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PROBABLE DEVELOPMENTS IN CHILE



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PROBABLE DEVELOPMENTS IN CHILE

THE PROBLEM

To estimate the current situation and probable developments in Chile, with particular reference to the stability of the Ibanez government and the probable development of its foreign policy.

CONCLUSIONS

1. The present situation and trend in Chile are adverse to political moderation and stability. The gravity of Chile's economic situation and a widespread sense of political frustration have increased demands for radical and nationalistic solutions.

2. President Ibanez was elected on the strength of his demagogic campaign promises and his personal reputation for vigorous action. He is hindered by lack of an established political organization and lack of an effective majority in Congress. On the other hand his political opposition, ranging from conservative landholders and big industrialists through the middle-class supporters of the preceding administration to labor organizations and the Communists, is divided and ineffectual.

3. In present circumstances Ibanez is capable of controlling Communist activities in Chile and will probably do so. However, a severe deterioration of the economic situation would greatly enhance Communist capabilities to foment labor disturbances and civil disorder.

Should the Communists gain such influence as to threaten the government and Ibanez proved unwilling to take sufficiently vigorous action to control them, the armed forces would probably assume police powers, if not actually take over the government.

4. Ibanez' most urgent political and economic problem is to halt a severe 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 during Ibanez' term in office without substantial foreign financial aid. In the absence of adequate 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.

5. Chile will almost certainly support (or at least not oppose) the United States in the UN on major issues arising from the East-West conflict. At the same time Chile will increasingly seek to demonstrate independence of the United States

and, in economic matters, to act in concert with other Latin American countries regardless of the position of the United States.

6. Economic cooperation between Chile and Argentina may increase, but in the development of such cooperation Chile will exercise care to avoid economic and political domination by Argentina.

7. As long as Ibanez has any hope of US financial aid he is likely to take care to avoid antagonizing the United States, but he may seek to extort such aid by threatening cooperation with Argentina, with the USSR, or with the Arab-Asian bloc in the UN. If he is seriously disappointed in his expectation of US aid and faces a severe deterioration in the economic and political situation in Chile, he will probably attempt to regain popular support by a return to Yankee-baiting.

8. In the event of such a deterioration in the internal situation it is likely that Ibanez will find it impossible to cope with the problems which beset him by constitutional means and resort to arbitrary rule.

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.

10. Any estimate of future developments in Chile must be qualified by reference to Ibanez' advanced age and reported ill-health. He may become physically or mentally incapable of acting vigorously on either a constitutional or a dictatorial basis.

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.

DISCUSSION

INTRODUCTION

12. Chile normally supplies the United States with about half of its copper imports, or about 20 percent of US copper consumption. Moreover, Chile's standing in the Latin American community is such that the character of its political relations with the United States (or with Argentina) is a matter of general significance.

13. The world-wide depression in the early 1930's made Chile acutely conscious of its excessive dependence on the proceeds from copper and nitrates. Succeeding adminis-

trations attempted to promote rapid industrialization. They also sought a less unequal distribution of income. However, the manner in which these programs have been carried out has led to a severe inflation. Meanwhile, as a result of the development of industries in urban areas, the preponderance of political power has shifted from the landowners to new urban interests. These new political groups have been unable to unite on a program for solving Chile's problems and are becoming more inclined to advocate radical and nationalistic solutions as these problems become increasingly severe.

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POLITICAL SITUATION

14. The present economic trend in Chile is adverse to political moderation and governmental stability. This trend is more fundamental than the character of any particular administration as a determinant of political developments.

15. The dominant personality in the present political situation is that of seventy-five year old Carlos Ibanez del Campo, who succeeded to the Presidency in November 1952. In the course of a stormy political career Ibanez has proved himself to be an opportunist addicted to strong personal rule. A professional Army officer, he achieved political prominence in 1925 as leader of a coup by younger officers which overthrew a military junta and restored a reformist civilian regime. In this way he became Minister of War and, two years later, President. His regime was based on military force, but nevertheless collapsed in 1931 under the impact of the depression. After a period of exile in Argentina, Ibanez reappeared in 1937 as leader of the Chilean Nazis, whose disorders led to their suppression. In 1942 he was the unsuccessful presidential candidate of a conservative coalition, and subsequently on several occasions he was suspected of plotting to overthrow the duly elected government. In 1949 he was elected to the Senate, from which position he ran for the Presidency in 1952.

