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CENTRAL INTELLIGENCE AGENCY

25X1

18 November 1954

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: The Situation and Prospects in Chile*

1. The situation in Chile has developed along the lines projected in NIE-85, 18 August 1953, and the political crisis anticipated in the fourth conclusion of that estimate now appears to be approaching. The probably imminent Congressional rejection of the state of siege proclaimed by President Ibanez and continued Congressional denial of legislation desired by the President to deal with the critical economic situation, will probably lead to a showdown between the President and Congress in the course of which the President is likely to dissolve Congress and rule by decree. Such an attempt would provoke some popular resistance and consequent disorder, but, initially at least, the President would probably receive the support of the armed forces and would be able to control the situation.

2. In the longer view, Ibanez' assumption of dictatorial power would probably not relieve substantially the economic difficulties which underlie Chilean political instability. If, in a progressively deteriorating economic situation, political opposition and popular hostility become so general and intense as to lead to industrial paralysis and widespread disorder, the armed forces would withdraw their support and the regime would fall. It was in this way that the previous Ibanez dictatorship was brought to an end in 1931.

3. The pertinent conclusions of NIE-85 and related developments are reviewed in Tab A. A more detailed account of the current situation is in Tab B.

FOR THE BOARD OF NATIONAL ESTIMATES:

SHERMAN KENT

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*The findings of this estimate are concurred in by OCI and the relevant branch of DDP. It has not been coordinated with the IAC agencies.

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TAB "A"

1. NIE-85, paragraph 4:

Ibanez' most urgent political and economic problem is to halt inflation. He may succeed in checking temporarily the inflationary trend, but a lasting solution of this problem would require a substantial increase in production of consumer goods, which cannot be achieved... without substantial foreign financial aid. In the absence of foreign aid and of more drastic domestic action, it is likely that the unsolved problem of inflation will lead to a political crisis in Chile during Ibanez' term.

Since the appointment of Jorge Prat as Minister of Finance, in June 1954, the progress of inflation has been checked and the Chilean peso has actually recuperated slightly in free market quotations. Congressional acceptance of Prat's financial program would greatly ameliorate the situation, but is unlikely in the face of popular opposition to its austerities. Meanwhile, there has been no progress toward the correction of the basic economic imbalance indicated above, which can be accomplished only with substantial foreign financial assistance.

In September 1954 Ibanez' proclaimed a "state of siege" in most parts of Chile for a period of six months. The immediate occasion for this act was labor unrest attributable primarily to distress caused by inflation. Ibanez attributed this situation to the failure of Congress to grant his request for special powers to deal with critical economic and political problems, and to Communist conspiracy. Formal Congressional rejection of the "state of siege" is probably imminent. Such action, together with continued Congressional denial of legislation demanded by the President, will probably lead to a showdown between the President and Congress.

2. NIE-85, paragraph 8:

"In the event of such a deterioration in the internal situation, it is likely that Ibanez will find it impossible to

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cope with the problems which beset him by constitutional means and will resort to arbitrary rule."

Unable to obtain from Congress legislation necessary to carry out his program and challenged by Congressional rejection of the "state of siege," Ibanez is likely to dissolve Congress and to rule by decree. He has expressed reluctance to take this course, but has declared that he will take it if forced to do so by continued Congressional denial of emergency powers. At the same time he appears to have been preparing justification for such a course, not only by denunciations of Congressional inaction, but also by fabricating a document intended to prove that Chile is threatened by a Kremlin-directed Communist plot.

3. NIE-85, paragraph 9:

"Given the probable support of the armed forces, it is likely that Ibanez could rule arbitrarily for some time. His exercise of dictatorial powers would probably not relieve the economic situation substantially, however, and it is likely that there would be efforts to overthrow his regime. If, in these circumstances, political opposition and popular hostility became so general and intense as to lead to widespread disorder, the armed forces would probably withdraw their support and the regime would fall."

