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Submitted by

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DIRECTOR OF CENTRAL INTELLIGENCE

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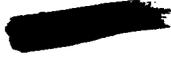
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BRAZIL

THE PROBLEM

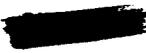
To estimate the situation in Brazil and the prospects for the next year or two.

CONCLUSIONS

A. The Costa e Silva administration has many things in common with that of Castello Branco, but is relaxing some of the more stringent economic controls which the latter had imposed. It is also tolerating, and to some extent responding to, a greater expression of nationalistic feelings, which for the most part have long had an anti-US cast. Yet such policies will probably not bring Costa e Silva appreciable new popular support; instead, a troubled economy, plus political restraints which are not likely to slacken, will tend to diminish his popularity.

B. Civilian opposition will probably increase, but it is disorganized and unlikely to coalesce very effectively in the next two years. The military establishment probably will urge further restraints on civilian political dissidence, insist upon stronger leadership by the government, and press for the present moderate program of arms acquisition. The President will probably act strongly enough in these respects to satisfy most military opinion. Hence he is likely to stay in office until the end of his term in 1971, and his administration is likely to become somewhat more authoritarian.

C. Brazil's economy showed some progress in 1967, but its problems are too fundamental, too numerous, and too interrelated to permit any great gains in the next two years. Problems of inflation, the budget, and the balance of payments will be manageable, but will nevertheless remain serious. The restraints required to maintain a reasonable degree of financial stability will keep increases in production at modest figures. Thus economic improvement will not be sufficient to provide for much higher levels of living or to permit extensive social reforms or advances.



D. Despite Brazil's increasing nationalism, the Costa e Silva government will maintain a much friendlier attitude toward the US than the Quadros or Goulart regimes did. It will not, however, follow the US lead in international matters as closely as Castello Branco's did, and we believe it will be less sympathetic toward the US role in Vietnam. It will probably continue to oppose ratification of the international treaty on nuclear nonproliferation in its present form.

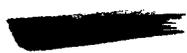
DISCUSSION

I. BACKGROUND

1. During almost four years in power, leaders of the Brazilian Revolution have consistently found that innovative zeal and firm convictions are not enough to make a revolution. The role of the Brazilian presidency has been changed from that of a broker among the country's economic and political interest groups to that of an executive endowed with near-dictatorial powers. In an effort to preserve democratic forms and do away with the confusion of the old multiparty system, two new parties have been created: a government party, the Alliance of National Renewal (ARENA), and an opposition Brazilian Democratic Movement (MDB). Congress is divided about 2-1 between them. Power passed smoothly from the Castello Branco administration to the former Minister of War, Arthur da Costa e Silva, who was elected by Congress and took office 15 March 1967, and a new constitution effective on the same day has institutionalized many of the Revolutionary decrees.¹

2. Progress has been greater in restructuring the government than in developing new political attitudes, and popular enthusiasm for the Revolution has steadily decreased. Inversely, a nostalgia for the growth and optimism of Kubitschek's "fifty years of progress in five" has increased. Much of the general disaffection has stemmed from the austerity program launched by Castello Branco, and some from Brazil's close pursuit of US policy leads during his administration. Few politicians, however, have the ability to profit from such discontent. The government of the Revolution showed its determination to prevent any political challenge by depriving many old-style politicians of their political rights for 10 years; the list includes all three presidents of the years 1956-1964: Juscelino Kubitschek, Jânio Quadros, and João Goulart. It has since employed this type of proscription to intervene in state elections. The most active and articulate opposition figure at present is Carlos Lacerda, a former favorite of the military establishment, one of the engineers of the Revolution, and once the enemy of the presidents mentioned above.

¹ The new constitution provides for the President to be elected by an electoral college composed of the national Congress and delegates appointed by state legislatures. By contrast, governors and congressmen are elected directly. The power of the President vis-a-vis the national Congress has been greatly strengthened.



