

**THE ROLE OF MILITARY EXPENDITURE  
IN THE DEVELOPMENT PROCESS.  
CHILE 1952—1973 AND 1973—1980:  
TWO CONTRASTING CASES.**

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The study of allocation of resources for military purposes to the Chilean Armed and Police Forces during the last thirty years can be analyzed in two periods: 1952—1973, when inward oriented strategies of economic development prevailed under a democratic regime, and 1973—1980, when the authoritarian government implemented an externally oriented strategy of economic development. Differences in the process of allocation of resources and in the forces affecting the decision-making process will emerge. Also the distinct impact of the military expenditure on development strategies should be clearly noted.

This report is based on the main studies of the process of development during the thirty year period, on our own reconstruction of economic statistical data<sup>1</sup> and military expenditure information available to the public<sup>2</sup>, and on research of the allocation of resources for military expenditure during the democratic regime.

<sup>1</sup> The first problem to notice is the comparability of the statistical data throughout the period.

<sup>2</sup> Information on military expenditure includes official data of the expenditure of the Armed Forces and *Carabineros* as published by the General Comptroller of the Republic. We have included *Carabineros*, the national police corps because it is an institution which has both internal security functions and police frontiers. Due to its militarized character, it can be considered a part of the military in a broad sense. Our sources of information also include *Investigaciones*, the National Bureau of Investigation, although the magnitude of its expenditure is not relevant.

## 1. Military expenditure and development 1952—1973

The study of the role of military expenditure in the development process during 1952—1973 will focus on four themes: (a) the forces affecting the decision-making process of budget allocation to the military, where we will consider the place of the Armed Forces within the Chilean political structure, their functions, and the way they interact with those who hold power, in sum *who makes decisions*; (b) factors influencing the process of allocation of resources: defence and international problems and internal security and order, the reason for military expenditure; (c) trends in military expenditure, *how much was spent*; and (d) the *impact* of military expenditure on the development strategies.

### 1.1. *The Armed Forces and the process of allocation of resources*

The State played a crucial role in the economic management over the entire period either through expansionist policies associated with developmental plans or by the enactment of programs of stabilization. Changes in policies responded to the social and political forces that supported the newly elected governments or to pressures from those forces affected by the implementation of previous policies.

The executive and Congress participated in the formal process of budget allocation, and political and social organizations influenced the policies finally adopted. Nevertheless, although allocation of resources to the military was regulated by the same norms, the process of military budget formation was isolated from direct political pressure and was left to the Executive, particularly to the President, his Finance and Defence Ministers with the assistance of the High Command of the Armed Forces. Congress generally accepted the proposals of the President without much debate. Notwithstanding, pressures on the whole process of budget allocation rebounded on military expenditures.

Four factors contributed to this pattern of allocation of resources to the military: the civilian control of the Armed Forces reinstated since 1923, the industrialist stance of Chilean military doctrines, the formalization of the Inter-American military bonds on South American intraregional relations.

#### a) The pattern of civil-military relations<sup>3</sup>

The professionalization and modernization of the Chilean Armed Forces began at the end of the XIX Century with the Prussian Mission of Colonel Emil Köerner that shaped the Army and also the British influence in the Navy. For some years the Armed Forces continued to keep their long tradition of subordination to the civilian political power which had its root in the authoritarian republic established in 1831. But at the beginning of the 1920s a reformist movement began to develop within the Army, and led to the intervention in the political arena during the period of crisis of the externally oriented model of development, contributing to put an end to the parliamentary regime. From 1924 to 1932 the Armed Forces played a direct role and during 1927—1931 supported General Ibáñez' dictatorship. The world economic crisis of those years impinged strongly upon the Chilean economy, affecting the ability of the military government to carry out reforms. Political instability was the consequence of economic mismanagement and repression.

<sup>3</sup> For a complete account of the civil-military relations in Chile during the XX Century see: Augusto Varas, Felipe Agüero, Fernando Bustamante, *Chile, Democracia, Fuerzas Armadas*, FLACSO, Santiago, 1980.

A constitutional civilian government returned to power in 1932, while the military were out of favour. A new pattern of civilian-military relations emerged based on "objective civilian control"<sup>4</sup> where the Armed Forces performed their professional duties within an independent sphere subordinated to the constitutional authorities. The system functioned very well for more than thirty years. The sporadic attempts to subvert it were not successful due to broad political consensus as well as the prevailing ideology of subordination to civilian authorities within the Armed Forces. This pattern of civilian-military relations permitted the Government to set priorities in the resource allocation process without strong pressure from the military. The system of "objective civilian control" began to erode when social and political polarization, resulting from the agrarian and other social reforms and the increase of demands from different interest groups pressed by popular mobilization, reintroduced the Armed Forces to the political arena. Along with this process, the assumed weakness of the military vis-à-vis the Armed Forces of neighbouring countries served to fire the demands of increasing the resources to be allocated for military purposes. These demands surfaced at the end of the period.

b) The military and industrial development

Chilean military doctrines developed from the late XIX Century onward had been stressing the strategic importance of a national industrial base, particularly to the internal production of ammunition and armaments. The military movement of the 1920s advocated industrialization, and General Ibáñez tried to promote this during his first tenure. Thus, the process of industrialization by import substitution that took place after the 1930s was in line with military doctrines. The different strategies carried out since the 1950s to overcome economic stagnation continued having industrial development as a stated goal, therefore the Armed Forces did not oppose their orientation and the policies applied were not seen as being in basic contradiction with military purposes.<sup>5</sup>

c) The Inter-American military system and its impact

Another factor that contributed to keeping the allocation of resources for military purposes out of daily political debate was the formalization of the Inter-American military system. The strong U.S. influence on the Latin American Forces is rooted in the system of Hemispheric Defence born during the pre-Second World War period and formalized at its end in the Rio de Janeiro Treaty. The Cold War tightened the bonds between the U.S. and the Latin American Armed Forces.

The new system of military relations allowed the United States to perform the role of balancing military power among Latin American states, minimizing the perception of external threat among old rivals. Direct political influence and U.S. pressure in the Inter-American political system in addition to American arms transfer policies were instruments to avoid intraregional conflicts.<sup>6</sup>

<sup>4</sup> The concept has been drawn from Huntington (Samuel Huntington, *The Soldier and the State*; Vintage Books, New York, 1957 pp. 80 and passim). A more complete study of the constitutional role of the Armed Forces in Chile, in Carlos Portales, *Instituciones Políticas y Fuerzas Armadas en Chile*, FLACSO, forth coming.

<sup>5</sup> See Augusto Varas y Felipe Agüero, *El desarrollo doctrinario de las Fuerzas Armadas Chilenas*, FLACSO, 1979.

<sup>6</sup> Augusto Varas, Carlos Portales and Felipe Agüero, "The National and International Dynamics of South American Armamentism", *Current Research on Peace and Violence* No 1, Tampere, Finland, pp. 1—23.

Thus, the overriding argument in external defence to allocate more resources for military expenditure was weakened. In addition U.S. policies of grants and low-payment transfers really served to diminish the pressures over national resources and thus contributed to increase funds available for other purposes.

The Military Assistance Pact between the United States and Chile was approved by the Chilean Congress in June 1952. Centrist and Right-wing members of Parliament supported the covenant, while leftists and General Ibáñez, then a senator, opposed it. Among the arguments given to approve the Pact were protecting character of the alliance *vis-à-vis* the alleged Argentinian armamentarism, and the relevant saving of funds in future arms transfers. Although General Ibáñez became President at the end of the same year he did not cancel the Pact, but, on the contrary, he renewed it in 1956 after the Klein-Sacks recommendations of a reduction in defence expenditures.

### *1.2. Politicization of the process*

The pattern described began to erode: changes both in the pattern of civil-military relations and in the international context were more prone to increase military budgets during the last years of the period.

The balancing effect of the Inter-American military system progressively weakened. In 1959 President Alessandri proposed a pact between Latin American countries to halt an incipient arms race. Although the proposal was not accepted it did contribute to a diminishing of tensions. A decade later the relaxation of the Inter-American military ties led to augmented arms purchases. Some Latin American military establishments asked for sophisticated weapons from the United States. The U.S. refused to transfer these weapons following the policy to avoid the introduction of new types of arms to the Latin American market. Demands were then directed towards European suppliers. An important case was that of the supersonic planes obtained by the Peruvian Air Force in France during 1968. Thus, perception of external threat by the Chilean Armed Forces was determinant in the increases of the military budget during the early 1970s, which were to further increase after the military coup.

Changes in the pattern of civilian-military relations were still more important. The Armed Forces were never in complete agreement with the allocation of resources given to acquire equipment and to pay their salaries, but relinquished over civilian authorities. Ibáñez cut down defence expenditures due to his stabilization plan, and Alessandri, implementing his policy of fiscal austerity, impeded a big increment in the resources assigned to the Armed Forces. President Alessandri tried instead to reach an agreement with other Latin American governments in order to stop the pressure on the scarce State-controlled resources. Since his strategy of development presupposed the shrinkage of fiscal expenditure, limitation of disbursement for military purposes was crucial due to the difficulties in cutting other items within the context of a democratic regime while taking social demands into consideration. Although the implementation of such a policy led to some uneasiness within the organization of retired officers, the Armed Forces continued fulfilling their duties and respecting established channels.

The situation changed during the Frei government: military pressures began to mount within the context of generalized social demands to improve the level of income, and in the midst of Right-wing opposition to the program of social reforms. The military compared their salaries with those of the unions which had won increases after negotiations and strikes. In April, 1968, several Army officers submitted their

resignations in protest for their low salaries, and Congressional delay in approving their readjustments. The government had to reshuffle the High Command of the Army, and to change the Minister of Defence and the Chief of Staff of the Army the first week in May. But the situation worsened, and on October 21, 1969, General Roberto Viaux headed the rebellion of a regiment, with wide support within the officer corps (the *tacnazo*), asking for higher salaries, better equipment, and the replacement of the High Command of the Army. The movement had strong, although not explicit, political leanings and was the worst outburst of indiscipline within the Armed Forces during the period. From that date until the end of the civilian regime, four years later, the government was much more responsive to military demands.

