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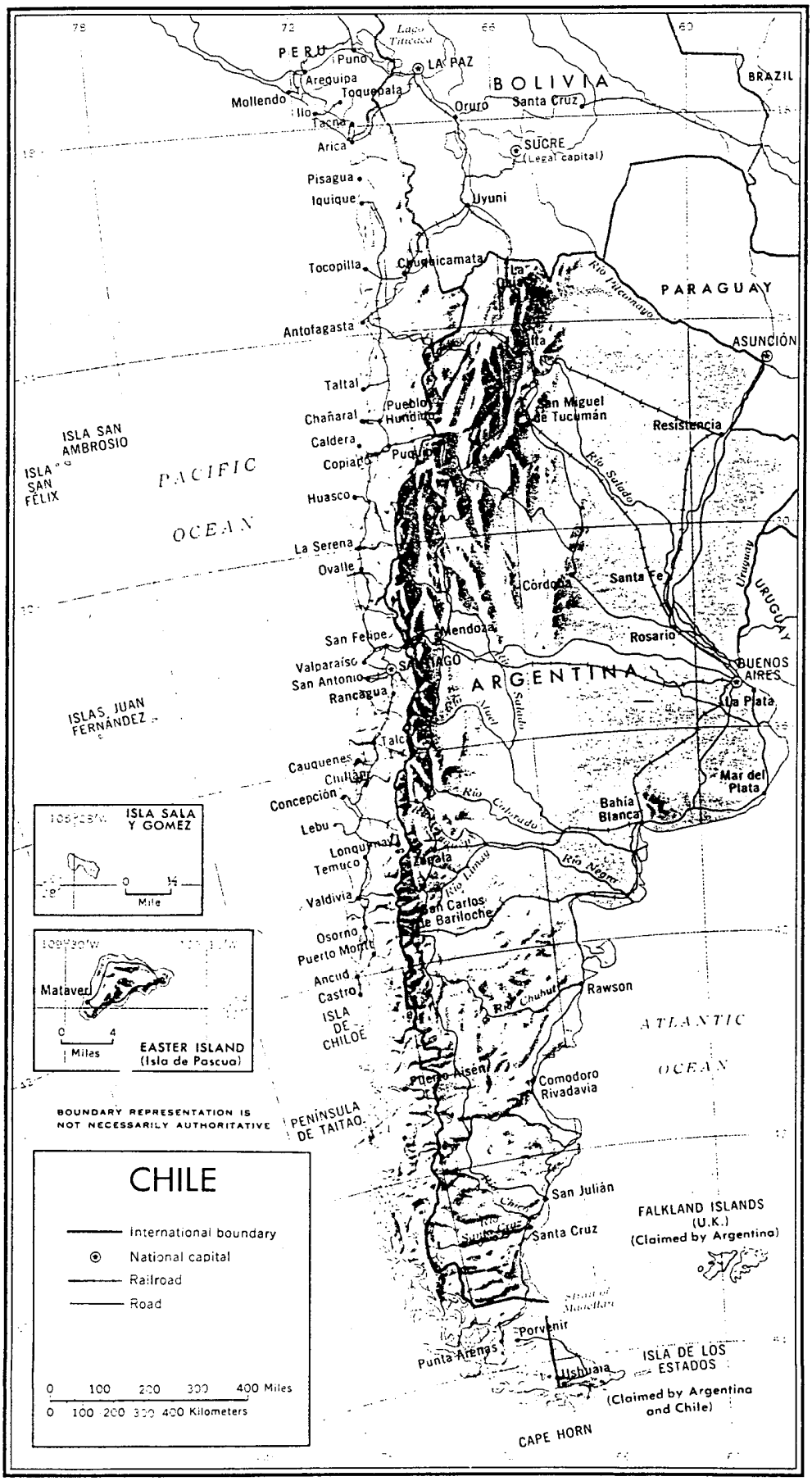
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THE OUTLOOK FOR CHILE

CONCLUSIONS

A. Over the last five and a half years, President Eduardo Frei has initiated many changes in Chilean society, for the most part designed to enhance the status and income of the poorer classes. The next administration, depending on its composition, may consolidate or accelerate these changes, but it cannot sharply reverse them. Frei cannot succeed himself and an election to determine his successor is scheduled for 4 September.

B. It is not possible to single out any one of the three candidates as the likely winner. None seems likely to win the majority needed for direct election. In that event the Congress chooses between the top two candidates.

Jorge Alessandri, an aging and ailing conservative elder statesman type, is still the front runner. He has the smallest bloc of supporters in the Congress, and even if he finishes first might be passed over unless he wins something like 40 percent of the popular vote.

Radomiro Tomic, the leftist Christian Democratic candidate, would almost certainly be the victor in the secondary election if he finishes first, and would have a good chance if he finishes a close second.

Salvador Allende, the Socialist who is supported by an electoral coalition strongly influenced by the Communists, must finish first in the popular vote to have much chance of election by the Congress.

C. None of the presidential candidates is supported by political forces that have a majority in both houses of the Congress and the next congressional election is not scheduled until March 1973. Alessandri, in particular, would have serious problems in his attempts to build a workable coalition to slow down the pace of reform and to consolidate the changes Frei has initiated.

D. There are measurable differences among the three candidates and the kind of government they would provide. Alessandri is the

only one who is well-disposed toward the Chilean private sector. The other two, although both strongly influenced by Marxist ideology, differ with regard to the kind of socialist state they want and the means for achieving it. Allende's socialist state would be a Chilean version of a Soviet style East European Communist state, secured with the help of the Chilean Communist movement. Tomic's model, on the other hand, is Yugoslavia. He would attempt to use the present constitutional system to impose his vaguely defined "communitarian" system, which envisages state operation of Chile's basic economic enterprises.

E. While we judge that Chilean democracy is likely to survive over the next two or three years, it will be tested in the near future and with even greater severity over the next decade. The greatest threat to stability and constitutional order would come from the policies of an Allende administration. Another threat might arise from the extra-constitutional reactions of its opponents, including the military. No matter who is elected, the tensions in Chilean society are likely to increase before they diminish.

F. There would be strains in US-Chilean relations under either Alessandri or Tomic but both men appear persuaded of the value of good relations with the US. Allende, however, would almost certainly take harsh measures against US business interests in Chile and challenge US policies in the hemisphere. The hostility of Allende and his allies towards the US is too deeply-rooted to be easily changed. On key international issues, which involved any kind of an East-West confrontation, an Allende administration would be openly hostile to US interests or at best neutral.

DISCUSSION

I. THE RECORD OF THE FREI ADMINISTRATION

1. The administration of Eduardo Frei took office in November 1964 amid widespread expressions of support for its declared program of "Revolution in Liberty." Its goal was to pursue far-reaching socio-economic reforms while preserving democratic liberties and institutions. The administration's efforts in housing, education, and agrarian reform, including rural unionization, were designed to expand the active electorate and to increase social and economic benefits to Chile's urban and rural poor. In fact, the growth in real income and social services for these groups has moved them toward fuller participation in national life. Frei's programs have, however, come too fast for some elements of society

and too slowly for others. They have been costly, politically as well as economically.

