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Reputation and Political Legitimacy: ITT in Chile, 1927–1972

The literature on multinational corporations argues that a foreign firm can legitimize its activities, improve its reputation in a host country, and reduce the risk of hostile actions by the host government (including expropriation) by approaching and incorporating influential members of the domestic elite in its business. By using the concept of obsolescing political legitimacy, we argue that this legitimating strategy can lead to a loss of reputation and eventual illegitimacy when the host country undergoes significant social and institutional changes. When these changes take place, the domestic society can perceive that the multinational benefited from a previous social and institutional order increasingly considered as illegitimate. Under these circumstances, the new order will question the legitimacy of the multinational's operations, increasing the risk of expropriation. We illustrate our hypothesis with the case of the political strategies of the International Telephone and Telegraph Company (ITT) in Chile in the twentieth century.

This article studies the relationship between political legitimacy, corporate reputation, and the risk of expropriation for a multinational corporation. Organizations try to legitimize their operations and establish their reputations before a particular set of stakeholders. However, when stakeholders change and new stakeholders have new views of legitimate activities, the new institutional environment can affect the firm's reputation before domestic society and the very legitimacy of its operations.¹ The loss of legitimacy of a foreign firm before the host society can lead to the expropriation of assets by the host government.

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¹Mark Suchman, "Managing Legitimacy: Strategic and Institutional Approaches," *Academy of Management Review* 20, no. 3 (1995): 571–610.

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The expropriation of foreign property by local governments peaked in the 1960s and 1970s, when governments of many less-developed countries took over the properties of multinational corporations, particularly in utility and natural resource sectors.² After a pause of almost two decades, the early twenty-first century witnessed the return of expropriation in some countries, requiring the review of this issue in a historical perspective.

The literature on expropriation of foreign private property by domestic governments has analyzed this phenomenon through two main theoretical approaches. The first one is the so-called obsolescing bargaining power theory, which argues roughly that the more a multinational has invested in a large amount of fixed assets, the easier it is for the local government to change the rules (which can go from higher taxation, royalties, or domestic-worker wages to outright expropriation). With the investment already committed, the multinational cannot just pack up and leave; it therefore is forced to renegotiate with the government from a weaker position than before.³ Moreover, the more knowledge a domestic society has accumulated on how to run the business owned by the multinational, the easier it will be for the domestic government to expropriate.⁴ Neoinstitutional theory informs the second approach and explains the likelihood of expropriation based on the domestic country's institutional framework. Neoinstitutional theorists argue that, in countries where the executive has limited constraints—mainly dictatorial regimes—the risks of expropriation or arbitrary changes in the rules regulating foreign investors' operations are higher than in countries where the executive cannot change the rules at will, such as in liberal democracies.⁵ These scholars agree with the obsolescing

²Stephen Kobrin, "Foreign Enterprise and Forced Divestment in LDCs," *International Organization* 34, no. 1 (1980): 65–88; Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass., 1974), 350–71.

³Raymond Vernon, *Sovereignty at Bay* (New York, 1971); Louis Wells and David Smith, "Mineral Agreements in Developing Countries: Structure and Substance," *American Journal of International Law* 69, no. 3 (1975): 560–90; Louis Wells, "Negotiating with Third World Governments," *Harvard Business Review* 55, no. 1 (1977): 52–80; Nathan Fagre and Louis Wells, "Bargaining Power of Multinationals and Host Governments," *Journal of International Business Studies* 13, no. 2 (1982): 9–23.

⁴Stephen Kobrin, "Foreign Enterprise and Forced Divestment in LDCs."

⁵Witold Henisz, "The Institutional Environment for Economic Growth," *Economics and Politics* 12, no. 1 (2000): 1–31; Witold Henisz, "Political Institutions and Policy Volatility," *Economics and Politics* 16, no. 1 (2004): 1–27; Yi Feng, "Political Freedom, Political Instability, and Policy Uncertainty: A Study of Political Institutions and Private Investment in Developing Countries," *International Studies Quarterly* 45, no. 2 (2001): 271–94; Nathan Jensen, "Political Risk, Democratic Institutions, and Foreign Direct Investment," *Journal of Politics* 70, no. 4 (2008): 1040–52; Nathan Jensen, "Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment," *International Organization* 57, no. 3 (2003): 587–616; Nathan Jensen, *Nation States and the Multinational Corporation: A Political Economy of Foreign Direct Investment* (Princeton, 2006).

bargaining scholars that utility and natural resource sectors are more vulnerable to expropriation than service industries.

We contribute to the scholarship on corporate reputation by suggesting links with the expropriation of foreign property, in particular by proposing the concept of *obsolescing political legitimacy*. We define this concept as a foreign firm's gradual loss of legitimacy before the local society, resulting from the identification of this firm with a previous social and/or political regime increasingly perceived as illegitimate or archaic. We develop this concept using Daron Acemoglu and James Robinson's conceptual framework developed in *Economic Origins of Dictatorship and Democracy* as our starting point. According to these scholars, the political status quo in a society results from a history of previous conflicts between different groups or social classes over economic resources. Each of these conflicting groups has an ideal set of political institutions from which they will obtain economic benefit, and at the moment when a conflict is settled those with greater political power define the final institutional outcome. The political institutions created by the winners determine how the political power and economic resources are distributed.⁶ As long as a new institutional framework is consolidated, the system preceding it will be considered and represented as illegitimate by those benefiting from the newly triumphant system.⁷ We maintain that, if winners increasingly perceive an organization (a foreign private firm, in this case) as linked or (even worse) having benefited from the previous institutional order, the winners will increasingly question its legitimacy. The less legitimate they perceive the firm's operations, the less protected its property rights will be. Neither corporate reputation nor political legitimacy is stable or eternal and their decay is often as important as their initial construction.

A firm's loss of legitimacy can be sudden or gradual. In countries with dramatic and rapid institutional changes (e.g., revolutions or decolonization), the challenges to the legitimacy of a foreign firm's operations will be fast and radical. Other countries, however, experience gradual institutional changes that can be harder to perceive by foreign firms. Sociologist Guillermo O'Donnell argues that gradual political changes that benefit traditionally oppressed groups should allow firms to adapt their strategy gradually to the new environment and not lose legitimacy.⁸ In this article, we show that gradual and relatively slow changes can lead some firms to remain in a comfort zone for too long

⁶Daron Acemoglu and James Robinson, *Economic Origins of Dictatorship and Democracy* (Cambridge, U.K., 2006); Daron Acemoglu and James Robinson, "On the Economic Origins of Democracy," *Daedalus* 136, no. 1 (2007): 160–62.

⁷Guillermo O'Donnell, *El estado burocrático autoritario* (Buenos Aires, 1982).

⁸*Ibid.*

and face challenges to their legitimacy in the long term when it is too late to change. In this article we focus on a gradual change rather than on a sudden one, which allows us to see a long-term process of loss of political legitimacy. Our concept is relevant for the analysis of corporate reputation. We follow other scholars who argue that general changes in the standards on which reputation is based have consequent effects on the firm's legitimacy.⁹ In our approach, we assume these general changes in standards as resulting from social and institutional changes in the society where the firm is operating.

Some scholars posit that a multinational can gain political legitimacy, reputation, knowledge of domestic politics, and resources from other sectors by creating ties with the local elite (often done by appointing them to their boards).¹⁰ The concept of obsolescing political legitimacy serves to show the limits of this particular strategy. If the host country goes through a series of institutional changes affecting domestic politics but the board composition does not change and remains tied to the previously existing order, domestic actors can question the legitimacy of the multinational's operations. The decision of a firm to keep itself allied to the elite ruling the country prior to the social and institutional changes can be due to two causes. First, and in opposition to what O'Donnell argues, this may result from the firm's lack of perception of changes taking place in the host country. Or, second, the firm might be trying to legitimize its operations and maintain a good reputation before particular stakeholders, while neglecting others. Corporate reputation has different dimensions, and a firm that only focuses on one might be dangerously hurting others.¹¹ We show

⁹Brayden King and David Whetten, "Rethinking the Relationship between Reputation and Legitimacy: A Social Actor Conceptualization," *Corporate Reputation Review* 11, no. 3 (2008): 192–207.

