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Memorandum for the 40 Committee

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Nota de Archivo: *Summary: This memorandum outlined a proposal for funding private-sector organizations, which would allow for countering Allende government policies. Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, July–December 1972. Secret; Sensitive; Eyes Only. In a September 21 memorandum for the record, Ratliff stated that the 40 Committee approved the transfer of funds by telephone. (National Security Council, Nixon Intelligence Files, Subject Files, Chile, 40 Committee Minutes, 1972)*

Financial Support to the Chilean Private Sector

I. Summary

The financial support previously authorized by the 40 Committee has helped strengthen the political parties opposed to the Popular Unity (UP) government of President Salvador Allende. Assistance provided to El Mercurio has enabled that independent newspaper to survive as an effective spokesman for Chilean democracy and against the UP Government. But while the parties and democratic mass media have developed into formidable political opponents of the UP, winning the support of an increasing percentage of the Chilean electorate, the government has fulfilled a major part of its revolutionary program by increasing its control over the Chilean economy. Systematic expropriation of land and government takeovers of almost all banks and major industries have laid the groundwork for a totally state-controlled economy. Since the private sector forms an integral part of the opposition forces in Chile and is its natural source of political funds, the takeover of the economy by the UP government would seriously weaken the entire opposition.

The Chilean private sector has only recently begun to appreciate the full magnitude of the dangers posed by the government’s economic program. The complex array of organizations representing private enterprise among large and small businessmen, industrialists, farmers, workers and peasants have begun to consolidate and to organize in opposition to the government. Economic survival is of course their primary concern, and this can be achieved only by preventing or limiting further nationalization. This fact has tended to politicize the private sector and to increase its willingness to work closely with the opposition parties and to assist them wherever possible. In turn, the support of the opposition parties and the democratic media is essential to enable the private sector to mobilize the support it needs from Congress and the Chilean public. Therefore, support and encouragement of the politically-oriented activities of the private sector would represent an operational adjunct to the main effort of direct support to the opposition political parties.

[3 paragraphs (41 lines) not declassified]

II. Background

The Allende government has drawn up a list of all Chilean corporations whose capital reserves exceed $500,000; by the government’s own estimate, these 189 corporations account for 82% of the capital holdings of the 1,987 companies

incorporated in Chile. Many of these companies are already government-owned, and those still in private hands are earmarked for early nationalization.

As of January 1972, the State had ownership or control of approximately 200 enterprises, of which about half had been taken over by the Allende government. In January 1972 the government published a list of the 91 remaining large firms which were scheduled for imminent nationalization.

In a belated move to moderate Allende's effort to obtain increased control over the economy, the Chilean Congress on 19 February approved a bill sponsored by the Christian Democratic Party (PDC) defining the economic areas subject to government ownership, and making all government takeovers since October 1971 in other areas subject to congressional approval. After weeks of negotiation with the PDC, Allende in early April 1972 vetoed the key portions of the PDC constitutional amendment and added clauses which would significantly ease the government's efforts to increase its control of the economy.

The impasse over the "three areas" bill has yet to be resolved, but the government has continued to expropriate, requisition or intervene Chilean firms. [2 lines not declassified] The manufacturing sector can serve as one example of the gravity of this situation. The government already controls 32.8% of Chilean manufacturing exclusive of the manufacturers included on the "List of 91," which represent an additional 20%. A government takeover of the manufacturing firms on the "List of 91" will thus give the government control of more than 52% of all Chilean manufacturing.

In the agricultural field, the government has stopped giving out figures on land expropriations and takeovers. Under the Agrarian Reform Law, all farms exceeding 80 hectares of irrigated land are subject to legal expropriation, a process which was to be completed by the end of July 1972. In addition, police reports recently published in El Mercurio reflect a total of some 1,768 illegal farm takeovers from November 1970 to early March 1972. It is estimated that 55% of all farm land (including 45% of all irrigated land) is now in the reformed sector and thus under government control.

The UP government's effort to assume greater control of the private sector is a key part of Allende's drive to make socialism "irreversible" in Chile. The survival of the private sector is crucial to the opposition because this sector represents a sizable segment of Chilean society not yet under government control as well as an important source of funds for opposition political parties. Thus, any significant increase in the UP's control of the economy will inevitably strengthen Allende's position against the opposition political forces.

[5 paragraphs (106½ lines) not declassified]

III. Proposal

[1 paragraph (23½ lines) not declassified]

IV. Funding and Risks

[2 paragraphs (29 lines) not declassified]

V. Coordination

This proposal has the concurrence of the Ambassador and the Assistant Secretary of State for Inter-American Affairs.

VI. Cost

[1 paragraph (1½ lines) not declassified]

VII. Recommendations

[1 paragraph (4 lines) not declassified]

[2 attachments (10 pages) not declassified]