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Memorandum From William J. Jorden of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)

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Nota de Archivo: *Summary: The memorandum responded to allegations made in the September 16 edition of the Washington Post that the United States used economic pressure to destabilize the Allende regime, and maintained that U.S. actions did not cause Allende's downfall. It included five attached papers with background information. Source: National Archives, Nixon Presidential Materials, NSC Files, Country Files, Latin America, Chile, Vol. VIII. Confidential. Sent for urgent information. Penciled under the date is, "Done for HAK confirmation hearings."*

Allegations of U.S. Economic Pressure Against Chile—and Answers

The attached package deals with the allegation (as in this morning's Washington Post) that the U.S. carried out a campaign of economic pressure against Chile that led to Allende's downfall. The first paper puts this whole matter in perspective. I would drive home several key facts:

(1) The overriding cause of Chile's economic plight was its own misguided economic policies and government mismanagement.

(2) A good case can be made that we were, if anything, too soft in dealing with a Chile that had seized without compensation more than $800 Million worth of U.S. private assets, and defaulted on more than $1 Billion direct or guaranteed debts.

(3) Multilateral banks continued disbursements on existing loans to Chile throughout the Allende period—with average annual disbursements exceeding those of the three years before Allende.

(4) Multilateral banks—like the Inter-American Development Bank and the World Bank—are independent institutions with expert staffs of wide experience. They are not controlled by the U.S., but make their own independent judgments. (I would cite especially the statement made by Bob McNamara of the World Bank regarding Chile in November 1972—see page 2 of the "Allegations and Responses" paper.)

(5) On the question of military credits, two things stand out: (a) the requests were made by the Allende government not by the military forces themselves; and (b) Chile had paid its military debts in contrast with its sad performance on government and bank credits.

(6) The Congress will understand that our general approach on aid and loans was to a great extent determined by the will of Congress itself as expressed in the Hickenlooper amendment (which requires us to cut off aid to any country that expropriates U.S. assets without compensation) and the Gonzalez amendment (which requires us to vote in international financial institutions against any loan to a country that has seized U.S. assets without payment).

The “Allegations and Responses” Paper (prepared by State at my direction) deals with the specific charges raised in the Stern article.

I am also attaching for possible use or background:

—An economic fact sheet on Chile;

—A list of U.S. actions that benefitted Chile during the Allende years;

—A list of Inter-American Bank Disbursements from 1968 to 1973.

DID U.S. CAUSE CHILE’S DOWNFALL?

Question: Did U.S. wage economic warfare against Chile and cause downfall?

Answer: No. Chile’s economic plight was caused by their own misguided economic policies. The facts amply support that as does objective international opinion.

The posture of USG was correct in every sense of the word in its economic relations with Chile, and I might even say, benign in view of the actions they took in expropriating without compensation over $800 million of U.S. private assets and in defaulting on over $1 billion worth of USG direct or guaranteed debt. Here are the facts:

1. No embargoes (unlike Cuba) on trade with Chile were carried out. In fact, U.S. firms continued to supply spare parts and equipment as long as the country’s economic management and credit rating merited. Cash sales continued. No overt or covert pressure or restrictions were put on U.S. firms or their subsidies abroad by USG.

2. Private U.S. copper firms whose assets had been seized in Chile pursued their international legal right by court actions abroad (in France and Germany).

3. The USG continued to disburse normally on the small remaining bilateral aid loans after Mr. Allende came to power.

Characteristic of most Marxist governments, there was no evidence of a desire on their part to ask for bilateral aid from us. Under laws of our country (Hickenlooper Amendment) it would not have been legal for us to make new bilateral loans—even had they expressed an interest.

The 100 percent default on Chilean debts to U.S. since November 1971, representing not having to pay about $250 million, was, of course, equivalent to making a new loan to them of like amount.

4. Multilateral banks continued to disburse during entire period on existing loans to Chile—totaling $83M during the August 1971 to August 1973 period. This represented an increase in average annual disbursements as compared with the three years prior to Allende’s coming to power.

The World Bank made no new loans to Chile—in line with its stated policies of (a) not loaning to countries who are in default on their international debt, (b) who have expropriated and not compensated assets of private firms, or (c) who don’t meet normal economic policy criteria. Chile failed on all three counts. I would refer you to a speech by Mr. McNamara, the President of the World Bank—never known as one who is the implementor of U.S. policies—answering the Chilean charge that no World Bank loans were made to Chile for political reasons. As he explained, the absence of credit was due purely and simply to the disastrous economic policies which the country was following.

This same objective analysis and conclusion was repeated this year, when professional International Monetary Fund Staff, after an in-depth analysis, reported on the deplorable state of the economy and the need for sensible policies. The Fund has never been known as a particularly American-biased institution.

The creditor countries who make up the Paris Group—including countries most sympathetic to the Allende Government, such as the French, Germans, Danes, Spanish and Italians concluded in April of 1972 and again in July of 1973 that there was little they could do to help Chile unless it would adopt sensible policies. I will provide subsequently some facts and figures for your records on the extent and nature of their economic policies—but let me return to some other points first.

