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Nota de Archivo: *Summary: This estimate included a detailed analysis of Allende's administration and highlighted the popularity of his initial economic redistribution programs and the overall effects of nationalization. Following a thorough discussion of Allende's positions, the estimate concluded that Allende would continue his socialistic economic policies, that his leadership had been astute, and that the military appeared to be reluctant to enter into politics to depose him. Source: Central Intelligence Agency, History Staff Files. Deputy Director for Intelligence, Registry of NIEs and SNIEs. Secret; Controlled Dissem. Prepared in the CIA and the intelligence organizations of the Departments of State and Defense, and in the NSA. Concurred in by the Deputy Director of Central Intelligence, the Director of Intelligence and Research, Department of State, the Director of the Defense Intelligence Agency,*

[Omitted here are a table of contents and a map of Chile.]

THE OUTLOOK FOR CHILE UNDER ALLENDE

Note

In the first nine months of his government of Popular Unity, President Salvador Allende has moved skillfully and confidently toward his declared goal of building a "revolutionary, nationalistic, and socialist society on Marxist principles." His problems are mounting; but he is still firmly in control, most of his policies enjoy wide popular support, and his ability to manipulate the levers of power is growing. His strategy and timetable are impossible to predict in detail. The purpose of this estimate is to make a general assessment of Allende's course and its likely effect on Chile's internal institutions and external relations over the next few years. In it we examine the strengths and weaknesses of Allende's governing coalition and the opposition parties, the role of the military, the state of the economy, and the new look in Chile's foreign relations. In a final section we advance some general propositions about Allende's future problems, factors affecting the survival of a competitive, multiparty political system, and the outlook for Chile's relations with the US and other nations.

Summary and Conclusions

A. Since it assumed power last November, Salvador Allende's government has quickened the pace of ex-President Frei's "revolution in liberty", and set in motion a major transformation of the Chilean economy and society, posing new challenges to the traditional political order. The ruling Popular Unity (UP) coalition is dominated by Allende's loosely organized, militantly radical Socialist Party, and the better disciplined, more cautious, pro-Moscow Communist Party. Despite disagreements over tactics and timing, the Socialists and Communists have worked together for years, and there is little short-term prospect of a split serious enough to drive one or the other out of the coalition.

B. The most important opposition party is the Christian Democrats (PDC). It is still the largest single party, with a strong position in Congress, but is factionalized and in financial trouble. Its relations with the other significant opposition party,

the conservative National Party, normally are bad. Their recent joint efforts in a congressional by-election produced a victory, and further ad hoc collaboration is likely, but mutual hostility is so great that sustained collaboration against the UP is unlikely.

C. Thus far the regime has directed its economic policies toward popular political ends, concentrating on the takeover of major industries and private banks, acceleration of agrarian reform, and the redistribution of income in favor of the underprivileged. Now inflationary pressures are rising as accumulated stocks are exhausted and production has not kept pace with demand. Imports are rising rapidly and Chile's foreign exchange reserves are dwindling. Potentially, copper export earnings could produce the required foreign exchange, but likely production increases at expected prices would not permit Allende to continue to meet increased demands and appetites of the populace. If accelerated inflation, black markets, and serious shortages are to be avoided, by early 1972 Allende will have to take some politically unpopular actions and seek more outside aid.

D. Allende's dilemma is that, having done all the easy things, he has still not gained sufficient political strength to carry him surely through the difficult times ahead. His popularity seems almost certain to decline as economic problems set in. Many in the coalition would like to avoid the 1973 congressional election, and pave the way to their own extension of power, by holding a plebiscite to replace Congress with a unicameral "People's Assembly", which they would expect to control. But we do not think Allende can count on the electorate to approve such a change at this point and is more likely for the time being to try to exert maximum pressure within the present system to damage the political opposition, or to woo away some of its factions.

E. He might at some critical point turn to more drastic measures, including some unconstitutional moves, but would do so only if he were sure that he had neutralized or had the support of the armed forces. The Chilean military are not now disposed to political intervention. Allende has been assiduously cultivating them to gain their support, and he seems unlikely to provoke them with blatant acts. But domestic events beyond his control, e.g., a deterioration of the economy leading to severe social unrest, could trigger a military attempt to intervene with, or even to oust Allende.

F. Thus the consolidation of the Marxist political leadership in Chile is not inevitable, and Allende has a long, hard way to go to achieve this. Though he would almost certainly prefer to adhere to constitutional means, he is likely to be impelled to use, and to rationalize, political techniques of increasingly dubious legality; eventually he is likely to feel it necessary to employ his considerable Presidential powers to change the political system so that the UP coalition can perpetuate itself in control. The factors operating for and against this outcome are nearly evenly balanced; the actual outcome could be dictated by quite fortuitous circumstances at some key moment.

G. In foreign relations Allende is charting an independent nationalist course for Chile. He is trying to keep open the possibility of credits from European, Japanese and other non-Communist countries. Relations with Communist countries have been expanded and will continue to grow closer. The Soviet Union and other East European states are extending credits and they would probably help Allende in an economic crisis with selective aid measures. Moscow will continue to cultivate channels of influence into Allende's government through the Chilean Communist Party, but will be unsure of its ability to make a decisive impact on key issues, given the strong position of the Socialists and Allende's independent posture.

