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Nota de Archivo: *Summary: This estimate provided a comprehensive assessment of Chilean President Eduardo Frei's administration and a prediction for the future economic and political scene in Chile in light of the 1969 and 1970 elections. It also included a discussion of the ramifications of a possible victory by the leftist coalition in the 1970 election. Source: Central Intelligence Agency, National Intelligence Council, Job 79R01012A: Intelligence Publications Files (1950–1975), Box 374, Folder 2: (NIE 94–69) Prospects for Chile. Secret; Controlled Dissem. According to a note on the cover sheet, this estimate was prepared in the Central Intelligence Agency with the participation of the intelligence organizations of the Departments of State and Defense, and the National Security Agency. The United States Intelligence Board concurred in this estimate on January 28, with the exception of the Atomic Energy*

[Omitted here are the Table of Contents and a map of Chile.]

CHILE

THE PROBLEM

To examine the likely political and economic developments in Chile over the next year or so, with particular reference to the congressional election of March 1969, and to the general outlook for the presidential election in September 1970.

CONCLUSIONS

A. Over the past four years the administration of Eduardo Frei has been endeavoring to carry out a social, economic, and political revolution by peaceful, constitutional means. He has made considerable progress in some important fields, but in others has fallen far short of his goals. An important faction of his Christian Democratic Party (PDC) is insisting that the scope of reform be widened and its tempo quickened.

B. Economic prospects for the short run are bleak, and we see little chance for much further progress on basic problems over the next year or so. There are a few favorable aspects, notably the new US investments under the copper expansion agreement and the likely continuation of substantial foreign assistance over the next year. But the Frei administration is already caught in a quandary of economic stagnation with rapid inflation. As the elections approach, pressures for government spending on wages and welfare will almost certainly intensify, and business confidence will probably reach a new low.

C. The outcome of the congressional elections of March 1969 will have an important bearing on the selection of candidates and the formation of political coalitions for the presidential election in 1970. The PDC has some chance of winning a majority in the Senate and is likely to retain a sizable plurality in the lower house. Nonetheless, factionalism within the PDC, the maneuvering of other parties for political advantage in the 1970 election, and Frei's lameduck status will weaken his influence over the new Congress.

D. Until the final choice of candidates and of political party alignments is made, it is not feasible to attempt to estimate the outcome of the presidential election in more than the most general terms. Among many possible outcomes, the current odds are that there will be three major candidates for the presidency in 1970, that no one of them will secure a majority, and that the Congress will select as president the candidate with the largest vote. If the Communist, Socialist, and Radical parties could set aside their differences to agree on a candidate, he would be a strong contender, especially in a three-man race.

E. Even if a Communist-supported candidate won in 1970 we do not believe that the Chilean Armed Forces would intervene to prevent his inauguration. They would maintain a constant surveillance over the new administration, but would plan to move against it only if Chilean institutions, particularly their own, were threatened.

F. The relations of any new Chilean administration with the US are likely to be under repeated strains. Whoever succeeds Frei in the presidency is likely to continue to stress Chilean independence; to be less cooperative with the US on many issues than Frei has been; and to explore somewhat broader relationships with Communist countries. An administration elected with Communist support almost certainly would take steps aimed at moving Chile away from the US and closer to the Communist countries. We believe, however, that for a variety of reasons, including fear of a reaction from the military, such an administration would be deterred from precipitate or drastic action.

G. Because Frei himself has gone on record as opposing outright expropriation of the US copper companies, we see it as unlikely while he is still in power. In our judgment, however, further steps toward greater government participation in or even outright nationalization of these holdings are inevitable. The manner, the terms, and the timetable of such steps will depend heavily on the makeup of the next administration. Even under a rightist administration, or one of the center left such as Frei's has been, some additional "Chileanization," at least is likely. Chile might assume high economic costs in the process, especially in case of abrupt nationalization; but in the long run nationalistic, political grounds—rather than economic—will almost certainly be the crucial factors in deciding this question.

DISCUSSION

I. INTRODUCTION

1. Chile is entering upon a period likely to be decisive both for the future of Eduardo Frei's reform programs and for the political direction which the nation itself will take. With two years remaining of his six-year presidential term, Frei is sore beset. While his administration can point to a record of considerable accomplishment in some important fields, it has had almost no success in others; steps taken in its social programs have conflicted with the attainment of some economic goals and the government's inability to please everyone has entailed important political costs. Chile's chronic problem of inflation has again taken a turn for the worse, and its broader economic prospects—already troubled—have been adversely affected by this year's severe drought, the worst in 40 years.

