The Impact of Financial Institutions on the Realization of Human Rights: Case Study of the International Monetary Fund in Chile

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THE IMPACT OF FINANCIAL INSTITUTIONS ON THE REALIZATION OF HUMAN RIGHTS: CASE STUDY OF THE INTERNATIONAL MONETARY FUND IN CHILE

I. INTRODUCTION

In the past fifteen years, Chile has undergone major politico-economic transformations which have had significant repercussions on all structures of the society. In 1970, Salvador Allende, the nominee of the Unidad Popular Party, was elected president. His economic objective was to promote income redistribution and social benefits to favor the more disadvantaged classes in society through a central-planned market economy. Allende's political goals were to nationalize all Chilean industries and, as an indication of his promise of populism and democracy, he allowed the opposition to occupy various positions in the government.

After a military coup in 1973 which overthrew Allende's government, Chile's economic and political objectives turned sharply. Whereas Salvador Allende had aimed for restriction of foreign financial influence in Chile, General Augusto Pinochet, the new Chilean president, pursued an economic policy which would facilitate and encourage the flow of foreign capital into the country. The key institution which facilitated the implementation of the new economic policy was the International Monetary Fund.

The International Monetary Fund (IMF) has had a direct and salient impact on the Chilean pursuit of free-market economy structures. The IMF provides credit and loans for member states in order to help facilitate their balance of payment difficulties and to restructure their debt payments. In addition, the IMF's endorsement of a particular country's economic policies has a powerful impact on other Washington-based lending institutions' and commercial banks' decisions to invest or lend money to the specific country in question.

The objective of this article will be to assess the accomplishments of Allende's and Pinochet's divergent economic policies in accordance with the promotion and maintenance of human rights. The United Nations, as well as the United States, has established legal frameworks for the protection and promotion of human rights which are pertinent to the Chilean case. The United Nations has succinctly defined and addressed the rights of man through a myriad of covenants, treaties and resolutions. By signing and ratifying these documents, the majority of states have conceded to a set of obligations which ensure respect for and realization of human rights.

The United States has adopted legislation in the past decade that limits the extension of funds to governments which are gross violators of human rights. In addition to being
a dominant actor in international financial markets, the United States has provided significant financial contributions to most multilateral banks and development institutions. Thus, where the voting structure functions on a weighted voting system, as it does in the IMF and the World Bank, the United States has a major voting share. The United States' twenty percent voting share in the IMF endows it with a powerful voice in financial decision-making processes. In the final analysis, this article will discuss the necessity for the United States to coordinate its international economic objectives of free trade as promulgated through the IMF to its political objectives of promoting human rights and democracy as advocated by the United States Congress in order to establish an effective and consistent foreign policy.

II. The Structure and Function of the International Monetary Fund

Among the most fundamental of human rights are the rights to minimum acceptable levels of nutrition, health and education. Hundreds of millions of people in developing countries, through no fault of their own, are denied these rights today. It is in these countries that adjustment is particularly costly in human terms. It is essential not to relax the efforts to combat inflation, but rather to press on with determination. On the whole, this scenario — while far from ideal — would have the great merit of bringing about needed adjustments throughout the world economy.

The International Monetary Fund and the World Bank are sister institutions which were established in 1945 in order to restructure the war-demolished capitalist economies of Western Europe. The role of the IMF is to specifically deal with fiscal matters such as facilitating trade by creating a stable currency to be used by all nations, setting forth monetary guidelines for all member states to abide by, and helping to alleviate balance of payments problems. According to its Articles of Agreement, the IMF's precise purposes are to increase international trade, to promote exchange rate stability and monetary cooperation, and to bring about high levels of employment, resource productivity and real income for member nations. The World Bank, on the other hand, undertook the reconstruction of Western Europe after World War II. With the addition of Third World countries as member states, the World Bank now provides technical and economic assistance for development in those countries.

Membership in the IMF is open to all countries which subscribe to the principles set forth by the original members in the Articles of Agreement. Each member is assigned

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4 L.A. Bureau, supra note 1, at 16–18.
6 L.A. Bureau, supra note 1, at 16–18.
7 Articles of Agreement of the International Monetary Fund (as amended in 1978) art. II. This article states that:

the original members of the IMF shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept mem-
a quota based on its paying subscription, which determines its voting power. As opposed to other international organizations such as the United Nations, the IMF and the World Bank have both adopted a weighted voting system. Any program needs an eighty-five percent majority vote in order to pass. The United States, with 19.64% of the total votes, has an effective veto. Not only does the United States representative have a tremendous impact on the decisions of the IMF, but the United States Secretary of Treasury has complete authority in directing the position of the executive director. Moreover, with the United States and Western Europe collectively holding forty-eight percent of the total votes, the developing countries, which are most critically in need of the IMF's financing and credit, have an unequal leverage in the decision-making process with their thirty-five percent voting share.

Under the Articles of Agreement, a member is entitled to withdraw funds if he can fulfill the following criteria. First, the member must indicate a need for the resources. Second, it must be shown that the resources will be used according to IMF Articles. Third, the country should not have been declared ineligible for receiving funds from the IMF. Finally, the member must not need any waiver due to its overutilization of funds. When a member withdraws or takes loans from the IMF, it is using its own subscription before December 31, 1945. Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

Id. at art. III, sec. 1. This section states that:

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.