The Armed Forces had become an increasingly overt political factor, although the formal subordination to the civilian authorities remained until September 1973. In terms of civil-military relations, the Allende period was a battle between Right-wing forces trying to politicize the Armed Forces and turn them against the process of structural change, while the government tried to maintain the traditional doctrine of subordination of the military to civilian authorities. Small Rightist groups had plotted with military officers to impede the confirmation of the Allende election by Congress in October 1970. This coup failed because of the assassination of General Schneider, Chief of Staff of the Army. Rather than provoking a military rebellion, it led to the strengthening of the constitutionalist High Command. From then on, Right-wing strategy was to enliven the social and political battle against the Government in order to create the appropriate environment for a military coup. Thus, the National Party led a strong political opposition since the beginning of the Allende period and after September 1972 pushed the centrist Christian Democratic Party to follow in its wake. More important still was the broad social alliance slowly built up by the bourgeoisie, taking advantage of the Government's political mistakes and especially of the economic problems created by mismanagement.

From the headquarters of the National Industrialist Association and other corporate groups, a campaign was launched to unite big industrialist and landowners, professionals, owners of medium-sized and small businesses, merchants, farmers, truckowners and even white-collar workers and some blue-collar workers to defend private property and "freedom". Social unrest and political struggle impinged upon the Armed forces widening the margin for Right-wing military plotting. Only when the *constitucionalistas* inside the Army were defeated could the military coup take place. Distinction between the professional sphere and the political realm was erased putting an end to "objective civilian control" and opening the way to military rule over the society<sup>7</sup>.

### 1.3. Trends in military expenditures, 1952—1973

Chilean military expenditure *milex* grew between 1952 to 1973 from 142 to 604 million dollars in constant currency<sup>8</sup>. The 325 percent increase is very high compared with the 95 percent growth of world *milex* between the same years.

The trend of growth was not steady. It had sharp variations, increasing more than 10 percent in 1953, 1955, 1956, 1960, 1961, 1966, 1970, 1971 and 1973 and decreasing in real terms in 1954, 1959, 1963, and 1964.

<sup>7</sup> See: Carlos Portales, *op.cit.*

<sup>8</sup> We have not included social security expenditures in the military during 1970, 1971, 1972 and 1973 in the tables of this chapter. Data on social security expenditures from 1950 to 1969 are underestimated (see Methodological Appendix to the *milex* data) and therefore to make more comparable data for the whole period we have had to subtract social security from total *milex* in 1970, 1971, 1972 and 1973.

*Table I*  
*Milex Rate of Growth, 1952—73*

Year	% of variation	Year	% of variation
1953	16.8	1964	-1.6
1954	-13.1	1965	5.9
1955	26.6	1966	16.9
1956	13.8	1967	4.2
1957	8.6	1968	2.4
1958	0.8	1969	6.4
1959	-21.6	1970*	28.1
1960	35.6	1971*	13.9
1961	26.3	1972*	3.2
1962	-7.2	1973*	10.7
1963	-7.7		

\* See footnote (8)

If we take the presidential terms we can find that average *milex* per year grew more under President Allende (60.5 %) and President Ibáñez (41.5 %) than in Frei's (36.7 %) or Alessandri's (32.4 %) terms.

*Table II*  
*Milex by Presidential Periods, 1952—1973*

Years	Total (in million US 1979 dollars)	Annual Average (136.2)	Rate of increase (percentage)
(1950—52)	(408)	(136.2)	
Ibáñez 1953-58	1.156	192.7	41.5
Alessandri 1959-64	1.531	255.2	32.4
Frei 1965-70	2.093	348.8	36.7
Allende 1971-73	1.679	559.8	60.5

Ibáñez tried to make *milex* grow significantly as a result of the perception of weakness in relation to neighbouring countries' military power and to a lengthy postponement of improvements for the Armed Forces. However, economic crisis led to a decreasing rate of growth in *milex* after 1955, following the recommendations of Klein-Sacks Mission to diminish defence expenditures in order to balance the economy.

Alessandri gave priority to an international campaign for Latin American disarmament to avoid pressures over scarce fiscal resources. Nevertheless, during the first part of his period *milex* increased. However, the failure of his program of stabilization and his efforts to keep fiscal austerity, resulted in a decrease of resources allocated for military purposes during the second part of his presidential term.

Frei increased the military budget substantially during his first two years in office, but in 1967 and 1968 *milex* rate of growth slowed down in the middle of the problems of economic management. Uneasiness in the barrack manifested in April and May of 1968 led to a moderate increase of *milex* in 1969. But, it was not enough to prevent the

military movement of October of that year (the *tacnazo*) which provoked the big jump of *milex* in 1970.

During Allende's years the Armed Forces began to play an increasingly open political role. The government, interested in avoiding military unrest, allocated more resources for defence. Concern with Peruvian military build-up was an important factor considered to increase *milex*.

a) *Milex* by branches

The allocation of resources among the branches of the Armed Forces and the Police clearly favoured the Navy. It got one third of the total *milex* (33.8%) throughout the 1952—1973 period. The Army got more than one fourth (26.2%) of the defence budget, the Police almost the same (24.6%) and the Air Force less than one sixth (15.5%).

*Table III*  
Participation of the branches of the Armed Forces and the Police  
in *milex* 1952—1973 (percentages)

Year	Army <sup>1</sup>	Navy <sup>2</sup>	Air Force <sup>3</sup>	Police <sup>4</sup>	Carabineros	Bureau of Investigation
1952	28.7	29.2	10.6	31.5	28.6	2.9
1953	28.6	30.4	10.1	30.8	27.7	3.1
1954	26.1	32.8	19.0	22.1	19.5	2.6
1955	36.1	31.5	14.0	18.4	16.7	1.7
1956	24.7	39.0	15.1	21.2	19.6	1.6
1957	25.6	37.3	16.3	20.9	19.2	1.7
1958	24.0	37.3	14.4	24.3	22.2	2.1
1959	22.8	34.1	16.3	26.9	14.6	2.3
1960	23.4	34.7	17.6	24.4	21.7	2.7
1961	24.7	30.0	22.2	28.1	25.4	2.9
1962	26.9	35.8	9.0	28.1	25.4	2.9
1963	24.4	33.3	12.6	29.7	26.3	3.4
1964	24.5	32.1	14.5	28.8	25.8	3.0
1965	27.8	31.4	14.2	26.6	23.8	2.8
1966	27.0	33.4	13.6	26.0	23.1	2.9
1967	24.7	34.1	15.1	26.1	23.2	2.9
1968	24.9	34.7	15.8	24.7	22.3	2.4
1969	24.2	35.6	16.9	23.3	20.8	2.5
1970	27.5	32.1	17.1	23.3	20.7	2.6
1971	25.9	32.6	16.0	25.5	22.8	2.7
1972	25.9	31.4	14.6	28.1	25.8	2.3
1973	28.7	36.9	16.5	18.0	16.3	1.7

(1) Includes Industries and Arsenal of the Army (FAMAE) from 1963 to 1973; the General Recruiting Department, and the Geographic Institute of the Army in 1973.

(2) Includes Shipyards of the Navy (ASMAR) from 1966 to 1970 and in 1973; and the Hydrographic Institute of the Navy in 1973.

(3) Includes the Air Photogrametric Service of the Air Force in 1973.

(4) Includes *Carabineros* and *Bureau of Investigation*.

The ranking clearly shows the importance of the Navy in a country with a coast of more than 4,200 kilometers and strategically located in the Southern Part of the Pacific Ocean connecting with the Southern Atlantic. Participation of the Navy in *mílex* was very similar in the subperiods considered. During Ibáñez it was 35.1 %, 33.1 % under Alessandri, 33.6 % during the Frei government and 33.7 % in Allende's years.

The high proportion of resources devoted to the Navy allowed it to keep at the same level as the navies of larger South American countries, a situation unique among the branches of the Chilean Armed Forces. From 1951 to 1973 the Navy received 26 naval vessels of more than 1,000 tons of displacement<sup>9</sup>. Among them were two cruisers "Brooklyn" class received from the United States in 1951 (Argentina and Brazil also got two the same year)<sup>10</sup>; and Peru was going to receive three destroyers escorts in 1952; two destroyers "Almirante" class received from the United Kingdom in 1960 and 1962 (Peru received two cruisers "Almirante" class in 1959 and 1960); two submarines "Balao" class from USA in 1961 (Argentina had received two similar submarines in 1960, Peru had had two submarines "Abateo" class since 1957, and Brazil was going to receive two submarines "Balao" class in 1963); two destroyers "Fletcher" class from the United States in 1963 (following three received by Argentina, two by Brazil and one by Peru the previous year); four escort destroyers from USA in 1967 (which were going to be followed by two destroyers "Fletcher" class to Argentina the same year and two more in 1971, by two destroyers "Fletcher" class to Brazil in 1967 and 1968 and by two destroyers "Terre" class to Peru in 1970 and 1971); and one cruiser bought from Sweden in 1972. The Chilean Navy also got the British ship-to-air missile Seacat in 1964 (before Argentina and Brazil which acquired them in 1965 and 1967, respectively) and the French MM-38 Exocet missiles fitted on the "Almirante" class destroyers (before Peru, Argentina and Brazil) in 1972—73.

