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CRITICAL PERSPECTIVE

Inflation and the Corruption of Currency in Latin America: Chile, 1970–1973

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Abstract

In this article I analyze Salvador Allende's economic program and policies. I argue that the explosion of inflation during his administration (above 1,500% on a six-month annualized measure) was predictable, and I show that the government's response to it was political. I postulate that runaway inflation generated major disaffection among the middle class and that that unhappiness paved the way to Pinochet's coup d'état in 1973.

Keywords: Socialism; Salvador Allende; devaluation; hyperinflation; Chile; price controls; Unidad Popular

Introduction

In 1919, John Maynard Keynes wrote, "Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch its currency."[1] Keynes's quip became famous and has often been repeated in policy circles. What Lenin and Keynes missed was that the collapse of currency values would erode the political support of any regime. Very high inflation often results in political turmoil, and many times in the government's demise. This corrosive effect is particularly acute in episodes where the flooding of paper money is accompanied by massive and strict price controls that are enforced by government functionaries. In this case, inflation will be accompanied by shortages, lines of irate consumers in front of shops, black markets, corruption, and rationing. Perhaps the most important historical confirmation of this principle is the *assignats*, the paper money that was issued massively in the early 1790s to finance government expenditures in revolutionary France. The government tried to fight hyperinflation (13,000%) by strictly controlling prices. This resulted in black markets and political chaos and contributed to the fall of the Jacobins.[2]

In this article I analyze the experience of Salvador Allende's *Unidad Popular* with inflation during 1970–1973 in Chile. This is one of the most extreme and traumatic episodes of price increases in Latin America, a region that has historically been prone to economic imbalances and crises. I argue that the very rapid surge in the price level—an annualized rate of almost 1,600% in 1973—resulted in a sharp decline of real wages and contributed to the erosion of popular support for the government and its socialist program. It also helps explain the initial support—especially among the middle class—for the coup d'état led by General Augusto Pinochet on September 11, 1973.[3]

The literature on Salvador Allende's Unidad Popular is vast. Many authors have emphasized the role of the United States' economic blockade and cut-off of financial assistance in triggering the economic crisis. Good examples are the books by Gonzalo Martner, Carlos Altamirano, and Max Nolff, three authors who strongly supported President Allende and were politically involved in his administration.[4] In Régis Debray's book one can find Allende's views on economic policy and the Chilean revolution in his own words.[5] An important contribution is the book edited by Sandro Sideri, which includes articles by eight economists who held senior positions in the government, including the governor of the central bank, Alfonso Inostroza. The authors analyze policy missteps and mistakes, including the indiscriminate and massive process of firms' nationalization. Surprisingly, however, they attach little importance to the effects of inflation and shortages on the attrition of political support for the government. Black markets are blamed on speculators, the bourgeoisie, and the political opposition, financed by the CIA. Nothing is said about the fact that the central bank became a bank teller of sorts that, through money printing, provided massive funding to nationalized firms, the Treasury, and the Development Corporation.[6] Jorge Arrate, an economic adviser to President Allende, who became minister of mining and head of the national copper corporation, does point out that inflation was politically harmful but does not refer to monetary expansion to finance the deficit and the declining demand for national currency—or what economists call increased "velocity of circulation"—as major sources of the inflationary vicious circle.[7] Some works by former Unidad Popular officials that are critical of the government's approach toward inflation include Sergio Bitar, Oscar Garretón, and Pedro F. Ramírez. What makes Garretón's book particularly interesting is that he was the undersecretary of Economics Affairs in charge of nationalization. Ramírez's insights are also important, as he held two cabinet positions: mining and housing. Paul Rosenstein-Rodan offers a particularly severe criticism of the experiment. He emphasizes the government's inability to increase production while generating a huge expansion in demand; Stephany Griffith-Jones provides a comparative analysis of monetary policy in Chile and in the early years of the Soviet Union and points out that in both episodes revolutionary policy makers neglected the role of finance; Rudi Dornbusch and Sebastian Edwards develop a "populist government" model to analyze the *Unidad Popular* experience and compared it to Peru's hyperinflation under President Alan García.[8] Critics of Salvador Allende have also contributed to this literature. Important works from this perspective include Paul Sigmund, Felipe Larraín and Patricio Meller, Alejandro San Francisco, and, more recently, Daniel Mansuy. These works recognize the connection between "fiscal dominance" and inflation.[9]

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Nathaniel Davis, who was the U.S. ambassador to Chile from 1972 through 1974, provides a fascinating blow-by-blow analysis of the economic policies, political developments, and the inflationary crisis.[10] There is also an extensive literature on the coup d'etat and the market "neoliberal" economic reforms implemented by the military with the help of a group of economists known as the "Chicago Boys."[11]