Treasury Secretary Michael Blumenthal emphasized his influential role in directing U.S. policies in the multilateral development banks to the U.S. Congress: "I would not and I would like the record to show that, exaggerate the degree of authority I have in this matter. I have complete authority ... to direct how our executive directors vote. I can only be overruled by the President himself." Foreign Assistance and Related Agencies Appropriations for 1979: Hearings Before the Subcomm. on Foreign Operations and Related Agencies of the House Comm. on Appropriations, 95th Cong., 2d Sess. pt. 1, 429 (1978).

Articles of Agreement of the International Monetary Fund (as amended in 1978) art. V. sec. 3 provides:

... (b) A member shall be entitled to purchase the currencies of another member from the Fund in exchange for an equivalent amount of its own currency subject to the following conditions: (i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement; (ii) The Fund has not given notice under Article VII, Section 5, that its holdings of the currency desired have become scarce; (iii) The proposed purchase would be a reserve tranche purchase, or would not cause the Fund's holding of the purchasing member's currency to exceed two hundred percent of its quota; (iv) The Fund has not previously declared under Section 5 of this Article, Article VI, Section 1, or Article XXVI, Section 2(a), that the member desiring to purchase is ineligible to use the general resources of the Fund. ...
currency to buy another currency or Special Drawing Rights (SDR). The member state has the option of withdrawing funds from a number of different IMF facilities.

1) Reserve Tranche — A country may withdraw up to twenty-five percent of its quota without any conditions or repurchase requirements. This tranche is subject only to balance of payments needs.

2) Credit Tranches — It is within this facility of the IMF that conditionality and standby arrangements are involved. There are four credit/loan levels or tranches within this facility, each entitling the member state to withdraw an equivalent to twenty-five percent of its quota. Once the country has submitted a request for purchase from the credit tranches, it is then obligated to abide by the IMF recommendations on its fiscal policy, payment plan, exchange rates, and adjustment program. Heavier conditionality is imposed once members draw from upper credit tranches, since the IMF has to assure that the country will repay the IMF within a reasonable time. The IMF makes an arrangement with the requesting country whereby the country has to observe certain “performance criteria.” Such criteria usually covers government expenditures, policy on trade and payments, as well as payment of foreign debts.

3) Extended IMF Facility — A member with a deficit in its balance of payments can obtain funds larger than the quota in the credit tranches would allow. The member may maintain this program for up to three years. Initially, and at every twelve month interval, the member should provide a current statement of key policy measures that it is undertaking to meet the objectives of the program. Purchases in this facility are normally made pursuant to that of the first (lower) credit tranche and can only be extended for three years.

4) Compensatory Financing Facility — Members can draw on the IMF to compensate for shortfalls in their export revenues when, due to an unpredictable event beyond the member’s direct control, there is a sudden drop in the member’s export-commodity revenues.

5) Enlarged Access Policy — Under this facility, members with serious balance of payments difficulty can obtain supplementary financing when they are in the upper credit tranches or beyond. This facility is subject to conditionality and performance criteria and these standby arrangements last somewhere between one to three years.

The modus operandi of the IMF is as follows: upon a country’s request for use of resources in the credit tranches, a team of IMF economists visits the country to determine

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14 L.A. Bureau, supra note 1, at 24. Special Drawing Rights are credits that a country has in its account with the IMF and can use them to buy hard currency from the IMF in order to pay off foreign debts.

15 IMF Survey, Sept. 1984, at 8. For the purposes of this article, when IMF standby arrangements, stabilization policies, austerity programs, conditionality and funding is discussed, the reference will be to the credit tranches unless otherwise specified.

16 Id.

17 Id.

18 Id.

19 Id.

20 Id.

21 Id. Allende used the Compensatory Financing Facility of the IMF on two separate occasions when the world market price of copper dropped unexpectedly.

22 Id.

23 Id.
and analyze the extent of the “economic malaise.” After meeting with the governor of the central banks and the finance minister in the requesting country, the IMF recommends a specific fiscal policy in order to approve further funding for the country. This “seal of approval” by the IMF indicates to other investors that the country is “safe” for capital investment. After negotiations, a “letter of intent” is sent by the requesting country to the IMF which states its commitment to the new economic policies and its willingness to undergo an “austerity program” to “cure” inflation and the balance of payments problem. This austerity program aims at increasing the flow of foreign exchange into the country and minimizing its use in the public sector. The program usually requires the liberalization of foreign exchange and import controls, the devaluation of the exchange rate, the implementation of domestic anti-inflationary measures, and higher interest rates in domestic banks. This deficit is controlled by abolishing price controls and consumer subsidies in food, health and medical care, housing, heating oil, and a variety of services in order to create an environment which would be conducive for foreign investment. These measures cause the purchasing power of the lower classes to decrease substantially, since incomes are subject to wage ceilings despite the removal of price control on basic human needs. Thus, without any government subsidies in the public sector, the disadvantaged sectors of society are less able to afford essential foods and medicine which leads to a higher rate of infant mortality, malnutrition, and disease in the recipient country. Under such circumstances, a pro-labor government could assist the victims of the economic policy by adjusting their wages to the inflation rate as well as rationing and imposing price control on basic human needs, whereas a government which represents business interests would intransigently comply with the IMF policies despite the socio-economic indicators of rising poverty and unemployment.

