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The rising emphasis in Chile on distribution and on the derived transformation of production and capital accumulation is the outgrowth of latent forces of rising momentum and intensity prevailing throughout Latin America. Since 1970 the transformation in distribution has been manifold and farreaching. Aiming to change the class, sectoral and international distribution, the government entered all major industries. It assumed ownership of the extractive industries--the primary source of fabulous but often transitory resource surpluses. It nationalized the banking system--the primary source of financial capita. It took control of and restricted private ownership of rural land--the alleged major source of political power and Ricardian rents. It also took over all large industrial enterprises--the alleged source of monopoly profits and power.

All of these largely irreversible ownership transfers aimed to wipe out the control of Chile's riches by a few private individuals. Furthermore, elitist education, entertainment and health services, and excessive differences in wages, salaries, pension, insurance, health and other social security benefits--sources of unequal accumulation of human capital by social groups and intra-labor inequalities--were attacked, constrained and :

reduced. The changes portend of events to come, possibly by different means and with different intensity, elsewhere in the Hemisphere and the African and Asian Continents.[1]

Increasing the Income Share of Labor

No other short-term objective was so important to President Salvador Allende's program in 1970 as the rise in the income share of labor. Virtually all the tools available were used to redistribute income and destroy the usurpers of labor's surplus value. The resulting short-term income redistribution was the most spectacular in Chile's history. The participation of wage earners in income, including contributions by employers, rose from 54.9 percent in 1970 to 65.8 percent in 1971.[2]

With inflation artificially kept in bounds between January 1971 and May 1972, while nominal wages and salaries were strongly adjusted upward, real wages and salaries spurted by 28.4 percent.[3] Salaries rose faster than wages between October 1970 and July 1971, and between October 1970 and July 1971 the combined wages-salary index rose by almost 100 percent in manufacturing and between 46 and 56 percent in the public sector but fell by 9.4 percent in mining. The labor share also rose as unemployment was drastically reduced from 8.3 percent in December 1970 to 3.0 percent in September 1972 and 3.8 percent in March 1973.[4]

Allende's emphasis on a more equitable distribution of income was so excessive that it became self-defeating. The astronomical inflation and almost chaotic economic conditions of the second half of 1972 and the first half of 1973, which followed the redistribution-induced massive consumption increases of 1971, were jeopardizing labor's real income gains of 1971. The moving force behind the policies of 1970-73 was the desire to destroy a distribution pattern where 9 percent of the population controlled 43 percent of national income,[5] where an even greater concentration of economic power existed in the financial, agricultural, mining, industrial and communications media sectors,[6] and where unequal distribution was identified, in orthodox Marxist terms, as exploitation of one social group by another.

Toward a One-Collar Proletariat?

Gradual elimination of enormous discriminatory inequalities in intra-labor distribution of income was also attempted by President Allende's government during 1970-73.[7] The goal of equal labor remuneration was emphatically and directly pursued during 1970-71: an obligatory minimum wage for workers of all ages, including apprentices, was introduced; the law permitting payment of less than one basic salary to those less than 18 and more than 65 years old was revoked; all wages and salaries were readjusted by 100 percent of the cost of living increase, but the lowest ones by substantially more; a gradual equalization of family allowances was begun, aiming to cultiminate in a single uniform one, low income groups were liberated from taxes.

The indirect instruments used by Allende to redistribute income in favor of low-income wage earners also exerted a powerful catalytic influence upon the social order. Low-income workers, the retired, the poor and indigent were given a larger and improved share of health, housing, education, and welfare services; scarce food and other supplies were made preferentially available at low-income neighborhoods; so-called illegal takeovers of land, houses, apartments, industrial plants, were tolerated, if not encouraged; employment was practically guaranteed for all; housing loans to poor became open give aways as escalator clauses were eliminated.[8] In no other area has there been so strong a consensus about the desperate need of basic reform as that concerning inequality of compensation among workers. In no other area, however, have Allende's policies met with so much resistance. The economy has been moved to the brink of economic and political disaster.