The army ranked second during most of the period: 27.3 % of *mílex* during the Ibáñez government, 24.5 % under Alessandri — when it got less than the Police Forces — 26 % during the Frei administration and 26.9 % under Allende. In spite of its second place in resource allocation, the Army is the most important branch of the Armed Forces in terms of personnel. Due to its deployment in the main cities of the country it was going to play a decisive political role from the early 1970s on.

The Army did not significantly expend on major arms during the period we are considering, and in 1973 was well behind the Argentinian, Brazilian and Peruvian armies in tanks and other armored fighting vehicles.

*Carabineros* played an important role not only in routine police functions, but increasingly so in internal security as well as in frontier protection. It greatly increased its participation in *mílex* during the 60s when internal security became the priority throughout the whole continent. *Carabineros* then received modern counterinsurgency weapons and armoured fighting vehicles. It is important to stress developments in *Carabineros* because during the constitutional democratic regime it was dependent on the Ministry of the Interior and only the military coup became subordinate to the Ministry of Defence.

*Carabineros* and the Bureau of Investigation ranked third in resources allocation among the Armed and Police Forces with 22.8 % of the *mílex* under Ibáñez, 24.7 %

<sup>9</sup> Data on arms transfers is from *Arms Trade Registers. The Arms Trade with the Third World*. A SIPRI Publication. Almqvist & Wiksell International, Stockholm, Sweden, 1975, pp. 111—113.

<sup>10</sup> The comparison of transfers of sophisticated weapons has been taken from *The Arms Trade with the Third World*, SIPRI, Penguin Books, England, 1975, pp. 266—267.



during the Frei government and 23.6 % under Allende. In Alessandri's years they ran second with 26.9 %.

The Air Force obtained the smallest share of *milex* during this period, receiving 14.7 % during the Ibáñez government, 15.5 % under Alessandri, 15.6 % in Frei's years and 15.7 % during the Allende government. Until the late 60s, most of its equipment came from the United States, 17 F-47 Thunderbolt received in 1952, 32 Douglas B-26 Invaders in 1954, and 20 Lockheed F-80C Shooting Stars in 1959 being the main acquisitions. The Chilean Air Force did not reach the supersonic era until 1975. Between 1969 and 1973, however, it received 39 British subsonic Hawker Hunters. The years during which these aircraft were received, are among the highest in the Air Force share in *milex*. In comparison with other South American Air Forces, the Chilean was well behind the Argentinian which had had Douglas A-4B Skyhawks since 1966—67 and Mirage III since 1972 and 1973, the Peruvian which obtained Mirage 5 in 1968—1970, and the Brazilian Air Force which bought Mirage III in 1972—73.

#### b) Local military industry

The Chilean Armed Forces had been developing a local arms industry to avoid a complete dependence on foreign suppliers. The modest efforts were concentrated during the period on Industries and Arsenal of the Army (FAMAE), Shipyards of the Navy (ASMAR) and the National Enterprise of Airplanes.

In the period on which we have information, FAMAE spent a yearly average of 2.75 million dollars in 1963—1964, 9.13 million dollars in 1971—1973. ASMAR, organized as a State enterprise in 1960, spent a yearly average of 16.88 million dollars in 1966—1970 and 17.1 million dollars in 1973. The National Enterprise of Airplanes legally established in 1953 never developed and the project was officially abandoned in 1960.

The foundation of a local military industry was in keeping with an old military doctrine<sup>11</sup> that linked military power to the industrialization of the country. The process of industrialization through import substitution which had taken place since the 1930s was supported by the Armed Forces because they perceived it as a contribution to the enhancement of military capacity. The creation of a local military industry would be based on industrial development of the national economy and would, in turn, reinforce the process of industrialization by substituting arms imports. Nevertheless, the multiple pressures on State allocation of resources, given its numerous economic functions, severely limited the resources allocated for military industry. Paradoxically, as we will see later, after 1973 when the State abandoned its commitment to direct management of the economy, the State took a more dynamic role concerning local arms production.

#### c) Nuclear energy

Another source of increase in *milex* was the establishment of a nuclear energy development program run by the Army. *Milex* allocated to this nuclear program had its highest mark during 1969 when 7.5 million dollars were allocated for the purchase of a nuclear research reactor. The level of expenditure then went down to an average of 2 million dollars annually from 1970 to 1973, and did not increase considerably again until 1975.

<sup>11</sup> See Augusto Varas and Felipe Agüero (ed.), *El Desarrollo Doctrinario de las Fuerzas Armadas Chilenas*, op.cit., pp. 1—90.

## d) Foreign Aid

The last item to be analyzed is U.S. Military aid. U.S. military assistance increased between 1952 and 1963—1964 and then decreased. During the Ibáñez period (1953—1958) U.S. military aid was 71 million dollars and represented 6.15% of the total Chilean *milex*. In the Alessandri period it rose to 177 million dollars which was 11.61% of the total *milex*. During Frei, U.S. military aid decreased to 89 million dollars or 4.27% of the *milex* and in the period of Allende it was only 16 million dollars which represented 0.96% of the total *milex* of the country.

## 1.4. Military expenditure and the Chilean Economy 1952—1973

One of the main features of the process of economic development in Chile up to 1973 was the increasing importance of the State manifested in the growth of public expenditures. Every government in the period tried to induce development by increasing public expenditures, but while Ibáñez and Alessandri retreated after economic crises, Frei more than doubled it in six years and Allende did almost the same in only three years.

## a) The growth of the public sector

During the first part of the Ibáñez government public expenditure grew unsteadily, but in 1956 it was sharply cut to avoid the increase of inflation. In the last two years of his administration public expenditures grew again. Meanwhile, GDP showed a moderate increase until 1954, then two years of stagnation followed, to increase again at the end of the period. (See Table IV). Alessandri also increased public expenditures until 1962 when the failure of his stabilization program led to devaluation and the implementation of a policy of fiscal austerity to reduce public expenditures. GDP, which had increased moderately until 1960, fell abruptly in 1961, to slowly recover toward the end of the term.

Table IV  
Public Expenditure and the Gross Domestic Product 1950—59  
(base year 1952 = 100)

Year	GDP	Yearly % variation	Public Exp.	Yearly % variation
1950	84.1	-	70.7	-
1951	87.3	3.8	87.8	24.1
1952	100.0	14.5	100.0	13.8
1953	105.9	5.9	121.4	21.3
1954	111.4	5.1	109.3	-9.9
1955	111.4	-	114.8	4.9
1956	108.4	-2.7	94.5	-17.6
1957	116.2	7.1	109.6	15.9
1958	118.9	2.4	115.1	5.0
1959	120.1	0.9	120.2	4.5

Sources: CORFO, *Cuentas Nacionales de Chile 1940—1962* and Chile's Treasury Department.

During the Frei administration public expenditure increased 50 percent in the first two years, almost stopped in 1967 and thereafter increased again. At the same time, GDP steadily increased throughout the period. Under Allende public expenditures

grew faster than in the previous government, while GDP decreased after his first year in office (See Table V).

If we compare the evolution of the relationship between public expenditure and the Gross Domestic Product, we find in the case of Ibáñez and Alessandri that public expenditure had expanded less than the GDP at the end of their presidential terms, in spite of a big jump in public expenditure during the first part of their respective periods. On the other hand, the last year of the Frei government shows a 123 % increase of the public expenditure in comparison with 1964, while GDP increased only 69 %; and the last year of Allende shows a decrease of 12.5 % in the GDP, while public expenditures increased 84 %.

*Table V*  
*Public Expenditure and the Gross Domestic Product, 1960—73*  
(base year 1960 = 100)

Year	GDP	Yearly % variation	Public Exp.	Yearly % variation
1960	100	—	100.0	—
1961	91.6	-8.4	103.5	3.5
1962	97.5	6.4	117.1	13.1
1963	100.3	2.9	106.4	-9.1
1964	104.2	3.9	99.5	-6.5
1965	113.8	9.2	128.6	29.2
1966	128.3	12.7	148.4	15.4
1967	141.1	9.9	150.8	1.6
1968	149.1	5.7	165.7	9.9
1969	164.1	10.1	181.5	9.5
1970	176.3	7.4	222.6	22.6
1971	185.2	5.0	284.1	27.6
1972	164.7	-11.1	304.3	7.1
1973	154.2	-6.4	409.0	34.4

Sources: ODEPLAN, *Cuentas Nacionales 1960—1975*, and Chile's Treasury Department.

The evolution of public expenditures clearly shows the increasing importance of the State, which from the middle 60s, besides its leading role in development, implemented agrarian reform, organized marginal social groups, and from 1971 to 1973 put into effect a vast socialization program.

b) *Milex* and the product, investment, fiscal income and public expenditures

*Milex* grew more than the product throughout the period, rising from 2.59 % in 1952 to 4.53 % in 1973. During the Ibáñez period *milex* as a percentage of the GDP grew almost 1 %; in Alessandri's years the relationship *milex*/GDP was higher, but mainly due to stagnation in the product; under Frei the relation declined until 1969 but increased significantly in 1970 to over 4.5 % during the last two years of Allende.

On the other hand, *milex* as a part of public expenditures increased only in Ibáñez' term (from 22 % in 1952 to 30 % in 1958), decreased to around 20 % under Alessandri, and diminished further during Frei and Allende, not as a consequence of a reduction in *milex* but as a result of the increment of public expenditures to finance social and development programs.

The relationship between *milex* and fiscal income shows a different pattern: it increased from 1952 to 1958, decreased in 1959, increased again until 1962. Then it steadily diminished until 1969, and rose after 1969. *Milex* was more costly in terms of the resources at the disposal of the State in 1955–1964 and in 1971–1973 periods than in 1952–1955 and in 1965–1970.