3. Costa e Silva has been well aware of the need to attract popular support. More pragmatic than his predecessor, he began, even before his inauguration, to talk about "humanizing" the Revolution. On coming to power, he moved to soften somewhat the austerity of the economic program. He has also tried to broaden his appeal by "governing" from different state capitals. Yet the very nature of the Revolutionary policies limits the humanizing he can carry out.

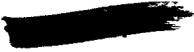
II. ECONOMIC DEVELOPMENT VERSUS STABILITY

4. Under Castello Branco, economic growth and social reform were for the most part subordinated to greater financial stability. His restrictive credit, fiscal, and wage policies were principally responsible for reducing the rate of inflation from nearly 90 percent in 1964 to 41 percent in 1966. This program produced an average rate of growth of only 4 percent during 1964-1966—or barely 1 percent per capita—and was accomplished mainly at the expense of urban labor, whose real wages continued to decline while unemployment increased. Efforts to implement agrarian and educational reforms, as well as a public housing program, fell far behind goals. The stabilization program was also largely responsible (along with a poor harvest) for an industrial recession in late 1966 and early 1967.

5. While Costa e Silva recognized the political advantages of relaxing the austerity program, his advisers regarded many aspects of it as economic necessities. After analyzing the state of the economy, they argued that production costs rather than consumer demand had become the principal force behind inflation. They consequently emphasized the necessity for: (a) reduction of business costs by lowering interest rates and taxes and by holding down prices of raw materials; (b) increased availability of working capital; and (c) stimulation of consumer demand to bring about higher, more efficient levels of industrial output.

6. The new administration took various measures along these lines. Castello Branco had held down subsidies to coffee growers, partly to reduce their high returns and partly to encourage diversification of agriculture. The Costa e Silva administration has raised these subsidies almost 40 percent, for reasons both political and economic. It has also raised price supports for such staples as rice and black beans. To stimulate industrial output, the government granted a grace period for payment of excise taxes on most manufactures; this amounted in effect to a 30-day interest-free loan in the amount of the monthly tax liabilities. Bank credit also was made easier for many firms to obtain. The government doubled the basic amount of personal income exempt from income tax, and limited the amount of permissible increases in rents during 1967. As a small concession to labor, the government made a minor change in its wage formula to take account of anticipated inflation, but this has not prevented some continuing decline in real wages.

7. By the second half of 1967 industrial production was rising, a fact which, along with an excellent harvest, contributed to an estimated growth in gross



domestic product of nearly five percent for the year. Bumper food crops also helped to hold the increase in the cost of living in 1967 to 25 percent. The administration's success in bringing the economy out of recession, however, entailed increasing difficulties for the budget and balance of payments. The federal budget deficit in 1967 was probably twice that of 1966. The trade balance was damaged on the one hand by a decline in coffee export earnings and on the other by an increase in imports resulting partly from the economic recovery and partly from liberalized import laws. In contrast to a trade surplus of \$237 million in January-October 1966, the surplus was only \$25 million for the corresponding period in 1967. As a result, a considerable loss of foreign exchange took place during 1967. To forestall a further deterioration of the balance of payments, to prevent speculation against the cruzeiro, and to maintain the competitive position of Brazil's exports, the government devalued the cruzeiro, in January 1968, for the second time in a year.

8. The government's general economic strategy, as distinct from the short-term measures taken to combat the recession, has been set forth in a three-year plan (1968-1970) of July 1967, which calls for a growth rate in real terms of six percent per year, together with increased gross investment. The goal of relative price stability occupies an important place in the program. Yet in contrast to Castello Branco's program, which set forth specific but unrealistic year-end targets for the rate of inflation, the new program seeks only to reduce the rate of inflation each year. There is now greater emphasis on development than on stabilization.