¹⁰Tatiana Kostova and Srilata Zaheer, "Organizational Legitimacy under Conditions of Complexity: The Case of the Multinational Enterprise," *Academy of Management Review* 24, no. 1 (1999): 64–81; Tatiana Kostova, Kendall Roth, and Tina Dacin, "Institutional Theory in the Study of Multinational Corporations: A Critique and New Directions," *Academy of Management Review* 33, no. 4 (2008): 994–1006; Amy Hillman and William Wan, "The Determinants of MNE's Subsidiaries Political Strategies: Evidence of Institutional Duality," *Journal of International Business Studies* 36, no. 3 (2005): 322–40; Mark Mizruchi, "What Do Interlocks Do? An Analysis, Critique, and Assessment of Research on Interlocking Directorates," *Annual Review of Sociology* 22, no. 1 (1996): 271–98; Joel Podolny, "Networks as the Pipes and Prisms of the Market," *American Journal of Sociology* 107, no. 1 (2001): 33–60; Jean Boddewyn and Thomas Brewer, "International Business-Political Behavior: New Theoretical Directions," *Academy of Management Review* 19, no. 1 (1994): 119–43; Joel Podolny, "A Status Based Model of Market Competition," *American Journal of Sociology* 98, no. 4 (1993): 829–72.

¹¹Mooweon Rhee and Michael Valdéz, "Contextual Factors Surrounding Reputation Damage with Potential Implications for Reputation Repair," *Academy of Management Review* 34, no. 1 (2009): 146–68.

that a firm that focuses on a legitimating strategy consisting of having a board composed of the host country's traditional elite can gain reputation in just one dimension but lose it in another one. By analyzing how a strategy to gain legitimacy and reputation before one social group generated reputational problems before other social groups (eventually ending in expropriation), we respond to recent calls to do historical studies on corporate reputation that include the role of different stakeholders.¹²

We illustrate our hypothesis by studying the operations of the U.S.-based multinational telecommunications firm International Telephone and Telegraph Company (ITT) in Chile between 1927 and 1972. Few multinational corporations have a more negative reputation worldwide than ITT. A recent informal poll among business historians ranked ITT as the fifth most hated corporation in history.¹³ ITT owes part of its terrible reputation to its operations in Chile, where in 1972 some of ITT's internal documents leaked to the media showed the company conspiring with the CIA to overthrow Chile's left-wing president Salvador Allende. This leak created an international scandal that tainted ITT's reputation for decades.¹⁴ Unsurprisingly, the literature on ITT in Chile focuses overwhelmingly on the Allende affair.¹⁵ We show that the Allende affair was just the culmination of a decades-long loss of legitimacy and reputation before Chilean society, resulting from ITT's expensive and poor service and its determination to keep a board of directors composed of Chilean traditional right, even when the rise of more working- and middle-class political parties had eclipsed this group. The board composition had allowed the firm to have important connections with Chile's corporate elite. However, in a country where average citizens increasingly considered telephone service a necessity, the new political parties attacked ITT and used the multinational's political

¹² Christopher McKenna and Rowena Olegario, "Corporate Reputation and Regulation in Historical Perspective," in *Handbook of Corporate Reputation*, ed. Michael Barnett and Tim Pollock (Oxford, 2012), 260–77.

¹³ "History's Thirteen Most Hated Companies," *Daily Beast*, last modified 22 June 2010, <http://www.dailybeast.com/>.

¹⁴ Brent Fisse and John Braithwaite, *The Impact of Publicity on Corporate Offenders* (Albany, 1983), 124–35.

¹⁵ Kristian Gustafson, *Hostile Intent: U.S. Covert Operations in Chile, 1964–1974* (Washington, D.C., 2007); Peter Kornbluh, *The Pinochet File* (Washington, D.C., 2003); Lubna Qureshi, *Nixon, Kissinger, and Allende: U.S. Involvement in the 1973 Coup in Chile* (Lanham, Md., 2009); Anthony Sampson, *The Sovereign State of ITT* (New York, 1973); Paul Sigmund, *The Overthrow of Allende and the Politics of Chile* (Pittsburgh, 1977); Paul Sigmund, *Multinationals in Latin America: The Politics of Nationalization* (Madison, Wis., 1980). For an analysis of the post-1980s period, see Fernando Coloma and Luis Herrera, "Análisis institucional y económico del sector de telecomunicaciones en Chile," *Cuadernos de Economía* 27, no. 125 (1990): 429–72.

board composition to portray the firm as a relic of a less egalitarian past and to question the legitimacy of its operations. Therefore, during the half-century period we study, the company sought to legitimize itself before a social group that was losing legitimacy, harming both the firm's reputation and legitimacy, facilitating and legitimizing the eventual expropriation of its assets by the Chilean government.

We contribute to the literature on obsolescing bargaining power by including the changing perceived legitimacy of foreign firms' operations. We study the relationship between political regimes and security of foreign investors' property rights and show that a more democratic regime can secure foreign firms' property rights better than a more autocratic regime, as long as the multinationals did not benefit from a previous less democratic regime.¹⁶ As well, we expand the understanding of corporate reputation by doing a historical analysis of the different dimensions of reputation of a particular firm. Finally, we contribute to Latin American history by showing ITT's expropriation in Chile as the last stage of a long process of loss of legitimacy.

We analyze the political composition of the board of directors of ITT's Chilean subsidiary, *Compañía de Teléfonos de Chile*, by researching the political biographies of each member between 1950 and 1970. As well, we perform a network analysis for 1969. Our primary sources include the Chilean congressional debates, corporate reports, U.S. Senate hearings on ITT, declassified documents from the U.S. Central Intelligence Agency (CIA), Chilean government reports, and Chilean and American media.

Political Environment and Early ITT Investments in Chile

ITT experienced spectacular growth becoming a major telecommunications multinational just one decade after its establishment in 1920. By 1929, "no other American (or foreign) corporation had such huge investments abroad in communications [and] no other U.S. corporation had so many employees in foreign lands."¹⁷ During this growth, ITT used, as one of its political strategies, the appointment of influential

¹⁶A further theoretical discussion on how long-term and gradual institutional changes can affect a corporation's legitimacy is found in Marcelo Bucheli and Jin-Uk Kim, "The State as a Historical Construct in Organization Studies," in *Organizations in Time*, ed. Marcelo Bucheli and R. Daniel Wadhvani (Oxford, 2014), 241–62. An application of this concept for the case of multinationals operating in the agricultural sector can be found in Marcelo Bucheli and Min-Young Kim, "Political Institutional Change, Obsolescing Legitimacy, and Multinational Corporations," *Management International Review* 52, no. 6 (2012): 847–77.

¹⁷Wilkins, *Maturing*, 130–31.

people of the local elite to its boards.¹⁸ They started this practice in Spain and later applied it to other countries.¹⁹

ITT started operations in Chile in 1927, after acquiring the British firm Chili Telephone Company, which controlled 78 percent of the Chilean market and had been criticized for its high rates and bad service.²⁰ In 1924, the government had extended Chili Telephone's concession subject to the firm's commitment to expand the system and accept government's intervention determining telephone rates. The government reserved the right to expropriate the firm after the end of the fifty-year concession. Dissatisfied with the new contractual terms, Chili Telephone Company sold its operations to ITT, which created a new firm under the name of Compañía de Teléfonos de Chile (hereafter, ITT-CTC).²¹

The timing of ITT's arrival in Chile determined its political future. The firm started operations during the semi-autocratic regime of Carlos Ibáñez del Campo, a president who took advantage of a booming economy to embark on an ambitious economic program that included soft loans to manufacturing, government investment in infrastructure and social welfare, and an open-door policy to foreign investors.²² By 1929, U.S. investments in Chile had grown to \$625 million from just one million in 1900, most of them arriving during the Ibáñez regime.²³

As a means to encourage investments in telephone infrastructure, Ibáñez reformed the law so that the telephone system would be independent of the restrictions present in the existing electrical-services legislation. In 1929, the government-controlled senate approved a law permitting fifty-year telephone concessions (which could be extended

¹⁸ Robert Sobel, *ITT: The Management of Opportunity* (New York, 1982), 14–40; Angel Calvo, "State, Firms, and Technology: The Rise of Multinational Telecommunications Companies—ITT and the *Compañía Telefónica Nacional de España*, 1924–1945," *Business History* 50, no. 4 (2008): 455–59; Antonio Pérez Yustle, "La Compañía Telefónica Nacional de España en la Dictadura de Primo de Rivera, 1923–1930," Ph.D. diss., Universidad Politécnica de Madrid, 2004, 72–83, 150–74, 271–72; Adoración Álvaro-Moya, "Redes empresariales, inversión directa extranjera y monopolio: El caso de Telefónica, 1924–1965," *Revista de Historia Industrial* 16, no. 34 (2007): 65–96; Adoración Álvaro-Moya, "Inversión directa extranjera y formación de capacidades organizativas locales: Un análisis del impacto de Estados Unidos en la empresa española, 1918–1975," Ph.D. diss., Universidad Complutense de Madrid, 2010, 163–64; Ángel Calvo, *Historia de Telefónica, 1924–1975* (Madrid, 2010); Wilkins, *Maturing*, 71–72.

