

CHILE'S monetarist experiment has come to an end, with the sacking in March of the economists, led by Finance Minister Carolos Caceras, who were known as the "Chicago Boys".

Pro-Keynesian policies are now finding favour again. One of the pump-priming measures announced by Modesto Collados, the new Minister of Economy, is a job-creation programme for the ailing construction industry.

BERT BROOKES reports



'Pinochet's devotion do nothing for Chile's shame'

AS MARGARET Thatcher gazes from the window of the penthouse apartment in No. 10 Downing Street and ponders the future of her government, one question is certain to press upon her restless mind: Is monetarism going to pay off?

After five years of tenaciously pursuing an economic policy diametrically opposed to that of her Keynesian predecessors, she must now be earnestly asking herself whether it is any nearer to bringing home the bacon. Is economic recovery at last coming into view? Are the unemployment figures at last going into decline?

Mrs. Thatcher knows that it is the unemployment figures that are the key to her government's future. Unless she can engineer a dramatic fall in the figures during the next three-and-a-half years, the prospects for her party at the next election will be no better than those of a lame carthorse trying to win the Grand National.

What, then, are the chances that Mrs. Thatcher's monetarism will bring prosperity for the British people by the mid-1980s?

As has been said, you do not need to gaze into the crystal ball if you can read the book. But, similarly, you do not need to bother with either the book or the crystal ball if you can merely watch events as they unfold.

For it so happens that, not a million miles from Britain – actually, about seven thousand miles as the jumbo jet flies – there is a country that, for the last ten years, practised monetarism as prescribed for it by none other than the high priest of the cult, Professor Milton Friedman himself.

The country is Chile, that narrow, elongated strip of South America, home of eleven million people, whose dictator-President, General Augusto Pinochet, grabbed power in a far-from-bloodless coup in 1973.

Pinochet's task on seizing the reins of office could not have been more formidable. After three years of Marxist rule by Salvador Allende, Chile was all-but bankrupt. Inflation

was raging at a rate of 700 per cent a year, the Treasury was empty, production was almost at a standstill and the country was on the brink of civil war.

Pinochet acted swiftly to repair the shattered economy and to transform it from its basis of socialism to one whose aims were free choice and free

enterprise. He enlisted the expertise of a team of *pro-laissez-faire* economists, dubbed the "Chicago Boys" from the fact that a number of them were trained at the University of Chicago where Friedman's free-market philosophy dominates the economics teaching.

The new policies soon took shape.



● President Pinochet. Opponents have petitioned the Supreme Court in Santiago for an investigation into alleged corruption by the President. The allegations – which follow others against members of Gen. Pinochet's family – arise from the purchase of land on which four houses were built for the President, his family and bodyguards in a beauty spot near

Santiago. The petition also alleges that a 15-mile road and a bridge, supposedly built to develop the area, were in fact to provide access to the President's property. According to *The Guardian* newspaper ("Pinochet accused", 7.5.84) the Chilean government has threatened the signatories with proceedings for "injury" to the President.

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They included dismantling a large array of State regimentation and controls, a tighter grip on the money supply, lower taxes, tariffs limited to 10 per cent on most imports (contrasting with up to 94 per cent under Allende), heavy cuts in government expenditure and the privatisation of over four hundred State-owned companies and banks.

In addition, incentives were introduced to attract foreign finance to Chile and restrictions on the free movement of capital were swept away.

AT FIRST, the new policies achieved a dream-like success. Inflation came down fast, from Allende's 700 per cent to 30 per cent in five years and down further to around 20 per cent in 1981. The budget came close to being balanced and foreign investment came pouring in.

At the same time, the country reached record rates of growth. By 1975, wheat production was up by a quarter, sugar by 60 per cent, dairy produce by 20 per cent. By 1979, the Gross National Product was rising by around 8 per cent a year. Trade with foreign countries had doubled in five years.

By 1980, amid the worst world depression since 1929, Pinochet's star was still in the ascendant. Monetarism was achieving all that Friedman had promised. Chile's "economic miracle" was being acknowledged by the International Monetary Fund and the World Bank. Even left-wing opponents of the regime were giving grudging recognition of its achievements.

But behind the sparkling statistics, the living realities were harsh and hard. With the removal of Allende's controls, the prices of consumer goods had soared, putting many of them beyond the reach of the poorer classes. Whereas before, money had been plentiful but goods scarce (bread queues had been a common feature of daily life) now the shops were bulging

with goods but only the rich had the money to buy.