*Table VI*  
*Milex as a Percentage of Gross Domestic Product and of*  
*Total Public Expenditures, 1952–73*

Year	Milex/ GDP	Milex/ Pub. Exp. <sup>1</sup>	Year	Milex/ GDP	Milex/ Pub. Exp. <sup>1</sup>
1952	2.59	22.02	1963	3.80	19.05
1953	2.85	21.19	1964	3.60	20.04
1954	2.36	20.46	1965	3.49	16.41
1955	2.99	24.66	1966	3.62	16.63
1956	3.49	34.08	1967	3.43	17.05
1957	3.54	31.93	1968	3.32	15.89
1958	3.48	30.64	1969	3.21	15.43
1959	2.70	22.99	<sup>2</sup> 1970	3.83	16.12
1960	3.52	18.73	<sup>2</sup> 1971	3.65	14.39
1961	4.86	22.85	<sup>2</sup> 1972	4.82	13.86
1962	4.24	18.73	<sup>2</sup> 1973	4.53	9.08

(1) The series of public expenditures 1953–1959 and 1960–1973 are difficult to compare because they have been taken from different sources.

(2) *Milex* does not include social security. See footnote (8).

A similar relationship can be established between *milex* and the fiscal income from copper, the main export product of the country. *Milex* was higher than the income received by the State from copper between 1957 to 1963 (with the exception of 1959) and in 1971 and 1972 while during the rest of the period it was lower.

*Table VII*  
*Milex as a Percentage of Fiscal Income from Copper*  
*and Total Fiscal Income, 1952–73*

Year	Milex/ Copper F.I.	Milex/ Total F.I.	Year	Milex/ Copper F.I.	Milex/ Total F.I.
1952	36.1	13.8	1963	115.7	17.7
1953	58.6	16.6	1964	87.9	17.0
1954	50.4	14.6	1965	86.2	14.5
1955	37.9	17.8	1966	62.2	13.9
1956	57.3	19.9	1967	69.5	13.5
1957	122.0	21.9	1968	74.6	12.9
1958	168.9	22.4	1969	45.8	12.6
1959	81.5	15.9	1970	74.1 (105.3)*	14.3 (20.4)*
1960	111.3	18.9	1971	109.9 (180.1)*	18.0 (29.5)*
1961	166.3	21.5	1972	199.7 (139.1)*	22.1 (30.7)*
1962	137.9	18.5	1973	68.9 ( 88.5)*	19.1 (24.5)*

\* Figures in brackets include social security in *milex*.

Source: For revised data on fiscal income from copper and total fiscal income, Juan Eduardo Herrera y Carlos Vignolo "El desarrollo de la industria del cobre y las empresas transnacionales: la experiencia de Chile". ECLA Document E/CEPAL/R.299. April 20, 1981. Table 3; p. 161.

Finally, if we compare the relationship between *milex* and the Gross Geographic Investment (GGI), we see that during the Ibáñez period *milex* was 32.9 % of the GGI; under Alessandri 23.7 %; during the Frei government 21.9 %; and under Allende 35.3 % (for a comparative evolution of *milex* and GGI see Table VIII).

*Table VIII*  
*Milex and Gross Geographic Investment, 1952—73 (1952:100)*

Year	Milex	GGI	Year	Milex	GGI
1952	100.0	100.0	1963	184.1	262.9
1953	116.8	155.6	1964	181.1	256.5
1954	101.5	83.7	1965	191.9	289.4
1955	128.5	106.5	1966	224.2	321.2
1956	146.2	127.2	1967	233.7	305.3
1957	158.9	135.0	1968	239.2	336.5
1958	160.1	141.7	1969	254.5	383.8
1959	125.5	144.4	1970	326.1 <sup>1</sup>	402.4
1960	170.2	219.7	1971	371.5 <sup>1</sup>	383.9
1961	214.9	243.2	1972	383.3 <sup>1</sup>	291.8
1962	199.4	252.3	1973	337.3 <sup>1</sup>	340.0

(1) Milex does not include social security.

The higher increase of *milex* in relation to the product demonstrates clearly the cost increase for the whole society of defense and internal security functions over that period.

The relative decline of the *milex* as a proportion of public expenditure may be misleading as it reflects more an increase in the function than a slow-down in the increases of *milex*. This is confirmed if we look at the *milex*-fiscal income relationship, which shows that only during 1965—1970 was *milex* consistently less than one sixth of the total fiscal income. In the period before 1965 *milex* increased at the expense of other public expenditures and after 1970 it contributed to increased fiscal deficits.

#### c) Milex and the external sector

Comparing *milex* with the evolution of the external sector, we find that the subperiod with a low proportion of *milex* in relation to fiscal income and public expenditures (1965—1970) is the only one with a positive commercial balance and balance of payments. The other subperiods, with the exception of 1952—1959 for the commercial balance, gave generally negative results.

*Milex* tended to grow more than the exports of copper and than total exports from 1952 to 1958 and from 1970 to 1972, while between 1959 and 1969 and in 1973 it grew less. *Milex* also increased more than fiscal income with the exception of the 1965—1970 subperiod.

*Table IX*  
*Milex and other Macro-Economic Indicators, 1950—73 (1952 = 100)*

Year	GDP	Total exports	Export of Copper	Fiscal Income	Milex
1950	84.1	70.7	67.9	69.6	86.1
1951	87.3	80.9	67.8	76.0	100.8
1952	100.0	100.0	100.0	100.0	100.0
1953	106.0	80.5	71.1	102.3	116.8
1954	111.4	83.1	86.3	96.1	101.5
1955	111.4	105.9	128.3	104.0	128.5
1956	108.4	103.8	125.8	98.1	146.2
1957	116.2	83.6	90.5	107.4	158.9
1958	119.0	76.2	68.7	108.7	160.1
1959	120.1	94.4	100.5	122.9	125.5
1960	124.9	115.0	120.8	92.3	170.2
1961	114.5	85.3	115.5	102.7	214.9
1962	121.8	91.4	124.6	107.3	199.4
1963	125.3	89.5	128.4	109.1	184.1
1964	130.1	108.7	137.1	108.7	181.1
1965	142.1	122.6	158.4	138.9	191.9
1966	160.4	150.3	214.2	161.8	224.2
1967	176.3	151.4	232.7	176.1	233.7
1968	186.3	153.9	238.4	189.5	239.2
1969	205.1	190.7	310.2	233.3	254.5
1970	220.3	174.4	271.6	248.4	326.1
1971	231.4	151.6	219.5	267.0	371.5
1972	205.8	123.4	185.2	214.1	383.3
1973	192.7	168.2	277.9	217.2	337.3

In relation to the external debt, from 1960 to 1964 *milex* increased more than the external debt, but from 1965 on grew more.

*Table X*  
*Milex and External Debt, 1960—1973 (1960 = 100)*

Year	Milex	Ext. Debt	Year	Milex	Ext. Debt
1960	100	100	1967	137.3	242.8
1961	126.3	135.9	1968	140.6	273.4
1962	117.2	168.5	1969	149.6	321.4
1963	108.2	198	1970	191.6	360.3
1964	106.5	220	1971	218.3	356.8
1965	112.8	234.8	1972	225.2	385
1966	131.8	236.1	1973	249.4	382.7

*Milex* should not be associated with foreign investment because this was mainly related to policies towards the U.S. copper investors which led to the "Chilenization" program during the Frei Government and the nationalization under Allende in 1971.

In sum, there was a negative impact of *milex* in relation to the foreign sector, with the exception of the 1965—1969 period.

## d) Milex and the public sector

As previously stated, *milex* increased significantly in real terms at the same time during the period, and as a percentage of the total public expenditures it decreased after the Ibáñez government, reflecting new functions undertaken by the State.

If we observe Tables XI and XII we can find that between 1952 and 1959 *milex* increased more than health expenditure and almost the same as expenditure in education. But in the period 1960—1973, although *milex* also increased more than health expenditure, this was significantly less than expenditure in education and housing, which were new, important State priorities during this period.

Table XI  
Comparison of some Public Expenditures, 1952—1959 (1952 = 100)

Year	Total	Milex	Housing	Health	Education
1952	100.0	100.0	n.a.	100.0	100.0
1953	121.4	116.8	n.a.	146.5	131.2
1954	109.3	101.5	n.a.	98.7	96.5
1955	114.8	128.5	n.a.	89.7	72.3
1956	94.5	146.2	n.a.	88.8	111.2
1957	109.6	158.9	n.a.	106.0	137.8
1958	115.1	160.1	n.a.	115.7	137.9
1959	120.2	125.5	n.a.	109.3	126.5

Table XII  
Comparison of some Public Expenditures, 1960—1973 (1960 = 100)

Year	Total	Milex	Housing	Health	Education
1960	100.0	100.0	100.0	100.0	100.0
1961	103.5	126.3	166.8	84.1	118.7
1962	117.1	117.2	175.1	103.6	130.6
1963	106.4	108.2	238.8	97.4	118.9
1964	99.5	106.5	237.2	95.4	129.2
1965	128.6	112.8	401.8	114.9	157.8
1966	148.4	131.8	408.4	126.8	189.9
1967	150.8	137.3	373.7	130.5	211.7
1968	165.7	140.6	422.0	129.0	233.8
1969	181.5	149.6	383.7	136.0	258.5
1970	222.6	191.6	287.4	157.3	305.0
1971	284.1	218.3	568.3	213.8	404.4
1972	304.3	225.2	561.8	256.2	446.9
1973	409.0	198.2	639.7	242.7	315.2

Decline of *milex* participation in total public expenditures (Table XIII) reflects the implementation of new public policies with active participation by the State, such as housing since the beginning of the 1960s, agrarian reform after 1964, the enlargement of the State-owned sector of the economy (the *area social*) during Allende, and a new emphasis in educational policies since 1964.