H. At the moment US-Chilean relations are dominated by the problems of nationalization. There is likely to be considerable contention before the issues are settled and neither the US companies nor the radical Chileans will be satisfied by the terms. Allende himself seems to wish to avoid a confrontation, but as economic difficulties set in there will be a continued tendency to use the US as a scapegoat. The US reaction will be important, but at least some worsening in the present cool but correct relationship seems likely.

Discussion

I. Introduction

1. Since its assumption of power last November, the Allende government has quickened the pace of ex-President Frei's "revolution in liberty" begun in 1964 and set in motion a major transformation of the economy and society, posing new challenges to the established political order. The commitment to fundamental social and economic change has won at least the tacit acceptance of most Chileans and the active support of a strong plurality. The desire for such change is a strong factor in the Chilean character, the role of government as a major force in the society is well established, and the importance of private enterprise as an economic norm has eroded greatly over the years. In this sense, the emergence of Allende's "people's revolution" was more a logical fruition of Chile's past than a sudden historical aberration.

II. Allende's Political Base

2. Allende is an astute and experienced politician with a thorough understanding of the Chilean political system gained through years in the Senate and as a perennial presidential candidate. He is a known quantity to the Chilean electorate, regarded as a reformer who has worked within the system all of his political career. Allende is 63 years old, and apparently in generally good health despite earlier cardiac problems. He works hard at his job, has a flair for public relations, and is adept at cultivating new supporters and disarming potential opponents. Throughout his first nine months in office, he has shown remarkable tactical skill in sidestepping or suspending problems for which he has not yet devised solutions, in selecting the right allies for immediate purposes, and in keeping his opponents divided. He tends to speak in political cliches and broad theoretical generalities, and has frequently reversed apparent commitments through loopholes or bland disregard of earlier statements. His obvious zest for luxurious living is not regarded in the Chilean context as incompatible with a dedication to Marxist Socialism. A taste for expensive sports cars, liquor, clothes and women, have indeed tended to add lustre to his image rather than damage him politically.

3. At this point Allende's mandate seems secure, and the disparate elements within his governing Popular Unity (UP) coalition appear committed to his overall leadership. The Socialists and Communists are the major coalition partners. Members of the pro-Soviet Chilean Communist Party hold important economic ministerial posts and exercise considerable influence in the government. Allende's own more nationalistic and in many respects more radical Socialist Party occupies most of the other major cabinet jobs and has particular responsibility for security matters and foreign affairs. Lesser cabinet posts are held by the Radicals, a declining party of non-Marxist middle class orientation, and by three other minor coalition elements. By and large the cabinet is not a particularly distinguished group and is generally overshadowed by Allende and by more powerful Socialist and Communist Party leaders.

4. The Communists were the main architects of the coalition. Their consistent political line, tight discipline, and considerable organizational talent were key ingredients in Allende's election and continue to be valuable assets to him. Outside their own party organizations the Communists' main channels of political influence are through a network of neighborhood Committees of Popular Unity and the Chilean Trade Union Confederation (CUT). The member unions of CUT have various political affiliations, but the Communists are strong in the CUT central offices. Allende has given the Communist Party primary responsibility for labor and has made CUT the government's main instrument in the labor field. The Communists have strong competition from Christian Democratic and Socialist unions in certain key sectors; but their current efforts to increase Communist membership and influence, abetted by Soviet financial and technical support, are likely over time to increase their control of organized labor.

5. The Socialist members of the coalition are sometimes at a disadvantage in dealing with the Communists because of the diversity and lack of discipline which have always been characteristics of the Chilean Socialist Party. Many of Allende's Socialist advisors are striving for more militant approaches to national problems and are impatient with the gradualist

methods of the Communists and of Allende. There are indications, however, that the party leadership is making new efforts to enforce discipline within the ranks, to establish a party line which will appeal to the bulk of the party, and to placate both the old guard members and the extremists on the fringe, the Movement of the Revolutionary Left MIR. The MIR is gradually becoming estranged from the Socialist Party and is critical of Allende's progress toward social goals. More extremist than the MIR is the small People's Vanguard (VOP), which has no ties with any party and is more interested in violence than in revolutionary ideology.

6. Despite internal discord, the Socialists capitalized on Allende's image to come through the April 1971 municipal elections in much better shape than the well organized Communists. The Socialist Party won 22.4 percent of the vote, as compared with 12.2 percent in the 1969 congressional elections. The Communists advanced only from 15.9 to 17 percent, even though their party membership has increased significantly. The Radicals continued their decade-long decline, dropping from 13 percent to 8 percent. The net result was to increase the UP vote by 5.5 percent over 1969 and give the coalition 49.7 percent of the total vote.

7. The Communists and Socialists both endorse the idea of overhauling the Congressional system to neutralize obstructions by the opposition to the government's policies. The coalition's plans call for a government legislative proposal to convert the present 50-member Senate and 150-member Chamber of Deputies into a single body, to be based on both economic function and political affiliation. Details of the plan are not yet clear, but presumably it would provide for a legislature more easily controlled by the President in which the opposition parties would be less effective.

