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THE CHILEAN SITUATION AND PROSPECTS

THE PROBLEM

To estimate the situation and prospects in Chile with particular reference to the September 1964 presidential election.

CONCLUSIONS

A. Chile has a longstanding tradition of respect for constitutional order and civil liberties. It has accomplished a considerable political evolution by electoral means. Its human and material resources are adequate to provide a decent living for its rapidly growing population. Nevertheless, for half the population real wages have been declining since 1950, and a large portion of the population is ill-housed, ill-clothed, and ill-fed. *(Paras. 1–6, 17, 18)*

B. Consequently increasing popular dissatisfaction has been expressed in a steadily leftward political trend. In the presidential election of 1958, Salvador Allende, the nominee of FRAP,* failed of election because a minor candidate diverted from him a small part of the leftist vote. These election returns raised apprehension that the 1964 presidential election might bring to power a government under strong Communist influence, if not control. *(Para. 7)*

C. Subsequent congressional and municipal elections have shown that the leftward trend in Chile is continuing, but that the present beneficiary of this trend is not FRAP, but rather the Christian Democratic Party. This hitherto minor left-center grouping is attracting the votes of frustrated reformists who see little hope in the traditional political parties and are antagonized by the communistic tendency of FRAP. *(Para. 9)*

**Frente de Acción Popular,* a coalition of the Communist and Socialist parties.

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D. The outcome of the 1964 presidential election cannot be predicted a year in advance. The political situation is extremely fluid. Allende's candidacy now appears less dangerous than in 1958. The campaign of Durán, the candidate of the coalition of the traditional parties, has failed to gather momentum. On present showing, Frei, the Christian Democratic candidate, appears to be the leading contender. (*Paras. 10–16, 36*)

E. If Durán should be elected, the Chilean government's policies and performance would remain much as they have been under Alessandri. The government would profess reformist purposes, but the effectiveness of its reform measures would be limited by its need to placate various vested interests. Frei would strive to transform the economic and social structure of Chile, but he would be resisted by the vested interests. (*Paras. 8, 37–38*)

F. If, through the defeat of Allende, the Communists and Allende Socialists should be frustrated in their once-lively expectation of achieving power by electoral means, the Chilean Communists probably would not turn at once to revolutionary violence. The *Carabineros* and the military would almost certainly be able to cope with any attempt at either urban or rural insurgency. The Communists would prefer to preserve their present legal status and bide their time, trusting that conservative political influences will continue to prevent effective social reform and that the cumulative frustrations and resentments of the masses will eventually bring them to power. (*Paras. 42–44*)

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I. THE SOCIAL BACKGROUND

1. Chile's rapidly growing population now numbers about eight million. Racially and culturally, it is one of the most homogeneous in Latin America.* About 95 percent of the population are at least nominally Roman Catholic. About 80 percent of the adult population are literate. Three-fourths of the people live in the central one-third of the country, a fertile area with a climate like that of California. (See map.) About 60 percent live in urban communities. Almost all participate in the money economy.

2. Chilean national unity is impaired, however, by strong class distinctions. The upper class—large landholders, and commercial and industrial magnates—conforms to the pattern of conspicuous consumption familiar elsewhere in Latin America. It is able to maintain this style of living in part through the avoidance of direct taxes. These magnates have had to share political power with a rapidly growing middle class, one of the largest in Latin America, now about 40 percent of the population. Within this middle class there are divergencies of interest between independent professional and business men on the one hand and white collar employees on the other. These politically effective social elements have defended and promoted their respective interests without much regard for the generally deplorable lot of the lower class.

3. Chile's regressive tax system and chronic inflation have borne heavily upon the lower class—and, to a lesser degree, upon the white collar employees of the lower middle class. Since 1950 the real wages of unskilled and unorganized workers have declined. Although some organized workers, such as the employees of the US mining companies, live relatively well, an estimated half of all industrial workers are ill-fed and ill-housed. The employment and housing problems are rendered increasingly acute by the high rate of population growth (2.5 percent per annum) and by the migration of peasants to town in search of economic and social betterment.

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*The *Chilenos* (90 percent of the population) are of predominantly Spanish stock, but, except in the upper class, most have some Indian admixture. The only considerable group of unassimilated Indians are the Araucanians of south-central Chile, who were not finally subdued until 1887. In the same general area there is also a considerable native-born community of German origin and culture.

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II. THE POLITICAL TRADITION AND TREND [1]

4. Chile has a longstanding tradition of respect for constitutional order and civil liberties. Resort to force in politics has been rare.[2] Election results are normally accepted. Consequently, it has been possible to accomplish a significant political evolution by electoral means. In contrast to the executive domination characteristic of most Latin American countries, in Chile the legislative and judicial powers are respected and effective. A highly competent national constabulary, the *Carabineros*, is normally able to maintain law and order without the intervention of the military.[3]

5. The upper class monopoly of political power was broken by the presidential election of 1920, but the political predominance of the middle class was not consolidated until the period 1938–52. In the elections of 1938, 1942, and 1946, the largely middle class Radical Party won the Presidency with the support of the Communists and sometimes with that of the Socialists as well. This period of Radical administration illustrates the Chilean adage, "Elect with the left, rule with the right." Once elected, Radical Presidents usually followed moderate policies and often appointed conservatives to cabinet positions. The Radicals enlisted conservative support for their program of rapid industrialization by tacit agreement not to press for agrarian reform. The Communists received three cabinet positions as a reward for their support in the election of 1946, but, when the Party proceeded to foment industrial and agrarian unrest, the Radicals combined with conservatives to pass legislation outlawing it. In general, as upper middle class Radicals have prospered, politically and economically, their interests have come to coincide with those of the upper class.