2. Frei's Christian Democratic Party (PDC) cannot hope to match its previous sweeping victories as it looks ahead to a congressional election in March 1969 and a presidential election in September 1970. The party is suffering from factionalism. Since Frei cannot legally succeed himself as president, his own leverage is impaired, and no new leader of anything like his stature has emerged. At the same time, there are signs of growing momentum on the part of the opposition parties to the right and the left of Frei's PDC. The opposition, which in the 1964 elections existed for practical purposes only on the left, has become two-sided during the Frei administration. The Radical Party, which opposed him from the right as a splinter in 1964, has since acquired leftist leadership. The rightist Liberal and Conservative Parties, which did not even run a candidate in 1964, have merged to form the National Party, which under this banner has recovered somewhat, while remaining a minor party. There is now considerable backstage maneuvering among

conservatives in favor of former President Alessandri, while leftist elements talk of putting together a new and stronger coalition of far-left forces. Nevertheless, the PDC is less divided at present than its leftist opposition, is larger than the conservative forces, and has some advantage from being the incumbent and the primary focus for the non Marxist reform vote.

3. All this marks deterioration from the atmosphere which prevailed when Frei began his term in November 1964 after a campaign in which both leading candidates pledged basic reforms. Frei had received some 56 percent of the total vote (as against his opponent's 39 percent) and a popular mandate to carry out far-reaching social, economic, and political changes. Conditions were favorable for the use of fiscal and monetary policies to achieve both price stability and economic growth. Prices for copper exports—which provide the bulk of export income and an important though variable element of tax receipts—rose almost 50 percent during Frei's first two years in office and have remained high. His administration has received net authorizations of some $630 million in economic assistance from the US and another $200 million from international financial organizations. As has been the case for decades, Chile under Frei has received more total US economic assistance per capita than any other Latin American country and is second only to Brazil in total amount.

4. When, in sharp contrast to usual Chilean political practice, Frei attempted to carry out the reform program on which he campaigned, he alienated many of the upper and middle class Chileans who had voted for him simply to keep the Socialist-Communist coalition from attaining power. Although the PDC won a large majority of the seats in the Chamber of Deputies in 1965, the party secured only a minority in the Senate, where about half the seats have been holdovers from 1961. Frei has had to bargain for congressional support case by case and most of his legislative proposals have been blocked, delayed, or substantially modified.

5. Much of Frei's difficulty in getting his programs through Congress is due to his rejection of the Chilean pattern of coalition government. While its politics are bitterly partisan and the concept of a loyal opposition is virtually nonexistent, Chile has a lengthy tradition of maintaining representative government. This record has depended to a considerable degree upon the willingness of the "ins" to arrange coalition governments under which the needs of the "outs" were accommodated in return for their support in the Congress. Frei, however, has chosen to go it alone. The obstruction he has faced in Congress has also been due, in part at least, to the fact that earlier, as a PDC senator, Frei had attacked many of the legislative proposals and programs of the previous administration coalition (Liberals, Conservatives, and Radicals). Nonetheless, some of the essential elements of his legislative program have now been enacted. The outcome of the elections of March 1969 will, of course, affect the prospects for further reform proposals as well as the environment for implementing reforms already enacted.

II. THE ADMINISTRATION'S RECORD

A. Economic and Social Program

6. The Frei administration has had very mixed results in its efforts to improve Chile's economic conditions. Tax reforms and rising copper prices brought a sharp increase in government revenues and in public investment during Frei's first two years. The administration's inability to restrain the rise in current expenditures, particularly for wages, however, resulted in increasing budgetary difficulties and a slowdown in investment growth during 1967–1968. During Frei's first two years, Chile's balance of payments also improved markedly as a result of the sharp rise in copper prices and the continuation of a high level of foreign aid, coupled with the administration's adoption of a more flexible exchange rate policy and improved management of the foreign debt. Despite continued high copper prices, the deficit on goods and services climbed to $181 million in 1967, however, and Chile suffered a small loss in foreign exchange reserves. Although this deficit grew by another $100 million in 1968, a record inflow of foreign aid and the expansion of investments by US copper companies were more than sufficient to offset the imbalance.

