Presidential Cabinet of Chile 1970-1973

Background Guide

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Introduction:

Letter from the Chair

Hello Delegates,

My name is Amir Parikh, and I will be your chair for the Presidential Cabinet of Chile 1970-1973 committee at EagleMUNC VII. I am a senior in the Carroll School of Management at Boston College with concentrations in Finance and Information Systems along with a minor in Math. I was born and raised in the Boston area; I loved it so much growing up that I decided to do my undergrad here and also work here full-time after I graduate. My background as it relates to Model UN has been exclusively in the Business Affairs side of EagleMUNC, which oversees the operational aspects of our organization; specifically, I worked on our Finance team, with whom you will become familiar at the conference when they sell you our premium merchandise. For my senior year, I decided to try something a little different that would allow me to more directly impact the experience of you, our esteemed delegates. My academic and Model UN backgrounds are likely different from most chairs you have had or will have, but I assure you I will do my utmost to ensure you have a rewarding and enjoyable experience at EagleMUNC VII.

The topics we will be covering relate to Salvador Allende’s presidency in Chile beginning in 1970. While in some sense they are specific to the situation in Chile at the time, many of the issues have been faced by other nations throughout history, and just as many are relevant in today’s world. We will cover a broad range of issues, to say the least: rampant inflation, social reform, copper mining, coup attempts, and foreign debt are some of the larger ones. My goal is to help you engage with these topics on a different level than you would in a typical classroom setting. I hope that all of you leave this
committee with an in-depth understanding of not only how these variables affected President Allende’s regime and Chile, but how they are still relevant now. In addition, I will make sure you enjoy yourself while learning and participating; MUN should be fun, after all.

I wish you all the best this year with your academics and Model UN endeavors. My email is listed on the cover, so please reach out if you have any questions about the committee, EagleMUNC, MUN in general, or even college; I am here as a resource for you. Otherwise, I cannot wait to meet you in March!

Cheers,

Amin Parikh
**Historical Background:**

In the latter half of the 1960s, Chile was led by Eduardo Frei Montalva, a Christian Democrat who sought to reform the country through bolstering the poor and creating a sense of class harmony.¹ To do so, he nationalized certain foreign industries - notably copper, which was Chile’s principle resource at the time - and expanded agrarian efficiency and activity, both of which were intended to boost economic output and improve the everyday lives of the lower classes.² Frei increased incomes and brought peasants and the urban poor into Chilean political life for the first time in the nation’s history.³ By the time of the 1970 presidential election, the Chilean electorate wanted to see more of this reformist activity by its government, resulting in a coalition of previously opposed political parties: the Communists, Socialists, Radicals, and Christian Democrats.⁴ This newly formed left-wing coalition called itself the Popular Unity, and it sought to continue and expand Frei’s policies but with more of a socialist agenda and under a new president.

Enter Salvador Allende Gossens, born to an upper-middle-class family in Valparaiso, Chile on June 26, 1908.⁵ After graduating with a degree in medicine from the University of Chile in 1932, Allende helped found the Socialist Party the next year. He then served in the Chamber of Deputies in 1937, as Minister of Health and Social Welfare in the early 1940s, and in the Chilean Senate for much of the remainder of the 1940s, 1950s, and 1960s.⁶ As a member of the Socialist Party, he unsuccessfully ran for

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³ Ibid.
⁴ Ibid.
president three times in 1952, 1958, and 1964; however, the newly formed Popular Unity Party would ultimately give him the necessary support to win the election in 1970, even if only by a slight margin. 