8. There are strains in the coalition over timing and tactics regarding constitutional reform. The Socialists want constitutional change first, to give the government greater power to force the pace of revolution. The Communists, on the other hand, would prefer to postpone constitutional reform until a good start has been made in tackling the important economic and social tasks and the base for such a fundamental change in the political system has been carefully laid. The UP's Political Commission appears to have come closer to the Socialists' view in calling for government initiatives toward constitutional reform "within the year". However, the resignation in early August from the Radical Party of nearly half of its Senators and Deputies, and their public opposition to a plebiscite will be a strong deterrent to such government initiatives. Allende now seems to look with disfavor on the Socialist insistence on an early plebiscite.

9. Despite their differences the Socialists and the Communists have worked together for many years, and we see little short-term prospect of a split serious enough to drive one or the other out of the coalition. The advantages of sharing power are great enough to overcome temporary disappointments. Moreover, Allende seems adept at presiding over the kind of contention and jostling for position which characterize this coalition. He plays upon the mutual suspicions and inter-party disputes over tactics for his own benefit. For example, last fall he granted amnesty to those members of the MIR who were imprisoned in the Frei era and enlisted the militant enthusiasm of that group in order to sustain, or give the impression of sustaining, revolutionary momentum. More recently, he has joined with the Communists and other "moderates" in attempts to curb the violent excesses of the MIR, e.g., illegal seizures of land and buildings in anticipation of nationalization. Nevertheless, over the longer run difficult decisions on timing and tactics when the coalition attempts to effect consolidation of political control will increase the potential for serious strains.

III. The Opposition

10. The most important opposition force, the Christian Democratic Party (PDC), has been poorly organized, though its efforts have slowed some aspects of Allende's program. Its most prominent leader, former President Frei, retains a wide following in the country, but he has remained largely in the background and his occasional pronouncements against the governing coalition have yet to be translated into a program capable of uniting the party or offering a popular political alternative. The party remains divided over future strategy. A small but important minority faction, the Christian Left, led

by the volatile ideologue Radomiro Tomic, actively supports most of Allende's social and economic goals and has been seriously considering defection to the UP coalition. A larger moderate contingent, led by the capable and energetic Secretary-General Narciso Irureta, appears to be increasingly emphasizing the need for party unity in order to win allies, to oppose Allende in the Congress, and to work for a PDC victory in the 1973 Congressional elections.

11. The PDC turned in a respectable performance in the April elections, dropping only from 29.8 percent in 1969 to 25.6 percent, and thereby remaining the largest single party. This strengthened Frei's hand in party affairs and demonstrated the continuing appeal of the party to the Chilean electorate. But Frei characteristically has not displayed dynamic and forceful leadership, and has left the task of trying to maintain the party's new momentum to Irureta.

12. Meanwhile, many members of the radical Christian Left faction believe that if the party is to remain true to its "revolutionary" principles it should help Allende succeed from within the government coalition. But for the moment at least Tomic and others appear persuaded that they would lose more than they would gain from defection to Allende. However, one faction of the Christian Left has split from the PDC in protest against the efforts of the party leadership to cooperate with conservative parties. Most of the party youth leaders and at least 8 Deputies resigned. The dissidents will probably join earlier defectors from the PDC in a program of selective cooperation with the Allende government.

13. The majority of the PDC seems generally agreed on a policy of "selective opposition" to the government. Under this strategy the party's leaders will support some government measures, oppose others, and seek to modify still others. It will thus hope to maintain its populist credentials and continue to portray itself as a party committed to profound change.

14. There are, however, some formidable obstacles in the way. The PDC has lost the levers of patronage, and its ability to maintain organizational activity and to win new support is weakening. Also, many of its sources of financial backing are drying up in the wake of the government's moves to nationalize the banking system and as a result of the private sector's well-founded fear of government retaliation if it supports the opposition. Moreover, Tomic and some other PDC leaders still owe a large debt to the state bank from previous years' borrowings for business ventures and election campaigns, and the party may be vulnerable to government pressures for repayment whenever Allende chooses to turn the screws. Finally, efforts to further its cause and to gain support for alternatives to Allende's programs are severely hampered by the growing government domination of the public media. Almost all of the country's television and about half of the radio stations, the main channels for mass communication, are controlled by the government or the UP coalition; and though one of the major newspapers has managed to maintain its independence, much of the important printed media either takes its direction from the government or is affiliated with the coalition parties.

15. Aside from the PDC the only political opposition of any consequence is the National Party (PN), the political vehicle of the landowners and well-to-do. It retained 18 percent of the electorate in the April 1971 elections, down from 20 percent in 1969. But party leadership is inflexible and its program lacks popular appeal. Some elements of the PN are willing to work out better political arrangements with the Christian Democrats in order to present Allende with a more united opposition. In the congressional by-election of July 1971 the PN and the PDC supported in separate campaigns a single candidate to oppose the UP standard bearer. The PN–PDC candidate succeeded (winning 50.16 percent of the vote) despite the strong reluctance of elements of both parties to cooperate. This victory may ease the way toward further collaborative efforts on an ad hoc basis in circumstances where major interests of the parties are at stake. But the hostility between the parties and their concern for maintaining their separate identities make sustained collaboration unlikely.