7. Chile's rate of economic growth during the past four years has been less than the average for Latin America. Per capita output grew at a moderately high rate during 1965–1966 but declined during 1967–1968 as manufacturing and construction activities slowed. Agricultural production has continued to lag behind the growth in population. The rate of inflation slowed during the first two years of the Frei administration but then speeded up and reached about 28 percent in 1968. Thus, four years after Frei's inauguration, budgetary difficulties and the rate of inflation have not been significantly reduced, the trade deficit continues to grow, and overall economic growth is now at best sluggish.

8. Redistribution of Income. Many of Frei's serious economic problems can be attributed to the rapidity of redistribution of income in favor of lower-income groups that has occurred during his administration. Wages and salaries have increased much faster than prices and the overall rate of economic growth. In addition, social services have expanded and a large share of government investment has gone into social improvement programs. Whereas previous Chilean administrations had been attentive to the demands of urban middle class groups and of more highly skilled, organized labor, Frei is the first Chilean president to strive for substantial improvement in the living conditions of agricultural workers and unskilled urban laborers. An even more radical change has been Frei's effort to improve the political position of previously submerged groups through establishment of a minimum agricultural wage, attempts to unionize the campesinos, and expansion of educational and other programs. The poorest workers have benefited from his income policy but organized workers probably have gained proportionately more, since they had the power to secure even larger raises. By and large both the political and the economic gains of labor have been made at the expense of others—such as owners of large and middle-sized farms, private businessmen, and the wealthy class in general—numbers of whom had supported the PDC in 1964.

9. Foreign Copper Investment. The administration's major economic success has been in securing agreements for substantial new foreign investments in copper mining. Under Frei's program of "Chileanization" the government is participating with US companies in the ownership and management of the country's copper industry. Political opposition to this plan, particularly from the Communist and Socialist parties which advocated outright nationalization, stalled the program in Congress for some time. The US companies are scheduled to invest some $480 million in production facilities to raise capacity from 620,000 metric tons of primary copper in 1964 to nearly 900,000 metric tons in the early 1970's. These new investments are insured by the US investment guaranty program, under which the copper companies would receive indemnification from the US Government in the event of expropriation without compensation.

10. Agriculture. Despite Frei's concern with Chile's complex and enduring agricultural problems, he has made little progress in resolving them. Promised improvements in farm prices were short-lived, and solutions have not been found for deep-seated problems such as inadequate credit, storage, and marketing mechanisms. In addition, the insecurities associated with Frei's agrarian reform programs have served further to discourage long-needed private investments. As a result, the country continues to be increasingly dependent on imports of foodstuffs. Food shortages have been intensified by the severe drought which began in the key central area of the country during 1968. (See Figure 1 for the area involved and its importance to the economy.) Until World War II Chile was a net exporter of foodstuffs, but net imports of foodstuffs now amount to about $120 million annually. Perhaps three-quarters of these imports consist of items that could be produced domestically if the agricultural sector were more efficient.

11. Although Frei's agrarian reform bill was held up in Congress until 1967, laws passed in the previous administration enabled some moves toward resettlement and land distribution. Between the end of 1964 and mid-1968, the government's agrarian reform agency acquired about four percent of the total area in farms—including about 15 percent of Chile's irrigated land. Although less than one-half of the land acquired so far has been obtained through expropriation, political involvement of radical members of the PDC has made the reform more damaging economically and more abrasive socially than it needed to be. About four-fifths of the land acquired has been organized into some 270 government-managed

cooperative settlements. The program embraced about 9,000 families (some 70,000 persons) by mid-1968 and was CHILE: Drought Area and Population Distribution expected to include 14,000 families by the end of 1968, representing perhaps four percent of the rural population. After 3 to 5 years of government tutelage, the cooperative members are to decide whether to continue the cooperative or divide the land up into individually owned small farms. More than $100 million has now been spent on resettlement, and some of the social objectives of the agrarian reform are being realized. But these outlays, and other large government expenditures on fertilizers, seeds, breeding stock, machinery, and agricultural credit have not accelerated the rate of growth of total agricultural output. Growing government spending on agriculture has been largely offset by the failure to maintain profitable agricultural prices—a key plank in Frei's original agrarian reform program—and by the continuing fear of expropriation which has undermined the incentives of the remaining private landowners. These factors and the drought have combined to depress production severely in late 1968 and early 1969. In the longer run, new foreign assistance for irrigation works, agrarian reform activities, and agricultural credit may help to mitigate some of the adverse effects of Chile's longstanding farm problems.