Practically all the information available for the years before 1970 shows that intra-labor income inequalities were high, that inter-industry wage relationships were highly volatile, and that there was an apparant lack of association between compensation of labor and the functional role which wages are normally expected to fulfill. To President Allende and his Popular Unity these were both a symptom and effect of a backward exploitive social order that had to be destroyed.

In order to create a new social order, it was necessary to transform the polyglot, feuding, unequal but coexisting labor groups into a homogeneous, equal proletariat imbrued with binding class spirit and consciousness. Allende's actions on labor-income differentials were far more realistic and pragmatic than some of the Popular Unity's extreme rhetorics. Labor income differences had been greatly reduced by 1972--85 percent of all workers earned between one and five basic salaries--but recipients of more than five basic salaries were permitted and continued to control a disproportionately high share of labor income. The sensible tax reform of 1972, which became effective in January 1973, reduces but by no means eliminates labor income inequalities.[9]

Renationalization of the Extractive Export Sectors

A major unfulfilled dream of Chile's political left before 1970 was a complete return to Chile of its mineral resources, which had been denationalized since 1882. Salvador Allende encountered no political difficulties in fulfilling one of his perennial campaign promises during his first year in office. A unanimous constitutional amendment passed Congress in July 1971, and the principal copper companies El Teniente, Chuquicamata, El Salvador, La Exotica and Sociedad Minera Andina--became an integral part of the socially or state-owned segment. Through the application of the so-called Allende doctrine of retroactive taxation of excess profits, the takeover amounted to confiscation. It will demonstrate whether Chile has acquired since the Balmaceda years the internal modernization capacity that will permit it to extract from the mining sector the fabulous quasi-rents that European and American capitalists were able to create. It will also show whether Chile can internally augment production and appropriate the mining surplus without a new, more onerous, and possibly irrevocable dependence on the Soviet, Chinese, or other Socialist Republics which, lacking such assist came by foreign or immigrant entrepreneurs, have levels of income lower than Chile's.

For many of Chile's intellectuals and politicians the nationalization was but the final step of the long march that through the War of the Pacific led to annexation of the Bolivian and Peruvian North. When during 1879-82 the government conquered foreign land to protect its nitrate capitalists, Chilean imperialism was supported by the strength of its arms. In 1970, Allende, aiming to correct the alleged injustices of the traditional oligarchy, completed the nationalization of nitrate by acquiring SOQUIM, the enterprise formed by merging Anglo Lautaro and Salitrera Victoria, and placing under State management the firm Alemania. Finally, the government-owned Pacific Steel Company acquired the iron mines of Bethlehem Steel Company. Along with the purchase of the Santa Barbara and Santa Fe companies, this move brought 95 percent of iron under government ownership. The remaining 5 percent belonged to private Chilean interests.

Once copper, nitrate, and iron had been transferred to state or Chilean private ownership, the destiny of Chile became intimately linked with the productive capacity of a coalition between the central government and the mining sector. Now that the long-term, cyclically rebounding conflict is disappearing, it remains to be shown whether the new rules of the game yield higher returns than the previous policies of laissez-faire, excessive discrimination, mixed foreign-Chilean ownership, and so forth.

More than anywhere else in the economy, Allende's Popular Unity has successfully destroyed foreign extractive capitalism, but the question now is whether this immense source of real capital can be placed at the service of all of Chile's people rather than catering to the mining workers, the communist party and/or a small segment of the Santiago urban, bureaucratic elite.

By May 1972, some of the Chuquicamata miners who had so vociferously asked in the past that the Gran Mineria be saved from the "hands of the yanquis" were now demanding that it be saved from "hands of the communists".[10]

The Income Share of Capital

Allende's economic policies caused a sharp reduction of the income share of capital from 45.1 percent of in 1970 to only 34.2 percent in 1971.[11] The profit share includes rents, paid or imputed, interest rates, income of unincorporated enterprises, and corporate profits. The class of capitalists before 1970 was remarkably heterogeneous. It included the barrel-organists, street photographers, newspaper sellers, and kite makers as part of the unincorporated enterprises, the giant foreign corporations and state enterprises, the owners of dwellings and those holding savings accounts at the multitude of banking institutions. Although Allende frequently attacked all forms of private capitalism, his actions during 1970-73 concentrated primarily on the destruction of the small number of bankers, latifundistas, industrialists and merchants.