6. The Radicals' program of rapid industrialization failed to live up to expectations, and the distortions which it introduced into the economy resulted in uncontrolled inflation. Consequent popular distress and dissatisfaction defeated the Radical candidate in the presidential election of 1952. The winner of that election was a nationalistic and demagogic "strongman" without party affiliation, General Carlos Ibáñez del Campo.[4] The voters who elected him evidently desired a strong *patrón* who would enforce order and relieve distress without reference to any ideology. During Ibáñez' administration, however, real wages con-

[1] For a description of the principal Chilean political organizations and pressure groups, see Annex A.

[2] This generalization is not true for the period 1924–38, which was marked by disturbances attributable to economic dislocations and to the strains inherent in the transition from upper class to middle class political predominance.

[3] For a summary description of the Chilean armed forces, see Annex B.

[4] Although the legal proprieties were observed, Ibáñez had ruled Chile as virtually a military dictator, 1926–31, first as Minister of War, then as elected President.

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tinued to decline and unemployment became a serious problem. In their disillusionment and despair, lower class voters began to turn to the ideological left for salvation.

7. Leftist candidates won a majority of the popular vote in the presidential election of 1958. Salvador Allende, the Socialist candidate of a leftist coalition including the Communists,[1] failed of election because a minor candidate diverted from him a small part of the leftist vote. This fortuitous circumstance permitted the conservative candidate, Jorge Alessandri,[2] to win the Presidency. Nevertheless, the 1958 election returns foreshadowed the possibility that a coalition including the Communists might come to power by electoral means in 1964.

8. In the face of this threat, and in keeping with his campaign promises, Alessandri has striven to increase production, reduce unemployment, curtail inflation, and carry out moderate agrarian and tax reforms. To obtain needed congressional support, he took Radicals into his cabinet; they stipulated that sufficient reforms must be undertaken to provide a good record for a Radical candidate to run on in the presidential election of 1964. The administration's reform program,

THE COMPOSITION OF THE CHILEAN CONGRESS

NOTE: 20 Senate seats, distributed as shown in parentheses below, and all Chamber seats will be subject to election in March 1965.

Party	*Senate*	*Chamber*
Conservative	4 (2)	17
Liberal	10 (5)	28
Radical	13 (7)	39
Christian Democratic	4 (1)	23
National Democratic	— —	12
Socialist	7 (3)	12
People's Vanguard	1 —	—
Communist	4 —	16
Independent	2 (2)	--
	45 (20)	147

however, has been hindered and watered down by the resistance within the government coalition, whose controlling members are not by nature enthusiasts for reform. Although some progressive measures have been adopted, the administration has not accomplished enough to arrest the leftward trend in Chilean politics.[3]

[1] The *Frente de Acción Popular* (FRAP). See Annex A.

[2] Although the candidate of the Conservative and Liberal parties (see Annex A), Alessandri had a good reformist name. His Liberal father had been Chile's outstanding proponent of reform, twice elected to the Presidency (1920–25, and 1932–38) with Radical support.

[3] The resignation of the Radical cabinet members in September 1963 will reduce the pressure for reform within the Alessandri administration. Although the Radicals remain disposed to support further reforms, not much more is likely to be accomplished before the 1964 election.

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9. The congressional election in 1961 and the municipal elections in early 1963 have shown that the leftward trend in Chile is continuing. The municipal elections show also, however, that at present the principal beneficiary of this trend is not FRAP, but the Christian Democratic Party (PDC). In the Chilean political spectrum, this reformist offshoot

Party Electoral Strength, 1961 and 1963

	1961 Congressional Elections[1]		*1963 Municipal Elections*[2]	
Democratic Front (FD)		*Percent*		*Percent*
Radicals (PR)	296,704	22.0	427,842	21.60
Liberals (PL)	221,361	16.5	259,683	13.11
Conservatives (PUC)	197,151	14.7	225,075	11.36
Democrats (PD)	—	—	19,409	1.00
Totals	715,216	53.2	932,009	47.07
Popular Action Front (FRAP)				
Communists (PCCh)	157,451	11.7	254,178	12.83
Socialists (PS)	149,420	11.1	224,071	11.32
National Democrats (PADENA)	95,282	7.1	101,427	5.12
People's National Vanguard (VNP)	—	—	3,101	.15
Totals	402,153	29.9	582,777	29.42
Christian Democrats (PDC)	213,559	16.5	452,843	22.86
Independents	—	—	12,759	.65

[1] The Democratic Front was not yet operative in the 1961 elections but the totals of the parties now comprising it are listed together for comparison with the 1963 totals.

[2] In Chile, as elsewhere, municipal elections are normally dominated by local factors. In 1963, however, the national party organizations fought them on national political issues, as a demonstration of party strength in anticipation of the 1964 presidential contest. The estimate of a strong trend toward the PDC does not depend solely on these 1963 returns, but is confirmed by other current indications.

of the Conservative Party stands generally to the left of the Radical Party, but it is explicitly anti-Communist. Its present emergence as the strongest single party in Chile has coincided with a decline in the voting strength of the Conservative and Liberal parties, and also of PADENA,[4] the non-Marxist member of FRAP. The PDC is increasingly attracting the votes of frustrated reformists who see little hope in the traditional parties and are antagonized by the communistic tendency of FRAP. This trend is likely to continue, and to make the Christian Democratic Party a formidable contender in the presidential election of 1964.

[4] *Partido Democrática Nacional.* See Annex A.

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III. THE 1964 PRESIDENTIAL ELECTION

10. Although the 1964 presidential election, to be held in September, is still a year off, the three principal candidates have already been designated. They are Senator Julio *Durán* Neuman, a Radical, for the Democratic Front (a coalition of the traditional political parties); Senator Salvador *Allende* Gossens, a Socialist, for the Popular Action Front (FRAP); and Senator Eduardo *Frei* Montalva for the Christian Democrats. A minor candidate, independent rightist Jorge *Prat* Echaurren, is also in the race.

