

AIRGRAM

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FILE DESIGNATION

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HANDLING INDICATOR

TO : Department of State

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FROM : American Embassy SANTIAGO DATE: February 22, 1969

SUBJECT : National Intelligence Estimate on Chile (#94 - 69)

REF :

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SUGGESTED DISTRIBUTION

- The referenced document was received in Santiago February 17. I am taking the unusual action of commenting on it in some detail because of the possible influence it would have on a new Administration, because of the distorted view it could provide of the results of the nationwide Congressional elections in a week's time and because, frankly, I am dismayed by the lack of attention to words and their significance. Or perhaps the words were chosen to make some kind of case which is even worse since then all scholarship is negated.
- I am listing below statements from the document which are demonstrated to be false or inaccurate. I am doing so not with the purpose of challenging any conclusion, but simply to draw attention to the quality of the argumentation on which the conclusions are based.
- Before doing so I would only add that the document gives no importance to the constitutional and democratic nature of Chile; perhaps in strategic terms it does not merit any particular importance, but I for one do not share a view that perhaps involuntarily denigrates the significance of a still viable democracy. The report ignores, understates or mis-states some of the positive aspects of a situation that is not black nor white. The report echoes in language and in tone what is the

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predominant view of the National Party, the most right wing party in Chile, which it then says "does not have a popular base" in Chile.

STATEMENTS VERSUS FACTS

4. Page #1 - "~~XXXX~~ Economic prospects are bleak... as the elections approach pressures for government spending on wages and welfare will almost certainly intensify and business confidence will probably reach a new low."

Facts: a. The stock market of Santiago has just reached the highest recorded level ever (in constant prices) and the highest volume of transactions in at least five years (See Embtel 660), the culmination of a steady rise during the past six months. Average gain in yield on shares in 1968 was more than 25% in real terms.

b. With anything approaching normal rainfall this year, a growth rate of 5% (or 3% per capita) is highly probable.

c. Government spending in 1969 will be cut by 200 million escudos below the published budget so that in real terms the 1969 budget will rise by only 6 percent, despite extraordinary drought expenditures. Many public sector employees have just received a wage increase of only three-fourths the 1968 inflation rate. Trade liberalization is increasing; controls over use of short term foreign credits have been tightened both by law and by regulation.

5. Page #4, para 2 - "Frei is sore beset."

Facts: a. Frei has less difficulties currently than at many times during the last three years. For the first time he had the wage readjustment tied to the budget and passed by Congress. Thus for the first time in at least 20 years the GOC can plan monetary and fiscal policy with some degree of foresight and assurance regarding wages. Frei has hemmed the extreme left in several ways, particularly his own rebeldes. He is introducing a series of basic reforms including Constitutional change and tax reform which have a good prospect of passage.

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6. Page #4, para 1 - "There is growing momentum on the part of the opposition parties to the left and to the right. "

Fact: a. The right has some momentum -- perhaps 20% of the electorate which will be an improvement of a few percentage points. But the Socialists and Radicals are sorely beset by factionalism and totally undecided as to which way to jump in 1970. The Communists have no particular momentum. There is no great evident interest by the electorate in any party as such.

7. Page #4, para 2 - "The Radical party which opposed Frei from the Right as a splinter in 1964 has since acquired leftist leadership. "

Fact: a. Only a sophist would describe the candidacy of Duran in 1964 as of "Radical Party" in view of the special circumstances that pertained and in fact it is generally agreed a small minority of Radicals voted for him. The Radicals are neither rightist nor leftist, only opportunist. They have led popular front coalitions several times since the Popular Front government of 1938.

8. Page #6, para 6 - "The deficit in goods and services climbed to \$181 million in 1967. . . . this deficit grew by another \$100 million in 1968. "

Facts: a. The figures are in fact 119 and 94.

b. Chile had trade surpluses in 1965, 1966 and 1967 and a deficit in 1968 due to growing imports. In 1968 however, Chile had a balance of payments surplus of close to \$130 million. The authors chose a different formulation based on goods and services, we assume in order to include debt interest payments contracted by earlier administrations, as well as profit remittances by US companies from copper and other products amounting to approximately \$129 million in 1968 to arrive at their loaded statement. Why too refer to the flow of US copper investment money into Chile in the following sentences?

