

"Large private bank loans to the Chilean government have given the junta the green light to go on violating human rights."

How American Banks Keep the Chilean Junta Going



by ISABEL LETELIER and MICHAEL MOFFITT

IN THE FIVE AND A HALF years since the military junta led by General Augusto Pinochet overthrew the democratically elected government of President Salvador Allende, the Chilean people have suffered massive violations of their fundamental human rights. Civil liberties have been trampled; political parties and trade unions banned; thousands have been tortured and murdered, or have simply disappeared; hunger and unemployment are widespread. In November 1977, the United Nations General Assembly voted

overwhelmingly in favor of a resolution condemning the Chilean junta:

The Chilean people continue to be subjected to constant and flagrant violations of human rights and fundamental freedoms, to lack adequate constitutional and judicial safeguards of their rights and liberties and to suffer assaults on the freedom and integrity of their persons, in particular by methods of systematic intimidation, including torture, disappearance of persons for political reasons, arbitrary arrest, detention, exile and deprivation of Chilean nationality.

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International condemnation has led many governments to reduce or eliminate their assistance to Chile in an attempt to force alterations in the junta's policies. But the repression has continued unabated. New and previously unpublished data show why: an enormous influx of *private* bank loans since 1976 has enabled the junta to thumb its nose at the international human rights cam-

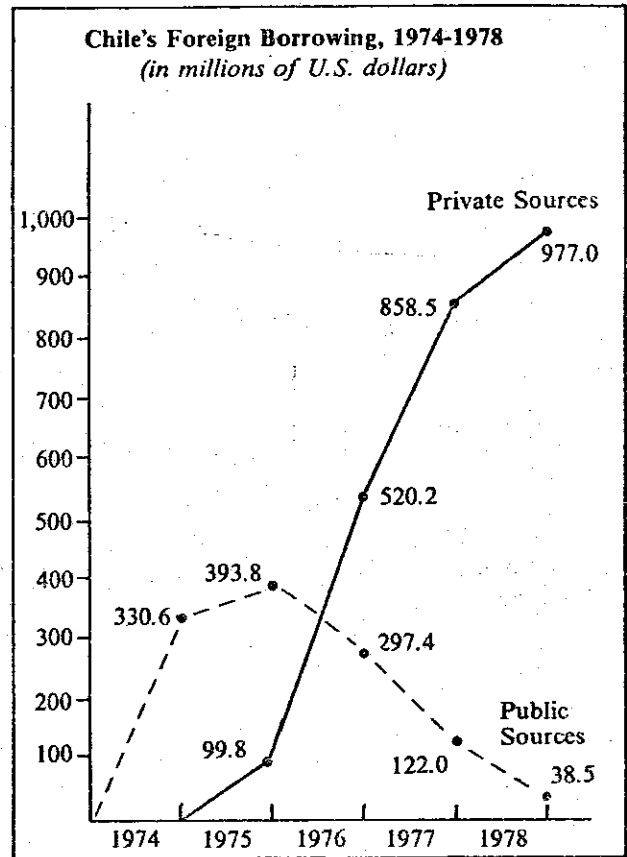
paign. For example, in 1976 when the U.S. Congress banned future military assistance to Chile, private bank loans to Chile increased more than 500% over the previous year. During 1978, Chile's loans from private multinational banks totalled one billion dollars, with U.S. banks providing \$927 million. In short, just as the Chilean government was reaching the point where it would have been forced to improve its human rights policies to gain needed assistance, the private banks came to the rescue.

This economic private bank bailout is particularly deplorable because the political repression and terror practiced by the Pinochet junta are not simply the products of mariacal generals, but are directly related to the junta's economic policies. The poverty, unemployment, and hunger which are now commonplace and the widespread political repression are simply different sides of the same coin. Systematic repression is an integral part of the economic plan which purposely lowered the standard of living of a majority of Chileans.

PAST AND PRESENT

Since 1958 Chile has had four separate governments, each with a radically different philosophy and policy of economic development. Each successive government—the conservative regime of Jorge Alessandri (1958-1964), the Christian Democratic government of Eduardo Frei (1964-1970), the Popular Unity government of Salvador Allende (1970-1973), and the military junta which has ruled Chile since 1973—has attached differing significance to civil and constitutional liberties, the place of equity as a basic feature of society, and the role of mass participation in the political process. Alessandri, Frei, and Allende all acted in the tradition of Chile's constitutional norms. Pinochet has either ignored the constitution or abolished it.