2. While implementing its reforms, the Frei administration saw its financial situation substantially assisted by three developments: record-breaking copper prices averaging almost twice those prevailing in the early 1960s, foreign assistance averaging nearly $200 million annually, and a sizeable inflow of private investment capital. The latter resulted from the agreements made with three US copper companies in 1967, which promised a favorable tax and investment policy over a 20-year period in exchange for the companies' participation in a major expansion program designed to double the production of copper. The Frei administration obtained additional benfits in 1969 by a phased nationalization of Anaconda's producing mines and by substantially raising tax rates on all major foreign copper companies, actions which effectively ended the 1967 agreements.[1]

3. The aforementioned factors enabled Chile to show a substantial surplus on its balance of payments in all but one year of the Frei administration, even with imports at a fairly high level. As a result, Chile's net international reserve position improved from a negative $240 million in 1964 to a positive $220 million in 1969. During the same period, however, the foreign debt of the public sector doubled, reaching a total of $1.2 billion. Moreover, Chile became even more dependent on copper exports, whose share of export earnings increased from 65 percent of the total in 1964 to 80 percent in 1969. (See Appendix for Figure 1: "The Role of Copper in Chile's Exports, 1960-1969.")

4. Increased revenues from both external and domestic sources have assisted in the initiation of programs aimed at improving the way of life of the nation's lower classes. Some of Frei's most impressive accomplishments have been in the field of education, where enrollment has increased nearly 50 percent, and the rate of illiteracy has been further reduced from some 16 percent in 1964 to about 11 percent in 1969. Even though he has not met his stated goals in other fields, such as housing and agrarian reform, his administration has made substantial progress despite the obstructionist tactics of his political opponents. Since Frei's program for expropriating and redistributing land did not receive congressional approval until July 1967, he had little chance of providing the 100,000 new, family-sized farms he called for during his election campaign. The costs of the program have been far higher than anticipated, and have held down the pace of land reform. Nevertheless, by the end of Frei's administration, about 25,000 landless families will have been settled—albeit on communal rather than individually-owned farms. (See Appendix for Table III—"Agrarian Reform in Chile.") In addition, his administration is exceeding the notable achievement

[1] With their $560 million expansion programs nearing completion and under a continuing threat of immediate expropriation, the companies had little choice but to go along with the government's escalating tax and equity demands. See Tables I and II of the Appendix for a summary of changes in Chile's tax revenue shares and foreign exchange earnings from US copper company operations resulting from "Chileanization" (1967) and "nationalization" (1969).

of his predecessor, Jorge Alessandri, in the construction of urgently needed housing.

5. One of the striking changes under Frei has been in the status of rural labor. Until Frei took power, the unionization of agricultural workers was so severely handicapped by legislation that there were but 24 rural unions with a total membership of just over 1,600. By August 1969 there were 469 rural unions with over 100,000 members. By May 1970, the rural unions were claiming a membership of some 155,000. As a result of unionization in the countryside, the traditional control of the *patrón* over his workers is breaking down. Strikes to press salary and other demands are now legal and occur on a province-wide basis.

6. The politicization of the rural population as a result of unionization and agrarian reform continues apace. Not surprisingly, these developments have met with the strong resistance of the landed interests. Moreover, contrary to its promises, the Frei administration has expropriated efficiently run farms. It has been charged, not without some justification, with favoritism in selecting the farms to be expropriated. In recent months, sporadic incidents of rural violence, which have caused blood to be shed and property to be destroyed, have become involved in the bitterly partisan national political contest to determine Frei's successor.

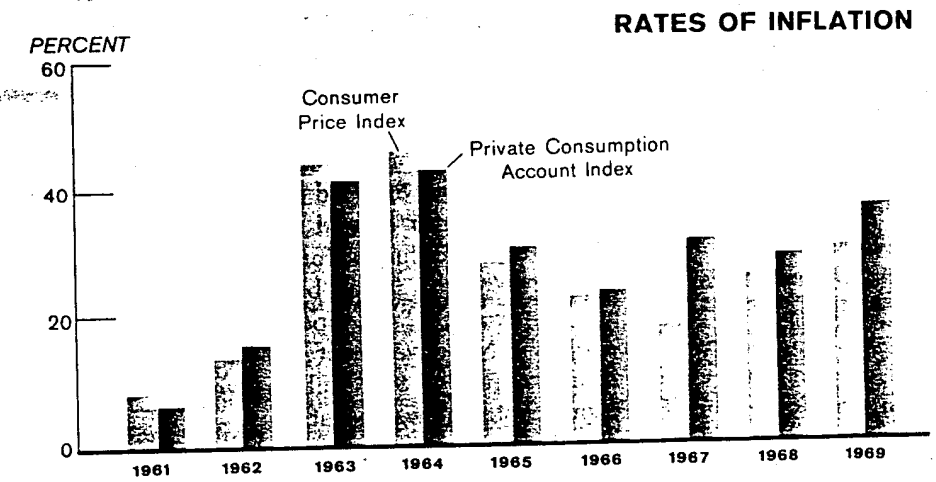
7. The Frei administration's record on both economic growth and price stability does not compare favorably with that of its predecessor (Jorge Alessandri, 1958-1964). Although Chile's rate of economic growth rose to 6 percent in 1965-1966, compared to about 5 percent under Alessandri, it fell to less than 3 percent during 1967-1969, only in part because of an extended drought which affected agricultural output in 1969. During his first two years in office Frei substantially reduced the pace of inflation. By 1967, however, the combination of rapidly rising wages, greatly increased government spending, excessive monetary expansion, and stagnating output caused the rise in the cost-of-living to accelerate. The official consumer price index shows an average annual increase of 25 percent over the past three years but other and more accurate official statistics [2] suggest that a 33 percent rate of inflation is closer to the mark, although that figure may also be too low.

