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# NATIONAL INTELLIGENCE ESTIMATE

## PROBABLE DEVELOPMENTS IN BRAZIL



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### CENTRAL INTELLIGENCE AGENCY

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## PROBABLE DEVELOPMENTS IN BRAZIL

### THE PROBLEM

To estimate the current situation and probable developments in Brazil through 1955, with particular reference to the stability of the government and the probable development of its foreign policy.

### CONCLUSIONS

1. The political situation in Brazil is characterized by growing social unrest and increasing nationalism. The chief factors in this situation are (a) Brazil's sustained effort to maintain a high rate of economic development with emphasis on industrialization; (b) the accompanying inflation and rapid urbanization, which have caused particular distress among urban lower income groups; and (c) Brazil's failure to obtain from the United States the amount of financial assistance to which it feels entitled. These conditions facilitate ultranationalist and Communist agitation.

2. President Vargas was elected primarily on the strength of his appeal to lower income groups, but he must enlist conservative support in order to obtain a congressional majority. So far he has pursued a middle-of-the-road course. Most conservatives distrust him, but support his administration and seek to exercise a moderating influence on it.

3. Vargas is politically committed to maintain a high rate of economic development, which can be accomplished only with substantial amounts of foreign capital. Substantial foreign private invest-

ment is precluded by the prevalent nationalistic attitude toward such investment and by the uncertain economic outlook. Some modification of Brazil's investment policy and a retrenchment program may be prerequisite to substantial foreign developmental loans. Retrenchment is politically dangerous in that its immediate effects will probably be to intensify existing economic dislocations and social unrest. Vargas, however, will undertake the minimum which he considers necessary to obtain further substantial loans. He will also take political action designed to soften the economic requirements of foreign lending institutions.

4. If Vargas succeeds in obtaining such loans and in checking inflation, his political position will be reasonably secure and he will probably continue to pursue moderate policies during the remainder of his term. Otherwise he will be under increasing extremist pressures, but will probably not be threatened with expulsion from office as long as conservative elements, including the Army, are satisfied that he has done all that could be done to improve the economic situation.

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5. In the event of a severe economic deterioration Vargas might be able to secure conservative support for a more nationalistic program. On the other hand, Vargas might abandon his conservative connections and seek to establish an authoritarian labor-leftist regime. In the latter case, however, the Army and the conservatives would probably depose him.
6. The Communists have no prospect of gaining control of Brazil by electoral means or by force, but their influence will probably increase through their exploitation of popular issues and their infiltration of the bureaucracy and of organized labor. Their immediate objective is the exploitation of social unrest and Brazilian nationalism to neutralize Brazil as an effective ally of the United States.
7. Brazil will almost certainly continue to support the United States on major issues between the US and the Soviet Bloc, but, if not granted the special consideration to which it feels entitled, with particular reference to further developmental loans, it may pursue an increasingly independent course in economic matters. A desire to strengthen its bargaining position vis-a-vis the United States will be an important factor in Brazilian diplomacy. Brazil will seek to establish closer economic relations in Latin America and with Europe, including efforts to increase its now negligible non-strategic trade with the Soviet Bloc. It may also re-establish diplomatic relations with the USSR.
8. Brazil will continue to oppose Argentine bids for leadership in Latin America and the development of an Argentine-led bloc.
9. In the event of general war Brazil would almost certainly enter the war actively in support of the United States.

## DISCUSSION

### I. INTRODUCTION

10. Brazil's continued cooperation with the United States is a matter of great significance. Brazil is a major power within the Latin American community and exercises considerable influence in the Organization of American States and the United Nations. Moreover, Brazil is strategically located with respect to sea and air routes in the South Atlantic and is an important source of strategic materials, notably metallurgical manganese, quartz crystals, beryl ore, mica, and castor oil. It is the only Latin American country with known sizeable deposits of atomic energy raw materials. The Brazilian armed forces are capable of making an important contribution to Hemisphere defense.

11. Except in some areas (e.g., Sao Paulo) little progress has been made in developing

Brazil's large human and material resources. The national economy continues to depend on exports of agricultural products. These exports have not been sufficient to sustain the postwar rate of economic development. The industrialization that has taken place since 1930 has been accompanied by severe inflation and by economic and social strains, especially on the rapidly growing urban middle classes and urban labor. Industrial and commercial interests have acquired greater political power, which prior to 1930 was largely held by a narrow oligarchy of landowners and Army leaders. More recently lower income urban groups have begun to exert pressure for greater representation in the government and for betterment of their lot. The frustrations which are inevitable in the process of such rapid and uneven economic development as Brazil is experiencing are exploited by na-

tionalists and Communists. Brazil, however, has been less subject to political violence than most Latin American countries.