There are a number of reasons why the IMF is capable of exercising such leverage. Generally, international commercial banks and financing institutions will not act positively on requests for credits or loans, unless the requesting country has received the IMF “seal of approval.” By being an intergovernmental organization with an established credibility, the IMF is capable of imposing conditions to enforce the financial stability of foreign investments. Despite the fact that countries with balance of payment difficulties are reluctant to contact the IMF because of the harsh conditionality, they ultimately need to do so in order to continue their business transactions with banks and to import foreign capital for the resumption of trade. By the time a country submits a request for the higher credit tranches, however, it is usually under acute economic strains and subject to the IMF’s severe conditionality. Thus the recipient country has to compromise on its domestic socio-economic development projects and focus the country’s economic goals and policy on overcoming external deficit.

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25 Id.
26 Id.
27 Letelier, The Chicago Boys in Chile, New Statesman, Nov. 12, 1976, at 666.
28 Id.
31 Id.
III. INTERNATIONAL RECOGNITION OF HUMAN RIGHTS

Ever since its inception in 1945, the United Nations has elaborated on the importance of the protection of human rights and has drafted covenants, declarations and treaties to that effect. The initial promulgation of such principles was manifested in the Charter of the United Nations (hereinafter cited as the “Charter”) which was declared on June 26, 1945. The Charter was drafted and universally applauded at a time when the decolonization and independance movements in the Third World had not yet taken place. Article 55 of the Charter states:

With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:

a. higher standards of living, full employment, and conditions of economic and social progress and development;

b. solutions of international economic, social, health, and related problems; and international cultural and educational co-operation; and

c. universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.

Articles 56 and 57 of the Charter explicitly state that all member nations and all United Nations specialized agencies will act within this framework to enhance these goals. The International Monetary Fund is an independant specialized agency of the United Nations. The agreement between the United Nations and the IMF strives to

52 U.N. CHARTER art. 1, para. 3. “The Purposes of the United Nations are: ... 3. To achieve international cooperation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all.” Furthermore, art. 55 states:

With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:

a. higher standards of living, full employment, and conditions of economic and social progress and development;

b. solutions of international economic, social, health, and related problems; and international cultural and educational co-operation; and

c. universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language or religion.

53 U.N. CHARTER art. 55.

54 U.N. CHARTER art. 56 provides that: “[a]ll Members pledge themselves to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in Article 55.” Furthermore, Article 57 provides that:

1. The various specialized agencies, established by intergovernmental agreement and having wide international responsibilities, as defined in their basic instruments, in economic, social, cultural, educational, health, and related fields, shall be brought into relationship with the United Nations in accordance with the provisions of Article 68. 2. Such agencies thus brought into relationship with the United Nations are hereinafter referred to as specialized agencies.

55 AGREEMENT BETWEEN THE UNITED NATIONS AND THE INTERNATIONAL MONETARY FUND (came into effect in 1947), art. 1, para. 2 states that: “The Fund is a specialized agency established by agreement among its member governments and having wide international responsibilities, as defined in its Articles of Agreement, in economic and related fields within the meaning of Article 57 of the Charter of the United Nations.”
coordinate the policies of the IMF with those of the United Nations by having reciprocal representation and an exchange of information between the two organizations. In addition, under Article 63 of the United Nations Charter, the Economic and Social Council has the duty of extending the relationship between the United Nations and its specialized agencies.

The Universal Declaration of Human Rights (hereinafter cited as the “Declaration”), adopted unanimously by the United Nations on November 10, 1948, addresses all the rights and freedoms to which people are entitled. The Declaration calls for the universal recognition of rights including the right to food, housing, health care, clothing, work, social security, and the freedom to opinion, association and expression. Article 25 of the Universal Declaration states:

Everyone has the right to a standard of living adequate for the health and well-being of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control . . . .

The most significant impact of the Declaration is that it indicates the universal consensus by nations of the rights which are fundamental for human beings. The International Conference on Human Rights held in Teheran in 1968 concluded:

The Universal Declaration on Human Rights states a common understanding of the peoples of the world concerning the inalienable and inviolable rights of all members of the human family and constitutes an obligation for the members of the international community.

This proclamation made by all member states of the U.N. manifests that the Declaration was regarded as a blueprint of the obligations and responsibilities of the member countries to their people.

In 1960, the General Assembly adopted the Declaration on the Granting of Independence to Colonial Countries and Peoples in which it stated foreign domination of any country to be a violation of fundamental human rights and contrary to the principles of the Charter. The Declaration on the Granting of Independence to Colonial Countries and Peoples requests all states to respect the principles of noninterference.

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36 Id. at arts. II, IV, V.
37 U.N. Charter art. 63 states that:
1. The Economic and Social Council may enter into agreements with any of the agencies referred to in Article 57, defining the terms on which the agency concerned shall be brought into relationship with the United Nations. Such agreements shall be subject to approval by the General Assembly. 2. It may co-ordinate the activities of the specialized agencies through consultation with and recommendations to the General Assembly and to the Members of the United Nations.
39 Id. at arts. 19, 22, 23, 25.
40 Id. at art. 25.
43 Id. at art. 7. This article provides that:
. . . all States shall observe faithfully and strictly the provisions of the Charter of the United Nations, the Universal Declaration of Human Rights and the present Decla-
Finally, the International Covenant on Economic, Social, and Cultural Rights and the International Covenant on Civil and Political Rights were drafted by the United Nations in 1966 and entered into force in 1976. These intrinsically interlinked sets of rights were presented in separate covenants for several reasons. It was argued that different implementation systems were needed for each set of rights: political rights violations required an immediate remedy, whereas violations of economic rights required a transformation of the economic infrastructure in society. In addition, each set of rights is more politically conducive to the socialist or capitalist member states: whereas the socialist countries were more willing to endorse and promulgate economic rights, the capitalist countries were the ardent supporters of civil and political rights. Therefore, the separate drafting of the covenants was not only designed as a compromise, but also as a means of ensuring sufficient support for each covenant in order to maintain its survival in an effective form.

