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**Foreign Trade Regimes
and Economic Development:
CHILE**

Foreign Trade Regimes and Economic Development:

*A Special Conference Series
on Foreign Trade Regimes
and Economic Development*

VOLUME VIII



NATIONAL BUREAU OF ECONOMIC RESEARCH
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CHILE

by **Jere R. Behrman**

UNIVERSITY OF PENNSYLVANIA

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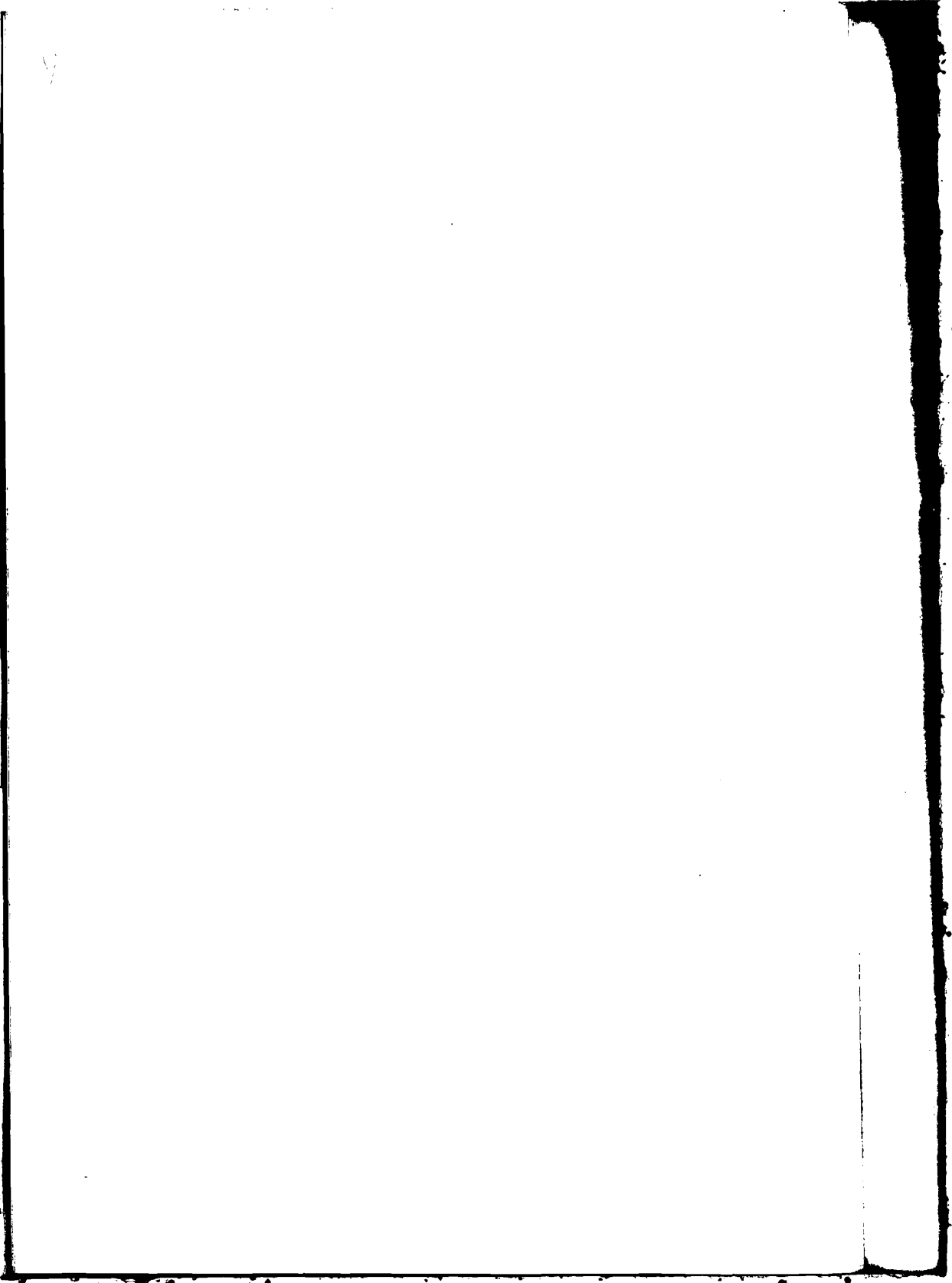
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The individual country studies have not passed through the National Bureau's normal procedures for review and approval of research reports by the Board of Directors. In view of the way in which these studies were planned and reviewed at successive working parties of authors and Co-Directors, the National Bureau's Executive Committee has approved their publication in a manner analogous to conference proceedings, which are exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors. *It should therefore be understood that the views expressed herein are those of the authors only and do not necessarily reflect those of the National Bureau or its Board of Directors.*