*Table XIII*  
*Public Expenditure in Housing, Health, Education and Milex*  
*as Percentage of Total Expenditure, 1952—1973*

Year	Total	Milex	Housing	Health	Education
1952	100	22.0	n.a.	9.3	14.6
1953	100	21.2	n.a.	11.2	15.8
1954	100	20.5	n.a.	8.4	12.9
1955	100	24.7	n.a.	7.3	9.2
1956	100	34.1	n.a.	8.7	17.2
1957	100	31.9	n.a.	9.0	18.4
1958	100	30.6	n.a.	9.3	17.5
1959	100	23.0	n.a.	8.4	15.4
1960	100	18.7	3.0	10.2	12.1
1961	100	22.9	4.8	8.3	13.9
1962	100	18.7	4.5	9.0	13.5
1963	100	19.0	6.7	9.3	13.5
1964	100	20.0	7.1	9.7	15.7
1965	100	16.4	9.3	9.1	14.8
1966	100	16.6	8.2	8.7	15.5
1967	100	17.0	7.4	8.8	17.0
1968	100	15.9	7.6	7.9	17.1
1969	100	15.4	6.3	7.6	17.2
1970	100	16.1	3.9	7.2	16.6
1971	100	14.4	6.0	7.7	17.2
1972	100	13.9	5.5	8.6	17.8
1973	100	9.1	4.7	6.0	9.3

In terms of the management of the public sector, *milex* was a contributing factor to the increase of fiscal deficits. Table X shows the relationship between fiscal deficits and the product. We see that the years of higher fiscal deficits are related to those of higher *milex* as a part of the total fiscal income (Table VI), although in 1971—1973 *milex* was only a minor factor vis-à-vis deficits of the area social and social expenditures.

*Table XIV*  
*Fiscal Deficit as a Percentage of the Gross Domestic Product, 1952—1973*

Year	FD/GDP	Year	FD/GDP	Year	FD/GDP
1952	2.7	1960	4.7	1967	1.7
1953	3.5	1961	4.4	1968	1.8
1954	1.8	1962	5.5	1969	0.8
1955	2.4	1963	4.8	1970	2.9
1956	2.1	1964	4.0	1971	9.3
1957	2.9	1965	4.3	1972	12.2*
1958	3.2	1966	3.1	1973	22.7*
1959	4.0				

(1) Includes deficits of the area social.

Source: Roberto Zahler, "La inflación chilena" in R. Zahler et. al. *Chile 1940/1975, Treinta y cinco años de discontinuidad económica*, ICHEH, Santiago 1978, p. 71.



### 1.5. Conclusions

Although the 1952—1973 period shows the implementation of different policies, the role of the State was always important in leading the process of development during that period. Attempts to give the main responsibility of development to the private sector as under Alessandri, failed. Moreover, after 1964 a process of progressive State intervention in the economy began to take place, and during 1971—1973 a program of socialization was put into effect.

Military expenditure, which increased steadily since the beginning of the 1950s, increased rapidly after 1968. The growth of *milex* was the result of the progressive abandonment of the traditionally professional role of the Chilean Armed Forces within the context of Latin America's new politicization of the military, the enlargement of their establishments and acquisition of new types of weapons.

The growth of *milex* increased the costs paid by the Chilean society for defense and internal security. It also impinged upon scarce State resources, making the allocation of funds for programs of social transformation difficult without further increasing fiscal deficits.

Although the increase of *milex* was not the main cause of economic disequilibria at the end of the period, allocation of more resources for military purposes was made possible by the change of the whole model of development, the diminishing of State functions, and particularly the elimination of redistributive policies and the cancellation of the socialization process.

## 2. Free Trade and Monetarism:

### The Military Government's Strategy of Development

Military expenditures in Chile showed a very different pattern of development from the 1973 military *coup d'état* to the present day. This new trend of fiscal expenditures has been placed within a new frame of State policies, mainly economic ones. These new economic policies have throughout these eight years of military rule shaped the economic "model".

Nevertheless, this "model" has been implemented in a country with a historical protectionist policy, which, from 1927 to 1973, made an industrial strategy of development possible. This strategy was supported by the Chilean military, historically characterized by their industrialist orientation and State oriented approach.

Paradoxically, these trends have been modified by the very same Armed Forces, historically distant from the new ultraliberal economic approach. But, from the Armed Forces perspective, this new strategy of development implied an increasing amount of financial resources for their institutional development.

#### 2.1. Military government and defense expenditures

As we have mentioned before, *milex* showed an important increase after the 1973 *coup d'état*. They jumped above all historical rates in the last fifteen years.

This change in *milex* rate of increase is completely different from the previously analyzed general public expenditures trend, since here we can observe a real increase in *milex* despite all other general economic considerations.

Different causes can be stated as producing this phenomenon: the historical gap among Chilean, Peruvian and Argentinian *milex*, the new complete control of the Chilean government by the High Command of the Armed Forces, the increasing tensions, first, in the Northern border with Peru, and, lastly, with Argentina in the

South. Whatever the reason, the fact is that Chilean *milex* has been increased considerably.

Even when the rate of *milex* increases, this trend is constantly related to the general conditions of the Chilean economy, but within this framework, *milex* observe some traits that no other public expenditures can show. Besides this strength showed by *milex*, there are important differences in the way different Armed Forces branches receive financial resources.

Accordingly, we will describe first the main traits of the evolution of *milex* between 1973 and 1979, and, second analyze this evolution in relation to the macro-economical indicators of the Chilean economy in order to conclude some specific factors which relate this peculiar military government with the increase in *milex*.

It is important to summarize the main institutional conditions which drive the Chilean Armed Forces to the political arena in order to understand their pressures upon the fiscal budget.

On the one hand even Argentinian, Chilean and Peruvian *milex* evolve in the sixties in a similar way. From 1962 the Peruvian military observed a relatively high rate of increase<sup>12</sup>. On the other hand, Peru broke down the US restricted policy of weapons transfer to the region by buying *Mirage* fighters from France in 1968. This coincided with the new military government of Velasco Alvarado in Peru in the same year. From 1967 to 1968 Peruvian weapon imports increased enormously, as shown in Table XV.

*Table XV*  
*Weapon imports by Argentina, Chile and Peru 1966—1970*  
*(Million of 1974 US dollars)*

Country	1966	1967	1968	1969	1970
Argentina	11	9	27	63	31
Chile	21	12	25	8	14
Peru	20	13	42	34	31

Source: ACDA: *World Military Expenditures and Arms Transfers: 1966—1976*

This situation started to change in the late sixties, specially after the military movement of October 1969 when Chilean *milex* started to show higher rates of increase.

Even when President Allende substantially raised *milex* during 1971 and 1972, the Chilean military were confronted with a very relevant contradiction: the gap between its professional stage and the old weaponry they used. This was much more frustrating due to the above mentioned military conditions of Chile's neighbours.

On the other hand, the lack of general institutional State and specific controls over the military makes the Armed Forces able to budget their military and defense matters freely. The lack of Parliament and other State control apparatus gave for the first time in contemporary history the Armed Forces the possibility of access to higher budget assignments.

Finally, the political control of the Armed Forces after the *coup* depended on the capacity of the High Command to satisfy the institutional monetary requirements regarding salaries or within the infrastructural institution. The initial stability of the

<sup>12</sup> An analysis of these trends in: Carlos Portales and Augusto Varas, "Carrera armamentista en América del Sur", *Mensaje*, enero-febrero 1979, Santiago.

new military leadership depended on this capacity to satisfy these institutional requirements. This was much more important due to the initial internal difficulties of legitimizing the *coup* in some of the branches of the Chilean Armed Forces.

#### a) Milex 1973—1979

Accordingly, *milex* jumped from 1973 to 1974 by 36.1 %, the highest rate of increase in the last fifteen years.

Nevertheless, this rate went down in relative terms in 1975 when a decline of 20.3 % was observed. The same occurred in 1976 when *milex* declined by 0.75 %.

The declining trend of increases in *milex* ended in 1977 due to political and diplomatic tensions with Argentina and the border dispute in the Southern part of these countries, with the result that *milex* jumped again by 29 % between 1976—1977.

These different moments express the available military budget that the Chilean Armed Forces handled from 1973. The institutional pressure for higher financial resources was expressed in the important increase of 1974. The declining rate of increase of *milex* operated in the same direction during 1975 and 1976. Since the economic policies implemented by the military government implied fiscal monetary reductions, its own financial and budgetary restriction was as institutional requirement for the stability of the government. but, as previously stated, the conflicting conditions vis-à-vis Argentina pushed the Armed Forces' financial requirements forward in 1977 and 1978. These trends begin to stabilize in 1979 when *milex* only showed an increase of 9.3 %.

In sum, during these seven years of military government, *milex* and the control of the military budget were under the institutional and political requirements of the Armed Forces.

#### b) Milex and the military government

Notwithstanding, the evolution of *milex* in the different branches of the Armed Forces is demonstrative of the internal conditions imposed by the very existence of this government.

First, it is important to note that the items which present the highest rates of increase between 1973—1974 are the Army (58.4 %), the Police (52.7 %), and the Bureau of Investigation (39.2 %). This was necessitated by a twofold situation. On the one hand, the need for the Army to match the Peruvian army in the Northern border<sup>13</sup> and on the other hand, the need to maintain a strong repressive internal position. Facing these conditions, the Navy budget only rose by 26.3 % and the Air Force faced a decline of 13.1 %.

Secondly, it is important to point out that there is one item of *milex* which does not observe the same pattern. This is the *nuclear program budget*. As shown in Table XVI, between 1973 and 1979, resources assigned to the nuclear program, handled by the Armed Forces, never declined. On the contrary, Chile which has not ratified the Tlatelolco and the NTP Agreements, inflated the nuclear program specially during the recessive years of implementation of the ultraliberal economic strategy of development. The relative short decline of the rate of increase of the nuclear program budget in 1978 (15.7 %) can be explained in terms of the defense effort on the years (1977—1978) due to increasing tensions with Argentina, which reached its peak in the

<sup>13</sup> Chilean-Peruvian tensions declined after the military coup of Gral. Morales Bermúdez in Peru mainly due to the new economic and internal problems.

