DECLASSIFIED // SECRET; NIACT IMMEDIATE; EXDIS

Telegram From the Embassy in Chile to the Department of State

Identificador Archival:	frus:frus1969-76v21/d291
Agencia Emisora:	Departamento de Estado
Fecha del Documento:	1972-02-28
Colección / Serie:	FRUS 1969–1976, vol. XXI: Chile, 1969–1973

Nota de Archivo: *Santiago. Source: National Archives, RG 59, Central Files 1970–73, POL 2 CHILE–US. Secret; Niact Immediate; Exdis.*

---

953. Ref: State 032299; Santiago 6008 and 6082. Summary:

1. January by elections exposed declining popular support for UP. Results focused opposition hopes on 1973 elections as means of checking Allende's revolution—although possibility of more violent "solution" still exists. Other developments in recent weeks point toward lack of cohesion and control from the top in Allende's coalition. Enhanced prospects for successful political opposition may have slightly strengthened constitutional line in armed forces, while high command continues resist Soviet blandishments.

2. Allende and UP are badly worried that debt renegotiation will produce insufficient relief to avoid heavy political cost here. Judging from course of negotiations so far, there is no foreseeable way to finance satisfactory level of imports. Only chance for GOC to obtain temporary escape would be if U.S. and Europe were to separate on debt question. We believe it most important to work together with Europeans toward best and toughest renegotiation we can pull off. GOC recognition of compensation principle in general terms might be feasible, but we see no present likelihood that Allende will reverse constitutional process on copper. Our pressure for concessions will be effective only as long as GOC believes there is chance for at least marginally beneficial relations with USG.

3. We have no indication yet that Soviets committed to massive aid necessary to reorient Chilean economy. They appear cautious about taking high-profile role here. In event overwhelming economic crisis and full-scale break with U.S., however, they might well reconsider. Within GOC, opposition to over-dependence on USSR persists. Although gradual strengthening of ties with bloc is to be expected. There are no signs to date that Chinese aid or political influence will be of more than secondary importance.

4. Range of acute economic problems—inflation, declining agricultural production, squeeze on imports, difficulties with copper production—will have critical effect on political developments during coming year. Marxists argue that these can be offset through government control of the economy used as a base to change political balance of power. They may be wrong if political system remains intact and if 1973 elections become popular repudiation. Odds favoring such an outcome likely to go on improving as long as process unfolds normally and Allende is unable unify Chile against credible and emotionally overwhelming foreign threat. Other statements of my colleagues' and my views are contained in Santiago's 6008 and 6082. End summary.

January Election Results

2 [1]. January 16 elections confirmed ebbing of UP strength from highwater 50 percent registered in April ’71. It is noteworthy that UP vote in each of three disparate provinces was about three percentage points below April. Of course we should be careful—as 53–47 is hardly flood-tide toward the opposition—but virtually all observers expect further UP recession if present conditions and trends continue. Christian Democrats and National Party men who supported alliance strategy feel strengthened and heartened. Plebiscite is increasingly remote, and opposition is taunting Allende—daring him to call one. President virtually admitted UP expects to be minority force in his analysis and proposal for single party in ’73 elections.

3 [2]. While I shall not repeat observations made in Dec 7 assessment (Santiago 6008), I continue to see Chilean reality in much those colors. Increased confrontation and polarization remove the prospect, only slightly obscured recently by summer haze. Castro is a bad memory, and Allende still does not appear to be mastering his situation. January elections do seem to have changed political psychology, however, in at least one respect. CD and National successes have encouraged those parties to point more purposefully toward ’73 campaign. Politicians never did have much enthusiasm for a golpe—with generals taking over rather than themselves. This is probably more true now than before. Whether trend will continue is hard to say—as summer is ending, tensions in the city are in prospect, and school is starting. We hear reports of vigilante squads of anti-UP small landowners in Cautin Province reoccupying farms from the MIR—and we see a few other signs that both opposition forces and leftists continue to drift toward direct-action armed groups—though still on a relatively small scale.

4 [3]. If request for comment on “January elections” might be broadened to include observations on a few other events of past weeks, I would offer following:

A) Allende tried and failed to avert Senate vote against Toha by blackmailing CD Party over Tomic loan. This has produced stronger CD opposition, more disposition to unite with Nationals and slightly reduced danger of CD split. Mercurio’s publication of “secret” Communist working-paper helped. Even so, CD left wing remains vulnerable, and Tomic loan episode is not closed.