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9. Page #6, para 7 - "Chile's rate of economic growth during the past four years has been less than the average of Latin America." (no figures are given)

Facts: a. Chile's real rate of growth in GNP in the four years (unadjusted for terms of trade) were 6, 10.5, 2 (estimated) and we estimate about 3.5% for 1968. Per capita figures were about 3.7, 8, 0 and 1.5% (estimated). Per capita average is then 3.3% for four years. (I suspect this figure to be considerably higher than the average for Latin America, the details of which are not available here.)

10. Page #6, para 8 - "The poorest workers have benefited from his income policy but organized workers probably have gained more. (Perhaps, but no figures are given which makes the sentence and paragraph meaningless, and its point is completely unclear to me. Is the point that workers do best when they organize?)

Fact: a. About 16% of Chile's 1,700,000 non-agricultural non-public sector workers are organized, more than half the public sector are organized and about 12% of the agricultural sector. The number of agricultural workers (not families but workers) alone affected by the minimum wage law and other benefits introduced by the Frei Government total more than 650,000. The subsistence workers who comprise the mass of Chilean labor in both city and country in 1964, have received the greatest absolute benefits and in psychological terms certainly the most significant individual benefits. We estimate the four-year transfer of income as a percentage of GNP to the wage-earning sectors as being about 7%; the World Bank studies put it at 9%. Whichever figure is correct, it implies a major social change in line with the major goals of the Alliance. It was accomplished without upheaval, without military intervention and within democratic constitutional process. I am amazed that the authors of the report fail to understand the significance of campesino unions, higher minimum wages, more education, and the profound, irreversible nature of these social changes.

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11. Page #6, para 9 - "The Administration's major economic success has been in securing agreements for substantial new foreign investments in copper mining."

Fact: a. Considering the windfall profits for the US copper companies as a result of the extraordinary high price of copper (this price is a point upon which the referenced document harps to prove the advantages to the GOC the past two years while ignoring totally the benefits to the copper companies and the high total of remittances to the US) it would be as accurate to say that the US major economic success was in changing a tax rate of 87% levied by the Alessandri government on the copper companies to one of an average of about 55% during the first two years of a copper investment program. Moreover, that program has another two years to go before more copper is produced. If copper prices remain relatively high, the copper companies already here may come close to recovering their new investment by the time the increased production comes on stream. It would also be more accurate to say that the major US and Chilean success was to arrive at an acceptable non-confrontation settlement, even of transitory nature, which was highly favorable to the US owners of the major asset of Chile.

12. Page #7, para 10 - "Despite Frei's concern with Chile's complex and enduring agricultural problems, he has made little progress in resolving them. Promised improvements in farm prices were short-lived and solutions have not been found for deep-seated problems such as inadequate credit, storage and marketing mechanisms. In addition, the insecurities associated with Frei's agrarian reform programs have served further to discourage long-needed private investments."

Facts: a. The US Department of Agriculture has estimated, setting 1957-59 at 100, that agricultural production rose to 111, 111 and 114 for the years 1965-67 (exclusive of drought-ridden 1968). That is probably the highest average for any period in the last few decades. The previous six year index was about 106. Farm prices in the Frei Government have averaged 17% higher in real terms (adjusted for inflation) than the previous administration, including 16% higher in wheat without including 1969 which projects a still

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greater increase. The World Bank agricultural survey team here three months ago reported to me that capital investment in private farms had increased in 1968 over the average of 1966-67 and was on the rise.

b. Did the authors expect a change in the structure of Chilean agriculture to be completed in four years? In fact the changes to date are profound (unions, agrarian reform, a training program for new farm workers under the reform, minimum wages, more credit to smaller farmers, more infrastructure, higher prices.)

13. Page #7 para 10 - "Until World War II, Chile was a net exporter of foodstuffs but net imports of foodstuffs now amount to about \$120 million annually."

Facts. a. The statement is accurate but it slides inexplicably over facts that are pertinent. Ever since that World War II date, the rise of food imports was steady. It did not begin nor has the non-drought rate increased with Frei, although a far greater number of Chileans now are consumers because of the redistribution of income, this last a point of considerable importance.

14. Page #7, para 11 - "The political involvement of radical members of the PDC has made the reform (agrarian) more damaging economically and more abrasive socially than it need to be."

Fact: a. The Frei land reform program has been carried out in a democratic society in conformity with the law in a manner less abrasive than almost any that has been seriously attempted in a democracy. Do the authors suggest land reform and a major social and power shift in the countryside can be carried out without abrasiveness? In a society in which (in 1964) 3% roughly of the landowners of the country owned 70% of the irrigable land, and in which the majority of that 70% was absentee ownership, and in which agricultural production had reached a level of near stagnation, and in which the overwhelming mass of the rural population lived in ignorance, poverty disease, there was an imperative need to reform

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and the manner of this reform is a mild one. It is a fact that the cited statement is taken almost verbatim from not disinterested large landowners spokesmen.

