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MEMORANDUM

SUBJECT: Economic Outlook in Chile

President Gonzalez Videla's arrival in the US on 12 April comes at a time when his slightly left-of-center coalition government faces serious economic problems which could develop into a political crisis within the next few months.

Chile's economic situation declined gradually after World War II until mid-1949; since then the drop in the world price of copper has seriously disrupted the country's economy. Government revenues are lower, unemployment has increased, exports and imports have declined, and the cost of living has risen approximately 20 percent. This economic deterioration has been accompanied by increasing strain between labor and management as well as between the government and the people in general.

In its attempt to cope with this situation, the Gonzalez regime has proposed measures designed to strengthen the country's long-range economic position rather than to alleviate the situation temporarily. The program, which envisages an increase in the country's potential for industrial and agricultural production, has been handicapped by lack of funds. Moreover, the inevitable delays before the benefits of such a program could be felt and the "austerity" measures necessary to finance even a limited program have so increased popular unrest, particularly in the ranks of labor, that the government, as well as its economic development program, is seriously threatened.

The February 1950 political crisis has already resulted in a new coalition with greater leftist representation, thus decreasing the prospect either for energetic implementation of development projects or for continued enforcement of austerity measures. Moreover, the



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present situation is becoming more favorable for exploitation by Chile's Communist Party, now numbering approximately 25,000. The addition of leftists to the coalition has: (1) provided the Communists with more friends in the Cabinet and Congress; and (2) increased pressure for adopting measures which would give immediate relief to the people but would not strengthen the nation's over-all economic situation.

The government's ability to resist this pressure depends largely on its ability to raise sufficient funds for an investment program. A drastic revision of the country's tax structure would not only fail to provide the necessary funds but would have adverse effects on the strategically important copper industry as well as on other US interests in the country.

Survival of the present pro-US regime in Chile thus depends largely on its success in obtaining foreign aid. There is little prospect that the Chilean Government will obtain the full amount it considers necessary. Receipts of limited foreign aid, however, might be sufficient to permit the government to ease political and economic tensions without serious detriment to its long-range developmental program.

Without such aid, the government is not likely to be able to resist leftist pressure for immediate alleviation of economic distress, largely in the form of subsidies for higher wages. Resistance to such measures would probably result in the formation of a more leftist government, which could not be expected to pursue the same policies as those followed by the present government, particularly with respect to: (1) granting full support to the US in the cold war; (2) backing democratic forces throughout Latin America; and (3) promoting closer economic ties with the US.

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R. H. HILLENKOETTER
REAR ADMIRAL, USN
DIRECTOR OF CENTRAL INTELLIGENCE

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