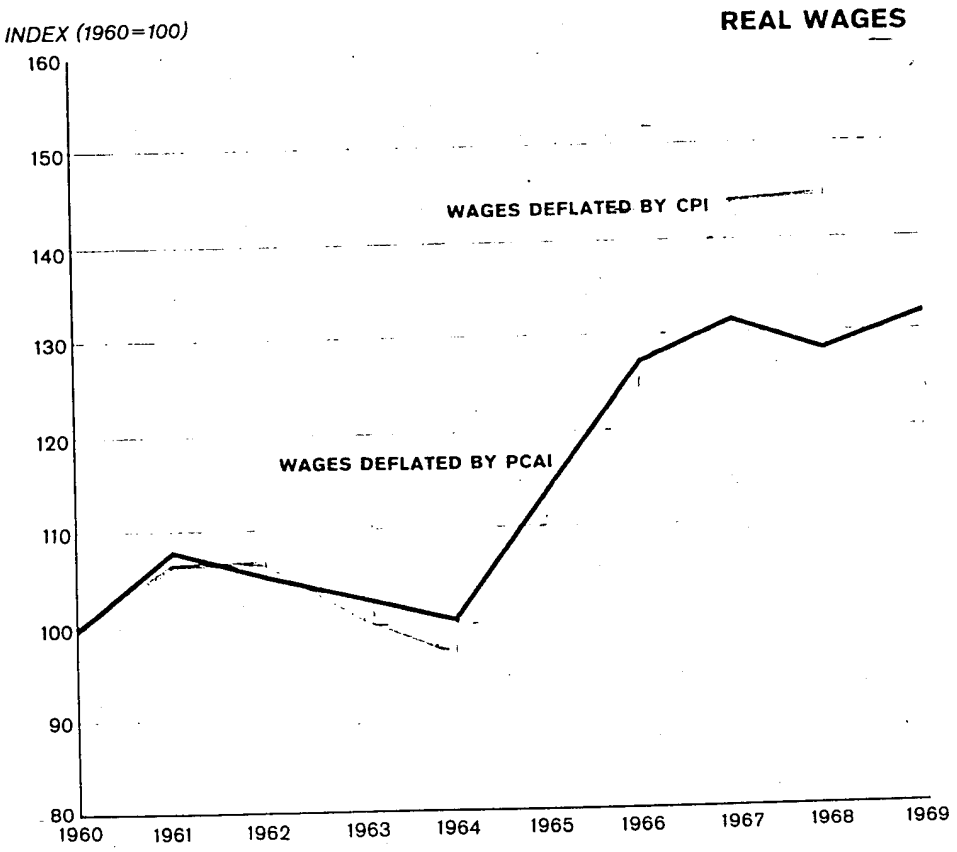
8. The Frei administration has given a high priority to income redistribution in order to raise the living standards of the nation's less privileged classes. In 1965-1966 (Frei's first two years in office) real wages rose by an estimated 25 percent. Since then, however, as the pace of inflation quickened and Frei attempted to moderate further wage demands, there has been little further advance. We estimate that, although nominal wages increased by 36 percent in 1967, real wages probably did not rise by more than 3 percent. Similarly, during 1968 and 1969, real wages barely held their own. (See Figure 2:

[2] Since 1966 the official price index, which serves as a basis for negotiating wages, has fallen considerably short of the true rate of inflation. The private consumption indexes provide a more accurate measure and are used as the basis for the discussion of real wages in the following paragraph.

Figure 2

Real Wages and Rates of Inflation in Chile using different deflators





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"Real Wages and Rates of Inflation in Chile Using Different Deflators.") Although under Frei many lower paid wage earners have received increases in real wages, as well as expanded social services, the more prosperous and better organized union workers have gained proportionately more because of their greater bargaining power.

9. As a result of government policies which promoted a redistribution of income and a continuing shift of resources from the private to the public sector, domestic private enterprise has lacked both the funds and the incentives to invest.[3] Private investment from domestic sources dropped significantly in the 1965-1969 period, going from about 9 percent to around 4 and a half percent of GDP. Moreover, total fixed investment, excluding foreign copper investment, was in absolute terms no higher in 1969 than it had been in 1964, and as a share of GDP had fallen to about 13 percent. (See Appendix for Figure 3: "Use of Available Resources, 1964-1969.") Net investment by the US copper companies increased at an average annual rate of $125 million over the 1967-1969 period while other direct foreign investment was negative.

10. Frei's reform programs have involved high political costs, probably exceeding his original expectations. Unlike most of his immediate predecessors, who were elected from the left and ruled with the right, Frei conscientiously attempted to carry out his campaign promises. Because Frei's changes have chiefly benefitted the lower classes, tensions between the classes have been increased and have been carried over into national politics. Political partisanship was also intensified by Frei's decision not to follow the traditional pattern of coalition government, under which opposition parties secured cabinet and other government posts in return for supporting the administration's legislative proposals. Moreover, as was the case with Cleopatra, where Frei has most satisfied, he has most aroused: the very success of his programs has led to still further economic demands and created political pressures for more radical changes. The detrimental economic effects of rapid reform in turn have limited the administration's ability to meet the expectations it aroused, and this has hurt the Christian Democratic Party (PDC).

11. Although Frei has established himself as the most popular political figure in Chile he has not transmitted his personal popularity to his party's candidate. Furthermore, his insistence on abiding by constitutional procedures and accepting the consequent delay and watering-down of his programs caused recurrent dissension within the PDC. More important, in 1964 the PDC provided the only attractive alternative to the candidate supported by the Communists and even more extremist elements of the society. By contrast, the independent voters, and particularly the nominally conservative voters who supported Frei in 1964, now

[3] Under the Frei administration public sector spending has gone from about 35 percent to 50 percent of gross domestic product (GDP). By 1969 public investment expenditures (including financing of private investment) equaled about 80 percent of gross domestic investment compared with less than 50 percent in 1963.

have a widely-respected candidate, Jorge Alessandri, as a non-Marxist alternative to the PDC candidate.

12. These developments have contributed to the difficulties Frei's party faces in the election to choose his successor scheduled for 4 September. There are, of course, other factors involved, which we propose to examine in the following analysis of the electoral contest, the character of the next administration and the implications for the US.

II. KEY POLITICAL FORCES

A. The Parties

13. *The Christian Democratic Party (PDC).* The Chilean Christian Democratic movement is noticeably to the left of its counterparts in Western Europe. Although not a confessional party, it puts much greater emphasis on carrying out the socio-economic tenets of papal encyclicals than they do. An extreme leftist faction has been sharply critical of the pace and scope of Frei's "Revolution in Liberty" and some of its members have bolted the party. Another faction of the party also urges an acceleration of change but has remained within the movement and supports Radomiro Tomic, the party's candidate to succeed Frei. Until 1963, when it emerged as the country's largest political party, the PDC had only limited and largely middle class support. Since then it has won a sizeable following among the urban and rural working classes. While its share of the total vote in the last two national elections fell from some 42 percent in 1965 to about 30 percent in 1969, it is still the country's largest political party.

14. *The National Party (PN).* The PN was formed in 1966 from the remnants of Chile's traditional Liberal and Conservative Parties. It has some middle and lower class support but basically represents the large- and medium-sized landholders, and industrial and commercial interests. The PN's principal political asset is the appeal of the candidate it is supporting, Jorge Alessandri. The PN, largely as a result of its identification with Alessandri, has revived from the stunning setback Liberal and Conservative candidates received when they won barely 13 percent of the total vote in the 1965 congressional elections. In 1969 the PN increased its following to 20 percent of the votes cast, and is now Chile's second largest political party.

