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# Economic Nationalism in East–Central Europe and South America

1918–1939

## Le nationalisme économique en Europe du Centre–Est et en Amérique du Sud

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## **Chapter 3**

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### **State Socialism in Chile 1932: Economic Nationalism?**

by RYSZARD STEMPOWSKI

#### **I. The Problem**

By nationalism I understand a general conception of reality in which the nation is both the central category and the supreme value. With regard to the economy, nationalism combines the notion of the national economy with the notions of national interests and needs, according to the principle proclaiming the supremacy of economic interests and needs of a given nation over all other kinds of interests and needs, including the interests and needs of other nations.

However, a combination of national needs and interests and the national economy occurs in any general economic strategy. It is easy to perceive this when it comes to the formulation of a new strategy under the influence of special circumstances. This is what happened in Chile in 1932 and the special circumstances were Chile's position in the world system, the effects of the Great Depression and the existence of the Socialist Republic (from June to September)<sup>1</sup>. Therefore the question is: was the economic policy of the Socialist Republic a nationalist one?

#### **II. New Ideas on State and Economy**

The Socialist Republic was the brainchild of people who were born predominantly in the closing years of the 19th century and were molded under the influence of great transformations. Reminiscences of the civil war of 1891 still

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1. This essay is based on the first draft of my book on *State Socialism in Peripheral Capitalism: Chile and the Great Depression In 1932*.

lingered in their childhood memory; later, within a short period of time these people felt some of the effects of the European war of 1914-18, witnessed the two biggest revolutions of the 20th century, the Mexican and the October one, saw the rise of the Chilean working class movement, learnt about the great changes in the socio-political system of Russia and the new states of Eastern Europe, in the mid-1920s they were involved in important political reforms in their own country and finally, in the early 1930s, experienced the effects of the Great Depression. Those architects of the Socialist Republic championed a socialist programme, or, to be more precise, various concepts of the socialist social order, as diverse as the founders of the new republic themselves. Understandably, these socialist conceptions were bound to reflect their personal experience, the Chilean social experience, and imported ideas, doctrines and ideology. The doctrines of the Socialist Republic cannot be examined in isolation from their context. However, as the main conceptions of the economic programme of the Socialist Republic I will regard only those conceptions which were proclaimed by people placed within the power structure of the Republic, by the organs of power and state institutions or ones under genuine control of the leaders of the Republic, by political organizations with which the authors of the new order were associated and by the papers controlled by those leaders or ones which represented groups lending their support to the leaders of the Republic.

My main objective here is to 1) define the content of these conceptions, 2) identify the authors of the statements examined, 3) trace the origins of those statements, and 4) compare these concepts to one another, and thus attempt to reconstruct the economic programme of the Republic.

I will begin by presenting two programmes formulated shortly before the proclamation of the Socialist Republic by outstanding contributors to the cause. The first of them is Carlos Davila's *Plan* published just before the birth of the Republic<sup>2</sup>.

His diagnosis ran as follows: the country is in crisis but that crisis only exposed weaknesses that were there before. "Under normal conditions, Chile was an economic absurdity, with its capacity for international trade based on just three products, which are now losing their importance and will go on losing it

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2. *La Crónica*, May 3, 1932; *La Opinión*, May 5, 1932; reprinted in *El Presidente y la Revolución de Junio*, Santiago 1932. First published as "Chile no está arruinado," and later as "Una política de agresión contra la crisis," the article soon came (in May) to be known as *Plan Davila*. Cf. R. Stemplowski, "Hacia la autonomización y totalización del estado: Carlos Davila y su concepción del socialismo de estado," in A. Annino et al. (eds.) *América Latina: dallo stato coloniale allo stato nazione (1750-1940)* Vol. I, Milano 1987.

even when the world crisis is over." The country is suffering and the jobless suffer the most. Only a small proportion of the funds earmarked for preventing the effects of unemployment ends up in their hands. Besides, "not even unemployment insurance nor public works projects nor the benefits paid directly to the people concerned can prevent unemployment [...]. In Germany there are 15 million people partly or wholly on the dole now [...]. Unemployment is a natural side effect of a system that started to run wild because of free competition and unbridled greed, it is a consequence of the system which reigns in Chile."

Davila blamed this state of affairs on the people who exercised power and, on a broader plane, "traditionalist elements." "For a hundred years the doctrines of all our parties focused on problems of social consciousness without taking economic activity into account." The rulers not only are not able to face the challenge of the future, they do not even have a full picture of the current situation and the President himself is insulated from the society. Such people have no right to lead the country. Meanwhile the situation is becoming perilous because the old system has been undermined and a new one is still lacking. The society already knows that it "will cast away from its shoulders the ballast of a frustrated political system and a defeated economy. But it lacks the possibility of the materialization of its strivings at the level of authority. The longer this situation continues, the greater the hardship the country will come to." And, Davila goes on, nothing will come out of meaningless moves. "The country knows it has nothing to expect from cabinet reshuffles or queer political maneuvering." The country is ready for a fundamental change and "it will respond with dignity when it is called upon to replace the present economic and political system with a different one."

Davila calls for a "sweeping change of the system," he proposes "state socialism" (*socialismo de Estado*). The projected ultimate goal, a "classless republic," is still a long way off. First it is necessary to concentrate on the problem of emerging from the crisis and embarking on a path leading to that ultimate goal. "Chile is not a ruined nation." Davila proposes the introduction of a planned form of the national economy: the establishment of the State Economic Bank and state-owned enterprises (in industry, commerce and services); the introduction of a state monopoly of the utilities (electric energy, gas, telephones, etc.); the harmonization of the economic activity of state-run organizations with the economic activity of private people on the basis of criteria set by the state.

The aim of planning would be "to regulate the workforce depending on production needs defined by the state on the basis of social criteria rather than by profit-oriented private interests." The proposed "production plan" would be supposed to revitalize the export-oriented branches of the economy by



introducing "organization and incentives" to streamline them with a view to protecting Chile's position on the world market, even if it was only a mediocre position.

The policy of increasing exports would involve a broadening of the range of products (the programme mentions at least twenty products manufactured by private enterprises of various countries; such goods could also be turned out in Chile). Chile would sell such goods at competitive prices because, according to Davila, "the state does not need to seek profit while selling its products," and he insists that this activity would not cause conflicts with other countries because the volume of Chilean exports would not threaten anyone. Aside from the State Economic Bank (which could possibly be set up with the involvement of private capital), Davila envisages the establishment of the following state economic units:

a) *La Compañía Agrícola de Estado* (commercial farming on state land with the use of the labor of the unemployed and, should there be too many of them, with the use of land taken over from private owners who would be expropriated against compensation payable in state bonds denominated in the domestic currency; the use of the land would be based on huge mechanized farms, with emphasis on previously unknown or little known crops and partly processed products which could easily be sold abroad, such as sugar beet, saccharin, soybeans, rice, linen, wood pulp, cellulose, etc.).

b) *La Compañía Minera de Estado* (an enterprise for mining metals: iron, gold, platinum, aluminum, lead, etc.; and an enterprise for mining other minerals, such as potassium, oil, salt, sulphur, coal, borax, carbonado, etc.; these enterprises would have the right to mine on privately owned land and use private mines against periodic payment and royalties).

c) *La Compañía Industrial de Estado* (especially new industries, which would be monopolized by the state; the processing of raw materials produced by state-owned enterprises; takeovers of private enterprises which are in disarray or whose products do not conform to the social criteria of consumption).

d) *La Compañía de Transporte de Estado* (organized on the basis of the state railways with a view to integrating sea, overland and river transport; its whole activity would be oriented not to profit but to assisting in the creation of the new economic structure of the country).

e) *La Compañía Nacional de Servicios de Utilidad Pública* (the takeover of all power plants and gas works, telephone networks, etc.; in these domains, licenses could not be granted to any private enterprise; the groundwork would be laid for future state monopoly for the full range of such services).

f) *La Compañía Comercial de Estado* (provision of raw materials and other production supplies to state-owned enterprises; sale of state farm

produce and products of state-owned manufacturing and mining industries; the running of trade agencies in all major centers of international trade; the handling of imports for state needs; the provision of information for state-owned enterprises about the situation on the international markets for their products; possibly, commercial services on the international market with the involvement of private persons and governments).

The state-owned enterprises would be subordinated, through the state bank, to a new state body, the Economic Executive Committee (composed of the President of the Republic, the ministers of finance, foreign affairs and development, the president of the bank). Control would be exercised with the help of plans for at least one-year periods, which would be adopted by the said Committee. Along with that enterprises would be subordinated to an inspection body which, next to seeing to the conformity of the activity of the enterprises with the law, would also oversee them from the point of view of their efficiency and supervise their employment policies; it would have a vast apparatus and extensive sanctions at its disposal. With this arrangement, the inspection bodies would eventually be transformed into one of four elements of state power.

The state would define the main lines of activity of private producers. The Economic Executive Committee would map out a *plan ideal* of private production in all branches of the economy. The laws defining the activities of the Committee would empower it to oversee the credit market; to federate enterprises and branches of industry of a similar production profile (in order to take over responsibility for surplus production of the federated units); to use taxes as an instrument of persuading private producers to obey the plan; to enforce freight rates depending on the cooperation of private producers with the state and on regional differences with regard to demand. The Committee would also be equipped with other instruments it could employ in order to harmonize the activity of the private sector with that of the state sector.

Davila termed the policy he proposed as an "assault on the crisis." The pursuit of such a policy calls for "the kind of mobilization there is during the state of war (*estado de guerra*)."<sup>1</sup> His argument ran as follows: "State of siege (*estado de sitio*) measures, such as the suspension of subjective civil rights, may be restored to when there are political coups, but it is not allowed to suspend or restrict economic rights when the country is rocking in its foundations because of economic upheavals. This means there is more respect for economic values than for human beings. I am convinced that the Constitution authorizes the Government to take full control of the national economy in the circumstances we are witnessing at present. [...] When the Constitution made property a social function (*función social*), it simultaneously obliged the State to see to it that this function is indeed fulfilled; the Constitution nullified the



conception of property based on Quiritarian law and, by that token, there was no reason why it should resort to the notion of the primitive community rule. This one decision alone was enough to impart a 'social meaning' to our fundamental law, the meaning Saint-Simon advocated already a hundred years ago; it now constitutes a sufficient basis for introducing state supervision over the entire area of economic processes taking place in the country."

Davila went on to substantiate the view that such understanding of private property did not clash with the original contents of the doctrines of individualist liberalism. "A collectivized economy existing parallel to the private sector has proved feasible even in the most extreme socialist experiments, so it should be all the more possible in Chile. Socialism does not preclude private property." However, the latter must not present an obstacle. Hence the need for special legislation, patterned after the legislation relating to the security of the state. For the limits of economic activity of private people must be curtailed and the criteria of that curtailment should be dictated by the interests of the nation.

But while Davila proceeded from the argument about the necessity of overcoming the crisis, at this point he added a dramatic dimension to the notion of crisis: "It will depend on the attitude of the traditionalist elements of our society whether class struggle erupts in our country. A social war in Chile can be avoided, the present crisis can be resolved provided there is widespread awareness of the necessity of achieving just that. In the present situation, both a capitalist and a man who sells his own labor suffer equally because of the disruption of a sick order. Today it is still possible to introduce preventive measures, i.e. changes, without a violent change in the situation of individual classes. Tomorrow it will be too late for that. [...] If we were able to adapt what good has still been left of the French Revolution for shaping our domestic political system, without the necessity of storming the Bastille, beheading the king, without terror and bloodthirsty tribunals, then, let me ask, is this not the time to try to employ the suitable elements of modern revolutions without the need to experience some equivalent of the march on Rome or a decade of heroic suffering of the Russian people?"

Davila assures the Chileans: "We do not want a state that would overwhelm the individual, on the contrary, we want a state that will diligently breathe new vitality into him and open up new vistas for his now subdued activity. Nor does our search lead to an absurd charitable-society state but to a community state. Such a state is to further the common good rather than the accumulation of wealth by a few." "The process of accumulation is inevitable, it is necessary [...] but its effects should be channelled by institutions that are to play a decisive role in the production process: the State, corporate bodies in public life and private organizations that help to implement economic plans [...]. The political structure will lead to a change of the pattern of representative democracy."

"The attempt to introduce socialism adjusted to the special national traits is justified not only by those elements of that doctrine that determine its humanitarian superiority but [also] by the fact that it proposes economic solutions to the economic crisis." It is in this context that the following thesis appears: "Socialism with a human face (*socialismo de tinte humano*), which overcomes some merciless limitations, is the most proper proposition for the young nations which have great resources of spiritual forces."

So much for the main theses of the *Davila Plan*. Where could Davila find inspiration for his conception?

Davila's texts hardly abound in direct references. As for names, six are mentioned. Of these, the reference to Wilson is of an ornamental nature and the brief quotation deals with the aims of war treated in the context of democracy. However, to Davila Wilson is only a U.S. President. There is no reference to Wilson-the thinker, who more than thirty years earlier looked for an intermediate road between individualism and socialism and who suggested a broadening of the functions of the state, something Davila should find to be of interest to him<sup>3</sup>.

Three more names appear in the context of the argument about the social role of capital, but the only reference that really matters is that to Adam Smith. Saint Simon and Babeuf appear in banal contexts. Smith's prestige was used for supporting the thesis that the social role of capital does not clash with the way property is treated by individualistic liberalism of the 18th-19th century. This thesis is untenable but, as will be demonstrated later, some kind of liberalism did exert an influence on Davila's ideology.

In a passage on democracy, Davila says what it should be like in order not to play, as G.B. Shaw put it, "the role of a balloon suspended in the air to attract the attention of the people, so that others could pick their pockets." Did Davila mention the Nobel prize winner, immensely popular in Chile, because of his journalistic manner? Or maybe Davila looked at Shaw not so much as the author of *Mrs Warren's Profession* as the co-architect of the socialism of the Fabians? Maybe he read the "Socialism" entry Shaw wrote for *Encyclopedia Britannica* and which was published in Spanish by *Amauta*<sup>4</sup>? The quotation given is evocative of the style of another of Shaw's works, *The Intelligent Woman's Guide To Socialism and Capitalism*<sup>5</sup>. Could this be where the source of inspiration of the Chilean reformer should be looked for?

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3. W. Wilson, *The State: Elements of Historical and Practical Politics*, Boston 1908 (1st ed. 1889).

