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

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Status of Chilean Economy

Attached at Tab A is a CIA summary on the economy in Chile. The report notes Allende's no-compensation decision on copper and indicates that he was fully aware of the international consequences of his decision and delayed it for some time on this account. However, he finally decided the domestic political benefits of a hard line outweighed the danger to Chile's international credit standing. In other areas of the economy, the report makes the following observations:

Socialization of Economy

—Allende's UP coalition regards the virtual acquiescence of the opposition in the general outlines of the government's economic plan based on the concept of an economy divided into public, private, and mixed sectors as a major victory. While the achievement of this structure may take some time, the government has already gained or will soon have indirect control over all key economic areas. The Communist Party believes that success in socializing the economy will make the revolution irreversible.

Industry

—Increased purchasing power among lower income groups as a result of government monetary policies has continued to nurture the mini-boom in manufacturing, but growth is leveling off as plants reach capacity production. Consumer goods have been the most active area, but a massive government housing program has spurred the demand for construction materials.

Agriculture

—President Allende and other officials appear increasingly concerned about the expected decline in agricultural production over the next several years and the sharp increase in import requirements for foodstuffs. Thus far, however, the government has proved unwilling to modify its radical agrarian reform program in order to reduce the costs in terms of lost production.

Distribution

—Food and other consumer goods shortages have not yet reached crisis proportions but are a source of increasing embarrassment to the government. The government is countering increasing supply and distribution problems by

increasing imports, at least as far as foreign exchange reserves permit.

Inflation

—Officially the government has held inflation to 13% during the past year compared to 30% for the same period in 1970. However, there is some reason to believe that the actual rate of inflation may be double the officially recognized rate. Nevertheless, the Allende government has refused to face the political costs of austerity and has continued its expansionary policies. Deficit spending now is running an estimated 30% of government expenditures. These policies cannot be continued indefinitely.

Balance of Payments

—Chile's net foreign reserves have declined more than $200 million in the past nine months to an estimated $140 million. By the end of 1971, reserves could be as low as $100 million, or the equivalent of one month's imports.

—Chile's foreign debt is estimated at $2.4 billion with a service of more than $300 million annually. The U.S. is Chile's biggest creditor. There have been indications that the Allende government may impose a debt rescheduling on its creditors, and if its balance of payment condition continues to deteriorate, may decide it has little to lose by simply defaulting on its debts to the U.S.

—Thus far the Allende government has been unsuccessful in obtaining significant loans or investment commitments in Western Europe, where most countries are following a "wait-and-see" policy.

—Communist countries have shown some interest in providing selective support and total Communist commitments to Chile have reached $164 million, all designed to cover purchase of material and technical expertise of the donor country. To date, no untied financial assistance has been offered and the Communists have indicated no commitment to underwrite the Chilean experiment.