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FROM : Embassy RIO DE JANEIRO

DATE December 19, 1962

SUBJECT : Minutes of Conversation between President João Goulart and Attorney General Robert Kennedy, Palácio do Alvorada, Brasilia, Monday, December 17, 1962, 11:15 a.m. to 2:30 p.m. Also present: Ambassador Lincoln Gordon and State Department Interpreter José de Seabra.

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After an exchange of courtesies, President Goulart said he was very pleased to welcome the Attorney General for a private talk in Brasilia about the situation in Brazil and problems of Brazilian-U.S. relationships. He was aware that President Kennedy was preoccupied with various aspects of these relationships, some of them indicated in the press conference of Wednesday, December 12. He had great esteem for President Kennedy and he understood the special closeness of the Attorney General's relationship to him, official as well as personal. He hoped that the discussion would be entirely frank; he would welcome criticism; and he was prepared to respond to any questions. The Attorney General then made a general exposition of U.S. concern with the present situation and recent trends in Brazil and in our relationships, covering the principal points in the draft speaking paper (Tab B in the attached file). President Kennedy placed very high importance on Brazil as the giant nation of Latin America, and on the relations between our two countries. During World War II we had fought together, with important positive results for the maintenance of world freedom and a special relationship of cooperation had been developed between Presidents Vargas and Roosevelt.

President Kennedy was indeed deeply concerned about recent trends in our relationships, and this was his reason for wanting this direct talk with President Goulart at a

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E.O. 11652, Sec 3(E) and 5(D) or (F)

State Dept NLR-76-93

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By *MEB* NARS, Date *5-21-76*

In Out

Contents and Classification Approved by

FORM 4-62 DS-323

Drafted by: Lincoln Gordon:m1s

Clearance:

Classification:

Control:

Disposition:

NIF, CO, JIKL

Retention:

Disposition:

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Handwritten note: This document contains 17 pages. Enclosed is 42 copies. Enclosed is B.

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time when crucial decisions were being made on the future course of Brazil internally and externally.

Our Administration wholeheartedly favors the development of Brazil as a great and strong nation, with an independent foreign policy. In this smaller and greatly troubled world, cooperation between our two countries could be even more important and fruitful than in World War II -- cooperation especially in the struggle for Latin American economic and social development, to overcome backwardness and to meet popular needs and desires for education, better health, and decent housing. This was the idea of the Alliance for Progress, which is not just an American aid program but a cooperative program in which Latin America and especially Brazil should be taking the lead. One of President Kennedy's disappointments was that the Brazilian Government had not shown any spirit of active participation or leadership in this effort. The purpose is not to impose the American way of life in Latin America, but to help Latin America deal with these pressing economic and social problems.

When President Kennedy had met with President Goulart in Washington in April, President Kennedy had been very happy with the tone and substance of the talks, and had supposed that a foundation was being laid for the same type of cordial personal relationship that had existed between Vargas and Roosevelt. But the developments in Brazil in the last eight months had created the gravest doubts on this point. These doubts came from several types of developments.

In the first instance, there were the many signs of Communist or extreme left-wing nationalists infiltration into civilian government positions, military appointments, the leadership of trade unions, and student group leadership. These elements were systematically and resolutely anti-American in their positions. In the trade union field, there had been a break with the International Democratic Labor movement which had caused very deep concern in American labor circles.

Second was the failure of President Goulart himself, or other high Government officials, to take a clear public stand against the violently anti-American positions expressed by influential Brazilians, some inside and some outside the Government, even though the President and other high officials were giving us private assurances of dissent from these expressions. We had no quarrel with independence in Brazilian policy, but we did object to that independence becoming systematically anti-American, opposing American policies and interests as a regular rule, and not simply when some specific Brazilian interest appeared to be in conflict with an American viewpoint. There are obviously reactions in American public and Congressional opinion against this kind of policy and action, and its continuation would render cooperation between our two countries impossible. One example was the recent removal of Peace Corps volunteers from one Brazilian State, and public

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attacks on the Peace Corps generally, with no clear overt effort on the part of the President or other high officials to defend these volunteers.

Turning then to the economic side, the Attorney General said that President Kennedy was very deeply worried at the deterioration of the Brazilian economic situation, both internally and externally. Inflation had now reached five percent per month and was seemingly getting out of hand. Foreign exchange reserves were gone. The remedial measures discussed in April had not been taken by the Brazilian Government. Net private investment was down from \$169 million in 1961 to almost nothing this year.

