

DEPARTMENT OF STATE
WASHINGTON



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John Lemmon 3/8
MAR 7 1963
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MEMORANDUM TO MR. McGEORGE BUNDY

THE WHITE HOUSE

Subject: Political Considerations Affecting U.S. Assistance to Brazil.

Transmitted herewith for the consideration of the President are two documents dealing with political considerations bearing on Brazil's current negotiations with the United States for economic assistance in support of Brazil's new stabilization and development program. The first document is a memorandum from Ambassador Lincoln Gordon to the President which assesses the present situation and recommends a course of action. The second is a background paper which summarizes and assesses developments since the President's review of U.S.-Brazil relations on December 11, 1962 with the NSC Executive Committee.

The attached documents were discussed on March 5 by senior representatives of the same agencies (Departments of State, including A.I.D., and Defense; and C.I.A.) which contributed to the documents for the December 11, 1962 NSC Executive Committee meeting. These senior agency representatives agreed on March 5 with the basic general approach set forth in the attached documents and with the recommendations on pages 3 and 4 of Ambassador Gordon's memorandum to the President. The agency representatives further concluded that the decision of December 11 as among alternative courses of action was still valid, and we should maintain the policy then approved; namely we should continue "to seek to change the political and economic orientation of Goulart and his government".

/s/ E. S. Little

FOR

William H. Brubeck
Executive Secretary

Enclosures:

Ambassador Gordon's
Memorandum to the President.

Background Paper on recent developments.

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By *MP* NARA Date *6/03*

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Group 2. Herbert A. May
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MEMORANDUM TO THE PRESIDENT

Subject: Brazilian Political Developments and
U. S. Assistance.

I. The Problem

Brazil's new Finance Minister, Dr. San Tiago Dantas, is now planning to engage in talks in Washington for a week to ten days beginning March 11 with high officials of the U.S. Government, the Managing Director of the IMF and representatives of other international financial institutions. He will be seeking external financial assistance to support the Goulart administration efforts to reduce substantially and progressively the rate of inflation in Brazil while maintaining a high rate of economic development. His aim will be an assistance package, including debt postponement, short term balance of payments assistance, and long term development assistance within the Alliance for Progress, if possible backed jointly by the U.S. Government, European governments and Japan, the IMF, and perhaps the Inter-American Development Bank and the World Bank.

Our preliminary analysis of the Brazilian stabilization and development effort, which is still being reviewed in technical bilateral and IMF talks, indicates that it does contain the essential ingredients of an effective program, although a large number of technical and policy questions have yet to be resolved. Actions have already been taken by the GOB under this program, including tax increases, elimination of major import subsidies, restraint of excessive credit expansion, and formal adoption of a program for large-scale budget cuts. The program is being pursued with an apparent firmness of purpose unmatched in Brazil in recent years. The GOB has also taken steps to eliminate certain specific areas of friction between Brazil and the U.S., including a satisfactory interim settlement of the IT&T expropriation case, tentative agreement to reasonable voluntary purchase terms for the AMFORP electric utility properties, and the removal of discrimination against import of sulphur from the U.S.

At the same time, although there has been some improvement since last December, there is a continuing problem of communist and other extreme nationalist, far left wing, and anti-American infiltration in important civilian and military posts within the government, and governmental tolerance or even encouragement of communist and other extreme left wing influence in trade union and student organizations. The foreign policy of the Goulart administration, likewise, although showing some sense of greater cooperativeness with the U.S., is still equivocal, with neutralist overtones, on various issues including Cuba, arms control, and trade and aid relations with the Soviet bloc.

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Group 2

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By Herbert K. May
Deputy Assistant Secretary

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Assuming agreement by the GOB on an effective economic program for stabilization and development, therefore, the question remains whether Brazil's domestic and foreign political trends warrant U.S. economic support and if so, on what terms. If the answer is negative, there arises the subsidiary problem of whether Finance Minister Dantas should not be advised to cancel his now scheduled mission.

