'Free enterprise' doesn't work: the Chilean model

by Mark Sonnenblick

The Reagan administration has been infiltrated by the claims that something called free enterprise is an unprecedented cure for the economies of the developing countries. J. William Middendorf, who took the post of U.S. ambassador to the Organization of American States after losing his campaign for the presidency of the Export-Import Bank, is the official personally touring the Americas to impose the new model of "laissez-faire liberalism."

In his policy speeches, Middendorf lauds those countries which "are turning away from the state-intervention models of development that were the fashion hardly a decade ago.... I cite Chile merely as an example of how market-oriented policies can turn a country's economy around. Other countries, such as Peru and Jamaica, are reducing government intervention in order to free the productive forces of their societies to most effectively allocate their scarce resources."

The idea that countries should "deregulate" their economies to allow untrammeled intercourse with international goods and capital markets sounds so attractive to many conservatives that Ronald Reagan himself declared it to be U.S. policy at the Ottawa summit. David Rockefeller is sheperding groups of "born-again" classical liberal corporate executives into well-publicized sessions of his Business Committee for Jamaica and Council of the Americas Chile seminars, and has now restructured his Latin American fronts into the "Americas Society" under his personal management to promote this line.

Real live people who manage investments, on the other hand, are not so ingenuous. Chile has approved $4.3 billion in foreign investments since the free-market technocrats began revolutionizing the Chilean economy under the protection of Gen. Augusto Pinochet eight years ago. Yet, the Chilean government Foreign Investments Committee itself admits that barely 25 percent of this widely reported investment had actually materialized in Chile by the end of April 1981.

Jamaica's Edward Seaga, likewise, admits he has concretized only $72 million of the several billion dollars in foreign investments he has announced. The public relations hype has attracted considerable investor interest in Chile and Jamaica, as shown by the high figures of government authorizations, but real investors are skeptical about profitability and risks. After all, what are the solid investment opportunities in a country whose shrunken internal market is being swamped with cheap imports? And how long can a government repress and deceive its population before being toppled, leaving its multinational benefactors beached at ebb tide?

Actually, the "free-enterprise model" in Chile and Jamaica—and whatever real investment may contribute to its credibility—is a cover for some of the most vicious monopolistic behavior by international dirty money mafias. In the Chilean case, what is involved is the grabbing and hoarding of the country's copper reserves by the oil multis. In Jamaica, it is Dope, Inc.'s using "fantasy island" to inject narcotics into the U.S.

Flap-tongued social democrat U.N. Ambassador Jeane Kirkpatrick and other Reagan administration promoters of Chile's fascist economics pretend it can be separated from the unpleasant political brutality that accompanies it. Dr. Robert Wesson, Milton Friedman's colleague at his new Hoover Institution stomping grounds, is more candid: "Obviously, although the economic program of the military regime taking power from a populist movement meets the approval of the International Monetary Fund, it could not possibly be carried out in the context of democratic politics."

It is hard to imagine a free government reducing the well-educated Chilean population to subsistence wages, massive unemployment, elimination of government services, and all the other deprivations which have been suffered under what the London *Times* praises as Pinochet's "seven reforms." Yet it is commonplace for boosters of the Chilean model to present it as the economic miracle of the century. Middendorf, in his

June 30 Miami speech on "The Reagan Administration and Economic Development in the Third World," uttered the following encomium for it:

> Thanks in large measure to its liberalized trade policies, open market conditions, and encouragement of free enterprise, the Chilean economy has experienced, since the mid-1970s, solid growth with reduced inflation together with significant increases in real income. . . . [This may be attributed to] the deregulation of the domestic market, the elimination of subsidies and other non-price incentives, and an end to the policy of import substitution industrialization.
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> Recently, the Chilean economy has been stimulated by renewed growth in private consumption while public expenditures remain in check. Despite the government's tight fiscal policy, fixed investment has increased dramatically.

Reality is quite different. The tremors caused by the chain-letter bankruptcies of banks a few years back and the collapse of the heavily indebted CRAV sugar company now are just symptoms of a pervasive rot. The Friedmanite reforms have markedly *reduced* the productive efficiency of the economy; resource allocation is increasingly irrational.

University of Chile surveys found a remarkable shift in the deployment of the labor force between 1973 and 1977. Productive workers in industry, agriculture, and mining fell from 30.4 to 26.9 percent of the employed population; those in useful services such as transport, construction, and education fell comparably. In contrast, the percentage of those paid for totally nonproductive jobs, paper-pushing in the burgeoning banking area and other such services, rose from 34.4 to 53.7 percent.

The shift of the labor force out of production has been accompanied by trade deficits which have expanded exponentially since 1977. This year, Chile will export fully $2 billion less than its $6.8 billion imports. Only 10 to 15 percent of these imports are capital goods needed to rebuild the country. Most are luxury items for the rich. Industrial and agricultural sectors producing goods for domestic consumption have been eliminated. Over $500 million are now spent annually importing foodstuffs that Chile used to export. Since 1975, 575,000 acres have been downgraded from farmland to pastureland with the evicted families transformed into migrant fruit-pickers and lumberjacks.

At some point, the government will respond to the trade imbalance by devaluing the peso which it has kept overvalued for the last two years in order to artificially repress the inflation figures. Were a more orthodox exchange rate adopted, inflation would soar and the only dramatic achievement of Pinochet's "economic reforms" would be wiped out.

The Chilean model has been propped up only by massive infusions of foreign loans from the bankers most interested in promoting it. When "spendthrift" Allende was killed on Sept. 13, 1973, he left a total foreign debt of just over $3 billion, only about $600 million more than what he had started with three years earlier. With Pinochet's "miracle," the debt went up by $3 billion last year and will do the same this year, for a total of about $14 billion.

Monopolies and speculators

The entry point of the Chilean experiment, which makes it a model for free-enterprise ideologues, is the denationalization of the economy. As the government has taken a hands-off attitude toward everything other than politics and censorship, the gap has been filled by powerful oligarchic economic groups, known locally as "pirañas" and "crocodiles." These monopolistic banking groups, increasingly freed of regulation and consistently in control of the economic ministries themselves, have been voracious in asset-stripping medium-sized manufacturers, farmers, and state enterprises built up during decades of public investment.

They have found "foreign investors" willing partners in this process. The Chilean government has been giving away the country's resources for pennies as part of its "de-statization" program. Last year, the government earned a grand total of $5.3 million from its sale of assets. It is now considering selling 30 million tons of coal to a British consortium for $3.5 million. In 1979, the Anaconda subsidiary of Arco Oil was given the Pelambres minerals pit with an estimated 428 million tons of 0.78 percent copper with molybdenum and rhenium for a nominal $20 million. The Arco investment contract was publicized as $1.5 billion! Rockefeller's Exxon Minerals and the Canadian Falconbridge Nickel hold similar mineral resources giveaways for which investments of another $1.7 billion are booked.

Although copper may eventually flow out of some of these mines, their owners can do just as well sitting pretty on them for speculation or for putting themselves in a privileged position in the event of a dollar crisis.

The strategy of monopolizing the Third World minerals is congenial to the families which ran the British Empire. It is also embraced by Arco's prestigious Aspen Institute and Rockefeller's multifarious business fronts. It probably can't be done without breaking down the barriers of national sovereignty through which nation-states protect their resources from such pirates.

American entrepreneurs should look beyond the seductive free-enterprise rhetoric to examine cautiously what could be as threatening to them as it has been to Chile's bankrupt producers and mangled workforce.