This article contributes to the literature on Salvador Allende's economic policy in several ways: (a) This is the first analysis that relies on the actual technical economic program developed by Allende's advisers immediately after the 1970 presidential election. For years this document was difficult to find—originally, only six copies were printed—and the actual text has not been analyzed in depth by scholars.[12] Until now, most authors have based their analyses on speeches by President Allende and cabinet members and shorter documents. (b) Based on that text, in this article I argue that the two components of the Unidad Popular's strategy—a "recovery" and a "revolutionary" component—were supposed to be implemented simultaneously. This simultaneity created coordination problems that contributed to the eruption of the crisis. (c) I use a new metric to measure inflation. Instead of relying on annualized inflation computed as the 12-month increase in prices, I calculate annualized six-month price changes. This metric captures the momentum and acceleration (or deceleration) of inflation and shows that by August 1973—Allende's last full month in office—official inflation had surpassed 1,500%. This is significantly higher than the 600% considered by other authors. (d) I argue that food inflation was particularly important for voters, and I show that in August 1972, at the time minister Orlando Millas launched a short-lived stabilization plan, food prices experienced a 50% jump relative to other prices. (e) I compare official inflation to a measure provided by Ricardo Silva that uses prices at which transactions actually took place, not prices controlled by the government. According to this "true" price index, inflation was almost twice as high as the official measure.[13] And (f), I argue that what doomed the government was the combination of uncontrolled money printing to finance the government deficit and nationalized firms' losses, draconian price controls, and out of control inflation. It was this trilogy that created shortages and black markets, and it was those circumstances that alienated citizens and eroded the government's support.

Salvador Allende's Election

On September 6, 1970, the *Washington Post* reported the results of Chile's presidential election in a front-page article. The story was titled "Chilean Voters Pick Marxist President." The reporter explained that Salvador Allende was "short of the absolute majority need[ed] for election [as president], but a pro-Socialist majority is partially reflected in the congress that must choose between the first two vote getters in joint session Oct. 24." During the next few days, similar stories were printed around the world. According to the *New York Times*, "[Allende] would like to see Chile follow the road of revolutionary Cuba."[14] Allende's coalition, Unidad Popular included the two largest Marxist parties in the country—the

Communist Party and the Socialist Party—as well as smaller parties that followed the social teachings of the Catholic Church.[15]

On September 15, President Richard Nixon met in the White House with CIA director Richard Helms, National Security Adviser Henry Kissinger, and Attorney General John Mitchell. It was decided to launch a plan to impede Allende's accession to power. Helms wrote in his notes that the goal was to "make the [Chilean] economy scream."[16] In spite of rejecting a coup organized by retired general Roberto Viaux, the CIA provided arms to a group of civilians that, on October 22, tried to kidnap General René Schneider, the commander in chief of the Chilean Army. The attempt failed, and the general was seriously wounded as he tried to repel the kidnappers. He died two days later.[17]

On October 24, the Chilean Congress elected Salvador Allende as president by a 153-35 vote. The *New York Times* carried the news of Congress's vote on its front page: "The president elect and his coalition have promised to nationalize Chile's mines and basic industry, its banking and insurance system, and foreign trade. They have also pledged to plan the country's economic and social development and to expropriate privately owned farmland."[18]

On November 3, 1970, Salvador Allende was inaugurated as president. His cabinet included communists, socialists, union leaders, and followers of the Theology of Liberation. The minister of economics was Pedro Vuskovic, an expert on planning who had worked for twenty years at the United Nations. The ministry of finance went to Américo Zorrilla, a linotype union leader and a member of the Communist Party. Gonzalo Martner, an economist with Marxist leanings, became the director (minister) of the National Office of Planning. Five days after Allende's inauguration, on November 9, 1970, Henry Kissinger sent a top-secret memorandum to government officials stating that "the public posture of the United States will be correct but cool… . [We will] seek to maximize pressures on the Allende government to prevent its consolidation and limit its ability to implement policies contrary to U.S. and hemisphere interests."[19]

Allende's Short-Run Economic Program: Advanced Keynesianism with Price Controls

The Unidad Popular economic program had two interrelated components that were supposed to be implemented simultaneously. A "recovery" component that was directed at short term growth through a major jolt in aggregate demand and a "revolutionary reforms" module that contemplated the nationalization of copper, iron ore, coal and nitrate mines; the nationalization of all banks and insurance companies; and the expropriation of all large industrial companies with monopolistic power. Millions of hectares of farmland were also to be expropriated and transformed into cooperatives or state-owned farms.[20] The program was prepared between September 5 and November 3 by a team led by Pedro Vuskovic and was never circulated to the public. The editor of the economics magazine *Panorama Económico*, one of the few outsiders who had access to the document, described the short-term strategy as "advanced