15. *The Chilean Communist Party (PCCh).* Since regaining legal status in 1958, the PCCh has developed the most effective political organization and leadership of any Latin American Communist party or any other Chilean party. It has been careful to play down its close adherence to the Moscow line and to avoid direct involvement in violent revolutionary action. This is in line with the party's emphasis on the *vía pacífica* as the means for attaining power. Since the PCCh has not been able to win more than some 15 percent of the total vote in national elections, its leaders have sought and obtained electoral alliances with other parties. This tactic has also enabled the PCCh to secure control of

a great many combined local campaign organizations, and to utilize to the hilt the capabilities of the party membership which has expanded to some 40,000.

16. *The Socialist Party (PS)*. The Chilean Socialist movement has long been rent by personal rivalries as well as by differences over policies and tactics. Although the PS does have a more moderate faction, it has consistently been more radical than the Communist Party in its programs and tactics; an important faction advocates the seizure of power by force as the only way the Marxists can come to power in Chile. The PS draws its following largely from the lower classes, particularly organized labor, but also has some support among student and professional elements of society. In the last congressional election in 1969, the PS increased its share of the total vote to some 12 percent, only a slight gain over the 10 percent its candidates had received in 1965.

17. *The Radical Party (PR)*. There are a variety of other parties strung across the political spectrum in Chile. The only one of any importance, however, is the PR. Until eclipsed by the rapid rise of the Christian Democratic movement, the PR had been the major centrist party in Chilean politics, representing middle and some upper as well as lower class interests. In recent years the PR has been beset by recurrent factionalism with respect to policies and tactics, which has been exacerbated by personal rivalries. As a result the PR fell from first position in the congressional elections of 1961 to fourth position in 1969, when it secured just under 13 percent of the total vote. Over the last year or so the party leadership courted the Communists and Socialists in the hope of securing their support for a Radical candidate in the September 1970 elections. This tactic of wooing the Marxist left seriously disrupted the party. When its leaders decided to go along with a Socialist candidate—after their own was rejected—some prominent Radicals and many among the rank and file bolted the PR and now support Alessandri.

B. The Security Forces[4]

18. After the early 1930s, the Chilean Armed Forces established and maintained a generally apolitical position which has only recently been brought into question. The army, the predominant service, usually managed to make its views known to the top-level of the administration in power and when grievances arose they were settled quietly on that level. Since the Carabineros (national police) were charged with the day to day task of maintaining internal order, they suffered the resentment engendered in putting down demonstrations and riots staged by student and other political activists. Only when such matters threatened to get out of hand did the army take over to restore order. Both continue to enjoy a respected position in Chilean society.

[4] The Chilean security forces consist of an army of some 23,000, a navy of about 14,000, an air force of over 9,500 and the Carabineros of nearly 24,000. The Carabineros have initial responsibility for maintaining internal order but in case of emergency they are placed under army command.

19. In October 1969, some army units led by Brigadier General Roberto Viaux mutinied over serious grievances involving salaries eroded by inflation, deteriorating equipment, and dissatisfaction with Frei's appointees to the top military posts. The military leadership had tried earlier to paper over these problems by removing Viaux from command of troops. The mutiny, known as the "Tacnazo," was quickly contained and the military were calmed down by salary increases and the replacement of the Minister of Defense and some military leaders. But resentment in the military and apprehension among the political leaders persists. The upshot of all this is that the politicians can no longer take for granted the tradition of the Chilean Armed Forces of not involving themselves directly in Chilean politics. This is not to say that the armed forces are soon to go the way of repeated intervention in national politics as has been the case with some other Latin American security forces. It is clear, however, that the Chilean Armed Forces, and perhaps the Carabineros as well, have a renewed awareness of their potential political power and a greater inclination to use it.

III. THE ELECTION OF 4 SEPTEMBER

20. During this campaign the electorate is weighing a number of factors not present or not as important in 1964. This time the voters have a choice not only between the pace of reform (Frei and Allende in 1964) but also between reform (Tomic and Allende) and consolidation (Alessandri). With the "Tacnazo" still in their minds, many may consider whether the election of Allende would increase the possibility of military intervention. So far the policy of the US and its presence are not nearly the important issue in this campaign that they were in 1964.

A. The Candidates

21. *Alessandri.* Although his early sizeable lead has been reduced, Jorge Alessandri, who preceded Frei in the presidency (1958-1964), appears to be the front runner among the three major candidates. He draws suport from all classes in Chilean society. A successful businessman and a political conservative by Chilean standards, Alessandri has capitalized on the distrust many independent voters have for "politicians" by stressing his own political independence. A crusty, 74 year-old bachelor, he nevertheless has established a "father image" with particular appeal to the distaff side of the electorate. Moreover, Alessandri has a reputation for personal integrity, political honesty, and competence which rivals that of Frei himself. Alessandri is supported by the conservative PN, which sees him as the PN's only chance to regain power in Chile, by right-wing and centrist groups formerly aligned with the PR, and by nominally independent voters, including many from the lower class.

22. During the present election campaign the deterioration in Alessandri's physical condition has become apparent to a public which has seen relatively little of him since late 1964. Alessandri has been unable to compete with his younger rivals in the vigor of his campaigning. Their more efficiently managed and smoother functioning political organizations also appear to have contributed to

a gradual erosion of his large early lead. His candidacy has also been affected by statements and actions of some of his more reactionary supporters in the PN, including statements and actions defending the use of force in opposing agrarian reform.

23. Nonetheless, Alessandri's basic appeal as a man of integrity, who is above petty politics and can set things right, persists. While he obviously attracts those who feel he can reverse or at least slow down the pace of change, he also draws support from those who believe that Chile needs time to consolidate and adjust to the changes wrought under Frei, rather than to accelerate the pace as the two other candidates promise. Moreover, the serious disturbances of late June, involving urban terrorism by the extreme left and clashes between the Carabineros and students, is more likely to redound to Alessandri's benefit as a "law and order" candidate than to the benefit of his two leftist opponents. These incidents also bolster Alessandri's emphasis on the "*tranquilidad*" that he asserts prevailed when he was president, and which he promises to restore.

24. *Allende.* Salvador Allende, the Marxist Socialist running for the presidency for a fourth time, is supported by an electoral front, the Popular Unity (UP), whose major components are the country's Communist, Socialist, and Radical Parties. Allende secured the nomination of the UP after some bitter infighting in his own Socialist Party and resistance from the Radicals who wanted one of their own as standard bearer. He received decisive support from the Communists, who are furnishing most of the organization and leg work for his campaign. He also has the support of the United Popular Action Movement (MAPU), a group which bolted from the PDC, of some members of other small political groups, and of a number of the older labor unions that are strongly influenced by Communist and Socialist leadership. Although his chances have been somewhat reduced by disagreements within the UP, Allende still appears to be running in second place.

25. The electoral platform of the UP does not differ markedly from that on which Allende has run in previous elections. It stresses the unification of "popular" forces in order to carry out extensive and radical reforms. High in its priorities are the rapid nationalization of broad segments of the economy, including the remaining US ownership in the big copper mines. Although Allende has played down his identification with Fidel Castro, which proved to be something of a handicap in the election of 1964, he promises to establish diplomatic relations with Cuba, North Vietnam, East Germany, Communist China, and North Korea, and to increase trade and other ties with these and other Communist nations.