Needless to say, foreign influence, particularly that of the United States, has been a dominant feature of Chilean life throughout the 20th century. Each of the four recent governments of Chile attached a high priority to friendly diplomatic relations with the United States—if for no other reason than Chile's dependence on external financial resources to sustain its domestic economy. U.S. influence has been exercised through bilateral and multilateral economic assistance and private investment, particularly loans to Chile by private multinational banks and corporations.



During the administrations of Presidents John F. Kennedy and Lyndon Johnson, the Chilean Christian Democratic Party received considerable political and financial support from the United States. In the early 1960s, President Kennedy initiated the Alliance for Progress to stimulate industrial growth in Latin America and attack the worst forms of mass poverty and deprivation within the framework of Western-style political democracy. The "Revolution in Liberty," which was the cornerstone of Eduardo Frei's 1964 Presidential campaign, represented the prototypical example of the Alliance for Progress approach to development in Latin America.

Once the Christian Democrats took office in late 1964, the Johnson Administration responded with unprecedented generosity in bilateral assistance programs and utilized its influence in multilateral lending institutions to increase Chile's borrowing capacity. The high levels of aid begun in 1964 were continued through Frei's first five years in office. From 1964 to 1969, Chile received a total of \$875 million in direct economic and military assistance from the United States Agency for International Development and other financial sources. Under Frei, Chile became the largest

U.S. Loans to South Africa

By late 1977, the total of outstanding U.S. bank loans to South Africa was more than \$2.2 billion. Many of these loans were arranged through bank consortia, and it is impossible to determine the specific amounts which individual banks contributed to those consortia. Below is a list, compiled by the Corporate Data Exchange of New York, of the top ten U.S. lenders to South Africa—based on the total value of loans in which each bank participated.

Institution	Number of Loans	\$ Value in Millions
Citicorp	33	1,278.4
Manufacturers Hanover	24	945.9
Chase Manhattan	10	591.8
JP Morgan	16	521.8
Kidder Peabody	19	513.2
Smith Barney	8	353.3
White Weld Holdings	9	232.8
First Boston	7	202.2
PEFCO	7	175.8
London Multinational	6	165.8

per capita U.S. aid recipient in Latin America and one of the largest in the world. On the average, from 1964 to 1969, Chile received \$125 million annually through U.S. bilateral programs, another \$17.2 million from the World Bank, and \$29.8 million from the InterAmerican Development Bank. Moreover, since the Alliance for Progress stressed the importance of supplementing foreign aid and local capital by private investment, Chile joined Brazil, Mexico, and Venezuela as large recipients of investment by U.S.-based multinationals.

After 1969, the United States curtailed its aid to Chile for two reasons. First, Richard Nixon was less favorably disposed toward the Christian Democratic Party and Eduardo Frei than were his Democratic predecessors. Second, U.S. policymakers were worried about the possible victory of Senator Salvador Allende as President of Chile in the 1970 election. The two causes were inter-related. While Nixon and Kissinger believed, as did the Johnson Administration, that the principal goal of U.S. policy toward Chile should be to keep Allende out of power, they were suspicious of Frei and Radomiro Tomic, the 1970 candidate of

the Christian Democrats. Nixon and Kissinger believed that Frei's promises had stirred the passions of Chileans for expanded political democracy and social reforms, thereby contributing to Allende's popularity.

The dramatic reductions of U.S. aid in 1970 indicated that the Nixon Administration was abandoning the Christian Democrats and forging new alliances with a conservative business group, the *latifundistas* and the National Party led by former President Jorge Alessandri. Direct U.S. bilateral aid was reduced by more than two-thirds between 1969 and 1970, as the United States plunged directly into a struggle to keep Allende out of power. As the election approached, Kissinger took direct responsibility for U.S. anti-Allende operations. Kissinger said publicly that the election of a Socialist president by the Chilean people was a "contagious" example, which might "infect" the other pro-U.S. regimes in Latin America and Western Europe.