16. In the presidential election of 1952 the mood of the Chilean electorate was one of intense dissatisfaction with the administration of Gabriel Gonzalez Videla. He had been elected in 1946 as the leader of a leftist coalition which promised the laboring classes a larger role in the national life and a greater share of the national income. Gonzalez Videla estimated that, with US financial assistance, his industrial expansion program could be accomplished before inflation became unmanageable. In order to make Chile eligible for US assistance, among other considerations, he expelled the Communists from the three cabinet posts which they had been awarded and officially outlawed the Communist Party under the Defense of Democracy Law, which he sponsored for this purpose.

This law alienated organized labor, which complained that the government used it to circumscribe legitimate trade union activities. Moreover there was general reaction against the runaway inflation. Ultrationalists succeeded in intensifying anti-US feeling by charging that Gonzalez Videla had surrendered the national sovereignty to US interests.

17. Ibanez successfully exploited this rising tide of discontent. He avoided identification with any established political party and ran on his personal reputation for forceful action. To the workers he promised economic and social improvement and repeal of the Defense of Democracy Law. To ultrationalists he promised to vindicate the national sovereignty, and curried favor with them by severely criticizing the military assistance agreement with the US. To all segments of the population he promised elimination of corruption and waste in government, a "more balanced" economic development policy, and a lower cost of living. Ibanez was elected President with a popular plurality, though not a majority.

18. Ibanez' most reliable political support comes from the middle sector of society, which embraces small industrial and agricultural proprietors, professional men, government officials, and white-collar employees. Widely divergent views on both political and economic policies are held within this grouping. The Ibanez Administration's most intimate relations appear to be with those elements which admire the authoritarian regimes of Peron and Franco and which favor a corporate form of government (like that of Salazar in Portugal), State control of labor, and emphasis on agricultural development. However, the only strong ties uniting Ibanez' middle-class supporters are their distrust of the more conservative political parties, their anti-US nationalism, and their belief that Ibanez is the only man who can overcome Chile's economic ills.

19. Most of the middle-class elements which supported the preceding Radical Administration oppose Ibanez. Most intellectual and student groups (traditionally an important

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factor in Chilean politics) oppose him, primarily because of his authoritarian associations. The Radical Party, since its fall from power, has attempted to regain some of its former political influence by advocating pro-labor programs and generally outbidding Ibanez for mass support.

20. Organized labor, which constitutes roughly 20 percent of the total labor force, has been a political force in Chile for the past fifteen years. Its support was an important factor in Ibanez' election, although his mass vote came primarily from unorganized workers. In the first few weeks of his regime Ibanez adopted a friendly policy toward labor, intervening in strikes to award benefits to workers and expressing a direct personal interest in the problems of individual workers. However, he soon began to criticize organized labor by claiming that it placed its own interests above those of the national welfare. A target of Ibanez' criticisms has been the new national labor confederation, CUTCH,¹ which was organized in February 1953 to provide labor a unified leadership free of government control. Virtually all labor organizations in Chile are affiliated with CUTCH. Despite active Communist collaboration in the unity movement and Communist influence in constituent unions, CUTCH has so far avoided Communist domination. At present CUTCH is evincing opposition to Ibanez, in part because some of his followers have created a rival labor organization. Still in the embryonic stage, this new pro-Ibanez labor group as yet poses no serious threat to CUTCH.

21. Conservative elements in Chilean society have on the whole been opposed to Ibanez. These elements are represented primarily by the large landholders and the business interests, which comprise the most cohesive social, economic, and political groups in Chile. Their opposition to Ibanez is based primarily on their dislike of social welfare schemes and increased government controls, and their fear that Ibanez may again resort to personal dictatorship. The large industrialists resent

¹ Central Unica de Trabajadores de Chile.

the reduction in emphasis on industrial expansion. Although some large landholders approve Ibanez' emphasis on agriculture, they fear that the Administration may intervene in marketing processes and may press legislation for minimum agricultural wages.