III. NATIONALISM

9. Another important divergence from the policies of Castello Branco has been a greater recognition of, and responsiveness to, Brazilian nationalism. This nationalism has for many years been grounded in the deeply held conviction that because of its size, population, and natural resources, Brazil is destined to be a great power. Nationalist sentiment has always cut across social lines and ideologies, and despite a reservoir of good will toward Americans has in most of its forms long had an anti-US cast. Leftwing students and academicians condemn US programs with the Ministry of Education as "cultural imperialism." Some businessmen accuse the US of trying to undermine or take over Brazilian enterprises. Some politicians charge the US with trying to subordinate Brazil to its foreign policies. Many Brazilians, civilian and military, feel that the US fails to give it the favorable treatment to which it is entitled by reason of its past support of the US and the prospect that it will be a powerful US ally in the future.

10. Brazilian nationalism is sharpened by a sense of dissatisfaction over the country's lack of progress in many areas and an apprehension that it is destined always to be the land of the future. Some Brazilians, already concerned over what they consider to be the ubiquitous role of the US in Brazilian affairs, have been ready to accept a variety of allegations. Various politicians (including a former governor of Amazonas, an appointee of Castello Branco) make head-

lines by charging the US with sinister designs on the Amazon region—from looting its radioactive ore to planning to settle North American Negroes within it. Leftist students have joined conservative elements in denouncing birth control programs (allegedly supported by the US) in the backlands. An ultra-conservative newspaper chain which had previously opposed *Time-Life's* efforts to expand its interests in Brazil was responsible for widely publicizing this birth control issue; its newspaper articles implied that the US wants to make Brazil a weak underpopulated satellite. Even some priests augmented their usual religious arguments against the programs with strong nationalistic arguments.

11. The Costa e Silva administration, while so far avoiding involvement in such extreme cases, has some favorite nationalist causes of its own. One is its insistence upon Brazil's sovereign right to develop its nuclear energy resources. Despite the infant state of Brazilian nuclear research, both the Castello Branco and the Costa e Silva administrations have resisted the arguments of the nuclear powers that nonnuclear states should forgo research involving nuclear explosion. Costa e Silva and other Brazilians have argued that the draft international non-proliferation treaty discriminates against the underdeveloped nations by not distinguishing between nuclear explosions for peaceful purposes and for the production of nuclear weapons.

12. The Costa e Silva administration has taken account of nationalist sentiment by assuming a more independent stance in its foreign policy. Like its predecessor it advocates trade with all countries—regardless of ideology. But in contrast to the statement of a former Foreign Minister that “what's good for the US is good for Brazil,” this administration specifically rejects any subordination of Brazilian to US policy interests. Castello Branco enthusiastically supported the concept of a permanent Inter-American Peace Force (IAPF) and endorsed US policy on Vietnam, but the present Foreign Minister, José de Magalhães Pinto, in a bid for popularity, has backed away in both cases. Stating his lack of enthusiasm for an IAPF, he has reiterated that defense and maintenance of order in any country are the responsibilities of its national armed forces. He has outlined Brazil's position toward Vietnam, in a message to Congress, as “complete neutrality and abstention.”

13. Magalhães Pinto, a former governor of the state of Minas Gerais, has built a successful career around his ability to sense a political trend. He sometimes presses the nationalist-independence policies farther than Costa e Silva seems prepared to go, but he is a popular national figure whose presence in the government is valuable. Moreover his own inclinations on these matters are of particular importance because he is using the Foreign Ministry as a vantage point from which to launch his campaign for the presidency in 1971.

IV. DEPENDENCE ON THE MILITARY ESTABLISHMENT

14. The administration's changes in policy have not succeeded in attracting civilian support. The government's political creation, ARENA, has not become an effective arm of the Revolution and is still a diverse aggregation hungry for patronage. The intention that it become a national party, organized from municipi-

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pal to regional to national directorates, has not been fulfilled, even in politically conscious areas like the State of São Paulo. Where it has been effective, it has had to depend on the political machinery of the former parties. Although groups have been formed within ARENA to support the Executive's retention of special powers under the constitution of 1967, most of the party probably favors a quick return of previous congressional powers and prerogatives, and a relatively early return to direct presidential election.