ENTER ALLENDE

Immediately after the Popular Unity coalition of President Allende began to govern Chile, the United States organized an economic blockade to destabilize the country's economy. A cable from Ambassador Edward Korry to State Department official Charles Meyer and Henry Kissinger on September 21, 1970, characterized the spirit of U.S. policy: "not a nut or bolt will be allowed to reach Chile. . . . Once Allende comes to power in Chile, we will do all in our power to condemn Chile and Chileans to the utmost deprivation and poverty." A vital element of this strategy was near-total suspension of economic aid to Chile. During the three years of the Popular Unity government, U.S. bilateral economic assistance to Chile totalled \$24.5 million; which was less than Chile had received in any single year of Frei's term. The only assistance received was that which was already "in the pipeline" prior to Allende's election.

The message was clear. At a time when the huge foreign debt contracted during the Frei years was consuming Chile's financial resources and the government was expanding imports of subsistence goods for consumption by the poor, the United States was denying credit to Chile. Using its influence in multilateral financial institutions, the United States also eliminated those sources of credit to the Popular Unity government. From 1971 to 1973, the World Bank doubled its lending

operations around the world, but Chile received no new loans or credit. Lending by the Inter-American Development Bank also fell to record lows. The anti-Allende stance of the United States government, coupled with apprehension over a fundamental change of property and social relations in Chile, also kept private investment and loans at minimal levels, contributing to the decline of investment and productivity.

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During the Allende years, the only significant increase in U.S. assistance to Chile came in the form of military aid, which tripled from 1971 to 1973. The United States was cementing its alliance with the top Chilean military officers, whom Nixon and Kissinger believed would ultimately turn against Allende. The political message was far more significant than the dollar amounts. The increased levels of military assistance, combined with the CIA covert support of subversive activities, paved the way for the anti-constitutionalist officers in the military to proceed with the coup. U.S. policy was seen by disloyal factions of the Chilean Armed Forces as support for their rebellions.

Contrary to the Nixon Administration's publicly stated hands-off policy, the Central Intelligence Agency, operating under direct instructions from the "Forty Committee" headed by Henry Kissinger, collaborated with anti-constitutionalist officers and right-wing paramilitary groups like *Patria y Libertad* to overthrow the Popular Unity government.

After the coup of September 11, 1973, the Chilean dictatorship of Augusto Pinochet was supported, politically and financially, by various agencies of the United States government and multilateral lending institutions. Following the coup, the Pinochet dictatorship killed, tortured, imprisoned, and deported thousands of Chileans, and proceeded at once to dismantle the democratic institutions which Chileans had enjoyed for over 160 years. At the same time, the Nixon and Ford Administrations restored the Chilean aid programs, which were halted under Allende. The multilateral lending institutions followed suit. As

the data on bilateral economic assistance since 1973 in the accompanying table reveals, the Chilean junta received commitments of roughly \$125 million in U.S. assistance during fiscal year 1974, while the Popular Unity government received less than \$25 million during its three years in office. Since 1973, the Chilean junta has received nearly \$350 million in bilateral assistance from the United States and roughly another \$400 million from multilateral development banks. The International Monetary Fund also provided Chile with another \$380 million in short-term balance of payments help. Chile's IMF borrowing represented an extraordinary sum, far in excess of its IMF quota.

In addition to the balance of payments relief provided by the IMF, the United States and other major creditor countries also provided large-scale debt relief for the junta in early 1974, shortly after it came to power. During 1974 alone, the debt rescheduling effectively amounted to another \$581 million in foreign assistance.

Without the debt rescheduling, many observers agree that Chile would have literally defaulted on its huge foreign obligations. Chile's debts could not be renegotiated during the Popular Unity years because Chile's major creditors demanded changes in the government's economic policies that would have had a devastating impact on the majority of the Chilean population. The junta undertook these "adjustments" willingly.