The synthesis volumes in the series, prepared by the Co-Directors of the project, are subject to the normal procedures for review and approval by the Directors of the National Bureau.

To
Lucy

A



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Co-Directors' Foreword

This volume is one of a series resulting from the research project on Exchange Control, Liberalization, and Economic Development sponsored by the National Bureau of Economic Research, the name of the project having been subsequently broadened to Foreign Trade Regimes and Economic Development. Underlying the project was the belief by all participants that the phenomena of exchange control and liberalization in less developed countries require careful and detailed analysis within a sound theoretical framework, and that the effects of individual policies and restrictions cannot be analyzed without consideration of both the nature of their administration and the economic environment within which they are adopted as determined by the domestic economic policy and structure of the particular country.

The research has thus had three aspects: (1) development of an analytical framework for handling exchange control and liberalization; (2) within that framework, research on individual countries, undertaken independently by senior scholars; and (3) analysis of the results of these independent efforts with a view to identifying those empirical generalizations that appear to emerge from the experience of the countries studied.

The analytical framework developed in the first stage was extensively commented upon by those responsible for the research on individual countries, and was then revised to the satisfaction of all participants. That framework, serving as the common basis upon which the country studies were undertaken, is further reflected in the syntheses reporting on the third aspect of the research.

The analytical framework pinpointed these three principal areas of research which all participants undertook to analyze for their own countries.

Subject to a common focus on these three areas, each participant enjoyed maximum latitude to develop the analysis of his country's experience in the way he deemed appropriate. Comparison of the country volumes will indicate that this freedom was indeed utilized, and we believe that it has paid handsome dividends. The three areas singled out for in-depth analysis in the country studies are:

1. *The anatomy of exchange control*: The economic efficiency and distributional implications of alternative methods of exchange control in each country were to be examined and analyzed. Every method of exchange control differs analytically in its effects from every other. In each country study care has been taken to bring out the implications of the particular methods of control used. We consider it to be one of the major results of the project that these effects have been brought out systematically and clearly in analysis of the individual countries' experience.

2. *The liberalization episode*: Another major area for research was to be a detailed analysis of attempts to liberalize the payments regime. In the analytical framework, devaluation and liberalization were carefully distinguished, and concepts for quantifying the extent of devaluation and of liberalization were developed. It was hoped that careful analysis of individual devaluation and liberalization attempts, both successful and unsuccessful, would permit identification of the political and economic ingredients of an effective effort in that direction.

3. *Growth relationships*: Finally, the relationship of the exchange control regime to growth via static-efficiency and other factors was to be investigated. In this regard, the possible effects on savings, investment allocation, research and development, and entrepreneurship were to be highlighted.

In addition to identifying the three principal areas to be investigated, the analytical framework provided a common set of concepts to be used in the studies and distinguished various phases regarded as useful in tracing the experience of the individual countries and in assuring comparability of the analyses. The concepts are defined and the phases delineated in Appendix A.

The country studies undertaken within this project and their authors are as follows:

Brazil	Albert Fishlow, University of California, Berkeley
Chile	Jere R. Behrman, University of Pennsylvania
Colombia	Carlos F. Díaz-Alejandro, Yale University
Egypt	Bent Hansen, University of California, Berkeley, and Karim Nashashibi, International Monetary Fund
Ghana	J. Clark Leith, University of Western Ontario

India	Jagdish N. Bhagwati, Massachusetts Institute of Technology, and T. N. Srinivasan, Indian Statistical Institute
Israel	Michael Michaely, The Hebrew University of Jerusalem
Philippines	Robert E. Baldwin, University of Wisconsin
South Korea	Charles R. Frank, Jr., Princeton University and The Brookings Institution; Kwang Suk Kim, Korea Development Institute, Republic of Korea; and Larry E. Westphal, Northwestern University
Turkey	Anne O. Krueger, University of Minnesota

The principal results of the different country studies are brought together in our overall syntheses. Each of the country studies, however, has been made self-contained, so that readers interested in only certain of these studies will not be handicapped.

