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Chile: hardly a 'model' to be followed

by Cynthia R. Rush

At the mercy of the systemic global crisis which has left it cash-starved and unstable, on Sept. 17 the Chilean government abolished its controls on foreign capital, put in place some years ago as a modest restriction on short-term speculative capital. Last June, in hopes of attracting more foreign capital, even if it were speculative, authorities had reduced from 30% to 10%, the percentage of incoming foreign investment they required be deposited in the Central Bank for one year.

When this didn't bring in the flood of hot capital the government had hoped for, it decided in September to eliminate the 10% reserve ratio. At the same time, measures raising the official interbank interest rate from 8.5% to 14% (although the annualized interbank rate has been at 60% in recent weeks), and widening from 5.5% to 7% the bands within which the national currency, the peso, is allowed to fluctuate, were announced. The latter measure effectively devalued the peso, which has been under speculative pressure for months. The Central Bank has had to repeatedly intervene in the market to defend the peso, spending more than $2 billion of its $17 billion in reserves so far this year, even though this forced interest rates up to as high as 120%.

"We are experiencing, and will [continue to] experience, difficult moments, because there is a world crisis," said President Eduardo Frei on Sept. 18, in an interview with Radio Cooperativa de Santiago. He urged Chileans to accept the latest austerity measures announced in the wake of the government decision, as the only option for dealing with the financial upheaval. Central Bank president Carlos Massad called for more budget cuts; more than $685 million in cuts were made last July.

"Isn't it ironic," chortled a Merrill Lynch executive quoted in the Sept. 18 *Wall Street Journal/Americas,* "that just when everyone is talking about Chile and the 'Chilean model' [of capital controls], Chile itself abolishes them!"

Russia beware!

Contrary to the opponents of Lyndon LaRouche's proposed New Bretton Woods system, what is actually dead here, is Chile's radical free-market, British colonial export-dependent economic model, hawked for more than a quarter-century (since the 1971 Pinochet coup) by the fascist Mont Pelerin Society as one of its greatest success stories. The latest intended victim of their policies is Russia, which is being pressured to follow Chile's "success." But, one may ask: What success?

In its July 21, 1995 cover story "An Obituary for London's Chilean Economic Model," *EIR* showed that since its imposition by a team trained at the University of Chicago, the model's "success" was based on gutting Chile's *physical* economy. From the early 1970s to 1995, the speculative bubble of foreign debt grew sixfold, and the 1981 privatization (i.e., seizure) of pension funds, a dramatic form of forced savings, gave bankers a way to keep looting the economy, to ensure payment of the ballooning foreign debt. While bankers have managed to keep "their beloved Chilean model afloat," *EIR* warned, "this phase of looting is also rapidly coming up to the limits of what the physical economy can withstand."

The crisis of the world financial system today has exposed the hoax of the Chilean model. Dependent on copper exports (it mines one-quarter of the world supply), Chile has seen the revenues of Codelco, its state-run copper conglomerate, drop by 65.2% in the first half of 1998, due to the more than 30% drop in the copper price this year (now at 73¢/lb). Revenues from Codelco finance part of the national budgets for health and education. The prices of its other major exports, forestry and fishing products, have also plummetted. It is estimated that Chile will lose at least $1.7 billion in export earnings this year. Nearly one-third of Chile's overall exports go to Asia, which has been engulfed in crisis for more than a year now.

According to the Sociedad de Fomento Fabril, the Chilean business association, the industrial sector lost more than 30,000 jobs in the first half of 1998. The value of the stock of the 40 leading companies quoted on Santiago's blue chip IPSA index, has dropped 25.3%, and the stock market is at its lowest point since 1993. Between January and July, foreign investment dropped 47%, compared to the same period of 1997. The Chilean Exporters Association estimates a $3 billion trade deficit for 1998, and the current-account deficit will be close to 7% of GDP.

What about the private pension system, whose funds were channeled into the stock market and other speculative ventures, supposedly to bring lucrative returns? In its Jan. 5, 1996 issue, *EIR* revealed that a large percentage of the privatized funds (now at $32 billion) was invested in highly speculative paper linked to the international derivatives bubble. It was only a matter of time, *EIR* said, "before the whole pension fund goes up in smoke," following Barings Bank, Orange County, California, and others. In September 1995, the funds lost $1.5 billion of the one-third it had invested in the stock market, and for 1995, the system had real returns of –2.5%, supposedly due to "over-concentration" of its investments in the electricity sector, which dropped by 25% during that year. *EIR* warned at the time that this "could be just a taste of what is to come." Now, in the last 11 months, the AFJP's, as the funds are called, have lost $5 billion.

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