4. G.B. Shaw, "Definición del Socialismo," *Amauta*, November 1926, pp.9-11.

5. G.B. Shaw, *The Intelligent Woman's Guide to Socialism and Capitalism*, New York 1928.

When he mentioned Lange, another reference in the *Plan*, without giving his first name, Davila must have been sure that the reader of the *Plan* will associate the name with the right person, or maybe he unwittingly hinted that to quote such an author was regarded as a peculiar social or intellectual credential. "Like Lange, I am convinced that the ideas I have laid down pose no danger whatsoever but are actually a prelude to our deliverance from a grave danger." This can probably refer only to Friedrich Albert Lange. Davila could have read *Die Arbeiterfrage* published in 1865 or the widely known *History of the Materialist Philosophy* from the same period. That Lange is an important trace because, as the main representative of early neo-Kantism, he referred directly to conceptions that later came to be termed as ethical socialism and professorial socialism (*Kathedersozialismus*). In this way Davila could get at least a part of the knowledge of the European forerunners of state socialism. Lange's works could turn his attention to the work by Gustav von Schmoller, available in Chile in French, in which he could read that "without a strong organized political power, which would at the same time perform broad economic functions, without a state sector of the economy which would play a central role in relation to other sectors of economic activity, a highly developed economy is unconceivable."<sup>6</sup> Finally, Davila could learn a lot about Marx and the contents of *Das Kapital* from Lange.

Not all the sources of inspiration named by Davila will survive an attempt to verify them. Davila refers to the Chilean Constitution, but it does not contain a clause about the social function of property even though it does envisage a possibility of making easements, yet this is not the same thing as the social role of the private property<sup>7</sup>.

Nor was Smith the author of the conception of the social function of property; in reality it was taken from the then very fresh ideas regarding subjective rights. Beyond doubt, Davila questioned in his *Plan* the invariability of subjective right, those of property and freedom. It is true that he may have read critical remarks about the civil law foundations of property in Lange's works, but it was only Duguit who advanced the theory that property is not a subjective right but

6. Quoted after S. Villalobos R., F. Silva V., O. Silva G. and P. Estelle M., *Historia de Chile* Vol.4, Santiago 1980, pp.837-838.

7. Article 10 reads: "El Ejercicio del derecho de propiedad esta sometido a las limitaciones o reglas que exijan el mantenimiento y el progreso del orden social, y, en tal sentido, podra la ley imponerle obligaciones o servidumbres de utilidad publica en favor de los intereses generales del Estado, de la salud de los ciudadanos y de la salubridad publica." *Constitución Política de la Republica de Chile, Promulgada el 18 de Setiembre de 1925*. Compare the article 38 of the Argentine Constitution of 1949: "La propiedad privada tiene una función social y, en consecuencia, estara sometida a las obligaciones que establezca la ley con fines de bien comun."

a social function. The lawyer Davila, who could read French, may have owed the knowledge of this conception directly to Leon Duguit, who incidentally first presented the conception of this function in Buenos Aires in 1911<sup>8</sup>.

Davila's criticism of traditional liberalism must have owed a lot to the North American current of social critique<sup>9</sup>. However, it is not clear whether he got to know Bellamy's vision of a socialist society in the year 2000<sup>10</sup>, nor do we know whether he knew Henry George's works pointing to the anti-progressive nature of the social distribution of wealth<sup>11</sup> or, for that matter, Lloyd's book pointing to the effects of the disappearance of free competition and calling for more energetic state action against big corporations<sup>12</sup>. And if Davila studied social problems so earnestly while he was in the United States, he would have come across Ward's *Dynamic Sociology*. It was Ward who argued that it was necessary to reconcile individualism with collectivism and the freedom of individuals with state economic and social interventionism, who demanded the planning of socioeconomic progress on the road from democracy to sociocracy<sup>13</sup>. Davila could also come across similar ideas in Croly's extremely popular book<sup>14</sup>, and when he was in America, the already famous John Dewey published a new book on old and new individualism. In it, he tried to demonstrate that the liberal ideals of individualism had disappeared under the burden of capitalism, that collectivism was inevitable and the important thing was to subordinate that collectivism to the rules of democracy and planning<sup>15</sup>.

Davila could judge the effects of planning on the basis of information about the Soviet Union, which he keenly collected. He must have shared in the experience of his generation which was connected with following the implementation of the first five-year plan and the impact of the idea of planning. "Even if it was only a coincidence that the Soviet leaders appeared, through the first five-year plan, to be 'mastering their fate at precisely the same time as the

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8. L. Duguit, *Traité de droit constitutionnel*, Paris 1927. W. Panko, *O prawie własności i jego współczesnych funkcjach*, Katowice 1984, p.84. W. Panko's letter to the author, May 16, 1985.

9. On this aspect of American history, see R.H. Gabriel, *The Course of American Democratic Thought. An Intellectual History Since 1815*, New York 1940, pp.331-418, and W. Osiatynski, *Ewolucja amerykańskiej myśli społecznej i politycznej*, Warszawa 1983, pp.341-350.

10. E. Bellamy, *Looking Backward, 2000-1887*, Chicago 1946 (1st ed. 1897).

11. H. George, *Progress and Poverty*, New York 1904 (1st ed. 1897).

12. H.D. Lloyd, *Wealth against Commonwealth*, New York 1894.

13. L. Ward, *Dynamic Sociology*, New York 1883.

14. H. Croly, *Promise of American Life*, New York 1914 (1st ed. 1903).

15. J. Dewey, *Individualism Old and New*, New York 1929.



rest of the world fell a hopeless victim to the Great Depression,' the contrast made an immense impression."<sup>16</sup>

The very term *state socialism* was introduced by the German advocates of the reform of the capitalist state. It became quite popular ever since the periodical *Der Staats-Sozialist* began to appear in 1877. While it cannot be ruled out that Davila took this idea directly from the writings of German authors, it is much more probable that he adapted the programmatic ideas of Chilean socialists to his own needs. Already in 1931, *Partido Socialista de Orden* declared that state socialism (*socialismo de estado*) was "the supreme product of the human intellect, a society organized around the working classes which delegate their authority to the socialist state."<sup>17</sup> Several days before the announcement of the *Davila Plan*, the leader of that Party, Eduardo Germain, proclaimed during the May-Day rally: "We are striving to take over power in order to introduce state socialism."<sup>18</sup>

Shortly after the publication of the *Davila Plan*, Alfredo Lagarrigue, another co-father of the Socialist Republic, formulated a programme of his own, which came to be known as the *Plan Lagarrigue*. Its first published version was entitled *El programa de acción económica de la revolución* and appeared in *La Opinión* of June 5, right after the coup d'état. The second, slightly revised version, *Plan Socialista Alfredo Lagarrigue*, appeared in August<sup>19</sup>. A summary of Lagarrigue's programme follows.

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16. G. Barraclough, *An Introduction to Contemporary History*, Harmondsworth 1967, p.218. (Barraclough quotes L. Kochan, *The Making of Modern Russia*, London 1962, p.274.) "What the working classes in the West observed was that the Soviet Union, which had suffered severe unemployment in the period of the New Economic Policy, was now faced by a shortage of labor - and this at a time when unemployment in the West had reached frightening proportions - and that, whereas industrial production in the principal capitalist countries had declined below the level of 1913, that of the Soviet Russia showed an almost fourfold increase. In the circumstances of the day it is not surprising that more attention was paid to Soviet achievements than to their cost. For the victims of the Great Depression, and for many others as well, they appeared to demonstrate that communism - whatever cautionary qualifications orthodox economists might introduce - was not merely a revolutionary creed, but an economic system which worked while the machinery of capitalism was creaking at the joints." *Ibid.*, pp.218-219.

17. F. Casanueva Valencia and M. Fernandez Canque, *El Partido Socialista y la lucha de clases en Chile*, Santiago 1973, p.99.

18. A quotation from the speech by Eduardo Germain, in W.S. Culbertson, U.S. Ambassador in Santiago, to Department of State, No.1211, July 27, 1932, *National Archives* GR 49 (Department of State), 825.00 (General Conditions)45. Hereafter cited as NA 825.00(GC)45.

19. *Cuadernos de la Economía Mundial* (1932)8, pp.14-28.



In the course of the capitalist evolution of the West, says Lagarrigue, Chile was increasingly transformed into an economic colony, exploited by the companies, kept in the form of a system of illusory rather than real political liberties. Chile's governments could not even think of controlling the economy, for both internal and external reasons.

Truly national exportable production is smaller today than it was sixty years ago, the *Plan* says. Everything has been systematically given away to foreigners. Chile has lost control over the administration of credit, trade, the level of wages and the labor market. Foreign trading firms have monopolized foreign trade and the domestic wholesale trade and now control vast areas of the retail market; foreign enterprises own the whole of the mining industry and a large part of the utilities. The privileged class lives in luxury ensured to it by foreign capital in exchange for Chile's natural resources and at the expense of the people. For this reason, the members of this class respect first of all anything that is foreign. The world crisis has now exposed our condition, says Lagarrigue, and the nation is beginning to be aware of the terrible reality. "We are beginning to look like the area of a mine whose owners paralyzed its operations." Unemployment is not the problem of individuals, it is a problem of the whole country. The Chilean people must liberate itself both from exploitation on the part of "international capitalism" and from national capitalism which is at the service of foreign masters.

To this end, it is necessary to reject the principle of economic liberalism which only introduced injustice and made the Chilean cabinets passive observers of economic chaos if not accomplices of "capitalist imperialism." The doctrine of government should be based on creating greater material opportunities for the weaker and curtailing the ambitions and strivings of the richest. The socialist doctrine of economic collectivism is an expression of an organization of the society which prevents the destruction of the weakest by the strongest. The liberal principles of progress understood as the survival of the fittest and the ensuing supremacy of profit over morality and the allegedly natural law of supply and demand are wrong. "In a socialist system, there is neither supply nor demand; there is only production and consumption which are a result of organization."

In the present situation, governments should interfere in the area of economic activity in order to prevent struggle between individuals, restore justice and equilibrium in the socialist meaning of these words and regulate production and consumption in such a way as to ensure existence to all. "The government economic programme must contain three clearly formulated main and direct goals: to feed the nation, to clothe the nation and to ensure shelter to the nation (*alimentar al pueblo, vestir al pueblo y domiciliar al pueblo*), i.e. to all the people, without differentiating between social classes or parties." Such

activity should constitute "the supreme economic law of the country. All the rights of individuals may be violated and all the privileges denied, as in a case of war, if the salvation of the people so requires." Chile needs a "government based on the principles of economic and social justice."

The government must: 1) hold a monopoly of credit, 2) exercise effective control over commerce, and 3) be capable of employing surplus manpower. It is necessary to exploit the centralization and state control in various areas of the economy, striving to socialize those areas, rejecting the principle of personal profit, introducing the criterion of social utility (*utilidad social*).

The implementation of these goals, Lagarrigue continued, requires the establishment of three kinds of institutions. First of all, it is necessary to set up a State Bank by suitably reforming the Savings Bank (with its 135 branches) and restore its banking duties to it. In 1930, it had 145 branches (more than all the other banks combined) and controlled 38 per cent of credit on the national scale. It is also necessary to transform the Central Bank into the State Issue and Deposit Bank by eliminating private shareholders (banks). The state monopoly of credit demonstrates that the creation of it and awarding it to a private person is a social function, performed by the society through official bodies. The State Bank would contribute to the development of production, facilitate trade and guarantee wage and salary payments. It is proposed to grant three kinds of credit: productive (start-up and operating credit), commercial, and consumer credit (of the housing and food-and-clothing variety).

Second, it is necessary to set up the State House of Commerce. This enterprise would take over domestic wholesale trade and exports in order to ensure access to the market to domestic producers (without the involvement of foreign traders) and to exercise control over consumer prices; exports should make it possible to import essentials and other indispensable goods and to repay foreign debt. In order to set up this enterprise, it is enough to equip the State Railways enterprise with suitable powers and to transfer to it the necessary port and transport facilities of the sea-going and coastal merchant fleets. The State Railways has adequate technical facilities, staff and capital.

Third, it is necessary to set up a system of enterprises of a mixed cooperative-state nature in order to stimulate production and control the consumption process. The Government should introduce the duty to work in order to prevent plant closures or cause the reopening of factories in the whole manufacturing industry, farming and mining; enterprises embraced by such government action, whose production falls into the public utility category, will receive the status of state-owned enterprises under government supervision. Besides, joint-stock companies which receive the social utility status (*utilidad social*) should use a part of their profit for withdrawing its stocks from the market and when 50 per cent of the stocks are in the hands of the company, it will be

transformed into a state-owned enterprise under government supervision. This will facilitate both the absorption of surplus manpower and control over the level of wages.

The combination of the powers of the State House of Commerce and state-owned enterprises will make it possible to harmonize production with consumption. Besides, all enterprises (private ones included) must contribute to the direct satisfaction of the needs of a number of people, specified for each enterprise, by paying an annual unemployment contribution (*contribución de cesantía*), with a view to eliminating it; this should be combined with a suitable differentiation of wages and salaries, with preferences for employees who have families to support.

According to the authors of the plan, the implementation of the programme proposed therein required the establishment of the Ministry of the National Economy.

However, before the effects of the implementation of this programme can be felt, it is necessary, according to Lagarrigue, to take stop-gap measures. He called them *revindicaciones inmediatas*. The government should resort to consumption credit in order to take over (*requisar*) the foodstuffs and clothing which manufacturers and traders have stockpiled in anticipation of further price rises. The goods should be distributed free of charge to the needy, with the help of trade unions. Before the government plan of providing the population with housing is carried out, it is necessary to ban any evictions due to the tenant's insolvency, lower the rent by half next and finally enfranchise the tenants in towns. As for the farming population, *inquilinos* should be recognized as owners of the property they occupy at once, until they are provided with other quarters within the framework of the implementation of the state plan of agrarian reform. Levies imposed on private fortunes would provide the funds for meeting the costs of those stop-gap moves.

So much for Lagarrigue. As in the case of the *Plan Davila*, let's look for the possible sources of inspiration for these conceptions.

The circumstances in which Lagarrigue formulated his plan suggest that it is necessary to consider first of all the influence of the programme of *Nueva Acción Pública*. The leadership of that party plotted against the Montero government, competing with the currents represented by Davila and Alessandri. Therefore when Davila published his plan and simultaneously *Federación de Izquierdas de Chile* came out against any kind of cooperation with the Montero government and in favor of the formula of socialist state economy and when, on top of that, Alessandri himself publicly recognized the inevitability of an "evolutionary and rationalist state socialism," the NAP leaders decided that

they had to respond to these declarations<sup>20</sup>. The *Plan Lagarrigue* may be recognized as the *NAP* position. To what extent is this *Plan* a derivative of the declarations which accompanied the establishment of the *NAP* in 1931?

Lagarrigue refers to the content of those documents especially in the opening and the closing part of his economic programme, when he speaks about the premises of Chile's situation and the immediate measures to arrest the crisis<sup>21</sup>. The proposed institutional solutions and lines of economic policies are new in comparison to the early *NAP* declarations and betray a certain affinity to the *Plan Davila*, possibly even imitate it to a certain extent. However, it will be safer to say that both Davila and Lagarrigue participated in the same public debate going on within the same society, with all consequences for the programmes they formulated.