Since 1973, Chile has also received \$30 million in military credits and grants from the United States and purchased a total of \$146 million of

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U.S. armaments. The United States has not only sold military equipment to Chile which could be used to defend the country against external attack, but has also supplied technology to the military junta, useful only for internal repression of the Chilean population. The United States government and private businesses have equipped Chile with the technology of political repression, including pistols, "riot control" gear, and computers which are used to monitor political dissidents, and the government has also trained leading

Selected Private Multinational Bank Loans to Chilean Government Since 1974

(in millions of U.S. dollars)

Date	Amount	Leader of Bank Group	Date	Amount	Leader of Bank Group
April, 1975	53.4	Saloman Brothers (U.S.)	May, 1977	2.0	Manufacturers Hanover Trust (U.S.)
May, 1976	125.0	Bankers Trust Co. (U.S.)	June, 1977	75.0	First Chicago (U.S.)
October, 1976	25.0	Libra Bank (U.K.)	June, 1977	30.0	Citibank (U.S.)
December, 1976	21.0	Sudamerikanish (Federal Republic of Germany)	June, 1977	42.0	Various sources
January, 1977	10.0	Morgan Guaranty Trust (U.S.)	June, 1977	2.5	First InterAmerican Corp. (U.S.)
January, 1977	2.5	Republic National Bank (U.S.)	June, 1977	100.0	Chemical Bank (U.S.)
February, 1977	10.0	Banque Nationale de Paris (France)	July, 1977	5.0	Marine Midland (U.S.)
March, 1977	41.0	Various sources	July, 1977	2.7	McKee Financial Services (U.S.)
March, 1977	10.0	Morgan Guaranty Trust (U.S.)	August, 1977	3.0	Bank of America (U.S.)
March, 1977	10.0	Bank of Nova Scotia (Canada)	September, 1977	3.0	Irving Trust Co. (U.S.)
April, 1977	55.0	Bankers Trust Co. (U.S.)	September, 1977	42.0	Citicorp. (U.S.)
April, 1977	21.0	Deutschbank (FRG)	December, 1977	12.0	Anthony Gibbs Bank (U.K.)
April, 1977	30.0	Citibank (U.S.)	January, 1978	125.0	Wells Fargo Bank (U.S.)
May, 1977	10.0	Bank of Nova Scotia (Canada)	April, 1978	210.0	Morgan Guaranty Trust (U.S.)
			May, 1978	90.0	Chase Manhattan (U.S.)

members of the military junta in the ideology of repression and anti-communism. General Gustavo Leigh, Commander of the Chilean Air Force, and General Herman Brady, Minister of Defense, among others, are graduates of U.S. military training programs.

SLOW TO LEND

In 1974 and 1975, the multinationals were pleased to see the U.S. government and multilateral lending institutions make loans and grants to stabilize the regime, but private investors were clearly reluctant to commit their own funds. Moreover, the Overseas Private Investment Corporation, a U.S. government agency which insures U.S. investment abroad from expropriation, was under fire in the U.S. Congress and did not want to draw additional criticism by insuring new investments in Chile. Hence, despite the fact that the junta immediately began to court foreign investment, private investors were unwilling to risk their money.

The second major reason for the lack of private loans and investments until 1976 was Chile's serious economic crisis. According to a Senate re-

port, the CIA helped economists and businessmen plotting to overthrow Allende prepare a blueprint for the Chilean economy based upon the conservative "monetarist" theories developed by Milton Friedman and others at the University of Chicago. Following the coup, Pinochet selected the "Chicago Boys" as his top economic policymakers. These economists began almost immediately to dismantle the public sector of the economy. By way of explanation, Pinochet and his closest advisors stressed the need to eliminate politics from Chilean society in order to introduce a "free market" system. "Frankly," said Central Bank President Alvaro Bardón, "the success of the economic program has been fantastic. Who would have ever thought you could do such a thing in Chile? We were always too political, we never wanted to make sacrifices."

Only by eliminating all forms of free expression and political liberties has the junta been able to pursue this economic strategy that destroys the power of the working class and guts the public sector. As soon as it could, the government began to lift price controls on most essential items, while at the same time freezing wages. Most of the land distributed to peasants under the 1967 Land

Reform Act was returned to the *latifundistas*. Public spending on essential social services was eliminated or transferred to the military and police. Government spending on productive investments was reduced in order to hold down the budget deficit.

