

5-7-2013

An Analysis Of U.S.- Economic Policy Toward Chile During The Cold War

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**An Analysis of U.S.- Economic Policy Toward Chile During
the Cold War**


By

Frasier Esty

A Thesis Submitted to the Honors Council For Honors in the
History Department

April 1st, 2013

Approved By:



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Acknowledgements

I could not have finished this Thesis without the help of a variety of people. First and foremost, my advisor, Professor William Michael Schmidli proved to be an invaluable asset for me throughout the planning, writing, and revising processes. In addition, I could not have been able to complete the Honors Thesis project without the love and support of my family.

Specifically, I dedicate this Thesis to my grandmother, Sally Murphy McDermott. Your consistent love and encouragement helped me throughout this process and I simply could not have done it without you. Thank you.

-Frasier Esty

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Abstract

This examination of U.S. economic policy directed toward Chile centered on the political and economic changes that occurred within Chile between 1960 and 1988. During this time, U.S. economic policy directed toward Chile was crafted by members of the American government uneasy with Cold War concerns with the most important of which being the spread of Communism throughout the globe. By viewing U.S. policy toward Chile through this Cold War lens, this thesis explores the different ways in which economic policy was used to advance the political and economic goals within not only Chile, but also Latin America as a whole.

The Cold Warriors that crafted and enacted these economic policies were motivated by a variety of factors, and influenced by events outside of their control. From President John F. Kennedy to Ronald Reagan, American policymakers utilized economic policy as a means to achieve regional goals. This project sheds light on an understudied section of U.S. foreign policy history by exploring the way that economic policy helped achieve Cold War objectives in the Southern Cone.

Introduction

In this project, I analyze U.S. economic policy directed toward Chile between the years 1960 and 1988. Although the relations between Santiago and Washington during the Cold War are a well-documented piece of U.S. foreign policy history, the specific economic policies and the motivation behind them are less well known.

Within this thesis, the definition of “economic policy” is expansive and includes a variety of different types of actions that are not necessarily universally recognized as economic policy. To be specific, I define “economic policy” as any type of government action that utilizes financial power or leverage in an attempt to achieve political or economic goals. Using this definition, both the refusal to grant loans to Chile as well as the funding of opposition parties by the CIA can be considered examples of economic policy.

As a part of this examination, I analyze the policies of the American government from President John F. Kennedy through Ronald Reagan in order to answer three major questions. First, what kind of economic policies were enacted in Washington during the 1960s and 1970s to address the rising popularity of leftist

policies in Chile? Second, in what ways did neoliberal economic ideology influence the policies from Washington and within Santiago? Finally, how did the Reagan Administration use economic power and policy to achieve its political and economic goals within Chile during the last years of the Cold War?

By addressing these three questions, this thesis offers a broader understanding of how and why U.S. economic policy was crafted during the Cold War in order to achieve various goals. Furthermore, these three questions break the thesis into three equally important categories that reflect the change in overall U.S. policy over time.

The first chapter, which deals with U.S. economic policies crafted and enacted between 1960 and 1973, sheds light on how American policymakers were able to use economic leverage to fight the spread of leftist political movements in Chile. During this time, Chile experienced a highly influential demographic shift that shook the foundations of the political system throughout the country. In order to address these changes, the American government utilized a variety of tactics to ensure economic and political stability.

The second chapter is less focused on a specific period of time and instead centers on neoliberal economic theory as a framework for the investigation into U.S. economic policy toward Chile. Through an examination of a variety of primary and secondary sources that deal specifically with the use of neoliberal economic policies in Latin America, I will uncover the true intentions and results of these policies in Chile. For example, Naomi Klein's *Shock Doctrine: The Rise of Disaster Capitalism* and Jonathan Haslam's *The Nixon Administration and the Death of Allende's Chile: A Case*

of Assisted Suicide both give compelling accounts of how neoliberal economic models affected Chilean economic, political, and social development during the middle to late Cold War. Using a combination of both the aforementioned secondary sources as well as declassified primary sources, I explore the legacy of neoliberalism in Chile during the 1970s and argue that the aggressive and uncompromising nature of the economic reforms laid the foundation for the economic and political collapse that occurred in the 1980s.

The third and final chapter of this thesis will provide a comprehensive account of American economic policies directed toward Chile under the Reagan Administration. The 1980s were a key decade in the examination of U.S. economic policy toward Chile and my investigation of the Reagan Administration at this time provide the major contribution of this thesis. During this time there was a massive deterioration of diplomatic relations between Washington and Santiago. As a result, during the early 1980s there was a clear shift that occurred within the Reagan Administration that centered on a reconsideration of democratic ideals, economic considerations, and a growing concern of a Communist uprising within Chile. These various factors came together and led Reagan, who had attempted to normalize relations with Pinochet, to distance himself from the violent dictator.

For the sake of this investigation, I found that the amount of information during the 1980s was so complex that the Reagan years needed a chapter of their own. During this time there was a massive deterioration of diplomatic relations between Washington and Santiago. In addition, economic turmoil and a rise in human rights violations within Chile created a situation in which the United States

government needed to craft effective economic policy measures in order to maintain stability within not only Chile, but Latin America as a whole.

In researching this project, I used a wide variety of primary and secondary sources in order to fully grasp the key issues behind U.S.-Chilean relations during the time. One area in particular that is important to analyze in order to comprehend the relationships that were solidified during Pinochet's reign is American foreign policy toward Pinochet's predecessor, Dr. Salvador Allende. Understanding this area of U.S. foreign policy is integral to this exploration of U.S. economic policy directed toward Chile during the Cold War. The policies that were enacted during the 1960s and early 1970s set the foundation for the economic, political, and social issues that plagued Chile until the return of democracy in the late 1980s.

In terms of primary sources, I was able to synthesize information from a variety of both public and declassified documents in order to gain a full understanding of U.S. economic policy toward Chile during the middle to late Cold War. Specifically, declassified documents from the Digital National Security Archive as well as meeting minutes and policy memorandums from the *Foreign Relations of the United States* collection painted a vivid picture of how the American government crafted its various policies toward Chile at this time.

The wide variety of texts and resources that this thesis required reflects the complexity of the U.S. foreign economic policy at this time. During the Cold War specifically, American policymakers became increasingly concerned with the perceived encroachment of Communism and thus poured out resources to nations that were anti-Communist. However, in retrospect, it is clear that these politicians

were unable or unwilling to recognize the long-term repercussions of aggressively waging Cold War tactics to achieve short term objectives in Chile. This project will answer key questions in a widely under-studied area of American history: the factors that play a role in the crafting of U.S. foreign economic policy.

This exploration into U.S. economic policy during the middle to late Cold War will uncover how and why American policymakers used economic policies to advance their regional goals. From supporting political parties that were seen as allies of the American government, to implementing economic destabilization tactics in order to destroy the growth of perceived communist threats, the American government found a multitude of situations in which economic policy was the most effective option at achieving its goals.

This thesis examines the complexities of U.S. economic relations directed toward Chile during middle to late Cold War. The lack of current academic work on this area opens up an opportunity to provide significant contributions to this area of scholarship. By writing this thesis, I hope to open up new avenues of research and scholarship within the broader subject of U.S. foreign relations during the Cold War.

Chapter One: American Economic Policy Toward Chile

Resulting In The Rise and Fall of Salvador Allende

"I don't see why we need to stand by and watch a country go communist because of the irresponsibility of its own people"

Henry Kissinger, United States National Security Advisor under President Richard Nixon, June 27, 1970¹.

The economic relations between the United States and Chile during the second half of the 20th century were highly complex. During this time, American government officials and politicians from both sides of the aisle fought to solidify their influence in Chile as a Cold War ally. A central component of this fight within the American political system was economic policy. The majority of American foreign policy during this era was implemented through indirect means that were less obvious than dropping bombs, but potentially just as dangerous.

Put simply, U.S. economic policy toward Chile during the Cold War centered on maintaining Chile's economic and political stability. The efforts of John F. Kennedy, Lyndon Johnson, and Richard Nixon to influence the politics of the

¹ Constable, Pamela and Arturo Valenzuela, *A Nation of Enemies: Chile Under*

Southern Cone, and Chile specifically, through sometimes extreme economic policy directives characterized American foreign policy in Latin America at the time. As I will argue in this chapter, these aforementioned economic policy directives had substantial and severe consequences for the Chilean people and the nation as a whole.

The 1960's were a decade that shaped the political and economic relations between the United States and many, if not all, Latin American nations. Chile was not immune to this trend. During this era, the Chilean government received massive amounts of economic aid as well as general administrative and diplomatic assistance by the American government. Leading the charge of this foreign economic policy from Washington was President John F. Kennedy himself. One of Kennedy's most well-known foreign policy achievements, the Alliance for Progress, became a cornerstone of American foreign policy toward the region during his administration². Established in an effort to build and strengthen economic and political ties with Latin American nations through the use of economic aid and other political assistance, the Alliance for Progress played an enormous role in the evolution of Chilean politics. Eventually, the legacy of Kennedy's Alliance for Progress in Chile would set the stage for neoliberal economic reform and the fall of import substitution industrialization.

Although the long-term effects of the Alliance for Progress on Latin America and the Chilean economy in particular are still debated amongst scholars today, the immediate economic effects of the program are relatively clear to the Cold War

² Rabe, Stephen G., *The Killing Zone*. New York, New York: Oxford University Press, 2012, xxxvi.

scholar. In short, the program was designed to increase economic growth and democratization through a variety of programs including, but not limited to, economic aid, trade liberalization, land reform, and basic economic and social planning³. In the Charter of Punta del Este, which was signed in 1961 at an inter-American conference to establish the Alliance for Progress, the goals of the program were outlined explicitly within the preamble:

It is the purpose of the Alliance for Progress to enlist the full energies of the people and governments of the American republics in a great cooperative effort to accelerate the economic and social development of the participating countries of Latin America, so that they may achieve maximum levels of well-being, with equal opportunities for all, in democratic societies adapted to their own needs and desires.⁴

By 1962, the Alliance for Progress had become a cornerstone of American foreign policy under the Kennedy Administration in Latin America. Hundreds of millions of dollars had been promised to governments throughout the region to fund a variety of economic concerns from short-term credit opportunities to military assistance.

President Kennedy and other policymakers in Washington believed that bolstering the Chilean economy would lead to a powerful economic and political

³ Punta Del Este Charter, August 17, 1961. Yale Law School, http://avalon.law.yale.edu/20th_century/intam16.asp. Accessed October 12, 2012.

⁴ Ibid.

ally in the ever-intensifying Cold War. One of these factors was the abundance of copper in Chile. The high levels of raw copper gained the attention of U.S. investors both in the private and public sector early in the 20th century. During the 1960's, Chile was in possession of roughly half of the world's raw copper reserves⁵.

Largely as a result of the enormous economic asset that these copper reserves provided to Chile, the nation was able to boast large growth rates for the overall economy. Due to the huge attraction to investors, money began flowing into Chile by the truckload: "between 1962 and 1969 Chile took more than \$1 billion from the Americans in aid, loans and grants; between 1964 and 1970, \$200-300 million in short term credit was continuously open to Chile from US banks."⁶

Kennedy's program was one that relied upon assurances by the Latin American governments that the terms of the program would be implemented as quickly and efficiently as possible. However, in many cases throughout the region, the Alliance for Progress faced heavy resistance by both Latin Americans and their governments. In the case of Chile, President Jorge Alessandri, who had won the Presidency in 1958, was initially a large opponent of the program. However, Alessandri eventually succumbed to the American economic program and implemented various economic, political and social reform measures within the country: Jonathan Haslam argues that "Alessandri

⁵ Skidmore, Thomas E. et al., ed., *Modern Latin America Seventh Edition*. New York, New York: Oxford University Press, 2010. 282-284.

⁶ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile: A Case of Assisted Suicide*. New York, New York: New Left Books, 2005. 13.

had...attempted and failed to resist the new wave of US policy under President Kennedy – the Alliance for Progress – which dictated land redistribution of Chile’s *latifundia*... to transform the feudal nature of the agrarian economy.”⁷

In only a matter of years, socioeconomic problems began to rise alongside a growth in the electorate, which created a fundamental shift in Chilean politics. By the early 1960’s, four major political groups had taken center-stage: the right (Conservative and Liberal parties), the Marxist left (Communists and Socialists), the Centrist Radicals, and the Christian Democrats⁸. The change in the electorate and the rising tensions regarding socioeconomic concerns within Chile set the stage for the 1964 Presidential election to become one of the most important in recent Chilean history.

During the early stages of the 1964 presidential election in Chile, it became increasingly evident that the Front for Popular Action (FRAP), or Chilean left-wing political coalition, had a high chance of taking control of the Chilean government through peaceful and legitimate elections. In particular, the candidate for the leftist coalition, Dr. Salvador Allende, was deemed as a candidate whose ideology ran directly counter to U.S. interests in the region. As early as 1962 President Kennedy was notified of this and thus the issue traveled to the forefront of his foreign policy objectives. Shortly after the aforementioned news reached the White House, President Kennedy “passed on responsibility to his brother, the attorney-general.”⁹ Nearly immediately the CIA began “serious preparations to forestall such an

⁷ Haslam, Jonathan, *The Nixon Administration and the Death of Allende’s Chile*, 49.

⁸ *Ibid.*, 292.

⁹ Haslam, Jonathan, *The Nixon Administration and the Death of Allende’s Chile*, 12.

eventuality” and approved immediate monetary support to the two opposition parties to the FRAP, the Christian Democrats and the Radical Party¹⁰.