The Fall of the Private Bankers

The Marxists argued that private capitalism was identified, linked with, and in practice based upon a banking system that catered heavily to large corporations concentrated in the Santiago-Valparaiso region. In turn, the post-1970 opposition parties used to derive their power from their links with and control over the resources and income of the banking sector. Elimination of this source of power became an imperative instrument in the Popular Unity's program, which intrinsically believed that under the old order the sector was unable to perform efficiently and equitably its functions of facilitating and promoting production, exchange, and distribution and stabilizing economic flows. Small and medium-sized firms could obtain no or only limited credit and even paid interest rates higher than large firms, sometimes exceeding the statutory maximum.[12] The alleged monopoly or, more properly oligopoly power was reflected in the fact that three banks shared 44.5 percent of total deposits and 55.1 percent of the profits-monopoly power-that 1.3 percent of borrowers used 45.6 percent of total bank credit-monopsony power-and 70 percent of credit in September 1970 had been extended in the provinces of Santiago and Valparaiso-regional concentration.

By buying out private shareholders and by making the Central Bank exclusively governmental, without representation of private interests, the Allende regime hoped to establish not only a more equitable distribution of income but also greater efficiency, introduction of specialized credit services, establishment of a regional bank, conversion of CORFO into a true investment bank, lower interest costs, establishment of development bank, and elimination of speculative internal and external activities.[13]

The statization of the Chilean banks may not be sufficient to change the heavy regional, deposit, and credit concentration of banking services, which are dictated by the heavy concentration of economic activity in Santiago and the admitted benefits of large-scale production. To the extent that profit margins and reinvested profits have declined in the newly publicly owned oligopolies, these large enterprises have actually captured under government auspices an even greater share of total credit available than before. Thus, though the destruction of a vital pillar of private capitalism has had an immediate effect, credit monopoly by the state has led to friction with small industrialists and artisans, who have claimed discrimination against them rather than favorable treatment by the Popular Unity. Furthermore, the promised effects on efficiency, concentration, savings, and so forth cannot yet be observed and may fall significantly short of expectation.[15] Private ownership gave maximum flexibility to the banking sector in developed nations; its demise in Chile provides no guarantee for success as long as it is not permitted to develop in consonance with Chile's idiosyncratic physiognomy.

The Demise of Private Agricultural Latifundistas

Allende completed the land redistribution task started by the Christian Democrats, expropriating more than two thousand latifundios with more than three million hestares by April 1972.[16] While he was able to destroy the economic base of his past enemies in the cities and the mining sector with a degree of order and respect to the law that could be loosely construed as being in the Chilean tradition, he permitted (or instigated) a highly unstable situation in the rural, agricultural areas. Illegal takeovers of farms have mushroomed with only lip service in the government's efforts to stem them. The 1970-73 income redistribution improved the standard of living of agricultural workers, the former losers of intrasectoral clashes, at old landowners' expense but added practically nothing to the inadequate agricultural production incentives. The intra-agricultural redistribution of income was not accompanied by the more important industry-agricultural or general intersectoral redistribution of income that shaped sectoral terms of trade and incentives. The inter- and intra- class redistribution did not solve the basic issues of a fair income share of agriculture for performing the food producing function and the fair shares of its labor and capital.

The State's Tightening Grip over the Industrial Lever

The dominant place in Allende's government's scheme to redistribute income, wealth, and power was reserved for the industrial sector. The vital segments to be nationalized included monopolies, semimonopolies, oligopolies, mono- or oligopsonies, the metal-manufacturing segment, and all firms that produced goods for popular consumption. The criteria used to define these categories were vague enough to permit takeover of almost any industrial firm.

