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Backchannel Message From the Ambassador to Chile (Korry) to the Under Secretary of State for Political Affairs (Johnson) and the President's Assistant for National Security Affairs (Kissinger)

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Nota de Archivo: *Summary: Korry reported on the political transition and post-election economic deterioration in Chile. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, 1970. Secret; Sensitive; Eyes Only.*

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1. Zaldivar economic report to nation last night excellently prepared and designed to worsen bad situation. (I sent Santiago 3882 unclassified so that Washington can, if it so decides, give widest distribution to U.S. press and more importantly business and banking community.)

2. Frei has ruled out cabinet resignations for the time being. Pretext is that if military entered government they would probably only do nothing more than assure a constitutional process that would elect Allende.

3. Frei met with Army CINC Schneider alone (see TDCS–DB–315/05028–70), yesterday and did exactly what Minister of Defense Ossa had said to me Sunday he would get Frei to do:

a. Disabuse Schneider of any hope in the congressional formula;

b. Inform Schneider it was military or nothing;

c. Tell Schneider that Marxist government would probably provoke end to U.S. military aid;

d. Frei would give similar briefing to other military.

4. Schneider interpreted Frei to mean support for his constitutionalist doctrine. He has convoked "Junta de Generales" to explain situation today. There will probably be opposing point of view articulated. But I would guess that military will not break with prevalent view that politicians got country into mess and should get U.S. out of it, not vice-versa.

5. Edmundo Perez Zujovich , the Frei intimate in charge of the stop-Allende movement in the PDC junta, informed his key party workers yesterday morning that he was disengaging totally from their work. His pretext was that they had used his name and/or had sought money from the U.S. Embassy and that Frei and he were furious with their indiscretions with foreigners and rightists. (I had asked Perez if he had sent these emissaries to the embassy and had suggested he desist since they were so indiscreet and since we would not have any dealings with them in any event.) This halt to the stop-Allende party movement is widely known, but I am uncertain whether the Perez pretext will not be deformed into the accusation that we were offering money.

6. The first negotiating session between Allende and the PDC leadership took place yesterday afternoon. Meeting publicly described as cordial. PDC promised to release today its presentations but excellent source tells me Allende begged and received commitment that PDC would not include in public release certain PDC requests for constitutional guarantees; Allende explained that PCCh and hard-line Socialists upset with whole matter of guarantees and wish to give only "clarifications." Allende told PDC he would "have to massage" his allies and that he would do everything possible to assure PDC vote for him in Congress.

7. Frei told excellent source yesterday that he had to abandon congressional formula because that "scoundrel Tomic" had not only handed over PDC to Allende but had briefed Allende on every one of the PDC congressmen; Frei said Allende now had more dirt and leverage than he (Frei).

8. Excellent source (but without providing details) said he knew as unassailable fact that Frei last night met with Allende in the home of Gabriel Valdes. Source added personal opinion that Frei was arranging his own exit from a situation he views with increasing pessimism.

9. Allende will probably announce his cabinet tomorrow. One Popular Unity bigwig (Alfonso Divid Lavon, Secretary General of API Party) said there would be three each Communists, Socialists and Radicals and two each API, MAPU and Social Democrat. Said Minister of Interior would be Silva Simma, very respectable Radical and Mason and head of Soviet-Chilean Friendship Society but Under Secretary would be Communist. Added that Allende's first choice for Foreign Minister would be Valdes but did not know if latter would accept. A woman Socialist would be in newly created Ministry of Family.

10. [less than 1 line not declassified] told me last night after leaving late afternoon lengthy cabinet meeting that had edited Zaldivar's report that those such as himself who wished to stop Allende were not getting leadership from Frei. He knew Frei was anti-Allende, but Frei always found a reason for not taking decisive action. Frei did not like any of the alternatives. Frei wished to be unblemished. Frei hoped the Army would move but would give no order or specific encouragement. Frei would not provoke a crisis by himself resigning or leaving the country. Frei would probably seek to make the best of the worst by having PDC negotiate as much as it could from Allende.

11. [less than 1 line not declassified] the one factor that could change the entire situation would be a faster downturn in the economy. If that could be provoked, it would affect military outlook and even PDC's, particularly if such downturn occurred before the PDC junta and reached maximum velocity before October 24th. He offered following specific suggestions:

a. Get U.S. banks to cease renewing credits to Chile or Chilean organizations and no new credits. (He said some U.S. banks still doing business as usual.)

b. Get U.S. companies here to foot-drag to maximum possible. They could without taking provocative action hold off on orders, on deliveries of spare parts, on extending credits and so on. He recognized that British doing the reverse at full speed with French and Italians not far behind. But he said they count for relatively little. (FYI: General Tire Company here, a big employer, is negotiating with Allende.)

c. Pass the word that at least some of the building and loan associations are near bankruptcy [less than 1 line not declassified]. With a little push one of the biggest (Calicanto) and one of the smallest (Sasa Chilena) would shut their doors and start a real run.

d. Do the best possible to get a few businesses to close their doors in the next three weeks.

e. Spread the word that rationing is probable. He quoted public declaration of Communist controlled Confederation of Trade Unions (CUT) stating that workers would eat under Allende because they would get “bonos” (stamps). Run on food stocks would be useful and would increase demand for bank notes with Central Bank already in very short supply of notes. He warned against any emphasis on inflation since that would provoke run on durable goods and sop up public liquidity when opposite goal is desired.

f. He said there would be considerable unemployment in Santiago by mid-October since [less than 1 line not declassified] private construction slump only partially sopped by public works (perhaps ten of 55,000 expected unemployed in private sector).

g. He noted that Alessandri’s own paper company had yesterday submitted request for government approval of $9,000,000 (M) expansion [1 line not declassified]. He noted First National City Bank intends to grant $2,500,000 of this as loan. (I told him that Alessandri and his supporters increasingly furious with Frei and regard the Rube Goldberg contraption as a Frei doublecross that has hurt Alessandri’s prestige without having any real intent behind it. I added that Socialists, with whom Alessandri had always had good relations were also massaging the old man as well as seeking to entice rightists with promises of managerial jobs.)

h. Try to have business downturn affect provinces since for the time being only Santiago area really feeling pinch.