The state parties signing the International Covenant on Economic, Social and Cultural Rights recognized economic rights including the right to food, shelter, health care, clothing, and social security and committed themselves to undertake measures to ensure the realization of such rights. These rights have been referred to as "aspirations" rather than human rights in most capitalist nations, particularly the United States. In 1982, Eliot Abrams, President Ronald Reagan's Assistant Secretary for Human Rights and Humanitarian Affairs, opposed the ratification of the International Covenant on Economic, Social and Cultural Rights by the United States on the grounds that many developing countries were not yet ready for these rights and that they would be progressively adopted "along the road to development." Ironically, four decades earlier, United States President Franklin D. Roosevelt recognized the crucial nature of economic rights and proclaimed the necessity for the United States to endorse them in their entirety:

We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence. We have accepted, so to speak, a second Bill of Rights under which a new basis of security and prosperity can be established for all regardless of station, race, or creed.

Among these are:

The right to a useful and remunerative job . . . ;

ration on the basis of equality, non-interference in the internal affairs of all States, and respect for the sovereign rights of all peoples and their territorial integrity.


Id.


Id.
The right to earn enough to provide adequate food and clothing and recreation;
The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad;
The right of every family to a decent home;
The right to adequate medical care and the opportunity to achieve and enjoy good health;
The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment;
The right to a good education.50

IV. ALLENDE’S PRESIDENCY

Upon his election in September 1970, President Salvador Allende declared his economic strategy to be the replacement of the market oriented economy in Chile with a central-planning economy.51 Such a fundamental change would allow the government to redistribute income and social benefits to the lower strata in the society. Among the priorities of the regime were to diversify exports, nationalize all industries, and allocate a major share of the government’s budget for the development of the living status of the people.52 Private land holdings were largely nationalized and cooperatives were formed for the purpose of increasing the public’s control on the means of production.53 Moreover, the socio-economic goals of Allende and the Unidad Popular Party included free education and medical care for all persons, housing projects for the poor, liberation of the status of women in the society, and the extension of social security benefits to the needy.54

Health care was a top priority on the government’s agenda.55 In January 1971, Allende launched an emergency program to provide a daily supply of one-half liter of milk for all children under fifteen, as well as for pregnant and nursing mothers.56 The purpose of this program was to supplement necessary nutrients, to educate mothers on nutritional needs, and to focus attention on the importance of better health and nutritional care.57 By 1972, nine percent of the country’s expenditure in the health sector went into the milk distribution program.58 Although this project did not completely alleviate caloric deficiencies in children in Chile, nevertheless it succeeded in reaching seventy percent of the target group, mostly in the “unprivileged” sector of society.59

53 Sobel, supra note 52, at 50.
54 Id.
56 Id.
57 Id.
58 Id.
59 Id. Unfortunately, in many cases, the milk was prepared under unsanitary conditions.
Despite the foreign exchange shortage and the economic pressures caused by the withdrawal of the United States Agency for International Development, the Allende government continued to import milk substitutes.\textsuperscript{60} Not discounting other relevant factors, the results of this program indicate some positive improvements: infant mortality dropped by eighteen percent, childhood death due to diseases dropped by approximately twenty-five percent, and malnutrition dropped by twenty percent.\textsuperscript{61}

Furthermore, during this period, social services, health care, education, welfare, and food subsidies were all made preferentially available in the neighborhoods where the low-income workers, unemployed, and retired lower class citizens resided.\textsuperscript{62} A legislation was put into effect which held that the minimum wage for all workers should be observed, and wages should be adjusted by 100% to the increasing cost of living.\textsuperscript{63} After one year of Allende's presidency, the nationalization of copper from the control of the multinational corporations had been achieved by unanimous legislative support.\textsuperscript{64} The Gross Domestic Product had risen by 8.5%, unemployment had fallen from 8.3% to 3.8%, and inflation had fallen from thirty-three percent to twenty percent.\textsuperscript{65}

V. THE IMPEDIMENTS: INTERNAL OPPOSITION AND EXTERNAL DURESS

A coalescence of external and internal factors ultimately led to the downfall of Salvador Allende. Domestically, the economy was in a delicately unstable condition. Real estate owners, cognizant of the government's nationalization policies and untrusting of a Marxist president, were rapidly selling their property.\textsuperscript{66} The capital flight out of Chile had nearly exhausted the foreign exchange reserves.\textsuperscript{67} In 1972, while the inflation rate was the highest in the world at 160%, the government had continued to provide food subsidies and wage adjustments for the poor, thus further fueling inflation.\textsuperscript{68} Moreover, while Chile's self-sufficiency in agricultural products had decreased, the demand for food had risen due to the redistribution of income. In response, the government imported food, the costs for which rose from 135.5 million dollars in 1970 to 594.9 million dollars in 1973.\textsuperscript{69} As food prices increased 117%, the government used restrictive measures to ensure that the price of certain commodities used by the lower classes, such as chick peas, were increased only by four percent.\textsuperscript{70} Predictably, a class conflict developed between the "protected" poor and the middle class who felt the most economic pressure. The government was held responsible for the increasing hardships, which led to the mistrust and resentment of governmental policies.

