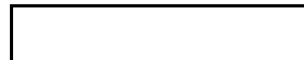
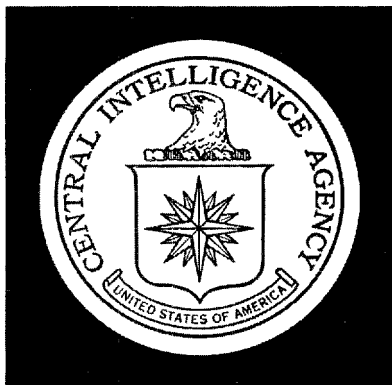


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DIRECTORATE OF  
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# *WEEKLY SUMMARY*

## *Special Report*

*Achievements of Chile's Christian Democratic Government*

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## ACHIEVEMENTS OF CHILE'S CHRISTIAN DEMOCRATIC GOVERNMENT

Chile's Christian Democratic Government under President Eduardo Frei, has moved steadily to implant a reform program characterized by the slogan "Revolution in Liberty." Since the 1964 election, Frei has obtained much of the legislation necessary for his program, although congressional obstructionism remains a problem. He must now direct his major effort toward implementing the laws he has gotten on the books.

Economic reforms have been hampered by the continuation of Chile's chronic inflation, even though at a lower rate. The anti-inflationary program has caused resentment among population groups that believe their incomes have not kept pace with the cost of living. Periodic strikes, supported by the Communist-Socialist labor organization, have attacked the government's wage adjustment policy.

President Frei will visit the United States the first week in February. He does not intend to ask for increased economic assistance and will probably concentrate on a general improvement of US-Chilean understanding. Preparations for the inter-American summit meeting, tentatively scheduled for this spring, will also be discussed.

### Domestic Policies

During its first two years of power, Frei's Christian Democratic administration has fostered a reformist mentality within Chile that well may be the key to the success of the "Revolution in Liberty." Frei has taken Chile a substantial way along the road to reform and there is little likelihood that the country will turn back, despite the cries of anguish from traditional power groups. Frei has not had to contend with a strongly entrenched oligarchy, but his attempts to modernize certain facts of Chilean

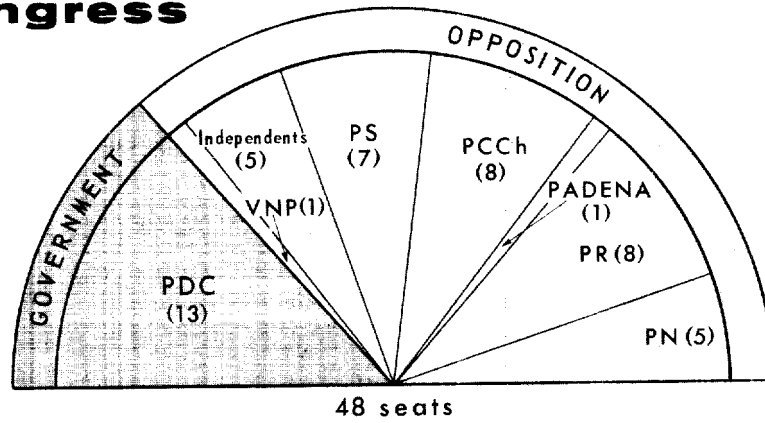
economic, social, and political life have been opposed by a variety of forces.

In addition to the traditional conservative opposition, Frei from time to time has faced resistance from leftist elements that believe either that he is moving too slowly or that his Christian Democratic Party (PDC) will obtain credit for all reforms, and thus prevent other reformist parties from scoring. In general, however, Frei's program has struck a responsive chord in the previously ignored segments of Chilean society.

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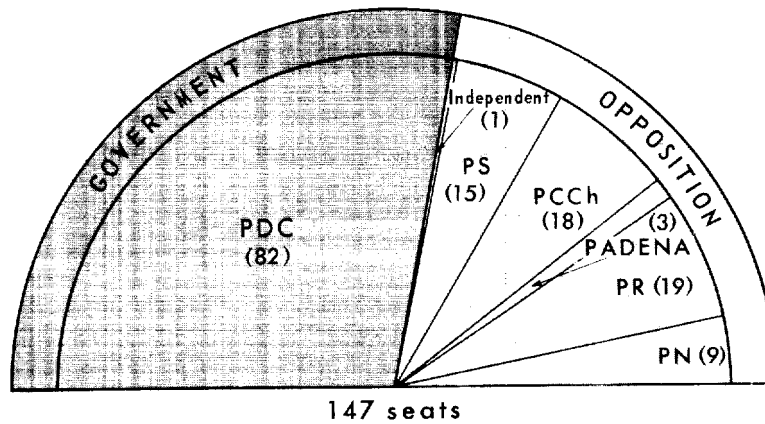
# Composition of Chilean Congress

