreign imports that are of no use to its impoverished population.

Dictator Pinochet announced on New Year's Eve that the Chicago School economic model will continue indefinitely, with only a "few minor alterations." Just prior to giving the Dec. 31 speech in which he admitted Chile was suffering from a "recession," Pinochet reshuffled his cabinet to reassert the role of Finance Minister Sergio de Castro, a Chicago-School ideologue, and removed de Castro's critics.

The only thing allowing Pinochet to make such an announcement is the significant financial backing—$4 billion dollars worth—that he received in 1981 from the international banking community. That $4 billion increase brought Chile's foreign debt to a significant $15 billion. The question is, why the costly advertising campaign? Why are international bankers going to such lengths to prop up Milton Friedman's Nazi experiment?

The answer has little to do with Chile itself, which is already destroyed as a sovereign nation. The point is that

Chilean shock treatment is the model that the City of London, and its allies in lower Manhattan and within the Reagan administration, want to impose on the rest of Latin America, beginning with Chile's immediate neighbors, Argentina and Brazil. Henry Kissinger and Alexander Haig are pushing Friedman's voodoo economics as the basis for the much-touted "Caribbean Basin Initiative" and ultimately hope to force the U.S. economy through the same "Chileanization" process.

Under existing conditions, putting Chile through still another round of "miracle" economics is a decision to exterminate that country's population, as the backers of the model readily admit. In an article aptly titled "Chile's Brave New World of Reaganomics" in its Nov. 2 edition, *Fortune* magazine straightforwardly asserts that the only way that the Chilean economic miracle came into being in the first place was "by putting the country through the wringer."

Following a 1975 meeting with Milton Friedman, Sergio de Castro and the Chicago boys began to "swing a budgetary axe that would have delighted David Stockman," wrote *Fortune* author David Dworkin. "They cut spending by 25 percent across the board, pruned the public sector payroll, and either sold off state enterprises or curtailed their access to the treasury." They raised taxes, and eliminated protective tariffs, which allowed a flood of imports into the country and the destruction of domestic industry. The only thing that "surprised" de Castro, Dworkin lies, was "the dire recession triggered . . . by the shock treatment":

> National output fell 15 percent in 1975 and wages slid to one-third below what they had been in 1970. Unemployment went to 20 percent and stuck within three points of that level for the next four years. . . . There were outbreaks of mange and other infectious diseases. Beggars appeared on the streets, and the Catholic Church organized soup kitchens.

Argentina next

For Friedman and his London backers, the "pain" of genocide is a small price to pay—especially for developing-sector nations—to meet the ostensible goal of reducing inflation. Hoping that Chile is under control, the international financial oligarchy is now tackling Argentina, a country that has already suffered five years of monetarist policies under the direction of David Rockefeller's close friend José Martínez de Hoz. But de Hoz's term as finance minister from 1976 to March 1981 was only to soften Argentina up for what it now faces. According to Sergio de Castro, de Hoz didn't go far enough in 1976-81. He "had the recipe" for shock treatment, de Castro complained to *Fortune*, but "he didn't follow it."

New President General Leopoldo Galtieri and Finance Minister Roberto Alemann *are* willing to follow the "recipe," which is why Henry Kissinger and Alexander Haig backed Galtieri's ouster of Roberto Viola last December and his subsequent takeover of the presidency. Roberto Alemann's public commitment to "painful" shock treatment—even with the embarassing failure of Chile staring him in the face from across the border—will deliver the final blow to Argentina, once more industrialized than Chile.

The starting point for Alemann is the destruction that de Hoz left behind him. At the end of de Hoz's five-year term of free trade and "free enterprise," Argentina's GNP had dropped by 5.2 percent—a decline surpassed only by the war-ravaged economy of El Salvador. With only 48 percent of its installed industrial capacity in use, Argentina today produces at levels well below those of a decade ago. Demand is at an all-time low, leaving companies to stockpile large amounts of finished goods at exorbitant financing rates. In the third quarter of 1981, gross industrial production dropped 22.9 percent; machinery and equipment production dropped by 44.9 percent during the same period.

The core of Alemann's program will be the same budgetary axe-swinging and "fiscal discipline" practiced in Chile. As one of his first acts in office, Alemann froze salaries of members of the armed forces and state sector employees. He also intends to eliminate many of the "inefficient" state sector enterprises through funding cutbacks and "privatization" schemes. During his first term as Finance Minister under President Arturo Frondizi (1958-60), Alemann gained notoriety by firing 100,000 state sector employees and handing 40 of the 44 companies owned by the state sector group DINIE over to the private sector. Under the current conditions of industrial collapse, Alemann's austerity measures could put a large number of the almost 2 million state sector employees out of work. Some Argentine economists have estimated that including people who work part-time—sometimes as little as one hour a day—unemployment ranges around the 4-million mark in a country of 27 million people.