CHILE: Drought Area and Population Distribution

12. Education, Housing, and Public Health. Frei has given a high priority to reforms in the system of public education and has made substantial progress in this field, particularly in expanding school facilities and in improving the quality of instruction for low-income groups. He was less successful in his housing program, which during its first three years fulfilled only about a third of the administration's six-year goal of 360,000 new housing starts. The program has now been revised to set a new target for low-income housing and to stress self-help projects. It will probably benefit from recent legislation which authorizes the Housing Ministry to expropriate urban land at a fraction of its market value. Similarly, Frei is committed to expansion of public health facilities, but any substantial improvement requires basic reforms in the country's chaotic social security system—reforms he has so far been unable to accomplish.

13. Inflation. During its first two years in office, the administration's stabilization program succeeded in cutting back the rate of inflation. This promising beginning was undermined mainly by the administration's inability to maintain its wage policy in the face of intense opposition from within the PDC as well as from the far left. The Congress ignored the administration's guidelines and granted increases that allowed real wages in the public sector to rise by some 42 percent during 1965–1967. These large increases made it impossible to balance the budget. They also made it increasingly difficult for the private sector to observe the administration's guidelines, and real wages in private employment rose at an even faster rate. The government's financial problems limited public investment and required borrowing from the banks, which in turn resulted in the restriction of credit available to business. Large wage gains and tax increases boosted costs in the private sector, stepping up inflationary pressures and putting a cost-price squeeze on some firms that discouraged private investment and contributed to unemployment and a slowdown in economic growth.

14. Despite worsening inflationary pressures from accelerated government spending, rapidly rising real wages, and a large expansion in the money supply, the rise in prices was kept to 26 percent in 1965 and 17 percent in 1966. This achievement, however, relied heavily upon the use of price controls and emergency measures. By 1967, the combination of growing demand, rising real costs, and stagnating output were too strong for price controls to be effective, and the cost of living rose by 22 percent, as compared with a goal of only 10 percent. The original goal for 1968 was relative price stability, but the rise in the cost of living reached about 28 percent. In an attempt to limit the ability of Congress to inflate greatly its wage recommendations for 1969, the Frei administration included its wage readjustment legislation in the 1969 budget bill. As submitted, the legislation provides for a general increase of 22 percent in public sector wages, yet special raises authorized but not paid fully last year to certain public employees—teachers, judges, the military and the police—bring the overall rise in the public sector wage bill to 38 percent. Pressures for wage raises are likely to be even greater in the private sector. Thus we think it almost certain that the Frei government's foundering stabilization program will be put in further

jeopardy.

Government Role in the Economy

15. The Chilean Government has played an important role in the economy since the 1930's, and has been particularly instrumental in developing the industrial sector, which now contributes about 25 percent of gross national product (GNP). Government influence on the economy takes a variety of forms: outright ownership and equity participation in joint companies, financing of private investments in manufacturing and mining and commerce, large transfer and subsidy payments, plus tax concessions, price controls, and trade restrictions aimed at influencing production. Despite the many advantages granted to the industrial sector over the past three decades, however, manufacturing has focused on import substitution and its products are high-cost and noncompetitive outside the protected domestic market.

16. Under Frei, the public sector has expanded substantially, and its expenditures in 1968 were equivalent to nearly half of Chile's GNP—the highest ratio in South America. Moreover, while the total share of output allocated to investment is gradually declining, the public sector has become far more important than the private sector in capital formation, in part because foreign financing has gone chiefly to support government investment. Public investment expenditures, which include government loans for private investment in petrochemicals, paper, cellulose, and steel, now represent more than 70 percent of total gross domestic investment. In the early 1960's they usually were less than 50 percent of the total. Public investment under Frei has continued to be concentrated on transportation and electric power facilities, and on housing, education, and other social welfare projects. Government spending has only partly offset the depressing effect the administration's economic policies have had on private investment in manufacturing and agriculture.

17. Within the private sector of the economy, and particularly among the larger landowners, the traditional distrust of government programs has intensified under the PDC administration. While Frei and the more conservative leaders of the party have reiterated the continued importance of private enterprise, legislative and administrative actions have done little to lend credence to their statements. Private interests understandably resent the squeezing of their profits between price controls on the one hand and ever-rising taxes and wages on the other. This squeeze has been exacerbated by a severe tightening of credit, except for the projects being promoted by the government in certain industries. Investor confidence has been further eroded by uncertainties concerning land reform policy and by repeated threats against private industry (including nationalization) that have emanated from the more leftist elements within the PDC as well as from Marxist parties. The present environment for private enterprise also appears to have dampened the interest of potential foreign investors, except for the US copper companies (whose new expenditures are insured) and the foreign partners in a few major investment projects arranged some time ago.

