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Memorandum from Ashley Hewitt and Robert Hormats of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Haig)

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Implications of President's Decision

You asked for an assessment of the political and economic implications of the President's decision regarding Chilean debt rescheduling. The short answer is that this has no immediate effect on our strategy since we have not agreed to a rescheduling. But following the Paris creditors' meeting in early February, we will have to go back to the President to get a decision on whether, based on the terms agreed upon by the creditor nations, we would agree to a rescheduling at that time. If the creditors' terms are tough enough, we have reasonable assurance from Treasury that Connally will recommend a rescheduling.

Background

Our policy on Chile has been to put as much economic pressure on the Allende government as possible, but in a way which prevents Allende from throwing the blame for his and Chile's economic troubles on us. This policy has been highly successful. Allende is in very serious economic difficulties. The fact that Chile must seek debt renegotiations at all is one indication of the success of our policy to date. Another indication is the stunning defeat the Allende government suffered at the polls in two by-elections held last Sunday. The election results were due very largely to the economic failures of the Government.

The President's decision, if it means that we would not reschedule even if a satisfactorily tough agreement were to be reached, would have the following effects:

—put us out in front and allow Allende to throw the blame for his economic problems on us in the eyes of both his own people and other creditors;

—provide an issue allowing Allende to rally political support and appeal to the opposition and the Armed Forces to show solidarity with the Government out of patriotism;

—allow Chile to repudiate our debt and thus be relieved of having to repay debts to the US which constitute approximately 60% of its total foreign debt;

—deprive US entities and institutions, including agencies of the US Government, of any opportunity of being repaid on substantial debts to them.

Thus, far from protecting our economic interests, such an arrangement would sacrifice them. The way to be tough on Chile and continue our successful policy is to:

—participate in the Paris club talks as the President has approved, using them to get the tough multilateral consensus with respect to Chilean debt renegotiation;

—insist that Chile adhere to the renegotiation formula and use our influence along with that of other creditors to ensure that this solution is carried out.

FYI: Secretary Connally's memorandum to the President is misleading. We have not agreed to reschedule, although we gather Connally feels that Chile believes otherwise. We have agreed only to discuss with other creditors possible arrangements for a multilateral rescheduling. If their terms for rescheduling are not tough enough, we have the option of not participating. However, the Europeans traditionally take a tough line on such matters. All agencies, including Treasury, have agreed at the Assistant Secretary level to what has been done so far and the general procedures outlined for the proposed Paris meeting. All believe that a multilateral front, taking a hard line, will serve our economic interests best and will put Chile under more pressure than alternative strategies.