*Table XVI*  
*Total Military Expenditure 1973—1979 (thousand U.S. dollars 1979)*

	1973	1974	1975	1976	1977	1978	1979
Police (Carabineros)	97.198,40	148.515,4	122.289,52	126.120,18	159.584,12	180.664,92	199.244,63
Bureau of Investigation	9.964,666	13.871,52	13.299,16	18.185,083	23.219,75	28.803,7	34.209,94
Dept. of War	158.183,36	250.671,93	170.581,49	174.175,16	233.893,73	274.564,55	297.675,0
Dept. of Navy	202.142,8	255.468,61	173.445,78	182.077,7	207.912,16	234.082,36	268.738,18
Dept. of Air Force	97.937,09	85.025,53	115.857,15	75.722,097	107.798,15	126.012,01	147.089,78
<i>Sub total</i>	<i>565.426,31</i>	<i>753.552,99</i>	<i>595.473,1</i>	<i>576.280,21</i>	<i>732.407,91</i>	<i>844.127,54</i>	<i>946.060,97</i>
General Recruiting Service	770,603	257,0926	259,1911	142,2518	162,2083	261,9297	1.316,3758
Hidographic Institute of the Navy	708,1735	415,6322	275,3154	864,9272	672,8596	1.480,9832	1.415,5503
Air Photogrametic Service of the Air Force	243,1009	414,2040	229,5791	312,5885	498,0644	684,0410	883,8708
Geographic Institute of the Army	1.734,1138	431,3450	580,225	820,425	1.768,4381	4.936,8662	6.169,7449
FAMAE	10.303,574	12.719,739	11.388,035	23.320,196	26.846,191	22.671,418	17.425,422
ASMAR	17.105,139	20.346,486	20.400,564	15.875,971	19.666,841	29.126,065	34.042,953
<i>TOTAL I</i>	<i>596.281,99</i>	<i>788.137,48</i>	<i>628.605,98</i>	<i>617.595,54</i>	<i>781.783,22</i>	<i>903.288,88</i>	<i>1.013.081,5</i>
Social Security	172.258,33	261.520,43	202.645,46	208.847,72	285.151,67	295.822,09	*
Nuclear Programme	1.504,5687	2.380,2464	4.013,0268	6.971,9581	10.016,724	11.596,057	14.450,053
Foreign Military Aid	6.710,5044	4.888,2435	3.084,1923	1.671,7872	587,8865	*	*
<i>TOTAL II</i>	<i>776.755,39</i>	<i>1.056.926,3</i>	<i>841.432,8</i>	<i>835.086,99</i>	<i>1.077.539,3</i>	<i>1.210.706,9</i>	<i>1.323.353,59</i>

\* Non available

Personnel expenditure has been deflated using the wage-and-salaries index of the public sector. Total expenditure was deflated by the consumer price index. Hence, total expenditure figures differ from the sum of its components.

end of 1978, when both countries were on the brink of war. This situation of the nuclear program is very important since even during the recessive years of 1975—1976, the gap between *milex* and the budget of the nuclear program was higher than ever. This was the case in 1975 when this program increased its budget by 68.6 %.

Thirdly, there are two other comments related to the general trend of *milex* during these seven years of military rule. On one hand there is an important decrease in the budget and expenditure of FAMAE (Industries and Arsenal of the Army) starting in 1978. If we compare the highest position of FAMAE in 1977 with 1979, there is a decrease of 35 % in its resources. The argument which stresses the point that the Army bought their main arms abroad is not applicable in this case, as that was a permanent trend. What pushed FAMAE's resources down was the beginning of a native private military industry which started in just 1978, the first year of FAMAE budgetary reductions. This program was established among FAMAE, the Logistic Department of the Air Force and private firms, SOGECO (General Commerce Company) and Cardoen for the production of artillery systems and armored vehicles, respectively. On the contrary, in the same year, resources allocated to ASMAR (Navy Shipyards) jumped to 48 %. This was due to the production of two ships Batral type (Bateau du Transport Legere) under French licence in 1978. Accordingly, the program of military production which started in 1978, reallocated resources weakening the Army's own production capability and increasing that of the Navy. It is important to note that in 1981 an aircraft industry depending on the Air Force was established for the assembling of the Mirage-5 bought from France, the Piper Dakota from the US and the CASA-101, a COIN jet with Spanish licence.

In summary, even when the general trends of *milex* obeyed institutional requirements, these were applied selectively to different branches. Finally, the declining trend observed during the shock-treatment period of 1975 and 1976 show a fast recovery in 1977 (29 %), and total resources allocated to the military in 1978—1979 remain more or less the same, expressing the relative success of the economic program of stabilization.

Finally, we wish to underline that the main effort in *milex* was made by internal sources, since military assistance to Chile was cut down during the Carter administration. This implied that the conflicting situation of 1978 was faced with local resources coming from internal revenues.

### c) Milex and repression

There are some particular traits in the evolution of *milex* as observed in these seven years within each branch of the armed forces.

First, we must mention that repressive apparatuses such as the Police and the Bureau of Investigation maintain their positions in spite of the general trend of declining rates of increases. In the case of the Police their declining budget was slightly smaller than the average in 1975. The same occurred in 1976 when the average *milex* increase was negative (-0.75 %) and the Police budget increased by 3.1 %. Similar differences can be observed from 1977 to 1979.

In the case of the Bureau of Investigation, its budget observed a slight decrease in 1975 as compared with the average of *milex*, and even more important was its increase of 36.7 % in 1976 when the average decrease in *milex* was of -0.75 %. In this year the Bureau of Investigation showed the highest rate of increase in financial resources,

much more than any other branch of the Armed Forces. Even one of the latter showed an important decrease: the Air Force (-34.6 %). The same occurred in 1978 when its budget increased by 24 % as compared to other branches.

All these facts show that the military government allocated important amounts of resources to those armed branches more related to internal repressive tasks.

#### d) *Milex* by Armed Forces' branches

Regarding other traditional Armed Forces branches (Army, Navy and Air Force), the more stable position of the Army in *milex* is probably a consequence of the warfare hypotheses discussed during these years.

In fact, tensions on the Northern border with Peru started in the early 70's, due to the coming anniversary of the Pacific War (1879) when Chile captured important nitrate territories from Peru. Tensions increased when the war centenary became closer and the Chilean Army deployed important resources on the Northern border. This effort was mainly done between 1973 and 1974 and was expressed in infrastructure, tanks and anti-tank missiles imports. But, as stated before, in 1976 a new Peruvian military *coup* redefined the political orientation of the Peruvian Armed Forces, with a political ideology closer to that of Chile. Due to the economic crisis of the Peruvian economy, tensions on the Northern border began to decline in 1975—1976. This was reflected in the Army position in the defense budget and in effective *milex* for these years.

Arms imports for the Army were made in the early years of the military regime. Weapons such as armoured vehicles, missiles and helicopters were incorporated in large quantities during Army operations in the Northern part of the country. For these reasons the Army budget for 1975 showed the highest rate of increase among all the Armed Forces' branches.

The case of the Air Force is particular, as its main arms imports occurred in the early seventies with the acquisition of the "Hawker Hunter" aircraft. Therefore the pattern of financial resources' allocation differs from that of the other branches of the Armed Forces. Nevertheless, the main rate of increase occurred in 1975 with the acquisition of the "F-5/E Tiger Two" fighter imported from the United States. This inflated the Air Force budget for these years in contrast to the position of the other branches and the general recessive national economic conditions. For the same reasons the decrease in 1976 was higher and more acute than in the other branches.

The same thing can be observed in the resource allocation for 1977. Since the conflict situation on the Southern border was more dangerous, Chile ordered 15 "Skyhawk" fighters and 34 "Dragonfly" aircraft in 1976. This coincided with the Argentinian purchase of 25 "Skyhawks" in the same year, which added to the stronger aircraft industry present in Argentina.

These Chilean imports increased the Air Force budget of 1977 as most of these payments had to be made in this year. After this increase in 1977, the Air Force budget maintained a stable annual rate of increase of 16 % yearly in 1978 and 1979.

The Navy maintained a very stable and modest rate of increase in *milex*. Its budget has never shown any spectacular increase during the period 1973-79, such as the budget of other branches of the Armed Forces. As a matter of fact, when the general increase of 1974 took place the Navy only increased its budget 26 %. Further more, when in 1975, the average rate of decrease was 20.3 % the Navy decreased 32 %. The only years in which the Navy showed a real expenditure higher than the average of the Armed Forces increases, was in 1976 and 1979.

These increases are mainly due to ship imports. Even when these were small their unitary value implied an increase in the *milex* of these years. Such was the case of the 1976 imports from Brazil, and the 1979 imports from France and Israel.

The main imports of the Navy were made in earlier years, and their maintenance has only necessitated equipment like ship-to-ship missiles and other electronical devices. For these reasons the Navy budget did not show any spectacular increase during this period such as the budgets of other Armed Forces branches did.

In summary, we can state that the evolution in the rate of *milex* by branches in the Chilean armed forces are due, in general terms, to the main characteristics of the public expenditures trends, but within it there are increases in the repressive apparatus, and increases in the historical armed branches (Army, Navy, Air Force) depending on different periods of international tension. Even these increases should be analyzed bearing in mind the characteristics of each Armed Force's branch and its specific military structure. This is specially true of the Navy and the Air Force which have permanent and unchanging personnel, as opposed to the Army which is always training new recruits.