With respect to the treatment of American business concerns, the Attorney General said that his responsibilities for antitrust law enforcement made him very familiar with business abuses, and he had struggled with some of the same companies with which the Brazilian Government was sometimes in conflict. But there was no excuse for expropriation without adequate compensation, as it happened in the IT&T case. Business abuses should be combatted, but business should be treated fairly. This was important in Brazil's own interests, since the country needed investment and expansion of manufacturing industry to succeed in its development.

Now President Goulart was approaching a time of most critical decisions, with a new Government to be formed and a new governmental program to be adopted. This could be a major turning point in relations between Brazil and the U.S. and in the whole future of Latin America and of the free world. The U.S. wanted to cooperate with Brazil, but could not cooperate with officials resolutely and systematically opposed to cooperation with us. The U.S. wanted to aid Brazil's development and social progress, but could not do so if steps were not taken to get the economic and financial house in order. These were the essential points of concern which President Kennedy had wanted President Goulart to understand.

President Goulart then began a very lengthy reply, lasting over one hour. He started by saying that there are forces in Brazil which are systematically anti-American, represented especially in the "popular classes." They fall into two factions: (1) the Communist Party itself, which is relatively small, and which is obviously opposed to the United States and cooperation with the United States in any form; and (2) a much stronger group, which is not Communist, but which objects to many aspects of American policies toward Brazil and Latin America in general. This latter group does not have any personal animosity against President Kennedy. They have always opposed Republican Party policies, but they have placed high hopes on the Kennedy Administration. There is a widely held conviction in Brazil, especially in these groups, that United States commercial interests, both traders and investors, who in turn have

great influence on the Brazilian Government, have had as their chief aim in economic transactions with Brazil the objective of high profits. The profit motive is natural up to a certain point, but it has gone too far. Most of the capital investment coming to Latin America has not applied in basic economic sectors. Companies have been working in the electric power supply field, and in the oil business to earn a good deal of money, but they have not been expanding the power supply. In the field of iron and steel and other minerals, companies have been exploiting iron ore but not helping to develop the basic steel industry.

The real cause of Brazil's balance of payments problems comes from the spectacular fall in prices of the basic export products. Six years ago, coffee prices were twice as high as they are now. During the Republican Administrations in the United States, which the Brazilian people generally felt to be reactionary administrations, Brazilian export prices were much higher than they are today.

Considerations of this type can be mere pretexts for hostility to American policy, or they can be arguments based on facts. In any case, they do constitute some factual basis for the anti-American preachings of one segment of the popular forces.

Then there is the problem of the Brazilian press, most of which defends special economic interest groups in Brazil rather than the national interests, and which speaks for the very economic groups which are being fought by the popular forces. Sometimes, President Goulart said, he feels that the U.S. Government gets its information mainly from this part of the Brazilian press, and from the groups that they represent. The American Ambassador here is generally well informed, but even in his case his natural contacts are more with these Brazilian economic groups, especially those that are linked with American business interests.

The Communist Party as such does not amount to anything significant. It was able to elect only three out of some four hundred deputies in the congressional elections last October. It does, however, have a capacity to stimulate the nationalist groups and to indoctrinate them in generally anti-American positions.

President Kennedy should have a better understanding of the social situation in Brazil. This includes a struggle of the popular classes against the old dominant élites. There are great contrasts in living standards, here as in other Latin American countries, and in recent years there has been a tendency for these class conflicts to grow. The objective should be to avoid such class

conflict through a common effort. If, however, the Brazilian people feel that the United States, either as a people or as a government, are allied only with the dominant domestic economic groups who do not reflect popular sentiment, then anti-Americanism will be inevitable. Brazil is engaged in a struggle for basic social reforms, such as agrarian reform, which has been talked about for years but is only now beginning to come within sight because it has always been frustrated by the opposition of the dominant economic groups.

President Kennedy should not confuse the Brazilian peoples struggle against domestic economic groups with antagonism to the United States. These groups do try to identify themselves always with the United States, and to intrigue against the popular forces, trying to line up United States opinion against these popular desires.