¹⁹ Gabriela Martínez, *Latin American Telecommunications: Telefónica's Conquest* (New York, 2008), 20.

²⁰ Julio Covarrubias, *Un cable al cielo: Telefónica CTC Chile, 1880–2005* (Santiago, 2005), 68.

²¹ Carlos Donoso, "De la Compañía Chilena de Teléfonos de Edison a la Compañía de Teléfonos de Chile: Los primeros 50 años de la telefonía nacional, 1880–1930," *Historia (Santiago)* 33 (2000): 101–39.

²² Mariana Aylwin et al., *Chile en el siglo XX* (Santiago, 1983), 122.

²³ Harold Blakemore, "From the War of the Pacific to 1930," in *Chile since Independence*, ed. Leslie Bethell (Cambridge, U.K., 1993), 82–83.

Table 1
ITT-CTC, Profitability on Net Investments, 1950–1958

Year	Profit Rate
1950	1.11
1951	4.63
1952	4.47
1953	4.60
1954	2.93
1955	2.66
1956	3.91
1957	2.91
1958	7.69

Source: ITT-CTC, *Memoria Anual*, various years.

to ninety years). For the first time, the concessions were to be awarded for the whole country (instead of the until-then existing regional concessions). Under the new law, the government abandoned its right to nationalize the concessions before fifty years, but had the right to appoint three board members. Phone rates required the president's final approval, but would be calculated to guarantee a profit rate of 10 percent of the firm's net investment.²⁴ In 1930, ITT-CTC signed a thirty-year concession agreement under these terms and committed to modernize and expand the service.²⁵

Ibáñez's economic plans came to a sudden halt with the worldwide Great Depression, which had devastating effects on the Chilean economy.²⁶ The crisis led to popular unrest forcing Ibáñez to resign in June 1931. As a result of the crisis, the government could not assure ITT-CTC a fixed profit rate of 10 percent. During the 1931–1958 period, the company constantly complained about its inability to raise rates and achieve the 10-percent profit rate (see Table 1).²⁷

Urbanization, Industrialization, and Political Change

In 1932, Chile started a long-term period of political stability after the election of center-right candidate, Arturo Alessandri. These elections determined Chile's political map for the next decade, with the

²⁴ Covarrubias, *Un cable*, 67–72; Donoso, "De la Compañía Chilena."

²⁵ Donoso, "De la Compañía Chilena."

²⁶ Aníbal Pinto, *Chile, un caso de desarrollo frustrado* (Santiago, 1973), 168; Ricardo Ffrench-Davis and Oscar Muñoz, "Desarrollo económico, inestabilidad y desequilibrios políticos en Chile," *Estudios Cieplan* 28 (June 1990): 127.

²⁷ ITT-CTC, *Memoria Anual*, 1950–1958; Covarrubias, *Un cable*, 78.

right represented by the two traditional Liberal and Conservative parties (representing the secular and Catholic factions of the Chilean right, respectively), the center by the middle-class oriented Radical Party, and the left by the rising Socialist and Communist parties.²⁸ After 1932, Chile also began a period of consensus in terms of economic policy, in which the major political and economic forces agreed that economic prosperity could only be achieved through protectionism, state-led import substitution industrialization (ISI), and heavy government investment in social welfare. The following decades witnessed an enlargement of the urban middle class and the organization of the ever more militant industrial working class. The political changes resulting from this social transformation sowed the seeds for future challenges to the legitimacy of ITT's operations.

The ISI consolidated through an alliance between the government and the private sector and the creation of government agencies in charge of channeling funds to domestic industry.²⁹ This economic model thrived even during the rule of a center-left coalition known as the Popular Front (1938–1941), led by the Radicals and supported by the Socialist and Communist parties.³⁰ In the 1930s, the government purchased 12.5 percent of ITT-CTC shares through Corporación de Fomento (CORFO), the government's main development agency. The number of government directors on the ITT-CTC board remained at two individuals.³¹

A larger middle-class urban population meant higher demand and consumption of telephone service. Between 1925 and 1950, Chile's per-capita GDP increased from \$3,285 to \$3,943, with the number of telephones increasing from 33,249 in 1927 (8 telephones per thousand people) to 127,344 in 1950 (20.9 telephones per thousand people) (see Figure 1); by 1947, Chile was ITT's largest consumer of telephones in the world.³² According to ITT, the company could not satisfy Chile's rapid rise in demand because of the increasing costs of materials due to inflation and mandatory wage increases.³³ In 1950, the Chilean government

²⁸ Michael Monteón, *Chile and the Great Depression: The Politics of Underdevelopment, 1927–1948* (Tempe, Ariz., 1998), 73–75.

²⁹ Ben R. Schneider, *Business, Politics, and the State in Twentieth Century Latin America* (Cambridge, U.K., 2004), 155.

³⁰ Ricardo Ffrench-Davis et al., "The Industrialization of Chile, 1940–82," *An Economic History of Twentieth-Century Latin America*, vol. 3, ed. Enrique Cárdenas, José Antonio Ocampo, and Rosemary Thorp (New York, 2000), 130–32; Guy Douyon, "Chilean Industrialization since CORFO," Ph.D. diss., American University, 1972, 87–89.

³¹ ITT-CTC, *Memoria Anual*, various years.

³² Measured in 1995 dollars by purchasing power parity. See Juan Braunet et al., *Economía Chilena, 1810–1995* (Santiago, 2000), 310. Before 1945, the largest market was Argentina, but ITT sold its interests there that year. See, ITT, *Annual Report* (1945), 32; ITT, *Annual Report* (1946), 33; Wilkins, *Maturing*, 304.

³³ ITT, *Annual Report* (1947), 34; ITT, *Annual Report* (1949), 15.

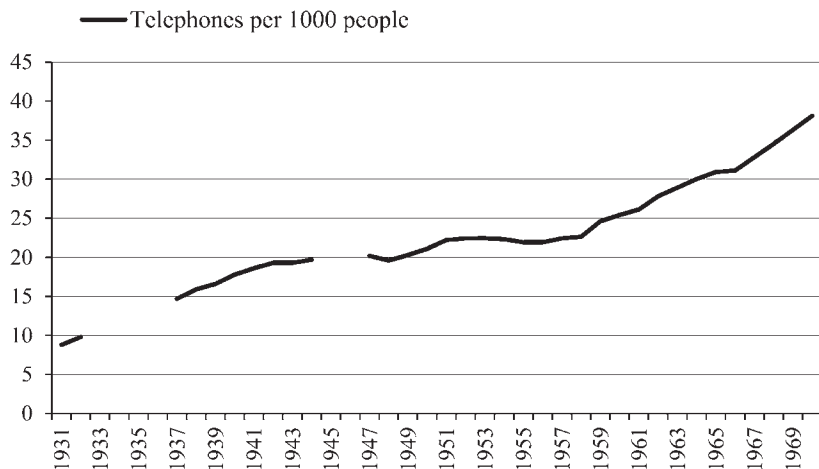


Figure 1. Telephone coverage in Chile: Number of telephones per 1000 people. (Source: Calculations with information from the Oxford Latin American Economic History Database, <http://oxlad.qeh.ox.ac.uk/>, accessed 28 Feb. 2011.)

compensated the firm by allowing it to increase telephone rates by 60 percent, which the company considered to barely cover wage increases.³⁴ The measure was highly unpopular because it took place in times of rising inflation. In 1945, the inflation rate in Chile was 7.7 percent, jumped to 30 percent in 1946, and was 23 percent in 1947.³⁵ In 1956, concerned about ITT-CTC's seeming lack of capacity to satisfy domestic demand, some members of the country's technocratic elite proposed the creation of a state-owned corporation, an idea that ITT-CTC rejected.³⁶

Exhaustion of the ISI Model and New Political Alternatives

During the 1950s, Chile went through several changes relevant for ITT's operations. First, inflation led many politicians of different colors to question the ISI model. Second, economic conditions decreased support for the Radicals, who were replaced by the Christian Democrats as the main center middle-class-oriented political party. And, third, the political left became more powerful.

³⁴ ITT, *Annual Reports* (1950, 1951).

³⁵ Braun et al., *Economía*, 336.

³⁶ Guillermo Guajardo, "Nacionalismo económico y tecnología internacional: Estados Unidos y la industrialización de México y Chile," in *Ni éxito, ni fracaso: Ideas, recursos y actores en las políticas económicas latinoamericanas del siglo XX*, ed. Guillermo Guajardo (Mexico City, 2005), 104.