In 1962, the mid term parliamentary elections resulted in a substantial victory for the FRAP and a decisive loss for the Chilean conservatives¹¹. At this point, the American government began to seriously reconsider their actions (or lack of action) in Chile in terms of fighting the spread of leftist politics. In addition, during this time, many policymakers and, perhaps more importantly, the American public, was unaware of the involvement of the American government in the Chilean political system.

Specifically speaking about the 1964 election, the extent of U.S. involvement in the election was massive. Throughout the course of the election period, roughly \$4 million dollars had been spent by the American government in order to support various parties that competed against the FRAP and perform “some fifteen covert action programs” to undermine the FRAP’s own political objectives¹².

Over the course of the 1964 Presidential election in Chile, slightly more than half of the total cost of the Christian Democrats campaign was paid for by the CIA¹³. Although the economic policy of the American government at this time was indeed massive and should not be overlooked, the financial side of the CIA’s action was only one half of their covert program. The other half, which involved “a massive anti-

¹⁰ Ibid., 12.

¹¹ Ibid., 15.

¹² Church Committee, “Covert Action in Chile 1963-1973,” U.S. Department of State. <http://foia.state.gov/reports/churchreport.asp> Accessed September 22, 2012.

¹³ Ibid.

communist propaganda campaign,” was a major component of the American clandestine operation in Chile during the 1960’s¹⁴.

In order to destabilize the leftist political parties, the CIA quickly began both traditional and innovative methods of spreading propaganda. First and foremost, the use of pamphlets and radio shows to spread propaganda became common and produced positive results. Alongside these methods, the CIA also became involved in “political action operations” to encourage Chilean citizens who were less-likely to vote for Allende to become politically engaged¹⁵. The combination of these tactics created a situation in which politics as usual were essentially non-existent. The Church Committee, a Congressional Committee organized in 1975 to investigate U.S. involvement in covert political activity, later summarized the CIA’s opinion on the success of this campaign: “The CIA regards the anti-communist scare campaign as the most effective activity undertaken by the U.S. on behalf of the Christian Democratic candidate.”¹⁶

The election in 1964, which eventually tilted in favor of the Christian Democrats under the leadership of Eduardo Frei, was seen as an affirmation for the CIA that their plan had worked. Due to the economic aid given to the Christian Democrats in conjunction with the “Scare Campaign” enacted by the CIA during the election campaign, the election resulted in a “landslide victory.”¹⁷ The economic aid in this case was not associated with the Alliance for Progress; rather, the money

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Church Committee, “Covert Action in Chile 1963-1973,” U.S. Department of State. <http://foia.state.gov/reports/churchreport.asp> Accessed September 22, 2012.

¹⁷ Rabe, Stephen G. *The Killing Zone*, 125.

used to bolster Frei's victory in 1964 was funneled directly through the CIA: "The Central Intelligence Agency would later admit to contributing more than 50 percent of Frei's campaign expenses...it may have been a case of overkill."¹⁸

The 1964 election was seen as a pivotal moment by American policymakers concerned with the growing popularity of leftist political movements. Following the election in 1958 where the FRAP almost won through a plurality, the U.S. government did not want to take any chances in the 1964 election where Frei's capitalist reformism was battling against Allende's Marxism¹⁹. As a result of this fear, the CIA provided significant funds to the Frei campaign, but also to the Radical candidate, Julio Duran²⁰. By funding the Radical candidate in addition to the Christian Democrats, the American government was able to solidify their support of Frei while ensuring that at least a few of Allende's supporters on the far left would instead vote for Duran: "There were rumors that the U.S. embassy actively encouraged Duran to stay in the race, since it was felt that the election would be close enough that a few Radical votes for Allende might tip the balance."²¹

Frei and the Christian Democrats came away with 56% of the vote, Dr. Salvador Allende received 39%, and the Radical Party under Duran received 5%. Despite this loss, the election of 1964, similar to the election of 1958, was a small victory for Allende and the FRAP as they had "increased their share of the electorate from 5 percent in 1952 to 28 percent in 1958 to 39 percent in 1964."²² As we will

¹⁸ Skidmore, Thomas E. et al, *Modern Latin America* 293.

¹⁹ Ibid., 293.

²⁰ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 22.

²¹ Ibid., 22.

²² Rabe, Stephen G. *The Killing Zone*, 125.

see, the 1964 Presidential election set the stage for Allende to eventually take power in 1970.

Due to a couple of changing factors within the Chilean economic and political structure, Eduardo Frei's administration struggled during his term in office. From 1964 to 1970, the Christian Democrats attempted to balance economic reform that encouraged liberalization with a domestic policy reform package that became known as "Chileanization."²³ This domestic policy centered on a variety of socioeconomic issues that plagued Chileans. One of the issues that was particularly pervasive within all areas of Chilean domestic politics, economics, and social structure was the copper industry.

Since 1920, two major U.S. corporations – Anaconda and the Kennecott Corporation, had dominated the Chilean copper industry²⁴. These two American companies played a dominant role both in Chilean economic issues as well as political issues. The problem, however, was not only the large level of power that these companies held. Rather, the miniscule number of Chilean jobs that these companies provided as well as the relatively small amount of income that reached the Chilean people as a result of the copper industry became a major concern for many Chileans. Due to the complexities of the copper industry, Chilean businesses involved in the copper industry looked to foreign investors in order to provide capital and the technology necessary to run a copper mine. This necessity by Chilean mine owners led to foreign acquisitions of the aforementioned mines early in the

²³ Ibid., 125.

²⁴ Skidmore, Thomas E. et al, *Modern Latin America* 282.

20th century and from then on, the companies relied upon foreign direct investment as opposed to domestic participation as a primary driver for the industry.²⁵

Frei's attempt to bring more jobs to Chileans through the copper industry was met by fierce resistance by the American government as well as American investors and corporations. Although centrist in nature, Frei's plans of Chileanization lacked support by both the Chilean left and the conservative American government. Specifically, Frei's plan revolved around the idea that the Chilean government would buy portions of the ownership of the copper companies, and reinvest any profits back into the company to expand domestic production, and as a result, create more jobs²⁶. Eventually, Frei was able to implement this plan, but the results were lackluster: copper production only increased by 10 percent and a large percentage of the increased earnings went directly to the American corporations due to technicalities established in the new contracts²⁷. Despite this increased earnings, the American government and business community still lacked faith in the Frei administration.

One of the things that these investors feared most was nationalization of any business on any level. Folding under the pressure, Frei was unable to "produce as much copper or as many new jobs as planned."²⁸ In addition, this clash of ideology between Santiago and Washington bred tension and created an enemy for Frei within the administration of Lyndon Johnson. Both sides felt the loss of political allegiance as the Chilean economy began to slip and the Johnson administration

²⁵ Ibid., 282.

²⁶ Ibid., 293.

²⁷ Ibid., 293-294.

²⁸ Rabe, Stephen G., *The Killing Zone* 125.

became increasingly concerned about the state of Chile for the upcoming 1970 presidential election.

This ideological battle between Frei and U.S. policymakers in regards to domestic Chilean policy was a pivotal moment in which foreign economic policy would be drastically altered. In order for the Chilean copper industry to have performed at its highest capabilities, massive amounts of investment was necessary. For years, this money came from U.S. investors or other foreign private investors in conjunction with government funding. The Alliance for Progress program offered Chile a substantial amount of government funding which helped create a spike in production and profitability during the early 1960's²⁹.

However, it is clear that Frei's effort to distance himself from U.S. investors and encourage the Chileanization of the copper industry led to not only economic consequences, but also severe political problems. By alienating American investors, the Frei administration also cut itself off from investment from the American government through the Alliance for Progress. As a result, economic problems began to arise within Chile and in order to ensure that the Chilean economy would not collapse, economists and policymakers in D.C. and Santiago looked to the private sector for a solution.

This moment is pivotal in the story of U.S. economic policy toward Chile during the Cold War. Following the battle over the Chilean copper industry, the Alliance for Progress slowly began to fail as focus was taken further and further away from government investment and closer to private investment. More broadly,

²⁹ Ibid., 123-124.

this transition from government aid to private investment can be seen in the shift from President Kennedy to President Johnson. Under Lyndon Johnson's administration, the policies of the Alliance for Progress were reconsidered as relationships with Latin American governments (including Chile) deteriorated. The amount of success that occurred due to government aid was questioned and, as a result, American policymakers began to promote the idea of encouraging private enterprise to become involved in international issues. This tug of war between government aid and private enterprise helped set the stage for the 1970 election, which proved to be a major moment in U.S.-Chilean history.

The issues that surrounded the Chilean copper industry were only one element of the Frei Administration that was seen as a failure by Chileans as well as foreign observers. More broadly, Frei made it a personal goal of his to save the failing capitalist economic structure in Chile. His efforts at Chileanization, especially in regards to the copper industry, was only one specific policy aspect of the Frei Administration.

Frei's experience as president was extremely moderated, as Chileans as well as foreign observers saw him as a compromise between "avaricious capitalism and a totalitarian communism."³⁰ One of the major tenets of Frei's efforts as President was economic reform measures in order to save Chile's failing capitalist system. Frei's economic reform platform included two central components: land reform and the

³⁰ Winn, Peter "Weavers of Revolution" 61.

Chileanization of the major industries, most importantly copper, as previously discussed³¹.

Frei's moderated economic strategy proved to be incapable of fixing the problems within Chile's capitalist structure. As a centrist leading the Chilean government, Frei had hoped to bring both capital and labor forces together to limit backlash on the economy as well as fund his adjustment measures³². However, cooperation between the two forces was weak at best and caused both sides to take "advantage of the opportunities it offered to advance their interests while avoiding the sacrifices it demanded."³³ In addition, the Chilean government was incapable of promoting change within the economic system due to the high level of protection, corruption, and manipulation that had become standard operating procedure within the Chilean economy. According to Peter Winn, Frei was unable to fix the "dependent Chilean capitalism accustomed to government credits at negative interest rates, oligopolistic control of protected markets, and windfall profits from monetary manipulation and financial speculations."³⁴

As a direct result of this failure, the Chilean economy began to see major losses in both productivity and performance. Between the years 1966 and 1970, economic growth decreased by 50%, inflation grew to over 30%, and unemployment reached 8%³⁵. Within a short period of time, the Chilean government began to lose credibility as it lost control of the economy. This decrease in economic

³¹ Ibid., 61.

³² Winn, Peter "Weavers of Revolution," 62.

³³ Ibid., 62.

³⁴ Ibid., 62.

³⁵ Ibid., 62.

performance, along with the political disputes that accompanied it, set the stage for the historic 1970 presidential election.

The 1970 election was reflective of a wide variety of factors from a change in U.S. participation to a transformation within Chilean politics itself. Most important to the analysis of economic relations between the U.S. and Chile, however, are the policies that emanated from Langley and the White House during this time.

It is clear that both the Nixon Administration and the CIA were very active in influencing the outcome of Chilean politics during the years leading up to the 1970 election. Following six years of economic slowdown and increasing political power of the leftist political coalition (the Popular Unity party), Dr. Salvador Allende and other leftist politicians became confident that he could overcome the challenge of his opponent, former President Jorge Alessandri, in the 1970 election. Eventually, in fall of 1970, Allende would indeed overcome Alessandri. However, the years leading up to this election are particularly important to this analysis.

The United States, as mentioned previously, began facing a deteriorating relationship between the White House and Santiago as Frei moved further and further away from the President's influence. During the middle of the 1960's, this rift in the relationship created an environment that grabbed the interest of American policymakers. Throughout the latter half of the decade, the American government became increasingly interested in the Chilean political process and economy that "Chile [had] not seen in five years of relative stability."³⁶

³⁶ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 37.

Starting as early as 1967, the American government began crafting ways to fight the spreading influence of leftist politics in Latin America. Through the newly established “Action for Progress,” United States policymakers would encourage trade and prosperity with Latin America through “trade and not aid.”³⁷ In addition to this program, Washington carried out a two-pronged attack on The Unidad Popular party and Salvador Allende that was strikingly similar to the tactics used in the 1964 election. Again, the CIA implemented a “scare campaign” while massive amounts of U.S. funding flowed into the political campaigns of Allende’s opponents³⁸.

Directing this decision-making process for the United States was the 40 Committee, a group of advisors that worked for the Executive Branch to review and oversee covert affairs and actions by the American government³⁹. In 1970, the 40 Committee authorized a variety of plans that targeted Allende: “The 40 Committee authorized \$425,000 in covert spending...to be used in a ‘spoiling’ campaign against the Allende coalition.”⁴⁰

The 40 Committee played a quintessential role in the oversight and execution of covert operations in Chile during this time. On June 27 1969, the Committee met with President Nixon, Kissinger, and other key members of the Nixon

³⁷ Church Committee, “Covert Action in Chile 1963-1973,” U.S. Department of State. <http://foia.state.gov/reports/churchreport.asp> Accessed September 22, 2012.

³⁸ Ibid.

³⁹ Rabe, Stephen G. *The Killing Zone* 127.

⁴⁰ Ibid., 127.

Administration to discuss the upcoming presidential election in Chile⁴¹. At this meeting, the Committee discussed potential contingency plans to bribe Chilean congressmen to deny Allende's confirmation to the presidency. Although no specific plans were approved directly in that meeting, the Committee did give approval to the director of the CIA to move forward in preparations to bribe Chilean officials: "CIA was instructed to proceed with plans toward identifying 'persuadable' individuals within Congress but because of the risks involved to take no action without further approval by the Committee."⁴²

The aforementioned \$425,000 was only the tip of the iceberg in the American economic program toward Chile during this time. The CIA operated in concert with various Chilean media outlets including radio and newspapers in order to spread propaganda. In addition, operatives used the same tactics as 1964 in order to "motivate" certain groups of Chileans to vote in favor of Alessandri, or anyone other than Allende. Unlike the situation in 1964, however, the U.S. ambassador was not convinced that the American tactics would be sufficient means of blocking Allende's election. For example, by June 1970, Ambassador Korry had requested that the U.S. government to set up a "a contingency slush fund to bribe Chilean congressmen not to certify an Allende victory."⁴³

Despite the aforementioned steps taken by the U.S. government, the election of 1970 was a massive slap in the face to the Nixon Administration. Allende walked

⁴¹ Nixon Library, "Background of 40 Committee Deliberations on the Chilean Presidential Elections."