Concurrently, ideological and political opposition came from all fronts. On the left, a split occurred in the Unidad Popular Party. The moderates, including Allende, advocated the use of capitalist means of operation until the time came when the socialist

\textsuperscript{60} Id.
\textsuperscript{61} Id.
\textsuperscript{62} \textit{CHILE: THE BALANCED VIEW} 40 (F.O. Vicuna ed., 1975) [hereinafter cited as Vicuna].
\textsuperscript{63} Id.
\textsuperscript{64} J. BEHRMAN, \textit{FOREIGN TRADE REGIMES AND ECONOMIC DEVELOPMENT: CHILE} 33 (1976).
\textsuperscript{65} Thorp, \textit{supra} note 51, at 69.
\textsuperscript{66} Id.
\textsuperscript{67} Id.
\textsuperscript{68} PAYER, \textit{supra} note 24, at 195.
\textsuperscript{69} Sobel, \textit{supra} note 52, at 90; Thorp, \textit{supra} note 51, at 75.
\textsuperscript{70} Id.
means would be properly developed, whereas the radical faction argued that the economic difficulties were due to the lack of speed in the transformation of the economy. In addition to this inter-party conflict, there was intransigent opposition to the Unidad Popular Party from conservative groups. The Chilean Congress was dominated by the National Party and the Christian Democrats, conservative parties who had supported the media campaigns and strikes against the government. The industrialists coalesced to instigate sabotage against the government. Depleted of options in 1973, Allende appointed a large number of influential military officials to his cabinet.

The domestic turmoil was partially due to external pressures. An overview of Chile’s history indicates that the country was always financially dependant on the United States and had a record of receiving the largest per capita aid in the world from the United States. Balance of payment problems, shortages, inflation, and other domestic economic problems had always existed in Chile. The only variable in 1970 was that a Marxist president, who was intransigently dedicated to expropriating foreign capital, was at the helm of the Chilean Government.

Prior to Allende’s election, the United States Central Intelligence Agency had spent millions of dollars bribing various political organizations in Chile for their votes against Allende, had financially sponsored right-wing propaganda groups, and had mobilized anti-Allende groups. These activities were planned, organized, and financially sponsored by the “Forty Committee” which was comprised of the United States Secretary of State, Chairman of the Joint Chiefs of Staff, Deputy Secretary of Defense, Undersecretary of State for Political Affairs, and the Director of the Central Intelligence Agency. Upon Allende’s election, National Security Advisor Henry Kissinger commented: “I don’t see why we need to stand by and watch a country go communist due to the irresponsibility of its own people.” The “Allende Doctrine” was regarded as a serious threat on United States business interests abroad and it was used to justify, to the American people, the exertion of harsh economic pressures on Chile. Not only were the interests of United States private corporations at stake, but according to the Forty Committee, Allende’s victory in Chile would have created dangerous precedent by providing ideological fuel for similar acts of nationalization and expropriation of United States’ business interests from other Third World nations.

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71 STALLINGS, supra note 52, at 125–53.
72 Id.
73 Id.
74 THE END OF CHILEAN DEMOCRACY 11 (L. Birns ed., 1973) [hereinafter cited as Birns].
77 Fagen, The U.S. and Chile: Roots and Branches, FOREIGN AFFAIRS, Jan. 1979, at 304.
78 Id.
79 Id. at 308. The “Allende doctrine” is a reference to Allende’s argument that the compensation due to nationalized businesses should be calculated by subtracting the “excess profits” made from such investments.
80 The International Telephone and Telegraph Company had holdings worth 165 million dollars which were subject to nationalization at this point.
By 1971, the Chilean government had nationalized the holdings of most foreign corporations, and having assessed Anaconda and Kennecott corporations as having made "excess profits" from the copper industry, the Chilean government refused to pay them any compensation. In retaliation, President Richard Nixon announced that the United States would not only stop all economic aid, but would also "withhold its support from loans under consideration in multilateral development banks" until United States citizens were adequately compensated. Prior to 1971, the United States had played a direct and salient role in supporting Chile's economy by importing forty percent of its essential commodities and through its voting influence in the loan and credit endowment of the Inter-American Development Bank, the Export-Import Bank, the World Bank, the International Monetary Fund, and the United States Agency for International Development. Therefore the monumental impact of this reversal in United States policy vis-a-vis Chile need hardly be emphasized.

In response to Allende's expropriation of United States business interests in Chile, the United States retaliated by voting against economic aid to Chile in financial institutions. The economic assistance from the United States Agency for International Development which had annually averaged 37.7 million dollars was officially cancelled in 1970. The Eximbank terminated its credit-giving to Chile, although in the past twenty-five years, six hundred million dollars worth of credit had been given. The United States Commerce Department admitted that Chile's credit worthiness was not the reason for the denial. The effect was disastrous on the Chilean economy because of the dependance on Eximbank's credit. This credit had provided informal insurance on commercial transactions in Chile, and its withdrawal influenced banks to deny loans and to withdraw their assets from Chile. In 1972, Chile was capable only of obtaining thirty million dollars in short term private credits from commercial banks, as opposed to the previous annual figure of three hundred million dollars.