The hardship was aggravated by rising unemployment, for which Pinochet's exchange-rate policy was at least partly responsible. He had pegged the peso to the American dollar even though Chile's inflation was much higher than the USA's. The



● Mrs. Thatcher – will she turn a deaf ear to the warnings from Chile?

over-valued peso encouraged a wave of imports which undercut local industry.

In 1979, 368 businesses closed down. Some 130 followed in the first quarter of 1980. By mid-1980, unemployment was three times the level under Allende.

Even those in work were not shielded from the chill winds of economic freedom. Wages were in the throes of a long decline. In 1979, they were 20 per cent lower in real terms than they had been ten years before. By 1983, assisted by a wage-freeze in 1981, they had fallen by a further 25 per cent.

Then in 1981/82, after several years of record economic growth, the world depression finally caught up with Chile. The price of copper, Chile's main product, declined in world markets and the economy com-

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A SALIENT feature of the policies of recent governments of Chile has been their varying commitment to land reform.

In 1965, almost half the rural population were landless. They survived as ill-paid labourers on the large estates, of which 730 took up over 25 million acres. This works out as an average of 34,000 acres each.

The Christian Democrat government (1965-70) passed laws promising land to 100,000 peasant families. In the event, only 20,000 families received any.

The Marxist Allende government (1970-73) speeded up the reform process, taking land from the big estates to set up co-operatives to be run by the workers.

By 1973 there were no longer any estates with over 200 prime acres. Over 40 per cent of the cultivable land was scheduled for re-distribution under the reform programme.

After seizing power in 1973, the Pinochet junta clapped on the brakes and soon went into reverse. It abolished the co-operatives and decreed that all land should be individually titled. Then:

- Thirty per cent of the land expropriated under Allende's laws was restored to the former owners.

- Another 30 per cent was auctioned to private buyers.

- Seven per cent was retained by the State.

- The final 33 per cent was offered to individuals in small parcels, with long-term payment arrangements to enable the better-off peasants to buy.*

The junta applied stringent conditions to the share-out of the "parcelled" land to deny land to its political opponents. By its Decree 208, it blacklisted all those who had ever taken part in strikes, land seizures or other conflicts with the former landowners. The result was to exclude at least one-third of the members of the former co-operatives.

The majority of those who obtained parcels of land (the "parceleros") are having considerable difficulty in holding on to it. They have little or no equipment and are discouraged from borrowing by the current penal rate of interest – nearly 60 per cent. Many of them are already selling or leasing their land to the more affluent landowners nearby, becoming, in effect, labourers or sharecroppers on their own land.

Thus, the re-concentration of the land into the hands of the comparative few is beginning. The giant *haciendas* have not yet re-appeared – land is largely held in farms of up to 500 acres – but the selling and leasing seems certain to continue and to gather momentum.

In the meantime, the plight of the landless, their numbers now increased by the 30,000 families whose land was taken away by the junta, becomes desperate.

It all spells big trouble ahead for the Chilean military dictatorship.

*Joseph Collins, *Agrarian Reform and Counter Reform in Chile*, Institute for Food and Development Policy, 2588 Mission Street, San Francisco, California 94110, USA.

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menced a drastic downward spiral. Instead of growth, 1982 saw a 14 per cent shrinkage. Unemployment increased further. By 1983, if the 200,000 in the Government's "minimum employment programme"¹ are included, unemployment gripped some 1.3 million people, about one-third of the workforce. In the shantytown suburbs of Santiago, the capital, the proportion has been, as high as 60 per cent.

After ten years of Pinochet, the effects of his policies were being seen in hard and brutal focus. Inflation had been brought down to a more respectable level, but it had been done at high cost to the poor. With no welfare state to speak of, unemployment and low wages meant impoverishment and hunger. For the 30% of the population who live in the pathetic shanty towns, life had become even more squalid and degrading.

Much more than under Allende, the country had become sharply divided between the very rich and the very poor, the former tending to get richer, the latter even poorer.

Yet the basic circumstance which condemns one-third of the working population to unemployment and triggers the frightening difference between the affluence of the Chilean rich and the plight of the poor can hardly be laid at Pinochet's door.