16. There will be opportunities for the opposition parties to block, delay, or modify many of the government's initiatives. Much will depend upon the continued spirit of resistance to the government within the PDC, the nature of the squabbling between the Communists and the Socialists, and the shifting alignment of the pro- and anti-Allende forces in the Congress. So far Allende appears to consider that he has the edge over his opponents and therefore has to woo rather than bludgeon

the opposition.

IV. The Military

17. Chile's Armed Forces are among the least inclined of any in Latin America to intervene in politics. After nine months of the Allende administration there are no indications that the military is about to depart from this tradition. While the officer corps has traditionally been anti-Communist, it has long accepted the legality of the Chilean Communist Party. Few ties exist between military leaders and political figures of the opposition parties. The military continue to see themselves as protectors of national security and defenders of constitutional government.

18. Chile's three armed services, particularly the army, have long been weak in organization, cohesion, and leadership. There is an absence of effective communication and cooperation within the services and with the Carabineros (national police). The Carabineros, slightly larger in numbers than the army, are one of the best trained and most professional police forces in Latin America, though after the accession of Allende some of the leaders were replaced by less impressive personnel. They are dispersed throughout Chile but their support or acquiescence would be necessary for a successful military move against the government. They seem no more likely than the military to act against the regime.

19. Allende, for his part, has taken great care not only to observe constitutional forms, but to proclaim frequently his intention to act only within the law in the future. Unlike Frei, he gives military matters his personal attention and has demonstrated to the military that he is interested in, and sympathetic to, their problems, e.g., pay, equipment, and training. In addition, Allende's recent crackdown on the MIR and his declaration that only the police and the military have the right to be armed are reassuring to the armed forces. Military promotions have been based on normal and expected selections, and are unlikely to arouse any resentment. The military is also benefiting from recent wage increases, lower inflation, and other new arrangements (e.g., free attendance at the Catholic University). Consequently, most military men, although they are not ardent Allende supporters, are willing to give the President a chance to show what his socialist revolution can do for the country.

20. Yet, there are circumstances under which the military might unite and impose restrictions upon Allende. Examples would include: a blatantly unconstitutional action by Allende, an effort to suppress the opposition by force, or especially a move which the military considered a threat against the armed forces as an institution. All of these contingencies seem unlikely because the President is apparently aware of how far he can go without antagonizing important military figures. There might be developments, however, which he could not control and would lead the military to intervene with, or even attempt to oust Allende: e.g., a deterioration of the Chilean economy, which brought severe social unrest.

V. The Economic Situation

21. During his first nine months in office Allende has directed his economic policies toward his primary objective of building political support for his "people's revolution". He has concentrated on fulfilling his electoral promises by the redistribution of income in favor of the underprivileged and by completing the nationalization of the copper industry. To appeal to his more revolutionary followers he has also accelerated agrarian reform and the takeover of major industry and private banks. Allende has been able to capitalize on the momentum and wide popular support for Frei's "Chileanization" measures in the late 1960s, under which the government had already acquired majority ownership in the major copper companies. Allende decided to seek a constitutional amendment which would allow full nationalization of copper without judicial review by Chile's conservative court system. After several months of legislative maneuver and opposition attempts to place restrictions on its implementation, the amendment was passed unanimously by the Congress on 12 July. It provides for compensation to the companies within 30 years at no less than 3 percent interest, based on "book value" as of 31 December 1970, less possible deduction at the President's discretion for past "excess profits" and other factors.

22. Negotiations with one of the US copper companies, Cerro, have been underway for some time and have produced agreement on terms, but implementation has been stalled by the Socialists in the governing coalition who hope to tighten its provisions in line with the nationalization bill. The government considers that it has a strong claim against the major companies, Anaconda and Kennecott, based on its calculations of "excessive profit-taking" in previous years. Thus there is virtually no chance that the government's compensation offers will come close to satisfying the companies; each case is likely to be carefully calculated to exact maximum benefits for Chile. Allende is likely to stop short of outright rejection of compensation and try to avoid terms which would impair Chile's international standing, but will be under strong pressure from his Socialist Party colleagues to pay no compensation at all.

23. Meanwhile the government has proceeded step by step toward state control of other major industries. It has assumed control of nearly all of the nation's commercial banks through purchases or intervention. Negotiations apparently have been concluded with at least three of the five foreign-owned banks (including US-owned Bank of America) for their "voluntary sale" to the government. In mid-April the government bought out private interests in iron and steel and merged them into a large government-controlled complex. In late May it threatened to take over 200 major industrial enterprises, comprising nearly all of Chilean industry, if they did not cooperate with the government's plans. As a start, it took over the country's 14 largest textile factories through government-inspired "requisitions" by their workers, an action which the impartial Chilean controller-general declares improper. Major US firms have been the targets of other kinds of government pressures. While negotiations are continuing, ITT is facing ultimate government takeover of its large Chilean investments. Ford Motor Company has already closed down its operation in the country, following heavy losses in recent years and unsuccessful negotiations with the government over its 1971 production. General Motors is hanging on but is likely to experience increasing government interference.