Allende’s main initiative upon taking office in 1970 was “to socialize the economy, taking over the copper mines, other foreign firms, oligopolistic industries, banks, and large estates.” The Popular Unity’s view was that capitalists around the world (including in Chile) prospered off of Chile’s industry; thus, Allende’s regime completely expropriated certain important industries such as copper, following the example set by Frei. This immediately placed Chile at odds with many foreign governments and investors, most notably those from the United States who controlled most of the copper industry in Chile at the time. In line with Frei’s policies, Allende’s regime also purchased manufacturing facilities and large agricultural tracts to form peasant

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7 Ibid.  
9 “Allende’s Leftist Regime.”  
cooperatives; in other words, he sought to hand over the means of production to the people, in line with socialist ideology.\textsuperscript{11} In addition, he increased wages and froze prices to give the working classes more purchasing power.\textsuperscript{12} However, employing such a policy could only be successful in the short run. As purchasing power increased, so did the demand for goods, and the means of production could not keep up with the new rise in consumerism.\textsuperscript{13} As a result, the Allende regime turned to foreign imports to meet the demand (ironically, after attempting to close off the nation to foreign investment and industries).\textsuperscript{14} Chile also had to print excess currency to support its expropriation programs and foreign imports, which drove up its previously frozen prices.\textsuperscript{15} By 1972 Chile was suffering from stagnant production, decreased exports and private-sector investment, exhausted financial reserves, and “rising inflation.”\textsuperscript{16} Thus, many of Allende’s intended social reforms, such as higher wages, improved housing, and increased access to education, were unable to be realized or sustained.\textsuperscript{17}

While the Allende regime longed for a strong and successful working class, it was unable to organize its people in such a way to ensure economic strength and stability. It also failed to recognize the importance of foreign relations; instead, it destroyed those relations by expropriating major industries that were critical to the success of Chile’s economy and social programs. Soon, the Chilean people realized that socialism was not the answer to their issues, and their patience with Allende expired. As a result, there were

\textsuperscript{11} “Allende’s Leftist Regime.”
\textsuperscript{12} Ibid.
\textsuperscript{14} “The Allende Years and the Pinochet Coup, 1969-1973.”
\textsuperscript{16} Ibid.
\textsuperscript{17} “The Allende Years and the Pinochet Coup, 1969-1973.”
numerous demonstrations and strikes from 1971 to 1973, including a failed coup attempt in June of 1973 by Lieutenant Colonel Roberto Souper.\textsuperscript{18} Though he was able to weather this attempt, the next few months proved catastrophic for Allende; in August, the Chamber of Deputies charged his regime with multiple breaches of the Constitution.\textsuperscript{19} No matter how much he refuted these allegations, it was only a matter of time before another military leader mustered the support to attempt a coup.

By the summer of 1973, Allende had lost the support of his military, the Chamber of Deputies, and most of his people. Chile was on the brink of revolution, and only the Presidential Cabinet could return the nation to a state of stability and prosperity. Every decision made by the cabinet during EagleMUNC VII will contribute to Allende’s outcome, so what will it be? Bloody coup, peaceful prosperity, or something in between?

**Topic 1: Nationalization of Businesses and Foreign Consequences**

Socialist ideology calls for social ownership of a state’s means of production, be it manufacturing, natural resources, or agriculture. What exists in theory, however, often does not carry over into practice. Simply handing over a manufacturing plant to a community does not ensure equal ownership of it. Human nature ensures that a person or group of people will take over the plant and claim a disproportionate amount of its profits. In fact, this very quickly starts to resemble a capitalist society in which greed and lust for power cause inequality. Thus, socialism in practice involves \textit{state} ownership of the means of production, in which a government can oversee the aforementioned plant and ensure all of its employees benefit equally from its profits. This is exactly what

\textsuperscript{18} Ibid.
\textsuperscript{19} Ibid.
Allende’s regime did, starting with copper and eventually moving to manufacturing and agriculture as well.