Keynesianism" rooted in four main ideas: (a) Due to the monopolistic structure of the economy, there was ample unused capacity in (almost) every sector. (b) Aggregate demand would respond to massive fiscal and monetary stimuli. Both policies would be directed toward increasing the incomes of lower-income workers. To satisfy this boost in demand, it was critical to redirect production toward basic goods that are consumed by the working class. (c) The most efficient way to deal with inflationary pressures was through generalized and strict price controls, including control of the exchange rate. (d) The existence of ample international reserves—which had been accumulated during the previous administration—would allow the government to maintain a fixed exchange rate, without generating a balance-of-payments crisis.[21]

Regarding monetary policy, minister of finance Américo Zorrilla said, in November1971, that it was "subordinated to the planning system." The minister noted that in the government's view inflation was not related to monetary excesses or the budget deficit; it was the consequence of the country's monopolistic economic structure. Thus, "the general orientation of the anti-inflationary fight in the long run is based on immediate change [in the ownership] of the Chilean economy."[22] This "structuralist" perspective, which at the time was very popular among Latin American economists, was developed at the U.N. Economic Commission for Latin America by economists Osvaldo Sunkel and Aníbal Pinto.[23]

Initially, the new policies appeared to work. During 1971, average real wages increased by 21%, real gross domestic product (GDP) growth shot up to almost 9%—the highest in several decades—and inflation was contained at 22% (it had been 35% in 1970). Yet, behind these figures, major imbalances were mounting. Investment in equipment and machinery all but disappeared, agricultural output declined significantly because of indiscriminate seizure of land by peasants, and a substantial trade deficit developed. In 1971, the supply of money increased by 136%, significantly faster than the government's original plan for an expansion of 47%.[24] In the national budget, money printing was euphemistically called "Revenues from Capital." The 1971 budget contemplated that 17% of all government expenditures would be financed with money creation. A year later the deficit financed by "monetary flooding" amounted to 41% of expenditures. Because prices were tightly controlled, this rapid expansion of liquidity generated an incipient situation of "money overhang" and "repressed inflation" that eventually resulted in shortages, black markets, a large trade deficit, and annualized six-month inflation of 1,500% by the third year of the administration (see Figure 1).

At the end of 1971, government officials declared that the first year of the Unidad Popular had been a great success. Gonzalo Martner, the Minister of National Planning said, "1971 will be inscribed in the history of Chile as the year of its second independence and of the beginning of the revolutionary process conducted within the framework of what has been called 'the Chilean Way.'"[25] In his speech, Martner did not refer to inflation as a threat for the future development of the economy.

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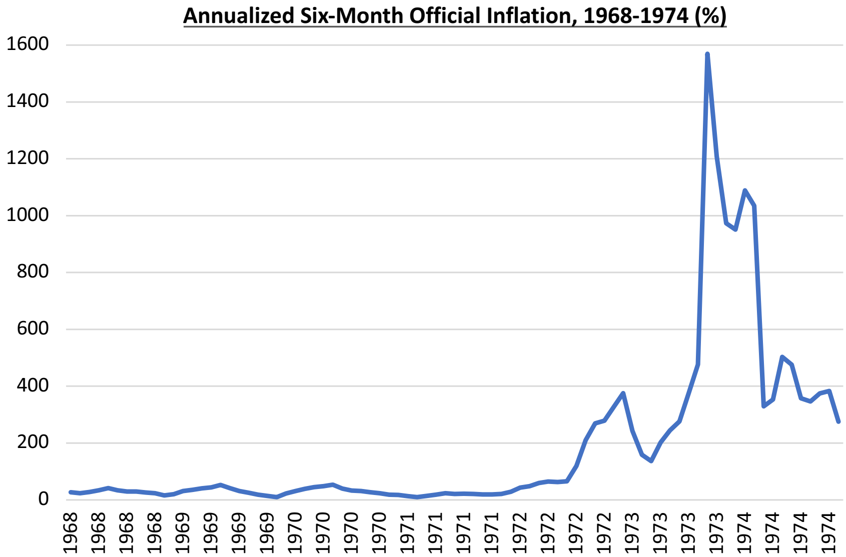

Figure 1. Annualized Six-Month Inflation (%), 1968–1974.
Source: Central Bank of Chile. *Boletín Mensual*. Several issues.

The Structural and Revolutionary Reforms Program: Expropriation, Nationalization, and "Requisition"

The Unidad Popular's "revolutionary reforms" strategy was rooted in Marxist orthodoxy and, as noted, was based on the nationalization of copper mines, the banking sector, large trading companies, insurance companies, and several large firms with monopolistic power. The goal of the agrarian reform was to eliminate latifundia within three years.