IN ESSENCE, the same condition has obtained in Chile since the Spanish conquistadores first enslaved the Arauca Indians. The same offence against humanity can be found throughout South America – indeed, in any country where the bulk of the land is in the hands of a few.

In South America as a whole, 17 per cent of landowners control 90 per

cent of the land.² In Chile itself, 87 per cent of the land is held in estates of over 200 hectares while over 70 per cent of the agrarian families own a mere 0.7 per cent of the land, most of them owning none at all.³

To this shameful set-up and the consequent pauperisation of over a third of the population, Allende's socialism applied a palliative, a safety-net of State controls and, in addition, some progress in land reform. These at least gave the hope that the spectre of hunger for the victims of economic oppression might eventually be removed.

After 1973, however, Pinochet, in his devotion to monetarism as a panacea, removed the safety-net, while putting nothing in its place.

Under Pinochet, the country produced impressive economic statistics, but they reflected the well-being only the "haves". For the poverty-stricken inmates of the shantytowns, for the impoverished peasants of the countryside, for all the pathetic victims of a disreputable system of land tenure, the statistics might have referred to another world.

Today, in Santiago, demonstration and protest marches against Pinochet and his regime, and especially against the lack of housing worthy of a civilised country, are becoming a regular feature of life. So also is the squatting on vacant land by homeless people, so desperate for somewhere to live that a cardboard and plastic shack is as good a home as anything they have had in their lives.

Parallels between the conditions of the commonpeople in tough, welfareless Chile and those in Britain might seem hard to find.

In Britain, the harshness of life endured by the Chilean poor is unknown. The barbarity of existence in the shantytowns can only be imagined.

Yet it is a fact that, in Britain, some 19m people might be suffering in a similar way were it not for the handouts of the Welfare State.

But for monetarism the salient fact is there for all to see – that essential though it undoubtedly is for the maintenance of a stable unit of currency, for the protection of savings and for the general balance of the economy, it is powerless to improve the condition of the ordinary people.

While an unjust system of land tenure remains in force, the level of wages and the level of employment can benefit only minutely from a government's decision to adopt a policy of sound money.

For Margaret Thatcher, the moral is clear. To wait for monetarism to bring full employment to Britain is to wait in vain. To expect monetarism to bring prosperity to the people – all the people – of the United Kingdom is to ignore the precedent of Pinochet. For Britain, the adoption of monetarism was no more than a return to the pre-Keynesian era of the nineteen-thirties and before, when booms and slumps and a near-permanent army of unemployed were the main features of the economic landscape.

The adoption of monetarism is nothing more than the rejection of the Keynesian quack-remedy. To the basic malaise of developed society, whether in Britain or Chile, monetarism is powerless to offer a cure.

REFERENCES

1. Workers employed in the government's "minimum employment programme" earned about £4 a week for working full-time on menial jobs such as sweeping the streets.
2. Susan George, *How The Other Half Dies*, Penguin, 1976.
3. Sven Lindquist, *Land and Power in South America*, Pelican, 1979.

JAPAN

TOKYO'S Bureau of Taxation has used spy-planes to detect properties that have been built or extended.

Property taxes are based exclusively on floor space. Owners must report additions to their properties, but many fail to do so. Some try to conceal their buildings with high walls and trees.

The 360 bn yen (about US \$1.53 bn) collected in 1982 is far short of the total due. About 260,000 structures form Tokyo's tax base.

If the aerial experiment is successful, spy planes will replace floor inspectors in the hunt for tax evaders.

AUSTRALIA

AHOTCH-POTCH of royalties and charges is to be replaced by a resources rent tax (RRT) on Australia's petroleum industry.

Peter Walsh, the Minister for Resources and Energy, expects a battle with the oil industry. But the government believes that the present charges – some royalties fall on marginal producers – are indefensible.

Labor believes that the RRT should be paid on economic rent, which is the surplus left after deduction of all expenses, plus an amount equal to the minimum return necessary to encourage investment in new projects.

ITALY

TAXPAYERS are up in arms against the new tax on their properties.

Parliament introduced the property tax to help the depleted treasuries of 8,000 municipalities – and allowed each city to decide what proportion of the permitted tax to actually levy.

Property owners' lobbies allege that the Constitution is being violated – for example, the offence against the rule that "all citizens are equal before the law."

For the owner in a city which is levying only 10% of the tax is getting "more equal" treatment than property owners elsewhere.