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Memorandum From the Chief of the Western Hemisphere Division of the Directorate of Plans, Central Intelligence Agency (Shackley) to Director of Central Intelligence Helms

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The Deteriorating Situation in Chile

1. This memorandum forwards information for the DCI.

2. During August there has been further deterioration in the economic and political situation in Chile. More incidents involving extreme groups of the left and right can be expected. Still there is no firm indication that the military, the central factor in any realistic coup effort, is preparing to oust Allende.

3. The worsening economic situation is causing increasing polarization between government and opposition forces in Chile. Sharply mounting inflation, growing scarcity of consumer goods, currency devaluation, and acute shortages of foreign exchange are the principal causes of the current unrest. Sudden sharp rises in the prices of food staples decreed by the government in August have intensified opposition feelings and increased popular dissatisfaction. A national shopowners' strike on 21 August 1972 was followed by a declaration of a state of emergency in Santiago for several days. Attempts by the government to weaken the strike led to incidents that resulted in general strikes in two southern provinces. High school students struck for twenty-four hours on 29 August to protest economic as well as scholastic grievances. The government's promise of substantial wage hikes by 1 October to mitigate price rises may cool passions somewhat during the coming weeks.

4. Antagonistic political groups, which have been attacking each other verbally all year, have lately taken to the streets in demonstrations and counterdemonstrations. Charges by the Popular Unity (U.P.) coalition that the opposition is engaged in "fascist sedition" have been matched by allegations that the government is bent on overthrowing democratic institutions. At the same time, the campaign for the March 1973 congressional elections is gathering steam and cannot be expected to lessen tensions by any reckoning. All 150 seats in the Chamber of Deputies and half of the 50 Senate seats will be contested. The government has no hope of winning control of either house from the opposition, so the issue revolves around which side can score net gains.

5. In the midst of these events, the case of the Argentine hijackers intervened to complicate matters for the government and upset President Allende's carefully contrived détente with Argentina. So far, the Argentine reaction has been limited to the recall of its ambassador, but if President Lanusse decides on a stronger retaliation, such as the curtailment of beef shipments to Chile, Allende's economic troubles will be further exacerbated. On the other hand, if the Argentine reaction

becomes too extreme, it will offer Allende an opportunity to turn the problem around to a nationalistic and patriotic aspect and distract the public from its economic woes.

6. Militant right-wing groups, supported by business interests, are now beginning to try to exacerbate tensions in order to provoke the military into action. Leftist forces, led by the Movement of the Revolutionary Left (MIR), will undoubtedly meet the rightist challenge and further incidents in the city streets and rural areas could ensue. Although General Alfredo Canales has an organized coup following amongst key military officers according to past reporting, he has given no sign during the current unrest of feeling the time is ripe for him.

7. In short, numerous Station reports during the past month indicate some rise in political temperature in Chile; however, there is no indication the military is seriously considering a coup move despite increasing speculation on this possibility. It is a fair assumption that the political temperature will continue to be escalated by virtue of further economic deterioration as well as mutually provocative activity on the part of the extreme rightist and leftist political groups. Given the past pattern of the Chileans in similar circumstances, we would expect some action to be taken by the opposition and/or government before the situation becomes uncontrollable and critical.