As in all other instances, the immediate political aim was to destroy the financial base of the opposition parties in the large industrial firms. Monopolistic or oligopolistic enterprises were defined as those "characterized by the use of largely mechanized technologies, underutilization of installed capacity, by a high concentration of income generated, control of prices and supplies, and the use of policies discriminating quality and types of products."[17]

To eliminate any doubt and expedite nationalization, all firms with a capital in excess of half a million dollars were defined as monopolies. Because they satisfied either one or both the monopoly or popular consumption criteria, fourteen major textile enterprises, producing over 50 percent of textiles' were promptly expropriated or intervened. Under the same guidelines and in order to insure normal, continuous supplies threatened by abandonment by owners, bankruptcy, and the like, government takeovers took place in beer and, outside industry, in coal, fishing, poultry, smoked pork or beef, and 90 other small enterprises.[18]

The most rapid and immediate statization involved the instrumental goods segment of iron, steel, and peripheral products industries. In March 1971, the Pacific Steel Company passed over to social ownership, and participation was guaranteed to this complex by ARMCO, INDAC, INDESA, PRODINSA, SOCOMETAL, INCHALAM, COMPAC, MADECO, NIBSA, SGM, EQUITEM, AZA, as well as intervention of two major cement firms and numerous construction materials enterprises. Either directly or indirectly, government assumed almost total ownership or control over national machinery production and those firms producing material or equipment necessary to fulfill the Popular Unity's ambitious construction plans.

Some of the effects of these moves appeared in 1972 and 1973 with rigid output prices and spectacular real wage increases, profit margins shrunk to the point where reinvestment was minimal, firms were abandoned by frightened owners, or wage shares were so high that firms could not buy the raw materials needed to increase production. Supply bottlenecks begun to arise everywhere. Furthermore, as the Popular Unity government deliberately reduced royalties, license fees, and other payments to foreign companies that had directly or indirectly lent know-how, new products, technology, and so forth to Chile, numerous basic pharmaceutical health and personal care products disappeared from the market or declined in quality. Industrial supply suffered most from the balance-of-payments effect of rising food consumption because of income redistribution. The crunch was felt on the imports of raw materials, and there was increased discrimination of agriculture, intermediate products and capital goods. Allende's government had to choose between more butter, milk, meat and sugar from New Zealand, Australia, Argentina, and Cuba or more imports for industrial expansion, it could not have both. When in 1970-72 the choice was made to continue discriminating against agriculture and subsidize and increase the amount of competitive imports, the industrial supply shortage became a fact.

Bypassing the Private Middlemen

Although the Marxist coalition aimed to destroy the foreign miners, aristocratic landlords, pioneer industrialists, and powerful bankers, only the middlemen were accused of receiving an income share "without contributing any effective service."[19] This return to the contention that distribution and commercialization services are unproductive openly implied that income distribution was grossly inequitable not only because commerce was earning quasi-rents induced by inflation, protection, or sectoral clashes , but, more importantly, because it earned any income at all. The immediate goal of such income redistribution indicated more than a condemnation of the middlemen's allegedly inadequate pursuit of the location, quantity, and time transformation functions. It incorrectly implied, in consonance with Marxist and medieval theory, that there are no costs involved or benefits derived from changing the quantity, location and time dimensions of goods and services.

Reduction of the middlemen's income share was pursued indirectly as well as directly. By fixing or controlling prices to consumers and raising the costs of product and labor in commercial enterprises, commercial profit margins were cut. Total commercial profits at the retail level were not reduced correspondingly, during 1971 and the first half of 1972, as sales rose significantly. This implied a major gain in the battle against inflation, an income redistribution to the consumer, and no major loss, as yet, for the commercial community.

More important in terms of present and forthcoming structural reform was the state's rising role as an intermediary, especially at the wholesale level. Old state-owned commercial firms were strengthened, new ones were created, and private ones were purchased or absorbed. The government created the National Distribution Corporation (DINAC), the Agriculture Marketing Corporation (ECA), the National Poultry Firm (ENAVI), and the National Corporation for Fuel (ENADI). Furthermore, the Chilean State Development Corporation purchased the brokerage houses of Duncan Fox, Gibbs, and Williamson Balfour and absorbed other firms.[20]

The government's policies had at least one major beneficial effect during 1971 and the first half of 1972. Industrial consumer goods markets expanded appreciably as a consequence of critical intersectoral income redistribution, which was long overdue but may, nevertheless, be shortlived. This involved primarily trade, but also banking, transport and some other services which by earning inflationary quasi-rents had raised prices and reduced the market for industrial goods. With trade mark-ups drastically reduced after 1970, industrial prices fell relative to the income of almost all sectors. Most significantly, the price of trade services fell as compared to most other prices. As the cost or price paid for performing the quantity, location, and time transformation was reduced, not only did the real income of all other sectors rise but, furthermore, sectors, which were previously affected most strongly by these intermediation costs, such as industry, experienced a real income increase. This positive effect on real demand and supply was more than offset by the negative effects mentioned earlier. But

Allende unleashed forces that neither he nor anyone else will be able to control or contain for years to come.