B) In January Cabinet crisis Allende apparently did want “opening to the center” in terms of new faces (Felipe Herrera, Ambassador Jerez, perhaps a military man) and a somewhat broader appeal. The Communists stonewalled, and the Socialists strong-armed him. Result was that Allende looked weak, with Cabinet as hard as before. Allende reacted by indicating that summer Cabinet would not last long—hardly contributing thereby to effectiveness of Ministerial authority. In both political and economic policy, Allende seems to be temporizing.

C) Only significant product of Cabinet crisis was inclusion in government of non-Marxist radicals (PIR). This in turn caused further disintegration pro-Marxist radicals (PR/CEN). At least there is now semi-independent voice and some beginning of a non-Marxist force in the UP. It also means that Allende’s single party for ’73 is harder to achieve, and opposition chances of converting their apparent majority into ongoing parliamentary control are enhanced. Possibility of defection reunified fragments of Radical Party from UP prior to March 1973 cannot be entirely discounted, especially if Radicals were offered very favorable commitments by the opposition for the 1973 elections. If this were to come about, the UP might be reduced to traditional percentages of extreme left in 1973 congressional elections.

D) All military arms, including Carabineros, survived year-end command changes with their integrity as non-Marxist professional services intact. I understand Allende hesitated for ten days before appointing service candidate, General Viveros, as Carabinero deputy over pro-UP general who had been angling for the job. But in this case, as in other service arms, he finally went along. Only real casualties have been Col. Labbe (who engaged in flagrant political grandstanding) and uncertain future of General Canales (who has been notoriously indiscreet). Perhaps there has been a slight consolidation in the military of the non-golpista, prudent center. This prudence may come under strain as the tensions rise

in Santiago. To the military center's credit, the generals so far appear to be resisting Soviet blandishments—in spite of great temptation. Now would be a particularly useful time for us to demonstrate our continuing relationship in some substantive if modest way.

Foreign Debt and Expropriation

5. Allende and the UP are badly worried about debt renegotiation. GOC is now coming to realize that prospects are poor for sufficient relief to avoid heavy political cost. As we read reports of Paris talks, Europeans are unlikely to go beyond Frei formula—which would leave GOC in precarious situation. There is no foreseeable way in which GOC would be able to finance a level of imports sufficient to fill domestic supply-demand gap. As long as U.S. and Europeans do not pull apart on debt renegotiation, relief will be insufficient to serve Allende's purposes. If such separation occurred, GOC might find temporary escape by entering into agreements with Europeans while achieving moratorium on U.S. debt through standstill with us.

6. Expropriation problem may be obstacle to maintaining united front with Europeans. It might be possible to achieve GOC recognition of compensation principle in general terms. However, success of Braden suit does not mean that chances are now good for effectively linking copper compensation to debt rescheduling. Braden situation was unique in that Allende could dress his concession in guise of action legally required to him under copper-nationalization constitutional amendment. It is not likely that Allende will reverse results of the constitutional process on copper, particularly since he can count on UP and opposition unanimity on this question. In fact, building of national consensus on two issues—Chile's right to own copper companies without substantial equity compensation and its right to relief from its massive foreign debt burden—might be the one way in which Allende could succeed politically.

7. We should not assume that Allende's realization of his dependence on the West means that there is no limit to our ability to push GOC toward more reasonable and forthcoming positions. I believe Braden decision was reached with extreme difficulty by divided and ill-coordinated Chilean leadership. In broader sense Allende has not yet faced up to his basic political and economic alternatives. We must regard Chilean decision making process at present as being in highly unstable condition. Our pressure for concessions will be effective only as long as GOC believes there is channel for at least marginally beneficial relations with USG. Fact we have not closed off that hope and have kept relations in low key correctness probably contributed to decision pay Braden installment.

8. To sum up, we believe it important to stay close to European creditors and work together toward toughest debt renegotiation deal we can achieve and get all parties to sign. A breakdown of agreement—or a breakdown of U.S. participation—would leave Chile paying us nothing.

Soviet and Chinese Role

9. Kirilenko visit, Gosplan team, and $50 million hard currency credit are recent manifestations of Soviet commitment. However, we have no indication yet that GOC received assurances of that massive Soviet assistance required to reorient its economy from U.S. and Western Europe. Gosplan team departed without making large public promises. Soviets have been cautious about moving too fast toward high-profile role here.

10. Like Castro Soviets probably do not believe in UP strategy of achieving Socialism in a consumption economy. Soviet and Eastern European Ambassadors make no secret to me of their conviction that "Chileans don't like to work." Soviets would probably require much greater austerity than currently prevails before making any massive concessional commitment—with resulting political problems for UP. Nevertheless, Soviet reluctance and caution could change if full-scale economic crisis develops, accompanied by full Chilean break with U.S. In those circumstances, we doubt that Soviets would simply allow Allende to slide under.