24. The government is pushing forward rapidly in land expropriation. Allende has until recently permitted militant elements to foment seizure of property by landless peasants. He is now discouraging this tactic, however, fearing that violent clashes in the countryside will endanger agricultural production. But the government has not slackened the pace; it claims to have reached its first year's goal of expropriating 1,000 farms by June 1971. It thus appears determined to forge ahead as quickly as possible toward its objective of breaking up all large landholdings and, ultimately, converting them into a system of agricultural cooperatives and perhaps state farms.

25. The government's program for redistributing income has been a prime source both of its continuing popularity and of its growing vulnerability to economic strains. Chilean workers have received salary increases ranging from 35 to 45 percent, while government controls on prices have held inflation to 11 percent for the first six months of this year, compared with about 24 percent during a similar period in Frei's last year in office. Since Chileans are conditioned by long experience with inflation to spend their money rapidly, the rise in real income has set off a consumer buying spree. Other "populist" measures—e.g., rent freezes, cheaper vacation costs, reductions in the cost of clothing, and attempts to provide free milk to all children—have greatly increased bread-and-butter benefits to lower class families. The consumer boom and the government's large spending program have also sharply reduced the number of unemployed, now estimated at 5 percent of the labor force in Santiago Province.

26. The economic policies of the Allende administration, designed as much to achieve political as economic objectives, have been ambitious and costly, and were bound to create economic problems for the future—as the administration itself almost certainly recognized. Some of these problems have now begun to emerge, and they give promise of worsening. Inflationary pressures are mounting as incomes have expanded much more rapidly than stocks of consumer goods. The rapid pace of nationalization and expanded worker benefits have, moreover, impaired production, virtually eliminated incentives for private investment, and contributed to poor worker discipline and high absentee rates. Greatly increased government spending—the 1971 budget projects a 30 percent increase in expenditures in real terms over the previous year

(assuming continuation of inflation at its present rate)—has given a short-term boost to the economy; but production problems, rising costs in the copper industry, and severely depressed profit margins everywhere have inhibited a growth of government revenues. The result is likely to be a 1971 deficit equal to 25–30 percent of expenditures, or 7–8 percent of gross national product (GNP).

27. The massive increase in consumer demand is forcing the government to rely increasingly on imports. Disruptions due to accelerated land distribution have begun to threaten agricultural production; plantings of winter wheat are reportedly down substantially this year. Increased imports of foodstuffs to meet the nation's growing appetite have more than doubled during January–April 1971 in comparison with the corresponding 1970 period. Industrial raw material and fuel were only about 8 percent higher but this is because considerable stocks of finished goods, components and raw materials had accumulated during the postelection slump in sales. At the same time, export earnings are down considerably from 1970 as a consequence of lower copper prices and production problems in the mines. Copper expansion programs of recent years have added a potential 40 percent to production capacity and export volume. But thus far at least actual production is up only about 8 percent over 1970, and the increase in export volume has not offset lower copper prices.

28. At the same time, Allende's nationalization moves and uncertainty in international money markets about his socialistic goals are drying up sources of foreign credit. The Allende government has had little success thus far in its efforts to replace rapidly disappearing short- and medium-term credits from US banks with funds from other non-Communist countries. Heavy debt service payments, unfavorable trade balances, and reduced foreign bank credit have combined to reduce Chile's net foreign exchange reserves from $345 million to less than $200 million since Allende took office. If he continues on his present course, Chile's foreign reserves will drop to around $100 million by the end of 1971.

29. Despite the dislocations and growing financial squeeze, the overall statistical performance of the economy this year is likely to be good. Increased copper production and continuing strong consumer demand will probably push real economic growth above the 4 percent average of the past four years. Despite large wage increases and a greatly expanded money supply, government controls can be expected to keep the rise in the cost of living below the 30–40 percent level of recent years. It thus appears that Allende will have enough leeway and resources to enable him to postpone major economic problems until early 1972.

30. Allende's primary economic problem in 1972 will be a shortage of resources in relation to the demands and appetites he has stimulated. Thus far Allende has been able to satisfy this demand mainly by spending resources accumulated by the Frei administration. Domestic production has been augmented by drawing down both foreign reserves and the large stock of finished goods and imports on hand. By 1972, however, both of these will probably be largely depleted, and total supplies will be smaller, perhaps considerably smaller. Although there may be some additional manufacturing output despite capacity bottlenecks and managerial deficiencies, this rise will probably be offset by a decline in agricultural production. Chile already imports considerable food and, as in most under-developed countries, an expansion of manufacturing output requires an increase in imports. Chile relies heavily on imports not only for finished consumer goods and capital goods, but also for raw materials and fuel.

31. The major variable in all this is the prospect for copper export earnings. Chilean copper production is likely to increase next year, but not dramatically. And barring an extended strike in the US copper industry this year, world copper prices are likely to remain at about their current levels, or perhaps decline, over the next six months to a year. We cannot give a precise estimate of the net effect of these factors on the Chilean economy. Under the most favorable conditions, Chile could balance its foreign transactions, but projecting likely production increases and present copper prices, Chile would not earn enough from copper and its other exports to maintain imports at current rates.