As we analyzed before, *milex* evolved according to different warfare hypotheses. But, even though this is a very important antecedent, it is not less true that some variations can be explained — hypothetically — by the repressive functions of some Armed Forces' branches, other than the Police and the Bureau of Investigation. Such is the case of the Army.

Among the historical Armed Force's branches, the Navy and the Air Force maintain a permanent number of personnel, varying according to the regular promotion and retirement processes. Recruits for these two branches are incorporated yearly in reduced number due to their restrictive personnel system. On the contrary, the Army being the biggest Armed Forces' branch (around 56 % of total Armed Forces) is also located in all the major cities and concentrations of population. For this reason the political and armed deterrence power of the Army, either vis-à-vis the other branches or against armed political groups, has always been very high.

Unfortunately, we are unable to analyze the evolution of personnel trends in each Armed Forces' branch due to difficulty in obtaining satisfactory information.

## 2.2. *Milex and the Chilean economy*

According to our information, Chilean *milex* do not depend and are not related to macro-economic trends. However direct foreign investments are. Even when the military government modified the rules for foreign investments and Chile withdrew from the Andean Pact, foreign investments did not arrive in anticipated quantity. On the contrary, in 1974 to 1976, during the first three years of military rule foreign investment trends were negative as indicated in Table XVII.

There is no relation between foreign investment conditions in 1974 and the highest jump in *milex* in that year. The recovery of this trend of foreign investment was modest and it is not related to the second *milex* jump in 1977 and the years thereafter. In these years *milex* increases at a lower rate than foreign investments. The same is true of the balance of payments situation (Table XVIII) either in terms of commercial balance or in the autonomous capital item.

According to the new general strategy of development, which implies a massive privatization of economic activity, the opening of the Chilean economy to foreign competition and the promotion of exports, *milex* has evolved according to the general evolution of these macro-economical indicators.

*Table XVII*  
*Foreign Investment: 1950—1979*  
*(1979 U.S. dollars)*

Years	Total	(1) Net Invest- ment in Big Copper mines	(2) Foreign Investor Statute	(3) Foreign Exchange Law	(4) Investment Decree Law 258	(5) Decree Law 600 (1974)
1950						
1951						
1952	14,86	14,86				
1953	5,57	3,36	2,19			
1954	-1,45	-2,19	0,74			
1955	0,93	-5,83	6,77			
1956	4,97	0,89	4,08			
1957	17,01	5,42	11,59			
1958	22,25	12,61	9,63			
1959	14,56	2,41	1,89	10,26		
1960	11,73	-7,62	4,39	14,95		
1961	21,49	-3,05	2,65	21,89		
1962	8,37	-6,68	-0,20	15,25		
1963	-5,77	-7,49	4,77	-2,92		
1964	6,71	-7,67	12,24	2,13		
1965	8,85	-11,31	7,37	12,78		
1966	9,03	-8,35	2,92	14,50		
1967	-8,24	-25,22	0,93	16,05		
1968	17,75	-2,22	-0,70	20,66		
1969	-51,27	-86,04	2,67	32,10		
1970	14,89	7,26		2,20	5,43	
1971	-85,82	-89,74		1,06	2,85	
1972	-0,15				-0,15	
1973	-2,34				-2,34	
1974	-11,34				-11,34	
1975	-3,12				-5,05	1,93
1976	-3,13			6,27**	-19,03	9,63
1977	22,87			8,23**	-11,71	26,36
1978	203,79			14,71**		189,08*
1979	233,4			25,5**		207,9 *
1980						

Source: 1952—1969: Ffrench Davis, Ricardo, *Políticas Económicas en Chile 1952—70*, Ed. Nueva Universidad, U. Católica de Chile, 1973. 1970—1979: Bco. Central, *Balanza de Pagos, Saldos en la Cta. Movimiento de Capitales Autónomos Privados*.

(1) Net investment in Big Copper Mines: In 1967 and 1969 includes as deinvestments the amount payed to Kennecott Co. (US dollar 80 mill.) and Anaconda Co. (US dollar 175 mill.) as compensation for the Chileanization of copper mines.

(2) Net Investment under the Foreign Investment Statute: Decree Law 437 (1954) and Decree Law 247 (1960).

(3) Net income from private foreign sector in form of foreign currency according to the Foreign Exchange Law, Article 11, Law 9.838 (Nov. 1950). Decree 6.973 (1956) and articles 14, 15 and 16, Decree Law 1.272 (1961). 1976—1980 includes Article 14 of Foreign Exchange Law.

\* Includes Decree Law 258.

\*\* Includes capital exports of -0.45, -6.97, -4.25 and -11.1 respectively.



Table XVIII Balance of Payments, 1950—1979 (1979 million U.S. dollar)

Year	Trade Balance	Services		Unilateral Transfers	Current Account Balance	Capital Account Balance	Errors and Omissions	Balance of Payments
		Non-financial	Financial					
1950	123,6				-29,6	0		-29,6
1951	66,9				-108,2	55,4		-51,5
1952	236,9				61,8	90,1		46,4
1953	36,1				-83,7	132,6		-10,3
1954	88,9				-59,2	10,3		-65,7
1955	242,1				19,3	11,6		130,1
1956	314,2				20,6	28,3		-14,2
1957	-119,8				-247,2	162,3		-186,7
1958	154,5				-194,4	92,7		-50,2
1959	105,6				-61,8	52,8		61,8
1960	-212,6	-60	-186,9	92,1	-367,4	189,3	107,7	-70,4
1961	-384,8	-105,1	-192,9	81,1	-601,6	468,2	-137,5	-271,1
1962	-218,3	-62,8	-224,2	53,2	-452,1	331,1	-0,8	-121,8
1963	-152,2	-28,2	-224,6	11,2	-393,8	268,5	54,9	-70,4
1964	-44,7	-45,1	-257,5	19,4	-327,7	378,9	7,2	58,3
1965	167,5	-21,8	-307,8	24,0	-138,0	160,5	91,4	113,8
1966	214,8	-3,6	-436,7	31,2	-194,3	397,0	79,8	282,5
1967	248,4	-67,5	-501,7	20,3	-300,4	296,1	-50,7	-55,1
1968	251,8	-83,7	-494,9	15,7	-311,1	677,5	-95,2	271,2
1969	545,5	-60,9	-504,9	8,0	-11,9	492,3	-93,9	386,1
1970	330,0	-130,7	-425,9	50,4	-173,2	571,2	-155,7	242,4
1971	-33,7	-153,4	-244,9	41,7	-390,3	-54,7	-174,6	-619,7
1972	-501,2	-192,9	-117,3	46,7	-764,7	647,6	-339,5	-456,5
1973	-241,9	-163,9	-191,7	22,3	-515,5	423,9	-104,9	-196,5
1974	198,7	-253,3	-271,6	15,8	-310,2	335,6	-91,4	-66,1
1975	-159,3	-133,0	-382,8	13,5	-661,6	402,3	-124,5	-383,9
1976	593,1	-19,0	-419,7	36,3	190,5	301,9	87,3	579,7
1977	-281,4	-35,3	-443,1	90,5	-669,2	539,2	112,4	-17,6
1978	-790,5	227,5	-500,5	64,1	-999,4	1.781,9	702,3	-80,1
1979	-621,7	332,5	-698,1	93,5	-893,8	1.928,9	13,0	1.048,1

Sources: Ffrench Davies, Ricardo, op.cit.

Banco Central de Chile, *Balanza de Pagos, 1950—1980* and *Boletín Mensual*, several issues.

Universidad Católica de Chile, Cuaderno de Economía No 41. Abril de 1977 (Año XIV).

There are two main macro-economical elements which characterize the state of the economy and have important effects upon *milex*. They are *exports and international reserves increases*. Since the Chilean economy is completely export oriented under this military government, these two indicators better represent and express the shape of the economy and the amount of fiscal income available for state investment and consumption.

In fact, if we look at Table XIX where the main evolution of these indicators is shown, we can conclude that *milex* is mainly related to the general export situation of the economy and to the general international reserves conditions.

From the exports point of view, we can observe that *milex* increased in 1974 (36 %) relative to increases in exports (38.1 %) and not to the general conditions of the commercial balance. This is mainly due to the fact that exports are the main source of foreign currency availability, and during these years pressures on military expenditures have stemmed from weapon imports. This is the reason why *milex* also related to the state of international reserves, as will be seen later.

Referring to the analysis of exports, there are other factors to be considered. First, there is a decreasing importance of copper in total exports (as showed in Table XX) and an increasing importance of non-traditional exports in total exports. This is mainly due to the export oriented effort promoted by different state and private agencies.

Nevertheless, even when export conditions are related to *milex*, the latter is higher than the former between 1977—1979. As we will see later, this is due to the general re-allocation of *milex* within general public expenditures.

On the other hand, the state of international reserves can be seen to be positively related in general terms to *milex*. The existence of higher international reserves makes the Armed Forces able to allocate more fiscal resources to military purposes without depressing the global economy.

As a result of these two main inter-related factors, we can say that *milex* is related to the general evolution of the Chilean economy, which is characterized by its export and international reserves conditions.

*Table XIX*  
*Milex and other macro-economic indicators*  
(1973 = 100)

Year	GNP	Total Exports	International Reserves	External Debt	Exports of Copper	Fiscal Income	Milex
1973	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1974	105.6	138.1	121.2	99.2	130.1	127.5	136.0
1975	93.7	93.4	102.4	100.1	63.7	118.8	108.3
1976	97.5	118.9	292.3	94.4	86.5	121.9	107.5
1977	105.9	115.8	340.1	93.1	75.3	145.4	138.7
1978	112.3	120.7	611.0	109.8	74.4	180.9	155.8
1979	-	166.8	1 425.2	119.5	101.9	212.2	170.3

This become much clearer when we see the rate of increases and decreases in the GNP. From this point of view, *milex* evolves in similar general terms to the GNP, but it is more related to the export conditions of the country which show a stronger rate of increases, and a lesser rate of decreases in the recessive years of 1975 and 1976.