<http://www.nixonlibrary.gov/virtuallibrary/releases/dec10/15.pdf>

⁴² Ibid.

⁴³ Ibid., 127.

away with a plurality of 36.6% of the popular vote, and Alessandri had taken 35.3%⁴⁴. As soon as the election results reached the White House, Nixon made his dissatisfaction known by those around him: “An outraged President Richard M. Nixon took the news as a personal affront, smashing his fist into his hand repeatedly denouncing ... ‘that son of a bitch Allende.’”⁴⁵

The events that followed Allende’s election in 1970 were seen as pivotal to Nixon, U.S. policymakers, and the CIA. For Nixon, this became a matter of personal consequence. Along with his national security advisor Henry Kissinger, Nixon believed that the American government must do everything it could to keep Allende from being inaugurated⁴⁶. From an economic perspective, this assertion by the President marked a major turning point in U.S.-Chilean relations. Moving forward, economic relations would be only used in an attempt to destabilize Allende during his months as President-elect. This ideological departure from Kennedy’s Alliance for Progress is one of the most important trends in Nixon-era economic diplomacy.

Using a combination of private sector and governmental efforts, the Nixon Administration almost immediately began attempts at keeping Allende from taking power in Chile. As Kissinger famously remarked in regards to American efforts at destabilizing Allende, “I don’t see why we need to stand idly by and watch a country go communist due to the irresponsibility of its own people.”⁴⁷ During this time, Nixon himself turned to as many trusted advisors as he could rally while at the same

⁴⁴ Ibid., 126.

⁴⁵ Skidmore, Thomas E. et al, *Modern Latin America*, 295.

⁴⁶ Constable, Pamela and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet*, 23.

⁴⁷ Ibid., 23.

time shutting himself off from most outside sources, including the previously trusted 40 Committee⁴⁸. In one particularly secretive meeting, Nixon met with Attorney General John Mitchell and Director of the CIA Richard Helms and these three men discussed plans to conduct covert operations in Chile to destabilize Allende. Years later, Helms' notes of the meeting revealed one of Nixon's eventual goals of the operation: to "make the economy scream."⁴⁹

As efforts to destabilize Allende began to come apart, Nixon's economic program started to come to life. From American corporations with vested interest in Chile to business owners and economic elites within Chile itself, many groups and individuals became prime targets for Nixon's economic destabilization program. In theory, his program would encourage businesses within Chile to promote economic instability on a domestic level while massive cuts in aid and economic assistance would cripple Chile's economy on an international level. To this point, American foreign aid to Chile decreased from over \$260 million in 1967 to under \$4 million by 1973⁵⁰. More specifically, during this transition period in which Allende was President-elect, pressures from both the U.S. private sector as well as government itself were at an all-time high.

The dividing lines that can be drawn between government and private funding disappeared during this time. In most studies, it is unclear the balance between the actions of private American companies and the American government itself. What is clear, however, are the actions themselves. The economic attempts by

⁴⁸ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 67.

⁴⁹ Stern, Steven J. "Remembering Pinochet's Chile" 22.

⁵⁰ Constable, Pamela and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet*, 26.

these actors were varied in their approaches as well as their effectiveness. At the end of the day, Allende was successful in surviving the pressures put on by the Chilean business community and American government; however, he did not escape unscathed.

During the late summer and early fall of 1970, Chile experienced a variety of strikes and economic issues that arose largely as a result of the efforts to promote instability by the American government and business community: “Business groups, with covert aid from the Nixon administration, unleashed a crusade of economic sabotage against Allende: grocers hoarded food, truck owners refused to deliver it, and business-led strikes paralyzed the country twice.”⁵¹ The actions of Chilean business owners and leaders domestically were able to conduct many strikes similar to the one described above and successfully created economic chaos for policymakers in Santiago. More important to this study, however, is the action taken by the U.S. business community in order to advance their own interests in the Southern Cone.

Allende’s election frustrated and concerned many U.S. business leaders who had “major investments” in Chile⁵². Allende and his party were clear on their agenda in terms of plans to radically change the socioeconomic structure within Chile. For companies such as Ralston Purina, Ford, and ITT, Allende’s election was simply one step closer to “nationalization or government expropriation.”⁵³ In order to avoid this potential disaster, American business leaders began working side by side with

⁵¹ Constable, Pamela and Arturo Valenzuela, *A Nation of Enemies: Chile Under Pinochet*, 200.

⁵² Skidmore, Thomas E. et al, *Modern Latin America*, 295.

⁵³ *Ibid.*, 295.

Nixon and other White House officials to stem the influence of Allende and, if possible, keep him from taking control of the Chilean government.

More specifically, many companies began reaching out to Nixon once news began to reach them regarding Allende's election to office. Prior to the meeting in which Richard Helms wrote that Nixon wanted to "make the economy scream," President Nixon had met "with Donald Kendall, the U.S. head of Pepsi-Cola...and Kissinger had breakfast with Agustin Edwards, a Chilean media magnate. Both Kendall and Edwards pressed for U.S. intervention against Allende."⁵⁴

As mentioned previously, these tactics by the U.S. private sector as well as Nixon Administration were unsuccessful. On November 3rd, 1970, Dr. Salvador Allende was inaugurated as the President of Chile. However, the same tactics previously explained would be carried out and increased in intensity over the next few years of Allende's time in office.

In order to more fully understand the implications of the actions taken by American government officials and business leaders in terms of economic relations with Chile during this time, a thorough understanding of Allende's own economic policies is critical. Having been elected on a platform of social and political change, most officials within Chile and throughout the rest of the world were aware that Allende was not an expert on economic reform or economic relations⁵⁵. However, once he was inaugurated, Dr. Allende wasted no time in solidifying an economic program that suited his goals. At the forefront of this economic program was

⁵⁴ McPherson, Alan, *Intimate Ties, Bitter Struggles*. Dulles, Virginia: Potomac Books Inc., 2006. 77.

⁵⁵ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 98-102.

Professor Pedro Vuskovic Bravo, a Marxist economist that Allende recruited from the Universidad de Chile.⁵⁶

In late 1970, Vuskovic, along with Allende and the rest of his senior cabinet officials, began to implement some of the features of the economic program. In short, this program aimed at addressing the current issues that faced the Chilean economy (inflation and high foreign debt) as well as creating the conditions to fundamentally change the socioeconomic inequality that existed at the time⁵⁷. The compromise between addressing current and future concerns was a necessary element of the plan, as Allende desperately wanted to make substantive change but recognized that 35% inflation and a public external debt that was above \$2 billion were immediate concerns that needed to be fixed⁵⁸. Allende attempted to address these problems through a variety of ways.

First and foremost, his manipulation of the domestic economy was noticeable and effective for short-term economic stimulation. By freezing prices and raising wages for Chilean workers, consumer purchasing power skyrocketed and, as a result, the economy was revitalized⁵⁹. Secondly, and more important for the topic at hand, Allende almost immediately targeted the copper industry for nationalization: “top priority went to the complete nationalization of the copper industry.”⁶⁰ In the short term, this nationalization led to massive political support for Allende (“the

⁵⁶ Ibid., 102.

⁵⁷ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 98-103.

⁵⁸ Ibid., 98.

⁵⁹ Skidmore, Thomas E. et al., *Modern Latin America*, 297.

⁶⁰ Ibid., 297.

congressional vote on this issue was unanimous”), which supplemented his economic program with much needed popular support⁶¹.

By 1972, this economic resurgence had fallen back into insignificance as the economic program grew too expansive for the “inexperienced” government to handle⁶². A combination of the unstable price control program, domestic and foreign economic sabotage and resistance, as well as “the inefficiency of an inexperienced government trying to take over and run huge sectors of the economy, all led to this economic flop in the early years of 1970⁶³. The American government and business community relished in the sliding Chilean economy due to the inherent drop in Allende’s support that went along with it. After all, these actors had spent a lot of time and energy since Allende was sworn into office to see him fail. What they did between November 1970 and September 1973 to economically destabilize Allende’s Chile is a crucial element of the U.S.-Chilean economic relations during the Cold War.

The increasing instability of the Chilean economy made the Allende government an easy target for Nixon and other American actors. U.S. policymakers and business leaders from the private sector acted in concert during this time to put pressure on the socialist economic programs that Allende was attempting to install within Chile. In many cases, the economic action taken by these North American actors was supplemented by the weakness within Chile itself. Within only a few months, Allende’s coalition government began to deteriorate as economic performance began to slide.

⁶¹ Skidmore, Thomas E. et al., *Modern Latin America*, 297-8.

⁶² *Ibid.*, 298.

⁶³ Skidmore, Thomas E. et al., *Modern Latin America*, 298.

From the beginning of his time in office, Dr. Allende faced a serious challenge when it came to political power due to the fact that he only won the election through a plurality of the vote⁶⁴. On this same note, popular opinion and political consolidation within Santiago became less of a function of Allende's own popularity, but rather a reflection of the country's opinion toward the way that the economy was being handled. The combination of intense foreign influence and the inherently transformative nature of Allende's economic program led to a wide variety of repercussions that spanned from Chile's political structure to its economy as a whole. Within a matter of months, the Allende government's mandate to politically, economically, and socially transform Chile began to deteriorate as inflation grew, unemployment rose, and overall economic growth plummeted⁶⁵.

This economic crisis in Chile must be viewed through a lens of foreign economic relations. Although American economic forces were not the only actors invested in the Chilean economy at the time, the impact of the Nixon Administration as well as the U.S. private sector was exponentially more impactful than the efforts made by countries such as Germany, France, or Great Britain. As stated previously, the Nixon Administration made it a goal to "make the economy scream" through a combination of covert action, formal cuts to aid and access to loans, and support of Allende's opposition⁶⁶. In comparing U.S. aggregate economic aid to Chile from the Allende years to years prior to Allende's election, the difference is clear: Between 1962 and 1970, the yearly average amount of aid given through loans and grants

⁶⁴ Stern, Steven J., *Remembering Pinochet's Chile*, 23.

⁶⁵ Hawkins, Darren G., *International Human Rights and Authoritarian Rule in Chile*. Lincoln, Nebraska: University of Nebraska Press, 2002. 69.

⁶⁶ Stern, Steven J., *Remembering Pinochet's Chile*, 22.

was \$80 million, or roughly 1.1% of annual GDP. Between 1971 and 1973, that same number dipped down to \$6 million dollars⁶⁷.

Nixon and his advisors were well aware, however, that cutting U.S. formal aid would not be enough to make a sizable impact on Allende's Chile. Therefore, the American government began reaching out to international aid organizations (namely the World Bank and Inter-American Development Bank) and lobbied for decreased access to loans for the Chilean government. The decrease in funding available for the Chilean government through these organizations began immediately and dropped sharply: Between 1962 and 1970, the yearly average amount of aid given by the World Bank and Inter-American Development bank was \$42.2 million, in comparison to \$3.9 million between 1971 and 1973⁶⁸. The heavy influence that the American government has on these organizations is well documented, and in the case of Chile, the impact of this relationship was devastating.

First and foremost, the largest single problem for the Chilean economy and, more broadly, Allende's coalition, was rising inflation. Inflation within Chile went from 20% in 1971 to 78% in 1973, a staggering increase that was paired with a variety of other economic concerns⁶⁹. The lack of international aid, in conjunction with Allende's economic policies that established wage floors, forced the Chilean

⁶⁷ Hawkins, Darren G., *International Human Rights and Authoritarian Rule in Chile*, 72.

⁶⁸ Hawkins, Darren G., *International Human Rights and Authoritarian Rule in Chile*, 72.

⁶⁹ *Ibid.*, 69.

government to print money and, as a result, inflation spiked⁷⁰. By 1973, inflation had rose to over 350%⁷¹. By this time, it had become clear that the combination of external influences on the economy as well as Allende's own program had left the Chilean economy in shambles.

The opening of the Paris Club negotiations in 1972 was a clear sign that the Chilean economy was in trouble. These negotiations, which were led by Chile's largest creditors (the U.S., Britain, West Germany, and France), were called following a decision by the Chilean government to "suspend payments on its external debt."⁷² In particular, the U.S. government, which was owed roughly \$1.4 billion in debt by Chile, was growing agitated by the seemingly reckless policies of the Allende administration in dealing with the economy⁷³. As a result, one of the major goals of the Paris Club was to convince the Chilean government to sign a letter of intent that "would have effectively constricted Allende's implementation of the Basic Programme."⁷⁴ However, this letter of intent never was signed, primarily due to the lack of influence used by the American government to convince Allende to agree. At this point in U.S.-Chilean relations, the Nixon Administration was still attempting to reconcile differences regarding the Copper industry with Chilean officials and was concerned that being overly aggressive during Paris Club

⁷⁰ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 107.

⁷¹ Hawkins, Darren G., *International Human Rights and Authoritarian Rule in Chile*, 72.

⁷² Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 111.

⁷³ *Ibid.*, 111.

⁷⁴ *Ibid.*, 111.

negotiations would have repercussions on American investment within the Chilean copper industry⁷⁵.