## II. POLITICAL SITUATION

12. As in many other Latin American countries, the postwar pressures in Brazil for accelerated economic and social progress have contributed to increasing political stresses and strains. These pressures are more fundamental than the character of any particular administration as a determinant of political developments.

13. The dominant personality in the present political situation is 70-year-old Getulio Vargas, who was elected President in 1950 to serve until 1956. Vargas, a key political figure in Brazil since 1930, has been an astute opportunist. He has shrewdly manipulated one group against another and has successfully posed as the friend of the underprivileged.

14. General resentment of the Sao Paulo oligarchy's prolonged control of the federal government and the severe depression caused by the contemporary slump in coffee exports and prices enabled Vargas to seize the Presidency by force in 1930. Seven years later, with Army support, he established a quasi-fascist regime called the "New State," an ideological facade for his strong personal rule. Under the "New State" Vargas espoused cultural and economic nationalism, established federal control over the states, abolished political parties, suppressed all opposition of both the left and the right, undertook government intervention and initiative in economic development, promoted industrialization, concerned himself with amelioration of the living conditions of the urban masses, and sought to mobilize and control urban labor as a political force through government-sponsored labor unions. It was during this period that the urban lower income groups began to become an important political factor.

15. In October 1945 the Brazilian Army, in response to growing opposition to totalitarianism, ousted Vargas in a peaceful coup and paved the way for the constitutional election of General Eurico Gasper Dutra to the Presidency. Dutra's administration (1946-1951)

was moderate; political parties re-emerged and popular participation in politics increased. However, the conservative ruling groups failed to cope effectively with the growing economic hardships experienced by lower middle class and labor groups. Partially as a result of this failure, Vargas retained a large personal following and built up a political machine. In the 1950 presidential campaign he exploited the discontent of the lower income groups and the inept leadership of the two dominant conservative political parties and received about 49 percent of the popular vote, as compared to 30 percent for his nearest competitor.

16. Vargas returned to office with substantial popular support, particularly that of the urban proletariat. However, he has not attacked the problems confronting Brazil with the vigor and self-confidence which characterized his earlier administration. While this difference may be in some degree attributable to his more advanced age and reported ill-health, it stems more directly from the attendant circumstances reviewed below.

17. Vargas is in power at a difficult time in Brazilian history. Heavy migrations from the back country into the rapidly growing cities have brought hundreds of thousands of Brazilians into their first contact with higher standards of living, glaring inequalities, and the insecurity of urban existence. Distressed by inflation, the urban masses generally are increasingly dissatisfied with their level of living and clamorous for its improvement. At the same time middle and upper class conservatives, including Army leaders, are disturbed by the adverse prospects for maintaining a high rate of economic development and by the growth of labor-leftist and Communist strength, which threatens their dominant position in Brazilian life. Moreover, these elements are highly sensitive to any supposed denial of the international recognition to which they feel Brazil is entitled. These frustrations and tensions facilitate the incitement of an emotional nationalism. Brazilian nationalism and the economic strains brought about by overexpansion have in recent years imposed considerable limitations upon foreign

private investment and upon Brazil's ability to obtain development loans from the International Bank, which in turn has seriously impeded the achievement of either the social benefits demanded by leftist elements or the economic development desired by conservatives.

18. The absence of well-organized and responsible national political parties makes it difficult for the government to align stable support for political and economic programs. Brazilian politics has traditionally been based on regional rather than national interests, and on personalities rather than principles. The parties which have emerged since 1945 have begun to espouse political and economic principles and national programs, but regional and personal interests still predominate.

19. To obtain a majority in Congress Vargas must secure the support of conservatives who opposed his presidential candidacy. He personally controls the Brazilian Labor Party and is also supported by the Social Progressive Party, but these two Parties together hold only 19 percent of the seats in the Senate and 27 percent of those in the Chamber of Deputies. For even a nominal majority Vargas is dependent on the mainly conservative Social Democratic Party, which opposed his candidacy but generally supports his administration. The representatives of these three Parties constitute 67 percent of the Senate and 63 percent of the Chamber. Even so, party discipline is so lax that, to obtain majorities for specific measures, Vargas must often secure the additional support of members of the mainly conservative National Democratic Union, the nominal opposition. Thus Vargas cannot present a coherent, well-defined legislative program, but must seek major legislation piecemeal, through shifting *ad hoc* parliamentary combinations.