11. *Durán,* 45, is a wealthy lawyer and financier. His nomination was dictated by the inner circle which controls the machinery of the Democratic Front parties. Although his platform professes reformist purposes, he is hardly credible as a champion of reform. For this reason, he has little appeal for independent voters, or for the reform-minded elements of the Democratic Front parties. Moreover, many of the Conservatives, an explicitly Catholic party, may be alienated by the fact that he was once a Mason. For these reasons, many voters who would otherwise have supported the Democratic Front are likely to switch to the other candidates.

12. Disgruntled elements within the Democratic Front now privately contend that Durán cannot win and that President Alessandri should be substituted for him as the Front's presidential candidate. The trouble with this proposal is that the constitution does not allow an incumbent President to succeed himself. To amend this provision in the midst of a presidential campaign would antagonize many voters. Even if the substitute were not Alessandri, but, for example, the generally popular former President Gabriel González Videla, the displacement of Durán would antagonize his supporters and might destroy the Front. It could split the conservative vote between two rival candidates, ensuring the defeat of both. In addition, because the Communists hate and fear González Videla, who outlawed them in 1948, they might decide to support Frei covertly if González Videla became the Democratic Front candidate. For these reasons, and for lack of an adequate substitute candidate, the party managers are presently disposed to stick with Durán.

13. *Allende,* 55, is running for the third time as the nominee of FRAP. Originally a moderate Socialist, Allende, as a candidate, has adopted a strongly pro-Castro and pro-Soviet line. Some of his Socialist followers are more vehemently revolutionary than are the Communists. (The Communists' present policy, called the *vía pacifica,* is to pursue their ends by strictly political means, with special care to avoid the suppression which they suffered from 1948 to 1958.) Allende's identifica-

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tion with Castroism and communism is likely to antagonize some independent voters and to cause further defections from FRAP. Already most members of PADENA have broken away, two groups declaring themselves for Frei and another for Durán. On the other hand, Allende is an established political figure with considerable personal prestige, a factor not involved in the municipal elections. Moreover, he may gain the support of leftist Radicals unwilling to support either Durán, a plutocrat, or Frei, a Catholic.

14. *Frei*, 52, a well-known and attractive personality, is certain to benefit from the existing disarray within the Democratic and Popular Action fronts. Although his party won only 23 percent of the vote in the municipal elections, as compared with 29 percent for the FRAP parties and 47 percent for the parties of the Democratic Front, the tide appears to be running strongly in his favor. He will probably outrun Allende in the presidential election. He may even be able to surpass the vote which the Conservative, Liberal, and Radical party machines will be able to deliver for Durán.

15. *Prat*, 45, is a strong rightist without organized party support. He is likely to attract votes which would otherwise have gone to Durán, or to Frei. Prat recognizes that he might thus bring about the election of Allende; he says that, if this result seems likely, he will withdraw his candidacy. In that event he would probably throw his support to Frei, since he supported the PDC in the municipal elections.

16. The Chilean constitution provides that, if no presidential candidate receives a majority of the popular vote, the Congress (the Senate and Chamber in joint session) shall choose between the two leading contenders. This choice normally devolves upon Congress, as it almost certainly will in 1964. Hitherto, Congress has always chosen the candidate with the greater popular vote. The present Congress, which will hold office until the congressional election in 1965, is composed of 111 representatives of the Democratic Front, 52 representatives of FRAP, 27 Christian Democrats, and two independents. It would almost certainly prefer Durán, but would probably elect Frei if he were to lead in the popular vote. It would not be likely to elect Allende unless he were to lead the poll by a clear margin.

IV. THE ECONOMIC SITUATION

17. Chile's political future will depend to a very considerable extent upon the ability of its economy to increase output and productivity and thereby to provide adequate levels of living for the rapidly expanding population. Chile's basic resources are adequate for this purpose, but only if they are more rationally utilized, and if there is a more equitable

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distribution of the national income. Since the war Chile's economic growth has lagged behind much of the rest of Latin America. Between 1950 and 1960, GNP increased by an average of 3.5 percent per year, but this represented only about a 1 percent increase *per capita*. Nevertheless, the real wages of urban blue collar and rural workers declined over the same period. These workers and their families make up somewhat more than half of the Chilean population.

18. Chile's extensive natural resources include the world's largest known deposits of nitrates and medium-grade copper ore, and large deposits of high-grade iron ore. The country has sizable deposits of medium and low grade coal, but lacks coking coal. A large but little exploited hydroelectric power potential exists near the largest concentration of population. Petroleum reserves in the South are probably adequate to meet domestic requirements. The amount of arable land, if properly utilized, is more than adequate for Chilean needs. The country has extensive forests, and its rich fishery resources have barely been tapped. The largely homogeneous population and a relatively well-developed educational system provide human resources that are also considerably above the Latin American mean.

19. Many of Chile's economic problems stem from the shortcomings of its agriculture. A large proportion of the best Chilean agricultural land is organized in large holdings; much of it has been underutilized. At the other end of the scale there are many tiny properties inadequate to provide more than a bare subsistence living. Agriculture as a whole has suffered from technical backwardness, inadequate investment, and poorly developed distribution and marketing facilities. As late as the early 1940s Chile was a net exporter of agricultural commodities, but now it must spend an increasing share of its foreign exchange earnings on agricultural imports, over half of which consists of foodstuffs that could be produced domestically. While agriculture accounts for only 12 percent of GNP, it employs about 30 percent of the country's labor force. Thus labor productivity is low and the cash income of the rural laborer is substantially below the national average. Between 1950 and 1960 agricultural production grew at an average rate of 1.8 percent, less than the annual average population growth of 2.5 percent.