26. Allende and other UP spokesmen have not campaigned extensively against the US as they did in 1964. Allende, in particular, has stressed bread-and-butter issues and has skirted the more extreme proposals in the Basic Program of the UP in his attempt to present himself as a moderate, pragmatic leftist. In the last few weeks this strategy has been undercut by the identification of individuals captured in guerrilla training camps as members of the PS. Furthermore, since

Allende is identified with the Marxist left, he has been adversely affected by the recent outbursts of terrorism and violence involving leftist extremists in a society where reliance on constitutional procedures for solving national problems is still generally supported. Allende has demonstrated his sensitivity to this kind of issue by efforts to explain away the statements of some of his supporters threatening harsh treatment for their opponents after Allende triumphs.

27. *Tomic.* Radomiro Tomic is a veteran Christian Democratic leader, sometime Senator, and former Chilean Ambassador to the US. He accepted nomination by his party only after his grand strategy for bringing the PDC into an electoral coalition with the Communists and Socialists was rejected by the leaders of all three parties. Although he has a record of solid achievement by the Frei administration to run on, Tomic has continued to press still further leftward, insisting that he will follow a non-capitalist path, speed up agrarian reform, and nationalize various industries, including the holdings of the US copper companies during his first year in office. He apparently believes that his best campaign strategy is to talk sufficiently to the left to attract the large segment of the population that wants change but hesitates to entrust it to a Marxist candidate. Thus the principal difference between the domestic platforms of Tomic and Allende is that Tomic mingles some assurances to private enterprise with his calls for achieving a vaguely defined variety of socialism under a constitutional system; for example, he promises to negotiate compensation for the nationalized mining properties. In the field of foreign policy Tomic acknowledges the importance of close relations with the US, but stresses the necessity of an independent role.

28. Initially, Tomic's campaign was slowed by the fact that some of his rivals for the PDC nomination and other more moderate party members, including Frei, gave him something less than enthusiastic support. He has recovered from that low point by conducting a most energetic campaign and by putting more stress on the positive achievements of the PDC in power. Tomic, however, still concentrates much of his campaign oratory against the right and Alessandri. His reluctance to come out forcefully against the disorders caused by leftist students, and the terrorist activities involving student and other extreme leftists, has embarrassed the Frei government and left the law and order issue to Alessandri by default. The hierarchy of the Roman Catholic Church, in contrast to its support of Frei and the PDC in 1964, is maintaining a non-partisan position.[5] And the failure of the Frei administration to maintain control over inflation has given Tomic's rivals a gut issue which both of them have hastened to exploit.

29. Tomic has certain valuable assets. He has the backing of the government apparatus and the country's largest political party, which is well-funded and well-

[5] Before the 1964 elections, the hierarchy of the Roman Catholic Church had openly broken its formerly close ties with the country's conservative forces. Although leaders of the Church maintained that it was neutral, their statements endorsing reform identified them with Frei and the PDC, which had adopted the hierarchy's Pastoral Letter of September 1962 as the basis for its party platform. The hierarchy has put considerably more emphasis on the non-partisan role of the Church toward this election than it did in 1964, among other things because it does not regard Tomic as another Frei.

organized for the campaign. He undoubtedly will attract much of his support from the middle and lower-middle classes and from many of the new lower class voters who have benefited or hope to benefit from reforms associated with the Frei administration. Tomic probably also will be supported by some conservatives and moderates who cannot accept either the Communist-supported Allende or the aged and autocratic Alessandri. Despite these assets, however, and the recovery he has made from his initial slow start, Tomic still appears to be running third in a three-man race.

B. The Outcome

30. At the present time, no candidate seems likely to win the majority needed for direct election. In that event the Congress would meet on 24 October to choose between the candidates who finish first and second. On four previous occasions when this has occurred (1920, 1946, 1952 and 1958), the Congress in effect ratified the popular vote by selecting the front-runner, regardless of how slim a margin he obtained. This time, however, there almost certainly will be more political horsetrading than on previous occasions—particularly if the front-runner is Alessandri, who has only 43 nominal supporters among the 200 members of Congress.[6] Unless his share of the vote approaches the 40 percent mark, Alessandri might be passed over, particularly if Tomic is second and within a few percentage points in the popular vote. But if Allende is second—even a close second—Frei's influence, and perhaps that of the military, would be exerted on behalf of Alessandri, ostensibly to honor the Chilean tradition of ratifying the popular vote but in reality to block Allende. If Alessandri finishes second, his chances of winning Congressional approval are virtually nil if Tomic leads the pack, and poor even if Allende edges him by a narrow margin.

31. On the other hand, if Tomic were to secure even a slim plurality in the popular vote, he would almost certainly be elected. If he came in a close second his chances for victory would be good against either of the two other candidates. Allende, however, must finish first in the popular vote in order to have much of a chance of becoming president. Even then, if his margin over Tomic is narrow, enough of the PN and independents may vote against him to elect Tomic. If Allende's margin over Alessandri is narrow, the outcome would be largely decided within the PDC. Since Tomic has continued to court the UP, and Frei has opposed such tactics, there might be a showdown between the two for control of the party's congressional bloc. Frei may use his influence to block Allende if Allende leads Alessandri. And he might even support Alessandri if Tomic ran not too close a second on 4 September.

32. Although the percentages of the popular vote won by the two final contestants will be extremely important in deciding the winner, other factors will come into play if there is a close one-two finish. The commander in chief of the army has publicly and categorically announced military support for the con-

[6] The other 157 votes appear to be split fairly evenly between supporters of Allende (82) and Tomic (75).

stitutional right of the Congress to select either candidate. The unanswered question is whether he speaks for and can control the army, to say nothing of the navy, the air force and the Carabineros. In the event that public unrest continues—let alone accelerates—and Alessandri finishes only slightly ahead of Allende or even Tomic, there is at least some chance that Alessandri's backers would find allies among other military leaders in putting pressure on the Congressmen who might otherwise be inclined to vote against him.

33. In the event that the decision goes to the Congress and Allende is rejected, his supporters are likely to carry out widespread public demonstrations. These could lead to violent street encounters with the security forces. If Allende had finished first in the popular vote, they almost certainly would. The country's more extremist groups, including those which had not supported Allende, would exploit such an outcome as confirming the fallacy of the peaceful road to power. In the event of widespread and sustained disorders, the well-trained and competent Chilean security forces would be sorely tested, but would be able to prevent a forcible overthrow of the government by the extreme left.

IV. THE OUTLOOK FOR THE NEXT ADMINISTRATION

A. General

34. The race is still so closely contested that we cannot single out any one of the three candidates as the likely winner. There are various factors, such as Alessandri's and perhaps Allende's health, which may influence not only that contest but also the course of the next administration. For example, one of the key problems will be the next president's relations with a Congress which blocked and then watered down Frei's efforts to strengthen the position of the presidency in the Chilean system. The Congress is likely to be no less recalcitrant toward similar attempts by his successor, and by Alessandri in particular.