Copper was Chile’s principle natural resource both before and during Allende’s time in power. Anaconda and Kennecott, the two largest copper mining companies in Chile, were actually both part of American corporations. Allende’s predecessor, Eduardo Frei Montalva, began nationalizing some of the mines in Chile to bring in more revenue for the state and create equal jobs for Chilean miners. He did so, however, by negotiating an agreement with Anaconda Copper so as not to disturb Chilean relationships with American companies or the United States government. Frei’s method of expropriation involved buying partial ownership of the companies on the part of the Chilean government, but it also still allowed the companies (and its American parents) to keep most of their revenue. After all, the United States was sending aid to Chile at the time through the Alliance for Progress, which aimed to bolster economic and social development in Latin America through an investment of about $20 billion across multiple nations. Allende’s regime, on the other hand, believed foreign capitalists like the Americans were prospering in Chile at the expense of the Chilean people, and so it took steps to completely expropriate the copper mines. In his version of nationalization, the Chilean government completely seized all operations of the mines without any compensation to the American parent companies. Since the parents lost control of their mines and received little or no money from their operations in Chile, relations between

21 Ibid.
the United States and Chile began to turn sour.\textsuperscript{24} As a result, President Nixon terminated all aid to Allende’s government, blocked loans from multilateral organizations, and later even began providing aid to the Chilean military that grew to oppose Allende.\textsuperscript{25}

Beyond copper mines, Allende’s regime also nationalized domestically-owned means of production, such as manufacturing facilities and agricultural tracts. Here, the government formed peasant cooperatives; in other words, the means of production were established such that the workers (not the previous owners) owned it collectively and shared in its profits.\textsuperscript{26} While this promoted fairer conditions and wages for the workers because they dictated their own work, it actually decreased food production, forcing Chile to increase its food imports.\textsuperscript{27} The old system, with oppressive conditions, long hours, and less pay, actually produced more for the economy across a number of

\textsuperscript{24} Ibid.
\textsuperscript{25} “Allende’s Leftist Regime.”
\textsuperscript{26} McKenna, Amy. “Salvador Allende.” Encyclopedia Britannica, 2018.
\textsuperscript{27} “Allende’s Leftist Regime.”
industries such as agriculture, manufacturing, and mining because of its lack of consideration for the workers.\textsuperscript{28}

Overall, Allende’s nationalization actions cut off most of Chile’s foreign aid as overseas investors no longer trusted Allende’s government. While internalizing the means of production seemed to make sense economically, Chile was in no position to jeopardize its relationships with other nations, especially the United States.

\textbf{Topic 2: Failed Social Reform}

The initial goal of any socialist regime is to restore power and wealth to the people, most notably the peasants and working class poor. This is why, as previously discussed, many states nationalize major industries; doing so creates jobs that are managed directly by the state, so the government can regulate hours, conditions, and most importantly, wages. However, doing so requires the nationalized industries to perform at least as well as they did before they were expropriated. In the case of early 1970s Chile, this was not the case. In the short run, the workers on farms and in manufacturing facilities were taking home higher wages and working in better conditions than they had previously, but fewer hours on the job and more money spent on workers meant less production for the economy. For example, on agricultural peasant cooperatives, food production actually fell from their pre-Allende levels, which only hurt the economy and plans for social reform even more.\textsuperscript{29}

\textsuperscript{28} “Allende’s Leftist Regime.”
\textsuperscript{29} Ibid.
The Allende regime had nothing but good intentions when it came to social welfare. Nationalizing businesses, redistributing land, increasing wages, reforming education, and providing food and milk for children were not programs that were inherently bound to fail. The execution of these programs in the context of Chile’s economic weaknesses, however, made them fail. The redistribution of land was intended to benefit peasants and workers, but it instead decreased economic production and increased reliance on imports. Increased wages speak for themselves in terms of benefits, but they led to consequences that ultimately hurt the poor more than helped them. By increasing wages, the Chilean government gave the people more disposable income, creating a sudden boom in consumerism and an increased demand for goods that producers did not have. Thus, once again, Chile was forced to turn to imports to meet the demands of the people, further increasing its trade deficit.