Table XX Trade Balance, 1950—1979 (million of 1979 US dollar)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Trade Balance	14,1	75,2	220,3	26,7	71,2	247,7	269,9	-145,4	-127	107,8
1. Exports	962,7	1.101,9	1.361,6	1.096,2	1.131,9	1.442,5	1.413,9	1.137,9	1.037,7	1.285,3
1.a. Traditional exports										
1.a.1 Copper	448,1	447,5	660,2	469,6	569,7	846,8	830,5	597,2	459,9	663,8
1.a.2. Other traditional exports										
1.b. Non-Traditional Exports										
2. Imports	821,7	1.026,7	1.141,3	1.069,5	1.060,7	1.194,8	1.144,0	1.283,3	1.164,7	1.177,5
2.a. Food	70,8	110,4	190,2	141,9	163,7	166,6	120,9	116,2	149,9	154,1
2.b. Consumer Goods (Non-Food)	129,5	234,5	158,3	173,2	80,9	141,7	167,1	198,1	188,0	179,7
2.c. Intermediate Goods (Non-Food)	434,9	529,2	633,9	554,9	625,0	595,5	514,9	520,6	503,4	601,4
2.d. Capital Goods	170,9	195,5	217,1	240,0	230,1	238,8	291,5	418,0	328,9	255,0
Trade Balance	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Trade Balance	212,6	384,8	218,3	152,2	44,7	167,5	214,8	248,4	251,8	545,5
1. Exports	1.565,4	1.161,4	1.244,7	1.218,7	1.479,5	1.668,7	2.046,9	2.062,1	2.095,2	2.596,1
1.a. Traditional exports									1.905,4	2.395,6
1.a.1 Copper			1.113,8	1.125,7	1.249,4	1.397,9	1.815,3	1.880,5	1.573,6	2.047,8
1.a.2. Other traditional exports	797,8	762,6	822,6	847,9	905,2	1.045,5	1.414,3	1.536,2	331,7	347,8
1.b. Non-Traditional Exports			130,9	131,9	230,1	270,7	231,5	181,6	189,8	200,5
2. Imports	1.378,1	1.546,2	1.463,0	1.409,9	1.524,2	1.501,1	1.832,1	1.813,7	1.843,4	2.050,6
2.a. Food	271,2	289,5	293,3	353,1	359,9	334,8	374,7	395,7	378,5	365,5
2.b. Consumer Goods (Non-Food)	197,3	159,2	147,4	139,5	103,1	108,6	122,6	136,1	181,7	183,4
2.c. Intermediate Goods (Non-Food)	520,8	589,9	548,2	544,8	615,3	668,5	809,2	745,7	737,5	961,4
2.d. Capital Goods	388,8	507,6	474,0	372,5	445,8	389,3	525,5	536,1	545,7	540,3
Trade Balance	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Trade Balance	330,0	33,7	501,2	241,9	198,7	159,3	593,1	281,4	790,5	621,7
1. Exports	2.374,6	2.064,1	1.679,7	2.290,5	3.164,9	2.141,1	2.724,4	2.652,6	2.765,2	3.821,8
1.a. Traditional exports	2.123,6	1.801,4	1.504,1	2.108,2	2.809,2	1.563,2	2.038,4	1.833,4	1.842,3	2.422,1
1.a.1 Copper	1.793,4	1.449,4	1.222,8	1.834,9	2.389,0	1.169,5	1.588,1	1.382,8	1.366,4	1.870,7
1.a.2. Other traditional exports	330,2	352,1	281,2	273,3	420,2	393,7	450,3	450,6	475,8	551,4
1.b. Non-Traditional Exports	250,9	262,7	175,6	182,3	355,7	577,9	685,9	819,3	922,9	1.399,7
2. Imports	2.041,6	2.097,9	2.180,9	2.532,5	2.966,2	2.300,4	2.131,2	2.934,0	3.555,7	4.443,5
2.a. Food	289,4	397,3	628,8	895,1	655,6	486,3	440,4	423,5	511,1	531,2
2.b. Consumer Goods (Non-Food)	212,1	185,0	274,8	243,4	171,1	158,5	130,1	534,3	636,1	704,3
2.c. Intermediate Goods (Non-Food)	950,4	1.002,9	910,3	968,3	1.725,6	1.217,3	1.088,8	1.326,2	1.727,4	2.426,8
2.d. Capital Goods	589,8	512,7	367,0	425,7	413,9	438,3	471,9	629,9	528,9	807,0

Sources:

Central Bank, *Balance of Payments*.

Institute of Economics, U.Ch.: *Chile, 35 años de discontinuidad Económica*.

Even when *milex* is strongly related to the external sector conditions, its highest rates of increases cannot be explained exclusively in the light of these variables. This analysis has to be complemented with the evolution of public expenditure itself. From this point of view it is possible to understand that, in the framework of the general conditions of the external sector, *milex* evolve vis-à-vis the changing allocation of public financial resources within public expenditures in general, as shown in Table XXI.

*Table XXI*  
*Comparison of some public expenditure*  
*(1973 = 100)*

Year	Total Public Expendi- tures	Milex	Housing	Health	Edu- cation
1973	100.0	100.0	100.0	100.0	100.0
1974	68.5	136.0	99.1	81.7	107.1
1975	46.3	108.3	38.6	56.2	77.4
1976	47.2	107.5	37.2	52.8	87.9
1977	57.4	138.7	45.4	64.7	113.1
1978	66.8	155.8	37.9	75.2	128.5
1979	75.8	170.3	45.2	78.1	147.1

Public expenditure in housing, health, education and *milex* represented 56 % of total public expenditure for 1974. On the one hand, there is a general reduction of public expenditure as we have seen before. But in comparison with other public expenditure items, housing and health have evolved in similar ways to the general trend of public expenditures. The cases of education and *milex* are different since even when they evolve in general terms, like some macro-economical indicators, there is an increasing trend from 1977 on.

For comparative purposes it is important to establish the internal transference of public expenditures from some items to others. In our case, from health and housing to education and *milex*, as we can observe in Table XXII.

*Table XXII*  
*Public expenditures in housing, health, education and milex*  
*as a percentage of total expenditures*

Year	Total	Milex	Housing	Health	Edu- cation
1973	100	14.6	6.0	4.6	9.3
1974	100	29.1	7.1	6.7	14.5
1975	100	34.3	7.3	3.9	15.5
1976	100	33.3	6.7	3.6	17.3
1977	100	35.4	6.8	3.6	18.3
1978	100	34.2	6.7	2.6	17.9
1979	100	32.9	6.2	2.7	18.0

Table XIX and Table XXI together provide us with complementary information. In fact, real decreases in public expenditure have not affected *milex*, which increased both in real and relative terms. Due to the maintenance of the proportion of expenditure in health and increases in the proportion of educational expenses, decreases in housing are not sufficient to explain the increasing allocation of resources to the military.

Social services have been affected by the general restrictions of public expenditure, but *milex* is not. Nevertheless, it can hardly be said that *milex* has been increased due to the restrictions in social services expenses. Is better to say that social services resources have been reallocated in favour of education, and especially at the expense of health and housing.

*Milex* has increased in real and relative terms due to the general reallocation of resources, mainly from investment activities of the State. From this point of view *milex* represents one third of total public expenditure, a proportion hardly to be found between 1940 and 1973.

This reallocation of public resources and expenditures, which has implied a real increase in *milex*, has not affected the global economy due to the new strategy of development. At the same time as *milex* increases, gross geographic investment in fixed capital increases too, as shown in Table XXIII.

*Table XXIII*  
*Milex and Gross Geographic Investment (GGI)*  
(1973 = 100)

	1973	1974	1975	1976	1977	1978	1979
Milex	100	138.0	108.3	107.5	138.7	158.8	170.3
GGI	100	133.8	89.5	86.4	134.8	179.9	219.1

Since the main investment effort is beginning to be made by the private sector, the allocation of fiscal resources to the military does not imply a restriction of public resources to the *general* investment process. What has occurred is a real restriction of *public* investment in favour of the private sector, and a reallocation of resources from public or *State economic activities* to the military and educational expenses.

### 2.3. Conclusions

The Chilean military government has implemented an economic strategy of development completely different from that observed during the last forty years. This strategy has been worked out through a coherent set of economic policies which have constituted the ultra-liberal "model" of development.

This economic orientation has been possible due to massive reductions of public expenditures in almost all State activities, except for education and the military. In these two sectors public funds allocation has been increased in relative and real terms. Military expenditure has increased in higher proportion. Educational expenditure showed less spectacular increases.

In general terms we can state that *milex* has been increased at the expense of the economic activities of the State, especially its investment ones. But inasmuch as the general model of development implied a privately oriented economic policy, increases in *milex* did not imply an impossible burden to the economic development process.

The GNP rates of increase are not related to *milex*. Conversely, even when *milex* is possible within the general framework of the national economy, it shows independent rates of increases in connection with the GNP.

The effect of *milex* increases upon social services is indirect. *Milex* increases have been possible due to reductions in investment activities of the State, and since these reductions affected social service investments like health and housing, *milex* has had a negative impact upon those State social services.

But more important than this indirect effect is the fact that *milex* increased by comparison with those State activities which historically have been labor intensive, like public works, transport and construction. From this point of view *milex* depressed some indirect social welfare State activities which have not been reactivated by the private sector. As a result the large-scale militarization of the Chilean society has been made at the expense of the poorest population (the unemployed and those without social welfare).

This is more acute if one observes that *milex* increases have been made possible due to higher fiscal income levels which, in social terms, are provided in an important proportion by the whole consumer population of which wage-laborers form a large part.