President Goulart then conceded that there are some elements in the Government, although not actual card-carrying Communists, who do have fixed hostility to the United States -- although not toward President Kennedy in person. This is partly because of the continuous crisis of régime during the past year. The Attorney General should recognize that since he took office, President Goulart had had no moment of tranquillity. He began in September of last year by accepting the constitutional arrangements which had been imposed by political and military forces, and tried to govern through a cabinet of national union. This created a kind of honeymoon of apparent tranquillity, for a few months, but this national union had proved entirely incapable of confronting the basic problems of reform or of economic and financial order.

The experience with the hybrid parliamentary régime, however, had proved to President Goulart that in this huge country with its economic and geographical diversity there had to be effective unity of command and authority at the top to confront the real problems. The dilution of executive authority, divided among President, Prime Minister, individual Ministers, and others simply would not work.

Moreover, the dominant economic groups who had always fought President Goulart soon showed their teeth again. They wanted to fight him in every way possible, using the press they controlled so as to disseminate news which was really much more alarming than the real fact would justify. Their attacks against the Government, and against President Goulart himself, had obliged him to organize the popular forces in his support, and to make concessions to them in order to stay in power. If he had not gotten this kind of support, especially from the trade unions, the conservative groups would have overthrown him. He had made concessions to them, occasionally undesirable concessions, in order to avoid an even worse outcome. His downfall would not have been bad for him personally, but would have created unbearable conditions for the country: either a right-wing dictatorship, following the terrible example of Argentina, or a real

social revolution of the most extreme kind, with unforeseeable consequences. That was the picture in brief: he had organized support among the popular forces because he had received no support from the conservatives.

Now in January 1963, assuming that he could get through the change of régime back to presidentialism successfully, he would have a freer hand to organize a really competent government and also to carry through a real program of government which would overcome the economic and financial problems and would improve foreign relations. He was not pessimistic about basic Brazilian-U.S. relations. It is true that some of the popular currents of opinion are trying to make the U.S. the scapegoat for all of Brazil's ills, but there are also very widespread popular elements who do not share this opinion.

President Goulart then said that he would turn to certain specific questions. He had not prepared any organized plan of conversation with the Attorney General, and would take them up in random order.

Cuba. President Goulart said that two years ago, Fidel Castro had much greater support and sympathy in Brazil than he has now. Cuban propaganda at that time was being very effective, but it is now achieving much less response. In those days, Castro appeared to represent the mystique of a popular idealistic régime, but this view is now disappearing. During the crisis last October, Brazil fully supported the naval blockade. President Goulart, however, had been fearful of violent popular reactions against this policy, including the sorts of demonstrations that had taken place in Venezuela, Uruguay, Argentina, Chile, Ecuador, Peru, and other countries. He had therefore tried to steer public opinion very cautiously in order to avoid such hostile reactions. In fact, however, there was no significant popular demonstration against the policy or against the United States. When the Santos dockworkers threatened a boycott of American ships, he had called in the leaders, and had made them understand not only Brazil's policy but also that the United States, in opposing these Russian bases was defending itself and Latin America generally against aggression by a country which no longer had the right to talk of self-determination. Cuba's action in letting itself become a base for attacks against the United States was obviously not tolerable.

When Brazil supported the blockade, it was the only South American country in which there were no serious hostile manifestations. From this, President Goulart judges that anti-American sentiment is not widespread in Brazil. Certainly when President Kennedy comes here, he will have a great popular reception.

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Alliance for Progress. It has been disappointing that the Alliance for Progress has not up till now yielded the hoped for results. In Brazil, this is probably the fault of the Brazilian Government and partly the fault of the U.S. Agencies concerned with the program. The Alliance will have much greater results, both psychological and political, if it is more concentrated on the basic causes of Latin American ills, and not merely on their effects. President Goulart has the impression, and this is widely shared in Brazil, that the Alliance is more concerned with social symptoms than with reforms in the social structure and the basic need for economic development. If the Alliance for Progress will work more on the basic economic development structure, this would be more fruitful than concentrating on such things as housing, health, education, and social welfare.

With respect to combating inflation, if the Alliance for Progress would help some of the great public infrastructure projects, such as highways, railroads, and ports, this would not only assist in dealing with the fundamental causes of backwardness but it would also help the budgetary situation. Electric power and steel should also be included in this program. Large-scale financing of such projects on a long-term basis would really demonstrate the U.S. interest in Latin American development. President Goulart hoped that the revamping of the Alliance for Progress now under consideration would work in this direction.

On the balance of payments, President Goulart repeated that the real reason for Brazil's troubles is the drop in prices of the major export products.