B. Political Developments

18. While Frei's efforts to carry out his reform program have antagonized the more conservative elements in Chile, he has, at the same time, successfully resisted leftist demands for more rapid and extreme actions. A leftist faction within his own party, which has grown in influence, has joined with other leftists to insist that the scope of reform be widened and its tempo quickened. By pushing ahead with reforms while attempting to minimize their inevitable disruptive effects, he has met with opposition from both sides.

19. Within the party, supporters of the President (called Oficialistas) and their opponents are now playing down their differences in the interest of unity, but that effort is likely to break down once the congressional election is over and each faction begins to vie for the nomination. Frei's most determined opponents in the PDC, the far-left Rebeldes, urge nationalization of mining, steel, and electric power industries, and the telephone companies, and a sharp rise in expropriation and distribution of land holdings. This faction is particularly critical of the meager results of Frei's agrarian policies (under which land may be redistributed to perhaps 35,000 families during 1965–1970 instead of the announced

goal of 100,000 families), and his failure to nationalize the privately owned elements of the banking system. Another group, the Terceristas, also criticizes the slow pace of Frei's reform program, but tries to bridge the gap between the rebels and the Oficialistas.

20. Radomiro Tomic, at present the leading contender for the party's nomination to succeed Frei, has agreed with the party rebels on the desirability of forging a vaguely defined wide leftist front with the Communists and other groups seeking sweeping economic, social, and political reforms. He has also, while not openly breaking with Frei, advocated a further reduction of the role of private enterprise in Chile. But Tomic's development of a campaign platform, with specific proposals which would win such wide support, remains vague and in a state of flux.

21. The fact that the Frei administration has initiated and brought forward some basic reforms and improvements should constitute a political asset for the PDC, however difficult to measure. Through social action and other programs of varied effectiveness both in the cities and in the countryside, large numbers of people throughout the nation, including practically everyone on salary, have seen significant improvement in their condition since Frei took office. In recent years, however, the opposition has usually gained ground in the congressional election preceding the Chilean presidential election.

III. OUTLOOK

A. Economic

22. The outlook for the Chilean economy over the next year or so is bleak. Although a few aspects of the situation are favorable, such as the foreign investment to expand copper production and the likely continuation of foreign assistance, circumstances generally are distinctly unfavorable. Already caught in a quandary of economic stagnation with rapid inflation, the Frei administration faces increasing economic difficulties and reduced capabilities to deal with them. The chances of positive government action to cope with the country's problems appear slim because Frei, as a lameduck president, probably will have even greater difficulty in securing congressional support than in the past. As the elections approach, pressures for government spending on wages and welfare almost certainly will intensify, and business confidence will reach a new low, thus further slowing investment. Even with normal climatic conditions, per capita output probably would not have grown in 1969. With the added blow from the drought, the administration faces the likelihood of a decline in production in 1969 and perhaps only a partial recovery in 1970.

23. Although prices for Chile's copper exports have remained abnormally high throughout the past four years, some decline probably will occur in 1969 and 1970. Even the scheduled expansion in production probably will not keep copper earnings from dropping in 1969, and it might merely restore them to 1967–1968 levels in 1970. Inasmuch as the drought is reducing supplies of hydroelectric power and of water, needed by the copper industry, production gains may be lower than projected. The drought will also increase the need for food imports while reducing agricultural exports. Chile's deficit on goods and services may increase by about $150 million in 1969 to a record high of more than $425 million—or about one-half of total commodity export earnings. Nonetheless, large-scale drawings on official credits (already in the pipeline or being negotiated with the US Government and international financial organizations) and the inflow of investment capital (chiefly from US copper companies) may be sufficient to cover most or all of such a deficit as well as to finance scheduled debt repayments. The Frei administration, however, may find it more difficult to avoid serious balance of payments difficulties and a return to import restrictions in 1970. Its ability to do so again will depend largely on the willingness of foreign lenders to be fully responsive to Chile's financial needs.