Alemann has announced that his development strategy is based on expanding exports and investment, *not* consumption. Since he doesn't intend to lower interest rates from their current level of 150 percent annually—he has already reversed the emergency package passed by interim President Horacio Liendo last November which placed a ceiling on interest rates—the only investments expected to come into the country are those directed toward speculation. De Hoz's destruction of industry and high interest rate policy attracted a flood of "hot money" for short-term speculation, and this will resume under Alemann. The Finance Minister is also organizing a propaganda push around the potential for developing Argentina's natural gas and oil reserves. *EIR*'s evaluation is that this is an effort to line up Argentina as part of the "Western Hemisphere strategic reserve," and provide Kissinger and Haig with a pretext for trying to reduce Argentina's substantial trade with the Soviet Union.

Will it work?

Whether the City of London can successfully subject Argentina to a full "Chileanization," and extend the model next to Brazil, Peru, and ultimately the United States, depends on whether the model's credibility can be maintained. Despite the expensive press hype given the Chilean model, there are signs to the contrary. Inside Chile, certain factions of the military have become increasingly and publicly critical of Pinochet's handling of the economy, as evidenced by the recent statements by former junta member General Gustavo Leigh attacking the government's economic and social policies. In his December cabinet reshuffling, Pinochet surprised some observers by naming General Luis Danus, a member of the military faction that is displeased with the destruction of Chilean sovereignty, as head of the planning agency Odeplan. Gen. Danus, who often snidely refers to Sergio de Castro's team as the "Chicago kids," is a cousin and cothinker of Gen. Gastón Frez, the director of the state copper corporation Codelco. Given the state of the Chilean economy, Pinochet will probably be forced to pay greater attention to this group of military hardliners who now control key government advisory positions.

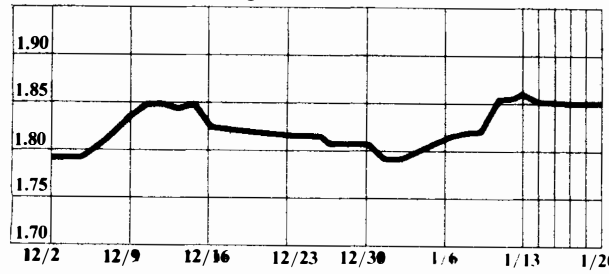
In Argentina, even Alemann's most avid supporters admit that he will have a politically rough time imposing shock treatment. One obstacle facing him is the fact that the military itself has a financial stake in many of the state-owned enterprises he wants to axe, and won't accede to his policies readily. Similarly, the still-powerful Peronist movement and other political parties, are warning of the "social consequences," i.e. social upheaval, that could be unleashed if Alemann pursues his announced program.

This reality creates problems for those who, like the editors of *Fortune* magazine, support the imposition of the Chilean model in Latin America and the United States, dictatorship and all. That *Fortune* desires the Chileanization of the United States is seen in its bald assertion that "if a small undeveloped country can live by the theory of competitive advantage, then surely our infinitely more resourceful economy can. . . . The U.S. economy should neither require the severity seen in Chile . . . but the response time may be just as agonizingly long as it was in Chile. Whether a democracy has enough staying power is a question only Ronald Reagan's Washington—and the passage of time—can answer."

Currency Rates

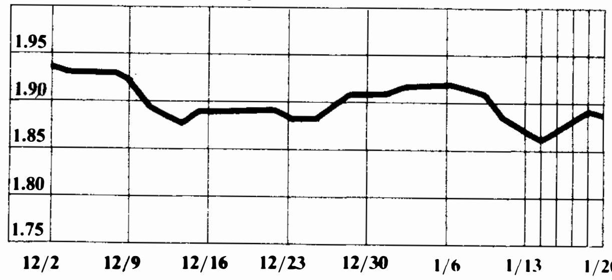
The dollar in Swiss francs

New York late afternoon fixing



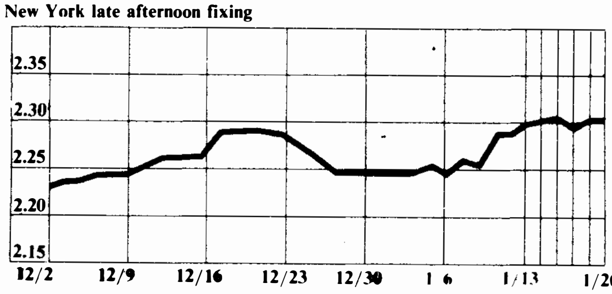
The British pound in dollars

New York late afternoon fixing



The dollar in deutschemarks

New York late afternoon fixing



The dollar in yen

New York late afternoon fixing