

Chile's Debts Worry Washington

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SANTIAGO, Chile, March 14 — Concern over the ability of Chile to meet its large foreign debt obligations has emerged as the cornerstone of United States policy toward the right-wing military junta here, according to diplomatic and banking sources.

The rationale behind this policy is that a default by Chile on its foreign debts could lead to similar moves by other Latin American nations and strengthen growing sentiment among developing countries in favor of a moratorium on for-

ign debts. As the largest creditor in the world, the United States would be hardest hit by a widespread debt moratorium. For similar reasons, foreign banks and international organizations such as the World Bank and the Inter-American Development Bank have extended well over a billion dollars in credits to the military junta since it took power in a coup that toppled the Marxist government in 1973.

In the view of some diplomatic and banking sources, the United States concern with Chile's balance-of-payments crisis has led Washing-

ton to support President Augusto Pinochet quietly. There are fears that his replacement could lead to a change of economic policies and less of a commitment on the part of Chile to meet its debt obligations abroad.

On the one hand, State Department officials have made it clear publicly and privately that the Chilean junta is being pressed to improve its human rights image.

On the other hand, United States officials maintain that Chile's poor image abroad can

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be improved even if General Pinochet remains in power and that in any case there is no other military or civilian figure capable of displacing him.

The military Government will probably receive an important boost in June if Secretary of State Henry A. Kissinger makes a scheduled visit here to attend a meeting of the Organization of American States.

United States officials here point out that Washington abstained in the vote selecting Santiago as the site of the O.A.S. conference. But other diplomats emphasize that Mr. Kissinger's trip is bound to be interpreted both in Chile and abroad as a signal of support for the junta.

Elsewhere in Latin America, the leftist military government in Peru and the rightist Peronist Government in Argentina are facing balance-of-payments burdens that are as serious as Chile's. In Argentina, international organizations and United States commercial banks have recently extended emergency loans, but the danger of a default is still great.

Earlier this year at a meeting in Manila of the Group of 77, representing most third-world nations, there was discussion of some form of moratorium on foreign debts for developing countries undergoing severe problems with their balance of payments.

'Economic Domino Theory'

The idea of an "economic domino theory," under which a default by Chile might set off a chain reaction in the developing world, contrasts sharply with what was Washington's view of Chile's foreign debt crisis under the Marxist government of the late Salvadore Allende Gossens.

The "economic domino theory" back then was that the Chilean Government's expropriation without compensation of copper mines owned by United States companies could not go unanswered because it would tempt other governments to take over United States foreign investments.

During the Allende era, the United States declined to renegotiate its portion of Chile's foreign debt unless the compensation issue was also settled. There was no attempt in Washington to prevent the moratorium on foreign debts that the Allende government declared in 1972.

That action, which amounted to a default, largely destroyed the Allende government's creditworthiness in the eyes of United States bankers and reduced the flow of loans to Chile from international organizations.

The Allende government was

able to compensate for these losses partly by finding credit sources in Western Europe and the Communist countries.

Washington's viewpoint on President Pinochet and his role in assuring Chile's commitment to its foreign debt obligations is not shared by other creditor nations. Most European Governments have shown little concern that a default here could set off a chain reaction.

In recent months Western European Governments have refused to renegotiate Chile's foreign debt on the ground that human rights continue to be systematically violated by the junta.

In the aftermath of the 1973 coup, about 1 percent of Chileans experienced at least temporary detention, according to church sources. Charges of torture have been widespread. Political parties remain under ban or suspension. Labor unions have no rights to bargain or strike.

"I think that the figure of Pinochet has become unsalvageable in much of Western Europe," said a European diplomat. "In some countries public opinion is so adverse that governments will not settle for anything less than a clear commitment to a return to civilian rule in Chile, or at least a military government with a progressive image."

Within Chile, the Christian Democratic Party, a center-left group that has increasingly moved into opposition to the junta, has also suggested that only a change in government will mollify Chile's creditors in Europe and increase foreign investment from sources that have been scared off by the junta's heavy-handed image.

A publication that expressed

these views was subsequently shut down by the junta.

If the Western European creditor nations had relented, Chile would have been able to hold its debt payments this year to about \$225 million. Instead, the junta must pay about \$750 million in debt service and interest on loans, a total equivalent to about 45 percent of its projected export earnings for 1976.

The junta has largely blamed this heavy foreign debt service — as well as the high cost of imported oil and low prices for its copper exports — for the failure so far of its domestic economic policies.

For a year now the Government has carried out a "shock-treatment" economic policy inspired by Milton Friedman, a conservative economist from the University of Chicago. The program calls for sharp reductions in public spending, restrictions on bank credits and a slowdown in the printing of money in an effort to restrain runaway inflation.

But inflation has not abated. Last year it reached 340 percent, the highest in the world, and it registered 21 percent during the first two months of 1976.

At the same time industrial production has dropped precipitously, and unemployment is running above 16 percent, its highest level in more than 30 years. Malnutrition has become a serious problem in the slums.

The Government contends that its high foreign debt service has prevented it from spending exchange earnings on imported machinery that would reduce industrial costs and on cheaper imports that would force down the price of Chilean products.

No matter what its causes, the economic failure has spread increasing discontent with the junta, not only among working-class Chileans but also among the middle class and a number of businessmen.

"When will the Government recognize the failure of these policies?" asked the head of the Maritime Workers Union, Eduardo Rios, a key labor leader who initially supported the junta. "It is not possible to pay such a high social cost."

Despite the increasing discontent, President Pinochet has issued a strong reaffirmation that the "shock-treatment" program will continue, and he linked it to Chile's foreign debt commitments.

"During 1976 our first economic priority will be to maintain our balance of payments," he said.

United States officials also contend that Chile's ability to meet its foreign debt commitments is tied to the continuance of economic austerity within the country.

An abandonment of domestic austerity, these officials argue, could lead only to the espousal of third-world views favoring a default or moratorium on the foreign debt.

A similar opinion prevails in the World Bank, the Inter-American Development Bank and the International Monetary Fund. Monetary Fund officials are now in Chile negotiating a \$90 million standby credit to help the junta meet Chile's balance-of-payments deficit this year.

During a visit here last week, the president of the Inter-American Development Bank, Antonio Ortiz Mena, turned over a \$25 million credit to the junta and said that Chile might receive \$125 million more from the bank before the end of the year.

"It is obvious that this is a country with push and a people with a desire to work and improve its living standards," Mr. Ortiz Mena said.