On July 11, 1971, Congress unanimously approved a constitutional amendment that nationalized the large copper mines.[26] Compensation to the American companies was calculated as book value minus "excessive profits" accrued since 1955. The Office of the President determined that excessive profits corresponded to net income above 12% of book value. According to the estimations, Chile would not have to pay any compensation; in fact, the mining companies owed Chile some US$400 million. The decision not to compensate the Anaconda and Kennecott corporations generated a major rift between the Chilean government and the United States that lasted until the end of the Allende administration.[27]

Banks were nationalized through massive tender offers, where the state holding company, the *Corporación de Fomento de la Producción*, paid a large premium for shares. On December 31, 1970, the Communist Party newspaper *El Siglo* noted that once banks were nationalized, credit would be transformed "from an instrument that created wealth for the oligarchy into a true development lever for national development."[28] By mid-1973, the government owned all but one of the banks. Purchases of shares were financed by loans from the Central Bank to the government, or money printing. Expropriated farmland was paid for with long-term government bonds issued in nominal local currency, whose real value was eroded by rapid inflation.[29]

Manufacturing companies were nationalized through a highly controversial mechanism, the legal bases of which emanated from an executive order dating from the Great Depression.[30] According to the 1932 executive order, if certain goods became in short supply due to a factory stoppage, the government could "requisition" the company for an undetermined period. Starting in early 1971, many unions seized the facilities and stopped work. This resulted in shortages, and the government was able to legally requisition factories in every sector of the economy. In some cases, a negotiation between the government and the shareholders ensued, and if an agreement was reached, the firm was officially purchased by the state. Owners were compensated using Central Bank credit, or money printing.

In August 1971, Jorge Arrate, an adviser to President Allende, said, "[T]he criteria used to build the *Area de Propiedad Social* [state-owned enterprises] should be political. And among these criteria, the most important should be to break the center of economic power of the bourgeoisie." Initially the government's goal was to nationalize around 90 firms, but as time passed and unions exercised pressure, the number kept going up. By late 1971 over 500 companies—some of them very small—had been taken over, and by September 1973 about 1,000 had gone through requisition.[31]

Price Controls, Repressed Inflation, Black Markets, and Shortages

One of the most salient features of Unidad Popular's economics program was the massive system of price controls. Maximum prices for over three thousand goods were determined by the Directorate of Industry and Commerce. In 1972, with inflation climbing toward 200%, prices authorized by the directorate became outdated within a week or so. New requests were immediately submitted, and the directorate either denied them or authorized a small increase. As a result, shortages and a thriving black market for all sorts of goods (sugar, rice, coffee, cooking oil, toilet paper) developed. An army of government inspectors roamed the city looking for speculators and black marketeers. Stores were closed, goods confiscated, and fines imposed; sometimes, the owner went to jail.

In late 1971, Fernando Flores, who would eventually become minister of finance, convinced British management scholar Stafford Beer to develop a computer-based system to detect bottlenecks and supply constraints and help determine the right prices for consumer goods. The project was called Cybersyn. During his first visit to Santiago, Beer inquired about the methods used to determine controlled prices in Chile. A senior member of the Directorate of Industry and Commerce explained the modus operandi: companies provided information on all their costs and added a "profit margin" that ranged from 7% to 15%. An army of accountants reviewed the figures and slashed the cost estimates and halved the margin in most cases. Company executives, of course, knew that this was going to happen and systematically inflated the cost figures. Beer asked for spillover effects of price controls. He was told that there was a computer

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program that estimated cross-sector supply requirements and generated "true accounting or shadow prices as the dual of the optimization process."[32] Beer asked how many industries and goods were included in the analysis. The answer was that that Chile's input–output matrix had 15 sectors. Stafford Beer was incredulous and pointed out that it was impossible to control thousands of prices using a 15-sector mathematical model.[33]

The exchange rate provides, perhaps, the best illustration of the mismanagement of the Chilean economy. In November 1970, Minister of Finance Américo Zorrilla announced that the government would put an end to six years of mini devaluations. The value of the US dollar was fixed at 12.21 escudos.[34] However, this was a short-lived policy. On December 13, 1971, and as result of massive printing of money, the escudo was devalued and a new official parity of 15.80 escudos per USD was established. That same day a multiple exchange rate system was adopted and four "import lists" were created. Goods in Lists A and B were subject to the official exchange rate of 15.80 escudos per USD. Those lists consisted of food stuff, clothing, shoes, and petroleum. List C applied to spare parts and capital goods, with an exchange rate of 19 escudos per dollar. List D included "luxury" goods, as defined by the government, and was subject to a 25 escudos per dollar rate. Exports were subject to the lowest exchange rate (15.80). In addition to these rates, there was a black or parallel market with premia of around 50% over the highest official rate.