24. Frei's prospects for averting further setbacks in his stabilization program are also unfavorable. In the past the administration has fared poorly in its efforts to hold down wage increases in the public sector, and it will have even less influence with a Congress looking to the elections of 1969 and 1970. There is little chance that expenditures for public investment will be cut, because of the negative impact of such a cut on politically important welfare projects and on

employment levels. It will be difficult to secure new tax revenues to keep the budget deficit manageable. Yet failure to hold budget deficits within certain limits will not only feed the inflation but may also endanger continued receipt of budget support aid from the US and drawings on standby credits from the International Monetary Fund.

25. We conclude that the Frei administration will have few, if any, attractive options in determining its economic policies. Rather, the choice is likely to be among several unpalatable alternatives, and as problems mount, both Frei and his opposition will be increasingly tempted to seek solutions that are politically expedient. Thus pressure is likely to be exerted on the government to tax the foreign-owned copper mines at a higher rate than that agreed upon under the copper expansion program, to demand a larger equity in the mines, or even to nationalize the properties outright. Because Frei himself has gone on record as opposing outright expropriation, we see it as unlikely while he is still in power. Members of his party may, however, declare in favor of partial or complete nationalization during his last year in office, in an attempt to undercut their political opponents. Even those members of the National Party who have been friendly to the US may come to share the growing Chilean sentiment for early nationalization. Expropriation would be more profitable politically than economically, however, since the payment of compensation would be a major drain on income, adding perhaps $1 billion to an already burdensome foreign debt. If it did not compensate for such an expropriation, Chile would probably lose more in US economic aid and private capital investment than it secured from taking over the copper companies.

26. In sum, the economic problems confronting the Frei administration are unsolvable in the short run and intractable in the long run. They will be particularly difficult to come to grips with during the next year or so, when the effect of the drought and the distraction of national elections will be most apparent. Over the longer run, unless the management of the country's resources improves, the pressure from population growth, particularly from its concentration in the Santiago area (see Figure 1 "Chile: Drought Area and Population Distribution"), will increase.

B. Political: Outlook for the Congressional Election

27. Despite the deterioration in economic prospects the effect on the outcome of the congressional election in March 1969 may not be particularly severe, owing to continued foreign assistance and good copper prices. This election can have an important bearing on the selection of candidates and the formation of political coalitions for 1970, although voting patterns in local congressional elections are not necessarily repeated in presidential contests where mass voter attention tends to focus on large national issues and personalities. The results are particularly important to the moderates in the PDC whose chances of maintaining control of the party organization will be critically affected by the PDC's showing in the congressional election. The party, which has 10 of the 20 hold-over seats in the Senate, should approach a majority there and may even attain it. (See Figure 2: "Chilean Political Parties.") The present PDC majority in the Chamber of Deputies was won, in the election of March 1965, when the other parties were in considerable disarray in the aftermath of Frei's triumph in September 1964. Recovery of the other parties will probably keep the PDC from holding its majority in the Chamber, but it is likely at least to retain a sizable plurality there, and it could attract enough support from independents and smaller parties to form temporary majorities. But a poor showing by the party's congressional slate—which was approved by Frei—would intensify existing problems of party discipline and further weaken its chances in the presidential election.

28. The congressional election is also important to the chances of the parties of the right and extreme left in 1970. If, as seems likely, there is a further comeback by the small conservative National Party, this would enhance the chances that Jorge Alessandri, a popular former president, would run strongly, as an "independent" presidential candidate. The Nationals were badly damaged in the Christian Democratic triumphs of 1964 and 1965 and lack a popular base, but they will probably continue, on a modest scale, the recovery they made in the municipal elections of 1967. They may win some additional seats in the Chamber of Deputies, but are likely to suffer some losses in the Senate.

29. The Chilean Communist Party (PCCh), which probably has about 35,000 active members, has gained status as a legitimate party which consistently stresses the vía pacífica and eschews violent revolution as the means for attaining power in Chile. Its prospects for the election in 1969 probably have not been greatly damaged by the party's defense of the recent Soviet occupation of Czechoslovakia. The PCCh is adept at diverting attention from its close hewing to the Moscow line. Unless new actions by the USSR further antagonize the Chilean public, by March 1969 the effect of the invasion of August 1968 is likely to be minimal. Thus the PCCh will probably lose little, if any, of the electoral following which causes other leftist parties to bid for its support in presidential elections.

30. The showing made by the Socialist and Radical Parties in 1969 will determine, in large part, the candidate the PCCh will support in 1970. The Socialist movement has been split by personal rivalries, but Chilean Political Parties the orthodox Socialists may attract some voters who normally support Communist candidates but were alienated by the Soviet occupation of Czechoslovakia. Socialist criticism of the occupation has caused new strains in the already shaky Socialist-Communist electoral coalition (the FRAP), but the coalition has survived other serious strains in the decade it has been in existence. Furthermore, the Socialist Party recognizes that it needs Communist support for its leader, Salvador Allende, if he is to be a major candidate again in 1970.