22. During recent years there has been an increasing fragmentation of political parties. Thirty-six parties participated in the March 1953 congressional elections, and twenty won seats. The Administration's main strength lies in two parties, the Agrarian Laborites and the Popular Socialists, which differ on many issues, particularly on the proper relationship between government and labor. Together with a group of small factions which normally support Ibanez, they have barely half of the seats in the Chamber of Deputies and are a minority of less than one-third in the Senate. The principal opposition parties are the Conservatives, Liberals, and Radicals, which, together with a group of small anti-Ibanez factions, control the remaining seats in Congress. However, on both sides party loyalties constantly shift, and there is a continual regrouping of loose, *ad hoc* alliances.

23. After the Chilean Communist Party was outlawed by the Radical Administration in 1948, it ceased to constitute an effective direct political force. The Communist political front, the People's Front coalition, polled only about 50,000 votes in the September 1952 and March 1953 elections and won only 10 seats in Congress. The Communist Party's membership is estimated at about 35,000. Its principal immediate objectives appear to be to win control of labor organizations and of student and intellectual groups; to further the influence of anti-US ultranationalists in the Ibanez Administration; to press for legalization of the Party through repeal of the Defense of Democracy Law; and to secure the re-establishment of commercial and diplomatic relations with the Soviet Bloc. Although the Communists opposed the candidacy of Ibanez, they hailed his victory as a defeat for the US and offered him support for an anti-US program. For a while Ibanez maintained a tolerant attitude toward the Communists. More recently he

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has caused difficulties for the Communist press, harassed individual Communists, and given warning that he would not tolerate strikes threatening the national interest. This shift in Ibanez' attitude probably reflects a sense that the Communist challenge his personal authority and a desire to win US and conservative approval. Nevertheless, in June Ibanez acceded to Popular Socialist demands that he support repeal of the Defense of Democracy Law, which would have the effect of restoring important political and organizational rights to the Communist Party. Ibanez stipulated, however, that repeal of the Defense of Democracy Law must be accompanied by a strengthening of the basic Internal Security Law.

24. The Communists virtually control the labor unions in the nitrate fields and coal mines. The major copper workers' federation is anti-Communist, but the Communists nevertheless command a minority following among copper mine workers. As copper mining is now entering the deep-pit phase, Communist opportunities for sabotage are increasing. The Communists have some influence in the maritime and port workers' federation, but at present are not strong in the railway federation or in telecommunications. The Communists have so far failed in their efforts to gain control of CUTCH, but have won important influence in the Santiago provincial affiliate of CUTCH.

ARMED FORCES

25. The Chilean armed forces have a total approximate strength of 67,500 men, a strength surpassed in South America only by Argentina and Brazil. These forces include: Army - 24,000; Carabineros (security police) - 21,000; Navy - 17,500; and Air Force - 5,000, including 250 pilots. Army and Carabinero leadership, discipline, and training are well above the Latin American average. However, there are serious deficiencies in arms, equipment, and supplies. Combat effectiveness of the Army is low by US standards, but high in comparison with other Latin American forces. The Navy is perhaps the most efficient in Latin America. The government is making efforts to expand and modernize its

small, US World War II-type air force by acquisition of US or British jets. The morale of the armed forces is normally high and remains good despite the adverse effects of inadequate pay in the face of inflation and of the threat of political interference implicit in recent high-level retirements. Communist efforts to penetrate the armed forces have been unsuccessful. The armed forces (including the Carabineros) have shown themselves capable of suppressing civil disturbances and strikes and of guarding against sabotage in the copper mines and other strategic industries.