On August 7, 1972, the escudo was devalued again and four additional import lists were established.[35] During the next 12 months, the escudo was devalued several times and an uncontrolled spiral of devaluation and inflation ensued. At the time of the coup d'état, Chile had 10 different official exchange rates. This created huge economic distortions and encouraged corruption, as importers and exporters tried to have their goods reclassified into the most convenient list. In early September 1973, the black-market rate stood at 3,150 escudos per dollar, implying a premium of 142% with respect to the highest official rate of 1,300 escudos per dollar. Because of foreign exchange shortages, the importation of spare parts became very difficult, further hurting the production process.

Roaring Inflation

The original economic plan was supposed to generate a virtuous circle. Nationalized firms would increase output at a rapid pace, generating a large surplus that would help finance investment in other sectors, including housing for the poor. The newly nationalized copper mines would also provide significant funds to finance social programs. In addition, agrarian reform would result in a rapid expansion of food production. Price and exchange controls would keep inflation under wraps, and higher wages would improve the incomes of the poor. Ample international reserves would finance imports of food and necessities. Economic success, in turn, would generate greater support for the government.

But nothing worked as expected. Early on, the nationalization process spun out of control, with many small and medium sized firms being seized by workers who demanded their nationalization. Instead of producing large surpluses, the

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new state-owned firms incurred very large losses; in 1972 nationalized firms' losses surpassed 10% of the GDP. The government kept them afloat with central bank loans, which came from money printing. This generated higher prices, more shortages, and a growing black market. A succession of labor strikes in the nationalized copper mines further hampered the investment cycle. Wage increases to compensate for inflation were financed with even more money creation. As inflation increased, the "velocity of circulation of money"—a basic concept in classical monetary theory—increased, adding fuel to the inflationary process.[36] And so, a whirlpool of money printing, inflation, currency devaluation, and wage adjustments took over and alienated the middle classes. People spent hours standing in line in front of shops and supermarkets in the hope of buying sugar, tea, coffee, chicken, detergent, toilet paper, and other necessities. The government blamed the opposition, shop owners, capitalists, the United States, and speculators for the deterioration of economic conditions.

In mid-1972, and after the government lost two by-elections, Pedro Vuskovic was replaced in the Ministry of Economics by Harvard-educated Carlos Matus. Communist Orlando Millas took over as Minister of Finance. With the support of his party, Millas tried to engineer a massive stabilization program. On August 18, 1972, hundreds of prices controlled by the government were adjusted up and the government declared that nationalized firms would redouble the effort to increase production. The goal was to put an end to shortages and black markets and to reduce inflation. This, in turn, would result in increased support for the government in the March 1973 congressional elections. The strategy, however, was not successful, and after a brief lull inflation accelerated.

In Figure 1, I depict the annualized six-month rate of change in the official price level. According to this gauge, annualized inflation doubled from 30% in January 1972 to 60% in April. It doubled again to 120% in August. Allowing for a correction in controlled prices (the Millas Plan) was not enough. Labor unrest continued, land invasions in the rural sector intensified, the seizure of manufacturing companies went on, and monetary largesse deepened. Things took a turn for the worse in early October, when several business and professional associations (truck owners, shopkeepers, medical doctors) staged a national strike. This episode became known as the "October National Stoppage." Black markets became more pronounced, gasoline was hard to find, and street fights between government supporters and opposition demonstrators became commonplace. Women staged massive demonstrations to protest food shortages; as they marched down Santiago's main boulevard, they banged empty pots. According to a report prepared by the US Senate after the coup d'état, the strike was partially financed by the CIA. The crisis only abated when, on November 2, 1972, President Allende appointed the commanders in chief of the army, navy, and air force to the cabinet.[37]

As inflation accelerated, two camps appeared within the ranks of the government. A small group of technocrats argued that printing large amounts of money to finance the deficit was, in fact, contributing to inflation. A central bank report noted that when "the quantity of money increases faster than output and imports ... there will be an increase in prices."[38] However, for the authors the important issue was not the consequences of money printing but *why* that

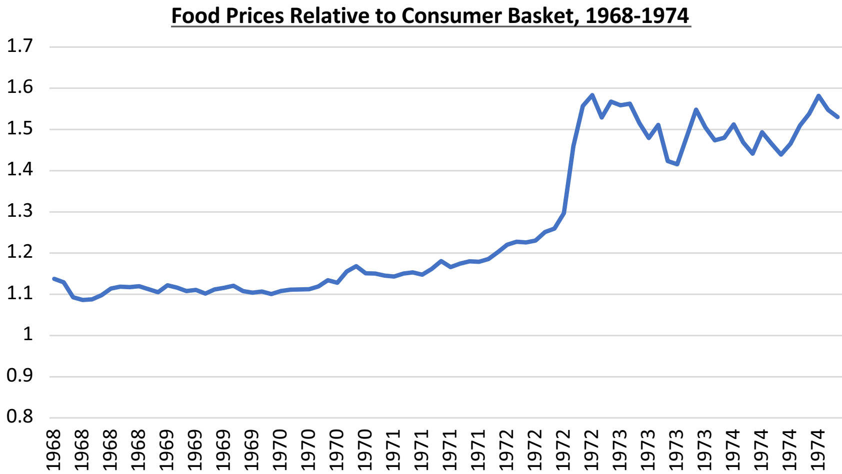

Figure 2. Relative Food Prices, 1968–1974.
Source: Central Bank of Chile. *Boletín Mensual*. Several issues.