In 1952, Chile reelected former president Ibáñez, who came to power with the strong support of the left. To fight an inflation rate of 71 percent in 1954 and 83 percent in 1955, he cut spending and subsidies, and approved increasing telephone rates; his strategy quickly sparked strikes and demonstrations and broke his alliance with the left.³⁷ By the end of his administration, an unpopular Ibáñez desperately reapproached the left by legalizing the Communist Party (banned in 1948) and worked with the left in an electoral reform that increased mass participation in politics and reduced the power the right had in the countryside, benefiting nontraditional parties. Nevertheless, the economic crisis continued.³⁸

Shortly before leaving power in January 1958, Ibáñez revised the existing concession that Chile had awarded to ITT-CTC in 1927. Under the new contract, ITT-CTC committed itself to expand coverage to 84,000 more telephones, while the government assured the firm a minimum 10 percent return on assets, for which it authorized rate hikes up to 94 percent that year.³⁹ The company reported this measure, as well as the previous unpopular Ibáñez austerity measures, as highly positive and did not complain again about low profits in its reports.⁴⁰

An earthquake in southern Chile in 1960 complicated ITT-CTC's technical and political conditions. The destruction of a good part of the telecommunications infrastructure left most of southern Chile incommunicado, leading influential engineers to advocate for the creation of a state-owned telecommunications company, a proposal rejected by both ITT-CTC and the U.S. embassy.⁴¹

The 1950s economic crisis led to a lack of credibility among the constituencies of the parties holding power until then. The middle class was disappointed with the Radicals while the urban working class, many of them living in the progressively larger shantytowns surrounding Santiago, felt that the existing economic model was not benefiting them. Two political movements capitalized on this discontent. The first one was the Christian Democratic Party (hereafter DC, in its Spanish acronym), created in 1957, which questioned capitalism and considered

³⁷ITT, *Annual Report* (1953), 28; ITT, *Annual Report* (1954), 31; Aylwin et al., *Chile*, 235; Braun, et al., *Economía*, 336.

³⁸Tomás Moulian, *Fracturas: De Pedro Aguirre Cerda a Salvador Allende, 1938–1973* (Santiago, 2006), 168–69.

³⁹“Fórmula para la ampliación del servicio telefónico,” *El Mercurio*, 3 Jan. 1958; “40 millones de dólares serán invertidos en ampliación de servicio telefónico en Chile,” *El Mercurio*, 6 Feb. 1958.

⁴⁰ITT justified this increase, arguing that Chilean rates were still relatively cheap for international standards; see ITT-CTC, *Memoria Anual* (1957), 11; ITT, *Annual Report* (1956), 43; ITT, *Annual Report* (1958), 43–44.

⁴¹Covarrubias, *Un cable*, 100–108.

the fight against poverty as a Catholic moral duty, even through wealth redistribution if necessary.⁴² The second political movement was the Frente de Acción Popular (FRAP), created in 1956 by the Socialist and Communist parties.⁴³

The two new political organizations argued that the economic crisis resulted from the exhaustion of the ISI model. For the DC, ISI had been too oriented toward big business and needed to be reformed so that wealth was more equally distributed under government leadership. The party advocated for a redistribution of land in the agrarian sector, the participation of the Chilean government in the foreign-controlled mining sector, and policies of political empowerment of the lower classes. The FRAP agreed that ISI had not benefited the lower classes, but proposed as an alternative the expropriation of foreign property and state control of monopolies, banking, and foreign trade. The Liberals and Conservatives also believed that ISI was reaching its limits, but believed the solution consisted of policies of privatization and opening of the economy.⁴⁴ These three economic proposals dominated the political debate and affected the perception of ITT's operations.

ITT's Link to the Past as Political Liability

The Chilean political right had the opportunity to test its economic formula after Jorge Alessandri's triumph in the 1958 elections. Alessandri's was a bittersweet victory for the Conservative-Liberal coalition that brought him to power: He narrowly won with just 31.6 percent of the votes against 28.5 percent for FRAP's candidate. DC candidate Eduardo Frei Montalva finished third with 20.5 percent replacing the Radicals as the main center political party.⁴⁵

Aware of the decreasing popularity of his Conservative and Liberal backers, Alessandri made big efforts to show himself as a postpartisan technocrat, rather than a party ideologue.⁴⁶ The DC and left-wing opposition, however, constantly portrayed him as a representative of the oligarchy, foreign interests, and the increasingly unpopular political right. The outcome of Alessandri's policies did not help him. After liberalizing

⁴² Bernardo Navarrete, "Un centro excéntrico: Cambio y continuidad en la Democracia Cristiana, 1957–2005," *Política* 45, no. 1 (2005): 117; Luis Moulian and Gloria Guerra, *Eduardo Frei M. Biografía de un estadista utópico* (Santiago, 2000), 47–55.

⁴³ Alberto Cardemil, *El camino de la utopía: Alessandri, Frei, Allende* (Santiago, 1997), 133.

⁴⁴ Luis Corvalán Marquéz, *Del anticapitalismo al neoliberalismo en Chile: Izquierda, centro y derecha en la lucha entre los proyectos globales, 1950–2000* (Santiago, 2001), 17–18; Cardemil, *El camino*, 133; Navarrete, "Un centro excéntrico," 118.

⁴⁵ Paul Drake, "Chile, 1930–1958," in *Chile since Independence*, ed. Leslie Bethell (Cambridge, U.K., 1993), 128; Aylwin et al., *Chile*, 245–47.

⁴⁶ Cardemil, *El camino*, 26–29; Drake, "Chile," 142.

the economy, imports skyrocketed, exports stagnated, and inflation remained high.⁴⁷ Lack of confidence and an artificially strong exchange rate encouraged capital flight, against which the President desperately fought in December 1961 by restricting operations in foreign currency.⁴⁸ Unable to keep the currency's value, in January 1962 Alessandri devalued the Chilean currency 30 percent, which was interpreted as a signal of a failed economic policy.⁴⁹

The repetitive government approval to increase telephone rates and the pressures this generated in the budget of a middle class already struggling with the apparently out-of-control inflation became a political issue. Earlier, in 1957, Federico Duncker, an ITT-CTC lawyer, warned that the firm had to make extra efforts to explain to the public the technical reasons for the constant rate increases in order to avoid a political backlash.⁵⁰ In contrast, in most of its post-1958 reports, the company expressed its satisfaction with the new government policy.⁵¹ Duncker's warning proved prophetic: On July 17, 1962, a heated and lengthy debate took place in the Chilean Congress regarding ITT-CTC's operations in which the company was attacked from many fronts.

The 1962 congressional debates on ITT-CTC showed some consensus on what the problems were, but big differences on how to solve them. The consensus shared by the left, center, and right was that ITT-CTC's original concession contracts had been too generous for the multinational, that phone rates were expensive, and that the quality of the service was bad. With people of all social backgrounds complaining about these issues, no politician could afford to alienate their constituencies by disagreeing with these basic points. The disagreements, however, were strong. The DC blamed the right for not opposing earlier a contract granting monopolistic powers to a foreign firm. The company was so corrupt, they argued, that it did not even comply with the already generous contract because it was not extending the telephone lines as required. They added that the government had created several commissions in the past to investigate these irregularities, but they never prospered because of the Liberals' and Conservatives' systematic opposition.

For the Liberals, the main problem was the existence of a monopoly. Jorge Hübner, a Liberal congressman, said that his party opposed "any kind of monopoly, whether it is private or state-owned." He added

⁴⁷ French-Davis, et al., "The Industrialization of Chile," 133.

⁴⁸ "Chile Forbids Dollar Payments for Foreign Products until Jan. 6," *Wall Street Journal*, 29 Dec. 1961, 4.

⁴⁹ "Value of Chilean Escudo Drops as Much as 30 Percent after Exchange Ban Ends," *Wall Street Journal*, 17 Jan. 1962, 4; "Chile's New Dual Rate Foreign Exchange Plan Clouds Trade Picture," *Wall Street Journal*, 22 Jan. 1962, 12.

⁵⁰ "Interesantes observaciones en la junta de accionistas de la Compañía Chilena de Teléfonos," *El Mercurio*, 2 Apr. 1957.

