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Backchannel Message From the Ambassador to Chile (Korry) to the Under Secretary of State for Political Affairs (Johnson) and the President's Assistant for National Security Affairs (Kissinger)

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1. Before offering comments and recommendations, one more fact: PDC technicians weighing their futures have gone this week to Communist Deputy Jorge Insunza, to MAPU Deputy Silva Solar and to MAPU leader Chonchol, the latter two ex-PDC, to inquire about their chances of leaving Chile after November 4. The Communists said they had learned from Cuba they could not permit loss of nation's brains and the other two had said there would be no closing of frontiers but the red tape blocks would be very formidable.

2. I have sought to provide as much mobility [and] as many options as I could for Frei and for Chile in protection of U.S. interests here, in the area and beyond. Frei has fulfilled most of my suggestions; he has created an environment in which something could still happen, particularly if sparked by a declining economic situation. But he has not moved beyond stage-managing to playing the decisive role and he will not.

3. He would welcome the U.S. doing his dirty work for him by seeking to provoke a military coup. Aside from the merits of a coup and its implications for the U.S., I am convinced we cannot provoke one and that we should not run any risk simply to have another Bay of Pigs. Hence I have instructed very strongly our military and CAS to engage in no encouragement of any kind.

4. One of the "in" people on that abortive operation, may I ungraciously insert here, was my predecessor in this post, Ralph Dungan, whose article in the Washington Post yesterday has had profound effect today, particularly on the PDC. It is interpreted quite accurately as a vote for Allende and as an earnest of U.S. support for what some call a fascinating experiment. I shall comment via State channels on Dungan eventually but I would only note for the moment that his plea for non-intervention and USG maturity is from the same voice that is regarded universally in this country as the single greatest intervener in the history of our relations and the organizer of the massive intervention to stop Allende in 1964.

5. But rather than wring my hands A La Frei about Dungan or other problems, let us move to the next challenge: —How to create a situation in which the task of imposing a Marxist-Leninist structure is made more difficult for Allende and how to attain this goal while buttressing our leverage in the difficult negotiations with him. As stressed from the outset of this crisis, these objectives have always been uppermost in my mind and convergent with the not-yet-moribund effort to block Allende.

6. Lest anyone imagine that we have time for more serious reflection and decision, I stress that what we do now, and I mean tomorrow and every day until October 24th, will affect the longer-term objectives as well as the immediate one. Indeed, if done effectively and if, by Providence's hand, it were to mesh with other local events, our actions could help to block Allende before October 24th.

7. Popular Unity will come to power as an inherently unstable coalition, afflicted from the outset by ideological differences, political opportunism and corruption, incompetence and inevitable administration confusion. Its partners range from fanatic and violent revolutionaries of the Castroite stripe (left wing of the Socialist Party and the MIR) to a notorious group of political thugs and thieves (Senator Tarud and the Radicals). Its decision-making machinery including a projected high-level policy council with representation from all U.P. groups, is likely to function in the creakiest of fashions; its economic and managerial expertise in key positions is likely to be mediocre or worse. These problems can be overcome as Allende and his Communist partners gradually gain control. But meantime Allende's GOC will face the critical problems of making a fairly complex economy and government work, while delivering on promises of revolution and a better life for all.

8. It will be during this period—perhaps six to nine months—that Allende's Popular Unity will be most vulnerable. If the economic and administrative problems are sufficiently severe, Popular Unity could crumble. If they are unable to cope, the "Unity" could dissolve, the "revolution" turn into chaos and the people's support for their government melt away. This is the scenario that would unite the army and set the scene for effective, popularly-backed military intervention.

9. The PDC is preparing for that day—at least some of the healthier elements by worsening the economic situation [less than 1 line not declassified] and by buying up a mass of media outlets from frightened or hard-pressed Alessandrista elements. [name not declassified] advice is as much directed to that slightly longer-term aspiration as it is to the immediate one of stopping Allende.

10. If one large enterprise here were to shut its doors next week, if one bank were to fail, if one savings and loan association were to collapse, we would still have life before October 24th and we would be contributing to the chaos that has its natural yeast in any case.

11. I see no risks in pursuing with U.S. companies in the U.S., particularly if one totally discreet leader were selected (may I suggest the name of [name not declassified], the suggestions put forward by [name not declassified]. For U.S. companies it would be naturally prudent to take precautionary measures and even more in one or two cases, particularly since all the hard intelligence on Allende—and that includes his talks with the PDC—has him saying unequivocally that all foreign enterprises are to be nationalized. The question for the companies is whether it will be the first or second year of Popular Unity and whether they get any effective compensation. For the vast majority of U.S. companies that will be affected, Chile is not the costly problem; rather it is the effect on Argentina and the rest of Latin America and beyond.