printing took place at such a high rate. The answer, they posited, was political and had to do with the fact that congress—which was controlled by the opposition—had not passed a tax reform directed at significantly increasing taxes paid by the rich. A second group of Unidad Popular economists—a group that was a majority—insisted that inflation had very little to do with money creation. In their view, if monetary policy was geared at supporting productive activities, it would not be inflationary. The root causes of inflation, they contended, were political and had to do with opposition-led (and US financed) boycotts and speculation. For them, inflation would only be controlled when the revolutionary forces seized "all power" and the institutions of the capitalist state were replaced by those of a true socialist state.[39]

As the congressional elections of March 1973 got closer, the government decided to redouble price controls to slow down inflation (see Figure 1 for February–April 1973). As neither the deficit nor money printing subsided, delaying price adjustments made shortages more acute and fed the black market. An effort was made to channel food rationing through neighborhood committees, further alienating the middle class. After the elections, where the government got 44% of the votes, inflation again picked up; in September 1973 (the month of the coup), it stood at an annualized rate of 1,570%.

During the Unidad Popular, and despite the government's efforts through the food committees, food prices increased at a faster pace than average. In Figure 2, I present the subindex for food relative to the overall consumer basket. Between 1970 and mid-1972, this ratio hovered around 1.15; in September 1972, after the Millas adjustment program, it jumped to 1.5 and stayed there. One of the costliest consequences of accelerating inflation was the decline of real wages. By 1973 real wages and salaries were, on average, 35% lower than at their peak in 1971 and had declined by 14% relative to the pre-Allende period.[40] The data in Figure 1 are for official inflation and are based on controlled prices.

Table 1. Chile's Economic Performance, 1968–1974

	Public sector deficit (% of GDP)	Rate of growth of money supply (%)	Inflation % per annum (Six-month annualized)*	Current account balance (% of GDP)	Real wages Index (1967–1970 = 100)	Real GDP growth % per year
1968	2.4	36.8	16	–2.2	99	3.60
1969	1.5	43.6	14	–0.1	107	3.71
1970	6.7	66.2	19	–1.3	106	2.05
1971	15.3	135.9	21	–2.4	120	8.96
1972	24.5	178.3	327	–4.3	112	–1.21
1973	30.4	365.1	1,208	–8.8	91	–5.57
1974	10.5	319.6	275	–3.7	86	0.97

Note:
*Percentage of change in the official price level, calculated as the six-month annualized rate, each December.
Source: Sebastian Edwards. "The Debauchery of Currency and Inflation: Chile, 1970–1973." Working Paper No. w31890. National Bureau of Economic Research, 2023. See also the sources cited therein.

However, because many goods could not be bought at government-determined prices, this index underestimates true inflation. If one considers the prices at which goods could actually be purchased, accumulated inflation during the three years of the Unidad Popular government amounted to 4,014%. In contrast, official figures indicated an accumulated inflation of 1,886%—still a huge figure.

Concluding Remarks

During 1973, politics became highly toxic and the possibility of agreement and dialogue between the government and the opposition diminished by the day. On June 29, 1973, the junior officers of Armored Regiment No. 2 led an insurrection. The coup failed because it had no support from anyone with the rank of general or admiral. Less than three months later, on September 11, 1973, General Augusto Pinochet led a coup d'état that deposed President Salvador Allende. *The New York Times* carried the news on its front page on September 12, 1973: "The coup followed weeks of nationwide strikes and economic chaos, with growing groups of workers and professionals joining in demands that Dr. Allende halt his attempts to bring socialism to Chile and resign… . A statement that the President had committed suicide was issued after the attack."[41]

In Table 1, I present a summary of economic performance during the Unidad Popular's government. For comparison purposes, I have included data for 1968–1970 as well as for 1974, the first full year of the Pinochet dictatorship. As may be seen, in 1973 the public sector deficit reached the remarkable figure of 30% of the GDP. The figures in this Table confirm the analysis presented above: after a promising first year, the government entered a spiral of higher prices and output decline, which resulted in lower wages, currency devaluation, black markets, shortages and rationing.