⁵¹ ITT-CTC, *Memoria Anual*, various years.

that things would work better if the directors appointed by the government were controlling the company's actions, which in his view they apparently did not do. He also defended his party's previous authorizations for telephone rate hikes arguing that the company needed a minimum to survive. The Liberal solution was to open the market to other private firms to compete against ITT. On the other hand, the Communists and Socialists argued that by its very nature, if left alone, a multinational corporation would try to abuse its customers, the only solution being a statization of the industry. They added that not only were the company's rates outrageously high, but also ITT-CTC underpaid its workers. For the left, as long as they had a right-wing government, there was not much to do about the company's abuses.⁵² The company did not mention the debates in its 1962 or 1963 reports, but emphasized how, thanks to government support, they were making big strides to extend telephone coverage as promised.⁵³ In the meantime, CORFO continued studying the feasibility of a national telecommunications company.⁵⁴

The tone of the debate became more extreme on August 28, 1963. This time, the DC openly advocated for outright expropriation of ITT-CTC. In a very dramatic intervention, DC Congressman Mario Hamuy defended this proposal arguing that ITT-CTC had repeatedly ignored any plea to stop raising rates. He added that the 10-percent profit on net investments rate assured by the government included loans acquired by the company, meaning the Chilean taxpayers were subsidizing the multinational's loans. Hamuy added that the 39 percent increase in rates in 1962 and the 49 percent already accumulated in 1963 were simply unsustainable for Chilean consumers. Hamuy emphasized that the problem with ITT-CTC was not an isolated one, but was a reflection of the structural economic problems generated by the pro-big-business Alessandri administration. The Socialist congressmen agreed with the DC on the latter point, but added that the structural problems were not just internal but global and ITT represented the United States' imperialism, whose actions needed to be resisted not simply because of a problem of phone rates, but also of sovereignty and exploitation. In this debate, the formerly popular Radicals sided with the Liberals in their opposition to the expropriation proposed by the DC, arguing that Chile was a country with rule of law and that contracts (no matter how badly they had been written) needed to be honored. The DC and the left counterargued that because the contract had been signed under a less democratic regime it lacked legitimacy. They had a similar argument to question the validity of the 10 percent secured-profit rate.⁵⁵

⁵² Chile, Cámara de Diputados, *Boletín de Sesiones*, 17 July 1962.

⁵³ ITT-CTC, *Memoria Anual* (1962, 1963).

⁵⁴ Guajardo, "Nacionalismo económico," 105.

⁵⁵ Chile, Cámara de Diputados, *Boletín de Sesiones*, 28 Aug. 1963.

Table 2
 ITT-CTC Board of Directors According to Political Affiliation
 and/or Whether or Not They Were
 ITT Executives, 1950–1970

<i>Political Affiliation</i>	<i>ITT Executive</i>		<i>Total</i>
	<i>No</i>	<i>Yes</i>	
Christian Democrat (or highly likely)	4	0	4
Conservative or Liberal (or highly likely)	16	0	16
No Information	5	11	16
Total	25	11	36

Source: Appendix.

Board Composition and Legitimacy

The first congressional criticisms against ITT-CTC's board composition came on August 28, 1963. Communist Congressman Carlos Rosales said that the company's power resided in its board of directors, arguing that ITT-CTC strategically chose people with good political connections. Rosales used as example the company's president, Ernesto Barros Jarpa, former Vice President of the Liberal Party and former Minister of Interior and Foreign Relations. Barros Jarpa also sat on the boards of several of Chile's main corporations in construction, finance, and manufacturing (see Appendix). After highlighting Barros Jarpa's importance, Rosales proceeded to read the list of ITT-CTC directors showing how most of them belonged to the Liberal and Conservative parties. The government directors, Rosales added, were overtly working for the company and received compensation for this. He concluded that because of this composition and their connections to Alessandri's government the company had been safe in its abusive behavior.⁵⁶

The argument about ITT-CTC's board being dominated by the Liberals and Conservatives was not unsubstantiated. Although the company's annual reports do not mention the directors' political affiliations, the fact that most of them are prominent members of society allows us to research the biography of each one of them and determine their affiliation. The Appendix shows the directors' biographies and political affiliations, and in Table 2 we display the summary of that information: Between 1950 and 1970, individuals belonging to the Liberal and Conservative parties did dominate the ITT-CTC board. As some congressmen argued, we show that those belonging to the political right were

⁵⁶Ibid., 3817.

Table 3
 ITT-CTC Board of Directors According to Political Affiliation
 and Executive Position for Individuals Working for the
 Company for More than Four Years, 1950–1970

<i>Political Affiliation</i>	<i>ITT Executive</i>		<i>Total</i>
	<i>No</i>	<i>Yes</i>	
Christian Democrat	1	0	1
Conservative or Liberal	10	0	10
No Information	3	3	6
Total	14	3	17

Source: Appendix.

not even executives of this firm. Moreover, the DC or Radical directors were those appointed by the government.

In order to consider the directors who stayed on the board for a longer period of time (who, we assume, will be the most influential in the company), Table 3 displays the results only for directors sitting on the board for more than four years. It shows that the board was very stable with not much rotation (which is also evident in the Appendix) and that the longest-serving directors belonged to or sympathized with the Liberal and Conservative parties.

Table 4 shows how during this period, mostly people who belonged to or sympathized with the Liberal and Conservative parties held the positions of president or vice president. The individuals for whom we did not find any information were either foreigners (mostly American) or government representatives. In short, the three tables show a

Table 4
 ITT-CTC Board of Directors According to Political Affiliation
 and/or Whether or Not They Were Presidents or
 Vice Presidents of the Board, 1950–1970

<i>Political Affiliation</i>	<i>President or Vice President</i>		<i>Total</i>
	<i>No</i>	<i>Yes</i>	
Christian Democrat (or highly likely)	4	0	4
Liberal or Conservative (or highly likely)	10	6	16
No information	14	2	16
Total	28	8	36

Source: Appendix.

company that, during the period we study, remained with a board composed of the traditional right, which explains why it was such an easy target for Christian Democrats, Socialists, and Communists.

Political acceptance of ITT was turning on several fronts. In August 1963, weekly magazine *Vistazo* published a long article showing how the presence of politicians in corporate boards benefited these companies. According to the article, the presence of Barros Jarpa on ITT-CTC's board and on the board of Banco de Crédito e Inversiones made it possible for the company to receive cheap loans.⁵⁷ The article also pointed out the benefits that other large corporations, such as privately owned oil firm Compañía de Petróleos de Chile (COPEC), obtained from these political relations.

A network analysis shows that ITT-CTC's board was even more interconnected with Chile's main corporations than the *Vistazo* article claimed.⁵⁸ Although we do not have the information to do network analysis for the pre-1969 period, the fact that the board barely changed between the 1920s and 1960s allows us to assume that the firm had strong connections in the previous years.⁵⁹ Also, we find a strong connection with a state-owned firm (the Empresa Nacional de Electricidad). However, two of the three directors both firms shared were appointed by the state.

⁵⁷“Ocho sociedades con cuñas en diez poderosos bancos,” *Vistazo* 569 (1963): 11. The information from the firm's corporate reports do not show a clear benefit in cheap loans from the financial sector (see, ITT-CTC, *Memoria Anual*, various years). The *Vistazo* article, however, added more questions about the firm's board's legitimacy.

⁵⁸ITT-CTC created links through its board of directors with several corporations. Its strongest links were with Empresa Nacional de Electricidad, with which it shared three directors and with Cementos Bío Bío, with which it shared two. ITT-CTC also shared one director with Compañía Chilena de Fósforos, Compañía General de Electricidad, Empresas COPEC, Empresa Nacional de Telecomunicaciones, Empresas CMPC, Banco Continental, Gildemeister, Empresa Pesquera Eperva, Philips Chile, Cementos Polpaico, Banco de Crédito e Inversiones, Plásticos Nacionales, Compañía de Seguros Francisco de Aguirre, Tejidos Caupolicán, Agencia Graham, Chilena Consolidada Seguros de Vida, Banco de Chile, Compañía de Cervecerías Unidas, and Industria Nacional del Rayón. Those firms with links to ITT-CTC also had links with each other. The ones sharing one director were Agencia Graham, Banco Continental, Banco de Chile, Banco de Crédito e Inversiones, Cementos Bío Bío, Cementos Polpaico, Chilena Consolidada de Seguros de Vida, Compañía Chilena de Fósforos, Compañía de Cervecerías Unidas, Compañía de Seguros Francisco de Aguirre, Compañía General de Electricidad, Empresa Pesquera Eperva, Empresa Nacional de Electricidad, Empresas CMPC, Empresas COPEC, Gildemeister, Industria Nacional del Rayón, Philips Chile, Plásticos Nacionales and Tejidos Caupolicán. Those sharing two directors included Agencia Graham, Banco de Chile, Banco de Crédito e Inversiones, Cementos Bío Bío, Chilena Consolidada de Seguros de Vida, Compañía de Cervecerías Unidas, Compañía de Seguros Francisco de Aguirre, Empresa Nacional de Electricidad, Empresa Nacional de Telecomunicaciones, Empresas CMPC, Industria Nacional del Rayón, Plásticos Nacionales and Tejidos Caupolicán. Corporations sharing three directors included Compañía de Cervecerías Unidas, Banco de Chile, Chilena Consolidada de Seguros de Vida, and Agencia Graham.