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30 “Allende’s Leftist Regime.”
Traditional welfare programs such as reforming education and providing food and milk could only be sustained in the short run due to a lack of funds. Allende’s expropriation actions hurt Chile’s credit rating and cut off most of its foreign aid, and his peasant cooperatives ultimately hurt the economy, leaving less money for use in welfare programs. In fact, all of Allende’s plans for Chile were only successful in his first year. The intentions were good and present, but Chile’s economy could not sustain them. The people, who had enjoyed Allende’s programs’ successes in his first year, were ultimately let down to a point worse than they had been before Allende’s election. For Allende, this meant a poor and frustrated population who originally supported him because they thought socialism would help their situation. Ultimately, attempting these programs in the first place spelled further doom for Chile’s economy during the rest of Allende’s reign.

**Topic 3: Economic Catastrophe**

A major driver behind the downfall of many regimes throughout history is an unstable or failing economy. In the case of Allende’s Chile, it was no different. Many of the factors that contributed to Chile’s economic crisis in the early 1970s are touched on in the previous topics. While the expropriation of copper mines and lands throughout the nation brought in revenue for the state, it also decreased economic productivity compared to previous levels. This increased imports, especially food, creating an imbalance of payments; in other words, Chile was importing significantly more than it could export or

32 Ibid.
33 Ibid.
pay to foreign suppliers.\textsuperscript{34} To cover this deficit, the nation attempted to borrow money from abroad; however, many foreign investors were hesitant to issue debt to a country that just expropriated foreign-owned industries, so Chile was unable to raise enough.

Inflation, which is a general increase in the prices of goods in a nation, crippled Chile’s economy in the early 1970s. When Allende increased wages initially, he intended to increase buying power for his citizens. However, a strategy like this cannot possibly hold up in the long run because as wages continued to rise, so did prices. As an aside, simply increasing wages and injecting more money into an economy will not solve its economic issues because each unit of currency becomes less valuable. This is an alternative way to look at inflation: a decrease in the value of each currency unit. It is normal for this to happen over time, which is why the dollar cost of commodities now is much greater than it was fifty years ago in the United States. In Chile, inflation reached hyperinflation levels, at one point in 1973 to an annual rate of 500 percent, cancelling out the wage increases given to the working class.\textsuperscript{35} Because the price of commodities was out of control due to inflation, a thriving black market took shape, in which citizens could trade goods with one another without the use of their worthless currency; though illegal, it provided citizens a way to obtain necessities that were too expensive in the economy.\textsuperscript{36}

\textsuperscript{34} “The Allende Years and the Pinochet Coup, 1969-1973.”
\textsuperscript{36} “Allende’s Leftist Regime.”
Once inflation becomes rampant, it is very difficult to enact the necessary changes to slow it down. Methods to do so include increasing interest rates (contractionary monetary policy), increasing the amount of money banks must hold in reserve, and actually reducing the amount of currency in circulation. When a nation increases interest rates, it effectively increases the cost of borrowing, so people borrow less, save more, and therefore have less to spend; when people spend less, the economy slows down and inflation decreases. Increasing how much banks must hold in reserve essentially does the same thing by keeping money in savings rather than in spending. Finally, central banks can actually reduce the amount of money in the economy by selling government bonds to the public as investments; as people pay for the bonds, the central bank takes that money out of circulation, ultimately increasing the value of each currency unit still left in the
economy (remember, if each currency unit is worth more, that means a lower inflation rate). These economic methods can be confusing at first, but we will discuss details on them in committee and what their impacts would be on the Chilean economy.

Typically, rampant inflation is accompanied by high unemployment, but Allende’s peasant cooperatives actually kept the unemployment rate at or under 5% during even the worst of his presidency. While the economic production of the average worker was down, most people still had jobs because employment was managed directly by the state. This in itself was an issue, though, because that was how the Allende regime justified itself; all of its other social programs had failed, so it believed ensuring employment would solve the population’s issues. This, of course, was not the case; the average working-class person took home a wage that decreased in value every day. Access to food was greatly restricted due to a lack of food production as well as the fact that it was often too expensive.