The *Plan Davila* and the *Plan Lagarrigue* are the two most important platforms discussed by the conspirators. On June 4, when the conspiracy reached its climax, an appeal to the people was issued. The Revolutionary General Staff meeting in El Bosque announced the following:

"We are not guided by low ambitions or mean hatred: all we want is to achieve an economic liberation of the country and a triumph of social justice, through the establishment of the SOCIALIST REPUBLIC OF CHILE, guided by lofty ideals of constructive nationalism, which will ensure the right to live off the productive work to all Chileans.

The new order that we fully support, wishing to serve the inalienable social aspirations, will ensure state control over the national economy, impart discipline to productive forces and guarantee that Chile's wealth will be reborn through energetic action, not for the satisfaction of the egoistic greed of the corrupt oligarchy but for the welfare and health of the people (*pueblo*).

In the face of the strivings of foreign capitalism, the state will firmly observe the duty of strengthening control over our [natural] sources of wealth which have until now been systematically handed over to enterprises acting to the detriment of [our] common interest; in other words, this is the duty to achieve genuine economic sovereignty. While building the new order, we are far from

20. Arturo Alessandri, quoted after C. Saez M., *Recuerdos de un soldado* Vol.III: 26 de Julio de 1931 al 24 de Diciembre de 1932, Santiago 1932, p.117. A declaration of La Federación de Izquierdas de Chile, May 5, 1932, quoted after C. Charlin, *Del Avión Rojo a la República Socialista*, Santiago 1972, pp.587-588. R. Donoso, Alessandri. *Agitador y Demolador. Cincuenta años de historia política de Chile*, Vol.II, México-Buenos Aires 1954, p.82.

21. On the party affiliation of Lagarrigue, see Casanueva and Fernandez, *op.cit.*, pp.83 and 96, but the authors are inconclusive. Other sources link Lagarrigue with *NAP*.

any IMPERIALIST influence, be it BIG FOREIGN CAPITAL or RUSSIAN SOVIETISM.

The hunger, cold and poverty which are now the cause of despair of huge masses of unemployed workers will be eliminated at once through taxes on huge property, the suppression of profiteering on essentials, the ban on evicting tenants who are out of work and the provision of shelter to those who have not got it now.<sup>22</sup>

The contents of the appeal clearly indicate the source of inspiration, even if we did not know its authors: elements of the *Plan Lagarrigue* predominate, i.e. the platform of *NAP*, the party which will hold the majority of portfolios in the proposed cabinet. The socialism of the authors of the appeal translates into economic independence of the country and social justice (including measures to improve the fate of the unemployed at once). The term "Socialist Republic" appears here for the first time. Charlin attributes this term to Grove<sup>23</sup> and press accounts of the negotiations held in El Bosque between the conspirators and envoys of the Montero government seem to confirm this<sup>24</sup>. However, one should not lose from sight the fact that Emilio Recabarren published his *Draft Constitution of the Federal Socialist Republic of Chile* in Antofagasta back in 1921<sup>25</sup>.

When General Saez came to El Bosque, Grove told him: "we are ready to give our lives for this one ideal that unites all of us: the establishment of the Socialist Republic of Chile [...]. It is not our intention to replace some people with other people but to lead the country onto the one and only road possible at this hour of economic and moral crisis, the road of the Socialist Government, which will provide Bread, Shelter and Jobs (*Pan, Techo y Trabajo*) to all Chileans and will give the people freedom they have always missed under the domination of the oligarchy and international capitalism."<sup>26</sup>

A few hours later, a declaration of the ruling junta, the first programme document of the Socialist Republic, was issued at La Moneda (see the annex No.1). The inspiration of the first part of that extensive document is obvious: it is in the main a compilation of the *Plan Davila* and the *Plan Lagarrigue*. On

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22. *La Mañana*, June 5, 1932.

23. Charlin, *op.cit.*, pp.708-709.

24. I have never come across any source that would testify to the contrary.

25. J. Heise Gonzalez, *Historia de Chile. El período parlamentario 1861-1925 Vol.I: Fundamentos histórico-culturales del parlamentarismo chileno*, Santiago 1974, pp.414, 463-475.

26. *La Crónica, El Mercurio, La Opinión* of June 5, 1932.



the other hand, the six-point list of immediate measures also followed in a great measure from proposals born within the NAP<sup>27</sup>.

Following the first declaration of the ruling junta, some other statements followed, including the famous "30 points" (see annexes No.2 and 3)<sup>28</sup>.

The first government decisions were published by *La Nación*, the press organ of the new authorities, along with the following commentary: "The Civilian Governing Junta is carrying out its programme of setting up a Socialist Republic. The new government understands that the basic responsibility of a modern state is to ensure genuine well-being to the national community (*colectividad*) and for this reason its three main goals will be summed up by the motto: to feed the people, to clothe the people, to provide shelter to the people, through work that will heighten their dignity. At its first meeting yesterday, the Governing Council passed significant decisions, inspired by the principles of full social justice listed above, which directly further the interests of the working class, people of modest status and all those who are exploited."<sup>29</sup>

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27. Next to the long-term programme, this party also advanced a programme of immediate action. The latter, consisting of catchwords, sometimes not very clear ones, contained such measures as: salvaging the taxpayers, making the system of circulation of wealth more flexible, orienting economic forces to technology, improving the institution of agrarian, industrial and mining credit, eliminating profiteering, simplifying public administration, replacing conscription to the army with voluntary militia, maintaining and improving labor legislation, mandatory state-supervised social insurance, genuine mutual independence of the judiciary, executive and legislative branches. Cf. M. Lorion, French Attaché in Santiago, *Organisation des partis politiques au Chili*, the document attached to the letter of R. Drouin, French Chargé d'Affaires in Santiago, to the Ministry of Foreign Affairs, September 21, 1932. *Archive Diplomatiques du Ministère des Affaires Etrangères*, Amérique 1918-1940 Vol.9. Hereafter cited as ADMAE, Vol.9.

28. However, it is difficult to identify the real programme of immediate measures because at the same time that the afore-mentioned six-point programme appeared, so did an eight-point plan of immediate action presented by "a member of the junta" and a thirty-point programme of immediate moves preceded by a title implying its official (government) origins. It appears, however, that the "30 points" carried no official sanction, whether on the part of the junta or the cabinet of ministers. However, the same is true of the afore-mentioned 8-point plan and the *Plan Lagarrigue*. It seems to me that the "30 points" programme and the *Plan Lagarrigue* simply had the status of a programme elaborated by the NAP and pushed forward by members of that party who held high positions on the supreme authorities. F.M. Nunn, *The Military in Chilean History. Essays on Civil-Military Relations, 1810-1973*, Albuquerque 1976, p.211, writes that "official junta statements are not to be confused with NAP positions such as those expressed in the famous *Los 30 puntos* (1932)."

29. *La Nación*, June 9, 1932.

At a huge rally organized by *Alianza Socialista Revolucionaria* outside La Moneda, the crowd was addressed by Eugenio Matte Hurtado, member of the junta, and *La Nación* reported that he had presented projects the junta was embarking upon in the interest of "the proletariat of the Republic" and called for assistance from all Chileans<sup>30</sup>.

The following day, Davila, another member of the junta, spoke at a huge trade unions gathering: "We are determined to introduce a socioeconomic system that will bring instant relief to the suffering of the people and will for ever consolidate the supremacy of the will of the people over caste limitations imposed on us."<sup>31</sup>

Some days later, Eugenio Gonzalez, minister of education, told a rally organized by *Guardia de Defensa del Regimen Socialista* and *Liga Anticlerical*: "The revolutionary government has taken upon its shoulders the implementation of the aspirations of the people and needs the support of the working class in order to implement them. No government has ever needed the cooperation of the working class as much as we do with a view to consolidating its power, and if we get that support we are able to liberate Chile from foreign capitalism and the despised oligarchy that ruled over us until yesterday [...] we want to lay the foundations of social justice [...] we are determined to fight against the domination of the oligarchy but to this end we need the support of the popular forces. Therefore it is necessary for you to realize that your interests, threatened by foreign imperialism, are now at stake."<sup>32</sup>

After getting rid of a group of the most radical reformers (Matte, Grove, Lagarrigue, Gonzalez), the new junta criticized their alleged communist leanings, and came out in favor of "the ideology expressed by the promoters of the June 3 [sic] Movement", as corresponding to the "pure national tendencies" (*tendencias nacionalistas puras*)<sup>33</sup>.

After Davila rises to the supreme post (that of interim president), the only genuinely new element in the statements of the new authorities will be the condemnation of "communism" and of anarchy, terrorism, social demagoguery, etc., which are used as synonyms of communism. Before long, the term *Jacobinism* would be added to that vocabulary<sup>34</sup>.

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30. *Ibid.*

31. *La Nación*, June 9, 1932.

32. *La Nación*, June 13, 1932.

33. *La Nación*, June 17, 1932.

34. *La Nación*, June 17, 18, 19, 20, 22, 1932. Davila and Nolasco Cardenas to Alberto Cabero, quoted after *La Nación*, June 30, 1932.

The last major declaration was Davila's radio speech on July 24<sup>35</sup>. This time, he emphasized a thesis which was subsequently given prominent treatment in *La Nación*: "Realizar un programa y dominio de la colectividad." The government does not represent any particular social group, it implements the programme and rule of the society at large. The revolutionary ideals of the new authorities do not permit the existence of any guardianship. Unless the society's strivings are stabilized with the use of constitutional methods, Chile will become a victim of either reactionary chaos or anarchist communism. However, the government will not trespass the limits introduced by the state of emergency, which had to be introduced out of necessity, while reviving the economy at the same time. Our economic programme, Davila said, was the main lever of our revolution. The economy is the source of the interaction of political and social forces.

Davila reiterates the theory about the bankruptcy of liberal individualism and emphasizes the service of the authorities of the Socialist Republic to the jobless who are the most underprivileged group. However, he calls for the removal of the causes of poverty in the first place. This can be achieved by way of "economic expansion." Credits and investments (aimed at replacing part of the imports with domestic products, and also at the development of the timber industry, the extremely profitable gold mining, metallurgy, etc.) should lead to the complete elimination of unemployment within a space of 45 days. A great role in this respect should be played by the nascent state-run Foreign Trade Institute which would be instrumental in taking an important step towards a socialist economy and the growth of exports. We have moved forward in solving the problems of our nitrate industry, Davila assures. The activities of the Ministry of Agriculture, the Agrarian Credit Bank, the Agrarian Colonization Bank and the Foreign Trade Institute will animate agricultural production within a year. The Agrarian Colonization Bank will engage in a broad programme of breaking up landed estates and collective development of land. Step by step, the state will take control over the whole private production activity. Davila added emphatically that, while implementing this plan, "the government is not guided by any theoretical principles, only a quantitative analysis of the reality."

Next to balancing international payments, we must improve the condition of the state budget, Davila said. That goal was to be achieved by increasing the taxation of the most prosperous groups. Important economic and social effects were also to be produced by legislation concerning the financing of productive investments, state "coordination" of private enterprise in industry, commerce and transport, and control over the prices of essentials, prevention of profiteering, unfair trade competition, etc.

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35. *La Nación*, June 26, 1932.

Next to major programmatic declarations one should also take into account Davila's statements addressed to foreign journalists and diplomats who tried to gauge the real intentions of the authorities. On one occasion Davila said that "neither Russia nor Spain provide the model for the Chilean revolution."<sup>36</sup> However, he said earlier that he desired a constitution patterned after the new Spanish constitution and went out of his way to assure the Spanish ambassador about his sympathy for Spain and to guarantee full respect for the economic interests of Spanish immigrants<sup>37</sup>.

Davila's brief statement addressed to the U.S. ambassador is, in my opinion, one of his most important declarations. When Culbertson inquired about the junta's attitude to North American capital, Davila simply said: "Please assure my American friends that they have nothing to fear."<sup>38</sup> He also assured him later that the junta would respect the licenses issued to foreign companies<sup>39</sup>, and we already know that Davila said nothing in his programme about such issues as the legal and economic aspects of copper mining, surely to the satisfaction of the U.S. owners.

Also the English-language bulletin published by Banco Central was addressed to foreigners. The post-revolution June issue of the *Monthly Report* said: "State Socialism is in no way connected with Communism or Bolshevism, nor even with scientific socialism. In brief, it is the recognition that economic liberalism is impotent to dominate the crisis, and that the state must undertake the organization and regulation of economics in all its sections with a view to avoiding a general collapse. Chaotic and disorderly economics, without a plan, the development of which is only determined by private interests, and, therefore, exposed to violent fluctuations, must be replaced by well ordered and rational economics directed on the basis of a plan, which, far from eliminating individual economy, subjects it to control that consults above all the interests and welfare of the community. In this form 'State-Socialism,' the motto of the Chilean revolution, on the one hand, and 'Planned-Capitalism' or 'Planned Economics, on the other, a thesis which prominent European economists defend, are absolutely identical concepts [...]"<sup>40</sup>

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36. *Die Vossische Zeitung*, June 8, 1932.

37. R. Baéza, Spanish Ambassador in Santiago to the Ministry of Foreign Affairs in Madrid, June 7, 1932. *Archivo General del Ministerio de Asuntos Exteriores*, R-325, Exp.9. Hereafter cited as AGMAE, R-325, Exp.9.

38. Culbertson to the Department of State, June 6, 1932. NA, Revolutions 59.

39. Culbertson to the Department of State, NA, Revolutions 157, 170.

40. Banco Central de Chile, *Monthly Report on Credit and Business Conditions*, Santiago, June 1932, p.1.



The new ideas on state and economy as advanced by the architects of the Socialist Republic were neither a coherent set of proposals nor did they develop as a negotiated compromise package to bind the ruling group together; indeed, it was rather a collection of conceptions aimed at various and different parts of the national economy, structured around some political and philosophical orientations within the ruling group. Two principal orientations were those of 1) the group represented by Carlos Davila, and 2) the Matte-Grove-Lagarrigue group, the former being the moderate and prevailing tendency, the latter being the radical and short-term one, both of them sharing the ideal of state predominance in economy. The main difference was that the radicals advocated measures to be adopted immediately to strengthen the national economy at the expense of foreign capital. The moderates would rather maintain the status quo with respect to foreign capital, at least for some time, while hoping probably to extract more money from the foreign companies in the long run. If we are not to speculate, however, we should take a closer look at the functioning of the Socialist Republic and this can be done by studying the economic policy implementation.