15. Page #7, para 11 - Again the mis-statement challenged above "the failure to maintain profitable agricultural prices" is combined to conclude that this factor, plus continuing fear of expropriation and rpt and drought "combined to depress production severely in late 1968."

Facts: a. The statement starts with the false premise re prices, then piles on other falsehood to reach an inaccurate conclusion. The losses in production of any significance in 1968 were due to the drought. We had anticipated from data compiled by the Agricultural Attaché rises in agricultural production in 1968 prior to the drought. Indeed even with the drought, wheat will be about equal to 1967 levels, milk production will be substantially higher as will chicken, egg and pork. Corn was practically wiped out in the main drought areas, rice was hard hit, as were other water-dependent crops. But the heart of the private farm country in the area from Cautin south is having a record output which tends to disprove the simplistic statement about fear of expropriation having a short term effect. It may well be that fear of expropriation for inefficiency is having a favorable short term effect by making farmers more efficient. And how would the authors explain the lack of production in the years 1958-64, when there was no real agrarian reform, and agriculture hit an all-time low in prices and production under a government that gave private enterprise a free hand?

16. Page #9 para 12 - The heading of the paragraph is "Education, Housing and Public Health" but the lean statement glosses the facts. Indeed, the glossing over of this government's education achievements is shocking.

Facts: a. In education the Frei Government has averaged a new school per day during its four years and there are 500,000 more children going to school today than in 1964 -- the equivalent of 10,500,000 more children being absorbed into the US system in four years. In public housing the goal of 360,000 houses in six

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years will not be reached for finished houses but will come close if partially finished houses delivered to occupant for self-help completion is included. Taking public and private housing together, and setting construction activity in 1960 at 100, 1964, last year of old government, was 90 and the first three years average of this government (1965-67) was 131. In public health our contract employee from Johns Hopkins, who is an exceptionally qualified public health expert, informed me recently that the Chilean system is the best on cost-benefit ratio in all Latin America (a record not necessarily due to Frei's actions).

17. Page #9 paras 13 and 14 - Among causes of the unhappy record of inflation, it lists "stagnating output" as one contributing cause. I really refuse to comment on this simplistic analysis of a Chilean inflation now in process for more than 80 years and which has been the subject of tons of informed literature. One fact that intelligence specialists should be aware of regarding production in Chile is that the Chilean NAM's industrial index as well as the official government index significantly understate output growth since they exclude as we have reported, most dynamic industries such as automobiles, electronics and plastics. Many traditional industries such as textiles, drinks, footwear, were stagnant last year and weigh heavily in the index.

18. Page #10 para 14 - "Thus we think it almost certain that the Frei government's foundering stabilization program will be put in further jeopardy."

Fact: a. Again, I am impressed by this know-nothing statement about a subject as complex as inflation. Actually, barring a further year of drought, Chile has a good chance this year of keeping the inflation at the 1968 level. We were told by similar experts, as well as most other observers that the 1968 inflationary rate would certainly be close to 35%. It was in fact, 27.9%. not anything to be proud of but well below the predictions. I also wish that glib authors on inflation would examine the cost stabilization programs and the problems inherent in such programs (as we in the US are discovering about an inflation of only some 5% a year).

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19. Page #10, para 16 - Includes the statement that education is "social welfare."

Fact: a. It may well be, but is that all? The qualification is contrary to all the economics that the US preaches in the less-developed world and represents a neolithic view of development.

20. Page #10, para 17 - Speaks of a "severe tightening of credit except for projects being promoted by the government in certain industries."

Fact: a. Private credit expansion in 1968 was about 30%. What do the authors want, stabilization (which implies less credit) or more credit (which there was in 1968 probably excessively so for the stabilization goals)?

21. Page #12, para 22 - "Even with normal climatic conditions per capita output probably would not have grown in 1969."

Fact: a. We are predicting 5% growth ~~or 3% growth~~ or 3% per capita for 1969 with normal weather. We are not omniscient, but we think our prediction is better than in the document under discussion. It certainly is less biased.