11. Within GOC/UP there is persisting opposition to over-dependence on USSR. Allende will be strongly inhibited, even in desperation, from taking Cuban route—by his image of his role in history, by his constituency, by internal balance of political power and by public opinion. We believe Chile will not willingly become irrevocably committed to Communist bloc in absence full-scale, nationalistic confrontation with U.S. Chances for limiting growth of Communist countries' influence will depend to a degree on maintenance normal Chilean-U.S. relations. At same time, argument of some Europeans that large concessions must be made to GOC in order to prevent Cuban repetition is probably false. As economic situation deteriorates, Allende will press harder for large-scale bloc aid. He himself probably does not know how far he would go in desperation and with total break with U.S. In any case, we must expect progressive strengthening of relations with Communist countries.

12. Many of foregoing considerations apply to Chinese as well as Soviets. Principal difference lies in fact Chinese have been and are playing secondary role here. Their recent $65 million loan apparently includes only about $13 million of hard currency to be made available over an undefined period. They are buying copper, but this assurance-of-market is of only marginal importance. We see no signs that Chinese are preparing to commit massive quantities of their own limited resources and hard currencies to bailing out Chile.

Probable Course of Events Over Coming Year

13. Economics will largely determine politics in Chile during months to come. Magnitude of economic problems Chile struggling with will increase, and capability of GOC to cope with them will become less. Increasing shortages and eventual rationing of selected products are likely. We can expect massive inflation and eventual loss of real income even for lower income groups.

14. Effective demand, already high in 1971, will increase further in 1972. GOC has failed in its attempt to hold 1972 real wage increase to zero. Money wage raises of 40–50 percent are widespread.

15. GOC shows no signs of exerting self-discipline in fiscal and monetary policy. 1972 deficit will be greater than 1971. Central bank is continuing to increase money supply, so that it remains approximately double that of a year earlier. On January 31 it was 116 percent greater than January 31, 1971.

16. Consumers are likely to be less willing to save. Propensity to save in 1971 was reasonably high, in part because prices were relatively stable and most goods in adequate supply. This insulated market-place from significant portion of 1971 wage increase. As shortages spread and inflation sharpens (it may exceed 5 percent in February) consumers will increasingly bid for goods. A decline in liquidity preference would also fuel inflation.

17. Agricultural production, which grew slightly in 1971, will decline in 1972, perhaps as much as 10 percent. Industrial growth will weaken. Past failures to invest will be felt in production problems in the future. This year could be a period of net disinvestment in economy as a whole. Production in many cases depends on availability of foreign exchange to import components, raw materials and capital equipment. Prospects of GOC managing this problem skillfully are not bright.

18. Exports will be disappointing. Serious management, labor and technical problems in Gran Mineria production have produced 7 percent drop from 1971 monthly average last December and 12 percent in January. Japanese Ambassador tells me his importers have been advised to expect "up to 50 percent shortfall in February from Chuquicamata" (indicating that deliveries to ships—and foreign exchange income—are beginning seriously to reflect Chuquicamata production troubles). Actual results may not be that bad, and we should bear in mind that Chileans probably have capacity to straighten out many of current troubles in copper industry. Nevertheless, in several months ahead, copper production will undoubtedly be disappointing to GOC. As copper represents 80 percent of foreign exchange earnings, this will set parameters for overall problem.

19. Relief provided by successful foreign debt rescheduling could fill part of foreign exchange gap, but probably not all of it. Any agreement in Paris remotely in prospect would give Allende some genuine relief in exchange for obtaining assurance of payment, but would not give him enough to save him from situation presently developing.

20. Marxists argue that grim economic scenario need not be decisive if GOC can consolidate its control over the economy and work from that base to change political balance of power. There is no question that continuing nationalization of private firms and other economic measures are eroding economic underpinning of opposition forces—including media and political parties. In some ways we are witnessing a race between the deteriorating Chilean economic situation as a whole and the deteriorating economic situation of opposition forces. Marxists may be wrong in their predictions, however, if political system remains intact and 1973 elections become popular repudiation of Allende govt. In the meantime, there is some slowdown in revolutionary momentum. There will be tightening of pressure on Allende to step outside constitution—as opposition attacks take greater toll, as cohesion of UP coalition loosens, and as critical election test draws nearer. These pressures are balanced, at least in part, by increasing inhibitions—as popular acceptance declines and as risk of military intervention increases, odds in favor of opposition congressional victory in 1973 are steadily improving, and will probably continue to do so as long as process unfolds normally and Allende remains unable to unify Chile against credible and emotionally overwhelming foreign threat.