We consider this still a valid estimate. Ibanez' assumption of dictatorial powers would almost certainly provoke popular resistance and consequent disorder, but, with the probable support of the armed forces, at least initially, he should be able to control the situation. It is unlikely, however, that he could remedy the economic situation by dictatorial means, and in the end his regime would probably be overthrown in the manner described, as was his previous dictatorship in 1931.

4. NIE-85, paragraph 11:

"In the event of Ibanez' death or removal from office, any successor government would face the same economic problems and would be subject to the same radical and nationalistic pressures as affect the present regime."

- 2 -

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"TAB B"

POLITICAL

On 20 September President Ibanez declared a state of siege in most parts of Chile for a six-month period. As reasons he cited the dilatory treatment by Congress of his request for special powers to combat Chile's critical political and economic problems, threats to the "free play of democratic life," labor unrest, and Communist activities which threaten the public order. A state of siege enables the president to transfer persons to any place in the country, or confine them, as he sees fit.

Congressional action to approve or disapprove the state of siege has not been taken, but the American embassy in Santiago reported on 17 November that Congressional refusal to approve Ibanez' action was a "foregone conclusion."

On 31 July Ibanez had informed Ambassador Beaulac that if Congress refused his request for special powers he would close it and rule by decree. Similar reports have been received concerning Ibanez' intentions should Congress disapprove the state of siege. On 3 November, however, Ibanez stated that he did not wish to close Congress and hoped that he would not be provoked unduly. It has also been reported that Ibanez considers his role as dictator, in 1927-1931, as a blot on his career, and that his great desire is to finish his presidential term legally.

On 17 November Minister of Justice Osvaldo Koch submitted his resignation because he felt that he had failed in his effort to obtain congressional approval for the state of siege declaration. The other cabinet members then submitted their resignations to express their solidarity with Koch. The only resignations accepted, however, were those of Minister of Interior General Abdon Parra, and Minister of Agriculture Dr. Eugenio Suarez. Parra was replaced by Arturo Olavarria Bravo, who served as Foreign

- 3 -

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* a rabid hater of Communism. As Minister of Interior he is Minister in Ibanez' first cabinet, November 1952-April 1953. Olavarria has been described as probably the worst enemy of the United States in Chile, with one redeeming feature--he is * constitutionally next in line for the presidency, and he commands the Carabineros, or national police force of some 24,000 men.

ECONOMIC

Chief economic problems, which the present cabinet is attempting to solve, are severe inflation caused by chronic budget deficits and a shortage of foreign exchange, particularly dollars, to pay for essential imports. The Minister of Finance, Jorge Prat Echaurren, appointed in June 1954, is the first of Ibanez' four appointees to this position to make any progress toward a solution of these problems, and his retention in the cabinet following the 17 November cabinet crisis is considered a good sign. Inflation has been slowed, and the peso has recuperated somewhat in its free market quotations. A 10 November "unofficial" devaluation of the peso is expected to increase Chile's dollar income. Furthermore, if Congress accepts Prat's recommendations for modifying the inflationary social security laws and overhauling the tax structure Chile could achieve a balanced budget in 1955.

Because of strikes in the copper mines in the United States and Central Africa Chile has had no trouble in disposing of its recent copper production. The American-owned mines are now operating on a seven day week in an attempt to fill orders on hand.

COMMUNISM

In present circumstances Ibanez is capable of controlling Communist activities in Chile. Currently, Communists have some 35,000 party members, control unions in the coal and nitrate industries, have important influence in the directorate of the largest Chilean labor confederation (CUTCH), and have an effective press and propaganda organization.

- 4 -

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A number of Communists and/or Communist sympathizers, including Baudilio Casanova of the CUTCH directorate, have been banished to small villages in the extreme northern or southern parts of the country since the state of siege has been declared. These actions together with other anti-Communist moves indicate that Ibanez' administration is aware of the Communist threat and has a continued determination to contain it.

- 5 -

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