Our preliminary analysis indicates that, if an agreement can be worked out between Brazil and the IMF, and if reasonable European support can be secured, the U.S. resources required for aid to Brazil during the 12 months of April 1963 - March 1964, apart from the release of \$84 million remaining from the May 1961 "stabilization support package," would be in the general magnitude of \$200 million.

II. Recommendations

It is recommended that support be given to a technically satisfactory Brazilian program for economic stabilization and development, but on a "short-leash" basis permitting periodic review and making possible the withdrawal of support on either economic or political grounds. The support program should be scaled over time in relation to balance-of-payments needs and should be contingent upon explicit standards of GOB performance in implementing the necessary economic policies. At the same time, continuous diplomatic pressure should be maintained for the reduction of communist and other extremist influences within the government and for the pursuit of policies favoring democratic development, strengthening the private sector of the Brazilian economy (both domestic and foreign), and progressively shifting the "independent foreign policy" toward more systematic collaboration with the U.S. and the free world.

Parallel with the basic relationship with the Brazilian government summarized above, efforts should be maintained to strengthen and encourage democratic anti-communist forces outside the government. The principal organizations involved are the Congress, the vast majority of the state governors, the military officer corps, the Sao Paulo industrial community, mass media of public information, the Church, and labor and student groups. This effort should be directed at reducing the likelihood of a further leftist-nationalist swing by Goulart and, if this proves impossible, to prepare the most promising possible environment for his replacement by a more desirable regime in the event that conditions deteriorate to the point where coups and counter-coups are attempted.

The basic strategy, in short, should continue to be one of encouraging Goulart to constructive courses of action, strengthening the forces restraining him from undesirable courses of action, and strengthening the prospects for a favorable successor regime if the constitutional order breaks down.

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As an immediate step, the Dantas mission should be received on March 11 and the program for economic stabilization and development should be encouraged. During the Dantas visit, appropriate occasions should be used to restate our continuing concern with the political problems pointed out to Goulart by the Attorney General in December.

III. Considerations

A. Political developments since NSC recommendations of December 11, 1962

Pursuant to your decision at the NSC executive committee meeting last December 11, the Attorney General conducted a first hand discussion with President Goulart on December 18. The Attorney General emphasized our strong desire for fruitful collaboration with Brazil and our deep concern at the deteriorating economic and financial situation and at the increasing infiltration of communists and other anti-American elements into positions of influence in Brazil.

Since that time, the Brazilian constitutional position has been clarified by the plebiscite of January 6 and the adoption of a constitutional amendment restoring full presidential authority under the 1946 Constitution in late January. Although the outcome of the plebiscite was as anticipated, the size of the vote was much higher than expected. Over 10 million votes were cast for the return to presidentialism. Goulart has construed this as a massive vote of personal confidence in him, comparing it with the 6 million votes received by Quadros in the election of 1960. Since the plebiscite, he has shown much greater self-confidence, less fear of a right wing coup, and perhaps some willingness to reduce his collaboration with the far left, which he had been using as a "shock force" against center and right wing opponents.

In the first presidential cabinet appointed by Goulart, the dominant figure is Finance Minister San Tiago Dantas (see comment below). The bulk of the cabinet is moderate in political orientation and technically competent. This is especially true of Transport Minister Helio de Almeida, Mines and Energy Minister Eliezer Batista, Education Minister Tectonio Monteiro de Barros, and (to a lesser degree) Industry and Commerce Minister Antonio Balbino. Two academic socialists (Hermes Lima and Jose Mangabeira) were held over as Foreign Minister and Justice Minister from the previous cabinet, but neither is expected to stay long and their tentatively indicated successors are both centrist in orientation. Agricultural Minister Jose Emirio de Moraes is a wealthy Sao Paulo industrialist who won a senate seat from Pernambuco and supported the campaign there of far leftist Governor Miguel Arraes, while prejudiced against American business, he is not generally anti-American and cannot be considered himself a far left wing figure.