20. Industrial development has had the solicitous attention of successive Chilean Governments for most of the present century, and has since 1938 received the principal emphasis in Chilean economic policy. The objective has been to provide employment opportunities for workers who could no longer be absorbed in agriculture, and to help conserve foreign exchange. Industry was assisted in various ways, including high tariffs, easy credit, and exchange policies favoring imports of raw materials and foodstuffs for the expanding industrial labor force. Favoritism for in-

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dustry intensified the urban-rural imbalance and increased pressures from other sectors of the Chilean economy. Ne cted agricultural interests, penalized by low farm prices, fought to maintain their relative freedom from taxes. Lacking incentives for investment in farm production, large landholders increasingly clung to unproductive estates primarily as a hedge against inflation. Organized labor secured periodic wage adjustments to compensate for steady rises in the cost of living—due in large part to increased food costs. As a consequence, industry was allowed to raise its prices to re-establish working capital and profit levels reduced by increased wage bills. The result of this combination of the drive for industrialization and concessions to pressure groups has been unbalanced growth, declining productivity, and inflation that has ranged from 15 to as high as 80 percent per annum.

21. There has been a considerable growth in industry since the war and it now accounts for over one-quarter of GNP and provides 75 percent of Chile's consumer goods. Industry has not, however, realized the hopes originally held out for it. It is heavily dependent upon imported capital equipment and raw materials, and, far from relieving the balance of payments, has been a continuing burden upon it. Because much of Chilean industry is monopolistic and inefficient, it is handicapped in competing for foreign markets, and inflates the internal price structure. The limited size of the domestic market, so long as it is coupled with depressed living standards for nearly half the population, makes it difficult for industry to achieve economies of scale. In these circumstances Chilean industry has virtually exhausted the opportunities for substituting its own products for imported consumer goods and lacks the capital and know-how to compete with imported heavy industrial products. Industry has not been able to absorb more than a fraction of the annual additions to the labor force.

22. The inability of industry and agriculture to provide employment opportunities for the growing labor force has led to the development of a large service sector, which accounts for over 50 percent of GNP and about one-third of the labor force. Commercial activities make substantial contributions to GNP, but the balance of the service sector—particularly government and personal services—has become a reservoir for surplus labor and is highly inefficient. Successive national governments, committed to a policy of full employment and extensive welfare services, have increased public expenditures to support a growing bureaucracy and other service sector activities. Although underemployment as well as unemployment have been reduced by the upturn of the economy since 1960, both persist as serious basic problems.

23. Inflation has been a major Chilean problem since the last century. It became particularly acute after World War II, despite recurrent efforts by the government since 1956 to curb it. The expanding role of the government in the economy has been a major cause of inflation as

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revenues, largely dependent on foreign trade, have failed to keep pace with the rising level of government expenditures. Inflation has been fed by easy credit policies and the success of politically influential groups in repeatedly securing relaxation and subsequent abandonment of stabilization programs. Other basic causes of inflation have been the slow growth of Chilean agriculture, a long term worsening of the terms of trade over the past 25 years, and an official policy of annual wage increases to offset rises in living costs. In the year ending 1 July 1963, the cost of living index rose 45 percent, and even sharper rises have occurred during the past decade.

24. The persistent balance of payments problem has been aggravated rather than aided by efforts to protect both agriculture and industry and by substantial flights of capital. As a result Chile has not been able to accumulate a sizable foreign exchange reserve to cushion the impact of sharp variations in earnings from mineral exports, which provide over 85 percent of export income. Despite continued expansion in the output of the mining sector, net deficit on current account totalled $186 million in 1960 and $225 million in 1961. In 1962 the Alessandri administration was able to reduce the deficit to $115 million by imposing severe restrictions on imports and by devaluing the *escudo* in October. Large-scale foreign financial assistance has been necessary, however, to prevent a serious curtailment of economic activity. The US, the principal source of outside assistance, has committed some $570 million since 1958 in support of the present administration's programs.

25. Foreign private investment by Europeans and Japanese is increasing, but US direct private investment (est. $800 million) accounts for 70 percent of all foreign investment in Chile. The US investment is located principally in mining and public utilities, activities in which foreign capital is particularly vulnerable to political attack in Latin America. Because the mining industry is isolated from the main stream of Chilean life—located in geographically remote areas and employing relatively few workers—it has made little contribution to local technology or the modernization of business outlooks and management. These companies are threatened by proposals for nationalization and are subjected to discriminatory treatment such as the new tax boosts which, in 1961, caused the two big US copper companies to postpone plans for large new investments to expand production.

26. The Alessandri administration announced in 1960 a 10-year development plan which would need to be supported by an estimated $8 billion investment, including $1.3 billion of foreign capital. The plan envisages an overall annual growth in GNP of 5.5 percent through increased investment in various fields with particular emphasis upon economic infrastructure—roads, ports, power, irrigation, and housing. The plan has been criticized for its failure to address itself to the basic

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problems of rural-urban imbalance, to take much cognizance of Chile's increasingly urgent social problems, and to provide for the self-help measures called for under the Alliance for Progress.

27. Chilean efforts, since October 1962 to carry out a new stabilization plan essential to the 10-year plan's success are being supported by the International Monetary Fund (IMF) and the US has provided financial assistance for both programs.[1] Much of the substantial aid Chile has received from other official Western sources has also been committed during the Alessandri administration.[2] However, Chile still faces a major problem in financing its development program because of its limited ability to service additional external borrowings on conventional terms. At present over one-quarter of the country's free exchange earnings go to service existing convertible currency obligations, estimated at close to $1 billion. Debt service will take $110 million in 1963 and $109 million in 1964, and is manageable only because much of the new external assistance coming from AID and IDB is on "soft" terms.