26. The Chilean armed forces actively supported the Ibanez dictatorship, 1927-1931. Since then they have remained aloof from politics, loyally supporting successive constitutional governments. On taking office, Ibanez retired an unusually large number of senior officers in order to put personal adherents in positions of command. The armed forces will certainly support Ibanez as constitutional President, and would probably continue to support him if, in critical circumstances, he were to resort to dictatorial methods. If, however, an Ibanez dictatorship failed to relieve economic distress and faced nearly universal political opposition and popular hostility, the armed forces would eventually withdraw their support, as they did in 1931.

ECONOMIC SITUATION

27. The survival and future course of the Ibanez regime depends largely upon its success or failure in dealing with Chile's serious economic problems. Severe inflation and an imminent decline in Chilean copper export earnings are the two immediate threats.

28. The cost of living, which had been rising rapidly during the postwar period, spiraled upward at the rate of 22 percent per annum during 1951-1952. Since January 1952 the dollar value of the free peso has depreciated by about 90 percent. This inflation was stimulated by direct governmental promotion of industrialization through large-scale and long-term development programs which diverted resources from production of foodstuffs

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and consumption goods. Industrial development was promoted by central bank loans, by direct subsidies, and by preferential exchange rates to facilitate imports of materials and equipment. The growth of bank-held government debt resulted in a secondary expansion of bank credit, permitting a speculative boom. More recently additional impetus to inflation has come from increases in wages and welfare benefits.

29. Agricultural production has received comparatively little governmental aid or attention, and has not kept pace with the growth of population. Since 1947 Chile has been a net importer of foodstuffs. Cultivation and distribution methods are poor. The use of fertilizers is extremely limited despite Chile's position as the world's largest producer of natural fertilizers. Imports of farm machinery have been hampered by deterioration in the terms of trade of Chile's agricultural products.

30. In February Ibanez obtained from Congress special powers, terminating 4 August 1953, to carry out a broad program of administrative reforms and anti-inflationary measures. Under the authorization all measures decreed by Ibanez before 4 August would remain in effect after that date. Numerous administrative changes were effected under these powers, including measures to rationalize the government's credit machinery, and to reduce anticipated budget deficits through governmental reorganization and economy measures. It was not until 2 July 1953, however, that Ibanez took important anti-inflationary steps, a delay owing partly to differences of opinion in his cabinet over specific measures and partly to a reluctance to antagonize vested interests until he had improved his political position. On 2 July he ordered: (a) abolition of preferential exchange rates on most imports in order to alter the pattern of trade; (b) a general price rollback to 15 June 1953 effective for two years; (c) wage rises of 10 to 15 percent affecting medium and low wage workers to compensate for higher prices on the imported foods and materials formerly subsidized by artificial exchange rates. On 14 July the Administration out-

lined to Congress a comprehensive economic plan including austerity measures, fiscal and financial reforms, and a production policy designed to emphasize agricultural and service industries.

31. Increased domestic production of consumers' goods and foodstuffs is one element essential to a lasting solution of the inflationary problem. Incentive prices and subsidies would stimulate increases in agricultural output, but unless carefully managed would in the short run contribute to inflationary pressures. Ibanez hopes to obtain short-term US Export-Import Bank loans and a long-term World Bank loan to increase agricultural investment. The World Bank has estimated that, in order to ease the growing burden of food imports and to raise consumption levels slightly, it would be necessary to increase investment in agriculture by about \$300,000,000, one-third in dollar-financed imports, over an eight-year period. This would approximately double the present rate of investment in agriculture, which is now about 2 percent of gross national product.

32. The Chilean economy is heavily dependent on copper exports. The copper industry normally provides about two-thirds of Chile's total foreign exchange earnings and a substantial portion of its budgetary revenue. The government controls the sale of Chilean copper. It derives revenue from the US companies through the differential between its buying price from the companies and its higher export prices and through income and indirect taxes. It is highly doubtful that the current export price of Chilean copper can be maintained in the face of competition from other copper-producing areas, and the increasing availability and use of aluminum and other substitutes. In addition the demand for copper for rearmament and stockpiling purposes will almost certainly be reduced in the immediate future. A reduction in earnings from copper exports would aggravate the unbalance in Chile's international payments.