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The big question mark among the regular civilian cabinet members is the young and energetic Labor Minister, Almino Afonso, former leader of the labor party in Congress. He has in the past worked closely with the communist and other left wing labor elements. He now professes to support the government stabilization efforts, which are opposed by the communists, and is said to be anxious for a successful administrative record on which to base a campaign for the governorship of Sao Paulo in 1966.

In addition to the regular cabinet positions, Celso Furtado has been named Minister for Planning, but with a position distinctly secondary to the Finance Minister's. Furtado is a Marxist inclined nationalist, probably a Communist in his earlier phase, but a professional economic planner who is supporting strongly the stabilization and development program which was largely developed by him in the "Three Year Plan" prepared at the end of 1962. The other Minister Extraordinary, Amaral Peixoto, the conservative head of the Social Democratic Party is in charge of administrative reform.

On the military side, after some weeks of nervousness and tension within the Army, Goulart maintained as War Minister the vigorously anti-communist but personally very loyal General Amaury Krueel, rejecting (at least for the time being) the candidacy of leftist-nationalist General Osmino Alves, Commander of the First Army (in Rio de Janeiro). On the other hand, the disturbing tendency toward promotion of left-wing and anti-American officers to key positions has continued to some extent in all three services. The weak and unpopular Ministers of Air and Navy, the latter leaning toward the left, were retained.

On balance, the cabinet can be considered more competent and somewhat more favorable in orientation than its recent predecessors, only the Labor Minister coming from the extreme leftist-nationalist group. Much more disturbing were a series of hold-overs and new appointments in the Presidency in Brasilia. The communist press aide of the President, Raul Ryff, was retained. Former Attorney General Evandro Lins, probably also a communist, was promoted to Chief of the Civil Household. Other disturbing appointments include Cibilia Vianna, a far left wing economist from the Brizola camp, as technical advisor to the President and Joao Garuso, Brizola's former Secretary of Agriculture in Rio Grande do Sul, as head of the new commission on Agrarian Reform Policy.

In the trade union field, the influence of the government has continued to be thrown in support of communist and fellow traveling elements, and against labor leaders connected with the CRIT and ICFTU, although there are some indications that the government is now concerned that excessive communist influence in the labor field may escape its effective control.

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Judging the political developments against the hoped for results from the Attorney General's visit, it is clear that they are neither an unqualified success nor an unqualified failure. They can be considered slightly on the favorable side, leaving open much room for improvement but also the possibility of a sharp turn for the worse.

B. Qualities and Attitudes of President Goulart

In these recent months, Goulart has not acquired the qualifications to be a truly effective president of a huge country of 75 million people with very difficult domestic and external problems. He has shown himself, however, an exceptionally shrewd political tactician, whose performance in winning back full power would get the highest marks in terms of pure politics. How he will exercise this power remains obscure. His history and instincts would lead to a policy of demagogic populism. He has been very tolerant of communists, although he appears to be somewhat more concerned now about their getting out of hand. He instinctively resents the dependence of Brazil on the U. S. and would probably like to be free of that dependence. On the other hand, he wants to stay in power, would like to leave a good reputation in history, and appears to be convinced that continuation of inflation as it was going would make impossible his own survival.

The October confrontation between the U. S. and the Soviet Union and Cuba has apparently deeply impressed him, raising grave doubts on the viability of support from Russia as a practical alternative for Brazil, even though he will certainly try to expand trade with the Soviet Union and may perhaps seek some aid there. Lacking any clear long term strategic concepts, he tends to make policy from week to week, and is heavily influenced by his appraisal of the margins of maneuverability given him by opposing and supporting forces.