28. Under urging from the foreign sources of needed credits and from domestic advocates of reform, the Alessandri administration has initiated agrarian and tax reform proposals, in accordance with the Alliance for Progress, some of which have been passed while other portions continue to face serious congressional opposition. The administration has made considerable progress in housing and school construction, which has had a salutary social effect but does nothing to produce needed foreign exchange. It has not been able to correct the underuse of land, which would increase productivity and improve Chile's payment situation. Although a modest agrarian reform law has been passed, its implementation has been impeded by the political power of the large landholders.

29. At present, the Chilean economy looks healthy, with sales, employment, mining, construction, and agricultural output at high levels. This stems principally from the large budgetary and balance of payments support from the IMF, Ex-Im Bank, and IDB, and developmental assistance made available by the Alliance for Progress. At the same time, the political-economic obstacles to growth and stability still persist. Any government coming to power will have to contend with the

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[1] The IMF standby agreement allows drawings up to $40 million in balance of payments aid during 1963. The US aid includes a $35 million program support loan from AID; a $15 million balance of credits payment from the Export-Import Bank; and a $10 million exchange agreement with the US Treasury Department.

[2] This includes a loan of over $50 million for the Inter-American Development Bank (IDB); loans of $97 million from the International Bank for Reconstruction and Development (IBRD); International Development Association (IDA) loans of $19 million; and Development Assistance Commission (DAC) country assistance of $173 million.

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vested interests which control agriculture, finance, and industry. These interests have successfully resisted much of the present government's attempts at structural economic reform, and it can be expected to fight strongly any more far-reaching encroachments on their traditional privileges. Elements of the Right have come to realize that inflation will not generate lasting economic growth and that some rationalization of the country's economic structure is necessary. Nevertheless, the conservatives continue to dispute with one another and the rest of the population how far and how fast the reforms which would achieve this rationalization should be implemented. The present government can be expected to pursue sufficiently disciplined fiscal-monetary policies, and a token rate of reform enactment, to qualify for continued US and IMF support. But after September 1964, the direction the economy will take will depend heavily upon the ideology of the new President, and his success—or lack of success—in pushing through economic and social reforms.

V. FOREIGN RELATIONS

30. Successive Chilean administrations, including Alessandri's, have in general sought to maintain close and cooperative relations with the US, the major source of new investment capital and the country's most important single trading partner. Underlying this general policy, however, there is a widespread nationalistic concern to assert Chile's dignity and independence in foreign relations. This nationalistic sentiment finds expression in a tendency to criticize US policies and actions, and to pursue divergent policies on particular occasions.

31. Many factors contribute to Chile's nationalistic sensitivity and its anti-US manifestations. The Communists, of course, and many Socialists also, do their utmost to foment and exploit such sentiments expressly in order to impair US-Chilean relations. They attack as Yankee economic imperialism not only such targets as the US mining companies, but also the Alliance for Progress. But economic nationalism is also characteristic of the Chilean middle and upper classes. The latter, in addition, resent the self-help and reformist terms of the Alliance for Progress. There is a widespread tendency to consider that Chile's economic difficulties result from US control of copper mining, Chile's major export industry.

32. The status of the US-owned copper mining companies is likely to continue to cause serious difficulties in US-Chilean relations. The Chilean economy depends heavily on the export earnings of these copper mines. Their development has been beneficial to Chile, and particularly to their Chilean employees, as well as profitable to the investors. Nevertheless, there is agreement across the entire political spectrum, from Communists to Conservatives, that the copper companies should be made to contribute more to Chile. The question is how to derive

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more income and employment from the industry. Moderates recognize that the companies already pay more taxes and labor benef than any other enterprise in the country. Moreover, they know that punitive measures only discourage new company investment that is needed to support Chile's Ten-Year Plan of Development. Only the most radical elements favor outright nationalization, for which Chile would not be able to pay promptly, if at all, thus jeopardizing its international credit. An approach which has considerable support would be to "Chileanize" the companies by insisting on 1) incorporation under Chilean law with Chilean capital participation; 2) use of more Chilean managers and top-echelon technicians; 3) greater government control over copper production and sales; and 4) an increase in the amount of copper refined in Chile.

33. Although Chile gave prompt and unequivocal support to the US during the missile base crisis of October 1962, it is one of the five Latin American countries that still maintain diplomatic relations with Cuba. The Alessandri administration defends this position on juridical grounds. Its chief reason appears to be fear of the strength shown by the pro-Castro FRAP in the presidential election of 1958 and a desire not to inject such an emotional issue into the election of 1964. It has also found it beneficial to exchange Chilean agricultural products for Cuban sugar.

34. Chile maintains diplomatic relations with only one other Communist country, Yugoslavia, but permits the USSR, Poland, Czechoslovakia, Hungary, Bulgaria, and Communist China to maintain small commercial or cultural (propaganda) missions in Chile. This permission reflects the official and popular view that Chile must develop new trade wherever it can. There is a persistent popular belief that the Communist countries could absorb far larger amounts of Chilean copper. Despite the best efforts of these missions, however, Chile's trade with Communist countries so far remains negligible.

35. Chile's territorial aggrandizement at the expense of Bolivia and Peru during the War of the Pacific (1879–1883) leaves a residue of underlying tension in Chile's relations with those countries. It is this factor which has rendered so intractable Chile's dispute with Bolivia over the waters of the Río Lauca. Chile's relations with Argentina are normally cordial, despite a minor unresolved boundary dispute.

VI. CONTINGENT POLITICAL PROSPECTS

36. The outcome of the 1964 presidential election cannot be predicted a year in advance. The political situation is extremely fluid, with dissatisfaction rife within both the Democratic Front and the Popular Action Front, and with an apparent trend toward the Christian Democrats, who, however, start from behind. The electoral campaign, as it develops, may produce further political fragmentation and realignments,

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or may produce a rallying effect. In these circumstances, we shall briefly consider post-election prospects in contingent terms.