Regardless of the U.S. government's lack of hardline action during the Paris Club negotiations, the Nixon administration continued to pull the strings to undermine Allende's economic and political program. One of the most effective weapons within Nixon's arsenal was the Central Intelligence Agency and its heavy influence within the American embassy in Santiago. In a comprehensive research report compiled by Stanford Professor Richard Fagen in the early 1970's, the level of influence that the CIA had secured within the Chilean political system was revealed. In this report, Fagen discusses various conversations that he had with "a U.S. Foreign Service officer" in which it was revealed that "one-third of the embassy personell were officers of the CIA" and that the CIA as a whole had infiltrated all but one of the parties within the Popular Unity coalition⁷⁶.

By securing a high level of influence and access to the Chilean political system, and more importantly Allende's own political coalition, the CIA was able to more effectively implement devastating covert economic action against the Allende regime. One of the most economically crippling events within the Allende era was a 45 day long strike held by the Chilean truckers union. Years later, it would be revealed that the CIA had helped finance this strike by using laundered money through various backchannels and third parties, including Christian Democratic parties in Europe⁷⁷.

⁷⁵ Ibid., 111.

⁷⁶ Haslam, Jonathan, *The Nixon Administration and the Death of Allende's Chile*, 129.

⁷⁷ Ibid., 140.

Strikes like the one mentioned above became commonplace by 1972 in Chile. Growing economic instability had reached a level that not only frightened Chileans themselves, but members of the U.S. private sector. Before Allende even won the election, American businesses and businessmen began implementing various policies and procedures in an attempt to reduce the amount of economic damage that would occur if he were to win the election and successfully adopt a socialist model for Chile. One of the best examples of a private business that became heavily invested in anti-Allende efforts was ITT under the guidance of its president, Harold Geneen. ITT alone donated over \$700,000 to Allende's opponent Jorge Alessandri in addition to \$1 million that it gave to the CIA to undermine Allende's efforts to win the 1970 election⁷⁸.

ITT was not alone, however. The United States business community as a whole became heavily involved within U.S.-Chilean economic relations before, during, and after the Allende era. Foreign direct investment to Chile from American businesses was essentially eradicated following Allende's election in 1970. In addition, credit access to Chile was cut off by banks such as Chase Manhattan almost immediately following the 1970 election⁷⁹.

The Nixon administration used a variety of tactics to garner the support of the American business community in rallying against Allende, and by 1973, U.S. private sector involvement in the crusade against Allende had become a major force.

⁷⁸ "U.S. Sabotage of the Chilean Economy," *The Militant*, (19 September 1973), Whitaker, Arthur P., *The United States and the Southern Cone*. Cambridge, Mass.: Harvard University Press, 1976. 37. pg. 37.

⁷⁹ MacEoin, Gary, *No Peaceful Way: Chile's Struggle for Dignity* (New York: Sheed and Ward, Inc., 1974).

The combination of private sector involvement and Nixonian economic policy aimed at sabotage created a hostile environment for economic growth within Chile. By 1973, this environment became literally explosive as opposition leaders, foreign observers, the Chilean military, and the Chilean public became frustrated with the failed policies of the Allende regime. On September 11th, 1973, the Chilean military conducted a coup d'etat that left Dr. Salvador Allende dead and the Chilean government at the hands of a military junta. Within a matter of months, this junta would dissolve into an authoritarian government under the control of Augusto Pinochet. The Nixon administration had finally gotten what it had asked for with the end of the Allende regime; however, economic relations between the U.S. and Chile would only become more complex throughout the rest of the 1970s and 1980s.

Chapter 2: Pinochet's Neoliberal Experiment

In April of 1975, Chilean dictator Augusto Pinochet received a letter from a trusted economic advisor from the University of Chicago, Milton Friedman. In this letter, Friedman proposed a series of neoliberal economic policies that ought to be implemented in Chile in order to avoid collapse of the economy and state. The interaction between Friedman and Pinochet throughout the 1970s was turbulent and characterized by serious discussions regarding intense and severe economic policies. It would be difficult for any historian to summarize Pinochet's and Friedman's neoliberal experiment in Chile in a single sentence. However, in the April 21st letter, Friedman was able to summarize exactly what type of economic policies Pinochet needed to implement and why:

Some forty years ago Chile, like many another country, including my own, got off on the wrong track – for good reasons, not bad, because of the mistakes of good men not bad. The major error, in my opinion,

was to envision the government as the solver of all problems, to believe that it is possible to do good with other people's money⁸⁰.

This excerpt, taken from a letter written from Friedman to Pinochet, shows the key element of neoliberal economic theory – the economic model that Friedman helped make famous in the late 20th century. The growing opinion that government interaction in the economy was dangerous helped put this economic theory in the limelight and solidify its place in the history books.

Throughout U.S. history, foreign policy has been shaped by a variety of individuals, interests, and theories about how to achieve certain goals. In the 1970s and 1980s, U.S. economic policy directed toward Chile was indeed shaped by all three of these factors. Individuals such as Richard Nixon, Henry Kissinger, Jimmy Carter, Gerald Ford, and Augusto Pinochet all played key roles in directing U.S. economic policy. As far as interests were concerned, the primary objective for the U.S. government at the time was containing communism, proliferating democratic principles, and supporting U.S. allies in various parts of the world that were deemed significant enough to receive aid.

In this chapter, I will explore the extent of the aforementioned individuals and the various objectives of the United States government at the time. However, my focus will be on the theory that many of these individuals followed in order to achieve said goals: neoliberal economic theory.

⁸⁰ Klein, Naomi. "Letter to General Pinochet on Our Return from Chile and His Reply" www.naomiklein.org/files/resources/pdfs/friedman-pinochet-letters.pdf. Accessed February 7, 2013.

Through an examination of neoliberal economic theory generally and how it applies to U.S. policy toward Chile in the 1970s and 1980s more specifically, I will argue that neoliberal economic theory played a significant role in setting the stage for economic, social, and political development for Chile. Through a detailed explanation of neoliberal economic theory, I will explain that the austerity measures and stabilization tactics were successful and benefitted Chile in the long run but the rapid adoption of radical free market economic principles led to a deterioration of the Chilean economy which caused a collapse of political discourse. It was not until after the 1982 debt crisis when more reasonable programs were installed that Chile saw relative economic stability.

One of the most important factors that directly led to the solidification of neoliberalism as a legitimate economic theory in the United States was the global recession that took place in the early 1970s⁸¹. Shortly following this recession came the oil crisis in 1973 which exacerbated critical problems throughout the global economy⁸². The rise in economic turmoil created a situation in which it was clear that a new system of economic relations was necessary – both for economic and political reasons.

The 1970s was a time in which many social, political, and economic concerns collided and created a chaotic situation for American policymakers. Military failures in Vietnam, social revolution at home, and economic turmoil both in the United States and abroad were only some of the factors that played into changing U.S.

⁸¹ Harvey, David, "Neoliberalism as Creative Destruction," *Annals of the American Academy of Political and Social Science*, Vol. 610, NAFTA and Beyond: Alternative Perspectives in the Study of Global Trade and Development (Mar., 2007), pp. 27.

⁸² *Ibid.*, 27.

policy. However, the most important single event that transformed U.S. economic policy toward Chile during this time was the rise of free market principles through the gaining popularity of neoliberal economic theory⁸³.

Following the economic problems of the early 1970s, the American public, along with a substantial amount of economists, policymakers, and politicians, started to see the state's role in economic issues as unnecessary and potentially dangerous⁸⁴. Instead of seeing "government social provision and economic management" as a force of good, many people throughout America began to see the government as a force of economic evil and, in turn, began to support policies of deregulation, privatization, and lower taxes⁸⁵. Journalist Robert Kuttner called the rise of the neoliberal economic model in the 1970's as "the intellectual counterrevolution of the 1970s" and argued that this shift in economic ideology was marked by an enthusiasm for "a pure free-market economy."⁸⁶

With the U.S. changing its stance on economic policy when it came to global economic relations, it was only a matter of time until organizations such as the WTO and the IMF also changed their policies. This is one of the most critical elements of the surge in neoliberal economic policy throughout the developing world. With organizations that specialized in providing aid and debt relief programs to developing nations on the same side as neoliberal policymakers, nations who wished to receive international loans or aid had little choice but to adopt a

⁸³ Borstelmann, Thomas, *The 1970s*. Princeton, New Jersey: Princeton University Press, 2012. 215.

⁸⁴ Ibid., 215.

⁸⁵ Ibid., 215.

⁸⁶ Borstelmann, *The 1970s*, 127.

neoliberal model of economic reform: As David Harvey argues, “All states that sign on to the WTO and the IMF...agree to abide... by these rules or face severe penalties.”⁸⁷

The choice (or lack of choice) by developing nations to accept neoliberal economic reform policies occurred in this way. But what exactly did these reform policies entail? For most nations, the neoliberal reform packages centered around three major components: stabilization, structural adjustment, and export-led growth⁸⁸.

Stabilization was a clear and obvious choice for economic reformers dealing with developing nations in the middle of the 20th century. The primary way to stabilize an economy, through the eyes of the neoliberal policy maker, is to curb inflation. In order to curb inflation, domestic economic policy makers must decrease the money supply, usually by increasing interest rates and decreasing government spending⁸⁹. These tactics were usually referred to as “austerity measures” and were seen as a vital component of neoliberal reform.

The primary objective behind structural adjustment is to create an economic system that is conducive to foreign direct investment, free market principles, and without “artificial distortions such as price controls or trade tariffs.”⁹⁰ By implementing policies such as deregulation, domestic economists can, at least in

⁸⁷ Ibid., 23

⁸⁸ Green, Duncan, *Silent Revolution: The Rise and Crisis of Market Economies in Latin America*. New York: Monthly Review Press, 2003. 12.

⁸⁹ Green, Duncan, *Silent Revolution*, 12.

⁹⁰ Ibid., 12.

theory, create the conditions for economic freedom and growth through increased trade and investment.

Finally, the concept of export-led growth is heavily dependent upon the idea that foreign direct investment is one of the most integral parts of a growing and successful economy. By highlighting the importance of exports, neoliberal economists encourage nations to open up their markets to international competition and demand⁹¹. By doing so, these economies are forced to compete through the production of higher-quality goods that are in-demand.

Together, these three components of economic reform came together to constitute the bulk of neoliberal economic transformation in the developing world. Beyond the IMF and WTO, however, other actors played a fundamental role in proliferating neoliberal economic policy and reform. For Chile specifically, economists trained at the University of Chicago traveled to Santiago in droves to work in government positions following the 1973 coup d'état. These individuals, named the "Chicago Boys," played a vital role in the coming years in supporting market-driven economic reform throughout Chile and Latin America⁹².

However, the goals of the Chicago Boys were not limited to economic success. Instead, these economists believed that through the extension of economic liberties, political freedoms would shortly follow. It was through this belief that neoliberal economic theory quickly became tied to democratic principles and discourse⁹³. By encouraging strict limits on government spending along with other reform efforts,

⁹¹ Ibid., 12.

⁹² McPherson, *Intimate Ties, Bitter Struggles*, 71.

⁹³ Ibid., 71.

these economists were confident in their ability to decrease inflation and “bring Latin American currencies more in sync with world markets” which would lead to greater social and political freedoms⁹⁴.

Immediately following the 1973 coup, the military Junta, led by Augusto Pinochet, turned to the Chicago Boys and other technocrats and advisors to craft and implement social policy. According to Orlando Letelier, an advisor to Allende who later played an influential role in convincing the United States Congress to decrease aid to Chile, these Chicago Boys constituted the actual ruling aspect of the government whereas the military did the enforcing: “The ‘Chicago Boys,’ convinced the generals that they were prepared to supplement the brutality, which the military possessed, with the intellectual assets it lacked.”⁹⁵

In turn, the Chicago Boys were influenced by the United States government in order to help achieve economic and political goals within Chile. The Nixon Administration perceived that the fate of the Chilean government and economy could not be left in the hands of Pinochet and a handful of advisors. As a result, the CIA worked tirelessly in the months leading up to the 1973 coup d’état to prepare a “how to” manual explaining how and what the military should do when they overthrew Allende. From the early days of the military junta, following the overthrow of Allende, the policies and procedures of the Chilean government came largely from a document referred to by the CIA as “The Brick.”⁹⁶ This five hundred page long document was compiled by both Chicago Boys and CIA collaborators and

⁹⁴ Ibid., 71.

⁹⁵ Orlando Letelier, “The Chicago Boys in Chile: Economic Freedom’s Awful Toll,” *The Nation*, August 28, 1976.

⁹⁶ Klein, Naomi, *Shock Doctrine*, 71.

focused primarily on the economic program that the technocrats in Chile wanted the military Junta to enact immediately following the coup⁹⁷. Out of the ten major contributors to “The Brick,” eight of them had studied economics at the University of Chicago⁹⁸. Although

Another actor that played a vital role in influencing the neoliberal reform in Chile was Professor Milton Friedman, the economist who arguably can be seen as the founder of the Chicago Boys. Throughout the 1970s, Friedman was both a professor of economics and a confidant and economic advisor for Augusto Pinochet. He promoted a rapid-fire capitalist transformation by way of neoliberal economic reform. His tireless promotion of such vigorous and extreme economic reform came to be known as “shock therapy” and became a model for a variety of economies since⁹⁹. In the case of Chile, Friedman believed that the economic adjustment from Allende to Pinochet would be possible due to the “speed, suddenness, and scope of the economic shifts.”¹⁰⁰

Trusting in Friedman and his cadre of economic advisors, Pinochet dove deep into the pool of neoliberal reform. From 1973 until 1975, the Chilean dictator enacted a wide variety of domestic economic programs that ranged from the privatization of previously state-owned businesses to the opening of trade relations with the global economy¹⁰¹. These measures, in conjunction with a 10% cut in

⁹⁷ Ibid., 71.

⁹⁸ Klein, Naomi, *Shock Doctrine*, 71.