### **III. Economic Policy Implementation**

Although manifestoes, declarations, interviews, etc., did shape the country's economic policy, it was the executive orders that were to bring about the lasting effects. There are two reasons why a survey of the decision-making process is rather simple, and they are 1) a very high centralization of the state power in Chile, and 2) a very high concentration of the law making process in the Socialist Republic. More specifically, the new ideas on state and economy were translated into the language of executive order by means, first of all, of decree-laws (*Decreto-Ley*). The statutory power rested with the junta and, later on, with Interim President, who signed and promulgated the decree-laws, the ministers in question providing their countersignature.

My principal objective here is to 1) identify the most important decree-laws, 2) arrange them in accordance with economic domains and present their contents, and 3) point to the economic context and the most significant consequences of their promulgation.

#### *A. Export Policy*

In the case of the Chilean economy, as indeed any outward-oriented economy, a full analysis of this problem can be tantamount to an analysis of the whole socioeconomic development of the country. However, I will only discuss the methods of stimulating foreign trade in the narrow sense, i.e. moves



aimed directly at the promotion of exports and carried out on the basis of the decisions of the Chilean government.

The first question that comes to mind concerns the two most important exports, namely copper and nitrates. As for the former, the answer is simple. The copper industry was controlled by foreign capital and the governments of the Socialist Republic of Chile did not pay too much attention to it. At the request of the U.S. copper producers, the metal was excluded from the list of goods taken into account in the negotiations concerning compensation agreements. On the other hand, royalties paid by the copper corporations were at that time the only source of foreign exchange revenue of the state budget<sup>41</sup>.

Things looked different with nitrates. The very existence of saltpeter deposits played a different role in social consciousness, their exploitation was controlled by Chilean companies to some extent and the main sector of that industry, while being dominated by the foreign concerns, operated with the involvement of the state.

The government's attitude to the majority sector, operating under the control of foreign capital (COSACH) was not only devised from the point of view of foreign trade but also took into account the broader or even the broadest political context in terms of exercising control over a big and valuable national asset. Therefore when the export aspects of that sector were examined, this was inevitably and directly connected with other issues, including economic ones. With the necessity of importing liquid fuels and grain and the shortage of foreign exchange, there was a temptation to barter saltpeter for these products while the necessity of meeting foreign payment obligations at a time of a dearth of foreign exchange led to an inclination to calculate the value of nitrate exports in the search for a *modus vivendi* with the governments of other countries, etc.. In this respect, the socialist government acted very much like its predecessors. The government demanded foreign exchange revenue from COSACH but it could not take any executive action towards the organization, short of withdrawing from the partnership, and even that would be subject to negotiations.

With regard to the minority sector in the nitrate industry, which embraced mainly Chilean owners, the government of the Socialist Republic could formulate more effective policies. *Decreto-Ley* 127 of July 4 envisaged the appropriation of additional funds to increase the Mining Credit Fund, for example<sup>42</sup>.

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41. A. Bülow, the memo on his conversation with the Chilean Minister in Berlin, March 24, 1933. *Politisches Archiv des Auswärtigen Amtes*, Büro Reichsminister, Akten betreffend Chile vom 6. September 1924 bis 11. Januar 1932, 29 k. Bd.1. Hereafter cited as PAAA.

42. *Decreto-Ley* 127, in *Diario Oficial de la República de Chile* No.16380. Hereafter cited as DL 127, in DO 16380.

The government's general export policy consisted in limiting the scope of Law 5107 of April 19, 1932<sup>43</sup> but its strongest programmatic articulation was provided by the establishment of Instituto de Comercio Exterior. First in DL 127, then in the works of the organizing commission<sup>44</sup> and finally in DL 477 of August 23, one could see a legal and financial reflection of some of the conceptions of the authors of the new order<sup>45</sup>.

Instituto de Comercio Exterior was to operate as a joint-stock company with a mixed state-and-private capital (with the state holding 51 per cent of the stocks), set up by law to act as a commercial bank, foreign trade enterprise (commodity turnover and agency deals), and an analysis and information center. It was to act as a company situated in the national banking system and managed on the basis of a statute issued by the President of the Republic, with the decision-making powers of the main shareholder (invested in a nine-member board) being exercised by the executives holding the posts of undersecretary of state for foreign trade at the Ministry of Foreign Affairs and Commerce (head of the Institute), and representatives of the Agrarian Credit Fund, Mining Credit Fund, Industrial Credit Institute, the Central Bank, the Agricultural Export Council<sup>46</sup>.

DL 477 was complemented in a very important way by the provisions of DL 342, enacted already on July 30, but promulgated on August 10, which however only came into force on September 10. In it, the government addressed the danger of the flight of capital from Chile. On the strength of that act, the Agrarian Credit Fund and the Mortgage Credit Fund were to refuse to accept foreign exchange from their debtors unless their commercial and financial operations are handled by the ICE<sup>47</sup>.

The new institution, established too late to develop its activity under the aegis of the socialist government, represented a partial implementation of some conceptions of the architects of the Socialist Republic. Its activity could

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43. DL 129, in DO 16366; DL 584, in DO 16375.

44. *La Nación*, July 14, 1932.

45. DL 477, in DO 16358.

46. In order to qualify for ICE services, an enterprise had to purchase its stocks for a sum equal to at least 1 per cent of the value of the deal and pay a 0.5 per cent fee. Private shareholders were guaranteed a 6 per cent dividend, with the shares held by the state being accorded priority treatment, payable after deductions for the reserve fund of the company (initially 10 per cent of the company's profits), special purpose funds (30 per cent), and the employee bonus fund (the percentage not being defined in the law). The initial value of the whole package of shares was defined at 40 million peso. The Central Bank was obliged to discount and rediscount up to 50 million peso to the account of ICE without delay. *Ibid.*

47. DL 342, in DO 16346.

facilitate first of all: 1) the harmonizing of private and state interests and the imparting of a peculiarly conceived social function to private capital; 2) the construction of an important element of the state structure for controlling the national economy with the help of economic instruments; and 3) the consolidation of the position of scattered and weak economic subjects operating in the sectors that are not dominated by foreign capital.

### *B. Import Policy*

Chile has long been an importer of food<sup>48</sup>. In the period of the Socialist Republic, the provision of sugar and flour became especially important.

Sugar consumption depended entirely on imports and the local refineries only processed imported raw sugar. Imported refined sugar accounted for a small proportion of the whole amount. Between 1929 and 1931, sugar imports dropped from 147,000 tons to 91,000 tons and only the amount of refined sugar stayed more or less unchanged at 5,000 tons. The refining of imported raw sugar dropped from 98,000 to 83,000 tons. The overall supply of refined sugar slumped considerably<sup>49</sup>. Therefore it was for good reason that sugar imports were included in the government programme of the Socialist Republic. On the strength of DL 295 of July 26<sup>50</sup>, the Central Bank was to reach for reserves so as to make it possible to import essentials and the indispensable raw materials. Nonetheless, the figures for 1932 demonstrated a further drop in imports of refined sugar to 3,000 tons and of raw sugar to 76,000 tons<sup>51</sup>. The government not only failed to obtain an improvement of the situation but actually allowed it to deteriorate even more.

Grain availability presented an even more important problem. In 1928 and 1930, Chile exported (I) 11,800 and 39,600 tons of grain respectively. In 1931 the figure was down to 1,100 tons<sup>52</sup>. Flour was also exported: an average of 7,800 tons a year from 1928 to 1930 and just under 1,100 tons in 1931<sup>53</sup>. The surpluses appeared as a result of attractive prices on foreign markets, the availability of convenient credit in Chile and a favorable weather. The 1929/30 harvest was a record high 912,500 tons despite the fact that the grain acreage, at 698,000 hectares, was lower than in 1927/28. Afterwards, the acreage

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48. *Chile. Sinopsis estadística 1933*, p.174. Hereafter cited as *Sinopsis*, 174.

49. *Sinopsis*, 224.

50. DL 259, in DO 16354.

51. *Sinopsis*, 224.

52. *Sinopsis*, 173, 268.

53. *Sinopsis*, 174, 268.

dropped by more than 80,000 hectares for economic reasons<sup>54</sup> and yields were also lower, from 13.1 quintals per hectare in 1929/30, down to 9.4 quintals per hectare in 1931/32<sup>55</sup>. In 1932 it must have been obvious that the harvest of 576,600 tons will not be sufficient to satisfy domestic demand<sup>56</sup>. It appears that at that stage no economic incentives could lead to a growth of the domestic grain supply in the second half of the year<sup>57</sup>. It was necessary to take a decision on grain imports irrespective of the shortage of foreign exchange. The afore-mentioned DL 295 made it possible for the Central Bank to dig into its gold reserves. DL 464 of August 22, mentioned the import of 5,000 tons<sup>58</sup>. I have not come across any other information on imports and I suspect it was the only purchase of this kind. In view of the volume of the harvest, this decision can only be interpreted as a stop-gap measure to remedy the situation for a while. The decision of September 8 (DL 590)<sup>59</sup> went in the same direction. In its preamble, the government said that the supply of grain and flour was inadequate and it went on to ban the production of flour of better than 83 per cent quality, with the exception of special cases (limited supplies to hospitals, etc.)<sup>60</sup>.

Food imports were definitely of a strategic significance. The same applied to fuel imports. All the liquid fuels used in Chile were imported. Throughout the Great Depression, the imports of liquid fuels kept falling down, from 992,000 tons of crude oil and diesel fuel in 1929, to 190,000 tons in 1932 (with consumption falling from 991 to 180 thousand tons)<sup>61</sup>. The import of petrol fell from an average of 142.5 million liters in the years 1928-30, to 60 million liters in 1932. The problem of fuel imports was also reflected in programmatic declarations, including enunciations made already after the proclamation of the Socialist Republic. In practice, the early period of the new rule did not differ greatly from the Montero period, the problems were the same, possibly the

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54. *Sinopsis*, 144.

55. *Sinopsis*, 145.

56. *Sinopsis*, 144.

57. I have no data for the stock of the previous year.

58. DL 464, in DO 16356.

59. DL 590, in DO 16374.

60. *Sinopsis*, 173, 268. There was no ban on the exportation of flour (albeit there was such a ban on the exportation of beans; cf. DL 600).

61. *Sinopsis*, 104, 207, 271, 274. CEPAL, *Antecedentes sobre el desarrollo de la economía chilena 1925-1952*, Santiago 1954, p.96. The elasticity of demand for fuels was low compared to other imports and the share of liquid fuels in overall imports was 40 per cent higher in the crisis years 1930-33 in comparison to the average for the years 1925-29.



only variation being the fact that there was a lot of talk in the government circles about radical ways of solving the problem, e.g., by way of confiscation, etc. Davila's rise to power put an end to these speculations and contributed to the normalization of the government's relations with the oil corporations at the level of ordinary tension due to a chronic shortage of foreign exchange needed for financing the imports. However, the ruling circles were considering a proposal concerning the purchase of petrol abroad directly by a government agency, a move envisaged in the government declaration of June 5. This would create an alternative distribution network to compete with both foreign corporations: Standard Oil of New Jersey and Royal Dutch Shell<sup>62</sup>.

At the same time, long-term action was planned. On August 31, DL 519 was issued on state supervision and control over the import of oil and derived products, their distribution, wholesale and retail sales in Chile<sup>63</sup>. An Oil Products Supply Board was set up to attend to the following matters: the handling of accounts (including ones involving foreign exchange) between suppliers and consumers; the setting of periodic quotas of total domestic consumption and the distribution of that quota among the various regions of the country, e.g., on the basis of verified figures supplied obligatorily by all consumers; the setting of maximum wholesale and retail prices; the inspection of the quality of oil products and of measuring equipment in the distribution network.

In departments and counties, rationing commissions subordinated to the Board were set up. Their powers included: the registration of the agents selling the products and of the consumers; the distribution of the quota of products allocated to the given area, mainly on the basis of their own knowledge of the actual needs, among the agents and consumers.

Besides, the decree-law banned the stockpiling of excessive amounts of fuel and authorized the Board to order the distribution companies to sell the products.

Sanctions were provided for to ensure the enforcement of the provisions of the decree. The distribution commissions were to act at the same time as administrative courts empowered to impose fines, order the compulsory sale of fuel or exclusion from the distribution of fuels, deprive a customer of his due ration of the fuel. Violations of the provisions of the decree were also liable to punishment on the general principles of penal law. The decree came into force

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62. R. Stemplowski, "Chile y las compañías petroleras, 1931-1932: contribución al estudio del entrelazamiento dominación-dependencia," *Ibero-Amerikanisches Archiv* (1978) 1 New Series, pp. 13-15.

63. DL 519, in DO 16367.

on September 5<sup>64</sup>, but implementing regulations were never issued, so the whole thing remained on paper.

### C. Rationing in Manufacturing

The Ibañez administration took the first step in that direction. DFL 287 of May 20, 1931, introduced norms relating to competition in the areas in which there was a high saturation of the market with manufactured goods. Its implementation encountered obstacles, however, because of the unclear wording of the norms; besides, the progressing economic crisis produced situations with which the said decree could not cope. In the new political conditions, its provisions were even less adequate. Therefore Davila abrogated this act and issued DL 281 on July 25<sup>65</sup>.

The new decree introduced the possibility of limiting competition, setting prices for goods listed as being overproduced, influencing the organization and siting of the production of such goods, regulating tariffs on goods competing with local wares and on materials used for the production of goods listed as being overproduced; besides, the decree introduced a 10 to 20 per mil tax on the value of goods listed as being overproduced, payable by its producers, and envisaged the introduction of administrative sanctions, up to an order to close down a factory, for violating its provisions. The decree came into force on August 10. I have not come across any information about its practical application<sup>66</sup>. Nevertheless, it must not be ignored while discussing the economic policy line as it is characteristic of the new way of thinking. In the case of this decree, we are dealing with a set of norms introducing the possibility of administrative rationing of private economic activity, from investments to product marketing. It is true that DL 281 was only to apply to the goods which would be included by way of an administrative decision in the list of overproduced goods but the legal effects of the introduction of overproduction norms extended far and wide. The state obtained an efficient tool for intervention and the legal norms were devised in such a way that they provided ample opportunities for the authorities. DL 281 was a good harbinger of what DL 520 was to bring shortly.

64. Stemplowski, "Chile y las compañías," pp.15-16. Meanwhile, talks were resumed on the exchange of nitrates for Soviet fuel; they were handled by G.C. Kendrick & Co. and Andrew Weir & Co. While they did not produce any results, they influenced the overall oil policy in the period of the Socialist Republic. See *ibid*.

65. DL 281, in DO 16346.

66. According to P.T. Ellsworth, *Chile. An Economy in Transition*, New York 1945, p.81, the decree-law was not implemented.