37. If Durán should be elected to the Presidency in 1964, the Chilean Government's policies and performance would remain much as they have been under Alessandri, but without the benefit of Alessandri's personal prestige and sincerity. The administration would profess reformist purposes, but its reform measures would be watered down by its need to placate various vested interests. It would be interested in economic development, and any accomplishments on that line might produce some social amelioration.

38. If Frei should be elected to the Presidency, he would be dependent, at least initially, on the cooperation of a Congress not under his control. It is likely, however, that the same trend which had brought him to the Presidency would give him a sympathetic Congress in 1965. There is no doubt that Frei would strive to transform the social structure of Chile through the constitutional enactment of a far-reaching agrarian reform and a steeply progressive income tax, and through increased government planning and participation in the economy. Frei would be generally sympathetic toward the self help and social goals of the Alliance for Progress, but selective with respect to the participation of foreign private capital in Chilean economic development. He would move toward the "Chileanization" of the US-owned mining companies. In all this he would, of course, be strongly resisted by the affected vested interests.

39. If Allende were to be elected, he would face a hostile majority in Congress, at least until the congressional election in 1965. In return for patronage, however, some Radicals might be induced to collaborate with him in Congress. The Christian Democrats also might support him on some issues.

40 In office, Allende would be likely to moderate his extremism, at least initially, in order to obtain Radical and PDC support and also to avoid provoking a military reaction. The military commitment to a non-political role is not unconditional, as was demonstrated during the turbulent years, 1924–1932. If Allende should impatiently attempt to override Congress, the military would almost certainly intervene to preserve constitutional order. If he should too abruptly seek to impose his personal control on the military establishment, there might also be a reaction. Otherwise, the military and the *Carabineros* would be likely to support the duly elected regime.

41. Despite the tactical moderation indicated above, an Allende administration would be strongly nationalistic and therefore, in effect, anti-US. It would, of course, endeavor to gain control of Congress in the 1965 election and move administratively to gain secure control of

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the armed forces as soon as practicable. It would seek to consolidate leftist and nationalist support by presenting a program of radical social reform and economic statism, and by increasing demands on the US copper mining countries and other foreign interests. In this it could count on the sympathy of some Radical and Christian Democratic elements. In the name of the independent foreign policy, it would also seek to expand relations with Cuba and other Communist countries.

42. If, through the defeat of Allende, the Communists and Allende Socialists should be frustrated in their once-lively expectation of achieving power by electoral means, they might consider abandoning the *via pacifica* and seek to foment a proletarian revolution in Chile. The odds are against their doing so. Despite peasant grievances, there is at present no significant potential for rural insurgency in Chile. The landlords and the *Carabineros* have the rural situation under close control. There is greater danger of a revolutionary explosion in the slums of the urban proletariat, but this too could almost certainly be controlled by the *Carabineros* and the military.

43. In these circumstances, the Chilean Communists' post-election strategy would probably be to preserve their legal status and bide their time, trusting that conservative political influences would continue to prevent effective social reform and that the cumulative frustrations and resentments of the masses would eventually enable them to come to power, by election or by revolution. In the meantime, the Communists would, of course, continue their efforts to exacerbate social tensions in Chile and to disrupt US-Chilean relations.

44. It is hardly likely that any Democratic Front administration could satisfy the rising popular demand for social reform. The political effect of increasing popular dissatisfaction could be a continuation of the current trend toward the Christian Democratic Party, with PDC gains in the congressional elections of 1965 and 1969 and the election of a Christian Democratic president in 1970. It is equally possible, however, that the increasingly embittered lower classes would turn to the far-left for leadership, as the Communist hope and expect they will.

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ANNEX A

POLITICAL ORGANIZATIONS AND PRESSURE GROUPS

I. POLITICAL PARTIES AND COALITIONS

A. The Democratic Front (*Frente Democrática*—FD)

1. The Democratic Front, composed of Chile's three traditional parties, the Conservatives, the Liberals, and the Radicals, was formally organized in October 1962, in order to regularize the existing informal collaboration of those parties in support of the Alessandri administration and to present a single joint candidate in the 1964 presidential election. These traditional parties, originally formed to contend against each other, have common interests in opposition to the rising new parties of the Left and realize that they must combine to have any hope of coping with the leftward trend in Chilean politics. Because Radical participation was indispensable, the Conservatives and Liberals had to agree to support a Radical candidate in 1964.

2. Despite this community of interest, there are tensions and conflicts within the Front, not only among the three constituent parties, but also within them. These tensions have been accentuated by the withdrawal of the Radicals from the cabinet in September 1963.

3. The Conservative Party (*Partido Conservador Unido*—PCU) represents primarily the landed aristocrats who ruled the republic in its earliest years and still exercise great social and political influence, no matter what party is in power. They determine party policy. The party's voting strength is provided by their tenants. It polled 11 percent of the vote in the 1963 municipal elections. Every member of the party is required to be a practicing Catholic.

4. The Liberal Party (*Partido Liberal*—PL) was founded in 1842 by aristocratic youths who were inspired by the tenets of contemporary French liberalism and desired to modernize Chile in those terms. It has come to represent primarily the well-established commercial, industrial, and banking interests, upper middle class professional men, and some substantial landholders. The party polled 13 percent of the vote in the 1963 elections.

5. The Radical Party (*Partido Radical*—PR) was founded in 1862 by dissident Liberals advocating more radical political reforms. It became primarily the political vehicle of the rising middle class, although it includes also some elements of organized labor. It has developed the most pervasive party organization in Chile, with particular strength

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in the small towns, and was for years the largest single party in country. It is still a close second, with 22 percent of the vote in the 1963 municipal elections.

