DECLASSIFIED // SECRET

Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)

Identificador Archival:	frus:frus1969-76v21/d246
Agencia Emisora:	NSC / Casa Blanca
Fecha del Documento:	1971-08-12
Colección / Serie:	FRUS 1969–1976, vol. XXI: Chile, 1969–1973

Nota de Archivo: *Washington. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 775, Country Files, Latin America, Chile, Vol. V. Secret. Sent for information.*

CIA Report on Chile's Emerging Economic Problems

Attached for your information at Tab A is a CIA Intelligence Memorandum on "Chile's Emerging Economic Problems." The study discusses developing problems in the economic sphere and assesses their implications on Allende's future. In brief the report notes that:

—Thus far Allende's economic policies have been largely aimed at building political support through reactivation of the economy and massive redistribution of income.

—Nationalization of industrial and commercial firms is destroying investment incentives and disrupting production in many firms.

—Export earnings have declined considerably from 1970 (due to lower copper prices and production problems in the large copper mines).

—Traditional sources of foreign credit and investment are drying up rapidly.

—These factors plus heavy debt service payments and higher imports have caused Chile's net international reserves to drop from $345 million to $200–225 million during the first half of 1971.

In the short term prospects are good that:

—Allende will be able to continue his politically expedient economic policies.

—The real economic growth rate in 1971 will probably exceed the 4% average of the past four years since the adverse effect of the agrarian reform measures on farm output will not be felt until the harvest in early 1972 and short-term gains are expected in mining and manufacturing output as the result of recent additions to copper production capacity and the strong demand for consumer goods.

—Foreign reserves, however, will continue to drop (probably to about $100 million by the end of 1971).

By early next year

—Declining foreign reserves will probably force Allende to take strong corrective actions in the economic sphere which will be politically unpopular—e.g., restricting wage increases, raising taxes, curbing credit expansion and reallocating resources from consumption to investment.

—Chile will probably be forced to curtail imports unless copper prices rise dramatically or copper production problems are solved quickly.

—Food imports, however, will have to be increased to compensate for the expected poor 1972 harvest due to disruption from agrarian reform and peasant takeovers.

The paper notes that Allende originally planned for a period of reactivation of the economy which was to last until the "Revolution became irreversible," or until effective political opposition had been eliminated. This phase was projected to end in April of 1972. The rapid depletion of Chile's reserves, however, may force earlier adoption of corrective economic measures despite the political risks involved. In fact, Allende has already decreed a substantial devaluation in the brokers' rate in an effort to stem the drain on exchange reserves. The action has stirred the opposition of the business sectors, which are seriously affected by the measure and which are presently seeking to convince Allende to modify the decree.

Should the economic situation deteriorate seriously, the CIA assessment predicts Allende would probably seek aid from the Communist countries. However, the assistance which the USSR would probably be willing to provide is unlikely to be sufficient to meet Chile's needs.