Chilean Political Parties

31. The Radical Party, which has recovered from a very poor showing in the presidential election of 1964 (five percent of the vote), also suffers from factionalism. It has traditionally found its main support in the middle class. The rightwing of the party leans towards Alessandri while its present leftist leadership is seeking an electoral coalition with the Communists and, if possible, with the Socialists. The Radicals are united only in their desire to regain power and in their bitter hostility towards Frei and the Christian Democrats. The Radical Party is likely to gain some additional seats in the lower house and to do no better than hold the 10 seats it now has in the Senate. Once the congressional election is over, some moderates and many of the more conservative Radicals are likely to increase their opposition to the efforts of the party's leaders to align it with the PCCh in 1970.

C. The Presidential Election

32. Until the final choice of candidates and of political party alignments is made, it is not feasible to attempt an estimate of the outcome of the presidential election in more than the most general terms. A two-man race is possible, but among many possibilities we believe that the most likely will be a closely contested three-man race.

33. The problem for the left will be to unite competing elements of the Socialist and Radical Parties, with Communist support, behind a single candidate. The prospects for such a coalition are affected by ideological as well as tactical differences among all three parties. While the Communists publicly stress the primacy of the FRAP, they seem disposed to join any coalition which they think they can influence. The Socialists, on the other hand, have repeatedly rejected the idea of cooperation with non-Marxist parties, and continue to cling to their intention of presenting a presidential candidate in 1970. However, the Communists, and even more so the Radicals, have not committed themselves and may have serious misgivings about backing a Socialist candidate. Finally, only a portion of the Radical Party favors an alignment with the far left.

34. Despite these differences, an effective coalition of these three parties is a possibility. If they can coalesce, their candidate would be a strong contender, especially in a three-man race. Many members of these parties would not support a coalition candidate from another party or from an "alien" faction of their own party. On the other hand, we believe that the candidate of any far-left coalition would benefit from the likely continuation of the general trend to the left that has marked Chilean politics in recent decades. Thus he would be likely to receive considerable support from the large bloc of nonaligned, independent voters and to gain some adherents from former PDC voters, unless that party chose a standard

bearer satisfactory to its radical wing.

35. No matter who wins the PDC nomination, there is likely to be some splitting off of party members and followers. The party has no potential candidate as broadly appealing as Frei. Nor is it likely to form an electoral alliance with one of the other large political parties, on either the left or right. At this point there seems to be very little chance that Radomiro Tomic will be successful in forging a broad coalition of leftist forces behind his candidacy or that the party is likely again to receive any substantial support from the Chilean right. Most likely, the PDC will run as a centrist force, with its candidate appealing either for leftist or rightist support, depending on which faction of the party he represents, in the hope of securing a plurality of the total vote. The PDC has strong advantages as the incumbent party, the largest single party, and a focus for the non-Marxist reform vote. But at this point its chances depend heavily upon a variety of circumstances which are beyond its control and at present unforeseeable.

36. The opposition of the National Party and other Chilean conservatives to Frei's attempts to carry out basic reforms by constitutional means has not made conservatism more popular in the country, but rather has increased the sentiment for radical change. The conservative forces might regain some ground if the aging Alessandri (born 1896) were to campaign vigorously. His remarkable appeal cuts across class and party lines and also reaches a considerable number of independent voters. The conservatives have no other candidate of comparable stature, and without Alessandri in the race they would be likely to suffer another decline in strength and influence in 1970.

37. In sum, the current odds are that there will be a three-man race, in 1970, in which no candidate will win a clear majority, and the final choice will be made by the Chilean Congress. The necessity for such a decision has arisen several times in the last 50 years. On each occasion the Congress has chosen the candidate with the largest number of votes. We believe that the Congress probably would do so again, particularly if there is a clear margin between the two leading candidates.

38. Whoever is elected in 1970 will have considerable difficulty in getting any program through the Congress, let alone a controversial one. Frei has said that his fundamental mistake was in not pushing hard, early in his term, for an amendment of the Constitution that would enable the president (once during his term in office) to dissolve the Congress and, in effect, to request a plebiscite on his program. If Frei's four years in power have demonstrated anything, it is that even a president with the unusual advantage of a majority, both in the popular vote and in the lower chamber, finds it very rough going indeed when he attempts to change the status quo in Chile.