The Allende-led Marxist Sectoral Coalitions and Conflicts

The emerging coalition between Allende's Marxist government and state-owned segments of various sectors had powerful ramifications going beyond the immediate and already successful income redistribution and destruction of direct foreign and national large-scale private capitalism. An elite privileged class of bureaucrats and technocrats gained immediate access over the whole governments machinery. A direct coalition and dependence of the Chilean state and state-owned segments upon the socialist states of Russia, China, Rumania, Poland, East Germany, and so forth, was forged in consolidating and expanding the power of the Chilean state's segment of the economy and destroying and eliminating the private. Support provided under this open coalition has become most evident during 1970-73 in fishing, copper, transportation, agriculture, entertainment, and culture.

Under the 1970-73 coalition pattern, the state-owned segment of mining, in particular copper, has retained a much higher share of the copper-resource surplus than in the past. Thus the copper workers gained an unprecedented privileged position consistent with the theory of sectoral clashes but alien to socialist or communist theory. Furthermore, under the dominant coalition between government and the export sector, quasi-rents sharply declined through inefficiency and the copper quasi-rents previously received by the foreign capitalists and not dissipated now accrued to the privileged copper workers rather than being invested in human and physical capital. Most of the reduced copper quasi-rents now available for general government expenditures are expended in the urban areas under Marxist guidance, and virtually nothing trickles down to the perenially neglected rural areas.

Contrary to official pronouncements, credit has been channelled through the State banks to the state-owned segments of the economy. This procedure has been slowly but inexorably strangulating the minority private sector. However, this overt clash between state-owned and privately-owned segments conceals the equally if not more important internal coalitions and clashes within the state-owned segments. Some patterns can be clearly discerned; others can only be conjectured. Copper mining and the mono- or oligopolistic state-owned industrial enterprises involved in mass production of consumer goods, the metals machinery complex, and, to a lesser extent, fishing have emerged as the dominant subsectors, with privileged status and heavily favored in the sectoral income redistribution. Neglected or discriminated are agriculture, state commerce, state banking, some parts of education, and, very strongly, health. Construction, now heavily state-owned or controlled, holds a neutral position in between the more privileged and discriminated sectors or segments thereof.

Public health was ignored and neglected not only during the Allende years but throughout 1930-73 because of its low priority and severe budget constraints. Lacking the strong feedbacks and linkages of construction, it aroused no political support from other sectors. Even though it faced unlimited demand, the fact that it was a nonmarket service, offered free as a public good, deprived it of the political glamour of industry, airports, and other public works. More visible sectors and budget items, such as higher wages and family allowances, persistently edged it out in the selection process.

The 1970-73 Marxist-inspired coalitions and clashes led to balance-of-payments convulsions reminiscent of the Great Depression. The elimination of copper factor payments abroad was more than offset by a sharp decline of private capital inflows. With the cutoff of western credits because of the exorbitant rise in risks, the Chilean Government accepted any credit or trade deal, however uneconomical, from export-driving socialist countries. The arrangements for tractors were a prime example. Cuba's sugar was imported penalizing national sugar bee producers that were on strike. Australian, Argentine foods imports at artificially low escudo but high dollar prices further penalized agriculture, artificially augmented food consumption, and further raised foreign indirect ownership of Chile by raising foreign debt. Those willing to export to Chile on credit emerged as a privileged class of foreigners enjoying returns far beyond those deserved realistically under competitive marked conditions.

Conclusion

The sectoral clashes of 1970-73, illustrated once more that Chile's problems were on the supply side, not demand, and related heavily to incentives and capital formation. The severe balance-of-payments constraint of 1973 was choking overall economic expansion, hurting strongly industry, transportation, and selected services.