Peace Corps. President Goulart felt that some reaction against the Peace Corps idea was not unnatural. There was a feeling of national pride against a group of foreigners preaching their ideas on education and other similar matters. There would be even a greater reaction against a Soviet or a Cuban peace corps. Nevertheless, President Goulart said, when his brother-in-law Leonel Brizola violently attacked the Peace Corps and called on Brazilians to take hostile action against them, he President Goulart had taken precautions to see that the group just arrived at Três Marias had its safety and tranquility assured. Brizola, he said, has his own personal political position. There is also a personal friendship between the President and Brizola, but the latter has a violent temperament, and President Goulart is not able to dominate his political views. The outcome was that, despite Brizola's calls for hostile treatment, the Peace Corps volunteers were in fact very well treated. This again demonstrates that there is not nearly as much widespread popular anti-Americanism as is sometimes suggested by the press. President Goulart restated his fear that President Kennedy is not receiving balanced information on the Brazilian situation, saying even that "my friend Lincoln Gordon" is probably more informed from one side than from the other.

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Commercial Relations. Some of the anti-American popular elements in Brazil keep pressing for a reversion in Brazil's commercial relations with the U.S. in favor of the Soviet bloc. President Goulart gets constant pressure on this point. The Soviet bloc obviously sees in Brazil a key to the expansion of its influence in Latin America. To this end, they are constantly making proposals for the financing of major national public works, such as dams and steel mills. Nevertheless, President Goulart has only met with the Soviet Ambassador three times, and has met with the American Ambassador more than fifty times. Still the Brazilian Government receives almost daily new Soviet offers to collaborate with Brazil in basic sectors. Something is now being done on that front, such as the recent arrangement for Polish assistance for a 200,000 kilowatt power expansion in Rio Grande do Sul, where Polish financial and technical aid will take care of the whole project. Undoubtedly, many of these Communist aid offers are simply for propaganda purposes, but they make a considerable impact coming at the same time that the newspapers are full of stories about economic difficulties with the United States and a possible catastrophe in the Brazilian foreign exchange and balance of payments position. The people read about sales of gold to the United States and at the same time hear of Soviet aid offers for long-term financing. This creates pressures, and popularizes the idea of expanding economic relations with the Soviet bloc.

As one example, Ambassador Gordon had complained to him about the proposed Brazilian purchase of one hundred Polish helicopters. This was to be an exchange for second-grade coffee, used for soluble coffee and other industrial purposes, of which Brazil had a very large surplus. Out of the total Brazilian stocks of 50 million bags of coffee, more than 15 million were beginning to spoil. This was the kind of coffee that was being turned over to Poland in return for helicopters at \$85,000 per unit. The United States had available helicopters of the same general characteristics, although perhaps superior in quality, for \$150,000 per unit, but Brazil was extremely short of dollars. Ambassador Gordon had suggested that there might have been political motivations involved in the Polish offer, but President Goulart was convinced that there were no political motivations and that no ideology whatever was involved in the deal.

President Goulart stated that he had always fought the Communists, from the days when he was in the Labor Ministry, and that reactionary elements had joined up with Communist elements in order to fight him.

General Relationships. Nevertheless, President Goulart repeated, he was not pessimistic about Brazilian-American relations in general. There was a need to alter somewhat the underlying basis of these relationships. In the

present feeling of disturbance, including short-run economic and financial difficulties in Brazil, there was a great opportunity for the United States to give a clear demonstration of its interest and positive assistance. The popular reaction is that if Brazil's economic situation is worrying the United States, the United States should be disposed to help it. At the same time, the balance of payments is being worsened by drops in export prices. This is criticized not only by left-wing elements, but by Brazilian conservatives who are indisputably friendly with the United States. Ambassador Roberto Campos, for example, blames the terms of trade for a large part of the troubles with the balance of payments. If he criticizes the United States on this point, what can be expected of left-wing elements such as the Brizola group, who are positively eager to create frictions between us. President Goulart believed that a real new effort at cooperation could accomplish a great deal. Relationships would have become considerably worse, had it not been for President Goulart's personal feeling of friendship and respect with President Kennedy and also President Goulart's excellent relationships with Ambassador Gordon. This has helped to keep us from drifting very far apart.