6. Despite its elaborate organization, the Radical Party is no longer a cohesive political grouping. It is led by a right-wing minority which controls the party machinery, but the bulk of the membership are centrists and there is a small but vigorous left wing. The center and left-wing Radicals are uncomfortable in coalition with the Conservatives and Liberals, but so far the party organization has held the Party together and there have been no important defections.

7. Inasmuch as most Radical party functionaries are not independently wealthy, as are most Conservatives and Liberals, access to patronage is vital to the party. This consideration contributed to the party's decision to collaborate with the Liberal-Conservative Alessandri administration. The same consideration would move it toward accommodation with any other party in power—with the Christian Democrats, for example, or even with FRAP. Already there are some indications of Radical collaboration with FRAP to stop the Christian Democrats.

B. The Popular Action Front (*Frente de Acción Popular*—FRAP)

8. The Socialist Worker Party was organized in 1912 as a means of proletarian protest against the status quo. From it are derived both the Communist Party and Socialist Party. These parties participated with the Radicals in forming the first Popular Front (1938–1941). They formed the Popular Action Front in 1951, primarily as a device which would permit the outlawed Communist Party to continue political activity, to the advantage of Socialist candidates. A more recent adherent to the Front is the National Democratic Party (PADENA), formed in 1960.

9. The Popular Action Front, composed mainly of extremist elements, is far from harmonious. Although the Socialist party leadership, often seems more militantly revolutionary than the Communists, many Socialists have serious misgivings about close association with the Communists, on both ideological and practical political grounds, and conflicts between the two elements occasionally flare up. The National Democrats, a radical, but non-Marxist, middle class party, have had even greater misgivings about political association with the Socialists and Communists.

10. The Communist Party (*Partido Comunista de Chile*—PCCH) was organized in 1922 as a branch of the Third International. The party was severely suppressed during the Ibáñez dictatorship (1926–1931), reached the peak of its political influence in the 1946 coalition with the Radicals, and was again outlawed, 1948–1958. It has since regained strength, and

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with 20 members in Congress it is probably the most influential Communist party in South America.

11 The contrast between the political success which the party has enjoyed when pursuing popular front tactics and the suppression which it has suffered whenever it turned to subversive agitation and violence has led the PCCh to adopt a policy called the *via pacifica*—the pursuit of revolutionary ends by peaceful political means. The party's overriding concern appears to be to retain its present legal status. It has refused to send members to Cuba for guerrilla warfare training, as the Socialists have done. It strongly supports the Soviet line in the Sino-Soviet controversy.

12. The Communist party leadership is of middle class origin; the party draws its support chiefly from industrial labor and lower middle class elements. There are estimated to be about 30,000 disciplined party members. The party polled 254,000 votes in the 1963 elections, nearly 13 percent of the total vote. It was the only party except the Christian Democrats to make a perceptible gain in strength.

13. The Socialist Party (*Partido Socialista*—PS) is an amalgamation of socialist splinter groups formed in 1933 following suppression during the Ibáñez dictatorship. The party is beset by strident factionalism. One leader, Salvador Allende, the presidential candidate, is outspokenly pro-Soviet and pro-Castro; another, Raúl Ampuero, the party secretary, is unenthusiastic about Castro and frequently critical of the USSR. The party membership and political support are drawn from the same elements as the Communists'; there is latent competition between the two parties on this account. Separation of the Socialists from the Communists would isolate the latter and reduce Communist capabilities. The Socialists polled 11 percent of the vote in the 1963 elections.

14. The National Democratic Party (*Partido Democrático Nacional*—PADENA), organized in 1960, is an agglomeration of radical middle class elements that had supported Ibáñez for the presidency in 1952. PADENA's bitter opposition to the traditional political parties brought it into the Popular Action Front, but its members feel increasingly uncomfortable in company with the Allende Socialists and the Communists, especially considering the party's losses in the 1963 elections, in which it polled only 5 percent of the vote. Since then most of the party's members have defected. Others may follow suit, or the party as a whole may withdraw from FRAP.

C. The Christian Democrats (*Partido Demócrata Cristiano*—PDC)

15. In 1938 some young Conservatives, having failed to persuade their elders to adopt a more progressive program based on the papal social encyclicals, splintered off to form a Catholic party with some appeal to organized labor. In 1949, other Conservatives, inspired by the con-

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temporary Christian Democratic movement in Europe, also broke away. The appeal of this second group was primarily to middle class Catholics. The Christian Democratic Party was formed by the fusion of these two movements in 1957.

16. The new party occupies the middle ground between the conservatism of the traditional parties on the right and the extremism of FRAP on the left. It is a credibly reformist party, but within a Christian and democratic context. Its phenomenal growth in recent years demonstrates the strong attraction of this position to independent, reform-minded voters who see little hope in the traditional parties and are repelled by the communistic tendency of FRAP. In the 1963 election the PDC polled 453,000 votes (23 percent), to become the largest single party in Chile. This trend is likely to continue as the party exerts a strong attraction, not only on independent voters, but also on the reform-minded elements of the traditional parties and the more moderate elements in FRAP.

17. The PDC's program calls for a revolutionary transformation of Chilean society, to be accomplished through constitutional processes. It advocates a more far-reaching agrarian reform than that proposed by the Alessandri administration, a redistribution of wealth through a steeply progressive income tax, and increased government planning and participation in the economy. It welcomed the Alliance for Progress with enthusiasm, but is cool toward US emphasis on the role of private capital. As do all other Chilean parties, it prefers intergovernmental financial assistance to foreign private investment. The PDC does not advocate nationalization of the US-owned copper mining companies, but calls for their eventual "Chileanization," beginning with local refining of all Chilean copper and more government participation in the determination of copper sales policies.