The other major shock to Chile’s economy in the early 1970s was related to its over-dependence on copper. Whether managing an individual’s personal investments or a nation’s economy, diversification is key. In other words, a nation cannot rely almost exclusively on one resource/export because if something happens to it, the economy goes into chaos. That is exactly what happened with Allende’s Chile; the price of copper dropped, and the value of Chile’s exports (mostly copper) fell drastically, again affecting the country’s balance of payments. However, as mentioned previously, foreign investors did not trust Chile’s methods, leaving the country with no foreign funds and ultimately no money for its social programs.

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**Topic 4: Instability**

The socialist experiment had gone wrong, and by 1973, Chilean citizens were ready to go back to a different form of economy and government. The nation was plagued with rising inflation, an unproductive economy, and no funds left to provide for its people. Both the general population and members of Allende’s government were unhappy with the methods the regime used to manage the nation. The right wing formed an alliance with the center in Congress in an attempt to oppose Allende’s left.\(^{39}\) They “erected a blockade against all Popular Unity initiatives, harassed Popular Unity cabinet ministers, and denounced the administration as illegitimate and unconstitutional.”\(^{40}\) They especially opposed the regime’s methods of expropriating the means of production because in their eyes, doing so overstepped the bounds of executive power.\(^{41}\)

In March of 1973, the right-center coalition sought to gain the two-thirds majority necessary to impeach Allende in the congressional elections, but failed to do so by only netting 55 percent of the seats.\(^{42}\) Thus, the opposition continued between the two coalitions, and meanwhile, violent street riots became a daily event.\(^{43}\) It was not long before right-wing supporters started knocking on the doors of barracks to recruit the military to their cause.\(^{44}\)

On June 29, 1973, Lieutenant Colonel Roberto Souper led his tank regiment of sixteen armored vehicles and eighty men in a coup attempt against the government, but Allende still had the support of enough of the military under General Carlos Prats to fend

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\(^{39}\) “Allende’s Leftist Regime.”

\(^{40}\) Ibid.

\(^{41}\) Ibid.

\(^{42}\) Ibid.

\(^{43}\) Ibid.

\(^{44}\) Ibid.
off the rebels.\textsuperscript{45} Prats believed the military should remain apolitical, but as the summer went on and the riots got worse, that opinion became no longer shared by his army.\textsuperscript{46}

With decreasing support from virtually all of its constituents, as well as from its government and military, the Allende regime was hanging on a thread. The Presidential Cabinet, more in crisis than ever before, had a series of crucial decisions to make in order to secure a future for both Allende and Chile as a whole.

\textsuperscript{45} “The Allende Years and the Pinochet Coup, 1969-1973.”
\textsuperscript{46} Ibid.
Questions to Consider:

**Topic 1: Nationalization of Businesses and Foreign Consequences**
- Does a nation have the right to expropriate businesses that are owned by foreign corporations? What are the ramifications of such actions when it comes to foreign relations, especially with nations that provide aid?
- Socialist ideology calls for workers’ self-management of the means of production. Does ownership by the state necessarily equal ownership by the people?
- Why might peasant cooperatives run by the state not result in the same level of production when compared to private ownership?

**Topic 2: Failed Social Reform**
- Some leaders become popular for their charisma, optimism, and intentions, but at what point do results start to matter more? Allende’s intentions were good, but what about his results?
- Could the Chilean government have better executed its social programs given its economic situation at the time? Were the choices of programs the right ones?

**Topic 3: Economic Catastrophe**
- How could the Allende regime have better managed its balance of payments? How did the decisions discussed regarding expropriations have impacts here?
- What is inflation, really, beyond simply increases in prices? What does it mean for an economy, and how can it be properly managed?
What are the dangers of concentrating an economy in few resources? Think of it like a business that only has one customer - why is this risky?

Topic 4: Instability

Was Allende’s time in office just an experiment? Were the Chilean people just trying to test out how socialism might handle their issues?

Should a nation’s military remain apolitical, like General Carlos Prats thought?

What could Allende’s cabinet have done in 1973 to lessen the backlash against his regime? Better yet, what could it have done earlier in his presidency?
Works Cited


http://ada.evergreen.edu/~arunc/texts/chile/allende.htm