Ten years after the coup d'état, most economists who had worked in the administration continued to argue that the explosion of inflation was, mostly, the result of politics. According to many of them, the main problem was that the Left had been unable to seize "all power" and defeat the bourgeoisie and imperialists. Had that task been accomplished, they would have overcome speculation, price gouging, and black markets and defeated inflation. More recently, however, some participants, such as former Minister of Mining Sergio Bitar, former cabinet member Pedro F. Ramirez, and undersecretary Oscar G. Garretón, have acknowledged that economic mismanagement after 1971 greatly contributed to uncontrolled inflation and the government's collapse.[42]

In 1974, Paul Rosenstein-Rodan, a progressive economist and one of the world authorities on economic development, wrote,[43]

> Salvador Allende died not because he was a socialist, but because he was an incompetent. After he took office, he accomplished a major redistribution of income that dramatically increased demand, but he did nothing to increase production to satisfy that demand. Instead, he printed money. A breakdown was inevitable, and the resulting inflation not only destroyed the income redistribution that had taken place, but lowered real wages below the level of 1970.

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Notes

1 John M. Keynes, *The Economic Consequences of the Peace* (London: Macmillan, 1919), 220, 1. Keynes was referring to an article published in the *New York Times* on April 23, 1919. In the article the Soviet leader's last name is spelled Lenine.

2 Ralph George Hawtrey, "The Collapse of the French Assignats," *The Economic Journal* 28, no. 111 (1918): 300–14.

3 For a more detailed discussion of the topics addressed in this article see, Sebastian Edwards, "The Debauchery of Currency and Inflation: Chile, 1970–1973," Working Paper No. w31890, National Bureau of Economic Research, 2023. For an historical view of inflation in Chile, see Albert O Hirschman, *Journeys toward Progress* (New York: Twentieth Century Fund, 1963).

4 Gonzalo Martner, *El gobierno del Presidente Salvador Allende, 1970-1973: Una evaluación* (Chile: Ediciones Literatura Americana Reunida, 1988); Carlos Altamirano, *Dialéctica de una derrota* (Mexico City: Siglo Veintiuno Editores, 1979); Max Nolff, *Salvador Allende: el político, el estadista* (Santiago, Chile. Documentas, 1993).

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Lessons from Hope and Failure," in *Reflections on Socialism in the Twenty-First Century: Facing Market Liberalism, Rising Inequalities and the Environmental Imperative*, ed. Claes Brundenius (New York: Springer International Publishing, 2020), 131–48; Oscar G. Garretón, *Notas de Memoria, 1973-2023* (Santiago, Chile: Editorial Catalonia, 2023); Pedro F. Ramírez, *De Tomic a Boric: Memorias* (Santiago, Chile: Editorial Catalonia, 2023; Rudiger Dornbusch and Sebastian Edwards, *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press, 1991).

[9] Paul E. Sigmund, *The Overthrow of Allende and the Politics of Chile, 1964-1976* (Pittsburgh, PA: University of Pittsburgh Press, 1977; Felipe Larraín and Patricio Meller, "The Socialist-Populist Chilean Experience, 1970–1973," in *The Macroeconomics of Populism in Latin America*, ed. by Rudiger Dornbusch and Sebastian Edwards (Chicago: University of Chicago Press, 1991), 175–221; Alejandro San Francisco, ed. *Historia de Chile 1960–2010*, vol. 5 and 6, *Las vías chilenas al socialismo: El gobierno de Salvador Allende (1970–1973), Primera Parte* (Santiago, Chile: CEUSS/Universidad San Sebastián, 2019); Daniel Mansuy, *Salvador Allende. La izquierda chilena y la Unidad Popular* (Taurus, 2023). Fiscal dominance is a regime where the goal of monetary policy is to finance the fiscal deficit.

[10] Nathaniel Davis, *The Last Two Years of Salvador Allende* (Ithaca, NY: Cornell University Press, 1985).

[11] Sebastian Edwards, *The Chile Project: The Story of the Chicago Boys and the Downfall of Neoliberalism* (Princeton, NJ: Princeton University Press, 2023).

[12] The document was included in a book of collected works by Allende's chief economic adviser and minister of economics Pedro Vukovic that has barely circulated. "Orientaciones Básicas del Programa Económico de Corto Plazo, 1970," in Pedro Vuskovic, *Obas Escogidas, 1964–1993* (Caracas: Centro de Estudios Políticos Latinoamericanos, 1993). For a presentation of the model using modern economics equations, see Sebastian Edwards, "The Debauchery of Currency and Inflation: Chile, 1970–1973."

[13] Ricardo Silva, "Inflación Reprimida en Chile: El Período 1970-1973," *Cuadernos de Economía* 18, no. 53 (1981): 97–106.

[14] Juan De Onis, "Allende, Chilean Marxist, Wins Vote for Presidency," *New York Times*, September 6, 1970.