## SENATE

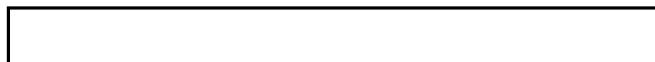
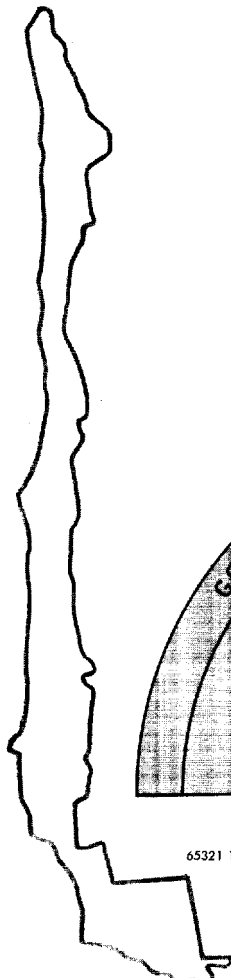


- (PDC) Christian Democratic
- (VNP) National Popular Vanguard
- (PS) Socialist
- (PCCh) Communist
- (PADENA) National Democratic
- (PR) Radical
- (PN) National

## CHAMBER OF DEPUTIES



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One of the first problems facing Frei after his election in 1964 was to deal with a division within the PDC that threatened to hamper the conduct of government. A left-wing "rebel" element, led by Alberto Jerez and Rafael Gumucio, nearly gained control at the party congress in 1965, and consistently has criticized the pace of reform. In general, this faction is composed of politicians accustomed to an opposition posture and unwilling to submerge their own views in the interest of party unity. The PDC congress held in August 1966, however, gave Frei strong backing for his conduct of the government. Party support for the government is expected to continue at least through 1967.

The PDC gained control of the Chamber of Deputies in the congressional elections of March 1965. It lacks a majority in the Senate, however, and has been forced to compromise with other parties from time to time. In addition, reform legislation has been delayed or diluted during extended congressional debates.

Nevertheless, substantial reforms have been accomplished. Frei has obtained congressional support for a number of economic programs, and has improved public health services and facilities. Housing and school construction have increased greatly since 1964, and the education system has been improved throughout the country. Frei undertook some agrarian reform measures under existing legislation while awaiting approval of laws that



EDUARDO FREI

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would facilitate a broader program.

The government has felt pressure outside its own party from the Communist-Socialist Popular Action Front (FRAP), both in Congress and in the field of labor. There has been some friction in recent months between the Socialists and the Communists. In general the Socialists espouse a harder line than the Communist Party which from time to time has advocated cooperation with the government on certain issues. The two parties seem to be drawing closer together, however, as the April 1967 municipal elections approach.

FRAP's power to harass the government was strikingly evident in the recent election of Socialist Senator Salvador Allende as head of the Chilean Senate. In his new position Allende, a strong supporter of Fidel Castro and Frei's chief

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opponent in the 1964 election will be able to guide Senate debate and will represent Chile at international parliamentary meetings. His election resulted from cooperation between the Radical Party and FRAP. His tenure is conditional upon the retention of Radical support, however, and this fact may hamper his freedom of action.

FRAP controls the most important labor body, and the PDC has shown little enthusiasm for establishing a rival workers' federation. Only about 15 percent of the labor force is organized. The government was confronted during 1965 and 1966 with several serious strikes, but has resisted the most extreme demands of the leftist-dominated unions.

The PDC has encouraged the organization of independent but PDC-oriented campesino unions. These have successfully challenged Communist influences among rural workers, and seem to have attained a relatively secure base.

#### Economic Reform

Frei's economic policies are centered around an economic stabilization program that has as one of its goals a reduction in the rate of the inflation which has plagued Chile for more than 50 years. The inflation rate--measured by the index of consumer prices in Santiago--decreased from 38 percent in 1964 to 26 percent in 1965, and to about 19 percent in the first eleven months of 1966. There is some question, however, as

to how accurately this index reflects real changes in the cost of living, as it is composed mainly of items covered by price controls.

The government has had varying success with its stabilization policies. Improvements in administration increased tax revenues, in real terms, by 25 percent in 1965 and by about the same percentage in 1966. Government expenditures rose by a greater amount, however, necessitating continued government borrowing. Under the resultant pressure the money supply increased by 65 percent in 1965 as compared with 51 percent in 1964. Some progress has been made toward wage stabilization, but many workers object to having their wage increases tied to the change of the questionable price index. Despite such problems, however, the population generally supports the administration's economic stabilization effort.

Renegotiation and rescheduling of Chile's external public debt was an important early accomplishment of the Frei administration. Payments relief during 1965 to 1966 amounted to almost \$100 million. In addition, the maturity structure of the debt has been reordered so that payment dates are more evenly spaced. This action, plus higher export prices for copper, controlled depreciation of the value of the currency, and import restrictions, strengthened Chile's international balance-of-payments position in both years.