"Unfortunately, some of the main defenders of American policy in Brazil are the same people and groups who fight me and fight the popular forces in Brazil. Brizola and others like him know perfectly well my own thinking on relations with the United States, and know that I will go the whole way to maintain good relations and will make a great effort to improve the situation. I am certain that this can be done. Brazil and the United States have always been able to get along very well in the past. The outcome of the Cuban crisis should be very helpful in this respect."

The atmosphere now is really better for collaboration, but that collaboration must take efficient forms. It is not just a matter of foreign banks or business concerns making little business deals; there must be an over-all plan of collaboration. Brazil has the capacity to recover economically and to pay all its indebtedness; it needs only favorable conditions in which to develop its resources. The present situation was not created by President Goulart; it is the result of accumulated past errors. Under the Kubitschek and Quadros régimes, there was much too much liberality on imports and on building up foreign indebtedness. What is needed is foreign exchange austerity, importing only goods absolutely necessary for economic development. The same type of austerity is necessary for internal expenditures, cutting everything that can be cut without sacrificing basic development. On the favorable side, Brazil is the only Latin American country without substantial unemployment. It is essential to continue the basic development work, including projects in electric power and steel which must be carried through to completion. In the Northeast, development must be continued. There, without any substantial outside aid as

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yet, the situation has been improving, with a significant increase in living standards over the past four years. This was all a result of domestic investment, especially public investment.

(At this point, the Attorney General wrote a note to Ambassador Gordon saying "We seem to be getting no place.")

On international policy, President Goulart continued, there is no Brazilian Government predisposition against American policies. On the contrary. It is true that the Cuban problem did create difficulties for us, because there was much sympathy in Brazil for this small country with its popular revolution. But Castro has greatly lost sympathy in Brazil for two reasons: his overt declaration of Marxist-Leninist sympathies, and the overt Russian intervention in October. This has been so bad for the Brazilian Communist Party that even Brizola attacked Russia and the Communists, and was attacked by the Communists in turn.

President Goulart said that he knew that Brizola was a thorn in the side of Brazilian-American relationships. He would not try to defend Brizola, who is at heart a rebel against the Brazilian economic and social situation and against the situation of Brazil's balance of payments. Brizola knows by heart the whole history of prices of Brazilian exports, what has happened to each commodity in each of the last ten years, and also he knows all about the increasing prices on imported American equipment. But President Goulart and the Brazilian Government certainly have no prejudice or antagonism against the United States.

On the IT&T case, which has created so much friction, the history of the Company's attitudes and actions has been harmful to Brazilian attitudes toward the United States. Months before the expropriation in Rio Grande do Sul, there was a great effort on the part of the State for negotiated agreement. There was an understanding on the terms of the negotiation with the local representative of IT&T, Mr. Naylor, with agreement on a formula for a joint company with the State. At that point, the IT&T headquarters in New York withdrew Mr. Naylor and broke up the agreement. This created friction between the State and the Company, and the State then expropriated the Company in accordance with the State laws and constitution, and with full judicial approval.

In the April talks with President Kennedy, President Goulart said, he had promised a solution of this case which he had indeed had great difficulty in carrying through. This was the result of the subsequent political instability, with three or four Cabinet changes and the necessity for a new start with each new Cabinet. Ambassador Gordon, however, was aware of the efforts at a parallel solution through a loan to IT&T to advance to the Company the indemnity which it would ultimately get. There were political difficulties in any such solution, since the case was in the hands of the Rio Grande do Sul judiciary and

Governor Brizola, defending the competence of the judiciary of his State, was always politically opposed to any compromise or public settlement of the case except through normal judicial action. Nonetheless, negotiations for the parallel settlement were continuing and he hoped that they would be concluded soon.

The expropriation was generally supported by the public in Rio Grande do Sul. He, President Goulart, had pointed out to President Kennedy in April that the public utility sector generally creates great friction with the Brazilian public. These foreign public utility concerns had done a great deal in the past for the Brazilian economy -- and they had also made a good deal of money -- but now they were unable to improve their services and unable to raise their rates sufficiently because of Brazilian legal limitations and political difficulties. He was aware that progress had been very slow on the negotiations with the public utility companies, but this was because such negotiations could not be carried through in the climate of political instability of the last few months. When the new regime was established in January, he would press on with these negotiations, confronting the Communists and their allies who dislike this policy of friendly negotiated settlement with foreign public utility concerns.

The Attorney General then responded, speaking with special emphasis, and saying that he feared that President Goulart had not fully understood the nature of President Kennedy's concern about the present situation and prospects.