The cumulative effect of the junta's economic policies was a dramatic redistribution of income from workers and the poor to the propertied

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classes and foreign enterprises. In 1972, according to a confidential International Monetary Fund Staff Report, wage and salaried workers received 63% of total income in Chile whereas 37% went to the propertied sectors in the form of profits, dividends, and rents. By 1974, these shares of income had literally been reversed.

These economic policies, however, sank the economy into stagnation coupled with runaway inflation. Unable to arrange sufficient credit, and with inflation still in excess of 300% per year, top economic policymaker Jorge Cauas chose the only available alternative, given the junta's unwillingness to make concessions on human rights issues, which would have freed up money from European creditor-nations. In April 1975 Cauas deliberately threw the Chilean economy into a deep depression. In one year, Cauas cut government spending by 20% and government capital spending by over 50%, in order to create funds to meet Chile's debt obligations. Consequently, Chile's Gross Domestic Product fell by 15% in 1975; per capita income fell by 25%, roughly to the level of 1962. By the end of 1975, according to the government's own statistics, unemployment in greater Santiago reached about 20% of the labor force, and real wages plummeted. To reduce the payments deficit, the junta also banned imports of subsistence foodstuffs, consumed mainly by the workers and the poor. This, combined with falling real wages and growing unemployment, made them bear the lion's share of the burden of meeting Chile's foreign debt payments. Summarizing the results of the 1975 austerity program, the *Washington Post* commented that "Pinochet

and Cauas had shown the world's money men that they would pay their debts, no matter how much sacrifice had to be wrung from Chilean wage earners."

In the interest of promoting "free trade," the junta reduced import barriers maintained by previous governments. Today the tiny percentage of the Chilean population with large incomes can purchase all the amenities of the international consumer society, while the majority tries desperately to stay alive. As the *New York Times* commented, "Chile has become a bazaar filled with foreign goods that are snapped up by the well-to-do while millions of workers and their families are living hand-to-mouth."

Coupled with the severe contraction in aggregate demand resulting from lower government expenditures, the decision to lower trade barriers has forced many small and medium businesses into bankruptcy and destroyed a good deal of Chile's industrial capacity. The industries which remain competitive with imports are monopolized by a few giant financial groups with ties to the junta. The Cauas "shock treatment" provoked outcries from many independent businessmen and the middle class, historically represented by the Christian Democratic Party. When the Christian Democrats proposed alternative economic policies, which would have eased the burden on the workers and the middle class, the Party's economists and political leaders were suppressed. Finally, in March 1977, in response to its growing criticism of the junta's economic policies, the Christian Democratic Party was outlawed.

THE FACES OF THE POOR

The results of these policies alone constituted major human rights violations. Millions of Chileans have been forced to endure conditions of poverty and degradation unknown in Chile in recent times, so that a tiny minority can engage in unlimited personal consumption and financial speculation. As one Chilean economist put it, "To do what we've done here, you have to be a real son-of-a-bitch. If you start looking in the faces of the poor people, you can't get anything done." Today in Chile, the official unemployment rate is thirteen percent. Another seven percent of the labor force must participate in the minimum employment program (PEM) just to stay alive. This gives them \$40 U.S. per month, while most prices have risen to U.S. levels.

Even the most basic public services to the population have become almost non-existent. National expenditures on health care have fallen from 7% of the national budget in 1972 to less than 3% in 1977. Per capita health care expenditures declined from \$48 per person in 1971 to roughly \$13 in 1977. As Ernesto Medina, president of the Chilean Medical Association explained, "Two-thirds of the Chilean population are not able to pay the very high cost of medical care in Chile at the present time." Political persecution, coupled with professional unemployment, has contributed to a migration of over 16% of Chile's physicians

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since 1973. Government expenditures on housing have fallen from 9% of the budget in 1965 to 4% in 1977. Malnutrition is another serious problem arising from the government's policies. Studies conducted by the Catholic Church's Vicariate of Solidarity in some working class neighborhoods have estimated that over 75% of the children are malnourished.

Nevertheless a massive flow of foreign assistance from the United States and multilateral institutions continued virtually unabated until early 1977. At that time it became increasingly difficult to ignore the junta's abysmal human rights record and the desperate plight of the majority of Chileans. After repeated condemnations by the United Nations, the International Labor Organization, the Organization of American States, Amnesty International, and individual U.S. congressmen who visited Chile, the U.S. Congress voted to reduce direct American assistance to Chile. In 1976, over the opposition of the Ford Administration, Congress completely banned any further military assistance to the Chilean junta and limited economic assistance to a maximum of \$27.5 million for fiscal 1977.