15. Costa e Silva has displayed little intention to develop and work through a political base, and instead has chosen to rely on a few civilian specialists, some politicians, and trusted military advisers. Despite the value he sees in the presence of such influential civilians as Magalhães Pinto in his cabinet, he realizes that his only solid base of support lies in the military establishment. Costa e Silva now shows signs of expanding the military role in government. A law recently proposed by the President, and certain to be passed by Congress, will widen the internal responsibilities of the National Security Council and increase the military representation in that body to nearly half.² In another move the President appointed a military officer to head a special committee on education. Such actions have increased civilian fears that Costa e Silva intends to put the armed forces almost completely in charge of policy planning and government operations.

16. Costa e Silva retains strong prestige and influence among the armed forces. He was their candidate for the presidency in spite of the wishes of Castello Branco. He has a shrewd sense of moods and trends within the military establishment, and he has firm control over the military machinery and over promotions and assignments. Nonetheless, there are elements within the military—especially the "hardline," a grouping that was once enthusiastic about Costa e Silva—who have become disenchanted with his administration.³

17. Such officers have been particularly concerned about the President's lack of firm leadership. They feel that his preoccupation with "humanization" is jeopardizing progress toward Revolutionary goals. They suspect that he may be tolerating some corruption in high places and fear that this will tarnish the reputation of the military. They look back approvingly at the starker admin-

² Opponents have especially feared aspects of the decree that seem to delegate much of the authority and responsibility for foreign policies and for economic planning to the Security Council. The decree would also increase the importance of the Chief of the Military Household (who serves as secretary-general of the Council), and require that heads of divisions of security and intelligence of civilian ministries be either military officers or civilian graduates of the National War College.

³ The armed forces, like other institutions in Brazil, have traditionally been split into factions. With the Revolution, leftist factions were purged and a "hardline" came into prominence. The hardliners were field grade officers who were among the first to plot against Goulart, and who had a puritanical zeal to purge the country of "subversion" or "corruption" wherever they saw it. As War Minister, Costa e Silva was closer to them than Castello Branco was, and worked on numerous occasions as a buffer between them and the President. By the end of Castello Branco's term, the power of the "hardline" had been considerably diminished.

istrative measures and economic program of Castello Branco (whose reputation among the military has increased since his death in an airplane crash in July 1967); they would like to have Costa e Silva replace several members of the present cabinet and crack down on his most vocal political adversaries. In particular, some among the military are pressuring the government to move against Lacerda.

V. CIVILIAN OPPOSITION

18. Though opponents of the Revolution are able to discomfort the military, opposition to Costa e Silva is actually weak and in disarray, and has stirred few Brazilians out of political cynicism or apathy. The MDB is divided and confused as to its role under present conditions and as to its ultimate purpose. As an amalgamation of most members of the former Labor Party (PTB) and some followers of Kubitschek and Quadros, it is even less an entity than ARENA, and of course lacks patronage. Its program, based on nationalism and constitutional reform including the restoration of direct presidential elections, has caused little stir, and its organization at the grass roots is nil.

19. A problem for government and opposition alike is the "Broad Front," a hybrid grouping headed by Lacerda and the proscribed former Presidents Kubitschek and Goulart. It has denounced the government and has called for re-democratization of the country in far sharper terms than has the MDB. The presence of Lacerda as the Front's spokesman puts it in a sort of political no-man's-land. On the one hand, Lacerda has alienated most of the members of the military establishment who were his enthusiastic backers when, as governor of Guanabara, he was an original conspirator against Goulart. On the other, few of his former enemies, such as the Vargas family and Jânio Quadros, are entirely convinced of the value of aligning themselves with Lacerda. Although some members of the MDB have been attracted by him as much the most articulate opposition spokesman (there is none of any national stature in the MDB), the party as a whole has stood warily by. The government is similarly perplexed over how to deal with Lacerda; it probably would like to go along with military pressures to deprive him of his civil rights, but it recalls his past effectiveness in creating severe crises when under attack.