#### D. Control Over the Production and Retailing of Essentials

Already the Montero administration tried to stabilize the market for essentials but Law 5125 of May 17, 1932, did not fulfil its goals<sup>67</sup>, despite the fact that Montero regarded the introduction of the possibility of regulating maximum prices at the local level as a success of his government<sup>68</sup>. After the proclamation of the Socialist Republic, DL 520 was issued on August 30, establishing the General Commissariat for Subsistence and Prices as of the following day<sup>69</sup>. The importance of the act was such that it is necessary to present its provisions in detail.

The General Commissariat, along with the departmental and local commissariats subordinated to it, was to constitute a separate branch of the Ministry of Labour. The aim of the Commissariat was "to ensure the best possible economic living conditions to the population of the Republic." This goal was to be achieved especially through the introduction of the principles of setting retail prices (and in some cases the actual setting of prices of the goods recognized by the President, at the request of the Commissariat, as essential and of customarily used or consumed articles); establishing quality norms for these articles; importing, exporting and distributing these articles; purchasing and taking over such articles on the domestic market. The range of such goods extended to food, clothing, heating and lighting, transport, medicine and dressing materials, and raw materials needed for the production of such goods and providing the services mentioned. In its pricing decisions, the Commissariat was to take into account production costs, the necessary investment and a justifiable profit.

The decree stipulated that farms, industrial and commercial enterprises engaging in the production and distribution of essentials are public utility enterprises and can be expropriated by the President of the Republic at the request of the General Commissariat (with the possibility of obliging their personnel to continue working there) if the enterprises in question are in a state of recession or if a *productor rebelde* does not carry out an order, issued by the President of the Republic at the request of the Commissariat, to produce a definite amount of a specified essential product of a definite quality and on the specified terms. Besides, the President of the Republic obtained the right to establish a monopoly with regard to essentials and to entrust the General Commissariat with carrying out the duties involved in the implementation of

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67. *Ibid.*

68. G. Thompson, the British chargé d'affaires a.i. in Santiago, to Foreign Office, June 2, 1932, No.152. *Public Record Office*, Foreign Office 371, A4207. Hereafter cited as PRO, A4207.

69. DL 520, in DO 16363.

such a monopoly. All the producers and distributors of essentials were obliged to inform the Commissariat about the level of their stocks. One of the privileges of the General Commissariat was the right to obtain, on a priority basis, funds from the Foreign Exchange Control Commission for foreign operations, both its own and ones supported by the General Commissariat. Besides, the Commissariat could introduce transport preferences for selected goods, both with regard to private carriers and the state-run transport enterprises.

The General Commissariat was supposed to counteract profiteering, e.g. by confiscating goods in the event of detecting profiteering or an unjustified refusal to sell goods. It was also empowered to examine wholesale prices, production costs, the level of production of essentials or customarily consumed goods, as well as to impose limitations on the awarding of licenses for trading in essentials if the presence of too high a number of such retail units could be conducive to a growth of the costs of living.

The General Commissariat was supposed to encourage the formation of producers' and consumers' cooperatives and procurement enterprises and it could also request the President of the Republic to set up special cheap meals outlets (*cocinas populares*).

The General Commissariat could order the closure of factories which did not obey its orders, impose fines and order confiscation of assets upon discovering the sale of goods whose validity has expired or which were harmful to health.

The General Commissariat had access to all the documents relating to the production and distribution of the said goods, it could receive sworn statements relating to this activity and ask those responsible for the law enforcement forces in a given area to use force to carry out the Commissariat's decisions; those responsible for those forces were not authorized to examine the justification of such action.

The General Commissariat could have at its disposal consultative councils of experts in food, clothing, transport, heating and lighting. Each council was to be composed of representatives of producers, distributors, consumers, and those representatives were to include both wholesale and retail traders, both workers and clerks. The departmental commissariats had one special characteristic, namely they were directly responsible for setting maximum prices in their areas. The departmental commissariats could set up control commissions (*juntas de vigilancia*), composed of the residents of a given district or locality and authorized to monitor the observance of the decisions on prices and to check product quality and the measures and weights used. The commissariats could also request assistance from any other state or municipal institutions or the trade unions; the provision of assistance was mandatory and no remuneration could be requested for that.



The activity of the General Commissariat and the subordinate agencies was backed by a broad array of penalties and suitable allocations of funds from the state budget. The first General Commissar was General Blanche.

DL 520 provided legal premises for harmonizing private interests (in manufacturing, trade, services and farming) with state interests and for the practical shaping of the social function of private capital. We are dealing in this case with the supremacy of administrative methods of control over economic processes and economic instruments. This control was to reach deep into almost all areas of the economy, agriculture included. The state was to be present at all decision-making levels, with a far-reaching centralization of the decision-making processes<sup>70</sup>. We are effectively dealing with an attempt to subordinate private capital, and not only domestic one at that, to the state. It is noteworthy that the state mobilized citizens from outside the apparatus of power to enforce its new powers.

#### *E. Stimulation of Production Activity*

To the previously existing institutions aimed at stimulating economic development, the government of the Socialist Republic added the aforementioned Foreign Trade Institute; in order to revive the economy, it decided to award credits to all of them, defining at the same time goals on which the money was to be spent.

Through DL 127 of July 4, the administration assigned a credit of 190 million peso to stimulate economic development<sup>71</sup>. The money would come from a loan the government took from Banco Central and it was to be spent as follows (at 5 per cent interest for private borrowers):

Agrarian Credit Fund	50 million peso
Agrarian Colonization Fund	20 million peso
Industrial Credit Institute	40 million peso
Mining Credit Fund	30 million peso
Foreign Trade Institute	50 million peso

The decree established the hierarchy of goals embraced by the credits to be awarded out of the funds allocated to the first four institutions<sup>72</sup>.

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70. However, DL 590 of September 8, in DO 16374, contains no reference to the General Commissariat.

71. DL 127, in DO 16318; "Reglamento," in DO 16370; "Reglamento," in DO 16364. For description of the first four institutions, see *Sinopsis*, 322-324.

72. For data on the *Instituto de Comercio Exterior* finances, see part III.A.

It should be strongly emphasized that the provisions of the decree were not tantamount to the actual use or even transfer of the funds. To this end, separate decisions were needed.

Very good results were recorded in an area which required no great investments, i.e. in gold mining. Thanks to the concentration of gold exploitation in state hands - DL 105 of June 25<sup>73</sup> and DL 522 of August 31<sup>74</sup> - and the issuing of new regulations regarding rural property easement (DL 255 of July 22 facilitated the prospecting for gold on other than one's own territory<sup>75</sup>), it was easier to use the increased supply of labor (because of the unemployment in the North) and the good situation on the gold market. The total amount of gold produced rose from 665 kilograms in 1931, to 1,185 kilograms in 1932, with an especially big growth in gold extraction from rivers (labor intensive placer mining), from 47 kilograms to 278 kilograms<sup>76</sup>, the additional employment being at least as important as the extraction growth.

As its most urgent tasks the government listed the saving of the owners of mines indebted to the Mining Credit Fund and unable to repay the loans because of the crisis; the provision of additional financing to the Fund (up to the level of 60 million peso) to make up for the shortfall caused by the debtors' failure to repay their loans; and the reduction of the statutory interest rate on the credits provided by the Fund to a maximum of 4 per cent per annum. These goals were served by DL 151 of July 6<sup>77</sup>.

Eight weeks after DL 127 the government issued DL 521, coming into force on September 5, thereby launching a huge investment programme worth over 170 million peso (including the funds provided by DL 127), with the funds to be distributed in the following way:

- 50.85 million peso to be allocated to the development of mining;
- 52.25 million peso to be allocated to the development of industry and especially the replacement of oil-burning installations with ones fired with coal;
- 10 million peso for the development of agriculture and in particular for loans to farmers who hire the unemployed on terms specified by the Ministry of Agriculture;
- 10.2 million peso for the development of trade;
- 39 million peso for public works;

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73. DL 105, in DO 16312.

74. DL 522, in DO 16365.

75. DL 255, in DO 16366.

76. *Sinopsis*, 186.

77. DL 151, in DO 16325.

- 10 million peso for the needs of unemployed<sup>78</sup>.

With a view to carrying out this ambitious programme, the government decided to issue treasury bonds on the principles adopted in the legislation from the period of the Montero administration<sup>79</sup>. This translated into taking a fresh loan with Banco Central. The servicing of the debt was to be based on increased budget revenue ensuing from the planned taxation reform.

Private capital entering into a joint venture with state capital and the purchasers of the bonds were guaranteed periodic dividends of up to 6 per cent and periodic repurchase of the bonds based on a draw. Credits were granted at 5 per cent interest. The whole revenue from debt servicing was to be turned over to similar investment projects. The implementation of the programme was to continue over a longer period, not specified by the law. The actual allocation of funds, performed by the President of the Republic, was to be preceded in each case by an evaluation of the given project. In order to stimulate economic growth and reduce unemployment, the President could endorse credits to the total amount of 53 million peso without waiting for the outcome of the said evaluation.

The general premises of this broad plan of state and private economic activity were laid down in the preamble. It referred to important conceptions of the programme of the architects of the Socialist Republic. "It is an elementary duty of the Socialist State," it said in point 1, "to see to it that all the citizens hold permanent paying jobs." The new investment programme was to produce jobs for over 100,000 previously unemployed people. The decree said that a rational and coherent plan was required for solving the problem of unemployment and development of production. The National Economy Council was to play an important role in the implementation of such a plan.

The Council was set up on the strength of DL 552 of September 26<sup>80</sup>. It was composed of the ministers of finance, development, agriculture, labour; the heads of the Agrarian Credit Fund, Industrial Credit Institute and Mining Credit Fund were to act as consultants. The main change in relation to DL 521 was political and consisted in the fact that from now on the Council (and not the President of the Republic) allocated the funds to be expended on account of that decree.

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78. DL 521, in DO 16367, modified by DL 540, in DO 16374.

79. DL 521 referred to L 5028, in DO 16167. Comp. L 5105, in DO 16252. For different opinion, see Ellsworth, *op.cit.*, pp.38-39.

80. DL 652, in DO 16389.

*F. Fiscal Policy*

As was typical in Latin America, customs duties were the main source of revenue for the Chilean treasury. In the years 1928-30 they accounted for as much as 60.3 per cent of budget revenue. The collapse of foreign trade caused a drop of revenue from 773.4 million peso in 1930, to 192.2 million in 1932<sup>81</sup>. As a result, the relative importance of taxes increased. In 1930, 660.2 million peso was collected in taxes, compared to 361.5 million in 1931 and only 322.7 million in 1932<sup>82</sup>, and that despite the reforms.

The really important changes were those concerning income tax in commerce (including trade in real estate) and inheritance tax<sup>83</sup>.

Income tax was regulated by two decrees: *DL* 128 of July 4<sup>84</sup> and *DL* 592 of September 9<sup>85</sup>. The wage tax (regulated in Chile by income tax legislation) was left unchanged, at 8 per cent on the highest wages. However, the taxation base on other incomes was raised. The July decree introduced a basic 6 per cent tax (twice as high as before) on the whole income, payable by people resident in Chile and, in addition to that, introduced a progressive-rate tax on incomes exceeding 20,000 peso a year in ten income categories.

The progressive-rate principle was extended to corporate income and sales tax. Besides, higher taxes were imposed on those who did not work personally. Privileged treatment was to be given to incomes obtained by performing a profession as the only source of income. At the same time, a higher sales tax was imposed on foreign enterprises and firms owned by Chilean citizens staying usually (or permanently) abroad.

The incomes of the manufacturing industry and trade were subject to a progressive-rate tax, from 6 per cent on an income exceeding 10,000 peso a year (after deducting a tax-exempt amount) to 10 per cent on income above 50,000 peso a year, and 9 per cent and 12 per cent respectively in mining; in foreign trade, the tax could reach 12 per cent.

In August, *DL* 364 came into force, introducing a new inheritance law which regulated taxation on inherited property and gifts<sup>86</sup>. Two kinds of tax were retained: on the whole amount of inheritance, and on each individual share of the inheritance and each gift. Under the new regulations, the only

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81. *Sinopsis*, 288.

82. *Ibid.* and the commentary to the table on pp.290-295.

83. The old regulation in the decree of the Ministerio de Hacienda No.172 of February 24, 1932.

84. *DL* 128, in *DO* 16319.

85. *DL* 592, in *DO* 16373.

86. *DL* 364, in *DO* 16351. Previous regulation in *L* 4533 of January 21, 1929.



exemption applied to cases in which the total value of the inheritance was under 50,000 peso and the deceased left more than three children. The taxation rate and its progression with regard to inheritance and gift tax were raised<sup>87</sup>.

The last noteworthy fiscal move of the government of the Socialist Republic was the introduction of a tax on the first transfer of the ownership of real estate. *DL* 593, passed in September, introduced such a tax, whose amount was equal to 3 per cent of the value of the estate in question<sup>88</sup>.

The declared aims of the proposed tax reforms are easy to see. The most important changes concerned the broadening of the scope of taxation, increasing the rates and introducing steeper progression. Along with this came harsher penalties for tax evasion. The new legislation corresponded to the programmatic declarations of the fathers of the new order thus contributing to the strengthening of the state financial system and the redistribution of wealth.

With regard to customs duties, the changes were small but they were equally characteristic. I will begin by recalling that until 1928 the duties in Chile were stable and amounted on the average to 25 per cent *ad valorem* and the tariffs were of a mildly protectionist nature. Then a period of definite protectionism followed (until 1931), with the duties rising by 71 per cent on the average and embracing nearly three-fourths of all imports. In April 1932 they were raised again (by 10 per cent with regard to goods listed as luxury ones<sup>89</sup>) but this move was designed to ease budget strain rather than protect local producers. The next increase only came in 1933, and one notable exception was the growth of tariffs on luxury goods. *DL* 29 of June 15 supplemented in an important way the April law *L* 5105 by listing goods being subject to higher customs duties<sup>90</sup>.

In one case, a charge related to imports was reduced but it was not a customs duty in the strict sense of the word. *DL* 517 relieved grain importers from a statistical charge<sup>91</sup>. One exemption from customs duties in the strict

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87. A child of the donor had to pay 1 per cent tax on a gift up to 25,000 peso and 15 per cent on a gift worth between 2 and 4 million peso, while in the case of distant relatives the corresponding rates were 22 per cent and 44 per cent.

88. *DL* 593, in *DO* 16373.

89. *L* 5105, in *DO* 16252.

90. *DL* 29, in *DO* 16209.

91. *DL* 517, in *DO* 16375.

sense of the word - but one applying to export duties - was the provision of *DL* 584, which embraced 50 per cent of the volume of the coal exported<sup>92</sup>.