[15] There are several excellent works on the Unidad Popular coalition; see, for example, Samule Collier and William. F. Sater, *A History of Chile, 1808–1994* (Cambridge: Cambridge University Press, 1996); Joaquin Fermandois, *La revolución inconclusa: La izquierda chilena y el gobierno de la Unidad Popular* (Santiago, Chile: Centro de Estudios Públicos, 2013); Arturo Valenzuela, *The Breakdown of Democratic Regimes: Chile* (Baltimore, MD: Johns Hopkins University Press, 1978); Patricio Meller, *Un siglo de economía política chilena (1890–1990.* (Santiago, Chile: Editorial Andres Bello, 1996).

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[20] Pedro Vuskovic, "Orientaciones Básicas del Programa Económico de Corto Plazo, 1970," in Pedro Vuskovic, *Obas Escogidas, 1964-1993.*

[21] See the 1970 and 1971 issues of the monthly *Panorama Económico.* For very comprehensive summaries of the short-term policies of Unidad Popular, see Alfonso Inostroza, "El programa monetario y la política de comercio exterior de la Unidad Popular," *Panorama económico* no. 260 (February–March 1971): 8–10. See also Pedro Vuskovic, "The Economic Policy of the Popular Unity Government," in *The Chilean Road to Socialism: Proceedings of an ODEPLAN-IDS Round Table, March 1972*, ed. J. Ann Zammit (Austin: University of Texas Press, 1973), 49–57.

[22] Américo Zorrilla, "Exposición de la Hacienda Pública," *Panorama Económico* no. 259 (1971): 31–32.

[23] Osvaldo Sunkel, "La inflación chilena: Un enfoque heterodoxo," *El trimestre económico* 25, no. 100 (4) (1958): 570–99; Aníbal Pinto, "Raíces estructurales de la inflación en América Latina," *El trimestre económico* 35, no. 137(1) (1968): 63–74.

[24] Alfonso Inostroza, "El programa monetario y la política de comercio exterior de la Unidad Popular," *Panorama económico* no. 260 (February–March 1971): 8–10.

[25] "Tema de Actualidad: Cuatro opiniones sobre el primer año de gestión económica del Gobierno de Allende," *Panorama Económico* no. 266 (January-February 1972): 15–28.
[26] Chile already owned 51% of some mining companies. Carlos Fortín, "Compensating the Multinationals: Chile and the United States Copper Companies," *IDS Bulletin*, April, 23–30, 1975.
[27] Book value was estimated at US$414 million, and "excessive profits" added up to US$774 million. Carlos Fortín, "Compensating the Multinationals."
[28] Miguel Gonzalez Pino and Arturo Fontaine, *Los Mil días de Allende* (Santiago, Chile: Centro de Estudios Públicos, 1997) 50.
[29] Sebastian Edwards and Alejandra. C. Edwards, *Monetarism and Liberalization: The Chilean Experiment* (Chicago: University of Chicago Press, 1991).
[30] Decreto Ley 520: Crea el Comisariato General de Subsistencias y Precios. Congreso Nacional de Chile, August 31, 1932.
[31] *Panorama Económico* (1971), 16–17.
[32] Sebastian Edwards, *The Chile Project*, 62. On Stafford Beer's views on management see Dan Davies, *The unaccountability Machine* (London: Profile Books, 2024).
[33] Edin Medina, *Cybernetic Revolutionaries: Technology and Politics in Chile* (Cambridge, MA: MIT Press, 2011).
[34] Américo Zorrilla, "Exposición de la Hacienda Pública."
[35] Multiple exchange rates were not new in Chile. They had been used between 1952 and 1955 as a way of dealing with a payment crisis. The gap between the low and high rate was, however, significantly smaller than during the Unidad Popular.
[36] The velocity of circulation measures the turnover of the stock money in the economy. With higher inflation, money loses its value quickly and people want to hold it for shorter and shorter periods.
[37] Sebastian Edwards, *Left Behind: Latin America and the False Promise of Populism* (Chicago: University of Chicago Press, 2010); Select Committee to Study Governmental Operations with Respect to Intelligence Activities, *Covert Action in Chile 1963–1973: Staff Report of the Select Committee to Study Governmental Operations with Respect to Intelligence Activities* (Washington, DC: US Government Printing Office, 1975).
[38] Banco Central de Chile, *Boletín Mensual* (1973), 466.
[39] Sergio Bitar, "The Allende Government's Attempt to Achieve Major Transformations," who was a Minister during the Allende government, provides a summary of these debates.
[40] Dornbusch and Edwards, *The Macroeconomics of Populism in Latin America.*
[41] *New York Times*, "Tragedy in Chile," September 12, 1973.
[42] Sergio Bitar, "The Allende Government's Attempt to Achieve Major Transformations in Chile"; Oscar G. Garretón, *Notas de Memoria, 1973-2023*; Pedro F. Ramírez, *De Tomic a Boric: Memorias.*
[43] Paul N. Rosenstein-Rodan, "Why Allende Failed," *Challenge* 17, no. 2: (1974): 7–13. See p. 7.

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