22. Page #12, para 23 - Speaks of the "scheduled expansion" in production of copper in 1969.

Fact: a. No such expansion in 1969 is planned to the best of anyone's knowledge in the copper industry. Perhaps the authors once again confuse programs for long-term payout with short-term results. The copper expansion program was planned for production increases to start in 1971. Some may be implemented by late 1970 since the program is running ahead of schedule.

23. Page #12, para 23 - Talks of the inevitability of large-scale drawings on official credits by the GOC in 1969 and 1970.

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Fact: a. This may be so, but is this bad for a less developed country, especially if the credits are long term? This government has significantly lengthened the term of Chile's debt from what it inherited in 1964 and has just made some further promises in this regard in agreements negotiated with the IMF, the IBRD and AID.

24. Page #12, para 24 - "There is little chance that expenditures for public investment will be cut (in 1969 and 1970)."

Fact: a. GOC this month has ordered a cut. Just as it did in the last half of 1968 after consulting with the Mission. Public sector investment in 1969 is budgeted to grow by only 5.5% and fiscal sector investment by less than 1%, a figure we believe is low but which belies the assertion made.

25. Page #13, para 25 - "Even members of the National Party who have been friendly to the US may come to share the growing Chilean sentiment for early nationalization."

Fact: a. The leading National Senators (Ibañez and Bulnes) have shared this sentiment for the 16 months to which I can testify; they do so for a variety of reasons but mostly because they represent what is the most nationalistic Chilean viewpoint. (I find the statement to be revealing about whom the authors regard as the true friends of the US.)

26. Page #13, para 25 - "Expropriation would be more profitable politically than economically, however, since the payment of compensation would be a major drain on income, adding perhaps one billion dollars to an already burdensome foreign debt."

Fact: a. Chile now remits some \$100 million annually in copper profits to US companies. A nationalization accord that continued compensation payments roughly equal to profit remittances would not imply per se any added economic strain. Perhaps the authors confuse nationalization with uncompensated nationalization.

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27. Page #14, para 28 - "The Nationals were badly damaged in the PDC triumphs of 1964 and 1965 and lack of popular base."

Fact: a. The Nationals did not exist in either year. The Conservative and Liberal parties did. Their popular base did not suffer so much. It was the electoral reforms that produced a much wider base since it enabled many more Chileans of modest means to vote in 1964 and since. The Nationals do have a popular base of about 16% and will attract perhaps still more by way of protest to the PDC in the coming elections.

28. Page #15, para 31 - "The Radical party, which has recovered from a very poor showing in the Presidential election of 1964 (five percent of the vote) also suffers from factionalism."

Fact: a. To describe the vote for Duran as the Radical Party vote for 1964 is either wild innocence or sophistry.

29. Page #15, para 31 - "The radicals are united only in their desire to regain power in their bitter hostility towards Frei and the Christian Democrats."

Fact: a. This statement is true but on page #4 footnote the false statement is made that both Frei and Allende drew many votes from the normal strength of the Radical party. Study of the available 1964 polling data will indicate rather conclusively that few Radicals voted or would vote for PDC since the crux of radicalism is free masonry and anti-clericalism.

30. Page #15, para 33 - "However, the Communists and even more so the Radicals, have not committed themselves and may have serious misgivings about backing a Socialist candidate. Finally only a portion of the Radical Party favors an alignment with the far left."

Fact: a. Since the majority of the Radicals and their clientele voted for Allende in 1964, the issue for them is not so much a vote for the left as their desire to capture the Presidency. The

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statement also begs the real issue which is the Socialist attitude (not the other way around) which until now has been opposed to a Radical Presidential standard bearer for a Popular Front.

31. Page #17, para 35 - "No matter who wins the PDC nomination, there is likely to be some splitting of party members and followers."

Fact: a. The imprecise quantification of the statement renders it meaningless. The split-off could be totally insignificant or with some or much significance.

32. Page #17, para 36 - "The opposition of the National Party and other Chilean conservatives to carry out basic reforms by constitutional means has not made conservatism more popular in the country but rather has increased the sentiment for radical change."

Fact: a. The premise may be correct, but the conclusion is totally unsubstantiated and at variance with earlier discussion in the same document about the reactions of the middle class to the squeeze of taxes and inflation.

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Recommendation

Since the quality of the referenced document is of such demonstrably dubious value, I would recommend that the authoring agency send some competent economists to Chile to study the facts. In view of the extraordinary gap between their views and the views of this Mission (which was not consulted at any time), I would welcome such a visit.

My second recommendation, and earnest hope, is that this airgram will be circulated to all who received the original document.

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