II. OTHER ORGANIZATIONS EXERTING POLITICAL INFLUENCE

18. *Economic Interests.* No matter what political party was in power, vested economic interests have continued to exert powerful political influence through personal relationships and through representative organizations.

a. The *National Agricultural Society,* founded in 1838, is composed by large land holders. It is by law represented on the boards of directors of such public institutions as the Central Bank, the Production Development Corporation, and the National Labor Relations Board. The Society includes Liberals as well as Conservatives, inasmuch as success in business is customarily demonstrated by the purchase of a landed estate. Its influence is exerted against any change in the pattern of land tenure or any significant increase in land taxes.

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b. The *Central Chamber of Commerce,* organized in 1958, is predominantly Liberal in political coloration. It opposes state intervention in the economy, resists wage increases as inflationary, and advocates increased production as the cure for inflation. It is less influential than the Agricultural Society because there is not a united front among business groups regarding economic policies.

c. The *Society for Industrial Development,* organized in 1883, advocates state intervention in the economy to protect domestic industries and to encourage foreign private investments not competitive with local interests. It includes Radicals as well as Liberals and was a powerful influence behind the Radical program of rapid industrialization, 1938–1952.

19. *Organized Labor.* The Chilean movement is not a strong political pressure group. Only about 500,000 workers (20 percent of the labor force) are organized. Furthermore, the law discriminates between white collar and blue collar unions, imposing restrictions on the latter. The white collar unions have gained substantial benefits for their members through their association with the Radical Party. They have not been concerned with the interests of manual laborers. Lack of savings and the prevalence of unemployment have reduced the militancy of the workers in recent years and their willingness to heed a strike call.

20. The political affiliations of most industrial labor unions have been a hindrance to labor unity and effectiveness as a pressure group. Union leadership is more often used to serve party purposes than to advance the economic interests of the members. In consequence, the members are increasingly unresponsive to the leadership. For example, the Communists have captured "control" of the principal Chilean labor confederation, CUTCh,[1] but some members have refused to respond to Communist orders to strike. Nevertheless, the Communists are able to make political propaganda purportedly in the name of Chilean labor.

21. *Student Organizations.* All of the major political parties have formally organized youth groups; many current political leaders first achieved prominence as heads of university student associations. The oldest and most important of these is the student federation at the University of Chile (FECh),[2] which was long controlled by Radicals or Communists. In 1955 the Christian Democrats wrested control of the FECh from the Communists. Since then they have gradually gained control of the student federations at Chile's seven other universities. While PDC-led student organizations occasionally criticize US policies, the strong anti-US animus which prevailed under Communist leadership is no longer evident. The prevalence of PDC influence among the

[1] *Central Unica de Trabajadores de Chile,* ostensibly representing 400,000 organized wor' ;.

[2] *Federación de Estudiantes de Chile.*

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students has been an important factor in the support which the party has received from new voters in recent years.

22. *The Church.* Historically, the close identification of the Roman Catholic Church with the Conservative Party has provoked a considerable anticlerical reaction among Liberals and Radicals, not to mention Socialists and Communists. Church and State were finally separated in Chile in 1925. Nevertheless, the Church retains a pervasive influence in Chilean society.

23. In September 1962 a revolutionary change in the attitude of the Church in Chile was marked by the issuance of a pastoral letter in which the hierarchy, led by Cardinal Silva Henríquez, cited the poverty and distress of the lower classes, charged the propertied classes with large responsibility for these conditions, and called for a genuine reform of the social structure. The pastoral letter may not convert many magnates, but it has tended to restore the credit of the Church among the general population and it may have had considerable bearing on the striking success of the Christian Democratic Party in the 1963 municipal elections.

24. Although the PDC is no longer an exclusively Catholic party (as are the Conservatives), it now has the support of an estimated 80 percent of the Catholic clergy. This clerical support may tend to alienate some potential recruits of Liberal, Radical, and Socialist antecedents, but on the whole it will probably prove to be advantageous.

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ANNEX B

THE ARMED FORCES AND INTERNAL SECURITY

1. The Chilean military forces are distinguished in Latin America for a proud military tradition dating from the War of the Pacific (1879–1883) and for continuing high discipline, morale, and military efficiency. Their equipment, however, is in serious need of modernization. The armed forces which they watch with particular sensitivity, as a standard of comparison, are those of Peru and Argentina. To avoid the costs of rearmament, in view of the urgent requirements of economic development, the Chilean government occasionally proposes an arms limitation agreement under OAS auspices, but such proposals have met with no response.

2. The Chilean Army numbers 26,000 men; the Navy, 13,500; and the Air Force, 7,300. Primary responsibility for the maintenance of public order and internal security is assigned to the *Carabineros,* a national constabulary numbering 23,000 men.

3. The *Carabineros* are a highly professional force. They thoroughly patrol the country and are generally respected by the people: the development of any insurgency would be unlikely to escape their notice and counteraction. Although fairly well equipped with small arms, they are somewhat hampered by a lack of adequate transportation and communications equipment.

4. Normally, the *Carabineros* have been able to cope with threats to public order and internal security. If and when situations arise requiring the intervention of the military, the Army assumes command. Although there is some inter-service jealousy between the Army and the *Carabineros,* their cooperation on such occasions has been reasonably good.

5. The rank and file of the Army is composed of conscripts, but on entrance into service they are carefully screened for reliability. Recent and planned US-sponsored equipment and training programs are designed to improve the Army's counterinsurgency capability. In the Air Force, a fighter-bomber and a helicopter unit have received similar specialized training.

6. The Chilean military forces are proud of their role as the ultimate guardians of constitutional order and their corollary tradition of nonintervention in politics in support of party interests. They would almost certainly uphold the authority of any duly elected government, unless,

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in their judgment, the government itself had moved to subvert the established constitutional order. It is notable, however, that they did overthrow the constitutional government in 1924, in circumstances involving a radical departure from the previously long-established political norm and a general economic collapse. Military intervention in politics can happen in Chile, though not without strong provocation.

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