20. Most conservatives distrust Vargas because of his opportunism. They have been concerned about his apparent indifference to Communism, his labor-leftist backing, and the indecisive character of his economic policies. While a number have remained in opposition, many others have decided to support and if possible dominate the administration. How-

ever, conflicting vested interests have thus far prevented the conservatives from agreeing among themselves on legislation to alleviate Brazil's economic problems. The June 1953 appointment of Oswaldo Aranha, one of Brazil's most prominent conservatives, as Minister of Finance has tended to mitigate the differences among the conservatives and between them and Vargas. Aranha has become the dominant figure in the Vargas cabinet.

21. Vargas' necessary concessions to conservatives antagonize his lower income group supporters. The largest single segment of these supporters consists of the government-controlled labor organizations whose estimated 1,700,000 members constitute approximately 10 percent of the total labor force. These lower income groups, although increasingly restless, are not strong enough to provide an adequate base for political action. Recently the opportunist Minister of Labor, Joao Goulart, has made some attempts to build up a stronger, Peronist-type labor organization. Thus far the clearly expressed opposition of conservatives and the Army, and opposition within the labor movement itself, have deterred Goulart from carrying any plans of this nature to fruition. However, his collaboration with Communists to further his objectives has enabled them to increase their influence.

22. The Brazilian Communist Party (PCB) lost strength when it was outlawed in 1947. Since 1950, however, and especially during 1953, it has made considerable progress in recruiting new members and raising funds. It is currently estimated to have 60,000 members subject to party discipline and a much larger number of sympathizers, and its strength and influence are increasing. The Communists draw their support largely from urban labor and lower middle class groups, although professional men, intellectuals, and retired military personnel are prominent in the leadership of the Party and its front organizations. Communist strength is concentrated in and around the city of Rio de Janeiro, in the important states of Sao Paulo and Minas Geraes, and in the strategic "hump" of Brazil.

23. The immediate objective of the Communists appears to be to stimulate anti-US nationalism in order to neutralize Brazil as an effective ally of the United States. They incited vigorous opposition to the ratification of the Brazilian military assistance agreement with the US. Although ultimately defeated in that case, they (in conjunction with ultranationalists) successfully promoted the enactment of legislation which excluded the participation of foreign capital in the development of Brazil's petroleum resources. More recently the Communists have concentrated on exploiting the social unrest caused by the rising cost of living and on promoting closer relations with the Soviet Bloc. On both issues they enjoy considerable non-Communist support.

24. Vargas has remained largely indifferent to Communist activities and the Communists have now begun to operate more openly in the leadership of popular movements and to renew pressure for legalization of the Party. Meanwhile a number of Communists and sympathizers have already infiltrated the government (including the Foreign Office) and the labor organizations. Despite new legislation designed to curb Communist activities, politically motivated appointments to key positions in the Federal Police have considerably weakened the enforcement capabilities of its political section. An investigation of Communism in the armed forces has discovered few Communists there, but has revealed the existence of an apparatus sufficiently well-organized to arouse concern among Brazilian military authorities.

### III. ARMED FORCES

25. The armed forces, organized and trained along US lines, have an approximate strength of 194,000. The Army, with a strength of 104,000, consists of 7 infantry, 1 armored, and 4 cavalry divisions, supplemented by numerous separate combat units. The Navy, with a personnel strength of 20,000, has a combat strength of 2 light cruisers, 7 destroyers, and smaller escort, patrol, and mining craft. The Air Force, with a personnel strength of 20,000 (including 1,140 pilots), has approximately 920 combat, transport, and reconnaissance air-

craft, including about half of the 60 British jet fighters ordered for delivery in 1953. In addition, there are about 50,000 militarized police available for local or regional use.

26. The operational effectiveness of the three combatant services is high by Latin American standards as a result of their reorganization, re-equipment, and operational experience with US forces in World War II and of the assistance of US military missions. Their effectiveness is impaired, however, by a lack of adequate support facilities, poor maintenance, and general obsolescence of equipment and dependence on foreign sources for resupply of material, munitions, and fuel. A severe dollar shortage and the high cost or unavailability of US military supplies have caused Brazil to turn to Europe for some aircraft and heavy military equipment, to the detriment of Hemisphere arms standardization. However, procurement from this source is also severely limited by lack of foreign exchange.

27. The Brazilian armed forces are adequate to maintain internal security and to deter aggression by any neighboring power. They could not repel a major overseas invasion without US assistance, but Brazilians do not expect any such necessity to arise. In the event of general war they could probably protect strategically important installations and facilities from extensive sabotage and from possible raids. The Brazilian Navy and Air Force have limited convoy and antisubmarine capabilities, but effective patrol of the long Brazilian coast would require the active participation of US forces. With US logistic support the Army could provide a small expeditionary force, but Brazil is presently disinclined to provide forces for service outside the Western Hemisphere.