33. Friction has arisen between the Chilean Government and the US copper companies (Kennecott and Anaconda) operating in Chile. The companies maintain that the

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government pays them an unjustly low price (the former US ceiling price) for their copper, and that by asking an artificially high price abroad it has curtailed export sales. At present there is an accumulation of some 60,000 tons of unsold metal, equivalent to about seven weeks' production. They also complain that the income taxes are exorbitant and discriminatory, and that the arbitrary exchange rate is unfair to them. On the other hand, the Chilean Government complains that the local US managers are offensive in their dealings with the government and that the companies have not trained Chileans for higher executive positions. It also complains that the copper companies' labor relations have been unsatisfactory.

34. At present the Chilean Government is considering a revision of its policy toward the copper companies in order to maximize its profits from the sale of copper. The government has initiated consultations with the companies with a view to maintaining the present level of governmental revenue and making governmental control of the marketing of copper more effective.

FOREIGN POLICY

35. Chile's foreign policy is conditioned by a strong desire to retain the friendship and support of the United States, its most important copper market and the prospective source of needed financial and technical aid. Chile has generally cooperated with the US in the Organization of American States and has supported the US in the UN on major East-West issues. It has ratified the Rio Treaty and entered into a bilateral military assistance agreement with the US. Although Ibanez severely criticized this agreement during his campaign for the Presidency, his Administration has taken steps to implement it.

36. In recent years, however, increasing nationalism in Chile has complicated relations with the US. In common with other Latin American nations, Chile resents the alleged US neglect of Latin America since the end of World War II. It is strongly conscious of its position as an underdeveloped nation importing capital goods and manufactured equipment with the exchange earnings of its ex-

ports of raw materials. It has a constant fear of deteriorating terms of trade and is sympathetic to the point of view that underdeveloped countries have the right to nationalize their natural resources and to receive increased financial and technical aid from industrialized nations. On these issues Chile has exhibited over the past few years a willingness to cooperate in the UN with other underdeveloped countries such as the Arab-Asian bloc. Moreover, some elements in the Ibanez Administration favor the re-establishment of diplomatic and trade relations with the Soviet Bloc, hoping thereby to expand Chilean exports at higher prices. Thus far these elements have been overruled by Ibanez, who in a recent speech before Congress, attacked Soviet imperialism as being responsible for world tensions. Notwithstanding publicly declared support of the provisions of the Battle Act, Chile has not thus far adopted effective safeguards against the diversion of strategic materials to the Bloc. Substantial amounts of copper were shipped to the Bloc in 1951 and 1952 via third parties, and Soviet buyers continue to make special efforts to obtain additional amounts.

37. Ibanez is a personal friend of Peron and his following includes elements disposed to favor closer political relations with Argentina. Some of these individuals have a genuine admiration for Peron's nationalistic authoritarianism; others wish to make an alliance with Argentina as the nucleus of a solid Latin American bloc; still others hope to exert pressure on the US by making friendly overtures to its major opponent in the Western Hemisphere. However, a traditional Chilean fear of Argentine domination and a desire to avoid alienating the US have thus far inhibited a close alignment of Chile with Argentina. Ibanez himself has been wary of a close political relationship with Peron. In particular, he resisted Peron's attempts to include political clauses in the economic agreement signed by the two presidents on 9 July.

38. This Argentine-Chilean agreement contains no specific economic commitments. It is simply a general statement of hopes for the future expansion of trade between the two

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countries. Chile requires foodstuffs, especially meat, from Argentina, while Peron desires to increase imports of Chilean copper, iron ore, and iron and steel manufactures. In any case the amount of trade involved represents only a small percentage of the total foreign trade of each nation.