39. The well trained security forces of Chile have always been essentially antagonistic to the Communists and Socialists; this is particularly true of the paramilitary national police force, the Carabineros, who have had a long history of clashes with extreme leftists. Even so, the security forces have maintained an apolitical position towards national politics for 30 years; on the two occasions (1938 and 1946) when a president was elected with Communist support, the military did not intervene to keep him from taking office. Rather than intervene at once to keep a Communist-supported administration from taking office in 1970, the security forces would probably maintain a constant surveillance over it, particularly if it were led by Salvador Allende, and would plan to move against it only if they were convinced that Chilean institutions, especially their own, were threatened.

40. For their part, the Communists and Socialists have vied with the other political parties in praising the armed forces and in supporting appropriations for military equipment, and have repeatedly professed approval of the role of the military as the protectors of constitutional government. We believe that any Communist-supported administration would be careful, at least initially, to avoid any action likely to cause the military to intervene.

D. Future Relations with Other Countries

41. If the FRAP were to win the election of 1970, and particularly if the winning candidate were Allende or Alberto Baltra, the pro-Communist senator of the Radical Party, the new administration would almost certainly take steps aimed at moving Chile away from the US and towards closer ties with Communist countries. Allende himself has frequently demonstrated his admiration for Fidel Castro and the Cuban Revolution, and an Allende or Baltra cabinet would probably include members of the PCCh. But we believe that even these leaders would be deterred from precipitate or drastic action by several important considerations:

a. An awareness of the strength of nationalist sentiment in the population generally, in the Congress, and in their own parties—a nationalism likely to be as strongly against subordinating Chile to the tutelage of Moscow (or Havana) as it has been against anything it considers subordination to Washington;

b. A realization that they must have and retain the support of political elements other than those that elected them if their administration is to be at all effective—especially since counsels would probably be divided in their own ranks on some aspects of both foreign and domestic policy;

c. A concern that if their administration tried to move too far and too fast, the Chilean security forces would unseat it;

d. An apprehension (and one which Moscow would probably share) that anything approaching a full embrace of communism in Chile would precipitate action on the part of Argentina, Peru, the US, and other countries—perhaps action in support of a takeover by the Chilean military, perhaps even direct military intervention.

42. All these factors are likely to inhibit a new president, even if he represents the extreme left, from bringing about the adherence of Chile to one or another segment of the Communist camp. These considerations do not, however, argue against a radical shift in internal programs or against an intensification of the effort to be independent of the US. In our view, whoever succeeds to the presidency will be less cooperative with the US than Frei has been. We think that there will be pressures in almost all political parties, including the PDC, for the new Chilean Government to stake out a more independent line; in some of them, demands for a clearly anti-US posture will be strong. Thus Chilean relations with the US are likely to be under repeated strain over the foreseeable future. Any new administration will probably explore somewhat closer ties with Communist countries. And the skillful low key way in which the Soviet Embassy in Santiago has conducted its relations with the Chilean Government and public might begin to bring an expansion of trade and cultural relations between the two countries. Thus far, however, little progress has been made in implementing the economic agreements with the USSR signed in January 1967.

43. We think that the next Chilean administration, regardless of who heads it, will continue Chile’s traditional policies supporting nonintervention, the protection of national sovereignty, and the sanctity of treaties. The policies of a new administration will continue to be strongly influenced by the recurrent border disputes with Argentina, by Bolivia’s efforts to regain the outlet to the sea it had lost to Chile in the last century, and by concern that Peru will renew its claim to territory it too lost to Chile. The next administration is likely to push even harder than Frei did to stress the independent nature of Chile’s role in both the Organization of American States and the United Nations.

44. Perhaps the touchiest issue of all in relations with the US will be that of ownership or control of the US share in the copper companies. Further steps toward greater government participation in or even outright nationalization of these holdings are, in our judgment, inevitable. The manner, the terms, and the timetable of such steps will depend heavily on the makeup of the next administration. An extreme leftist government would very likely opt for complete and rapid nationalization. Even under a rightist administration, or one of the center left such as Frei’s has been, some additional “Chileanization,” at least, is likely. Chile might assume high economic costs in the process, especially in case of abrupt nationalization; but in the long run nationalistic, political grounds—rather than economic—will almost certainly be the crucial factors in deciding this question.