That the United States had begun to reduce loans to Chile was especially damaging to the junta's image. Unlike other developed countries,

the United States government had remained strongly supportive of the junta until 1976.

Indeed, while Congress was applying tougher human rights standards to its foreign aid programs, representatives of the Ford Administration were busy drumming up support for the junta. In May 1976, Treasury Secretary and former Wall Street investment banker William Simon visited Chile in a well-publicized trip and publicly congratulated Pinochet for bringing "economic freedom" to Chile. This positive assessment of the junta's performance by a prominent Wall Street figure improved Chile's reputation in the financial community. Six months later, World Bank President Robert McNamara began urging that the Bank make new loans to Chile.

Despite this, international condemnation was limiting the junta's sources of financial support. Feeling isolated and threatened, General Pinochet and Col. Manuel Contreras Sepulveda, the director of DINA, the Chilean secret police, renewed crackdowns on dissenters internally and attacked Chilean exiles abroad. When public pressure became too great to ignore, the junta reduced the number of formal arrests. Instead political activists, trade unionists, and other dissenters simply began to "disappear." Abroad, the junta blamed its troubles on the activities of Chilean exiles and stepped up DINA's activities outside of Chile. In September 1975, Contreras requested increased funds from Pinochet to support "neutralization of the principal enemies of the government junta in the exterior, especially in Mexico, Argentina, Costa Rica, the U.S., France, and Italy." Contreras voiced particular apprehension over the political activities of exiled Popular Unity leader Orlando Letelier, former Ambassador to the United States and Minister of Defense and Foreign Affairs under Allende.

On September 21, 1976, Orlando Letelier and two co-workers at the Institute for Policy Studies—Michael and Ronni Karpen Moffitt—were riding to work when a bomb fastened under the driver's seat exploded. Letelier and Ronni Moffitt were both killed. After almost two years of investigation, U.S. government officials have traced the murders to Cuban exiles acting under contract and orders from the DINA.

Beginning in mid-1976, an abrupt shift in the source of Chile's foreign borrowing occurred and had dramatic implications for international efforts to improve the human rights situation in Chile. Private multinational banks based in the United

States, Canada, and Western Europe, which had not loaned significant sums to Chile in 1974 or 1975, began to lend hundreds of millions to the Chilean Central Bank, various other state agencies, and the private sector.

Between 1975 and 1976, when U.S. bilateral aid was drying up, and Chile's foreign debt obligations were falling due private multinational bank loans and suppliers' credits increased 500%. The total then soared to over \$800 million in 1977. As a percentage of Chile's total borrowing, private bank loans and suppliers' credits increased from less than 25% of Chile's foreign borrowing in 1975, to 59% in 1976, to more than 80% by 1977. Official estimates indicate that, by 1978, private sector loans will account for more than 90% of Chile's overall foreign borrowing.

Large consortia of U.S.-based multinational banks have provided the Chilean military government with the bulk of its private borrowing. Six U.S.-based banks—Citicorp, Morgan Guaranty, Bankers Trust, Wells Fargo, Chemical Bank of New York, and First Chicago—have managed the consortia which account for most of the loans. Together, these banks have arranged more than \$800 million in loans to the Chilean government in the last two years. The leader is Morgan Guaranty Trust Co., which has managed groups which have provided the government with \$230 million in loans; Wells Fargo with \$155 million; Chemical Bank with \$125 million; Citicorp with \$102 million; and First Chicago with \$77 million. In 1977 alone, private U.S.-based multinational banks provided \$514 million in loans and credits to Chile. Moreover, banks based in Canada, West Germany, Spain, the Netherlands, and the United

Kingdom have also managed sizable loans. And in 1977, Japanese firms furnished hundreds of millions of dollars of suppliers' credit to Chile.