⁵⁹For a detailed study explaining the position of ITT-CTC in Chile's corporate world, see Erica Salvaj and Andrea Lluch, “Estudio comparativo del capitalismo argentino y chileno: Un análisis desde las redes de directorio a fines del modelo sustitutivo de importaciones,” *REDES: Revista hispana para el análisis de redes sociales* 23, no. 3 (2012): 43–79.

Criticisms in the Chilean Congress against ITT-CTC's board composition continued in November 1963. DC's criticisms were harsher than before when its members said that ITT-CTC's board was composed of "the most reactionary elements in the country" and existed to oppose the workers.⁶⁰ DC Congressman Luis Musalem said that President Alessandri himself was a former director of several boards composed of some ITT-CTC directors, which created a collusion of interests. For Hamuy, all these examples showed that the only option was expropriation, something he and his partymen promised they would do if their candidate, Eduardo Frei, won the 1964 elections.⁶¹ According to the original contract, the Socialists added that the Supreme Court was to resolve all problems with the company, which provided ITT-CTC an unfair advantage because one former director of the company, Pedro Silva Fernández, was then the Supreme Court President.⁶²

The DC and FRAP had good reasons to feel emboldened in the debates. In the 1963 municipal elections, the DC became the country's largest political force with 22.7 percent of the votes, while the Liberals' and Conservatives' shares fell from 16.5 percent to 13.2 and from 14.7 to 11.4, respectively. In the traditionally conservative region of Curicó, FRAP surprised the country by winning with 39.2 percent of the vote. After this humiliating defeat, demoralized Liberals and Conservatives decided not to nominate any candidate for the 1964 presidential elections and reluctantly supported DC's Frei.⁶³

ITT's Last Political Strategies under a New Political Order

The 1964 presidential elections changed the Chilean political landscape. DC's Frei won with 56 percent of the vote, followed by FRAP's Allende with 38.9 percent, and the Radical candidate with a mere 5 percent.⁶⁴ The right-wing Liberal and Conservative parties had clearly lost relevance, and the two harshest critics of ITT-CTC's operations then dominated the political arena.

Allende's rising popularity panicked the Chilean right, the U.S. government, and ITT. The right-wing parties did not like Frei, who as a candidate in 1962 said, "Capitalism has been incapable of solving our social and economic problems."⁶⁵ In 1964, Frei advocated nationalization of the copper industry and redistribution of land among poor peasants,

⁶⁰ Chile, Cámara de Diputados, *Boletín de Sesiones*, 13 Nov. 1963, 1330.

⁶¹ *Ibid.*

⁶² *Ibid.*, 1337.

⁶³ Aylwin et al., *Chile*, 255–57.

⁶⁴ *Ibid.*, 258.

⁶⁵ Cardemil, *El camino*, 190.

but the right-wing party considered him the “lesser evil” compared to Allende.⁶⁶ For Washington, Frei’s movement represented a promising alternative between the reactionary right and Cuba’s Communist model.⁶⁷ Worried about Allende’s potential triumph, the U.S. government secretly supported Frei’s candidacy and anti-Communist media outlets by channeling \$2.6 million funding through the CIA.⁶⁸ Once Frei was in power, the CIA provided funds to the DC candidates for the 1965 congressional elections. During the 1963 campaign, ITT approached the CIA and offered its financial support to operations, aiming to assure Frei’s victory, but the CIA rejected the offer.⁶⁹

The DC government did not expropriate ITT’s properties in Chile as promised, but it intervened in the industry. In 1964, resulting from the post-1960 earthquake studies, the government created Entel, a government-owned long-distance phone company to supply segments of the market neglected by ITT and therefore not originally created to compete against ITT.⁷⁰ In 1967, new regulations gave the government the power to control basic telephone networks and to supply service to poor areas and authorized CORFO to purchase up to 49 percent of ITT-CTC shares.⁷¹ Although the latter did not happen under Frei, the new legal framework permitted a gradual transfer of this service to the state. In addition, new automated technology became available to the Chilean firm, allowing it to rapidly expand its services without needing to depend on ITT-CTC.⁷²

Frei lost the support of the Chilean right soon after taking power. Higher taxation, political empowerment of the lower classes, and expropriation of land to the traditional rural elite alienated the right, who said that Frei was simply “paving the road to Communism in Chile.”⁷³ His social policies did not make him popular among the left, either. Allende accused Frei of being the “candidate of imperialism” and promised total opposition from day one.⁷⁴ In spite of these challenges, the

⁶⁶ Mats Lundahl, “El camino a la dictadura: Desarrollo político y económico en Chile, 1952–73,” in *Economía y política durante el gobierno militar en Chile, 1973–1987*, ed. Roberto García (Mexico City, 1989), 27–29; Patricio Dooner, *Cambios sociales y conflicto político: El conflicto político nacional durante el gobierno de Eduardo Frei (1964–1970)* (Santiago, 1983), 27; Moulán and Guerra, *Eduardo Frei*, 129–30.

⁶⁷ Leonard Gross, *The Last Best Hope: Eduardo Frei and Chilean Democracy* (New York, 1967).

⁶⁸ United States Senate, Select Committee to Study Governmental Operations with Respect to Intelligence Activities, *Covert Action in Chile* (Washington, D.C., 1975), 9.

⁶⁹ United States Senate, *Covert Action*, 11–12.

⁷⁰ Covarrubias, *Un cable*, 108–10.

⁷¹ Ahmed Galal, “Chile: Regulatory Specificity, Credibility of Commitment, and Distributional Demands,” in *Regulations, Institutions, and Commitment: Comparative Studies of Telecommunications*, ed. Brian Levy and Pablo Spiller (Cambridge, U.K., 1996), 122–24.

⁷² Guajardo, “Nacionalismo económico,” 106.

⁷³ Corvalán, *Del anticapitalismo*, 103.

⁷⁴ Dooner, *Cambios*, 35–36.

DC enjoyed an overwhelming 43.6 percent triumph in the 1965 congressional elections. Allende's FRAP came in second with 26.2 percent of the votes, while the Liberals and Conservatives obtained 3.15 and 1.9 percent, respectively.⁷⁵ Frei changed the constitution modifying the definition of private property, which allowed him to go ahead with the agrarian reform and partial government acquisition of the copper industry.⁷⁶ By 1967, the right reinvented itself, creating the National Party, and continued their opposition to Frei.⁷⁷

Criticisms against ITT-CTC continued in Congress after Frei's election. The DC accused ITT-CTC of committing abuses with total impunity and proposed a fixed phone rate for all users to relieve families from the ever-increasing costs of this service.⁷⁸ Criticisms from the Socialist Party focused on labor abuses and low wages.⁷⁹ ITT-CTC responded to these accusations in Congress arguing that a fixed rate would benefit large companies to the detriment of families and added that the existing rate system encouraged excessive telephone usage, which forced the firm to invest more than expected.⁸⁰ During the whole Frei administration, ITT's board remained dominated by Liberals and Conservatives (see Appendix).

As the 1970 presidential elections approached, Chilean politics became increasingly polarized. In 1967, the Socialist Party openly declared the legitimacy of armed struggle, and in 1968, the left wing created a new clandestine group (the Movimiento de Izquierda Revolucionaria or Revolutionary Left Movement [MIR]) to promote a Cuban-style revolution.⁸¹ In 1969, radical left-wing groups put bombs in the American Cultural Institute and in the *El Mercurio* newspaper building, and a group of right-wing army officers unsuccessfully rebelled against the government. The National Party justified the army rebellion as the inevitable outcome of the chaos generated by government policies. Internally, the DC faced problems too when in 1969 some of its left-wing members created their own movement known as MAPU and joined the Allende coalition. To make things worse, the right surprised the country with a revival when the National Party obtained 20 percent of the votes in the 1969 congressional elections. The right interpreted this success as a vote of a frustrated population longing for order.⁸²

⁷⁵ Aylwin et al., *Chile*, 261.

⁷⁶ *Ibid.*, 263–70.

⁷⁷ Corvalán, *Del anticapitalismo*, 101.

⁷⁸ Chile, Cámara de Diputados, *Boletín de Sesiones*, 11 May 1966, 8174.

⁷⁹ Chile, Cámara de Diputados, *Boletín de Sesiones*, 12 July 1966.

⁸⁰ Chile, Cámara de Diputados, *Boletín de Sesiones*, 11 May 1966.

⁸¹ Corvalán, *Del anticapitalismo*, 108.

⁸² Aylwin et al., *Chile*, 276–82.