Furthermore, the Overseas Private Insurance Corporation would no longer provide any investment guarantees for corporations interested in investing in Chile. The Inter-American Development Bank, which had provided more than 310 million dollars worth of loans to Chile since 1961, denied all but two small loans which were specifically directed to opposition controlled private universities. The World Bank, which had lent 235 million dollars to that country since its inception, denied all loan requests to Chile between 1970 and 1973. This action on the part of the World Bank seems to violate provisions of the Charter which call upon international cooperation to enhance the living

82 Id., supra note 74, at 183.
83 Id. at 184.
84 Id.
85 Id. at 189.
86 Id.
87 Id.
88 Farnsworth, Chile: What Was the U.S. Role? More Than Admitted, Foreign Policy, Fall 1974, at 131.
91 Id. at 18.
92 Birns, supra note 74, at 187.
conditions of people. It is against World Bank policy to deny loans on ideological grounds. At the 1972 World Bank/IMF Annual Meeting, the Chilean Central Bank President, Inostroza, commented that the World Bank was guilty of acting in a "prejudiced manner" and being "an instrument of private interests of one of its member countries."94

In this period, Chile made a drawing from the Compensatory Financing Facility of the IMF in order to offset the sudden drop in copper prices. However, the government was reluctant to concede to any standby arrangements since they would have undermined the country's economic policies.95 In addition, Allende had committed his government to the repayment of the three billion dollars worth of foreign debt which he had inherited from the previous government, and this debt exacerbated the pressures on the economy.96 Thus by exerting its financial muscle to exclude Chile from all bilateral and multilateral aid on which it was dependent, the Nixon Administration succeeded in creating a situation of severe crisis in the domestic economy, which was further exacerbated by opposition coalitions.

VI. THE POLITICO-ECONOMY OF AN AUTHORITARIAN FREE-MARKET REGIME

On September 11, 1973, General Augusta Pinochet terminated Salvador Allende's presidency via a coup d'état. He immediately imposed a temporary state of siege which lasted for five years, followed by a "state of emergency" and a "state of exception" which are still in effect.97 The regime justified these states of action by arguing the tangible possibility of takeover by communists and thus attempted to legitimize its violations of the most fundamental freedoms of Chilean citizens.98

Upon the seizure of power, the military government pursued a laissez faire economic policy. Young Chilean economists, who had been financed by the United States Agency for International Development to study under Milton Friedman in the University of Chicago, returned to their country for this opportunity to implement the free-market policies in a tightly monitored system.99 At the same time the government requested the IMF and the World Bank to "rescue" the economy. The IMF approved a standby loan on the condition that strict monetary policies would be maintained and that the austerity measures would be enforced by the government.100

In response to the strict requirements of the austerity program, the Chilean Junta reversed many of the central policies of the Unidad Popular Regime by the imposition of wage ceilings, the reduction of public sector employment and expenditure, the abolition of import controls and price controls for basic needs, and the increase of military spending.101 The working class, Pinochet's staunchest opposition, was denied any partic-

93 U.N. CHARTER art. 1.
94 Vicuna, supra note 62, at 124.
96 VYLDER, supra note 75, at 104. See also BEHRMAN, supra note 64, at 119.
97 AMERICAS WATCH COMMITTEE, CHILE SINCE THE COUP: TEN YEARS OF REPRESSION 8-9 (1983) [hereinafter cited as AMERICAS WATCH].
98 Id. at 8-96.
100 J. SANFORD, U.S. FOREIGN POLICY AND MULTILATERAL DEVELOPMENT BANKS 144 (1982).
101 Sobel, supra note 52, at 152-62.
ipation in economic decision-making. In other economic developments, the Junta devalued the currency 143%, allowed the price of essential commodities to increase between 200% and 1800%, terminated land reform, and, despite a trade deficit of 500 million dollars and a foreign debt of 4 billion dollars, returned previously privately owned property and nationalized companies to their original owners. Simultaneously, the Pinochet government made serious political moves. The Junta banned the Marxist Party, removed all past mayors and congressmen from their offices, abolished the pro-Allende Central Labor Federation, and arrested and began the execution of dissenting individuals.

In May 1975, The Economist declared the “Chicago Model” a failure. Inflation and food prices had risen beyond control in the two years of military rule and ten percent of “registered workers” were jobless. The prediction was that “... things are going to get worse since 1974 was the year that copper prices peaked.” Both the IMF and the official Junta data indicate that at the end of 1975, unemployment in the Santiago region was 18.7% and more than twenty-two percent in the countryside. Again according to conservative estimates, one-fourth of the population, 2.5 million Chileans, had no income at all and were able to live solely because of the aid provided by Church and humanitarian groups. The price of a minimum food basket was approximately three times the monthly wages of minimum-wage workers. A white collar worker was estimated to spend eighty-seven percent of his income on food, yet the caloric intake was below that recommended by the World Health Organization and the Food and Agriculture Organization of the United Nations. Infant mortality jumped eighteen percent during the first year of Pinochet’s rule and malnutrition in children in Santiago went over sixty-one percent.