#### *G. Credits in Domestic Trade*

*DL* 27 of June 15 introduced a 30-day moratorium on the fulfilment of financial obligations by retailers whose payment had become overdue if their working capital was less than 200,000 peso and the debt was endorsed to the value of 5,000 peso (or more with a bigger number of guarantors)<sup>93</sup>. All seizure, liquidation and auctioning procedures were also suspended for 30 days. At the same time, *DL* 28 was issued<sup>94</sup>, on the basis of which retailers whose working capital did not exceed 200,000 peso could obtain at 3 per cent interest a credit from the National Savings Bank, provided they had been its customers before, of up to 50 per cent of the balance of their accounts, to finance the repayment of their obligations.

However, the provisions of *DL* 27 were soon recognized to be insufficient and the authorities unburied a draft law prepared back during Montero rule by a huge commission made up of deputies, advisers, representatives of business, etc. On June 20, *DL* 48 was issued<sup>95</sup>, introducing the principle of payment of financial obligations by installments, provided the debtor fell behind with payment prior to the promulgation of the said decree and provided he was not bound by court ruling from before May 1, 1932. Unless the agreement laid down more favorable terms, obligations related to guaranteed debts were to be met at three-month intervals, the first two installments of 5 per cent of the balance as of the day of promulgation of *DL* 48 each, followed by installments of 10 per cent, at a 2.5 per cent interest rate. If the debt was not endorsed, it had to be repaid in equal installments of 20 per cent of the outstanding balance each. All of the above applied to agreements between traders and to cases in which a trader was one of the parties. In the remaining cases the debt was to be repaid in 10 per cent installments at 60-day intervals. The latter provision was later revised by *DL* 271, which introduced 90-day intervals instead<sup>96</sup>.

The *DL* 271 introduced other changes as well, for example, the suspension of liquidation proceedings for 90 days, a revision of the terms of protesting

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92. This was an incentive to the growth of coal mining and one of small significance at that as the industry prospered from the beginning of 1932 anyway, reaching the indices of 1929 and barely managing to satisfy domestic demand. *Sinopsis*, 207.

93. *DL* 27, in *DO* 16299.

94. *DL* 28, in *DO* 16299.

95. *DL* 48, in *DO* 16303.

96. *DL* 271, in *DO* 16333.

promissory notes; a completely new provision granted concessions to debtors who fell behind with payments already after the promulgation of *DL* 48 (they, too, could repay by installments). *DL* 271 also introduced some limitations to the very broad *DL* 48 by excluding over a dozen kinds of obligations (e.g., ones denominated in foreign exchange), and some more changes were added by the subsequent *DL* 451<sup>97</sup> and *DL* 564<sup>98</sup>.

On the whole, however, the policy towards debtors consisted in easing the burden of repaying debts which became overdue because of the economic crisis. This policy also applied to those who fell behind with payments to *Caja de Auxilios*<sup>99</sup>. The social significance of these provisions consisted in easing the lot of important groups of the tertiary sector.

#### H. Foreign Exchange Policy

The governments of the Socialist Republic had no chances whatsoever of obtaining a foreign loan and had to rely on their own sources of foreign exchange revenue. Essentially, this concerned royalties from foreign copper, nitrate and iron mining companies. We already know that this source of revenue was not nearly as productive as before. The revenue from export tariffs and taxes (25 per cent of which was payable in foreign exchange after April 1932) was not high. Therefore the previous governments introduced a system of foreign exchange controls whereby part of foreign exchange was channelled from the private sector to the state treasury. The governments of the Socialist Republic inherited this system and maintained it.

In practice, it worked this way: *Banco Central* purchased foreign exchange at a rate of 1 peso to 6 British pence and the Foreign Exchange Commission issued permits for the transfer of foreign exchange abroad to those importers who had previously sold gold to the Central Bank at the official rate. *Example 1*: in order to pay the Chilean workers their peso wages, Braden Cooper Co. (a Kennecott subsidiary which owned the *El Teniente* copper mine) had to sell to the Central Bank the foreign exchange equivalent of the peso wage fund. *Example 2*: Mr. Gonzalez was to pay a bill for toiletries he imported from France for his store to the amount of 3,600 gold peso. To this end, he bought gold on the free market and took it to Central Bank. There, on the ground floor, he sold the gold for 3,600 gold peso and, with the receipt in his hand, went to the first floor of the same building, where the Foreign Exchange Commission worked.

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97. *DL* 451, in *DO* 16355.

98. *DL* 564, in *DO* 16375.

99. *DL* 179, in *DO* 16323.

He produced the receipt and received a cheque for the franc equivalent of 3,600 gold peso<sup>100</sup>.

In the former case, the state benefited by the fact that Braden Copper Co. sold dollars to *Banco Central* at the official rate of 16.493 peso to a dollar<sup>101</sup> while on the market the dollar traded at a much higher price, from 80 peso right after the June takeover<sup>102</sup>, never falling below 55 peso during the period of socialist rule<sup>103</sup>. In the latter example, the benefit consisted in the fact that *Banco Central* bought gold from Mr. Gonzalez for 3,600 peso while the market value of the metal was 7,228.45 peso<sup>104</sup>.

The said Mr. Gonzalez was involved in a small transaction. Bigger firms needed much more foreign exchange, not only to engage in trade but also to repatriate their profits. In the latter case, gold was not involved. It was enough if those firms imported materials of strategic importance such as oil or grain. Foreign exchange was continuously in short supply, therefore it was allocated according to certain priorities once a week, and the Foreign Exchange Commission had to process every application within 30 days<sup>105</sup>.

The Commission's decisions were the crowning of a decision-making process based on government guidelines regarding the allocation of the available foreign exchange. This applied in particular to purchases which had to be regularly financed and the money had to be paid some time in advance. The government issued the above mentioned DL 295 and DL 646 with this allocation in mind. The financial essence of DL 295 consisted in that *Banco Central* was authorized to sell more foreign exchange than it purchased in a given week at the official rate<sup>106</sup>. This decree increased the authorization awarded to the bank by Montero government (Law 5107 of April 19, 1932) to the total amount of 5 million gold peso, to be used for financing the imports of fuels and other essentials. In this way the bank was digging into reserves. Their reintegration was

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100. *Les mesures économiques et financières du gouvernement issu du coup d'Etat du 4 Juin 1932*, the memo by the French Commercial Attaché in Santiago, attached to the letter of Drouin to the Ministry of Foreign Affairs, June 15, 1932, ADMAE Vol.8.

101. Culbertson to Department of State, May 3, 1932, NA 825.00/GC/39. Chile-American Association, *Monthly Bulletin. General Review - Chilean Affairs* (Confidential Report No.5), May 1932, pp.4-5.

102. Thompson to Foreign Office, June 7, 1932, No.103(R), PRO, A3335.

103. Chile-American Association, *Monthly Bulletin...* (Confidential Report No.9), p.10; *Monthly Bulletin...* (Confidential Report No.11), p.7. Also Baéza to the Ministry of Foreign Affairs in Madrid, Informe Trimestral No.3, AGMASe, R-325, Exp.8.

104. *Les mesures*, ADMAE, Vol.8.

105. Banco Central de Chile, *Monthly Report*, June 1932, p.4; DL 48, in DO 16303.

106. DL 295, in DO 16354.



to be achieved by earmarking 20 per cent of the amount of foreign exchange purchased by *Banco Central* each week for this purpose.

The use of the reserves made it possible to make the relation between the weekly purchase and the weekly allocation of foreign exchange more flexible. As regards fuels imports, however, some provisions of that decree proved to be impracticable. The oil corporations were required to pay the possible difference in the exchange rate between the time of the allocation of foreign exchange (i.e. the permission for the repatriation of profit) and the moment of reintegration of the aforementioned 20 per cent of the weekly takings into the reserves. Eventually, the government had to abandon this idea. DL 509 abrogated article 3 of DL 295<sup>107</sup> and decided that the difference would be made up from revenue envisaged by other legislation<sup>108</sup>, without affecting foreign importers.

Shortly after DL 295, the government had to issue a new act, the DL 646, in order to increase the amount of funds put at the disposal of *Banco Central* out of the reserve fund<sup>109</sup>.

However, the examination of the foreign exchange policy would not be complete without an analysis of the attitude of the socialist government to private foreign exchange resources in Chile. These resources included foreign exchange, gold and precious stones. A part of it was in the form of bank deposits and a part was held in the owners' safes. In turn, part of the deposits were of a mandatory nature and constituted the statutory deposit of foreign and Chilean private banks at *Banco Central*.

The first move of the government was an attempt to enforce a compulsory purchase of the foreign exchange deposits of the private banks from *Banco Central* in exchange for peso-denominated government bonds, at the official rate from the day before the coup<sup>110</sup>. The move was designed as a part of a bigger plan of transforming *Banco Central* into the state Bank, which was never carried out because the programme of banking reform was immediately shelved. However, the idea of taking over the deposits was not abandoned, in fact it was extended to all foreign exchange deposits in all the banks in Chile by DL 12 of June 9<sup>111</sup>.

The declared goal of the new regulation was to prevent the accumulation of unjustified profits by people who converted their deposits in foreign exchange to the detriment of the national economy, thereby weakening *Banco*

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107. DL 509, in DO 16363.

108. L 5028 and L 5105.

109. Culbertson to Department of State, October 5, No.1277, NA 825.00/GC/50.

110. Thompson to Foreign Office, June 8, 1932, No.106(R), PRO, A3473.

111. DL 12, in DO 16295.

*Central* and causing a devaluation of the national currency<sup>112</sup>. Soon this idea was to prove unrealistic as well. At the same time, the government tried to employ Montero administration's L 5107 by broadening the interpretation of the provision regarding the control over the movement of foreign exchange and by embarking on an attempt to take over the gold resources and foreign exchange of gold trading enterprises. These steps were officially described as moves against profiteers violating the said law<sup>113</sup>. But also this form of saving the treasury was abandoned and the gold returned.

Each case of departing from radical solutions was connected, among other things, with the change of the government of the Socialist Republic. Along with the departure of the Grove-Matte-Lagarrigue group, the policy changed. Lagarrigue's successor, finance minister Enrique Zañartu Prieto, advanced a far reaching conception which considerably influenced the exchange rate of the peso, and despite the fact that it concerned in the first place the recovery of great agricultural estates with the help of inflationary measures, the very fact that it was being considered in the ruling circles caused a drop in the exchange rate of the peso and hampered the functioning of the foreign exchange movement controls<sup>114</sup>.

At the end of July, the government of the Socialist Republic introduced the licensing of imports as a supplementary means of controlling the movement of foreign exchange. DL 138 stipulated that if the national interest so required, the President of the Republic could make the import of definite goods subject to licenses defining the total amount of a given commodity to be imported within a given period of time, dividing at the same time the quotas of individual goods according to the country of origin<sup>115</sup>. Apart from the "foreign exchange" aspect of licensing, the new provision intensified the protectionist effects of tariffs and occasionally functioned as a regulator of trade with individual countries<sup>116</sup>.

### I. Monetary Policy

The proclamation of the Socialist Republic occurred in a period of inflation following the deflation of the years 1930-31. In view of the suspension of the

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112. *Ibid.*

113. *El Imparcial*, June 11, 1932; *Les mesures*, ADMAE, Vol.8.

114. *El Mercurio*, August 3, 1932; Baéza to Ministry of Foreign Affairs in Madrid, *In-forme*, AGMAE, R-325, Exp.8.

115. DL 138, in DO 16336.

116. Ellsworth, *op.cit.*, pp.49-50; Culbertson to Department of State, November 2, 1932, No.1295, NA 825.00/GC/52.

servicing of foreign debt and the introduction of foreign exchange movement controls, this inflation took place in conditions of a relative independence of the Chilean monetary system from the international system. The absence of external pressure led to a reduction of the interest rate on deposits offered by *Banco Central*. Meanwhile, the rate in commercial, or private, banks increased and the volume of credits granted by those banks decreased somewhat. The latter occurrence was mainly the result of the drop in the overall demand for credit. Nonetheless, the amount of money in circulation increased. This was due to huge government loans from *Banco Central*. The socialist governments did not introduce any new elements in this respect. A big growth in the volume of loans occurred during the Montero administration. The practice of taking huge loans also continued after the collapse of the Socialist Republic<sup>117</sup>.

The first attempt by the government of the Socialist Republic to obtain a loan from *Banco Central* encountered an obstacle. At that time, loans could be granted on the basis of laws that were passed during Montero administration (L 5028 and L 5107 of 1931) and the first applications of the new government were rejected by the bank on formal grounds<sup>118</sup>. At that time, a group of the authors of the new order was examining the conception of taking over foreign deposits in foreign exchange placed with *Banco Central* and the refusal of credit, combined with the plan to take over the deposits, revived the earlier conception of subordinating *Banco Central* directly to the government. It was decided to transform it into State Bank. When it turned out that the materialization of the idea would be impossible, the government decided to ensure itself an influence over this bank by reorganizing its board and bringing in three more government appointees; this was the stipulation of DL 38 of June 16<sup>119</sup>. However, that conception was dropped as well along with the fall of the Grove-Matte-Lagarrigue group and with Davila rescinding the said decree<sup>120</sup>. Apparently, the bank board revised its position as well because it stopped raising obstacles of a formal nature and the government started to receive loans on the basis of the decrees of the government of the Socialist Republic<sup>121</sup>.

It must be emphasized once more that the short life-span of the Socialist Republic influenced in an essential way the process of implementation of the economic legislation. Perhaps the most notable manifestation of this phenomenon was the incomplete allocation of the funds earmarked for the implementation of huge investment programmes, specifically the money

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117. Ellsworth, *op.cit.*, pp.39-40, 167-168.

118. Thompson to Foreign Office, June 9, 1932, No.108, PRO, A3502.

119. DL 38, in DO 16300.

120. DL 98, in DO 16312.

121. They were DL 127, DL 521 and DL 596.

accumulated in funds established on the strength of the decree authorizing the government to take loans from *Banco Central*. The bank's report for 1932 shows that the credits envisaged by DL 127, DL 521 and DL 596 amounted to only 46 per cent of the sum of 456 million peso available from *Banco Central*. Neither were the opportunities to obtain credit from commercial banks used to the full<sup>122</sup>.

The effects of the monetary policy extended far and wide. With regard to commercial banks, they consisted in the steady reduction of the volume of credits granted by those banks. Long-term deposits also diminished while more money was put in current accounts. The overall amounts deposited in those banks were rising, as were their reserves. The main reason for this growth was the growth of money supply<sup>123</sup> and the huge loans from *Banco Central* for the government and its agencies. Part of the money went to accounts in commercial banks and in turn a part of those deposits was transferred by these banks to *Banco Central* as their reserves. The potential of the commercial banks increased considerably as a result, and it should not be forgotten that there were foreign banks in that number.