32. Although no drastic reduction in national output or consumption is in prospect, Allende clearly will not be able for much longer to continue to raise living conditions for the mass of the people. Indeed, the balance of payments situation may deteriorate sufficiently to require a squeeze on consumption. Moreover, to the extent that production bottlenecks, import constraints, or new policy emphasis on "building socialism" result in increased investment, consumer welfare will be further circumscribed. If accelerated inflation, black markets, and serious shortages are to be avoided, the government will need to take strong actions such as severely restricting wage increases, raising taxes, and curbing credit expansion. These matters will require difficult decisions, and no matter what steps are taken, they are bound to be politically unpopular.

33. In an attempt to avoid restricting consumption or to minimize the effect, Allende will look for more outside aid. Most Western sources would be wary of extending large-scale assistance, but it is possible that some new credits or joint ventures would be forthcoming from European, Japanese, or international financial or industrial sources. Probably the Communist countries would be more promising sources. Although the Soviets have been careful to avoid heavy commitments to Chile, and have counseled caution in economic matters, they would probably help Allende with selective aid measures.

VI. Foreign Relations

34. Allende has developed a cautious and flexible posture in foreign affairs. Connections with the Communist world have become closer and more numerous, for economic as well as ideological reasons. The government's economic policies and measures against foreign business interests in the country have strained relations with the US and raised doubts in other non-Communist countries over Allende's reliability as a credit risk and trading partner. But Allende has been careful not to subordinate Chilean interests to any Communist or socialist power or to break existing ties with those in the non-Communist world on whom he continues to rely for aid. The new pattern reflects Allende's desire to chart an independent nationalist course for Chile both within the hemisphere and on the world stage.

35. Allende has now established relations with most Communist countries in the world, including Cuba, Mongolia, East Germany, and Mainland China. But Moscow's obvious approval of the Allende government and its goals has been restrained and guarded. The Soviets are aware that excessive enthusiasm would increase fears of Soviet intentions elsewhere in the hemisphere and might make things more difficult for the Allende government, possibly even leading to its isolation in the hemisphere à la Cuba. Moscow will continue to cultivate channels of influence into Allende's government through the Chilean Communist Party. But it will probably be unsure of its ability to make a decisive impact on key issues, given the continuing strong position of the Communists' rivals, the Socialists, in the governing coalition and Allende's evident desire for an independent posture.

36. For his part Allende will hope to use his new contacts with the Communist world to take up the slack in the Chilean economy left by reduced aid and investments from non-Communist sources. Recent visits by high-level Chilean emissaries to the Soviet Union and Eastern Europe have in fact advanced new possibilities for increased aid and trade. The Soviet Union has increased credits for Chilean purchases of machinery and equipment from $55 million (extended to the Frei government in 1967 and never used), to $95 million. Other credits for equipment purchases have been granted by Bulgaria and Hungary, and it seems likely that other East European countries will follow suit.

37. The Allende government has followed a similar pattern of ideological distance and closer economic ties with Cuba. Despite their long-standing personal relationship, Allende has refrained from excessive overtures to Fidel Castro. There has been some increase in trade between the two countries, and official and unofficial contacts have increased, including a new direct airline connection. The number of Cubans serving in their embassy in Chile has risen to 46, and other Cubans serve as advisors in various fields. Still, Allende appears concerned that too close relations with Fidel Castro at this stage

may cause him difficulties with his still suspicious Latin American neighbors, and upset the delicate political balance between pro-Moscow Communists and pro-Fidel Castro Socialists in his governing coalition. He therefore seems likely to continue his present policy of careful cordiality toward Fidel Castro.

38. Allende is hoping to calm the fears of some of his neighbors that Chile's revolution might spill over Chile's borders and undermine their governments. Thus far, the reactions have been mixed. Relations with Brazil's military government remain strained, mainly because of its suspicions of Allende's receptivity to acceptance of Brazilian political exiles. The Lanusse government in Argentina responded favorably to Allende's overtures to maintain cordial relations but remains suspicious that the Soviets may be gaining a foothold in Chile or that terrorists may use Chile as a base for operations against Argentina. In recent weeks Chile and Argentina have agreed on a formula for arbitration of their long-standing dispute over the Beagle Channel, and Lanusse and Allende met in Argentina to "solemnize" the occasion. Allende initiated discussions with Bolivia looking toward a resumption of diplomatic relations, but the longstanding issue of Bolivia's claim to a port on the Pacific has continued to block agreement.

39. Allende is apparently planning to follow up his Argentina visit with trips to Peru, Ecuador, and Colombia, in the hope of improving relations with those countries. In several Latin American countries Allende's admirers are hoping to emulate his experiment with similar leftist political fronts of their own. The Frente Amplio, an Uruguayan popular front, is preparing to campaign in the national elections in November. Allende is likely to encourage such efforts when he feels he can do so without incurring the wrath of other governments. Relations with Uruguay remain touchy, however, primarily because of the Pacheco government's concern that Allende's granting of safe haven to Uruguay's Tupamaro terrorists may give the group an outside base for operating against Uruguay. But Allende will probably continue to deny any significant assistance to the Tupamaros or other terrorist groups in and outside Chile. On balance, his dedication to developing a socialist state in Chile will probably outweigh pressures he might feel to provide active or open support to revolutionary activists in other Latin American countries.