As a loyal disciple of Getulio Vargas, he must occasionally reflect on the possibilities of a "white coup" to perpetuate himself in office. (In the early 1930's, Vargas "intervened" all the States and in the late 1930's he shut down the Congress.) So far, however, he has shrunk from overt action in this direction. Whether he may be tempted in the future will depend on his appraisal of the resistance from the military, the Congress, the state governors, and other forces, as well as his evaluation of the chances that he can make a success of his presidency within constitutional limitations.

C. Attitudes and Motives of San Tiago Dantas

At the moment, Dantas is clearly the number two man on the governmental scene, acting more like a Prime Minister than any of the three official Prime Ministers under the parliamentary regime. He is a highly educated, extremely

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intelligent, and energetic and resourceful man with enormous vanity and ambition. His politics have run from being a leading young fascist intellectual before the war, through membership in the haute bourgeoisie as an immensely successful lawyer and banker, to his present position as a leading figure in the Labor Party who flirted actively last summer with extreme left elements. He evidently has his eye on the presidency for 1966 (elections scheduled for October 1965). He would like to be the saviour of Brazil from the inflationary abyss.

At present, he appears strongly committed to the policy of effectively combatting inflation and favors of collaboration with the U.S. for this purpose. He is defending this policy against attacks from Brizola, orthodox communists, unorthodox (Chinese-Cuba) communists, and extreme nationalists, taking his case repeatedly to the public through radio, TV, and press. He is becoming so firmly committed to this line that it is increasingly doubtful whether he could personally survive a change, despite his extraordinary skill at casuistry.

Dantas is, of course, known as the principal exponent of Brazil's "independent foreign policy" and the leader of the minority on Cuban policy at the OAS meeting in Punta del Este in last January. He has shown no signs of abandoning foreign policy "independence", but he too was apparently impressed by the October confrontation on Cuba and may be inclined now to construe independence in a way more favorable to the U. S. and to the free world.

D. Continuing Political Uncertainties

Many aspects of the political scene remain obscure. Although the program for economic stabilization and development is now the main focus of executive action, there is also much talk about proposing radical "basic reforms" to the new Congress when it meets on March 15. The Nationalist Parliamentary Front, in which the Labor Party is predominant, is continuing to pursue a highly demagogic anti-American line, calling for the Brazilianization of many fields of private American investment in Brazil and the withdrawal of Brazil from OAS treaty commitments. Goulart, as head of the Labor Party and with many close associates in the nationalist front, should be in a position to temper their platforms, but it is not yet clear how far he desires to do so. A substantial amount of demagogic tongue-rattling is endemic to Brazilian politics, but the test will come when the new Congress begins to function.

Brizola is leading a campaign from within the Congress against alleged Congressional unwillingness to vote the reforms "needed by the mass of the people." Important reforms are indeed in order in Brazil, but they are constructive and democratic reforms rather than the revolutionary clichés which are Brizola's stock in political trade.

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Goulart has maintained a reserved position, neither supporting nor opposing the extreme antics of some of his party associates. Some of the more conservative governors, notably Adhemar de Barros of Sao Paulo, predict that efforts will be made for federal intervention of their states during the next few months. Similar predictions last year proved unfounded, but we would be unwise to take for granted a period of constitutional and political tranquility simply because the constitutional issue which plagued Brazil last year has now been resolved.

E. Backing for the Dantas' Economic Program

A critical question is the strength and continuity of presidential support of the Dantas' program. That program has been publicly and violently attacked by Brizola, both wings of the communist party, and extremist labor and student leaders. Goulart has said privately to us that he is fully behind it, and has now shown a degree of public endorsement at a formal presidential cabinet meeting on February 28. On the other hand, Goulart has not publicly denounced the Brizola attacks, and he appears reluctant to cut off all lines of retreat in the event that international financial negotiations fail or domestic popular resistance to the necessary sacrifices appear to be getting out of hand.