A United Nations report issued in 1977 stated that the Chilean government’s policies imposed economic and social hardships on the most vulnerable strata in the population. Although the Junta declared health to be a basic human right in the Constitutional Act, the government did not provide public health care. Health care was not only made private, but there was a budget cut in the services available, community health workers were jailed and disbanded, and programs such as the milk distribution program were immediately terminated. According to the president of the Colegio Medico de

103 Id.
104 Id.
105 Id.
106 Chile: They Failed Too, THE ECONOMIST, May 17, 1975, at 90.
107 Id.
108 FUND FOR NEW PRIORITIES IN AMERICA, U.S. POLICY ON HUMAN RIGHTS IN AMERICA (SOUTHERN CONE) 186 (1977) [hereinafter cited as FUND FOR NEW PRIORITIES IN AMERICA].
109 Id.
110 Id.
111 Id.
112 Id.
113 Id. at 176. See also 3 U.N. Econ. and Social Council, E/CN.4/Sub.2/412 (1978).
114 FUND FOR NEW PRIORITIES IN AMERICA, supra note 108, at 176.
115 Id. at 180–87.
Chile, Dr. E. Medina, hospitals continued to function despite the short supply of essential items such as antibiotics.116

It is now more than twelve years since the coup and Chileans are still living in a state of repression. The banks and industries are being run by a few private financial groups, the army has grown from 50,000 men in 1973 to 200,000, and the income distribution remains inequitable.117 The "Chicago Model" of a trickle down economic policy has had disastrous consequences in Chile. Originally, it was supported by multilateral development banks, multinational corporations, United States commercial banks, and the IMF.118 Maldistribution of income and benefits is at the core of this model, since a free-market policy with no government interference dictates that only the upper echelons of society can afford to pay for and benefit from the exorbitant prices allocated to the limited supply of essential commodities.119

The IMF's austerity program in conjunction with the "Chicago 'free-market' Model" could only be imposed and maintained in Chile because the authoritarian regime had created an artificially "aquiescent" environment for the enforcement of these policies.120 In the Chilean case, the symbiotic nexus between the free-market economic system and the authoritarian political system is evident. In order to implement the stringent economic policies, the Junta provided the repression that was allegedly necessary to stifle any democratic objections and dissent to the pressures caused by the IMF's austerity program. Thus the IMF had a direct and powerful impact in directing the politico-economic policies and was an influential actor in the undermining of legally required respect for human rights in Chile.

VII. UNITED STATES INFLUENCE IN SUPPORTING THE PINOCHET RULE

In principle, the United States is an advocate of democratic processes, yet the Chilean case study indicates that, in practice, American economic and political interests abroad have determined the extent to which human rights and democratic values are promulgated in developing countries. Various United States administrations have supported Pinochet in the past twelve years, despite the fact that state terror has been institutionalized and legitimized. The support of the United States government for Pinochet tests the actual commitment of the United States to promoting democracy in the Third World. United States influence was used to withhold economic aid from Chile between 1970 and 1973 which ultimately led to an explosive domestic situation. Pursuant to the 1973 coup, United States economic aid was used to support Chile with loans and credit to maintain and stabilize the repressive military government.

Although the Chilean economy was at its historic worst in 1974, it received a total of 110.9 million dollars from the multilateral development banks in the first few months of that year.121 Under the standby arrangements, the IMF loaned 136.2 million dollars

118 O'Brien, supra note 99, at 76.
119 Id. at 74–78.
120 Id.
121 Vicuna, supra note 62, at 34.
to Chile in 1974, 266.4 in 1975, and 140.6 in 1976. 122 During this period, the World Bank loaned an annual average of 22 million dollars to Chile. 123 At this time, the Scandinavian member nations abstained from supporting loans to Chile, but due to their limited voting power, could not put a stop to the loans. 124

In September 1973, a week prior to the coup, when a significant bread shortage was visible, the United States refused Chile's request for 300,000 tons of wheat. 125 Yet, a week after the coup, the United States government extended, on credit, 24.5 million dollars worth of wheat to the Junta. 126 In the words of United States Senator Edward Kennedy, this credit alone amounted to "eight times the total commodity credit offered to Chile in the last three years when a democratically elected government was in power." 127

Under PL 480 Title I, the United States government gave the Chilean government 57.8 million dollars in loans in 1975, whereas the rest of Latin America received only nine million dollars. 128 According to Dr. Giorgio Solimano, former Director of the Department of Nutrition in Chile, the food which the Junta received under PL 480 was sold to the local merchants who in turn sold it to the highest bidders in the market. 129

Thus the food did not reach those in critical need of it. When restrictive legislation was adopted to specifically limit aid from governmental agencies to Chile, the Eximbank compensated for the decrease by increasing its loan to that country. 130

Meanwhile, the United States Congress has not been reticent on the United States' role in Chile. Through legislation, Congress terminated military aid to Chile in 1976 and put a ceiling on bilateral economic aid. 131 The Harkin Amendment called on United States representatives in the multilateral development banks to vote against loans to "gross violators of human rights" unless the "loan proceeds would directly benefit needy people." 132 This amendment was signed into law by President Ford in 1976. However, the lack of any criteria for determining "needy people" has provided the administration with a loophole. 133

In 1978, Representative Tom Harkin introduced his legislative amendment regarding the policies of the IMF and their impact on human rights. 134 In its first provision, the amendment called upon the United States representative in the IMF to only en-