28. The Brazilian Army has been a decisive, though normally passive, factor in Brazilian politics. (The Navy tends to remain aloof, the Air Force to follow the Army's lead in political matters.) The Army is predisposed to uphold the established government, but considers that it has an overriding responsibility for the preservation of Brazilian civic institutions and the maintenance of order. In a situation threatening prolonged civil strife the

Army would be likely to give more weight to this sense of civic responsibility than to legalistic considerations. The Army's action in a given contingency would depend on its judgment as to the gravity of the threat to established institutions and the relative amount of disorder which would ensue from the alternative courses open to it. The growth and organization of the urban proletariat tends to inhibit political action by the Army insofar as the Army would prefer to avoid action which might provoke bitter popular resistance. At the same time the Army is disturbed by this development and any precipitate attempt to mobilize the proletariat as a countervailing force might provoke the Army's immediate and decisive political intervention.

29. Most of the Army's leaders opposed the election of Vargas in 1950 because they disliked his labor-leftist backing and feared that he might again resort to a dictatorship. Nevertheless they have given his administration their passive support. The Army's leaders have been increasingly disturbed by Vargas' lack of an effective economic program and by his indifference to Communism. In 1952 they forced the resignation of a Minister of War who supported a nationalist-Communist clique in the important Military Club. However, their dissatisfaction has not reached the point at which they would either initiate or support a move to depose Vargas by force. No such movement could succeed without active Army participation.

#### IV. ECONOMIC SITUATION

30. Brazil has experienced rapid economic growth in the past seven years. The total production of goods and services has been increasing at an average rate of somewhat under 6 percent a year, or about 3 percent a year per capita. Funds devoted to public and private investment have greatly exceeded the amounts which Brazilians were willing to save and investment by foreigners has not come up to Brazilian expectations. Moreover, a major part of investment has gone into long-term basic industry projects and very little into improvement of agricultural and minerals production which furnished the bulk of Brazil's exports. The result has been sustained and

rapid inflation and a deficit in foreign exchange transactions, which increased rapidly after the outbreak of the Korean War. The number of urban wage earners has grown rapidly under the impetus of industrialization but the level of living of this group has been declining rather than increasing.

31. The sustained inflation has been manifest in a constant rise in the cost of living, particularly among the growing urban concentrations, with a particularly sharp increase since 1950. For example, in Sao Paulo the cost of living index has risen by more than 700 percent since 1939. Wage rates have increased much less. Steady increases in the prices of foodstuffs and consumer goods have resulted in part from the increasing strains on the antiquated agricultural, transportation, and distribution systems as urban population has increased. Additional inflationary factors have been a largely unchecked credit expansion, inefficient tax collections, and unbalanced federal budgets. In the past year, however, some headway has been made in modifying these inflationary financial policies.

32. The foreign exchange deficit reflects Brazil's tendency since World War II to live beyond its income. Until recently the Brazilian Government has been willing to incur mounting foreign exchange deficits because of hopes that with foreign financial assistance economic development would soon permit a permanent solution to the country's foreign exchange problem. These hopes have been so strong that the government has given relatively little attention to increasing agricultural and mineral production for export. The sizeable foreign exchange surpluses accumulated during the war were expended within a few years. Special impetus was given to imports by rapid credit expansion and overvaluation of the cruzeiro, and, from 1950 to 1952, by liberal import licensing policies based on a fear of shortages following the outbreak of the Korean War. Until foreign exchange restrictions were imposed on January 1, 1952, private net capital outflows and large profit remittances on foreign investments at the favorable official rate added to the drain on Brazil's foreign exchange.

33. By mid-1953 Brazil's commercial indebtedness with the US and other creditors had reached \$850 million, approximately two-thirds of the value of its annual exports. This situation has been somewhat relieved by a \$300 million balance of payments loan from the Export-Import Bank, by loans from private banks in the US, and by arrangements with European creditors. During 1953 Brazil has been able to reduce the rate of accumulation of foreign exchange deficits by drastically cutting imports and by improving to some degree the marketability of some of its exports. These measures, however, have not been sufficient to close the gap between imports and exports. The government maintains that the current volume of imports of consumer goods and foodstuffs (20 percent of total imports) cannot be further substantially reduced. It cannot, without adversely affecting the level of economic activity, cut deeply into imports of raw materials and fuel (55 percent of imports). It has also been reluctant to cut significantly imports of capital goods, which would jeopardize the rate of growth to which economic activity has been geared in recent years.