(a) Illustrative of our giving the benefit of the doubt to Chile were the USG favorable votes on two Inter-American Bank loans to Chile of over $10 million in January of 1972—more than two months after accession of President Allende and after nationalization of the copper companies had been announced.

(b) New Eximbank loans were withheld for economic reasons, not political. Chile was and is still in default on all their Eximbank debt. For 18 months discussions on this debt have gone on multilaterally in the Paris Club and bilaterally without any payments having been made—again with some considerable restraint on U.S.'s side. This, of course, is why the request for Exim loans for the purchase of Boeing aircraft was turned down in 1971.

(c) Minor military loans of about $12 million were made to Allende's government to keep the minimum level of equipment going and maintained. It could be likened to our continuing disbursement on existing AID, and Eximbank loans for past projects, as well as our decision to approve the two mentioned Inter-American Bank loans. We were trying to keep the signals positive and the door open.

(d) In 1971/3 period the International Monetary Fund made the equivalent of two separate loans (drawings) to Chile totaling $86 million to make up shortfalls in export earnings. The U.S. took no action to oppose or otherwise make these drawings difficult.

Thus the answer to the question: did the U.S. cut off their credit in international agencies is demonstrable NO. Where new credit flows ceased, it was due to the rules and policies of the institutions themselves and to Chile's own economic action.

(e) Private credit from industrial countries did dry up over time. This again was a function of a response to Chilean economic policies and actions rather than some plot. U.S. and European banks postponed payment of 70 percent of Chile's debt payment falling due in 1972—worth about $128 million, which is the same as having given her new money.

What I can say unequivocally—what President Nixon said earlier regarding our relations with Chile—is that we were prepared to have the kind of relations that Chile wanted. A consistently open-handed policy was followed. In fact, some consider that we were soft on Chile, as I am sure you will recall from the testimony given earlier this year before the Church Subcommittee.

The truth of the matter is we did not want to drive the Allende Government into an opposing camp or to an extremist position. We hoped they would be reasonable and pragmatic. It would have made little sense in this era of détente to have done otherwise. The fact remains that for their own domestic political reasons the Government of Chile showed little or no inclination to have good relations with us and, in fact, did use international forums to attack us continuously—to which we responded with restraint.

In sum, I believe no one can assert that this Government—the Administration of President Nixon—did anything directly or indirectly to bring down the Allende regime. Quite to the contrary, I believe we bent over backward to show patience and restraint in word and deed in the face of their economic and public attacks. The Chilean revolution was a revolution of the middle class—of doctors, housewives, airplane pilots, truckers and the like. It was to support these people and to save Chile from economic chaos that the military government intervened. It was done after many months of trying to work as part of the Allende Government, and after failing by that means to bring order. While we can all regret the fate of Dr. Allende and his government, it can in no way be laid at the doorstep of the U.S.

ANSWERS TO ALLEGATIONS CONTAINED IN STERN ARTICLE, WASHINGTON POST, SEPTEMBER 16

Allegation: USG has used various instruments to exert economic pressure against Allende Government, including the Inter-American Development Bank, the World Bank, and private U.S. banking institutions.

Response: This is patently false. The international institutions cited are independent bodies which have their own lending criteria and have sufficient experience in this field to formulate their own judgments.

Private banks and other private U.S. entities are entirely free to make decisions as they perceive in their self-interest. Some private bank lending has continued, although it is true that the amounts have dropped sharply. We assume this is because private banks have been as concerned as others about Chile's lack of creditworthiness.

Allegation: Ex-Im Bank refused the loan application for the purchase of Boeing aircraft in August 1971 and arbitrarily ended further lending.

Response: Regarding the aircraft case, there was no refusal. The Ex-Im was perfectly prepared to continue discussions on the loan request.

Ex-Im did ask for information on Chile's economic policies pertinent to the Bank's responsibilities, since assurance of repayment is fundamental. This normal precaution by Ex-Im was fully justified when, less than three months later, the Allende Government unilaterally declared a moratorium on its existing debt schedule, effective November 12, 1971. Chile has been in default to Ex-Im ever since. In accordance with its normal practice, Ex-Im extended no further loans or insurance and guarantee coverage after Chile defaulted. Disbursements were also suspended then, for the same reason. I emphasize the sequence of dates. It is totally false to state that Ex-Im informed Chile in August 1971 that disbursements would be terminated.

Allegation: U.S. prevented Chile from obtaining credits from international financial institutions.

Response: We have said many times that the international lending institutions are responsible organizations, staffed by experienced, skilled and responsible experts in their field. They know their business and we have every confidence that their decisions are based entirely on such considerations as creditworthiness and economic performance.

I should like to clarify the repeated misstatements on this subject by quoting a statement made by the President of the World Bank on October 18, 1972. I quote: "The primary condition for bank lending—a soundly managed economy with a clear potential for utilizing additional funds efficiently has not been met. The Chilean economy is in severe difficulty . . . in this situation it is clear that internal measures to reestablish reasonable economic stability are required—and no amount of external financial assistance can substitute for them. As matters stand—in the absence of such fundamental economic stability—it is simply impossible for Bank funds to be used productively for the benefit of the Chilean people, and with the reasonable probability of repayment, which the Bank's Articles of Agreement require."