⁹⁹ Ibid., 7.

¹⁰⁰ Ibid., 7.

¹⁰¹ Ibid., 79

government spending and the removal of price controls, was a sign that Pinochet was playing directly out of the Chicago Boy playbook.

It soon became clear, however, that this strategy was not exactly as successful as he had hoped.

As a result of Pinochet's strict neoliberal and free-market policies, the Chilean economy took a turn for the worse. Inflation rose, local businesses were forced to close as a result of the increased international competition, unemployment rose, and the cost of simple goods such as bread went through the roof¹⁰². Fearing that their experiment had lost its way, the Chicago Boys, in conjunction with Milton Friedman (who flew to Santiago in March 1975), met with Pinochet and explained that in order for the economic policy to work, the government needed to embrace true free market principles and practices "with greater abandon."¹⁰³ Even Pinochet, who was apparently a proponent of neoliberal reform, was concerned about the short-term effects of such transformative economic policy: Friedman wrote in his memoirs later that Pinochet "was sympathetically attracted to the idea of a shock treatment but was clearly distressed at the possible temporary unemployment that might be caused."¹⁰⁴

Despite the deterioration of the Chilean economy, it is important to identify exactly what elements of neoliberal economic theory that caused the downturn. As previously explained, the reforms to promote austerity and stabilization were critical elements of the neoliberal program in Chile. These reforms were successful

¹⁰² Klein, Naomi, *Shock Doctrine*, 80.

¹⁰³ *Ibid.*, 80-81.

¹⁰⁴ Friedman and Friedman, *Two Lucky People*, 399 as cited in Klein 81.

in cutting government expenditures and reigning in the high levels of inflation and promoting higher levels of growth than many other Latin American nations¹⁰⁵. By 1978, inflation was roughly 30% (down from 500% at the time of the coup) and economic growth averaged 7% between 1976 and 1981¹⁰⁶.

The problem that occurred with Pinochet's neoliberal experiment was his decision to rapidly increase the Chilean economy's exposure to the global marketplace. As a result, many of the fledgling businesses within Chile had to quickly adapt to the higher level of international competition. Furthermore, wage levels decreased tremendously, and the state withdrew many of its social services that lead to social unrest throughout the country¹⁰⁷. The decision to immediately reduce tariff protection and increase international exposure was the fatal flaw of Pinochet's neoliberal economic policy. It is integral to separate this poor decision from the successes that austerity and stabilization measures experienced.

In Washington, policymakers were trying to figure out the best way possible to create an economically powerful ally in Santiago. As stated previously, the Nixon Administration approached the Cold War with a one-track mind that pitted capitalists against communists, good against evil. However, the authoritarian nature of the Pinochet regime caused a problem in this distinction. In other words, the severe nature of Pinochet's authoritarianism classified the Chilean government as both good (due to the pro-American nature of the Chilean economic structure) and bad (because of the massive human rights and democratic rights violations that

¹⁰⁵ Skidmore, Thomas E. et al., *Modern Latin America*, 303.

¹⁰⁶ *Ibid.*, 303.

¹⁰⁷ *Ibid.*, 302-303.

were occurring) during the Nixon administration. The human rights abuses that were occurring in Chile were a liability for the Nixon Administration due to activism both within Congress and non-governmental organizations (NGOs). This political disconnect between the legislative and executive branches of the American government was one of the reasons that a comprehensive and consistent economic strategy toward Chile during the 1970s.

Despite the controversy that circled the September 1973 coup that overthrew Allende, President Richard Nixon wasted little time in solidifying relations with the new military regime¹⁰⁸. He did this by primarily providing a substantial amount of military and monetary aid to Chile. Immediately after the coup, the military Junta requested and received “one thousand flares and one thousand steel helmets” for the Chilean army so that the Junta could quell any domestic resistance to the coup¹⁰⁹. In addition, within two months of the coup, Nixon had approved \$48 million in commodity credits to Chile so that the regime could purchase grain and corn – this amount was nearly eight times larger than all of the commodity credit given to Allende combined¹¹⁰¹¹¹.

The large levels of aid during the first few months following the coup were the start to a new relationship between Washington and Santiago. Over the course of the Nixon and Ford presidencies, the U.S. government would continue to funnel aid to Pinochet while simultaneously attempting to encourage the U.S. private sector to increase investment and stop Congress from putting limits on the amount of aid

¹⁰⁸ Rabe, Stephen G., *The Killing Zone*, 137.

¹⁰⁹ *Ibid.*, 137.

¹¹⁰ *Ibid.*, 137.

¹¹¹ McPherson, *Intimate Ties, Bitter Struggles*, 78.

that could be given. By 1972, foreign aid requests from Latin America were the highest single category. Requests for economic assistance alone was \$572 million, with smaller requests in other areas, bringing the total to \$658 million. With a GDP in 1972 of just over \$10 billion, Chile's request accounted for roughly 6.5% of its GDP. The next highest country/region requesting foreign aid was Vietnam with a total of \$647 million¹¹². Although Nixon clearly did not see Latin America as important as Vietnam during this time, the amount of aid given to each region respectively shows that there was a significant amount of energy being spent on keeping the Latin American nations pro-America or at the very least, anti-Communist.

The attempt to increase economic and political relations with Chile by the United States government was an attempt to address this issue. But Nixon and, more importantly, National Security Advisor Henry Kissinger, knew that the Chilean problem could not simply be fixed by loans and aid from the government. The private sector would have to get involved.

Indeed, Kissinger, President Nixon's National Security Advisor, played a vital role in the crafting of U.S. policy toward Chile during the 1970s. In particular, he supported the creation and strengthening of three areas of Nixonian policy: U.S. private sector investment to foreign nations, the bolstering of U.S. aid programs, and the support of aid to Chile despite human rights violations¹¹³.

¹¹² Kennedy, Richard T., Memorandum, October 30, 1971, subject: "Foreign Assistance," FRUS, 1969-1976, Vol. IV, pp. 165.

¹¹³ Kissinger, Henry, Action Memorandum, undated, subject: "NSC Meeting on Foreign Aid," FRUS, 1969-1976, vol. IV, pp. 11-17.

Kissinger made it clear that “the U.S. foreign aid program [was] in major crisis” and needed to be reevaluated by the White House¹¹⁴. In referencing Latin America specifically, he argued that U.S. aid was crucial in order to maintain relations and that Nixon would have to lobby aggressively in order to achieve higher levels of aid from Congress. Furthermore, Kissinger acknowledged the fact that economic development of countries like Chile could not occur without a combination of private sector investment and “resource transfer on [the U.S. government’s] part.”¹¹⁵

Kissinger’s theory on private sector investment to developing nations was appealing to Nixon. Throughout his time in office, Nixon worked with various leaders of the U.S. business community (including Nelson Rockefeller) to help establish a better relationship with members of the political and economic elite in countries such as Chile¹¹⁶. By building and maintaining these relationships, Nixon was able to make sure that a certain level of aid could be given to America’s allies even if Congress put caps on government aid (which happened in the case of Chile, and will be discussed later).

In order to make sure that this strategy of private sector investment would pay off, Nixon employed tactics outlined in a meeting of the National Security Council in late March 1969¹¹⁷. In an “analytic summary” of this meeting, Kissinger outlined his opinions on encouraging private sector investment in the Least

¹¹⁴ Ibid., 11.

¹¹⁵ Ibid., 11.

¹¹⁶ McPherson, *Intimate Ties, Bitter Struggles*, 74-75.

¹¹⁷ Kissinger, Henry, Action Memorandum, undated, subject: “NSC Meeting on Foreign Aid,” FRUS, 1969-1976, vol. IV, pp. 11-17.

Developed Countries, (LDCs) that were seen as U.S. allies: “we could actively promote increased U.S. private investment in the LDCs, by providing tax incentives or removing some of the constraints of existing government programs.”¹¹⁸

In addition to the aforementioned tactics, Nixon established the Overseas Private Investment Corporation (OPIC) through an amendment of the Foreign Assistance Act in 1969. This entity, suggested by Nelson Rockefeller in *The Rockefeller Report on the Americas*, was established in order to bring U.S. national interests together with U.S. private investment by finding and investing in emerging markets¹¹⁹. OPIC remains active today and still is reflective of the concerns that U.S. government aid and loans were less effective than the same time of monetary assistance that could be gained through private investment.¹²⁰

Nixon’s employment of these tactics, however, was simply not enough to keep the Chilean economy from failing in the mid 1970s. The repressive element of the Pinochet regime overpowered the attractiveness of the free-market policies that were enacted there¹²¹. Despite significant efforts by Pinochet and his economic advisors to employ strong neoliberal policies within the Chilean economy, U.S. investors saw the authoritarian side of the government too unstable and likely to produce “unrest, violence, and abrupt (and unforeseeable) political changes.”¹²²

¹¹⁸ Ibid., 16.

¹¹⁹ McPherson, *Intimate Ties, Bitter Struggles*, 75.

¹²⁰ Overseas Private Investment Corporation, <http://www.opic.gov/who-we-are/overview>, accessed 12/7/2012.

¹²¹ Falcoff, Mark “Chile: Pinochet, the Opposition, and the United States,” *World Affairs*, Vol. 149, No. 4 (SPRING 1987), pp. 183-194.

¹²² Ibid., 186.

In addition to Henry Kissinger, the Director of the Office of Management and Budget George P. Schultz proved to be an invaluable asset to Nixon in fighting for executive control over aid levels¹²³. As an advisor to Nixon with extensive knowledge regarding the budgeting and appropriations process, Schultz became a figurehead in Washington who was particularly supportive of Nixon's ability to control the U.S. government's aid programs: "my chief concern is Presidential influence over development assistance programs."¹²⁴

It was through efforts like this that Nixon attempted to wrestle budgeting control back to the executive. Although Congress won substantial victories like in the case of the Kennedy Amendment, the White House was able to maintain high contribution levels to organizations such as the Inter-American Development Bank, World Bank, and IMF¹²⁵. According to Kissinger, Nixon's ability to funnel federal money into these programs, in conjunction with organizations such as OPIC, was "the most concrete demonstration of [his] deep interest in development in Latin America."¹²⁶

Despite the various budgeting victories by the Nixon and Ford Administrations in the mid 1970s, the Chilean economy continued to suffer. As previously stated, the programs introduced by the Chicago Boys immediately after the coup in 1973 produced unfavorable results for the Chilean economy. As a result, in 1975, Pinochet and the Chilean Finance Ministry flew down a variety of

¹²³ Ibid., 128.

¹²⁴ Ibid., 130.

¹²⁵ Kissinger, Henry, Memorandum, December 15, 1970, subject: "Need for Your Intervention on International Financial Institutions Legislation," FRUS, 1969-1976, vol. IV. Pp. 104-106.

¹²⁶ Ibid., 105.

economists from the University of Chicago to reevaluate the economic situation, including Milton Friedman.¹²⁷

The economic decisions that followed proved disastrous for the Chilean economy. According to Friedman and his colleagues, a more full embrace of free-market principles would lead to a rapid turn-around of the stagnant Chilean economy. However, the far-reaching austerity measures did exactly the opposite and the economy experienced a sharp downturn¹²⁸. During this time, GDP contracted by 14.4% and unemployment peaked at 15%. Finally, and arguably most important to understanding the demise of the neoliberal model, the manufacturing sector, “whose advancement was the staple of structuralist development strategy,” took a nosedive and would not fully recover until 1987¹²⁹.

The combination of the economic downturn and the election Jimmy Carter into the White House turned the late 1970s into a tumultuous era for U.S.-Chilean relations. Not only were the economic relations strained, but also political relations became increasingly tense. Following the assassination of Orlando Letelier, the former Allende cabinet member and Congressional activist against U.S. funding to Pinochet’s Chile, in Washington D.C. in 1976 by Chilean secret service agents, the White House and U.S. Congress took steps to distance the U.S. government from Pinochet¹³⁰. This, in addition to Carter’s explicit condemnation of the human rights violations occurring at the hands of the Pinochet regime, helped create a situation in

¹²⁷ Taylor, Marcus, “From national development to ‘growth with equity’: Nation-building in Chile, 1950-2000,” *Third World Quarterly*, Vol. 27, No. 1, p.77.

¹²⁸ *Ibid.*, 77.

¹²⁹ *Ibid.*, 77.

¹³⁰ Rabe, *The Killing Zone*, 139-140.

which U.S.-Chilean relations were the most strained since Allende (and arguably more so).

The domestic policies of the Chilean government at that time were not helpful in restoring American confidence in the country's political structure or economy. Taking advantage of the hyper anti-communism that pervaded American policymakers during the Cold War, Pinochet and his advisors largely ignored Carter's attempts to diplomatically change Chilean domestic policy by arguing "that Washington was deviating from its own national interest...therefore there was no need to listen to it; sooner or later the United States would come it its senses."¹³¹ It would not be until the election of Ronald Reagan in 1980 that U.S.-Chilean relations would return to its pre-Carter levels of aid and political assistance.

The 1970s were a complicated era in terms of U.S.-Chilean relations. While U.S. policymakers and Chileans who were educated in America attempted to install neoliberal market reform, the repressive and violent nature of the Pinochet government hindered the ability of the Chilean economy to grow. Despite clear successes following the installment of austerity measures and reforms aimed at stabilization, Pinochet's decision to aggressively expose the Chilean economy to international pressure dealt a death blow to economic growth in Chile. Neoliberalism in Chile was not doomed from the beginning – it was the unforgiving and belligerent nature of General Augusto Pinochet that killed Chile's chance at fostering a successful free market economy during the 1970s and 1980s.

¹³¹ Falcoff, *Chile: Pinochet, the Opposition, and the United States*, 189-190.