As to foreign business concerns, he was aware that there had been cases of exploitation in Latin America, and probably are still, but industrial investment is needed for Brazil's economic growth. Expropriation without compensation is no answer; this is not only unfair but it discourages the kind of investment that is needed. The fact that there has been some exploitation or abuse in the past is no defense of such expropriations.

As to the press being unduly in favor of special business interests, this is true in the United States too, where much of the press is constantly attacking President Kennedy. He is also opposed by most business management. Nonetheless, he tries to act fairly, and to treat the business community well regardless of political opposition.

As to President Kennedy's being misinformed about Brazilian developments, his information did not simply come from the conservative Brazilian press or from American business concerns. The Attorney General is not surprised that the Brazilian people do not show broad anti-American feeling; he had no expectation that they would. Nor is Brizola of great importance, any more than extreme politicians in the United States such as Barry Goldwater or Senator Eastland. The point is that in the public declarations of the President of Brazil and

the Brazilian Government, there is no clear taking of position against Brizola or other anti-American statements and actions. In the case of the Peace Corps, there has never been a public defense of them by the Brazilian Government or the President. It is this type of failure on the part of the Government which reacts badly with the American public, Congress, and the Administration.

As to aid from the Soviet bloc, if President Goulart and the Brazilian people thought that this was the solution for Brazil, they were perfectly entitled to seek that solution. If Brazil wants assistance in roads and steel and power projects from the United States, we are indeed prepared to extend such assistance. But we can do so only by working with officials who want to cooperate with us. We cannot cooperate with those who are systematically opposed to us. A policy to prove Brazil's independence by systematic hostility to the United States cannot be reconciled with good Brazilian-American relations. The United States has no desire to control Brazilian policy, and will cooperate on a two-way basis. But if all high officials in Brazil are either attacking the United States constantly or being silent in the face of such attacks, cooperation will not be possible.

We are also prepared to help with the necessary domestic measures to get the economy working effectively again. We have no desire to keep Brazil from developing its industry. The Marshall Plan put Europe back on its feet as a going concern, and it included a great deal of direct aid to our strongest competitors. The same is true of Japan, which has far poorer resources than Brazil, but is economically in a much stronger position. We are not controlling either Western Europe or Japan. To make cooperative programs work, there must be a basis of mutual trust and confidence. When there are people in authority in Brazil who follow the Communist line, it can not be expected that we will work with them effectively.

Our desire is to cooperate, because we believe that effective cooperation between the two great powers in the Western Hemisphere can do great things for Latin America and for the world. But we cannot cooperate with officials and attitudes which are systematically hostile to us.

We know that financial talks of great importance are going to take place between our Governments in January. We are very concerned about the atmosphere surrounding those talks. President Kennedy had felt in April a very good personal relationship with President Goulart, but relations had deteriorated since then. The need is to re-establish a basis for confidence and trust in the relations between the two Presidents and the Governments and the peoples. For this two steps are essential: personnel in key Brazilian positions not hostile to the United States and effective measures to control the runaway inflation

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within Brazil. We are prepared to help on such projects as highways and power, but under conditions of the last six months, such help has been impossible.

President Goulart reacted somewhat sharply, saying that we should discuss objectively just who are the elements within the governmental structure who are systematically hostile to the United States. He had never consciously permitted any Federal official to attack President Kennedy. He felt that the Attorney General's views on this were greatly exaggerated.

The Attorney General replied that he did not want to get into a debate on names, but asked Ambassador Gordon to comment. Ambassador Gordon said that he too thought it would be inappropriate to discuss names, but he would suggest certain agencies where this was a serious problem, among them certain military appointments, PETROBRAS, the Ministry of Mines and Energy, SUDENE, and the BNDE.

President Goulart then replied that in the Ministry of Mines and Energy, there had been a far leftward inclined Minister -- Gabriel Passos (who happened to come from a Party in opposition to his), but the present Minister was a first-class technician, an engineer with no interest in politics, who was strongly disposed toward private enterprise and the free world. There were some Communist inclined elements down in the staff of the Ministry, whom there had not yet been time to clear out, but they were unable to get their policies adopted by the present Minister or by the President himself. If they had had their way, Hanna and other American interests would have been expropriated long ago. The President had prevented this. He was anxious that Hanna should undertake the same kind of arrangement as Belgo-Mineira and Mannesmann, who were exporting iron ore but using some of the profits for steel industry investments in Brazil. Hanna had hitherto not been willing to do this. Nonetheless, in fairness to Hanna, he was keeping the offer open. The Communist inclined group in the Ministry was strongly opposed to this policy. Their chief, Under Secretary Celso Passos, son of the former Minister, would soon be leaving the Ministry because he was elected a deputy and had to resign the Under Secretaryship by January 31. The only reason the President had not already removed him was that he would be going automatically, and the President had not wanted to create a public incident.