Private multinational bank loans and suppliers' credits have replaced official bilateral and multilateral loans as Chile's principal source of external financing. The tremendous influx of private bank loans since 1976 has enabled the Pinochet regime to ignore international pressure to improve human rights. Repression in Chile can continue precisely because the military junta can rely on private sources of financing rather than governments who have attached rough human rights criteria to their foreign assistance programs.

By mid-1977, Pinochet felt confident enough about Chile's future in private credit markets to refuse the final \$27.5 million in economic assistance appropriated by the U.S. Congress. In other words, just when international public opinion was becoming most effective in reducing the flow of resources to the Chilean dictatorship, private banks began increasing their total lending dramatically.

While the vast majority of Chileans were flatly opposed to the junta's economic policies, the private banks were delighted. The junta had conformed perfectly to the bankers' conception of "sound economic policies." They had given top priority to meeting their debt obligations, balancing their external payments, cutting the budget, holding down wages, and allowing maximum freedom for private enterprise. Despite the tremendous internal costs of these policies, the banks began to lend the large sums needed to prop up the economy. The junta would simply have been unable to obtain these funds else-

**U.S. AND MULTILATERAL ECONOMIC ASSISTANCE AND
PRIVATE BANK LOANS TO CHILE, 1974-78**

(in millions of U.S. dollars)

	1974	1975	1976	1977	1978
Economic and military assistance	25.7	96.2	83.4	27.5	—
Export-Import Bank credits and other U.S. government loans	98.1	32.4	11.3	—	—
The World Bank	13.5	20.0	33.0	60.0	—
The Inter-American Development Bank	97.3	45.4	86.9	34.5	38.5
The International Monetary Fund	98.6	199.8	82.8	—	—
SUBTOTAL	333.2	393.8	297.4	122.0	38.5
Private sources	—	99.8	520.2	858.5	977.0
TOTAL	333.2	493.6	817.6	980.5	1015.5

where unless it had been willing to demonstrate substantial moderation in its treatment of political prisoners and fundamental freedoms. But private banks do not consider human rights criteria in their lending policies.

The junta economic planners have also found the new gush of credit extremely useful in financing Chile's \$500 million current-account deficit incurred in 1977. The deficit was largely due to the lowering of import barriers and the tremendous costs of paying off old debts. Despite paying out billions in debt service payments, Chile still has a huge debt burden. The difference is that Chile is now indebted to private, not public, institutions. In 1977, while Chile's exports stagnated, the country still had to meet foreign debt payments of nearly \$1.2 billion. This left Chile with a ratio of debt service to exports of 54.2%, the highest in the world. In other words, for every \$1 of its export earnings, Chile must use 54¢ simply to pay off old debts.

The large multinational banks have become inextricably linked to the Chilean junta's struggle for political and economic survival. Without a continual inflow of credit from the private banks, Chile will either be forced to return to the creditor nations to seek renegotiation—where it will certainly be held accountable for its massive human rights violations—or to swallow a new dose of austerity like the one Pinochet and Cauas introduced in 1975. But with the Pinochet regime under attack from both the right and the left, it would be political suicide for Pinochet to ask a country wracked by poverty and economic austerity to endure another severe depression.

THE AGONY CONTINUES

The boom in private bank lending continued in 1978. In January, the Wells Fargo Bank headed a consortium which granted the Central Bank a new line of credit totalling \$125 million. In early April, a consortium of forty banks led by Morgan Guaranty Trust Co. loaned the Central Bank \$210 million, perhaps the largest single private loan in Chile's history. ENAP, the state-owned petroleum company, recently received a new \$14 million line of credit from a consortium headed by Citibank, to finance off-shore oil drilling operations at Tierra del Fuego. The World Bank, which has not approved a new loan to Chile since December 1976, is currently considering a \$40-million loan to offset the cost of repair work on the Chil-

ean section of the Pan-American highway. Chile's largest private enterprise, the Papeles y Cartones paper monopoly, has just received the largest loan to a private enterprise without government guarantee of repayment in many years. The \$24.5-million loan was provided by a consortium of 11 multinational banks, headed by the Chemical Bank of New York. A smaller loan of \$14.7 million was granted to the firm by the Bank of Montreal and the Canadian government's Export Development Corporation.

