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Memorandum for the 40 Committee

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Nota de Archivo: *Summary: This memorandum provided a status report on the covert funding of opposition political parties in Chile. It outlined the purposes for which the funding was being expended and its effectiveness for the months of January and February 1972. Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates the 40 Committee approved the memorandum by telephone on April 24.*

Status Report on Financial Support to Opposition Parties in Chile

I. Summary

On 5 November 1971 the 40 Committee approved new funds in the amount of [dollar amount not declassified] for the following twelve-month period to support Chilean political parties opposed to the Popular Unity (UP) coalition of President Salvador Allende and to influence the Radical Party of the Left (PIR). In approving these funds, the Committee requested a status report every sixty days which would specify the purpose for which these funds were being expended and assess their effectiveness. This is the second status report, the first having been delayed for two weeks in order to include the results of the 16 January 1972 by-elections. The opposition's success in these by-elections was made possible largely because of the financial aid [dollar amount not declassified] which had been approved by the Committee for this purpose on 15 December 1971.

The basic period covered by this second status report, January and February 1972 (but with some carry-over into March for continuity purposes), was the summer vacation period in Chile. Party political activity diminished considerably after the extensive effort demanded by the 16 January by-elections, although the inevitability of a new confrontation between the government and the opposition over the "three areas" bill became evident toward the end of February. Funds provided to the opposition parties during this relatively tranquil summer period were used primarily to create new, and improve existing, party mechanisms and to build party media in anticipation of the impending conflict. A total of [dollar amount not declassified] was passed to the three opposition parties and the PIR during January and February; of this amount, [dollar amount not declassified] was made available to the Christian Democratic Party (PDC); [dollar amount not declassified] to the National Party (PN); [dollar amount not declassified] to the Democratic Radical Party (PDR); and [dollar amount not declassified] to the PIR. A total of [dollar amount not declassified] of the [dollar amount not declassified] authorized by the Committee has been passed securely since 5 November 1971.

II. Background

Declining popular support for the UP government was evident in the outcome of the January 1972 by-elections; this decline, coupled with the government's increasing economic problems, has encouraged opposition parties to believe that they have a chance to retain their control of Congress in the March 1973 general elections. These elections are crucial since the government could carry out its revolutionary program without any legal impediment if it gained a Congressional

majority. President Allende's 7 February announcement of his hope that UP parties would form a single "Democratic Federation" for the March 1973 elections has generated much politicking, including a variety of proposals for changing the electoral laws to permit formal electoral alliances or to bar single slates. So far, no official move toward unification has been made by either side. In recent days the subject of hypothetical party combinations and voting strengths for the 1973 elections has been submerged by more immediate and mounting political considerations.

Political tension began rising in the wake of President Allende's 21 February statement regarding the PDC's "three areas" bill. This bill, which has been passed by Congress with the backing of all opposition parties, divides the economy into three areas—state, mixed, and private. The bill would authorize the government to nationalize only those firms defined in the bill as being essential to the state, and the government also would theoretically have to restore to private or mixed ownership any previously-nationalized firms which did not meet this criterion. The opposition recognizes that this bill is essential to save private enterprise in general, and, especially the 91 major firms designated by the government in January as firms soon to be nationalized.

On 21 February, Allende not only announced his intention of vetoing the key provisions of the "three areas" bill, but said he would appeal to the Constitutional Tribunal if Congress did not accept his interpretation of the Constitution as requiring a two-thirds majority in each house to override his vetos. PDC President Fuentealba responded with a statement, subsequently endorsed by the other opposition parties, contending that a simple majority is all that is required to override Presidential vetos, that the President's only proper recourse if overridden would be a plebiscite, and that the Constitutional Tribunal is incompetent to hear the case. Negotiations were initiated between the PDC and the government aimed at reconciling differences over the "three areas" amendment, but in early March the government began to move against some of the 91 companies on the government list. On 9 March Minister of Economy Vuskovic personally led raids on several companies accused of hoarding, evading price ceilings, etc., and last word was that of the 91 firms on the list, three had already been intervened or requisitioned, 20 had had merchandise seized, and seven had been fined. This government action caused the PDC to break off negotiations. The National Manufacturers Association (SOFOFA) issued a strongly worded statement denouncing the government's actions as flagrant legal and constitutional violations. The PN asserted that the opposition was studying the possible impeachment of Vuskovic. On 10 March Minister of Interior del Canto announced that the government would bring sedition charges against the PN's leadership as well as against the PN newspaper and radio station for statements they carried on this question.

Future developments in this escalating situation cannot be predicted, but the issue is fundamental and, for the first time, includes a constitutional issue. In by-passing the pending constitutional amendment defining the "three areas" of the economy, the government is achieving de facto nationalization which, if unchecked, will eventually erode the financial base of the entire opposition. By flouting the obvious intent of Congress, Allende is also risking the displeasure of the military, which is committed to maintaining constitutional norms. Ambassador Davis recently wrote that we are witnessing a race between the deteriorating Chilean economic situation and the deteriorating economic situation of the opposition parties. Neither the duration nor the outcome of this race can be predicted, but the funds now being provided to the opposition are essential to enable these parties to survive and to be prepared for contingencies. No security problems have arisen in connection with any funds passed to date.

[Omitted here are Sections III and IV.]