In undertaking this project and bringing it to successful completion, the authors of the individual country studies have contributed substantially to the progress of the whole endeavor, over and above their individual research. Each has commented upon the research findings of other participants, and has made numerous suggestions which have improved the overall design and execution of the project. The country authors who have collaborated with us constitute an exceptionally able group of development economists, and we wish to thank all of them for their cooperation and participation in the project.

We must also thank the National Bureau of Economic Research for its sponsorship of the project and its assistance with many of the arrangements necessary in an undertaking of this magnitude. Hal B. Lary, Vice President-Research (retired), most energetically and efficiently provided both intellectual and administrative input into the project over a three-year period. We would also like to express our gratitude to the Agency for International Development for having financed the National Bureau in undertaking this project. Michael Roemer and Constantine Michalopoulos particularly deserve our sincere thanks.

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ANNE O. KRUEGER
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JERE R. BEHRMAN

Principal Dates and Historical Events in Chile

- 1536 Spanish discovery of Chile by Diego de Almagro.
- 1810-18 Wars of independence from Spain.
- 1865-66 War with Spain.
- 1879-83 War of the Pacific; Chile defeats Peru and Bolivia and becomes owner of rich nitrate and copper deposits.
- 1891 Civil War; President José Manuel Balmaceda killed.
- 1920-24 Presidency of Arturo Alessandri; initiation of substantial social legislation; creation of Central Bank; resignation of Alessandri.
- 1925 Revolution; reinstatement of Alessandri, approval of new constitution; abdication of Alessandri; election of Emiliano Figueroa Larraín as president.
- 1927 Resignation of Figueroa Larraín; election of Carlos Ibañez del Campo as president.
- 1931 Catastrophic impact of Great Depression; abandonment of convertibility; resignation of Ibañez; establishment of restrictive foreign economic regimes; succession of governments and great political instability.
- 1932-38 Re-establishment of political and economic order under President Arturo Alessandri (now more conservative than in 1920s).
- 1939 First year of Popular Front government under President Pedro Aguirre Cerda; major earthquake; creation of CORFO.
- 1941 President Aguirre dies.
- 1942 Juan Antonio Ríos elected president; copper price fixed at 12 cents per pound by agreement with United States government as part of war effort.

- 1946 President Ríos dies; Gabriel González Videla elected president with considerable support from leftist parties; copper price-fixing agreement terminated.
- 1947 Government moves toward right; Communist Party outlawed, diplomatic relations with Union of Soviet Socialist Republics broken.
- 1950 United States unilaterally fixes copper price because of Korean conflict.
- 1951 Washington Treaty signed after strong Chilean outrage.
- 1952 Chilean copper-sales monopoly started; Ibañez elected again to presidency.
- 1955 *Nuevo Trato* (new deal) legislated for large-scale copper mining, political and economic situation disintegrates considerably; Felipe Herrera made minister of finance; Klein-Saks consulting firm contracted for aid in stabilization program.
- 1956 Ibañez-Klein-Saks program of stabilization plus liberalization initiated.
- 1958 Jorge Alessandri Rodríguez elected president.
- 1959 Alessandri program of stabilization plus liberalization commences.
- 1960 Major earthquake in south.
- 1962 Stabilization-liberalization effort abandoned.
- 1964 Eduardo Frei Montalva elected president.
- 1965 Frei stabilization-liberalization effort begun; sliding-peg exchange rate policy adopted; foreign debt renegotiated.
- 1966 Chileanization of Kennecott's copper holdings.
- 1967 Collapse of stabilization attempt.
- 1969 Nationalization of Anaconda's copper holdings.
- 1970 Abandonment of sliding-peg exchange rate policy; Salvador Allende Gossens elected president as head of Popular Unity Coalition.
- 1971 Complete nationalization of large-scale copper mining; intensified quantitative restrictions.
- 1972 Foreign-debt renegotiation.
- 1973 Military coup in which President Allende killed.