35. There is almost no chance that the next president will begin his term with the kind of mandate Frei received in 1964. None of the three candidates is supported by political forces that have a majority in both houses of the Congress, and the next Congressional election is not scheduled until March 1973. Alessandri, who commands the smallest bloc of congressional support, would probably have the most difficulty in building a workable coalition, in part because of his longtime criticism of the Congress and his efforts to strengthen the Executive Branch.[7] Allende and Tomic would face lesser but still formidable problems, unless either was able to make operative Tomic's proposal for a grand coalition of the Christian Democratic, Communist and Socialist movements. The more likely prospect is that whoever heads the next administration will have to try and find congressional support for his programs on a measure by measure basis. Given the intense political partisanship that has been generated in the

[7] The next administration could make use of a recent constitutional amendment which will enable it to call a national plebescite if the Congress rejects a constitutional amendment sought by the Executive Branch. This, however, involves the risk of a defeat which would further weaken a president's position vis-a-vis the Congress.

current campaign, the Congress may not even follow its past pattern of granting a new administration special powers (for a limited time) to cope with its immediate problems.

36. At least initially, the next president will have the benefit of a favorable financial situation. Copper earnings probably will continue their previous upward trend through 1970 and 1971, though the rate of growth may be slowed by declining copper prices.[8] After that the next administration probably will have to adjust to a leveling off or possible decline in export earnings, little or no new investment by US copper companies, and, at least, a declining net inflow of foreign assistance as repayments more nearly offset new drawings. The ability of Chile to handle these problems will depend greatly on the political complexion of the new administration and the manner in which its policies are carried out, particularly regarding the nationalization of copper and other industries. Similarly, the course of economic and political developments on the domestic scene will be strongly affected by the next administration's policies regarding such issues as agrarian reform, redistribution of income, and the role of the state in the society. Even with a continued favorable copper market, the next administration will encounter problems in maintaining present social welfare programs, let alone expanding them as Allende and Tomic have promised.

37. There are measurable differences among the three candidates and the kinds of government they would provide. Alessandri is the only one who is well disposed toward the Chilean private sector. The other two, though "socialists," clearly differ with regard to the kind of socialist state they want and the means for achieving it. Allende's socialist state would be a Chilean version of a Soviet style East European Communist state supported by the "popular unity" of the masses and ruling—at least theoretically—in their interests. Allende owes his selection as the candidate of the UP to the Communists, and he would also be heavily dependent upon them in carrying out his programs. He would move cautiously, as his Communist allies have long advocated, in changing the present political system. Nonetheless, he would exploit to the hilt the means at hand for pressing forward with the socialization of the economy, with the aim of destroying the economic bases of his political opponents and establishing tight control over the press, radio and television.

38. Tomic's model is Yugoslavia, with which he has ideological sympathy as well as personal ties. He would attempt to use the present constitutional system to impose his vaguely defined "communitarian" system, which envisages state operation of all of Chile's basic economic enterprises. Workers would share in the direction and profits of these enterprises and of the smaller ones left in private hands. In contrast to Allende, a wily political opportunist who already has Communist support, Tomic is a sincere idealist who is still bidding for it.

[8] Because of the US-copper companies' expansion program, the output of the large mines—mainly for export—is expected to rise from 550,000 metric tons in 1969 to 850,000 metric tons in 1971. Under the system imposed by the Frei administration on the large US companies in 1969, the effective tax rate on these sales now averages 85 percent.

He has repeatedly insisted that, in order to carry out his blueprint for the socialization of Chile, he must have the cooperation of the country's Marxist parties; despite the obvious distrust with which the Communists regard him, Tomic has managed to keep open his lines of communication with them. While he would attempt to work through the constitutional system, Tomic has authoritarian inclinations. He has said that if elected, he would brook no interference with his plans for solving Chile's problems. Unlike Allende, however, he would be operating under the restraints imposed by the sector of the PDC most responsive to Frei. This sector strongly supports the Chilean tradition of a relatively open society in which freedom of the press and individual liberties are respected.

B. Under Alessandri

39. Alessandri would attempt to consolidate the changes introduced under Frei by slowing the pace of reform and restoring the confidence of the private sector of the economy. He apparently realizes that agrarian reform is irreversible but would try to carry it out more efficiently and to make it less of a partisan political issue. Such a policy, however, would not only be opposed by many in the PDC and UP who wish to push ahead but would cost him support within the PN, some of whose members want to turn back the clock. On the matter of nationalization of the holdings of the US copper companies, Alessandri has pledged to honor the present accords, but he is capable of reversing himself should it prove politically expedient. In any case he would try to avoid precipitous action, such as expropriation without negotiating compensation.

40. Alessandri would be more cautious than either Allende or Tomic in his foreign policies. He would maintain the recent tendency in Chilean foreign policy to stress independence of US leadership and to urge Latin American unity in dealing with the US on hemispheric problems, particularly economic ones. He has grumbled that his previous administration broke relations with Cuba under heavy pressure from the US. There has been a recent limited renewal of trade between Chile and Cuba, which is supported by right-wing agricultural interests as well as leftist ideologues. He probably would go along if the Congress urged that restoration of diplomatic relations follow.

41. The activists on the far left are more likely to step up the level of their disruptive tactics against an administration headed by Alessandri than against one headed by either of the other two candidates. This could lead to a polarization between extremes of the left and right, particularly if Alessandri were not able to control the extremists among his own followers. Under such conditions certain military leaders might begin coup plotting; the unrest and dissatisfaction in the army, which surfaced in October 1969, indicate that it can no longer be depended upon to eschew direct intervention in national politics. The chances of such intervention would be affected by the degree of unity among the key military leaders and their estimate of the reaction of the Carabineros. In the event of Alessandri's death or incapacitation, the security forces would probably

support the Minister of the Interior in holding elections to determine the succession.

C. Under Tomic

42. Tomic has promised to accelerate and to expand the reforms initiated under Frei. To do so he must go to the Marxist left, which might involve attempting to bring the Communists and Socialists into his administration. The Socialists would be likely to refuse. The opportunities for the Communists would be so attractive that they would probably be persuaded that it was in their interest to cooperate with Tomic in carrying out the non-capitalist way. While Tomic would be in a better bargaining position in dealing with the Communists than Allende is, the price would still be high.

43. Tomic has emphasized increased control of the economy by the state, and it is clear that if he won the role of both domestic and foreign private enterprise would be further reduced. In view of his reiterated intention to proceed quickly with complete nationalization of the remaining holdings of the US copper companies, foreign investors would delay new investment until that issue was resolved and would be influenced by the way Tomic handled it. They would also be responsive to the style and content of Chilean foreign policy which, since Tomic has declared his intent to renew diplomatic relations with Castro's Cuba, would probably be at least as aggressively "independent" under Tomic as it has been under Frei. Tomic, like Frei, would have difficulty in both satisfying the expectations of his followers and keeping inflation under control.