Ironically, through this analysis, it becomes clear that similar factors played into the collapse of the Chilean economy under Allende in 1972-1973 and under Pinochet in 1975. In both cases, the lack of American investment led to a collapse of consumer confidence and market success throughout Chile. Furthermore, economic sabotage played a vital role in the downfall of both economies. For Allende, the saboteurs were American businesses and the CIA. For Pinochet, ironically, the sabotage came from within his own cabinet, by way of the flawed neoliberal policies of Milton Friedman and the Chicago Boys.

Chapter 3: The Reagan Years: A Changing Policy Toward Chile

In this chapter, I will investigate the economic policies established by the U.S. government in regards to dealing with the Pinochet regime in Chile during the Reagan Administration. From 1980 through 1988, the relationship between Santiago and Washington was volatile and had severe repercussions economically, as well as politically. From this perspective, it is clear that an investigation of U.S. policies during the Reagan era is necessary to understand the twists and turns of U.S.-Chilean economic policy during the 1980s.

Although the Reagan Administration made substantial attempts to shrink the U.S. government's involvement in the Chilean political structure, U.S. policymakers had political and economic concerns that made severing such ties more difficult than they had thought. First and foremost, the Reagan Administration made it a primary goal to act aggressively against Soviet expansion and action. This was made clear when President Reagan called the USSR an "evil empire" in one of his first public addresses¹³². Following President Reagan's lead, U.S. policymakers crafted

¹³² Ronald Reagan, "Remarks at the Annual Convention of the National Association of Evangelicals," Orlando, Florida. January 29, 1981.

policy that addressed the importance of maintaining a strong military, political, and economic ally in Latin America to fend off any potential Communist advances.

The highly complex relationship between the United States and Chilean government created a situation in which we can establish two separate, yet equally important, phases in U.S.-Chilean policy under the Reagan Administration. First, between 1980 and 1983, President Reagan and many American policymakers were largely supportive of the U.S.-Chilean alliance. Seen as a method to prevent a domino from tipping in Latin America, the economic and political support given to Pinochet garnered substantial support in the midst of the Cold War environment. In this period, Reagan's support for democracy and human rights in Chile was heavily outweighed by the regional security offered by a strong ally within the Southern Cone.

The second period, however, marked a significant change in that relationship. It was not until a severe economic downturn in the early 1980s, in concert with a growing concern over human rights violations, that the Reagan Administration began looking for ways to "promote a regime change and a return to democracy in Chile."¹³³ It is within this second period that President Reagan increased his efforts to promote a democratic transition within Chile.

The policies enacted during the early 1980s by the Reagan Administration in regard to U.S.-Chilean relations marked a substantial departure from the policies of the Carter Administration in the late 1970s. Carter's crusade against human rights

¹³³ Morley, Morris and Chris McGillion, *Soldiering on: The Reagan Administration and Redemocratisation in Chile, 1983-1986. Bulletin of Latin American Research*, Vol. 25, No. 1, pp. 1-22, 2006.

violations in Chile (and elsewhere) was successful in passing various sanctions against the Chilean government that included exclusion from loans provided by the Export-Import Bank¹³⁴. Within a month of taking office, President Reagan lifted these sanctions, citing an interest in normalizing relations with Chile as a result of perceived decrease in human rights abuses under Pinochet. This supposed improvement came as a result of an annual report on human rights compiled by the State Department in 1981 that argued “the human rights situation in Chile has improved significantly since 1977.”¹³⁵

Despite the perceived advances made by the Pinochet regime during the early 1980s to lessen the amount of human rights violations, many reports were filed that countered the aforementioned claims of the State Department, including the 1981 U.N. Human Rights Commission Report on Chile¹³⁶. Notwithstanding the outcry made by human rights activists, the Reagan Administration moved forward in lifting sanctions from the Pinochet government. However, the lifting of the aforementioned sanctions only bought the Chilean government a small amount of breathing room. In 1980, the United States economy dipped into a recession, pulling down demand for products manufactured throughout Latin America¹³⁷. The

¹³⁴ Sigmund, Paul E., *The United States and Democracy in Chile*. Baltimore, Maryland: Johns Hopkins University Press, 1993. P. 134.

¹³⁵ State Department 1981 Human Rights Report as cited in Sigmund, Paul E. *The United States and Democracy in Chile*. P. 134.

¹³⁶ 1981 U.N. Human Rights Commission Report on Chile as cited in Sigmund, Paul E. *The United States and Democracy in Chile*. P. 134.

¹³⁷ Ed. Richard Newfarmer, “U.S. Economic Policy toward Latin America: The Deepening Problem” Richard Newfarmer. *From Gunboats to Diplomacy*. Pg. 193.

combination of low demand and the rise in debt service payments for many Latin American nations created what became known as “The Lost Decade.”¹³⁸

Regionally, all of Latin America suffered throughout the early 1980s. In 1982, Latin America’s overall economic growth rate was negative one percent (and, per capita, negative three percent)¹³⁹. Furthermore, stagnant economic growth coupled with record levels of inflation (averaged 80 percent) to deepen the impact of the economic downturn¹⁴⁰. Chile was far from immune from the impacts of the regional financial crisis. In 1981, Chilean banks began to default on loans and file bankruptcy. In 1982 alone, there were 810 bankruptcies¹⁴¹. It soon became clear to both Chilean policymakers and foreign observers that Chile was in a deep depression. During this time, there was a decrease of almost 15% of the Chilean gross national product, a drop of 20% in industrial production, and a dangerously high unemployment rate of 30% of the total work force¹⁴².

The sharp economic downturn in Chile led to two separate responses that are equally as important in the examination of U.S.-Chilean relations during the 1980s. First, a domestic response was necessary in order to avoid the political and social unrest that Pinochet feared most. By 1983, mass protests by the Chilean public in Santiago had gained international attention¹⁴³. In addition, significant

¹³⁸ Hayes, Margaret Daly, “The U.S. and Latin America: A Lost Decade?” *Foreign Affairs*, 1988. Online.

¹³⁹ United Nations Economic Commission for Latin America cited in Ed. Richard Newfarmer, “U.S. Economic Policy toward Latin America: The Deepening Problem” Richard Newfarmer. *From Gunboats to Diplomacy*. Pg. 193.

¹⁴⁰ *Ibid.*, 193.

¹⁴¹ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 139.

¹⁴² *Ibid.*, 139.

¹⁴³ *Ibid.*, 142.

opposition to the Chilean government was clearly established in March of 1983 when a Democratic Manifesto was signed by “a coalition of (banned or suspended) political parties that ranged from moderate socialist to ex-conservatives” in order to provide an alternative to the Pinochet regime¹⁴⁴. In 1982, Pinochet removed finance minister Sergio de Castro and shifted his reliance on economic expertise to his close advisors, some of which were economists known as Chicago Boys¹⁴⁵. The following three years were dreadful for Chile’s economy, and it was not until 1985 that the Chilean government would make begin to make a recovery.

In addition to the domestic response to the economic crisis, the United States government almost immediately took steps to remedy the situation while, at the same time, advancing national interests of political and economic stability. During the early 1980s, the Reagan Administration took full advantage of Chile’s economic downturn to advance its own political and economic objectives. At this time, the U.S. government began making both economic and political policy to attempt to deal with Pinochet’s Chile in such a way that would both ensure stability and gradually encourage a regime change¹⁴⁶.

As domestic protests and general opposition increased substantially against Pinochet and the Chilean government, U.S. policymakers looked toward the Reagan Administration and State Department to take action. In response, the Reagan Administration began exerting diplomatic and economic power to both stabilize the Chilean economy and coerce Pinochet to reconsider Chilean domestic policy

¹⁴⁴ Ibid., 143.

¹⁴⁵ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 139.

¹⁴⁶ Sigmund, Paul E., *The United States and Democracy in Chile*, 138-146.

(political and economic). One of the central tenets of Reagan economic policy directed toward Chile was a reliance on the private sector¹⁴⁷. In a statement given in 1981, Reagan summarized his overall economic policy and philosophy to senior ranking members of both the IMF and World Bank: “The societies which achieved the most spectacular, broad-based economic progress in the shortest period of time are [those that] believe in the magic of the marketplace.”¹⁴⁸

President Reagan’s focus on the economic “magic” found in the free market proved to be a major force that drove U.S. foreign economic policy toward Chile in the 1980s. Under Reagan, the Overseas Private Investment Corporation (OPIC) was expanded substantially and the Bureau for Private Enterprise was created within the Agency for International Development to further U.S. private sector involvement in foreign investment¹⁴⁹. By increasing the ability for the private sector to become involved in foreign direct investment opportunities, Reagan was able to reduce the U.S. federal budget in areas such as multilateral financing: in 1982, the U.S. Treasury Undersecretary announced “that U.S. support for soft loans through the IDB and the World Bank would be cut by 26%.”¹⁵⁰

The entrance of new policies by the Reagan Administration shocked the economic balance of the entire world. While President Reagan attempted to cover decreases in international aid given directly by the U.S. government, he also

¹⁴⁷ Newfarmer, “U.S. Economic Policy toward Latin America: The Deepening Problem,” Pg. 193.

¹⁴⁸ Ronald Reagan, “Remarks at the Annual Meeting of the Boards of Governors of the World Group and International Monetary Fund,” September 29, 1981.

¹⁴⁹ Newfarmer, “U.S. Economic Policy toward Latin America: The Deepening Problem,” Pg. 197.

¹⁵⁰ *Ibid.*, 197.

supported votes in various international financial institutions (such as the IMF) that made lending practices much more difficult for nations such as Chile¹⁵¹. Many economists labeled these measures by the Reagan Administration to decrease debt forgiveness and increase the barriers to international assistance as drivers of the early 1980 financial crisis in Latin America¹⁵².

It is imperative to understand that these policies were enacted pursuant to Reagan's neoliberal outlook, rather than any intention of punishing Chile or other recipients of U.S. foreign aid. Ronald Reagan came to be known as a President who had a strong command over his advisors and aides and, as a result, was able to set the Administration's policies and priorities to match up with his strong convictions¹⁵³. The implementation of neoliberal economic policies was one of the central tenets of Reagan's philosophy as President, and this was clearly reflected in the Administration's economic policies toward the rest of the world, Chile included.

The combination of Chile's economic instability and the United States' high level of power and influence within international financial institutions helped the Reagan Administration hold leverage over Pinochet. It is essential to recognize that the Reagan Administration was both unable and unwilling to successfully reverse

¹⁵¹ Rossiter, Caleb. "Human Rights: The Carter Record, The Reagan Reaction" *International Policy Report*, September 1984. P. 11.

¹⁵² Ed. Drake and Jaksic, *The Struggle For Democracy*, 256-262.

¹⁵³ Greenstein, Fred I., *The Presidential Difference*. (Princeton, New Jersey: Princeton University Press, 2009). 150.

President Carter's strong anti-Pinochet policy without "a degree of reciprocity on Pinochet's part" in terms of dealing with domestic human rights abuses¹⁵⁴.

As previously mentioned, the policies enacted during first few years of the Reagan Administration toward Chile made it clear that the American government valued regional security higher than issues such as human rights violations. Starting in late 1982, however, a shift in policy toward Chile began as a result of a variety of factors.

First, by 1982, President Reagan had developed a reputation as a warmonger following his aggressive diplomatic efforts in regards to increase nuclear capabilities for the NATO alliance in Europe. Shortly thereafter he realized that this was a reputation that he could not successfully operate as President with¹⁵⁵. As a result, he began efforts to explicitly promote democratic regimes and movements throughout the world. This shift by Reagan was a key moment in the development of U.S. foreign policy. Following one of Reagan's most notable speeches (given in front of the British Parliament in 1982) supporting a "democratic revolution," the U.S. Congress began solidifying plans to create a governmental agency to fund democratic movements throughout the world¹⁵⁶. By 1983 this dream had become a reality through the creation of the National Endowment for Democracy, which directly funded efforts to promote democracy around the world¹⁵⁷.

¹⁵⁴ Morley, Morris and Chris McGillion, *Soldiering on: The Reagan Administration and Redemocratisation in Chile, 1983-1986. Bulletin of Latin American Research*, Vol. 25, No. 1, pp. 1-22, 2006. P. 3.

¹⁵⁵ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 141.

¹⁵⁶ *Ibid.*, 141.

¹⁵⁷ *Ibid.*, 141.

The second factor that led to a shift in U.S. economic policy toward Chile was the growth of a unified centrist political opposition to Pinochet within Chile. As previously mentioned, a major concern for the Reagan Administration was that if Pinochet were to lose power, the popularity of the Chilean leftist political opposition would grow substantially and the government would fall in the hands of the Communists. This concern dissipated in early 1983 when an opposition coalition dominated by political centrists organized mass protests and officially offered an alternative to the Pinochet government¹⁵⁸.

The third and final factor that helped solidify a shift in the Reagan Administration's policy toward a more aggressive stance toward Pinochet was the deterioration of diplomatic exchanges between Pinochet and American government officials. The diplomatic exchange between Reagan and Pinochet between 1983 and 1985 was a particularly interesting moment in U.S.-Chilean relations. By October of 1984, the United States State Department had begun a "full scale review of its policy toward Chile" in regards to the rampant human rights abuses in the country¹⁵⁹. Throughout this period, President Reagan seemed to act firm in regards to showing his dissatisfaction with Pinochet in regards to human rights. In various speeches and addresses, Reagan and officials within his Administration lashed out against Pinochet and his regime¹⁶⁰.

However firm Reagan may have seemed in this regard, it quickly became evident that he was incapable of putting his money where his mouth was when it

¹⁵⁸ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 141.

¹⁵⁹ *Ibid.*, 139.