The monetary policy also had an impact on prices. The wholesale price index rose considerably during 1932 and the cost of living index also deteriorated. Naturally, the government credit policy was not the only factor responsible for that; the other was the growth of prices of imported goods, which was due to the depreciation of the peso, the effects of foreign exchange controls and the movement of the prices of imported goods on international markets. For foreign trade the depreciation of the peso and foreign exchange controls were more important than the government money supply and credit policy, while the growth of the prices of domestic goods and services was mainly the outcome of the high level of money supply and the taking of huge loans<sup>124</sup>.

There is always a flight from money in times of inflation and a growth of demand for all durables which are treated as an investment. Given the limited supply (such goods were mainly imported and import capacity diminished), the prices of such goods inevitably rise. In Chile, there was both the growth of deposits (due to low supply of goods) but also the growth of demand for real estate<sup>125</sup> as a hedge against inflation.

In the monetary field, the governments of the Socialist Republic consolidated through their economic policy the earlier trends and acted contrary to the proclaimed objectives of the architects of the new order.

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122. Ellsworth, *op.cit.*, pp.43-49, 113.

123. *Ibid.*, pp.40-41.

124. *Ibid.*

125. *Ibid.*, pp.43-44.



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The economic policy was directed against the crisis and aimed at long-term development. The prevailing anti-crisis strategy had a strong social component and its major manifestations were the labor intensive projects; the credit regulations; the government finance rescue operations; and the increased taxation of the affluent - a truly populist approach catering to the basic interests and needs of important sections of manual workers (outside agriculture) and the middle strata (state employees included).

The economic strategy consisted in 1) increasing the rate of investment in production and services, outside the branches dominated by foreign companies, the investments being financed mainly with revenue from increased taxation and internal debt, and 2) introducing all-embracing state control of production and distribution, by setting up state enterprises, encouraging the development of cooperatives, and embracing private companies by state planning.

The immediate results varied from meagre to insignificant, some legal regulations and ideological influences making lasting impact, nevertheless. For the purpose of this essay, however, what matters is the relationship between the new ideas and legislation on one hand, and nationalism on the other. To explore it one has to take a closer look at foreign interests in Chile and their reaction to the Socialist Republic.

#### **IV. The Socialist Republic and the Reaction of Foreign Interests and Governments**

The foreign interests (see annex No.4) were firmly opposed to the economic and social policies of the Chilean Government.

A. In the nitrate industry, the U.S. and British interests - the Guggenheims, creditor banks, corporate and individual shareholders - by and large ignored these policies and kept pursuing their own strategies, regardless of the Chilean reservations and/or proposals<sup>126</sup>. However, given the general slump on the international nitrate market, that did not make much difference to public finances in Chile<sup>127</sup>.

B. In the energy industry, the oil companies Standard Oil of New Jersey (West India Oil Co. was its subsidiary in Chile) and Royal Dutch Shell Co. of England (its subsidiary was Shell Mex-Chile Co.) coordinated their attitudes vis

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126. R. Stemplowski, "Empresas europeas y Chile en la época de la Gran Depresión, 1930-1933," *Estudios Latinoamericanos* 10(1985-1986), pp.140-142.

127. Ellsworth, *op.cit.*, passim.



à vis the socialist Government, by fixing prices, extorting foreign exchange to repatriate their gains and trying to block each and every attempt on the part of the Government to barter Chilean nitrates for Soviet oil. When the radicals were in power at the earliest stage of socialist rule, and the monopolistic position of the two companies seemed to be in jeopardy, the two sisters suspended oil deliveries in what was termed by a British diplomat in Santiago as "the worst blow the junta have so far received from foreign interests." As another diplomat, in Foreign Office, put it, "possibly the gradual disappearance of petrol supplies will have a salutary effect."<sup>128</sup>

C. Foreign businessmen in the extractive and manufacturing industries, as well as in commerce, banking, etc. kept demanding diplomatic protection from both the embassies in Santiago and the respective governments at home, the American businessmen being particularly active and uncompromising in Santiago and Washington; indeed, some of them favoured a military demonstration, if not more<sup>129</sup>. In the United States and the United Kingdom, financial sanctions were under consideration. While the American Guaranty Trust obstructed for a time the operations of *Banco Central*<sup>130</sup>, the British Rothschilds chose not to go ahead with plans for a freeze on the Chilean sterling and gold deposits in Britain<sup>131</sup>.

But the analysis should not be confined to the business sphere, as some governments were active as well.

A. The United States, the United Kingdom, Germany, France and other nations supported the economic interests of their citizens or subjects. The embassies kept making representations and, sometimes, protests; they exerted continuous pressure on the Socialist Government. They were concerned, first of all, with the security of the foreign exchange that had been deposited by

128. Thompson to Foreign Office, June 15, 1932, No.134(R), PRO A3640; D. Kelly's minute, June 16, 1932, PRO A3503; Stemplowski, "Chile y las compañías," pp.12-18.

129. Assistant Secretary of State F. White's minute, June 14, 1932, NA, Revolutions 96; White's minute, June 17, 1932, NA, Revolutions 114; Culbertson, *A Diary*, XVII, p.17 (1932), in *William Culbertson Papers*, Manuscript Division, Library of Congress.

130. Culbertson to Department of State, June 13, No.83, June 14, No.89, and June 16, No.93, 1932, NA 825.516/138, 141 and 151. On reaction of local managers of National City Bank in Chile, see Foreign Office minutes by C.R. Craigie and E.H. Fitzmaurice, June 14, 1932, PRO A3726.

131. Cf. the above quoted minutes by Craigie and Fitzmaurice. A Foreign Office minute by P.Mason, June 13, 1932, PRO A3682; Kelly's minute, June 15, 1932, PRO A3727.

foreigners in Chile<sup>132</sup>. Much attention was paid in some capitals to the viability of introducing financial sanctions against Chile<sup>133</sup>.

B. The first reactions among foreigners in Chile to the proclamation of the Socialist Republic prompted the British to dispatch a cruiser to the South Pacific waters, ostensibly to safeguard British lives and property<sup>134</sup>.

C. The general attitude of most of the foreign governments was to suspend the diplomatic recognition of the Socialist Government, and when finally some of them resolved to extend it, it was given with a several week delay. Characteristically, the Socialist Republic was never recognized by the principal powers (the U.S., the United Kingdom, France and Germany).

The reactions of foreign businessmen were differentiated only insofar as they varied from unsympathetic to hostile, with the marginal exception of some banks that were prepared to negotiate on the Chilean terms<sup>135</sup>, and the response of the principal governments were negative, too. Available sources in diplomatic archives of these powers suggest that their reactions affected the policies of the Socialist Republic. The diplomatic representations and signs of dissatisfaction were an important factor, if not a decisive one, in inducing Chile to abandon the measures aimed at the foreign deposits and the bank reforms in general. The foreign impact was epitomized by the non-recognition policy, though. As a newsletter of the Washington-based Chile-American Association put it after the fall of the Provisional President, "the Davila government did not succeed in being recognized by the principal nations of the world, and it is to be presumed that the present government will find the same difficulty. This lack of recognition seriously handicaps the government in its foreign trade association and diplomatic relations."<sup>136</sup> Yes, the salutary effects the British diplomat

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132. Various sources from the U.S., British, French, German and Spanish diplomatic archives, for example, Culbertson to Department of State, July 16, 1932, No.134, NA 825.516/190; British Foreign Secretary's instruction for Thompson, July 26, 1932; Foreign Office, Memorandum for the Secretary of State, August 24, 1932, PRO A5775; *Les mesures*, ADMAE Vol.8; H. von Stempel to Ministry of Foreign Affairs in Berlin, June 23, 1932, No.1191/32, PAAA, Po.5 Bd.4; Baéza to Ministry of Foreign Affairs in Madrid, June 5, 1932, No.30. AGMAE, R-325, Exp.8. See also R. Stemplowski, "La diplomacia alemana frente a la República Socialista de Chile de 1932," *Jahrbuch für Geschichte von Staat, Wirtschaft und Gesellschaft Lateinamerikas* 25(1988).

133. Sources quoted in footnote 134.

134. Various sources in PRO, for example, Foreign Office minutes by Mason, Craigle, Kelly, June 8 and 9, 1932, PRO A3436.

135. H. Kratzer, manager of Banco Aleman Transatlantico, local branch in Valparaíso, to von Stempel, October 18, 1932, PAAA, Po.2 Bd.2.

136. Chile-American Association, *Monthly Bulletin...*(Confidential Report No.9), September 1932.

was alluding to while commenting on the oil embargo were many and real, and they certainly contributed to the fall of the Socialist Republic.

## **V. National Emancipation and Economic Nationalism**

The Chilean state socialism was a very capacious conception and its economic policy embraced virtually all the areas and concerned all social groups and it was devised as the opposite of economic liberalism, with the state being proposed for the role of a general integrator of any economic activity in the country. This is a good premise of nationalism if it is considered that not only the category of *ethnos* but also the category of *Estado-Nación* is related to the notion of the Chilean nation.

It should neither be doubted that the Chilean state socialism struck at the interests of foreign capital, both that present in Chile and foreign capital in the broadest sense, understood as the substratum of the core of the world capitalist system. The threat to the capital involved in Chile was direct and real, even if it concerned only some of its interests and in most cases was not to go beyond the domain of legislation. The economic policy of the Socialist Republic was genuinely spearheaded at "foreign capitalism", "foreign imperialism," etc. Naturally, it was also aimed at Chile's social groups most strongly tied to that capital. At the same time, the architects of the Socialist Republic acted in the interest of Chile, perceived as a young nation full of vitality. This was the kind of a Chilean nation that was to be liberated from foreign capitalism by domestic socialism. For all the one-sidedness of the perception of capitalism, all the limitations of the socialist programme and all the inconsistencies of the implementation of the political and economic reforms, the programme of state socialism envisaged the pursuit of Chile's national interests through the rejection of what was foreign and the affirmation of what was domestic or native. This juxtaposition of the native and the foreign could not pass unnoticed, both by Chileans and by foreign observers. This, too, was therefore a premise of nationalism, but even more so of an ethnocentrism. According to a British diplomat, the coup that begot the Socialist Republic and the articulation of the Chilean (unilateral) national interest in the form of the strategy of state socialism was "not a purely political but a social and to some extent anti-foreign movement."<sup>137</sup> In this sense, the economic policy of the Socialist Republic was an ethnocentric one.

Already President Montero was convinced about the relationship between the economy and nationalism when he told his nation that the drastic reduction of exports of Chilean nitrates was the result of restrictions introduced abroad

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137. Thompson to Foreign Office, July 13, 1932, No. 168, *PRO* A4244.

on account of narrow nationalism (*cerrado nacionalismo*) which led other nations up to the point of replacing nitrates with synthetic fertilizer<sup>138</sup>. In this instance, nationalism was supposed to explain not only the characteristic situation in international trade in the period of a world crisis but also the advances in technology in the first place. This application of nationalism fits well in the broader world tendency to blame the state of international economic relations at that time on nationalism. This is how protectionist moves were explained and the disputes between "nationalists" and "internationalists" were commonplace in the 1920s, especially in the United States<sup>139</sup>, which was also reflected in the Latin American press. In Montero's case, we come across an attempt to explain a new phenomenon with the help of a highly emotional and loosely defined notion. This kind of an approach is always quite widespread. In Chile, it prepared the society for the adoption of a radical and nationalist programme.

The strong propensity to use the hazy notion of nationalism in economic analysis, which could be observed in many countries, was sanctioned by the authority of many authors of that period. They sought to trace the origins of the contemporary crisis so they adopted as their starting point the otherwise quite natural contrast between the "international" network of financial ties in the world system and the "national" organizational pattern of the economies producing and consuming goods traded on the world market and participating in the international network of financial connections. The way this juxtaposition was set up and interpreted was quite significant. Those authors used the notion of economic nationalism, as we can see in M.J.B. Condliffe's work on the world economic situation in 1931-1932<sup>140</sup>. To them, nationalism was synonymous to "unilateral" solutions while internationalism was an expression of interdependencies on the international scale and a synonym of decisions adopted and carried out in a "multilateral" fashion. Naturally, the unilaterality did not deserve any praise as that was reserved for multilaterality, nationalism was undesirable and internationalism just the opposite. The technocratic vision of the world system only lacked the very notion of that system while the other elements were already present, especially the articulation of the interests of the core of that system, i.e. the great financial and industrial capital. The efficient functioning of the international network of financial connections was the supreme

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138. *Mensaje del Presidente de la República al Congreso Nacional*, May 21, 1932, Santiago 1932, p.8.

139. J.H. Wilson, *American Business and Foreign Policy 1920-1933*, Lexington 1971, passim.

140. M.J.B. Condliffe, *La situation économique mondiale 1931-32*, Genève 1932, pp.49-52, 308-316. Comp. B. Ohlin, *Le cours et les phases de la dépression mondiale*, Genève 1931.



value, which was threatened precisely by "economic nationalism." Nationalism was a synonym of evil and was to be treated accordingly.

It is hard to resist the suspicion that in the Chilean case the term "nationalism" would have appeared in diplomatic reports or foreign press more frequently if communism had not played the role of the really "bad guy." Maybe if, instead of "state socialism", the authorities proclaimed, for example, "new etatism," the term "nationalism" would crop up more often in reports and public debate than it in reality did.

A comparison to Argentina will be instructive at this point. In mid-1930, Rodolfo Irazusta wrote in *La Nueva República*: "Whereas laicization is a tool of our spiritual subordination to the Anglo-Saxons, the principle of the freedom of trade (*el libre cambio*) is a tool of our economic dependence on the same Anglo-Saxons [...]. The British helped us to free ourselves from the Spanish monopoly in order to impose another monopoly on us, which, while it may be less conspicuous, is more harmful."<sup>141</sup> And he went on to say the following about the chronic economic crisis of the period of Great Depression: "We shall not emerge from this crisis if the present conditions are left unchanged. It is necessary to revise (*variar*) Argentina's banking laws, start building industrial plants to process raw materials obtained at home, limit imports, reduce the consumption of foreign goods, introduce budget cuts [...]."<sup>142</sup>

There is a striking similarity between this statement and Chile's economic policy, but in Chile postulates of this kind were to be part of state socialism while the Argentine author was no state socialist or any socialist for that matter, but one of the main ideologues of nationalism<sup>143</sup> and, what's more, he published these views in a periodical subtitled *El organo del nacionalismo argentino*.

The Spanish ambassador to Chile, who was sympathetic to the new order, believed that the new government was "nationalist and socialist," and that "the Hispanic tendency" of the Socialist Republic had much to do with the manifest anti-Yankee reaction<sup>144</sup>, but there were no grounds for stating that just the

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141. R. Irazusta, *Balance de siglo y medio*, Buenos Aires 1965, p.134.