44. Agrarian reform would be a sensitive issue for Tomic. He has promised to press forward rapidly on land distribution but any marked speed-up in the present pace would almost certainly encounter determined resistance from the smaller as well as the larger landholders. The way in which Tomic sets about fulfilling campaign pledges such as this one would be a determining factor in developments over the next two or three years.

D. Under Allende

45. An Allende administration would proceed as rapidly towards establishment of a Marxist-Socialist state as the circumstances permitted. Allende's rejection of the capitalist system is even more categorical than Tomic's and rather than negotiating compensation for expropriated properties, Allende promises to pay only what the government deems appropriate. He would move quickly to expropriate not only the copper mines and other properties with foreign ownership, but also the private banks and other important elements of the private sector with little, if any, compensation. Allende would substantially expand the present social welfare services, in part to fulfill his campaign promises but also in the expectation of attracting a greater popular following.

46. In the political arena, Allende would be likely to move cautiously in carrying out drastic changes in institutions, at least for the first year or so, because of

the likely adverse reaction of the security forces. While an open breach of the constitutional process or a direct attack on the armed forces institution would provide the impetus for a military coup, in an ambiguous situation that called for carefully graded responses the military leaders would find it difficult to unite and to act against the administration in power. Thus we think Allende would follow tactics designed to give him time to bring more cooperative officers into key military and police posts and to develop a much wider popular base than he now has. In such a situation the Communists would have opportunities to extend their influence throughout all levels of the Chilean Government and society, in pursuit of their goal of an eventual takeover of power. Allende undoubtedly expects that progress on basic bread-and-butter issues will afford him an opportunity to secure control of the Congress in the 1973 elections and thereby enable him to impose a socialist state of the Marxist variety by the *vía pacífica*—as his Communist allies have long advocated.

47. If Allende were to move adroitly enough he could take Chile a long way down the Marxist Socialist road during the six years of his administration. He would, however, have to surmount some important obstacles. These include the necessity of bringing the security forces to heel, of obtaining congressional support to carry out the initial phases of his program, and of keeping the UP coalition together. He would also encounter resistance from the moderate and conservative elements of society, from the Catholic Church and some segments of organized labor, and particularly from the sector of the Christian Democratic movement that responds to Frei's leadership. Timely and effective resistance by the latter groupings, however, would be handicapped by the many divisions and uncertainties which would exist among them.

E. In Sum

48. Chile is not a "banana republic," but a country with deeply ingrained democratic traditions. These are not only under strong attack from leftist extremists but from rightist elements as well. While we judge that Chilean democracy is likely to survive over the next two or three years, it will be tested in the near future and with even greater severity over the next decade. The greatest threat to stability and constitutional order would come from the policies of an Allende administration. Another threat might arise from the extra-constitutional reactions of its opponents, including the military. No matter who is elected, the tensions in Chilean society are likely to increase before they diminish.

V. IMPLICATIONS FOR THE UNITED STATES

49. Although an Allende administration would provide the most intransigent problems, there is scant solace for the future of US-Chilean relations, no matter who succeeds Frei. The trend towards more independence of the US is too deeply set to be easily reversed; that was apparent under Frei, who nonetheless went out of his way to maintain close and friendly relations with the US. There would be problems for US-Chilean relations under either Alessandri or Tomic

but both men appear persuaded of the value of good relations with the US, and probably expect a continuation of US assistance. If Tomic followed through on his promise to negotiate settlement for nationalization of the US-owned copper holdings, as Alessandri probably would, that issue could be kept manageable. The differences between Tomic and Alessandri in a so-called independent foreign policy would almost certainly be of degree not of kind. On key issues in the UN, and in the event of an East-West confrontation, both Tomic and Alessandri would either support the US or, at worst, remain neutral.

50. If Allende wins, the problems created for the US would be much greater. These would arise from measures taken against US business interests in Chile which would likely be compounded by statements and actions both abrasive to the US and challenging to US policies in the hemisphere. Allende's use of the tactics of confrontation, particularly as the Congressional election of March 1973 approaches, could set events in motion which would lead to an open break with the US. We do not believe, however, that Allende would deliberately seek such a break over the next two years or so.

51. The problems created by an Allende administration in its conduct of foreign policy would be extremely difficult to manage. They would involve the strains inherent in a situation where an Allende victory would be hailed by anti-US forces and others as a set-back for US interests, not only in Chile but throughout the hemisphere. An Allende administration would pose a serious challenge to US efforts at securing hemispheric cooperation on a wide range of issues. For example, Allende may be expected quickly to "normalize" relations with Cuba, and might well withdraw from the OAS. At the same time Chile's relations with Argentina probably would deteriorate because of Chile's increased ties with Communist countries. Finally, the hostility of Allende and most of his allies in the UP toward the US is too deeply-rooted to be easily changed. When key issues in the UN, or in world affairs generally, involved any kind of an East-West confrontation, an Allende administration would be openly hostile to US interests or at best neutral.

APPENDIX

TABLE I

CHILE: GOVERNMENT SHARE IN GROSS PROFITS OF MAJOR COPPER COMPANIES[a] 1966-1970

(Percent)

	Present Government Equity	1966	1967	1968	1969	1970
Anaconda/El Salvador	51%	50.1	49.9	50.0	68.1	87.6
Anaconda/Chuquicamata	51%	61.1	58.6	57.8	74.6	86.5
Kennecott/El Teniente	51%	78.5	70.0	72.6	80.0	83.5
Anaconda/Exotica	25%	--- (Being Developed) ---				55.7[a]
Cerro/Andina	30%	--- (Being Developed) ---				58.4[a]
Weighted average rate		67.2	61.9	61.0	75.8	84.6

[a] Does not include higher tax rates on "excess profits" (when copper exceeds $.40 a pound) which probably will be applied to these companies as well.

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TABLE II

CHILE'S NET FOREIGN EXCHANGE EARNINGS FROM THE OPERATIONS OF US COPPER COMPANIES

(In Millions of US Dollars)

					Projected [a]					
	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Total net returns to Chile	321	363	406	644	679	745	568	668	764	770
Exports of copper (f.o.b.)	489	549	549	741	802	1,002	898	895	988	987
Imports of operating goods and services (c.i.f.)	−43	−43	−55	−60	−62	−77	−79	−79	−79	−79
Profit remittances	−123	−146	−132	−117	−79	−118	−106	−64	−75	−75
Imports of capital goods	−4	−41	−108	−98	−62	−11	...	...	...	...
Changes in investment, net	2	44	152	178	80	−51	−145	−84	−70	−63

[a] Assuming average copper prices of 65¢ a pound in 1970, 58¢ in 1971, 50¢ in 1972 and 1973, and 55¢ in 1974 and 1975, that the rest of Anaconda's holdings are nationalized in 1972—the earliest option date permitted under the 1969 agreement—and that the payment terms included in this agreement are adhered to.