12. May I cite one funny detail in support. [name not declassified] called in the representatives of Shell, ESSO, and the Chilean COPEC company yesterday. He used a pretext but his message according to the ESSO man was very clear: The economic situation is bad and it would be good if it got worse. It was handled with the usual cleverness of my good [less than 1 line not declassified] friend (whom I have not seen and who until this week was listed as less than 100 per cent anti-Allende) [name not declassified] took aside the Shell man (a Chilean) to ask why in Hell he could not control the British ambassador.

13. The economy will tend to turn up if a conscientious effort is not made to have it go down. People will start to buy in normal terms once they believe Allende is definitely the president. That is why the Allende forces are pushing so hard and fast for PDC blessing now. However [name not declassified] will cooperate in blocking an upturn if there is any possibility to do so legitimately and in some cases, illegitimately.

14. Some objectives we could support without repeat without showing the USG hand are the following:

a. Let the business community know about the unlikelihood of any exit for technicians and managers and professionals after November 4th. It is a matter of semi-public record. The fewer the brains, the more difficult the management problem for Allende.

b. Stop bank credit and as much other credit as possible.

c. Give the widest distribution to the bleak Zaldivar analysis. Business executives would influence banking and other respected journals to diffuse this message widely and quickly.

d. Consider having one large U.S. company fold up. Ford has a perfect justification for doing so and it is doomed. General Motors should not try to hang on to get a taste of the new poison by bringing in spare parts by air as it did this week. The Bank of America is almost bankrupt here; why should it hang on?

e. Mention specifics in any propaganda that the business community (again I caution not the USG) can spread. The two savings and loan associations I mentioned in Part I (Calicanto and Casa Chilena) and the Banco Hypotecario (an Alessandrista group that is the No. 1 target of both PDC and U.P.) are on the ropes and only need a very slight shove.

f. Persuade Anaconda in the current negotiations with its unions to accede to their demands. Anaconda could suggest that a U.P. economist be present at the negotiations, perhaps Vuskovich the Allende liaison to Zaldivar and the future MinEconomy. After all, Allende said publicly after the election that copper workers were vastly underpaid and the Chuquicamata mining area (Anaconda) voted against Allende. It is natural for the GOC's 51 per cent management (all PDC) to cede to their wishes and give a whopping big raise that would have all other workers in the country clamoring for one.

14. In the most discreet fashion possible, the Treasury should ascertain and provide (us too) the amount of Chilean Government's dollar holdings in the U.S. I have in mind for longer-term use—on November 3 or 4 to be precise—the blocking of Chile's assets in the U.S. I recognize that such a proposal is very hairy indeed and that it would represent a form of economic warfare against Allende. But the justification would be the almost immediate nationalization of copper—Allende has said he would do it November 5—and the unlikelihood of any effective compensation. Chilean reserves might be 200 to 300 millions in the U.S., in fact, most of its hard currency cushion. A U.S. freeze would put Allende to the wall from the start. It should be, needless to say, very carefully considered by the minimum number of people at the highest levels of the government.

15. Finally it would of course be very helpful to have some early Washington agreement among credit-giving agencies. Our proposal is to hold in abeyance any fresh U.S. credits. My reasoning is that our exposure is very large indeed already: —$800,000,000 in aid guaranties; $800,000,000 in A.I.D. and EXIM loans and more than a billion if not two billions in replacement value of U.S. enterprises. I see no reason to grant any further credits until we know Allende's intentions.

16. In this connection it would be very helpful if we could get some wider Washington agreement on how to deal with the Allende contingency. The Embassy's paper sent to ARA/AP July 24th ("The Allende Contingency") spelled it out clearly. But today for example AFTAC, the Peace Corps, AID and almost every agency here has come up with essential reasons for doing business as usual. These parochial attitudes complicate our problems enormously. Today for example, Dr. Seaborg from Vienna informed us that he had told the Chilean delegate to the IAEC general assembly that the U.S. would of course honor its commitment to deliver enriched uranium fuel (of bomb-making capacity) to Chile within the next few months. Did anyone clear this? If so, what was the logic? (Vienna 5484)

17. We shall seek to provide very shortly the elements in the PDC requests to Allende that he does not wish to make public and we shall be equally alert to any other possibilities that can produce the immediate and longer-term impacts we want:

a. To make the army more suspicious of Allende's intentions.

b. To make the media (and public) more alert to encroachments and to inspire more resistance.

c. To make the consumer more doubtful about the economy and less willing to spend.

d. To make the PDC and other moderate elements more conscious of their role as guardians of Chile's democratic traditions and structure.