40. In regional organizations the Allende government has taken more independent positions vis-à-vis the US and, in some cases, adopted policies at odds with US interests. Within the Andean Pact—a regional group which includes Colombia, Ecuador, Bolivia, and Peru—Chile has, along with Peru, been a strong advocate of stiff restrictions on new foreign investments in the area. At the hemispheric level, however, Allende has been careful not to strain traditional ties. He has continued to participate actively in regional economic and political arrangements. Within the councils of the Organization of American States (OAS) the Allende government favors bringing Cuba back into the Latin American community. But it has not lobbied actively on Cuba's behalf there, partly in deference to Fidel Castro's own clear rejection of OAS membership and partly in order to avoid a confrontation with the US at this stage. Elsewhere, e.g., in the various bodies of the UN and in the Special Committee for Latin American Coordination (CECLA) Chile is more actively advancing the Cuban cause.

VII. Outlook

41. The problems faced by the Allende government will become increasingly critical over the next two years or so. The various challenges which it will have to face and its responses to those challenges in this period will probably shape the pattern of Allende's policies through the end of his term in 1976. They will also go far toward determining whether his UP coalition can retain its unity throughout his term and what its prospects, legal or illegal, for longer perpetuation of power may be.

42. At this point Allende enjoys considerable popularity. His statist, nationalist, and populist measures have fulfilled most of his campaign promises for quick reforms in the areas where there was little political opposition. But, his dilemma is that, having done all the easy things, he has still not gained sufficient political strength to carry him surely through the difficult

times which clearly lie ahead. The results of the April municipal elections and the July by-election in Valparaíso indicate that he cannot count on the support of a majority of the Chilean electorate.

43. Allende is aware of the likelihood of economic stringencies in Chile within the next year or so. He is worried about inflation, the disruption of agricultural production brought on by the land expropriations, and the prospect of serious shortages. He will probably be obliged to turn soon to greater controls over foreign exchange, foreign trade, and the internal distribution of goods and services. Allende's Economics Minister, a doctrinaire Marxist, talks in terms of a shift toward accumulation, by which he seems to imply an enforced type of consumer austerity in order to build state capital for investment in heavy industry and agriculture. Allende probably has no specific blueprint in mind and is more likely to make pragmatic responses to his economic problems as they arise. As stringent actions become necessary, he will attempt to shift the main burden on to the propertied and well-to-do classes and on whatever foreign interests remain. No matter how artfully Allende deals with the economic problem, he will probably not be able to maintain for very long an increased flow of those consumer goods which the underprivileged classes are now beginning to enjoy. His popularity therefore seems almost certain to decline as the economic problems set in.

44. Allende is also exposed to pressures from within the coalition both to speed the pace of social reform while there is still revolutionary momentum, and to shore up the regime politically while the euphoria of copper nationalizations and income redistribution lasts. Many of his associates stress the irreversibility of the Marxist socialist state as a primary aim. By this, they presumably mean the attainment of a monopoly of power by the ruling coalition and the extension of rule beyond the scheduled 1976 presidential elections. A more imminent obstacle is the 1973 congressional election. Many in the coalition would like to avoid the 1973 hurdle and pave the way to their own extension of power by replacing Congress as soon as possible with a unicameral "People's Assembly" in which functional economic groups—controllable by the UP—would be strongly represented. If Allende chooses, he could submit such a bill to Congress, wait for the lengthy debate, revision, stalling and rejection which the opposition can undoubtedly accomplish, and then submit the plan to the people in a plebiscite.

45. But Allende clearly sees a plebiscite as a risky matter. The April 1971 municipal elections and the July by-election indicate that he now has the support of only about half of the electorate. A rejected plebiscite would be a body blow to the Allende government. On the other hand, there are risks if he waits too long. If economic difficulties set in within a year, as seems likely, many of those who now support his populist program will be estranged, and the chances of carrying off a plebiscite would be reduced. Allende had been leaning toward a plebiscite before the July vote in Valparaíso. While he may submit a bill to Congress in the next few months we think he will delay any final decision on a plebiscite till he can judge his chances more accurately at the last minute.

46. There are other tactics, perhaps slower but less risky than the plebiscite route, for tilting the political balance in Chile toward a continuation of a Marxist coalition government. Allende has already taken steps to undermine the financial basis of the opposition parties. His increasing control of the banks and the economy give him further leverage to use for political purposes. And he can at any time step up a muckraking campaign against Christian Democratic leaders or try to blackmail them. Some of them benefited from shady deals and corrupt practices during the Frei era, and are vulnerable to public exposure. This would not eliminate the PDC, but there would be considerable confusion and loss of confidence among the party faithful. In addition, Allende could do more damage to the opposition by further curbing their access to the media. We would expect more activity along these lines as the 1973 congressional election draws near or if he decides to go for a plebiscite. Allende will certainly also make strong efforts to attract left-wing Christian Democrats into his coalition and will probably have some successes.