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TABLE III

AGRARIAN REFORM IN CHILE

	Number of Farms Expropriated	Acres Expropriated (in 000's) Irrigated Land	Total	Number of Families Settled	Number of Land Titles Issued
Total, 1959-1964	N.A.	45	2,064	1,159	1,159
1965 [a]	85	93	1,105	2,061	0
1966 [a]	262	141	1,263	2,109	0
1967	221	128	592	4,218	0
1968	220	110	1,608	5,500	0
1969	332	141	2,524	5,612 [b]	1,700 [c]

[a] Including several large holdings taken over from state entities.

[b] Provisional figure.

[c] Permanent communal rights only.

Figure 1

The Role of Copper in Chilean Exports

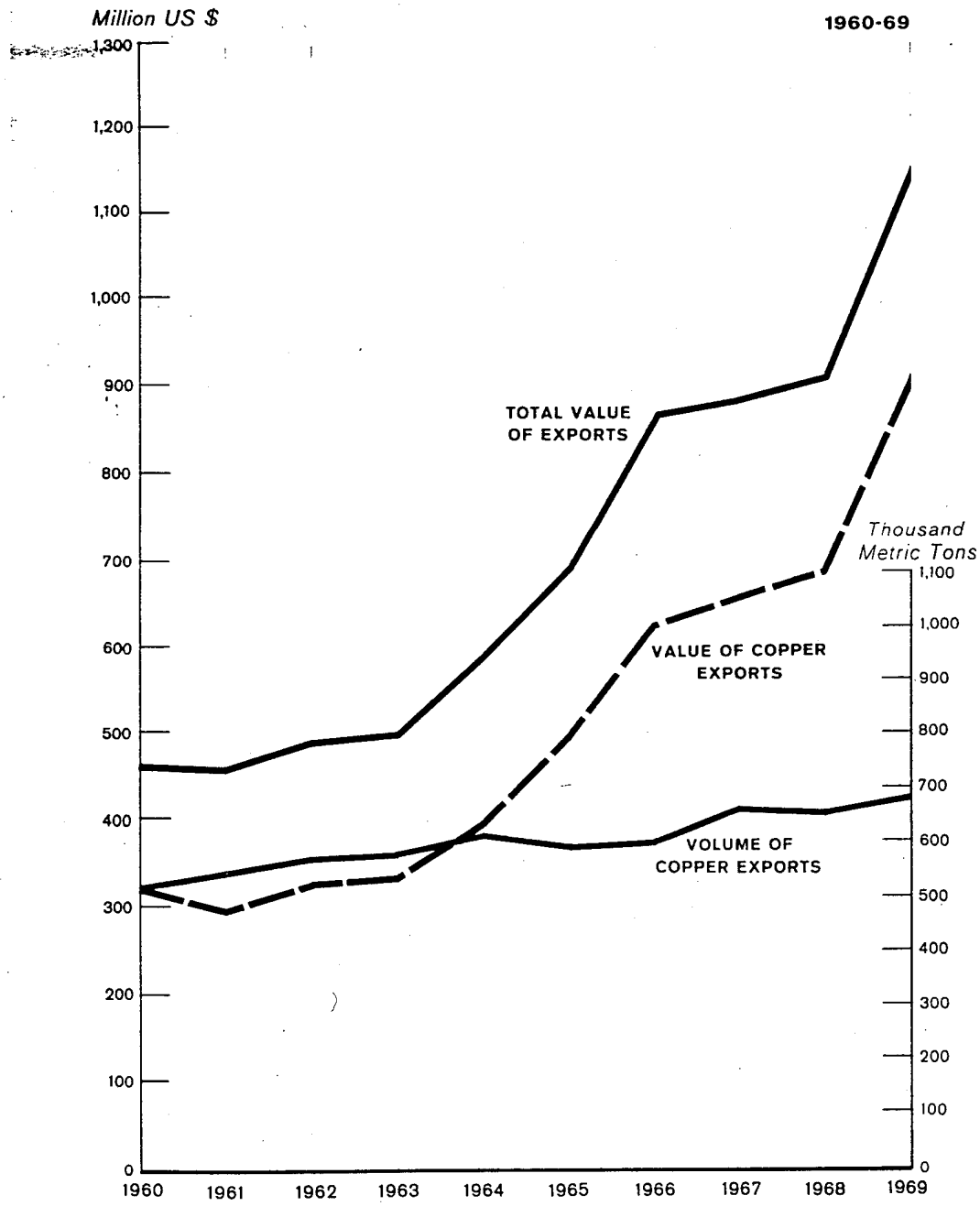

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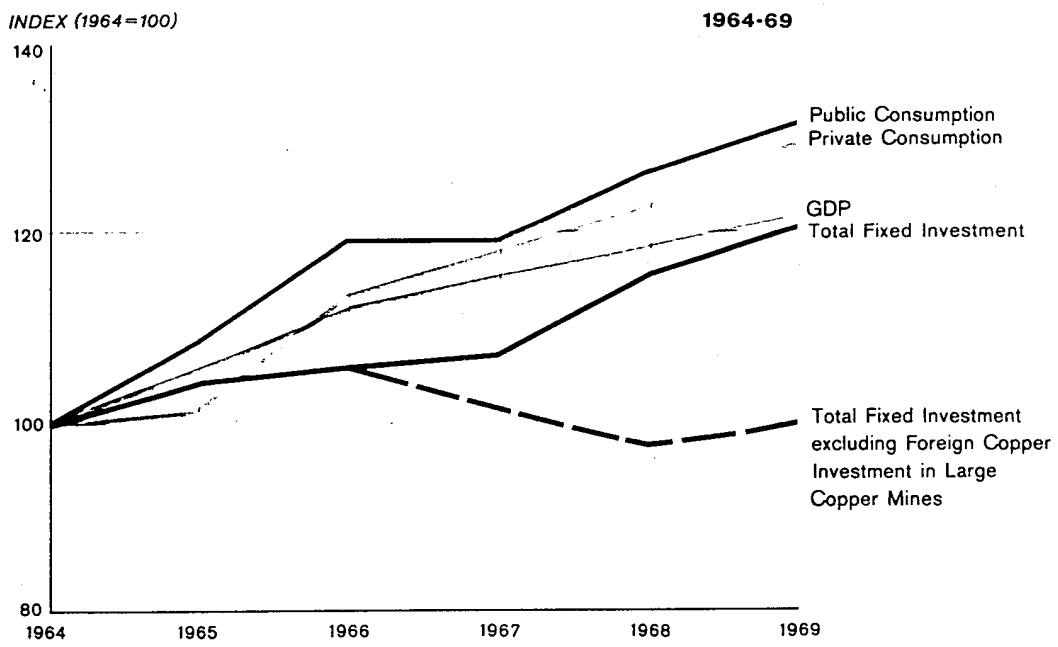
Figure 3

Growth of Consumption, Investment and Gross Domestic Product in Chile



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