The constitution did not allow Frei to run for a second term, so the DC chose Radomiro Tomic as their presidential candidate. Tomic, a member of the party's left, accepted the nomination under the condition that his party declare itself "anti-capitalist . . . socialist, and revolutionary."⁸³ Tomic also proposed an alliance with the left, which the party rejected.⁸⁴ The National Party nominated former president Jorge Alessandri, while the left (now under the umbrella of the Unidad Popular or Popular Unity [UP]) nominated Allende.

The U.S. government and ITT did not passively wait for the results. The CIA engaged in a complex scheme to avoid the triumph of Allende in the elections and prevent him from taking power after his electoral victory.⁸⁵ The plan included providing funding to both the DC and National Party campaigns and anti-Allende media outlets worldwide, instigating a coup after the elections if Allende won, and encouraging congressmen to deny Allende's accession to power due to constitutional technicalities. ITT enthusiastically offered its support to conspire against Allende and offered funding for the operation to the CIA. The CIA rejected ITT's money, but advised the company on how to channel money secretly to Alessandri's campaign.⁸⁶ Once Allende took power, the CIA sought to undermine his administration through economic warfare, for which it sought an alliance with ITT.⁸⁷ There is no evidence, however, that ITT participated in economic warfare.⁸⁸

In 1971, Allende took over part of ITT-CTC's management control. On August 30, 1972, in the midst of an economic crisis and fierce opposition from the right, the government proposed a constitutional reform that would allow it to expropriate ITT-CTC's assets. By then, the *Washington Post* had made public ITT internal documents showing the company's collusion with the CIA to conspire against Allende, and the Chilean government lost no time in capitalizing on this scandal by rapidly translating and publishing the documents into Spanish.⁸⁹ Appearing as a foreign conspirator against the Chilean government delegitimized ITT even more, making it hard for Allende's opposition to defend it. In fact,

⁸³ *Ibid.*, 280–81.

⁸⁴ Corvalán, *Del anticapitalismo*, 78.

⁸⁵ United States Senate, Select Committee on Foreign Relations, *The International Telephone and Telegraph Company and Chile, 1970–71* (Washington, D.C., 1973); Jack Anderson, *The Anderson Papers* (New York, 1974); Edward Korry, "The U.S.A. in Chile, Chile in the U.S.A.: A Full Retrospective Political and Economic View (1963–1975)," *Estudios Públicos* 72 (Spring 1998): 1–48; Kornbluh, *Pinochet*; Qureshi, *Nixon*.

⁸⁶ United States Senate, *Covert Action*, 16.

⁸⁷ "From Korry to Kissinger and Johnson, 5 Oct. 1970," United States Department of State, CIA Chile Declassification Project Tranche III (1979–1991) (Washington, D.C., 1991).

⁸⁸ United States Senate, *Covert Action*, 13.

⁸⁹ Chile, Secretaría General de Gobierno, *Documentos Secretos de la ITT* (Santiago, 1972); Antonio Vargas MacDonald, *ITT: Documentos de una agresión* (Mexico City, 1973).

despite the hostility against Allende in Congress and the openly expropriatory nature of this proposal, there is no record of any congressman defending the company. The DC congressmen said that it was probably better to wait until the concession expired, but gave their approval, as did the Radicals. No one argued that a new Chilean firm was incapable of running the industry without the multinational, because by then Entel had mastered the new automated technology.⁹⁰ In the same session, the Socialists reminded Congress of what everybody had complained of before (bad and expensive service) and added the element of violation of national sovereignty. That day, Congress approved the law permitting the expropriation of ITT's properties in Chile.⁹¹ The worldwide damage to ITT's reputation worsened on December 4, 1972, when Allende gave a dramatic speech at the General Assembly of the United Nations, accusing ITT and the CIA of conspiring against his government.⁹² This happened at a moment when ITT was already dealing with a bribery scandal in the U.S.⁹³

The role of the CIA and ITT in the 1973 coup is still a matter of debate. While some authors argue that both ITT and the CIA played a crucial role in overthrowing Allende, others claim that, even though both wanted Allende out of power, the coup was mainly a Chilean internal affair.⁹⁴ Regardless of the role ITT played, the leaked documents had a terrible effect on the firm's reputation and left its legitimacy in shambles.

Conclusion

As a way to understand hostile actions by domestic governments (which can include expropriation) against foreign firms, this article studies the gradual loss of political legitimacy of a multinational corporation before the host country's society. We propose the concept of *obsolescing political legitimacy*, which we define as a foreign firm's gradual loss of legitimacy before the local society, resulting from the identification of this firm with a previous social and/or political regime increasingly perceived as illegitimate or archaic. Following Brayden King and David Whetten, we assume that institutional changes in the host

⁹⁰ Guajardo, "Nacionalismo economico," 106.

⁹¹ Chile, Cámara de Diputados, *Boletín de Sesiones*, 30 Aug. 1972.

⁹² Salvador Allende, "Address to the United Nations General Assembly, 4 Dec. 1972," in *Salvador Allende Reader: Chile's Voice of Democracy*, ed. James Cockcroft (Melbourne, 2000), 200–221.

⁹³ "O'Brien and GOP Clash Over IT&T," *New York Times*, 14 Dec. 1971, 36.

⁹⁴ Kornbluh, *Pinochet*; Qureshi, *Nixon*; Jonathan Haslam, *The Nixon Administration and the Death of Allende's Chile: A Case of Assisted Suicide* (London, 2005); Sampson, *Sovereign State*; Corvalán, *Del anticapitalismo*, 217–33; Gustafson, *Hostile*, 179–201; Mónica González, *Chile la conjura: Los mil y un días del golpe* (Santiago, 2005).

country will also change the legitimacy standards used by the host society, eventually affecting the firm's reputation before the same society.⁹⁵ The concept of obsolescing political legitimacy allows us to contribute to the extant interpretations on expropriations coming from the literatures of obsolescing bargaining power and neoinstitutional political economy. The first body of scholarship argues that the likelihood of expropriation of a multinational increases the more the company has invested sunk assets in the domestic country. The second school argues that the likelihood of expropriation increases with more authoritarian regimes and decreases with more democratic regimes. By putting the element of perceived legitimacy and reputation of the firm at the center of the analysis, we show that in certain circumstances the arrival of a more democratic regime can generate more challenges for a multinational corporation's property rights. If the local society perceives a multinational to have benefited in the past from a social and/or political order increasingly considered illegitimate, a government can assume that it does not need to honor any contract signed by that multinational with the previous regime.

We illustrate our point with the case of the U.S. multinational ITT in Chile. Since its arrival, the company opted for a legitimization strategy of appointing influential members of the Chilean elite to its subsidiary's board of directors. The problem with this strategy is the dynamic nature of politics. During the period we study, Chile went through social and political changes that increased the political and economic power of previously excluded social groups (mainly the middle and the working class), for whom telephone service was not considered a luxury anymore. The new political parties that questioned ITT's corporate power and the very legitimacy of its operations capitalized on the firm's increasingly poor reputation due to deficient and expensive service. One of the ways they delegitimized ITT was by portraying its board of directors as a relic of Chile's less democratic political past. They used this argument to justify the expropriation of ITT's assets in Chile. When the company was discovered conspiring against the government, it lost what remained of its reputation and legitimacy, making the expropriation even easier.

The concept of obsolescing legitimacy provides us with a new analytical tool to understand the relationship between multinationals and governments. The concept is particularly useful in the presence of institutional changes. These changes can be the result of gradual changes or of sudden and violent events—such as military coups, revolutions, or independence wars. We focus on gradual institutional changes where a

⁹⁵ King and Whetten, "Rethinking."

corporation (or any other kind of organization) can adapt by aligning itself with those replacing the groups previously in power. By doing this, the firm can keep its legitimacy before the domestic society. However, if the firm remains allied to those losing political power and representing a gradually disappearing social and political past, the firm can lose legitimacy and risk losing its property rights.

Other cases of gradual institutional and social changes have shown how the multinationals have successfully adapted. During the 1940s and 1950s, foreign oil companies operating in Venezuela were aware that many considered them allied to the previous dictatorial regimes, so these multinationals sought to legitimize their operations by embracing Venezuelan nationalism and investing in social welfare.⁹⁶ Several U.S. multinationals also adopted a Mexican nationalistic discourse after the 1938 expropriation of foreign oil companies.⁹⁷ In the 1960s, some British companies operating in Africa did the same when facing the inevitable collapse of the British Empire.⁹⁸

We can also see cases of obsolescing legitimacy with rapid institutional changes. For instance, local rulers used the new institutional environment in Africa in the years following decolonization to argue that previously existing or international legislation protecting the property of multinational corporations was illegitimate because colonial powers had imposed it.⁹⁹ After the 1959 revolution, the Cuban government justified expropriations, arguing that foreign firms had previously benefited from a dictatorship or foreign occupation.¹⁰⁰ With the end of the Apartheid regime in South Africa, many members of the African National Congress (ANC) advocated (unsuccessfully) for mass expropriations of private property arguing that those firms had benefited from the previous racist regime.¹⁰¹ More recently, in 2008, the Argentinean government expropriated privately owned pension-fund companies, arguing that these companies benefited from the previously (and highly

⁹⁶ Miguel Tinker-Salas, *The Enduring Legacy: Oil, Culture, and Society in Venezuela* (Durham, N.C., 2009), 171–203.