47. If, however, at some critical point such as the campaign for the 1973 congressional election or in the face of serious social unrest, Allende judges that his own political posture or that of his coalition is sagging badly and the tactics described

above are insufficient, he might turn to more drastic measures. These might include a much tighter grip over the media, intimidation or selective violence against political foes, and perhaps some unconstitutional moves to undercut the political opposition. But in taking such drastic actions Allende would run a high risk of alienating a large sector of the Chilean people who may agree with his economic and social reforms, but would resist any obvious effort to overthrow Chile's democratic institutions. Allende could, therefore, undertake such moves only if he were reasonably sure that the armed forces, including the Carabineros, were supporting him or were effectively neutralized. Resistance to Allende by even a few units of the army could upset the whole program by providing a focus of civilian and armed opposition to the UP, and this could lead to massive confusion with uncertain results.

48. Thus the consolidation of Marxist political leadership in Chile is not inevitable and Allende has a long way to go to achieve this. Even if he makes maximum use of his political talents and is able by skill and luck to thread his way through the economic and political obstacle course ahead of him, it will not be easy to reach the point where he can turn the government over to a trusted colleague who will continue his policies. We believe that he will manage to hold his coalition together during the critical years immediately ahead, although some deft maneuvering will undoubtedly be required. Almost inevitably, however, he will come under growing pressures to depart from constitutional precedures in order to press ahead with his basic programs. Though he would almost certainly prefer to adhere to constitutional means, he is likely to be impelled to use, and to rationalize, political techniques of increasingly dubious legality; eventually he is likely to feel it necessary to employ his considerable Presidential powers to change the political system so that the UP coalition can perpetuate itself in control. The factors operating for and against this outcome are nearly evenly balanced; the actual outcome could be dictated by quite fortuitous circumstances at some key moment.

49. In many respects the economic changes which Allende has set in motion already appear irreversible. The nationalization program, the land reforms, and many of Allende's efforts toward redistribution of national income in favor of the underprivileged are not likely to be changed by any successor government. Though economic stringencies lie ahead and some politically unpopular moves are probably necessary, there is no indication that Allende will be deterred from the main lines of his socialist program. Moreover the electorate, including the middle class, accepts socialism. It is still not clear exactly what Allende has in mind for the economy when he says his purpose is to build a "revolutionary, nationalistic, and socialist society on Marxist principles". He evidently wants a centrally planned and directed economy of some kind with the major industries controlled by the State but he has repeatedly asserted that the private sector will not be eliminated.

50. No matter what Chile's political and economic structure turns out to be, its relations with the Communist countries are certain to become closer. Allende will not want to tie Chile too tightly to any one Communist state, but his concept of Chilean independence suggests expanded relations in a variety of contexts, e.g., more cultural, economic, and political exchanges. In international gatherings Chile is likely to support a number of Communist stands, which the US will find irritating. Chile is less likely to seek large-scale military aid from the Communists partly because the equipment desired by the Chilean Armed Forces is obtainable in the West, partly because the military leaders in Chile prefer to deal with Western military establishments, and partly because Allende sees no advantage in needlessly antagonizing the US in such a sensitive matter as Western Hemisphere security. If the USSR were to request maintenance facilities for its navy in Chilean ports, Allende would probably find it difficult to oppose, given his probable need for Soviet economic help. But we doubt that he, or the Chilean military establishment, would tolerate a permanent Soviet military presence in the country.

51. At the moment US-Chilean relations are dominated by the problems of nationalization. Some of these will be disposed of within the next year or so, but not without considerable wrangling. Some US companies will not be satisfied with the terms, nor will some of the more radical Chileans. There is likely to be considerable disputation and contention in the process of nationalization of US investments. Allende himself seems to wish to avoid a confrontation with the US, if

possible, probably because he hopes to keep the door open to at least limited US Government assistance and to prevent active lobbying by the US against Chile in the international financial field. But Chilean officials, including occasionally Allende himself, are prone to blame the US for a variety of adverse developments. As economic difficulties set in the tendency will be to continue to use the US as a scapegoat for a host of Chilean domestic problems. The US reaction to this, and the general US posture, will be important, but at least some worsening in the present cool but correct relationship seems likely.

52. Apart from the nationalization issue there will be several other areas of considerable concern to the US, particularly the possibility of enhanced Soviet influence in Chile, and the repercussions elsewhere in Latin America of the Chilean example. The latter problem could be especially significant in terms of the tactics of radicals elsewhere in the hemisphere. Youth, labor, intellectuals and other such groups will look to Chile for inspiration. A leftist front on the Chilean model is already organized in Uruguay to participate in this fall’s election. It has little chance of winning, but if it attracts a substantial minority of the Uruguayan electorate, it will encourage the formation of similar fronts elsewhere, e.g., in Colombia or Argentina.

53. Less tangible will be the general psychological effect on Latin Americans over the next few years of the Chilean style of independence. This may have a greater impact on sensitive nationalist leaders and peoples in Latin America than the Marxist experiments in Chile. We would expect some other Latin regimes, even some fairly conservative ones, to pay closer attention to Santiago, and to join with Chile on some hemisphere issues. On such matters as the 200-mile maritime limit, commodity trading agreements, and the terms of aid, many Latin American states are at odds with the US. There are certain to be other issues which will widen the gulf between the US and Latin American states, and Chilean attitudes in these matters may reinforce the tendency of other nations to turn away from close relations with the US.