Private multinational corporations, which have invested little in Chile since the coup, have begun to demonstrate renewed interest in Chilean investments. Exxon's \$107-million purchase last January of the state-owned La Disputada copper mines was by far the largest investment in Chile since 1973 and certainly one of the largest in Chilean history. This investment came on the heels of Goodyear Tire's decision to purchase CORFO-INSA for \$36 million. The Exxon investment was significant not only because of its size, but also because it may serve as an indication to other firms that the Chilean junta is now considered stable enough in financial circles to war-

"The American business community . . . support[s] completely a commitment of our nation to human rights."

—President Carter

rent large direct investments. The lending operations of private multinational banks based in North America and Western Europe have directly circumvented the stated official policies of Chile's major public creditors. In March 1977, when the junta outlawed the Christian Democrats and all other remaining political parties, consortia of U.S. and Canadian banks nonetheless lent the government over \$60 million. In January 1978, shortly after a "referendum" in which citizens were asked to choose between the Pinochet government and "international aggression" against Chile (which is how the ballot described the United Nations resolution of November 1977), Pinochet exiled twelve Christian Democrats for participating in political activities which he had outlawed. Yet the same month, the bank consortium headed by Wells Fargo lent the gov-

ernment \$125 million and Exxon purchased approximately \$100 million worth of the shares of the La Disputada mines. The retaliation against the Christian Democrats would not have been possible if the junta had to depend upon the U.S. government for economic aid.

President Carter, who has declared his support for human rights around the world, intends to do nothing about the situation. During his visit to Brazil, Carter was asked by a Brazilian journalist how he would respond if the U.S. Congress attempted to withhold U.S. private bank loans from countries which violate human rights. Carter responded that "it would be inconceivable to me that any act of Congress would try to restrict the lending of money by American private banks. . . . This would violate the principles of our own free enterprise system. And if such an act was passed by Congress, I would not approve it." Pursued on the potential conflict between private bank loans and the status of fundamental human rights, he continued, "I don't see any incompatibility between a belief in the free enterprise system where a government does not dominate the banks . . . and a deep and consistent and permanent and strong belief in enhancing human rights around the world. . . . The American business community . . . support[s] completely a commitment of our nation to human rights."

While some defenders of the policies of the military junta have attempted to show some "moderation" in the junta's policies in the past year, there is little evidence to support this view. To cite but one example, when Assistant Secretary of State Terrence Todman visited Chile in August 1977, Pinochet announced the dissolution of DINA, his personal secret police, whereupon Todman publicly applauded Pinochet's actions. But Eugenio Velasco, former Dean of the School of Law of the University of Chile, called the dissolution of DINA a "farce." DINA's functions as Pinochet's personal secret police, Velasco pointed out, were simply transferred to another agency with a different title, the National Information Center (CNI).

Others who have sought to discover some "improvement" have overlooked the fact that all of the essential freedoms Chileans enjoyed for decades still do not exist in Chile. As José Zalazette, a noted Chilean lawyer in exile, has pointed out:

"The cumulative effect of continued repression and the increased perfection of the state machinery for control and intimidation now allows the Chilean junta to turn gradually to less resounding forms of repression. To applaud this as progress is to praise a dictatorship for accomplishing its own goals."

What has changed in Chile is the business climate. For nearly three years, the junta was largely unable to attract private loans or investments. Now, however, private banks have lent Chile nearly \$2 billion, suppliers' credits have soared, and multinational corporations have begun to return. According to U.S. Commerce Department figures, rates of return on U.S. investments in Chile have recovered from the low levels of 1974 and 1975 and now are comparable to rates of return in other Latin American countries.

The improvement in the climate for foreign investors, however, should not be confused with a return to the prosperity and freedom Chileans once enjoyed. Some observers have asserted that the economy is recovering from the deflationary policies of 1975-76 and that the economic recovery will hasten a return to democratic rule. But the kinds of economic policies which are the hallmarks of the Pinochet regime in Chile can only lead to a more rigid polarization of Chilean society. A small group of firms and individuals controls Chile's entire productive apparatus. In order to establish its credit-worthiness with foreign banks, the junta has sacrificed both the health of Chile's industrial structure and the welfare of the Chilean people. Only a government which represses political activity can long pursue such policies without being held accountable for the human suffering it has caused. □