¹⁶⁰ Newfarmer, "U.S. Economic Policy toward Latin America: The Deepening Problem," Pg. 188-190.

came to acting against Pinochet. In almost every opportunity for the U.S. to veto loans given to Chile by various international institutions, Reagan instead approved the loans¹⁶¹. This stood in stark contrast to the votes by President Carter between 1977 and 1980 in which nine loans through the multilateral development banks were brought to vote and the U.S. voted against all nine¹⁶².

Despite this potentially damning element of the Reagan economic policy toward Chile, it is important to recognize the limitations that were perceived by the Reagan Administration when it came to potential action that could be taken against Chile. Unlike President Carter, Ronald Reagan refused to sacrifice domestic economic growth and prosperity for international respect for human rights. As mentioned previously, the copper industry in Chile was a major component of U.S.-Chilean economic policy throughout the 20th century. Following Allende's nationalization of the copper industry, the U.S. government and U.S. businesses and investors became increasingly sensitive to any potential disruptions in the production, sale, or general trade of copper from Chile. After a protectionist request by U.S. businesses to the U.S. government to impose trade restrictions on Chilean copper, the Reagan Administration recognized that the economic relationship was potentially too delicate to act aggressively in regards to international aid¹⁶³. In addition, an announcement by Pinochet that Chile would "not be able to pay

¹⁶¹ Rossiter, Caleb. "Human Rights: The Carter Record, The Reagan Reaction" *International Policy Report*, September 1984. P. 19.

¹⁶² Data from U.S. Treasury Department cited in Rossiter, Caleb. "Human Rights: The Carter Record, The Reagan Reaction" *International Policy Report*, September 1984. P. 17.

¹⁶³ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 147.

amortization of principal on its international debts” to a wide variety of U.S. banks sparked a series of concerns throughout Washington¹⁶⁴.

As a result of the delicate economic relationship, Reagan had to tiptoe the line between being economically supportive and politically aggressive. To make matters worse, Pinochet made numerous public and private comments that put further strain on U.S.-Chilean relations. In one particularly striking moment in U.S.-Chilean relations, Pinochet was quoted in a *Newsweek* article as saying “We have always had problems with the United States. We don’t like anyone, even the powerful U.S., telling us how to run our lives. We will never accept it.”¹⁶⁵

This volatile moment in U.S.-Chilean relations was also characterized by a clear interest by the Reagan Administration to attempt to introduce a more centrist government transition in Chile. Following a breakdown in communication between the White House and Pinochet (as shown in the aforementioned quote), members of the U.S. Embassy in Santiago began to meet with various leaders of the Democratic Alliance, the coalition opposition party in Chile¹⁶⁶.

At this point in time, it is clear that there was a growing consensus within the Reagan Administration that Pinochet had to go. As previously argued, the Reagan Administration felt as though one of the most effective ways to help support a democratic transition was a combination of economic pressure directed toward Pinochet and support for Chilean political opposition to him¹⁶⁷. By 1983, when

¹⁶⁴ Ibid., 147.

¹⁶⁵ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 147.

¹⁶⁶ Ibid., 147.

¹⁶⁷ Rossiter, Caleb. “Human Rights: The Carter Record, The Reagan Reaction” *International Policy Report*, September 1984. P. 19.

political opposition to Pinochet began to solidify, members of the Reagan Administration looked to members of the Christian Democrats to make contact and support¹⁶⁸.

This particular relationship between the U.S. government and the Christian Democrats became exponentially more complex when Jaime Castillo, the vice-president of the Christian Democrats, publicly announced his support of Communists in Chile: "We Christian Democrats defend the right of any communist to be a person and recognize the fact that this is a group which has influence in the country...We want them to work for the return of democracy in Chile."¹⁶⁹ Although merely recognizing the Communists as persons capable of political engagement may seem radical, for policymakers in the Reagan Administration, the slightest hint of a Communist resurgence in Chile or Latin America was a cause for great concern.

Identifying the fear of a Communist resurgence in Chile by Reagan is a crucial element of this investigation into U.S. economic policy toward Chile during the 1980s. As previously mentioned, Reagan's concern for economic security following the global recession in the early 1980s was one of the factors that led to a reexamination of U.S. policy toward Chile. The other factor was Reagan's adoption of a fight-for-democracy type of attitude when crafting foreign policy. These two factors were extremely important in highlighting the problems that existed within American foreign policy toward Chile.

However, it was Reagan's genuine fear of a Communist resurgence or revolution in Chile that pushed the President from a sympathizer to a outspoken

¹⁶⁸ Ibid., 192.

¹⁶⁹ Castillo, Jaime. Interview with unknown. *FBIS (Latin America)*. 12 June 1984.

opponent of the Pinochet regime. The fear of a growth of the political left was a central concern for the Reagan Administration in the middle of the 1980s when it began drafting contingency plans and potential policies to ensure a moderated democratic transition¹⁷⁰ These U.S. economic policies attempted to put enough pressure on Pinochet to fold while, at the same time, encourage the moderate opposition to increase activity and visibility. The eventual solidification of a unified and moderated opposition (without significant Communist influence) was the major turning point that convinced Reagan to move forward with plans to promote a democratic transition in Chile: “these conditions convinced the Reagan administration to adopt a policy of gradual intervention into the process of democratization without forcing a breakdown of the regime.”¹⁷¹

Within this Cold War framework, it is clear that the position of the U.S. government in regard to its relationship with Pinochet was complex and, as a result, the solutions to the problem would be just as complex. Even though at this point Reagan was pushing for a gradual democratic transition, he had a difficult time fully giving up on a potentially cooperative relationship with Pinochet¹⁷². In order to avoid making any potentially disastrous policy decisions directly toward Pinochet and Chile, Reagan turned to the international arena for a solution.

Among the various policies to promote a peaceful and democratic transition in Chile crafted by the Reagan Administration, one of the most overlooked is the

¹⁷⁰ Ed. Drake and Jaksic, *The Struggle For Democracy*, 256-262.

¹⁷¹ *Ibid.*, 258.

¹⁷² Herman, Edward S. and James Petras “‘Resurgent Democracy’ in Latin America: Rhetoric and Reality” *Economic and Political Weekly*, Vol. 20, No. 27 (Jul. 6, 1985), pp. 1147-1152. Pg. 1152.

engagement of other nations. In particular, a number of governments in Western Europe had significant trade relationships with Chile and, as a result, were also concerned that the collapse of the Chilean government would send shockwaves through the global economy¹⁷³. One example of this occurred in February 1984, when Chancellor Helmut Kohl of Germany sent President Reagan a classified memorandum in regards to the deteriorating situation in Chile¹⁷⁴. In this document, Chancellor Kohl not only expressed his political and economic concerns about Chile and Pinochet, but also suggested that American and German diplomats consult “to explore and discuss in more detail our common concerns and interests about Chile.”¹⁷⁵

Through conversations like the aforementioned cables with Chancellor Kohl, in concert with the economic downturn, the rise in human rights violations, and the recognition of a politically moderate and unified Chilean opposition to Pinochet, President Reagan recognized that the American government had to take action against Pinochet. In 1985, the American government did just that. During a vote over a loan by the Interamerican Development Bank to Chile for \$430 million, the United States abstained from the vote¹⁷⁶. The political uproar that followed both within the U.S. Congress (led by Senator Jesse Helms) and in the international arena

¹⁷³ Ed. Drake and Jaksic, *The Struggle For Democracy*, 256-262.

¹⁷⁴ Department of State, Confidential, Action Memorandum, February 24, 1984, 2 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02381.

¹⁷⁵ Department of State, Confidential, Action Memorandum, February 24, 1984, 2 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02381.

¹⁷⁶ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 150.

is reflective of the high level of power a simple vote abstention held during this volatile time¹⁷⁷.

A short six months after this vote, Pinochet yielded to U.S. economic pressures and lifted the state of siege in Chile that had given the Chilean government legal power to commit a litany of human rights violations¹⁷⁸. Over the next few years of Pinochet rule, the U.S. had a mixed record of approving loans to Chile; however, it is clear that the Reagan Administration definitely had not fallen back into total support for Pinochet and his regime. From 1985 through 1988, Reagan worked with close advisors to create contingency plans for how to deal with Chile.

When reports continued to point to human rights violations in Chile even after the lifting of the state of siege, President Reagan moved forward with the CIA and other intelligence organizations to lay out contingency plans. These plans focused on a few key areas and trends. First, Reagan's advisors saw that there was tremendous opportunity within the ranks of the Chilean military itself. According to a declassified report that outlined U.S.-Chilean policy, the domestic political chaos within Chile had begun to create uncertainty and a lack of confidence within Pinochet by late 1986¹⁷⁹. Although it is clear that both the Chilean Junta as well as the American government feared the resurgence of a Communist Chilean

¹⁷⁷ Ibid., 150.

¹⁷⁸ Ibid., 151.

¹⁷⁹ Department of State, Secret, Intelligence Appraisal, April, 1987, 33 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02517.

opposition, “three of the four junta members...[defied] Pinochet by dealing openly with moderate opposition leaders.”¹⁸⁰

By early 1986, the fear of a Communist uprising by a Chilean Communist opposition group had largely disappeared. However, despite the solidification of a unified opposition to Pinochet, there were still various Communist organizations that acted against the Pinochet regime. At this point in time, the major concern for Reagan and his advisors was that these groups could potentially derail the gradual democratic transition by sparking a revolution¹⁸¹. This concern was validated in 1986.

On September 7th, the Chilean Communist paramilitary group, the Manuel Rodriguez Patriotic Front, or FPMR, attempted to assassinate Pinochet¹⁸². In this failed attempt, members of the FPMR ambushed Pinochet’s motorcade and fired a combination of machine gun rounds and rockets toward Pinochet’s bulletproofed Mercedes-Benz¹⁸³.

Just weeks prior to the assassination attempt, “huge arms caches” on the way from Cuba to the FPMR were discovered by the Chilean government¹⁸⁴. Many of the same variety of weapons used in the assassination attempt were found in this seized

¹⁸⁰ Ibid.

¹⁸¹ Skidmore, Thomas E., Peter H. Smith, James N. Green *Modern Latin America*. Page 303.

¹⁸² Department of State, Secret, Intelligence Appraisal, April, 1987, 33 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02517.

¹⁸³ BBC, “1986: Pinochet survives rebel ambush,” http://news.bbc.co.uk/onthisday/hi/dates/stories/september/8/newsid_2502000/2502983.stm. Accessed February 21, 2013.

¹⁸⁴ Department of State, Secret, Intelligence Appraisal, April, 1987, 33 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02517.

cargo and the connection between the shipment from Cuba and the assassination “shocked the armed forces into recognizing that the violence-prone far left is a real threat to the regime.”¹⁸⁵ As a result, Pinochet instituted a temporary 90 day state of siege, which created further concerns for the Reagan Administration¹⁸⁶.

Following the reinstatement of the state of siege by Pinochet and the Chilean Junta, Reagan requested that his advisors provide him with a comprehensive strategy in dealing with Chile. As previously mentioned, Reagan was looking for the most effective way to promote a peaceful transition to democracy without abandoning U.S. interests along the way. In 1987, this report was given to Reagan and outlined four potential outcomes of Chilean problems¹⁸⁷.

First, the advisors considered the possibility of a negotiated transition to democracy occurring. As explained previously, with the solidification of organized domestic political opposition, defiance within the Junta itself, and the potential of having U.S. congressional sanctions placed against Chile, by the early to middle 1980s members of the Reagan Administration believed that a peaceful transition was possible¹⁸⁸. That being said, these same advisors believed that a level of economic pressure was integral to the U.S. effort at promoting such a transition.

Knowing that these economic pressures might not be successful in forcing Pinochet to make an agreement with the Chilean opposition, the report also entertained the possibility of the military forcing Pinochet out of power. Based on

¹⁸⁵ Ibid.

¹⁸⁶ Ibid.

¹⁸⁷ Department of State, Secret, Intelligence Appraisal, April, 1987, 33 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02517.

¹⁸⁸ Ibid.

the levels of economic pressure placed on Chile as well as the growing opposition, the advisors to President Reagan believed that the Chilean military leadership “would demand that he agree to publicly step down at the end of his term” by the middle of 1988¹⁸⁹.

The third outcome was that Pinochet would be killed in some sort of leftist assassination plot. Considering the level to which the FPMR was able to acquire heavy weaponry through Cuba, advisors to Reagan saw this as a fairly reasonable outcome. However, the idea of Pinochet leaving office by means of violence would only lead to further violence by the government, and this would create more issues for a potential democratic transition¹⁹⁰.

The final outcome that was strongly considered was the notion that Pinochet was able to retain his control over the Chilean government. The analysts made a key observation in relation to this potential outcome. This observation was that in 1989 the Constitution mandated a plebiscite and that if Pinochet were able to maintain control of the government, he would manipulate it “through control of the media, restrictive electoral registration laws, or... outright fraud.”¹⁹¹ According to these analysts, unless something substantial happened in Chile between the 1987 and the 1989 plebiscite, Pinochet would be able to use his political power to manipulate the election to his advantage, solidifying his control (yet again) over the government¹⁹².

¹⁸⁹ Department of State, Secret, Intelligence Appraisal, April, 1987, 33 pp. Chile and the United States: U.S. Policy toward Democracy, Dictatorship, and Human Rights, 1970-1990, Digital National Security Archives Item# CL02517.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

¹⁹² Ibid.

Reagan took this report and the advice of his advisors seriously. Beginning in 1987, President Reagan began implementing some of the strictest economic measures against Chile since Allende¹⁹³. It is clear that out of all of the options laid out by his advisors, the Reagan Administration wished to help create an economic climate in which Pinochet's organized opposition would gain significant clout and he would be forced to begin the process of a political transition. As a result, the tight economic measures were seen as an effective way to cut Pinochet's domestic support and put international pressure on him simultaneously.