The program itself implies tensions with many of Goulart's extremist supporters. Its continued pursuit may itself require him progressively to separate himself from them. Dantas has now publicly refuted Brizola's charges, describing him as a would-be Fascist dictator. It can not yet be said with assurance, however, that Goulart is irretrievably committed, either to the stabilization program or to the collaboration with the U. S. which its success requires.

IV - Alternative Courses of Action

Support by the U. S. for the Brazilian effort at economic stabilization and development involves two dimensions: time and quantity. There is considerable flexibility as to the lengths of time for which we might make a forward commitment, the circumstances for periodic review, and the associated conditions of performance on the Brazilian side. In the dimension of quantity, however, there is less flexibility, since effective support requires that the combined external sources - U.S., European, Japanese, and international institutions - be sufficient to permit Brazil to maintain the inflow of raw materials, capital goods, oil and wheat required for continued growth while also meeting its external financial obligations. In the first phase, therefore, which includes the immediate balance-of-payments needs pending negotiation of an accord with the IMF, followed by nine to twelve months of combined balance-of-payments and development support related to assistance from the IMF and from other

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creditor countries, the realistic alternatives are adequate support or no support. In a later phase, implying a well thought through development program under the Alliance for Progress, there might be a much wider range of choice on the volume and sources of support.

The alternative of withholding support is advocated by a few conservative Brazilian political leaders and by some U. S. businessmen with long experience in Brazil. Their argument is that Goulart is absolutely untrustworthy, anti-American by instinct, and consciously or unconsciously inclined toward putting the country either under outright communist control or under some form of national-socialist, Peronist, syndicalist dictatorship--which would be almost as bad from the viewpoint of U.S.-Brazilian relationships. If we refuse support, they argue, the resultant combination of debt defaults and import shrinkage will bring about such a deterioration in social and economic conditions as to entail serious internal disorder permitting a right wing coup to replace Goulart by a more satisfactory regime. The bulk of the Brazilian business community, and some portion of the American, are disposed to give some margin of confidence to the Dantas' effort, although they are deeply suspicious of both him and Goulart.

The Embassy has sought to appraise carefully the strength of center and right wing opposition to Goulart and the likelihood of a successful coup against him. Our present view is that, in the absence of overtly unconstitutional action by Goulart himself there does not now exist in Brazil adequate leadership, organization, or strength to carry out such a coup successfully. The military attitudes are crucial in this regard. The bulk of the officer corps, although suspicious of Goulart, retain their deeply rooted Brazilian tradition of support for legally constituted civilian authority. If an obviously illegal initiative were taken by Goulart, there is a substantial prospect of a successful center-right reaction. The mere deterioration of confidence as a result of non-support for the economic program by the U. S., however, cannot be relied upon to lead to a successful center-right action against Goulart.

The exact nature of a Goulart reaction to a refusal of U. S. support is not easy to predict. At one point last November, he indicated as the alternative a kind of blackmail threat of turning to the Russians, as well as denouncing the U. S., defaulting on debt payments, nationalizing foreign enterprise, and tightening the Brazilian belt through a radical socializing program. Subsequently he has carefully eschewed the repetition of such threats.

In recent weeks, the Soviet Ambassador has been actively courting Goulart, but we are not informed on the details of their conversations. Apart from the dubious question of large scale Soviet support, it is plausible to expect a violently nationalist reaction against the stabilization effort in the event

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of American non-support, combined with a debt moratorium and adverse action of many types against American business interests. The Alliance for Progress in Brazil would come to a quick and sticky end. Although Brazilian economic conditions would be gravely impaired, the nationalist impulse toward closing ranks behind Goulart might keep him in power for a substantial period.

Given the presence of an apparently constructive and genuine effort at economic stabilization and development, modest (though still far from satisfactory) improvement in domestic political orientation, and at least a temporary disposition for collaboration with the U. S. under the Alliance for Progress and in other ways, the superior alternative clearly appears to be as recommended in Section II above.

Lincoln Gordon
American Ambassador to Brazil

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