I think it also important to note that during the entire period of the Allende Government no Chilean loan applications were presented to the IBRD Board, therefore, it is absurd to speak of "U.S. veto". Regarding the Inter-American Bank, two Chilean applications for loans came to a vote early in 1971 when economic conditions were much healthier. At that time, the U.S. voted for these loans. It is totally false to say that the U.S. blocked a Chilean loan application for the development of a petro-chemical industry. This project has not come before the Board for a vote and has been under study by the Bank's technicians.

Allegation: While the U.S. refused economic assistance on the grounds that Chile was a bad credit risk, it continued to extend credit to the Chilean military.

Response: The decision of the Allende Government to request the extension of U.S. credits under the FMS program was one which only it could make. Our decision was whether or not to continue extending credits under the FMS program to military institutions which had, over the years, developed and maintained an inventory of items produced in the U.S. The fact is that the Allende Government was current in its FMS repayments, whereas it has been in default since November 1971 on payments due to other U.S. Government creditor agencies.

Allegation: The USG cut off its aid program.

Response: The USG reduced its lending to Chile even before the Allende Government took office in November 1970. Only one loan was signed after October 1968 and that was a $2.5 million Human Resources loan which was signed in April 1970. After President Allende took office, we continued disbursements on existing A.I.D. loans and Chile did not request any new loans.

It could hardly be expected that the U.S. would extend new development loans, even if the GOC had requested them, after Chile stopped servicing existing loans beginning November 1971. Nonetheless, in 1972 when the GOC was more than six months in arrears in repayment of certain A.I.D. loans, the U.S. waived legislative provisions which would have cut off existing U.S. grant assistance programs. It is frequently overlooked that there are ongoing U.S. assistance programs in Chile. These include a P.L. 480 grant program for food shipments which has amounted to some $10 million under the Allende Government, grant assistance for training abroad, and community development projects, and the Peace Corps. We also provided substantial amounts of disaster relief supplies to the Chilean Government in the wake of winter storms and an earthquake in mid-1971.

Economic Facts

1. At time of accession of new government in November 1970, the Chileans had a historic net foreign exchange position of $343 million. The net foreign exchange position now is estimated at negative $450 million.

2. The preceding government laid the groundwork for a stable economic expansion, particularly in the copper sector. A purchase favorable to Chile of 51% of U.S. companies share at book value or less had taken place with 12 year repayment terms. Payment would come from the government’s share of company profits, so in effect it cost them nothing. In addition, an expansion plan was agreed to by the companies to double production.

3. In spite of the doubling of physical capacity by the companies as a result of the above decision, production has never come close to capacity because of mismanagement. The professional cadres in the mines, particularly engineers and supervisors, left the country.

4. Copper which was worth 45¢ to 50¢ per pound has increased to over 80¢ today. Under normal economic management, each cent increase should have meant $20 million in new exports to Chile.

5. The money supply was increased 150% in 1972 and is estimated to rise more than 400% in 1973. A fiscal deficit as a percentage of total revenues increased from 14 percent in 1970 to over 80 percent in 1972. Naturally, inflation was rampant—reaching from around 163% in 1971 and 350 or more in 1973.

6. For a good part of the first year—while Chile was living beyond its means, some felt better off. Once the reserves had run out, investment declined and the inflation had caught up with everyone, it was clear even to workers that they were worse off.

7. Debt refinancing worth $130 million for 1972 payments took place. New Communist country credits of more than $100 million were reportedly made. In addition, Chile has not made any debt repayments for 1973, worth about $262 million.

They drew $86 million from the International Monetary Fund. All of these resources, on top of historically high reserves, were used up.

US ACTIONS BENEFICIAL TO ALLENDE GOVERNMENT

1970

Nov. When withdrawing its installations from Easter Island, USAF donated two sets of basic weather forecasting equipment for use on the island

Disbursements of AID loans in pipeline continued

1971

Jan. 14—US voted in favor of two IDB loans for university development

June—AID provided $50,000 in special relief supplies in wake of severe winter storms

July to Dec.—AID provided $205,000 in special relief supplies in wake of earthquake

—Residual disbursements of Ex-Im loans

1972

Apr. 19—Signed multilateral Paris Club Agreement to reschedule 1972 GOC debt subject to subsequent bilateral agreement

Sept–Oct.—In addition to continuing scientific assistance, NSF put its research vessel Hero at the disposal of GOC-sponsored scientists

Nov. 17—When GOC fell more than 6 months in arrears in repayment of certain AID loans, Secretary of State exercised authority to waive Section 620(q) of Foreign Assistance Act which would have cut off U.S. assistance programs in Chile for training and community development

ONGOING

The US Weather Bureau continues to provide equipment and technical advice to Chilean counterpart

FMS and military training program (at the request of the Allende Government)

PL–480 Title II programs

Special Development Activities (SDA) grant assistance

Grant assistance for technical training overseas

FAA technical assistance to Chilean Aeronautics Board

Peace Corps

Narcotics enforcement assistance