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Information Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Crimmins) to Secretary of State Rogers

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Chile: Recent Developments

Political Developments

The Allende government is nearing the end of its second year in power beset by deepening political and economic problems. While it has accomplished much of its revolutionary program, its popularity has slipped steadily from its high point of 50 percent in municipal elections in January 1971, compounding its problem of dealing with an opposition-controlled Congress. The governing Popular Unity coalition (UP) itself is divided on tactics, with the Socialists generally pressing for acceleration of the revolution and the Communists for its consolidation. The opposition has capitalized on the government's poor economic performance and a series of political mistakes, and is beginning to concentrate energies on the March 1973 Congressional elections. The current outlook is that it stands a good chance to retain, if not increase, its appreciable majority in the Congress. It takes comfort in the demonstrated inability of the UP to win a popular vote majority in the various municipal elections, Congressional by-elections and university elections which have been held up to mid-July. The UP won the July 16 Congressional by-election in Coquimbo, but the opposition emphasizes the six percent decline in the UP vote from the April 1971 municipal elections in this traditional UP stronghold. In recent elections within the CUT (National Labor Confederation), long dominated by the Communists, the opposition Christian Democrats made impressive gains.

Following a breakdown in talks between the Christian Democrats (PDC) and the UP on a proposed constitutional amendment restructuring the economy, PDC Senators on July 7 joined other opposition forces in rejecting Allende's veto of the PDC-sponsored version of the bill. The bill now goes to the Chamber of Deputies. The opposition claims only a simple majority is needed to override the veto; the UP contends that a two-thirds vote is required. In another manifestation of the virtual political impasse now prevailing between the UP and the opposition, the Chamber of Deputies on July 5 approved impeachment charges against Socialist Interior Minister Del Canto, resulting in his automatic suspension from office.

Allende and the UP are approaching a political crisis, aggravated by the intractability and seriousness of the country's economic problems (see below). In May a small ultra-leftist faction (MIR) demonstrated in the streets of Concepcion against what it considered the excessively slow pace of the revolution. The resulting disorders led to exposure of serious differences within the UP on how to deal with basic political and economic problems. A top-level UP conclave lasting about three weeks failed to reconcile the differences, and a major speech by Allende which was to define a newly agreed

policy was delayed until July 24 and still failed to set forth any new departures. The speech nevertheless is one of the government's frankest admissions thus far of the seriousness of its economic problems. It reiterates vague accusations of external pressures, including an allegedly deliberate reduction in lines of credit from the United States. It exhorts Chilean workers to prepare themselves for austerity.

There are indications that Allende will soon announce specific new economic measures tightening the squeeze on the middle and upper classes, and requiring the workers to produce more without expectation of continued increases in their standard of living. There are reports that he may also announce new social measures, which could provide clues on the direction the acceleration vs. consolidation conflict within the UP might be taking.

For a thorough discussion of the outlook in Chile as of the end of June, see NIE 94–72 entitled "Chile: The Alternatives Facing the Allende Regime", at Tab A.

Economic Developments

As Allende stated in his July 24 speech, the Chilean workers income increased 55 percent during 1971 while prices increased 22.9 percent. This significant increase in working class consumption required massive food and other consumer item imports which, together with other changes in capital flows resulting from UP policies, virtually used up the nearly $400 million foreign exchange cushion which Allende inherited from the Frei government.

Low productivity in the mining sector and continued low copper prices have limited Chile's exchange earnings from its principal export—copper accounts for 75 to 80 percent of the total. Despite the partial rescheduling of foreign debt repayments falling due during the 14 months ending December 30, 1972, and despite claims of new credits totaling $400 million from the socialist world, including $260 million from the USSR announced in mid-July, Chile faces a grave balance of payments deficit in 1972, possibly as much as $300 million.

Inflationary pressures built up by the GOC's decision to raise worker consumption levels have begun to force the inflation rate into a steep upward spiral from the relatively stable and moderate (for Chile) figure of about 25 percent per year which has prevailed during the past year or so. GOC policies produced in 1971 a negative investment rate in the private sector of 16 percent. This, together with a low rate of new investment in the public sector and slack labor discipline and productivity, will make it extremely difficult for the GOC to bring industrial production to its minimum goals. Its agrarian reform program has sowed uncertainty and confusion in the rural sector, with adverse effect on agricultural production. Resulting shortages of consumer goods are day-by-day forcing the GOC closer to unaccustomed rationing. We can expect to see the GOC resort to a variety of measures to reduce the buying power of the middle and upper classes, the most recent sign being an intelligence report on its intent to call in and replace all currency in circulation. Presumed purposes would be to reduce the money supply and to frighten holders of accumulations of currency into forfeiting them rather than risk exposure to charges of illegal or irregular acts.

Status Report on U.S.–Chile Issues

On April 19 we signed the Paris Club Memorandum of Understanding which opened the way to bilateral debt rescheduling negotiations between the GOC and creditor governments. The Memorandum of Understanding contained undertakings by Chile to recognize the validity of, and to repay, all debts contracted or guaranteed by the GOC; and in cases of nationalization, to grant just compensation in accordance with Chilean legislation and international law as reflected in the principles of Resolution 1803 of the UN. In entering into preliminary bilateral negotiations with Chile last June, we made it clear that we expected the debt and compensation issues to be dealt with parallel to our talks on debt rescheduling.

Our bilateral debt rescheduling talks have thus far not gone beyond the exchange of technical information.

There has been no progress registered on debt and compensation matters. The Special Copper Tribunal created by the copper expropriation amendment to the Constitution reportedly will hand down a decision in August on the appealability of Allende's excess profits rulings. These rulings had the effect of putting Anaconda and Kennecott in a negative compensation position with respect to their expropriated investment in Chile.

For a current status report on Chile debt rescheduling, see the memorandum at Tab B.