The Attorney General then said that we would soon be entering a new year, with great new opportunities. President Goulart would have full presidential powers, and this provided a chance for great improvement both internally and in international relations. The important thing, he said, was not further recriminations about the past few months, but the direction that events would take in the future. The question was whether this future would be on the basis of mutual trust and confidence between our two countries.



President Goulart replied that this was precisely what he wanted. He had the greatest good will toward the United States. There are certain misunderstandings and difficulties between us, including some as a result of left-wing ideology in certain sectors of Brazilian opinion. But the United States authorities can have confidence that he, President Goulart, will not play the Communist game. He has a special admiration for President Kennedy. He believes that some aspects of our relations do need reappraisal, especially aspects of American economic policy toward Latin America. He felt that Ambassador Gordon would be a great help in this regard, since he was a scholar and not a businessman, and could help develop more effective means of economic policy cooperation.

He wanted the Attorney General to leave this talk persuaded that there was no insuperable obstacle to entirely good relations between us. Problems like the terms of trade should be re-examined by President Kennedy, since this was creating friction in the whole of Latin America.

On the broader international front, he felt that President Kennedy was in the strongest possible position to improve relations with Latin America. The outcome of the Cuban crisis had consolidated his leadership, not only within the United States but in the whole free world. He could lead Latin America as only President Roosevelt had done, and his youth placed him in an even stronger position for such leadership.

In such a role, President Kennedy already has the full personal support of President Goulart. But he needs the support of all elements in Latin American opinion, including the popular elements, the working classes. If our young generation cannot find means to beat the socialist system by democratic institutions, free institutions will not survive in this Hemisphere or elsewhere. The cause of democracy has been losing much ground in Latin America in recent years, not because of anything to do with the United States, but because the popular masses feel that their problems are not being solved through democratic means.

Turning to the broader international scene, President Goulart then said that he foresees some time in the next few years a showdown with the Soviet world. He thought that the Russian retreat on the Cuban issue was very important, but perhaps only a temporary tactical retreat. They very likely had their eye on the social and economic deterioration within Latin America as a way of coming back to establish a stronger position in this Hemisphere against the United States. In any showdown, there was no doubt that Brazil stood on the side of the United States. Nonetheless, the bad social climate in Latin America, which was a reflex of the economic problems, might open a new way for the Soviet Union.



So far as Brazil is concerned, President Goulart said, he intended to make a very great effort in the new year with the new régime. The new government would reflect the great bulk of Brazilian opinion. There was some opposition on the right which would oppose him under any circumstances, but the great bulk would support the new program. And this new program would be deserving of foreign aid, although he would prefer that such aid not be of a social or assistential character -- such things as food and clothing, which had a negative rather than a positive effect.

The new program, which would be presented in January to the U.S. Government, would be a plan of action for the three remaining years of his Administration. It would not be a rigid proposal; suggestions for modifications and improvements would be welcome. But he was not pessimistic on the economic prospects. The volume of currency emissions could be greatly reduced next year as compared with last year and this year, and the rate of inflation had to be reduced and would be.

The Attorney General would have an opportunity to meet Celso Furtado at luncheon, and he hoped that they would discuss the general lines of the program. The domestic economic and financial situation could be improved, if there was effective collaboration from President Kennedy and the U.S. Government, which is indispensable to success in the program. The outside aid, however, need not take the form of large new loans; what is mainly needed is debt consolidation and financing on a long-term basis of imports of equipment and capital goods. Brazil's needs are relatively much smaller than the aid given to Europe under the Marshall Plan, which emancipated the European economy after the war. We have got the necessary basic conditions for good relations between us.

As to certain hostile attitudes in various Ministries, these can be corrected in the future. It will not be a drastic correction all at once, but a gradual improvement as has already happened and will further happen in the Ministry of Mines and Energy. Similar corrections can be made in other places where there are now extremist views.

