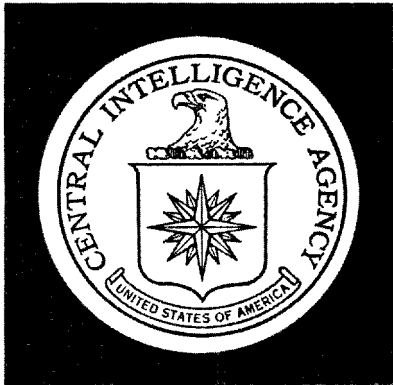


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SPECIAL MEMORANDUM

Chilean Problems and Frei's Prospects

Secret

4 March 1968
No. 5-68

MORI/CDF

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

4 March 1968

SPECIAL MEMORANDUM NO. 5-68

SUBJECT: Chilean Problems and Frei's Prospects*

SUMMARY

President Frei, now in the last half of his term (1964-1970), is facing an extremely difficult situation. The slump in the Chilean economy last year has continued, and in some sections unemployment has increased. The cost of living has risen some 22 percent in the last year, and the administration's anti-inflationary policies are becoming less effective and increasingly unpopular. Moreover, the present leftist leadership of the eclectic Radical Party appears determined to reach an electoral agreement with the Communist-Socialist coalition (FRAP). This could result in Frei's Christian Democrats losing to the FRAP in both the 1969 congressional and 1970 presidential elections, particularly if the government persists in its present economic policies.

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* This memorandum was produced solely by CIA. It was prepared by the Office of National Estimates and coordinated with the Office of Current Intelligence, the Office of Economic Research and the Clandestine Services.

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1. President Eduardo Frei, now in the last half of his six-year term (1964-1970), is facing an extremely difficult situation. The Chilean economy, which had responded satisfactorily to his anti-inflationary and development programs during 1965 and 1966, did not do well in 1967 and does not appear to be improving in 1968.* The annual rate of increase in the cost of living, which had been reduced from 38 percent in 1964 to 17 percent in 1966, rose to about 22 percent in 1967. Real wages have increased more than 40 percent in the last three years and industrial employment has continued high, but the unemployment rate in the important construction industry is at about 17 percent in the Santiago metropolitan area and higher in some provincial areas. Furthermore, organized labor, whose leadership contains elements bitterly opposed to Frei, is opposing the administration's efforts to hold down wage increases and is being strongly supported by Frei's political opponents -- including members of his own party.

* In 1965 and 1966 the annual increases in GNP were 6.1 and 6.8 percent, respectively; in 1967 the increase is estimated at about three percent.

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2. Nor is the political situation encouraging for Frei. In a recent important by-election for the Senate, the Radical Party (PR) candidate received Communist and Socialist support in narrowly defeating the Christian Democratic (PDC) candidate in something of an upset. The PR leadership appears determined to reach an agreement with the Communist-Socialist coalition (FRAP) to support each other's candidates in the elections of 1969 and 1970. If such an agreement is made, the chances will sharply decline that the Christian Democrats can win control of the Congress, in the elections of March 1969, or elect the next president, in September 1970. A continued deterioration in the economic situation would, of course, further enhance the chances of the FRAP coming to power.

3. Frei's political problems stem from a variety of sources. Elected by a majority vote, something that had not occurred in Chile for many years, he refused to form a coalition government by bringing the opposition parties into his cabinet. Although the congressional elections of 1965 provided him with an unprecedented majority in the Chamber of Deputies, his party could not secure a majority in the Senate.* In his lengthy public career

* Only 21 of the Senate's 45 seats were being contested, the PDC won 12, but had only one holdover there.

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as an opposition politician, Frei made many political enemies and thus there is a highly personal as well as political element in the bitter opposition he has encountered since becoming President. This situation has also been exacerbated by his administration's failure to do its political homework carefully before launching new initiatives, and by his own inclination to take a rather disdainful view of the sort of compromises that have always been part and parcel of Chilean politics.

4. Nevertheless, Frei has made significant progress in introducing and carrying through social and economic programs of the type envisioned under the Alliance for Progress. Every step of the way he has been opposed by one important group or another, but he has managed to secure enactment of legislation to expand Chilean copper production, to reform tax systems and collections, to carry out an agrarian reform, to legalize the organization of rural workers, and to improve the lot of the poorest third or more of the population.

5. Despite this progress, Frei clearly has not achieved what he promised in his campaign platform. He has not moved fast enough or far enough to satisfy the more radical elements in his own party. He has had difficulty in controlling them and

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for several months lost control of the party machinery to them. Though he regained control earlier this year, he still does not have a united party behind him; moreover, his control over the party will probably weaken as he increasingly becomes a lame-duck president, unable to succeed himself in office, and he could lose control again. In view of the clear and determined hostility of the majority in the Senate, there appears to be little chance that he could secure passage of the additional reform measures his opponents within the PDC are demanding. Finally, the PDC may split wide open over the choice of a presidential candidate for 1970.

6. Frei's principal assets are, on the one hand, his still considerable prestige and popularity, and on the other, the difficulties that the Radicals, Communists, and Socialists may have in reaching agreement on the candidates, programs, and tactics. Although Frei was not able to transmit his personal popularity to PDC municipal candidates in 1967, when local issues predominated, he is still preeminent on the national scene. If he should decide to make winning the important congressional election his first and foremost goal, Frei would still be a very formidable campaigner on behalf of his party's candidates.*

* There is the possibility that, if the PDC wins decisive control of the Congress in 1969, the Chilean Constitution could be amended to permit Frei to run for the presidency again in 1970.

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7. There seems to be little chance that the PDC could now make a coalition with, or get appreciable support from, any of the other political parties. The rightists supported the copper agreements with the North American companies, but they regard the rest of Frei's program as undermining their position and feel that they were defrauded when they helped to elect him in 1964. They are now urging Jorge Alessandri, a popular former president (1958-1964), to be their candidate again in 1970. The Communists were willing to work with Frei on some aspects of his program and his agrarian reform measures were passed with Communist and Socialist support. Now, however, the Communists appear as determined as the Socialist and Radicals to block Frei in every way possible. The opposition parties are likely to propose economically unsound but politically popular measures which he will have to veto if he is to maintain his anti-inflationary policies.

8. This is the nub of Frei's problem. He is committed to anti-inflationary policies, including stiffer taxes and wage restraints, in a pre-election period. If he eases controls over inflation and increases government spending, he risks alienating the sources of the foreign assistance that his administration

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still needs. It is by no means certain that Frei would be able to achieve PDC victories in 1969 and 1970 even if economic conditions improved. But if he maintains the austerity-type program to which he is now committed, this could result in the Christian Democrats losing to the Communist-Socialist coalition in both the congressional and presidential elections.

FOR THE BOARD OF NATIONAL ESTIMATES:



Chairman

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