PROBABLE DEVELOPMENTS

39. Ibanez' most urgent political and economic problem is to halt inflation. His capabilities in dealing with this problem will be limited by softening of the world price of copper, by his lack of an effective majority in Congress, and by the diversity of his Congressional support. Requisite domestic measures to curb inflation will require further Congressional action and each will tend to antagonize some important interest. Nevertheless, Ibanez may succeed in carrying out a program which would temporarily check the inflationary trend. No lasting solution of this problem is possible, however, without a substantial increase in Chilean production of consumer goods. Such an increase cannot be achieved during Ibanez' term in office without substantial foreign financial aid. There is no assurance that such aid will be forthcoming or that it would be put to effective use. In the absence of adequate foreign aid and drastic domestic action, it is likely that the unsolved problem of inflation will lead to a political crisis in Chile before the expiration of Ibanez' term.

40. A decline in Chile's copper export earnings is apparently impending and inevitable. Such a decline would reduce both foreign exchange availability and government revenue, and would thereby aggravate Chile's already serious economic difficulties. This development would probably stimulate demands that the US support the price of Chilean copper or make up the difference through other forms of economic aid.

41. To the extent that Chile is unable to sell copper in the free world at a satisfactory price there will be increasing pressure to sell to the Soviet Bloc. Ibanez' statements of policy in relation to this subject have been equivocal or contradictory.

42. Chile will almost certainly support (or at least not oppose) the United States in the UN on all major issues arising from the East-West conflict. At the same time Chile will tend increasingly to demonstrate its independence of the United States, and, in economic matters, to act in concert with other Latin American countries regardless of the position of the United States.

43. Economic cooperation between Chile and Argentina may increase, but in the development of such cooperation Chile will exercise care to avoid economic and political domination by Argentina.

44. As long as Ibanez has any hope of US financial aid he is likely to take care to avoid antagonizing the United States, but he may seek to extort such aid by threatening cooperation with Argentina, with the USSR, or with the Arab-Asian bloc in the UN. If he is seriously disappointed in his expectations of US aid and faces a severe deterioration in the economic and political situation in Chile, he will probably attempt to regain popular support by a return to Yankee-baiting.

45. Ibanez would prefer to maximize government returns from the US copper companies in Chile without proceeding to the extreme of nationalization. If denied US aid, however, and facing a desperate economic and political situation, he would be likely, for political as well as economic reasons, to take steps against the copper companies which might lead eventually to nationalization of the industry. In the short run at least, nationalization would be more likely to reduce than to increase the revenues that the Chilean Government derives from copper. Nationalization would not eliminate Chile's imperative need to sell copper to the US.

46. In present circumstances Ibanez is capable of controlling Communist activities in Chile and will probably do so. However, a severe deterioration of the economic situation would greatly enhance Communist capabilities to foment labor disturbances and civil disorder. Should the Communists gain such influence as to threaten the government and Ibanez proved unwilling to take sufficiently vigorous

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action to control them, the armed forces would probably assume police powers if not actually take over the government.

47. Ibanez is apparently concerned to redeem his reputation by ruling constitutionally during his present term. It is likely, however, that his regime will become unpopular and that he will be unable to obtain effective support in the Chilean Congress. It is likely that sooner or later impatience, frustration, and the real need for drastic action will move him to abandon constitutional political processes and resort to arbitrary rule.

48. Given the probability of continued division among his political opponents and of the continued support of the armed forces, it is probable that Ibanez could rule arbitrarily for some time. It is likely, however, that his exercise of dictatorial powers would fail to relieve the economic situation substantially, and 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.

49. Any estimate of future developments in Chile must be qualified by reference to the advanced age and reported ill-health of President Ibanez. He will be eighty-one at the expiration of his term in 1958, if he survives that long. He may become physically or mentally incapable of dealing vigorously with the difficult problems which beset him. If he should die in office, the Minister of the Interior, under the Chilean constitution, would assume the functions of the Presidency, pending a special election to be held within sixty days. The present Minister of the Interior is Osvaldo Koch, Ibanez' son-in-law. Koch was an active Chilean Nazi before and during World War II. Like Ibanez, he has no present party affiliation. If he came to power in the circumstances envisaged he would presumably endeavor to continue the Ibanez regime and policies. He lacks, however, the personal prestige and political strength of his father-in-law.

50. 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.

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