123 Id.
124 Id.
125 Sobel, supra note 52, at 151–55.
126 Id.
127 AMERICAS WATCH, supra note 97, at 112. PL 480 Title I is an extension of food aid or dollar credits to buy food from the United States government. This aid is provided on a low-interest, long-term basis, and there is no check on the requesting government's dispersal of the food aid to the "needy people." In the past decade, ninety-four percent of United States food aid has been under the auspices of PL 480 Title I. See F.M. Lappe & J. Collins, Food First 366 (1977).
128 FUND FOR NEW PRIORITIES IN AMERICA, supra note 108, at 190.
129 AMERICAS WATCH, supra note 97, at 112.
130 FUND FOR NEW PRIORITIES IN AMERICA, supra note 108, at 156.
131 121 CONG. REC. 39, 391 (1975).
courage stabilization programs which enhance employment and are consistent with basic needs.\(^\text{154}\) The second provision required the Executive Branch to oppose all IMF transactions that violated basic human rights or needs and to integrate such a foundation permanently within the IMF.\(^\text{155}\) Finally, the third provision of the amendment called for a study of the effect of IMF transactions on the poor.\(^\text{156}\)

The Harkin Amendment passed the House by a strong majority (267-125), although in the Senate it was amended to the point of losing all of its human rights language.\(^\text{157}\) The second provision was entirely deleted and the third provision was qualified.\(^\text{158}\) Secretary of Treasury Blumenthal stressed the “apolitical” nature of the IMF as inconsistent with the Amendment, while Senators Javits and Church reiterated the necessity of a sector of society to be deprived of its basic needs in order to attain economic prosperity.\(^\text{159}\) Senator Javits stated that the citizens of Third World countries “should be proud of their willingness to sacrifice” their food, shelter, and health care in order that they can “put themselves in some kind of a viable economic condition.”\(^\text{160}\)

The IMF has maintained that it cannot take political factors into consideration since it retains the support of its members by being an “apolitical” entity. Yet, no financial institution which promotes a specific economic policy and only provides assistance to countries that concede to restructuring their economies such that they will follow the free-market/trickle down approach can be apolitical. The International Monetary Fund is a political actor insofar as it shapes countries’ economies, determines the flow of foreign capital, dictates the role of the government in the public sector and thereby influences the living conditions of the people. In the words of United States Representative Tom Harkin:

... when the IMF says that they deal only in money and not in politics, I would suggest that there is nothing in this world more political than money, how it is loaned, and under what conditions it is loaned.\(^\text{161}\)

VIII. Conclusion

The Chilean case-study manifests the ability of the United States government to influence Third World economies through its voting power in the International Monetary Fund. The IMF, in particular, is in a sensitive position. On the one hand, as the “doorman” of foreign investment, loans, and credit, its endorsement of economic policies

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\(^{155}\) Id.

\(^{156}\) Id.

\(^{157}\) Id. at 23409. The Bretton Woods Amendment Act, as amended, is further amended by adding at the end thereof the following:

... the Secretary of the Treasury shall, in consultation with the Secretary of State, prepare and submit to Congress an annual report on the observance of internationally recognized human rights, as defined in Section 116(a) of the Foreign Assistance Act of 1961, as amended, in each country which draws on funds made available under the Supplementary Financing Facility of the International Monetary Fund.

\(^{158}\) Id. at 291. See 124 Cong. Rec. 23342–63, 23389–92, 23400–05 (1978) for extensive Senate debates on the role of the IMF with respect to human rights in developing countries.

\(^{159}\) Id.

\(^{160}\) Id.

is crucial to the economic reconstruction of most debt-ridden Third World economies. On the other hand, by virtue of the free-trade principles from which it stems, its Articles of Agreement, and its inflexibility in considering and amending the socio-political repercussions of its policies, it is unlikely that the IMF as it is currently structured and functions can positively contribute to the development of Third World countries.

The constant threat and possibility of the IMF as a forum where the United States can exercise its foreign policy objectives via exertion of economic pressures needs to be considered in the overall evaluation of the organization. It is imperative to maintain that the IMF, despite its claims, is not an "apolitical" financial institution. This is not only due to the evident power structure within the organization itself, but basically due to the fact that the IMF as a specialized agency of the United Nations is legally bound to function consistently with the principles and goals of the United Nations, as stated in the Charter. Respect for the principle of self-determination and the promotion of human rights are at the very core of the goals of the United Nations. It is necessary for the IMF to amend its policies such that it will integrate the flexibility needed within the packaging of its austerity programs to respond to the impact of its policies on the realization of human rights.

As the most influential government in the International Monetary Fund, the United States can take the initiative necessary to bring about reforms which would ensure that the IMF acts according to the principles of the United Nations. The reversal of the United States' adament support for the Pinochet government was recently indicated when the United States submitted a draft resolution to the United Nations Human Rights Commission, asserting and condemning the human rights violations in Chile.\textsuperscript{142} The United States could compliment this act and manifest the seriousness of its recent commitment to non-support for authoritarianism by integrating human rights factors into the policy framework of the IMF. Such a rudimentary transition will ensure the realization of human rights and socio-economic development.

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\textsuperscript{142} \textit{U.S. Criticizes Chile's Abuse of Rights}, International Herald Tribune, March 14, 1986, at 1, col. 5.