20. Communists and radical leftists are also weak and split over doctrine as well as tactics and strategy. The small orthodox Communist Party under its septuagenarian leader, Luís Carlos Prestes, has limited itself to issuing dutiful pronouncements about the inevitability of the masses rallying round the party against the dictatorship. It has expelled a dissident wing led by a former member of the Central Committee, Carlos Marighella, for advocating armed revolution and Castro-style guerrilla warfare. Marighella is younger and more dynamic than Prestes, but it is hard to judge how successful he has been in attracting followers willing to undertake the risk of violent opposition to the government. The "pro-Chinese" splinter that broke off from the Party a few years ago has itself splintered and become virtually dormant. Most former leaders of the radi-

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cal left such as Miguel Arrães and Francisco Julião are scattered in exile. The only one who has been active to any purpose has been Leonel Brizola, the former governor of Rio Grande do Sul. From exile in Uruguay, Brizola has managed to sponsor sporadic guerrilla forays which have been quickly routed by the Brazilian security forces.

21. Beyond the rather nominal opposition of the organized political movements, there are notable pockets of disaffection, especially among labor and students. The government promised a dialogue with students and labor (as part of its humanization), but it has done little to alleviate their specific grievances. Labor has borne the brunt of the stabilization. Its organizations have always been subject to a large measure of government control. Long silent, it has recently tried to escape from political impotence by campaigning against the government's restrictive wage policy and the continuing inflation. This growing anti-government attitude has, moreover, made it easier for Communists and other leftists to regain a part of the influence they enjoyed in key unions before the Revolution. The government's budget does include a higher appropriation for education, but partly because of an ineffectual Minister of Education nothing has been done to assure students that the government is acting to cope with such basic problems as overcrowded classrooms, underpaid teachers, and a lack of space for those eligible to enter the universities. Furthermore the Revolutionary leaders have shown little interest in attempting to attract student support. Despite half-hearted efforts of the Castello Branco government to set up a pro-Revolutionary student organization, the Revolution has only succeeded in driving the proscribed leftist National Student Union underground.

22. Inspired by the teachings of liberal European Catholic philosophers and by recent papal encyclicals, elements of the Church have gradually taken a more active role in advocating and sponsoring social reform. Before the Revolution, rural unions organized by the Church did much to undercut Francisco Julião's Peasant Leagues in the Northeast; more recently energetic prelates have sorely irritated the military establishment by denouncing social conditions in that region. Some priests have further strained relations between the Church and the armed forces by siding with leftist students and criticizing the Revolution. Outspoken critics of the government like Dom Helder Câmara, the Archbishop of Olinda and Recife, have nevertheless kept eager opposition politicians at arm's length. Both the government and the Church are extremely wary of taking each other on as opponents and efforts toward an accommodation are being undertaken.

VI. THE OUTLOOK

23. The Costa e Silva administration has poor prospects for developing broader popular support. Pressures from within the armed forces will tend to restrain the government from making further significant concessions to the interests of civilian groups. The civilian groups themselves, whether political parties or student and labor organizations, will probably remain too docile and fragmented to pose any serious threat to the government. They will press on with efforts to

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induce a return to direct presidential election, but the government will almost certainly hold to the present system at least through the election of January 1971.

24. Economic difficulties will continue to hamper the administration's efforts to gain popular support. The kind of program it is pursuing needs time to show results and is thus politically thankless. It calls for forbearance and a sophisticated appreciation of Brazilian problems when the people simply want prompt and tangible economic gains. The country's economic difficulties still are too fundamental, too numerous, and too interrelated to permit such gains with reasonably stable prices and a tolerable deficit in the balance of payments. Dramatic moves in one sphere would quickly intensify problems in others, delaying necessary reforms and making them still more difficult. If the government continues to stress growth in production, for example, it will almost certainly have to relax further its effort to contain inflation. If it cannot find means to improve its balance of payments and strengthen its fiscal situation, it may have to retrench in its expansionary program.