⁹⁷ Julio Moreno, *Yankee Don't Go Home: Mexican Nationalism, American Business Culture, and the Shaping of Modern Mexico, 1920–1950* (Chapel Hill, N.C., 2003).

⁹⁸ Stephanie Decker, "Corporate Legitimacy and Advertising: British Companies and the Rhetoric of Development in West Africa, 1950–1970," *Business History Review* 81, no. 1 (2007): 59–86.

⁹⁹ Leslie Rood, "Nationalization and Indigenization in Africa," *Journal of Modern African Studies* 14, no. 3 (1976): 427–47; Adeoye Akinsanya, "Host Governments' Responses to Foreign Economic Control: The Experiences of Selected African Countries," *International and Comparative Law Quarterly* 30, no. 4 (1981): 769–90.

¹⁰⁰ Louis Pérez, *Cuba and the United States: Ties of Singular Intimacy* (Athens, Ga., 2003), 242–52.

¹⁰¹ Patrick Bond and Khadija Sharife, "Apartheid Reparations and the Contestation of Corporate Power in Africa," *Review of African Political Economy* 36, no. 119 (2009): 115–37.

delegitimized) free market system ruling that country before the 2001 economic collapse.¹⁰² A similar sudden loss of legitimacy of multinational corporations resulting from regime change also occurred in 2011 during the prodemocracy popular rebellions taking place in the Middle East and North Africa.

The fall of highly unpopular foreign business-friendly dictatorial regimes led some analysts to express concern for the fate of the investments of the multinational corporations that benefited from the crumbling or fallen dictatorships.¹⁰³ These concerns were clearly related to the fear that once a democratic regime replaced a business-friendly dictator, the political legitimacy of the multinationals operating there would be in danger.¹⁰⁴ The fast pace of these political changes led the multinationals to face a sudden problem of reputation and legitimacy. Several of these cases cannot be explained by equating democracy with security of property rights or by the concept of obsolescing bargaining power alone. We hope an analysis focused on the perceived legitimacy and long-term reputation of the operations of foreign firms can provide scholars with a tool for deeper understanding of the changing dynamics between multinationals and host societies.

¹⁰²“Argentina elimina el sistema privado de pensiones,” *El Mundo* (Spain), 21 Oct. 2008; “Con críticas a las AFJP Cristina Kirchner firmó el proyecto para poner fin a la jubilación privada,” *La Nación* (Argentina), 21 Oct. 2008.

¹⁰³“Oil Pressure Rising,” *Economist*, 26 Feb. 2011, 79–80.

¹⁰⁴“Arab Unrest Put Their Lobbyists in Uneasy Spot,” *New York Times*, 2 Mar. 2011, A1.

Appendix
ITT-CTC Board of Directors (1950–70)

<i>Name</i>	<i>Period</i>	<i>Years on the Board</i>	<i>Party Affiliation</i>	<i>Biography</i>
Sergio Montt	1959	1	N/A	Chilean diplomat
Jorge Barnard	1950	1	Conservative	Representative for Santiago (Conservative Party) and president of <i>El Imparcial</i> newspaper
Guillermo Aviles	1969–1970	1	Likely Liberal or Conservative	Founder of Chile's Chamber of Building Companies and director in several corporations
José Manuel Balmaceda	1960–1962	2	Likely Liberal	Member of a prominent Liberal family
Fernando Eguiguren	1968–1970	2	Conservative	Member of the Conservative group Catholic Action
Vicente Izquierdo	1967–1970	3	Likely Liberal	Nephew of President Arturo Alessandri; founder and president of the National Fishing Society; participated in CORFO's expansion programs
Nicolás Secul	1960–1965	5	Likely Conservative	Director of the national electric service during Jorge Alessandri
Pedro Silva	1954–1962	8	N/A	Law scholar; 1926–1930 professor civil law; president Martial Court (1936); president Appeals Court Santiago (1940); member Elections Tribunal (1941–44); president Supreme Court (1963–1966)
José Ramón Gutiérrez	1958–1969	11	Conservative	Conservative congressman (1926–1930); editor of conservative newspaper <i>Diario Ilustrado</i>
Ricardo Letelier	1954–1966	12	N/A	CORFO vice president in 1939; general manager of Banco de Chile (1946–1953); director at the Central Bank; representative of domestic banks at the Banking Superintendency (1950s)
Walter Müller	1950–1957; 1963–1970	14	Likely Conservative or Liberal	President of Chile's manufacturing association, SOFOFA (1934–1935); founder of CORFO; director and founder of COPEC; appointed by Jorge Alessandri as ambassador to Washington (1959–1962)

Demetrio Rodríguez	1950–1969	19	N/A	ITT-CTC executive
Fernando Santa Cruz	1950–1969 Vice president: 1962 1950–1953, 1967	19	Likely Liberal	Son of prominent Liberal politician Vicente Santa Cruz Landowner
Guillermo Correa	Vice president: 1954–1966; 1968–1969	19	Liberal	Liberal congressman (1933–1937); vice president of the Liberal Party; partner and director at the Agricultural National Society; Minister of Justice during the government of González Videla (1946–1947) after González's shift to the right; director of CORFO (1948) and other firms
Tomas Rodríguez Brieba	1962	20	Likely Conservative	Head of Santiago Stock Exchange; defender of Church rights in the 1940s
Ernesto Barros Jarpa	Vice president: 1950–1970 Vice president: 1950–1954 President: 1955–1970	20	Liberal	Member of Partido Liberal Doctrinario and president in 1932; Minister of Finance; Minister of Foreign Relations (1921–1922, 1925); director at BCI, Cementos Polpaico, Plásticos Nacionales, Philips Chilena, Gildemeister and several insurance companies
Benjamín Holmes	1950–1969 Vice president: 1970	20	Conservative	Chilean ITT executive with connections to the CIA

Sources: Bolsa de Santiago, *Anuario Ejecutivo de Sociedades Anónimas, Bancos, Compañías de Seguro y Corredores de la Bolsa de Santiago* 5 (1963); Enrique Bernstein, *Recuerdos de un diplomático: De la Unidad Popular al Gobierno Militar* (Santiago, 1993), 54; Salvatore Bizzarro, *Historical Dictionary of Chile* (New York, 2005); Marcelo Bucheli, "Multinational Corporations, Business Groups, and Economic Nationalism: Standard Oil (New Jersey), Royal Dutch-Shell, and Energy Politics in Chile, 1913–2005," *Enterprise & Society* 11 (2010): 350–99; Sergio Carrasco, *Cartas del Presidente Jorge Alessandri con los embajadores en la Santa Sede, 1959–1964* (Santiago, 1994); Chile, Biblioteca del Congreso Nacional, "Biografías," <http://biografias.bcn.cl>, accessed 25 Oct. 2010; Chile, *Diario de Sesiones del Senado*; Chile, Ministry of Foreign Affairs, www.minrel.gov.cl, accessed 25 Oct. 2010; Chile, Ministerio de Relaciones Exteriores, *Memoria* (Santiago, 1930); *El Mercurio*; Empresa Periodística de Chile, *Diccionario Biográfico de Chile* (Santiago, 1970); Fitch Ratings, www.fitchratings.com, accessed 25 Oct. 2010; ITT-CTC, *Memoria Anual* (various years); Edward Korry, "The U.S.A. in Chile, Chile in the U.S.A.: A Full Respective Political and Economic View (1963–1975)," *Estudios Públicos* 72 (Spring 1998): 1–48; Arturo Olavarria, *Chile entre dos Alessandri* (Santiago, 1962); Augusto Salinas, *Un pastor Santo* (Santiago, 1981), 295; Robert Sobel, *ITT: The Management of Opportunity* (New York, 1982); Robert Vogel, *I Was Stalin's Prisoner* (New York, 1952), 24, 72; Richard Walter, *Politics and Urban Growth in Santiago, Chile, 1891–1941* (Stanford, 2005), 193; Maurice Zeitlin, Lynda Ewen, and Richard Ratcliff, "New Princes' for Old? The Large Corporation and the Capitalist Class in Chile," *American Journal of Sociology* 80 (1974): 87–123. Table excludes foreign directors and those appointed by the government.

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