Specifically, President Reagan instructed representatives at the World Bank and United Nations to abstain on votes that dealt with Chile. In total, the United States abstained on one vote on human rights in Chile in the United Nations and abstained on three votes to give loans to Chile in the World Bank¹⁹⁴. At the same time, President Reagan and his Secretary of State, George Schultz, made a joint statement "which outlined the administration's view of what would constitute a free election in Chile."¹⁹⁵ In one of the most surprising actions by Reagan in regards to U.S.-Chilean economic relations, however, was in later in 1987 when he revoked Chile's ability to be insured by the Overseas Private Investment Corporation¹⁹⁶. This specific move by Reagan was particularly impactful on the Chilean government as U.S.-Chilean economic relations had a heavy history on balancing both public and private investment.

¹⁹³ Sigmund, Paul E., *The United States and Democracy in Chile*. P. 167-169.

¹⁹⁴ *Ibid.*, 168.

¹⁹⁵ *Ibid.*, 168.

¹⁹⁶ *Ibid.*, 168.

The private sector also became involved in the battle against Pinochet. In the middle of 1987, a team of Chilean social scientists organized a broad-based study “to analyze the changes in Chilean society and to prescribe the appropriate responses.”¹⁹⁷ This study was possible due to the involvement of American, Canadian, and European think tanks as well as the Ford Foundation who provided all of the investment needed to carry out the research¹⁹⁸. This study revealed that the single largest factor holding back Chilean society was that an overwhelming majority of people felt that they were living in a “climate of fear.”¹⁹⁹ These results eventually helped create the framework for the “no’ vote movement” that was used during Pinochet’s special election in 1988²⁰⁰.

The aforementioned policies of economic pressure placed on Pinochet and the Chilean military government eventually became too much for the repressive general to handle. In 1988, President Pinochet announced that he would hold a special plebiscite, which would ask the Chilean public to vote “yes” for Pinochet to stay in power or “no” to get him out of office²⁰¹. This announcement shocked Chileans as well as foreign observers, including the Reagan Administration.

As a result of this news, the Chilean political opposition to Pinochet frantically began consolidating itself and preparing for the plebiscite. Instead of relying on the leadership of a single party or worrying about who to include, a broad-based coalition of political parties from the far left to far right was created

¹⁹⁷ Sigmund, Paul E. *The United States and Democracy in Chile*. P. 167.

¹⁹⁸ *Ibid.*, 167.

¹⁹⁹ *Ibid.*, 167.

²⁰⁰ Skidmore, Thomas E., Peter H. Smith, James N. Green *Modern Latin America*. Page 303.

²⁰¹ *Ibid.*, 303.

called the “Concertacion.”²⁰² This political alliance worked tirelessly to promote the “no’ vote movement” and try to mobilize the Chilean public that had been without a truly free election since 1970.

The American private sector could not stay away from this battle either. Within a matter of weeks after organizing, the Concertacion had “mounted a highly effective television campaign” that was funded and aided by media consultants from the United States²⁰³. In addition, there were widespread reports that dozens of American political consultants were working with the Concertacion to organize an effective campaign strategy²⁰⁴.

At 11:30pm on October 5th, 1988, it was announced that the No Vote had won by a “decisive 55 to 43 percent.”²⁰⁵ Despite many concerns that Pinochet would fight the results or simply not follow the people’s wishes, he accepted the results knowing that, through the Constitution, he was able to retain his position as commander-in-chief of the Chilean Armed Forces until 1998²⁰⁶. Within the year, the Chilean public had elected a new President, and the so-called “Chilean Crisis” was no longer a headache for the Reagan Administration.

²⁰² Ibid., 303.

²⁰³ Skidmore, Thomas E., Peter H. Smith, James N. Green *Modern Latin America*. Page 303.

²⁰⁴ Sigmund, Paul E., *The United States and Democracy in Chile*, P. 167.

²⁰⁵ Ibid., 176.

²⁰⁶ Skidmore, Thomas E., Peter H. Smith, James N. Green *Modern Latin America*. Page 303.

Conclusion

The history of U.S. economic policy toward Chile is a highly complex topic that is reflective of many issues in contemporary American political thought. The balance between maintaining political alliances, proliferating democratic values, and promoting free market and neoliberal economic principles is still a major concern today. During the Cold War, this balance was highly strained as factors such as international economic crises and the global spread of Communism struck fear in the hearts of American policymakers.

From JFK to Ronald Reagan, American presidents during the Cold War were deeply concerned with economic and political stability on a global scale. In many cases, these concerns led to major policy initiatives to promote regional alliances to contain Communist aggression and expansion.

In the case of Chile, American businesses and policymakers had been highly involved in the economy since the early 1900's when President Theodore Roosevelt invoked the Roosevelt Corollary to the Monroe Doctrine to expand U.S.-Latin American relations²⁰⁷. During Roosevelt's time in office, the United States used military force and the threat of military force to keep European nations out of the Western hemisphere in an attempt to prevent any economic expansion. Shortly thereafter, the American government "rapidly expanded its influence in Latin

²⁰⁷ Rabe, Stephen G., *The Killing Zone*, 1.

America” by leveraging economic policy in order to achieve political goals²⁰⁸. Chile was one nation that was a major target of U.S. policy and American companies quickly began securing an economic foothold in the nation, primarily within the copper industry²⁰⁹.

It is through this lens that we must view U.S.-Chilean relations during the middle to late Cold War. Presidents in the 1960s, 70s, and 80s created economic policies to ensure their regional, political, and economic objectives. Although these specific policies varied from president to president, it is clear that everyone from John F. Kennedy to Ronald Reagan utilized the full power of the United States government to leverage economic power to achieve its objectives.

This examination of U.S. economic policy directed toward Chile centers on the political and economic changes that occurred within Chile between 1960 and 1988. Beginning in the early 1960’s, the United States government began broad based economic reform programs to promote growth and stability within Latin America. As these programs lost momentum and popularity, right-wing political parties in Chile began to lose ground to leftist political movements. The rise of Salvador Allende and his eventual election in 1970 forever changed the relationship between Washington and Santiago. Less than three years after his election, Dr. Allende died in a violent military coup, and Augusto Pinochet took power. For the next 15 years or so, Pinochet waged a war upon his own people while using the Chilean economy as an experiment for radical free market economic reform.

²⁰⁸ Ibid., 8.

²⁰⁹ Rabe, Stephen G., *The Killing Zone*, 8.

The events that occurred within the nearly thirty years that this thesis explores forever changed Chile. The twists and turns in U.S. economic policy, from the Alliance for Progress under Kennedy to the revocation of OPIC under Reagan, created a situation in which the Chilean economy and political system would be heavily influenced by the American government.

As mentioned in the brief summary of U.S.-Chilean relations that I just offered, the Alliance for Progress was a major turning point for how American policymakers interacted with Chile. Following decades of large levels of U.S. involvement in the highly extractive copper industry, President Kennedy crafted the Alliance for Progress to help alleviate many of the social and economic ills that were rampant in Latin America. For Chile, the Alliance for Progress provided funding for “large-scale public works projects” and other attempts to fight the “mounting social problems being created by Chile’s slow and uneven economic growth.”²¹⁰

Kennedy’s Alliance for Progress was a major economic initiative that poured funds both directly from the American government as well as through multilateral development banks that were backed by the American government. Under normal circumstances, the program could have been successful in alleviating economic troubles and ensuring political stability. However, the massive growth of the Chilean population in the early 1960’s created a situation in which the Alliance for Progress funds and projects could not keep up with the migration of the rural poor to cities.

²¹⁰ Skidmore, Thomas E., Peter H. Smith, James N. Green, *Modern Latin America*. Page 292-4.

As a result, many of the socioeconomic issues were left as they were, or got even worse than before²¹¹.

With the growth of the general public came the growth of the electorate. By the mid 1960's, the popularity of leftist political parties had skyrocketed, largely as a result of the failure by the Alliance for Progress to adequately address key social problems. As Alan McPherson argues in "Intimate Ties, Bitter Struggles," the large majority of Alliance for Progress funds did not go to the poor populations and economic growth was negligible: "UN investigations showed that in the 1960s, out of every \$100 increase in wealth, a mere \$2 went to the poor...Overall, Latin American economies grew only by 1.5 percent while the jobless increased from 18 to 25 million."²¹² These issues led to massive backlash against the Christian Democrats, and in 1970 the Chilean people elected Salvador Allende to the Presidency in hopes that he would save them from the socioeconomic turmoil that they were facing.

The 1970 election sent shockwaves through the Nixon White House. Nearly immediately, President Nixon and his close advisors began a multi-pronged approach to destabilize Allende and create the conditions for a coup. Economic destabilization within Chile was quickly achieved through covert operations by the CIA as well as bold actions by the American and Chilean business community. The three years that Allende experienced in power were marked by a severe economic downturn that ended with a violent military coup in September of 1973.

²¹¹ Ibid., 292-4.

²¹² McPherson, *Intimate Ties, Bitter Struggles*, 52.

The relationship between the United States and Allende's successor, Augusto Pinochet, was heavily complex and far from static. During the first few years of the new Chilean military regime, the American government and business community made significant attempts to help stabilize Chile through economic means. The levels of foreign aid from Washington and Santiago skyrocketed, and the creation of OPIC is one example of how the American private sector was able to help shape foreign economic policy.

The period in which economic relations between the U.S. and Chile were stable came to a halt in the late 1970's when Pinochet's egregious human rights violations began gaining international attention. Under President Jimmy Carter, the United States government began to reevaluate its economic relationship with the Chilean dictator. Foreign aid was slashed, and diplomatic engagements turned less-than-friendly. Despite President Reagan's attempts early on in his time in office to normalize relations with Pinochet, by the mid-1980's it became clear that the United States government wanted to see Pinochet out of power.

The final stage of this troubled chronology occurred in 1988 when Pinochet announced a plebiscite in which the Chilean people would have the ability to vote him out of power. Under mounting pressure from both the United States and the international community, Pinochet called for this plebiscite, which he eventually lost. Following this defeat, the Chilean political system slowly returned to a state of normalcy under the government of the Christian Democrat, Patricio Aylwin²¹³.

²¹³ Skidmore, Thomas E., Peter H. Smith, James N. Green, *Modern Latin America*. Page 303.

Between 1990 and 1998, the Chilean economy experienced rapid growth that was accompanied by huge increases in political involvement and stability²¹⁴.

My most significant contribution to this area of scholarship is the examination of Reagan's turnaround when it came to dealing with Chile and Pinochet. In the third chapter of this thesis, I used primary and secondary sources to explain the political and economic climate in which President Reagan had to craft a grand Chilean strategy. From 1980 to 1982, the Reagan Administration was self-admittedly aggressively anti-Communist and, as a result, lifted sanctions and crafted new economic policies that were beneficial to the authoritarian and anti-Communist Pinochet regime. However, by 1982 a number of different factors changed Reagan's outlook on U.S. economic policy toward Chile.

Among these factors, a global economic downturn and a newly discovered passion within the Reagan Administration for proliferating democratic tradition are two of the most clear. However, I argue that the primary catalyst for a change in U.S. economic policy was a recognition that the aggressive nature of the Pinochet regime was breeding a radical and leftist opposition within Chile. Furthermore, Reagan and his advisors were concerned that the massive human rights violations and rising popularity of this domestic opposition would substantially weaken the Chilean state, and eventually cause the government to collapse.

After recognizing these concerns, the Reagan Administration began the process of slowly distancing itself from the Pinochet regime. Although Reagan's rhetoric was much stronger in many cases than his actual actions, his decision to

²¹⁴ Ibid, 304.

explore alternatives to the Pinochet regime and also create contingency plans in the case of a collapsed Chilean government is reflective of his loss of faith within Pinochet. By 1985 Reagan had fully committed to promoting a democratic transition for the Chilean government, and it was only a matter of years until Pinochet lost power through a special election that the dictator had scheduled himself.

Between 1960 and 1988, U.S. economic policy directed toward Chile was highly transformative. As previously mentioned, the various American Presidents used economic policies to help achieve the goals that they saw as essential. At times, these policies attempted to address economic issues in order to ensure political stability in Chile. In other cases, economic policy was highly aggressive and attempted to directly fight off communist influence.

Furthermore, neoliberal economic policies played a substantial role in the development of U.S. economic policy toward Chile during this time. American policymakers as well as Augusto Pinochet embraced the neoliberal economic model. Neoliberalism focuses on free market policies and the promotion of the private sector and foreign direct investment as fundamental aspects of a growing economy. The promotion of these practices by the American government and Chilean government helped create an economic model heavily supported by Milton Friedman and other scholars from the University of Chicago, or “Chicago Boys.”

To the dismay of Pinochet and his American supporters, the radical free market policies enacted in Chile eventually caused an economic downturn as the fledgling Chilean economy was faced with fierce international competition.

Unemployment rose, productivity fell, and GDP contracted heavily. Pinochet's neoliberal experiment had largely failed, and the Chilean economy did not fully recover until the late 1980's.

The ebbs and flows of American economic policy toward Chile provide an interesting look at the way that the United States government achieved, or attempted to achieve, its political and economical objectives during the Cold War. In dealing with Chile specifically, American policymakers had to take a variety of factors into consideration when crafting foreign policy. In many cases, these policymakers used economic leverage or pressure to ensure political and economic stability to ward off the threat of communism. In other cases, economic policy was used purely as a weapon against communism or leftist expansion.

In this examination of American economic policy toward Chile, there was no shortage of either types of economic policy. From President Kennedy to President Reagan, Cold War objectives in the Southern Cone were secured through overt and covert economic warfare. Without U.S. economic involvement in Chile, there would have been a much different story for the historians to write.

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