The course for Brazil to take must of course be determined by Brazilians. But for his part, President Goulart said, he wanted to do so in collaboration with the United States. This was the natural course for the Brazilian people, with their strong Catholic Christian traditions. They are not disposed to favor communism or violent revolution, with few exceptions, unless they are driven to desperation. The climate for such action does not exist now, and is not likely to exist soon. What is needed is to correct the severe inflation, and the depreciation of the currency, but these things are correctable if Brazil undertakes an effective program and has the decided help of the United

States. Debt consolidation would be a major element in such help. Brazil should also get help from Western Europe. The large iron ore contracts with Belgo-Mineira, Mannesmann, and the Krupp group should bring in over \$3 billion in foreign exchange during the next 12 to 15 years, which will greatly help our balance of payments. And there are other major economic improvements that can be undertaken.

Over the middle and long run, therefore, President Goulart said that he was optimistic both on the internal front and in regard to relations with the United States. Brazil realizes that geography links us together, and wants no other road but friendship with the United States.

Some of the current difficulties can be overcome by greater public understanding. In this connection, the visit of President Kennedy here to Brazil is absolutely indispensable. His failure to come would be greatly exploited by elements hostile to the United States. He should come as soon as feasible, and can be certain of a very enthusiastic reception. There should not be a third postponement. The date should be selected at President Kennedy's convenience, but once fixed should be carried through on schedule.

The Attorney General replied that President Kennedy had said that he wants to come sometime during 1963, and that he hoped that a definite date could be worked out sometime early in the new year. But the important thing, the Attorney General emphasized, would be Brazilian action in the financial and economic fields. A mere good will visit from President Kennedy would not cure the real problems. President Kennedy is concerned about the need for genuine Brazilian cooperation, in the Alliance for Progress and elsewhere. He sees an important personal role for President Goulart, not only in Brazil but in Latin America as a whole and in the world. Improvement in cooperative measures could be made partly through constructive criticism on the part of Brazil, with President Goulart suggesting what changes of emphasis and what new measures might be needed. A close personal working relationship between the two Presidents could be of the greatest importance.

But for this to take place, there must be real conviction that there exist the basis of mutual trust and confidence. First President Kennedy must be convinced, and then our Congress and our public. This is why he the Attorney General had made this long trip, to emphasize President Kennedy's conviction that first action had to be taken in Brazil to get the economy back in order and to make other improvements, and then good personal relations could flow from those actions.

We are counting on President Goulart, the composition of his new Government, and the new financial and economic program to make a critical change in the trend in our relationships. We too are optimistic, but there are great current

difficulties, and a real change is necessary to create this essential relationship.

President Goulart replied that of course a personal Presidential visit alone would not suffice, but it could have an effect in revitalizing favorable popular opinion in relation to the United States.

At this point the interview was obviously reaching its end. President Goulart said that he thought that this sort of informal visit by the Attorney General was extremely useful, and that he hoped that other high American officials would make such visits, not only to meet with President Goulart himself but to meet others and to feel the situation at first hand. He also welcomed the frankness of the discussion, saying that the mere exchange of niceties would not serve any useful purpose whatever.

He then mentioned Celso Furtado, saying that he knew that some people thought he was an extreme left-winger. He asked the Ambassador to comment on this.

Ambassador Gordon replied that he was not sure on this point, that at one time Furtado had certainly held extreme left-wing views, but that his present orientation was an open question. President Goulart inquired as to the opinion of other economists, in the United Nations and elsewhere, and Ambassador Gordon replied that Furtado was highly respected from the professional viewpoint, but that conflicting views were held concerning his ideology. President Goulart said that he had been very deeply impressed by Furtado's technical competence as a planner, but recognized that he was not at all a good executive, and indicated that in the new regime he would want Furtado to hold essentially a technical position, with executive responsibility transferred to others.

President Goulart then concluded with some observations on the general international scene, saying that he thought that the position of the free world had been greatly strengthened by recent events, and that there was obviously much internal conflict within the Communist world. The interview ^{closed} with a final exchange of compliments.

(With respect to the general tone of the meeting, it should be observed that it began in a very cordial mood, reached a point of some tension when President Goulart asked for specification of left-wing elements within the Government, but again became more relaxed and entirely cordial toward the end.)

Enclosure: *att*
Attorney General's file.

Lincoln Gordon
Lincoln Gordon

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