Chile experienced a profound transformation in its distribution during 1970-73. Much of the income of the small elite of private bankers, industrialists, merchants, landowners, and so forth had been transferred by 1973 to the state, labor, and the poor, boosting consumption and reducing investment. The underlying ownership transformation is largely irreversible. Reduction of the previously highly unequal intralabor income distribution created as much of a social upheaval as socialization led to economic distortions and disequilibria. Allende's efforts to destroy the obvious urban lord-serf pattern by favoring the poor, labor, and those living in slums appeared more successful than his weak efforts to reduce the pervasive urban-rural and inter-regional income differentials.

FOOTNOTES

[1]The present paper draws heavily from my forthcoming study Growth and Structure of the Chilean Economy: From Independence to Allende (New Haven, Conn: Yale University Press, forthcoming), Chapter on "Distribution: 1930-73."

[2]ODEPLAN, Cuentas Nacionales de Chile, 1960-1971 (Santiago: ODEPLAN, 1973), Table No. 11, pp. 41-42. To be referred to in the future as Cuentas Nacionales.

[3]ODEPLAN, Analysis of the Chilean Economy in 1971 (Santiago: ODEPLAN, February 1972) p. 30, Table 11. This publication will be referred to in the future as Analysis 1971.

[4]Banco Central de Chile, noticias economicas, No. 44, May 31, 1973, p. 14.

[5]See Helio Varela Carmona, Estratificación Social de la Población Trabajadora en Chile y Su Participación en el Ingreso Nacional, 1940-1954, Memoria en Ciencias Economicas (Santiago: Universidad de Chile, Escuela de Economia, November 1958) ~~Table~~ 6, p. 80. This study will be referred to in the future as Estratificación Social.

[6]See Ricardo Lagos Escobar, La Concentración del Poder Económico. Su Teoría. Realidad Chilena (Santiago: Editorial del Pacifico, S.A. 1961), pp. 1-181. This study will be referred to in the future as Poder Económico.

[7]See Salvador Allende, Primer Mensaje del Presidente Allende ante el Congreso Pleno, 21 de Mayo de 1971 (Santiago: Presidencia de la Republica, 1971), pp. 105-6, 607-8; Salvador Allende, Mensaje del Presidente Allende ante el Congreso Pleno, 21 de Mayo de 1972, (Santiago: Presidencia de la Republica, 1972), pp. 207-10, 872-74. These publications will be referred to in the future as Mensaje 1971 and Mensaje 1972.

[8]See Mensaje 1971, pp. 105-6, 607-8; and Mensaje 1972, pp. XIX-XXII, 209-10, and 873.

[9]See article on "Escasos Sueldos Altos en el País" in El Mercurio International Edition, 27 of Nov. to 3 of Dec. 1972, p. 5.

[10]See editorial "Costoso Fin de una Huelga" in El Mercurio, May 8, 1972.

[11]See ODEPLAN, Cuentas Nacionales, Table 11, pp. 41-42.

[12]See "Statement by Mr. Alfonso Inostroza, President of the Central Bank of the Republic of Chile. Monetary Policy" p. 17-8 in CORFO Chile Economic Notes, March, 1971, Special Issue, Excerpts from the CIAP Meeting on Chile. This will be referred to in the future as the Inostroza CIAP Statement.

[13]Inostroza CIAP Statement, p. 17-8.

[14]See El Mercurio, May 8, 1970, p. 25.

[15]Massive deficits - 3.00 million escudos in 1972 - for the state enterprises were projected by Christian Democratic Senator José Musalem. See detailed criticism and data in <u>La Segunda</u>, April 21, 1972, pp. 8-9.

[16]ODEPLAN, <u>Informe de ODEPLAN sobre la Actividad Económica en el Primer Trimeste de 1972</u> (Santiago: ODEPLAN, April 1972) mimeo, p. 1.

[17]See <u>Analysis 1971</u>, p. 34.

[18]<u>Analysis 1971</u>, pp. 34-35.

[19]<u>Analysis 1971</u>, p. 36.

[20]<u>Analysis 1971</u>, p. 36.