142. *Ibid.*

143. On the relationship between Irazusta's nationalism and the Argentine conservative nationalism, see R. Stemplowski, "Potencias anglosajonas y el neutralismo argentino 1939-1945," *Estudios Latinoamericanos* 3(1976), p.130; *idem*, "Las concepciones nacionalistas y sus contextos políticos en la Argentina: de Lugones a Perón," in P. Waldmann and E. Garzón Valdés (eds.) *El poder militar en la Argentina*, Buenos Aires 1983, pp.35-36.

144. Baéza to Ministry of Foreign Affairs in Madrid, June 5, 1932, No.30, AGMAE, R-325, Exp.8.



economic policy of the Socialist Republic was recognized by its authors as economic nationalism, although the notion of nationalism and national interest cropped up in statements by the leaders and in legislation. It is true that the official *La Nación* proclaimed the thesis that "the Chilean Revolution is an outburst of national consciousness,"<sup>145</sup> and that the leaders spoke of their programmes and ideas in terms of "*las tendencias nacionalistas puras*."<sup>146</sup> What they were saying, however, was that their movement was purely local and of Chilean origin, in the first place, and that they were in no way associated with a foreign institution or country. And when the Revolutionary Staff declared their devotion to "the constructive nationalism," they used the term as an antonym of "the low ambitions or mean hatred," and they equated the nationalism with "the economic liberation of the country and a triumph of a social justice."

It is also true that given a very broad interpretation of nationalism, state socialism (with the vast powers of the state and the programme of curbing the influence of foreign capital) may be associated with nationalism in the common understanding and linguistic usage in the English and Spanish speaking countries, perhaps even in the sense in which the term "nationalism" was used by Keynes; for him the mercantilists "were under no illusion as to the nationalistic character of their policies [...]. It was *national* advantage [...] they were admittedly aiming."<sup>147</sup>

State Socialism is even more likely to be associated with defensive nationalism, the antonym of which would be the "North American economic imperialism," as a German diplomatic observer put it<sup>148</sup>. But is Chile a case of nationalism *par excellence*, that is in the sense outlined at the outset of this essay? Certainly not, as long as nation is construed as a variety of ethnos. It is not such a case either if we accept the conception of *Estado-Nación*, because then the deliberations on economic policy should rather be associated with the notions of socio-economic anti-crisis moves, populism with ethnocentric overtones or etatism; but first and foremost with the notion of independence strivings.

Naturally, to some opponents of such strivings, to many people looking down at the society of a peripheral and dependent country from the perspective of a dominant power, the Chilean state socialism might appear to be pure nationalism and the economic policy of the Socialist Republic nothing but

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145. *La Nación*, June 8, 1932.

146. *La Mañana*, June 5, 1932.

147. J.M. Keynes, *The General Theory of Employment, Interest and Money*, London 1936, p.348.

148. F. Olshausen, German Minister in Santiago, to Ministry of Foreign Affairs in Berlin, April 15, 1932, No.535, PAAA, Po.2 Bd.1.

economic nationalism. However, for the advocates of state socialism, let me stress it once again, the economic policy of the Socialist Republic was simply a novel and patriotic effort of their own to further the national interest. A present day historian, on the other hand, sees it first of all as an expression of the aspirations - not devoid of internal contradictions and ethnocentric economism - to emancipation or broader national independence by means (and at the price) of the autonomization and totalization of the state<sup>149</sup>.

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## ANNEXES

## No. 1

Excerpts from the First Declaration by the Junta to the Country Made on June 5, 1932, at 2<sup>20</sup> a.m.

[Source: "La Junta del Gobierno al País. Declaración a las 2<sup>20</sup> A.M.," *La Mañana*, 5 de junio de 1932]

"The whole succession of cabinets of recent years suffered a complete fiasco. The economic liberalism and sham legalist formalism on which their activity was based produced a deep division between those cabinets and the epoch and the realities surrounding them. Besides, all of them lacked the energy to neutralize the overwhelming influence of foreign imperialism.

The proletariat, the productive classes, the whole nation suffered because of the socio-economic system which permits the exploitation of labour, unbridled speculation and the proliferation of irritating privileges. The growing disruption of our economy, the increasingly ruthless domination of foreign interests, represented in Chile by the plutocracy and oligarchy, the negligence and inefficiency of government tragically aggravated the plight of the people and the agony of the nation (*la Nacionalidad*).

We must no longer delay the introduction of the organization of the national economy on the basis of the principle of justice and the introduction of a functional structure of the state dictated by its present complexity. [...]

The new government will energetically tackle Chile's social, economic and political problems. Its activities will not be hampered by mean personal or partisan squabbles and it will stay away from any influence that might impair its moral strength. It will be guided only by its primary objectives: the organization of productive forces under the aegis of the state, the introduction of socialist justice in the broad sense of the word and the guaranteeing of the right to a dignified life and work to all Chileans.

We want to start to build a better society than the one there is at present, within sensible limits defined by our resources and historical determinants. Therefore we deem it necessary for this government to be guided in its activities by socialist principles reflecting the needs and desires widespread in our times. We must not lose them from sight by invoking the by now anachronistic formula of liberal individualism. [...] Work for the benefit of all (*colectividad*) is the historical justification for [any] government. We have taken over power in order to carry out a programme of genuine renewal (*renovación verdadera*).

We want to impart energy, youthful vigour, efficiency and discipline to all national actions. We shall implement our programme of immediate measures, which we are announcing today, as well as the general plans regarding the socialist construction of the state with the faith in the remedial effects of these goals and in the conviction that they will receive so much moral support in the country that no reactionary force will be able to thwart or frustrate them. [...] We do not believe that the spiritual reserves of Chile have been exhausted. [...]

### *Programme of Immediate Measures*

1. The institution of credit should be monopolized by the state for the benefit of all, so that people living off their own work could avoid being exploited by capitalism.

2. The government will not tolerate the paralyzing of production processes and, by the same token, no enterprise, whether national or foreign-owned, will be allowed to evade the existing duty to contribute to the solving of economic problems with its production on the pretext of protecting its interests or profits. Therefore the saltpeter mining establishments, which are found to be in working order but are now idle, will be put into operation. The now paralyzed factories and mines will be given the status of enterprises important for the pursuit of the national interests and their work will be intensified.

3. The government recognizes the duty to exercise supervision over domestic and foreign trade and in doing so is guided only by public interest (*interés social*). Therefore, as regards relations with foreign markets, it will strive to free the Chilean economy from the yoke of foreign capitalism and of domestic capital, which is in the pay of imperialism. If necessary, the government will at once start importing at its own expense sugar, oil, petrol and other essentials. In order to assume control over the domestic market without delay, the government will request domestic firms and foreign firms [operating in Chile] to submit declarations regarding their stocks of essentials in order to ensure normal supplies to customers.

4. The government deems it one of its basic duties to guarantee elementary security to every member of the society (*colectividad*), by using all the means at its disposal. The government will introduce the duty to work so that everybody should have a sufficient purchasing power. During the period of organizing an economy that will guarantee employment to all, indispensable moves will be taken to supply the population with FOOD, CLOTHING AND SHELTER. The distribution of food will be increased with the help of army personnel and logistic services and will be carried out under the supervision of workers' organizations. Until it is possible to fulfill the obligation to supply everybody with a home, the government will provide shelter to anyone who at

present cannot afford the cost of housing. Therefore evictions will be suspended and arbitration instituted to free tenants and lessees from overdue debts and to lower rents.

5. The state declares that property serves social goals (*tiene una finalidad social*) and, for that reason, can only be used when it takes into account the interests of all. In order to avoid the injustice constituted by the uneven distribution of wealth, the tax system will be changed. Until these changes are introduced, a special progressive-rate tax will be levied on all property exceeding 1 million peso in value. The economic executive committee will take control over the processes of production and distribution in order to adjust them to the needs of all. This committee will exercise supervision (*supervigilancia*) over state-owned industrial enterprises with a view to restoring to us the capability to finance imports by opening up new export possibilities. Public education will be arranged on the principles of functional, formal (*técnica*) and administrative autonomy.

6. In order to avoid obstacles to the implementation of this programme of immediate measures, the Congress or any association that would limit the freedom of action of the government will be disbanded."



## No.2

The *Nueva Acción Publica* Position

[Source: "Los 30 puntos de acción inmediata," *El Diario Ilustrado*, 6 de junio de 1932]

- \*1. Assumption of full state authority by the Executive Council and the Cabinet of Ministers appointed by it.
2. Dissolution of the National Congress.
3. Organization of supervision over the provision of essential goods with the use of confiscation and other means indispensable for ensuring supplies for the population. Food distribution, also with the involvement of the army.
4. Heavy tax on all big fortunes without exception, to obtain at least 500 million peso.
5. Increase of the complementary tax on incomes in excess of 36,000 peso a year and of income tax in relation to Chileans resident abroad.
6. Expropriation of deposits in foreign currency and gold against the payment of equivalent in the national currency at a rate of 1 peso to 6 (English) pence.
7. Immediate designation of fiscal land, land belonging to people who have fallen behind on their obligations to credit institutions and also unproductive land not taken over for use, for colonization by the jobless, through collective use by the unemployed under specialist state supervision. Army transport to be used in the installation of the unemployed.
8. Expropriation of the land taken over by the state at a just valuation and up to the amount of the respective mortgage obligation.
9. Suspension of the eviction procedures with regard to smallholders who have fallen behind in their payments; immediate occupation of vacant housing. Use of the army for enforcing these decisions.
10. Amnesty for the seamen sentenced for their involvement in the Colombo and Talcahuano incidents and for others under trial or sentenced for political offenses, the law on internal security of the state being derogated.
11. Immediate reopening of the nitrate extraction plants using the Shanks process or other low-cost technology.
12. Liquidation or immediate reorganization of *Compañía Salitrera de Chile (COSACH)*.
13. State monopoly of gold purchasing and exploitation at a rate ensuring the supply of 30 kilograms a day.

14. State monopoly for iodine and, subsequently, for crude oil, matches, tobacco, alcohol and sugar.

15. Organization of nitrate and iodine production (with the possibility of dumping).

16. Imposition of state monopoly of foreign trade.

17. Progressive and continuous socialization of credit.

18. Organization of a State House of Commerce annexed to the railways for the procurement and sale of articles of prime necessity (*frutos del país*).

19. Reorganization of the diplomatic and consular service with a view to adapt it to the requirements of foreign trade.

20. Conclusion (*celebración*) of Indo-American treaties.

21. Revision of wages, salaries, benefits and pensions with a view to revising the staffing of state and municipal posts and suppressing useless departments and posts. 36,000 peso per annum to be the maximum salary for fiscal, semi-fiscal and municipal services.

22. Reorganization, selection and reduction of the armed forces.

23. Improvement and extension of primary education.

24. Recognition of the Soviet Government and revision of the contracts with foreign companies that amount to monopolies.

25. Ban on imports of luxury goods (silk, passenger cars, perfumes) and whatever may be replaced with domestic products.

26. Suppression of tax on Argentine cattle, wheat and raw materials destined for the domestic food industry.

27. Study of the organization of a Constituent Assembly on a functional basis to dictate the new Constitution of the State.

28. Creation of a Ministry of Public Health, establishing unity of action in the sanitary services of the country.

29. Reorganization of the administration of Justice.

30. Creation of a Court for the punishment of offenders against the state.\*

## No.3

A Declaration by a member of the ruling junta

[Source: "Entrevista a un miembro de la junta," *El Mercurio*, 5 de junio de 1932]

"1. This government is not a military or a fascist one, it is a socialist government of national economic reconstruction, which aims at a scientific and rational organization of the production process in its various phases: agricultural, mining and industrial one.

2. The government will create the state monopoly with regard to gold, iodine, labor [?], alcohol, petrol and sugar, with a view to avoiding profiteering.

3. Examination and solution of the problem of liquidating COSACH will be undertaken.

4. Saltpeter mining plants using the Shanks process and other low-cost technology in order to solve the problem of unemployment in the nitrate provinces will be opened.

5. As it is the fundamental duty of the new government to provide the people (*pueblo*) with food, clothing and shelter, and the term *pueblo* embraces the whole population of the country, regardless of social class, political allegiance or religion, every move will be taken to prevent the monopolization (*acaparamiento*) of food, clothing and other essentials. Besides, moves will be taken to provide the homeless with shelter at once by using vacant homes and building the missing apartments while at the same time preparing a methodological national plan of housing construction.

6. The government will energetically act against all those who for one reason or another should try to obstruct productive activity and will take over the factories and workshops which stop work.

7. The government will proceed to ensure a rational organization of the whole productive activity in the country in agriculture, mining and manufacturing by setting up the Ministry of the National Economy, along with services subordinated to it.

8. The government will proceed to centralize the services related to public health service (*Sanidad Unica*) as a means of ensuring more efficient assistance to the neglected social classes."

No.4

## Foreign Capital in Chile: 1932

[Source: R. Stemplowski, *State Socialism in Peripheral Capitalism: Chile and the Great Depression in 1932* (manuscript) and the sources quoted therein.]

## 1. VALUE OF FOREIGN INVESTMENTS IN CHILE: 1932

<i>Direct Investments in Million U.S.\$</i>		<i>Foreign Debt in Thousand</i>	
<i>Country of Origin</i>	<i>Amount</i>	<i>Currency</i>	<i>Value</i>
U.S.A.	445	U.S. \$	278,460
United Kingdom	278	£	29,871
Germany	125 <sup>a</sup>	RM	121,857
Italy	39 <sup>b</sup>		
France	10		

a 1934

b 1939

2. DIRECT INVESTMENTS IN CHILE (1932) AS PERCENTAGE OF THE TOTAL INVESTMENTS OF THE UNITED STATES, GERMANY AND UNITED KINGDOM IN LATIN AMERICA

U.S.A.	13%
Germany	12%
United Kingdom	8%

## 3. FOREIGN PARTICIPATION IN THE MINING INDUSTRY

Nitrates:	U.S.A., United Kingdom, France, Germany
Copper:	U.S.A.
Iron:	U.S.A.

**4. FOREIGN PARTICIPATION IN SERVICES**

	USA	UK	GER	FRA	ITA	SPA
Railways	x	x				
Electric power	x	x				
Urban transport	x	x				
Water supply		x				
Gas supply		x				
Telephone	x					
Hotels			x	x	x	x
Restaurants			x	x	x	x
Banks	x	x	x	x	x	

**5. FOREIGN PARTICIPATION IN RETAIL COMMERCE**

Food and Drinks: Italy, Spain  
 Medicines: France, Germany  
 Jewelry: France  
 Petrol: U.S.A., UK



## 6. FOREIGN PARTICIPATION IN THE MANUFACTURING INDUSTRY (THE BIGGEST ENTERPRISES)

[illegible]