25. The government will probably fall short of achieving its goal of a growth of six percent in gross domestic product in 1968. It may, however, match last year's growth of five percent, which reflected a particularly good harvest and recovery from the recession. Agricultural production will be encouraged in 1968 by increased support prices but even with favorable weather will not increase as much as in 1967. Expansion of exports is not likely to be significant, and export earnings will be depressed by low world market prices for coffee, which constitutes 45 percent of the total value of Brazilian exports. Some progress has been made in diversifying exports but it will be many years before Brazil can substantially lessen its dependence upon export of coffee. Debt servicing obligations will reach a peak of \$494 million in 1968 or about one-fourth of projected export earnings. The outlook for industrial growth is uncertain. Although gains were made in 1967, progress in 1968 could be inhibited if exchange difficulties resulted in restrictions on industrial imports.

26. Brazil's perennial problem of maximizing its earnings from coffee exports has once again produced friction in its relations with the US. The recent dispute has concerned Brazil's infant soluble-coffee industry, which for a variety of reasons has been able to undercut the competition of US producers of soluble coffee. At one point the issue appeared to jeopardize renewal of the entire International Coffee Agreement. A settlement has since been arrived at, but many Brazilians have been disturbed that one of Brazil's successful attempts to develop new exports, in accord with the precepts of the Alliance for Progress, could in practice be so effectively opposed by US companies.

27. Disaffection within the military may grow and plots will be rumored, but a coup is unlikely. As in 1964, political diversity and geographic distance between armies and commanders make planning a coup a complex matter involving a near unanimity among the military—and Costa e Silva is not likely to earn such a hostile consensus. He obtained the presidency through military con-

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sensus, and his tenure depends on the continuing support of at least the majority of the military establishment. On most matters, he and the military will manage to compose their differences. He will, for example, agree to some, though not all, military suggestions, and will make a few changes in his cabinet. And if opposition criticism becomes particularly grating, he might go along with military recommendations to act in some manner against Carlos Lacerda.

28. On matters closely affecting the interest of the military establishment itself, the administration probably has little room for maneuver. After years of making do with obsolete equipment, military leaders are determined to proceed with the reequipment program now underway. In the unlikely event that Costa e Silva rejected military opinion on important aspects of the content or pace of the program, he would risk a major internal crisis. In fact, there has been no disagreement on the basic issues of reequipment between the president and the military establishment. But some difficulties are likely to arise because of external factors.

29. Costa e Silva has, for example, soft-pedaled the issue of the request from the Air Ministry for Mirage airplanes; he would prefer to have F-5s, though with some additional components. This would of itself probably not pose a critical issue. But the situation is complicated by recent US legislation intended to reduce expenditures of certain foreign countries for "sophisticated weapons systems." If, in consequence of this legislation, the US refused to furnish this hardware, Brazil would purchase at least some comparable equipment in Europe. Even if this did not cause a cut in US economic aid, Costa e Silva's confidence in the US would be shaken. A cut in US aid, apart from its effect on the economic program, would make the government vulnerable to attacks by the civilian opposition and tend to create dissension among the military.

30. These issues, combined with the latent anti-US attitudes discussed above, will make Brazilian-US relations less harmonious than they have been. Costa e Silva would prefer to maintain cordial relations with the US, but his dealings with it will be complicated by nationalistic issues. For example, Brazil is likely to continue to oppose ratification of the nonproliferation treaty in its present form. While the tone of Brazilian foreign policy under Costa e Silva is unlikely to be as stridently nationalistic as it was before the Revolution, Brazil is less likely to follow the US lead in international matters than it was in Castello Branco's time. There would now, for example, be less chance of Brazilian participation in a situation like that which prevailed in the Dominican Republic in 1965-1966.

31. Whether "hardline" elements force a more authoritarian rule or the government permits greater scope to civilian politics, the military establishment will continue to be the central dominating factor in the Brazilian Government well beyond the period of this estimate. The effect of the Revolution on politics and political movements has been so stultifying that return to effective civilian rule will be at best a gradual process—perhaps as a small step in that direction the Revolutionary leadership could pick a civilian as its presidential candidate in 1971.

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