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One of the most important parts of Frei's program involved the "Chileanization" of copper. This program was conceived as an alternative to outright nationalization, which the leftist groups advocated. Frei's plan called for the Chilean Government to acquire an interest in the three largest copper companies, all of which are owned by parent corporations in the United States. This program drew a great deal of criticism from many sectors in Chile. The leftists accused Frei of selling out to American interests, whereas rightists feared that the principle of government participation would be extended to Chilean businesses. However, enabling legislation was passed early in 1966, and by the end of the year investment decrees were signed which provided for the establishment of three new joint corporations with a total investment of more than \$400 million by 1970. The Chilean share in these joint corporations is to be 51 percent of the Kennecott operations and 25 percent of the Anaconda and Cerro companies. In addition to expanding mining operations the new corporations will develop copper refineries and fabricating plants so as to diversify the Chilean copper industry.

Frei's agrarian reform program was aimed at increasing the productivity of agriculture in order to make Chile self-sufficient in food production. Because of legislative bottlenecks, very little progress has been made. Legislation aimed at giving the government more flexible

land expropriation powers, with a view toward resettling 100,000 families by 1970 was introduced in November 1965. This bill was opposed by both the left and right, and has not yet passed Congress. In the meantime, the Agrarian Reform Corporation, established under legislation antedating the Frei administration, has conducted some resettlement and has built some ancillary facilities such as road and water distribution systems. These steps have had little impact on agriculture, however, and the government's resettlement goal will not be met.

The Chilean economy expanded at a rate of about 5 percent annually in 1965 and 1966 because of gains in industry and mining. Agricultural production continued to be a major weakness, and the economy remains highly vulnerable to fluctuations in the world price for copper--the source of 70 percent of Chile's export earnings.

In a speech in December 1966, Frei announced that Chile will no longer require budget support loans from the US. This development marks an important step in Chile's progress. Such loans have amounted to \$80 million over the past two years. Chile will continue to receive loans for specific projects, however, and will benefit from other AID actions from time to time.

#### Foreign Affairs

Frei strove early to demonstrate independence from US influence in Chilean foreign policy

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since he assumed office. This led to differences of position between Chile and the US on a number of issues, including, during 1965, action in the Dominican Republic and the seating of Communist China in the United Nations. Since 1965, however, there has been closer US-Chilean consultation. In 1966 Chile supported the US on the Chinese representation issue and on other international questions.

President Frei is attempting to become a leader of the movement toward closer Latin American cooperation. He attended the "little summit" meeting in Bogota in August 1966, and has promoted exchanges of visits among South American leaders. Chile gave evidence of the strength of its advocacy of economic integration at the conference of foreign ministers of the Latin American Free Trade Association (LAFTA) in December 1966, when Frei's foreign minister, Gabriel Valdes, left because the participants were unable to agree on a mechanism for making automatic reductions on tariffs on goods from member states.

Chile's bilateral diplomatic relations with most other Latin American states generally have been friendly. It has maintained particularly close contact with Colombia, Peru, and Venezuela, and with Argentina until the overthrow of the Illia government. The existence of military-backed governments in Brazil and currently in Argentina has hampered the development of relations with those countries. Furthermore, Chilean public opinion traditionally has feared the

possibility of Argentine expansion into Chile. The desire to maintain at least a facade of readiness has encouraged acquisition by the Chilean armed forces of modern equipment to replace older material.

Chile's relations with Bolivia have been strained ever since Chile conquered the Bolivian littoral during the 19th century War of the Pacific. The two countries have not had diplomatic relations since they were broken by Bolivia in 1962 during a dispute over the waters of the Lauca River. Periodic reports of friction along the borders, and of Bolivians "infiltrating" northern Chile keep the situation tense. Furthermore, Bolivian President Barrientos has announced that he will not attend the summit meeting of the Organization of American States (OAS) planned for the spring unless Bolivian access to the sea is on the agenda. Because of Bolivia's intransigence, prospects are dim for an amelioration of relations between the two.

The Frei administration has consistently criticized the OAS as it is presently constituted. Chile opposed OAS action in the Dominican Republic and the creation of an Inter-American Peace Force. Recently, it has advocated transforming the OAS into an organization primarily concerned with economic and social matters, leaving security and peace-keeping functions to the United Nations.

During the summer of 1965 President Frei visited Europe, meeting with officials of France, Italy, Great Britain, and West

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Germany. In addition to increasing Frei's prestige in Chile, the trip offered an opportunity to acquaint European leaders with some of the problems of Latin America. Frei has no intention of trying to substitute European for American influence, but he is anxious to broaden Chile's diplomatic contacts.

Since 1964, Chile has re-established diplomatic relations with the Soviet Union, Poland, Czechoslovakia, Hungary, Bulgaria, and Rumania. Communist China maintains a four-man trade information office and a New China News Agency office in Santiago. The establishment of relations with Communist nations was primarily an attempt to expand Chile's diplomatic horizon and to enhance the country's international prestige. Trade and aid agreements between Chile and the USSR probably will be signed

early in 1967. There has been some trade with Communist China, in nitrates and iodine, often at prices above world market levels.

#### Outlook

During his last four years in office President Frei will face problems different from those that confronted him during the early part of his term. With much of the legislation vital to his reform program now enacted, the government will be concerned primarily with enforcing the new laws and following through on the projects. Most of the congressional battles still to come will involve the extent of support to be given existing programs rather than new concepts of governmental authority. Frei's foreign policies probably will remain much the same.

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