34. The problem of Brazil's development requirements was the subject of intensive study by the Joint Brazil-US Economic Development Commission, established in July 1951. The Commission recommended a number of specific projects emphasizing the development of transportation, distribution, and power facilities. Brazilian hopes for loans from the Eximbank and the International Bank (IBRD) to finance these projects have not fully materialized. To date Brazil has obtained from these Banks a total of \$130 million for specific development projects as compared with Brazilian expectations of \$500 million (including \$380 million for projects recommended by the Joint Commission). The effect of the \$130 million in loans has been minimal in relieving Brazil's present foreign exchange difficulties because the loans were granted for intermediate and long range developmental projects. Moreover, the foreign exchange crisis which Brazil hoped the loans would prevent had already materialized by the time they were granted.

35. The IBRD thus far has refused to meet Brazil's request for loans in addition to the \$41 million now being negotiated on the ground that Brazil's present economic policies make it impracticable for Brazil to increase its financial obligations. The Bank has urged Brazil to facilitate development and exploitation of Brazilian resources, especially oil, by encouraging foreign investment and to promote fuller development of Brazil's agricultural potential. The Vargas administration has reluctantly recognized the unlikelihood of securing financial assistance of the magnitude it expected at the time the Joint Commission was created. It has also recognized that it must re-examine its present economic policies if it is to secure sizeable credits from the US and the IBRD. It has, however, hesitated to take concrete steps toward readjustment, primarily because any of the alternative courses of action involve political decisions which the government at this time would prefer to avoid making.

36. The existence of important petroleum resources in Brazil is suspected on the basis of geological indications, but has not been proved. Exploration and development of such resources might be of substantial advantage in reducing Brazil's adverse balance of trade. At present Brazil must import almost all of its petroleum requirements. Such imports now constitute 13 percent of total imports and Brazilian requirements are rapidly increasing. Present prospects for petroleum development are poor, however. Brazilian capital and technical resources available for the purpose are inadequate. The IBRD and Eximbank are unwilling to grant loans for petroleum development because adequate private foreign capital is available on reasonable terms. Meanwhile Brazilian ultranationalists, abetted by the Communists, have secured the passage of a law prohibiting the participation of foreign capital in petroleum development. In view of this law, Brazilian oil resources will not be substantially developed in the near future. In general, the prevalent nationalistic attitude regarding the exploitation of Brazil's mineral resources has deterred the participation of foreign capital in their development.

## V. FOREIGN POLICY

37. Brazil has traditionally regarded itself as the particular friend and ally of the United States in Latin America. With a self-confidence based on its vast extent and relative political stability, it has considered itself superior to its Spanish-speaking neighbors and the natural associate of the United States. Moreover, the United States is by far Brazil's most important coffee market and the only important source of needed financial and technical aid. For these reasons Brazil strongly desires the friendship and support of the United States and is highly sensitive to any US tendency not to accord Brazil special consideration and favor. At the same time Brazil is sensitive to any implication of US tutelage.

38. In recent years US-Brazilian relations have been impaired by growing Brazilian nationalism, which has produced friction in both economic and politico-military affairs. An important factor in this development has been a growing feeling in Brazil that the US undervalues Brazil's friendship and tends to take it for granted. In particular, Brazilians feel that US economic and financial assistance to Brazil has not been commensurate with Brazil's past services and present strategic importance to the US, or with Brazil's value to the US as a moderating influence in Latin America and in UN affairs.

39. Brazil cooperates closely with the US in the Organization of American States and has consistently supported the US in the UN on basic issues between the US and the Soviet Bloc. Thus far Brazil has made no move to restore diplomatic relations with the USSR, which were broken in 1947, and maintains diplomatic relations with only Poland and Czechoslovakia among the Bloc countries. Brazil's trade with the Bloc is at present negligible. There are, however, mounting official and popular pressures for closer relations with the Bloc. This idea is attractive because of Brazil's need to find new markets for its exports, and perhaps also as a means of strengthening Brazil's bargaining position vis-a-vis the US. Communists and their sympathizers are pressing it for their own ulterior

purposes, with considerable nationalist support.

40. In the Latin American community Brazil has always opposed Argentine bids for leadership. At present Brazil is principally concerned regarding the efforts of the Peron regime to expand its influence in neighboring countries. It views the recent Argentine-Chilean economic treaty with disfavor as the possible forerunner of an Argentine-dominated economic bloc. Brazil has sought to counter Argentine penetration of Uruguay, Paraguay, and Bolivia, and, for its own part, has cultivated its relations with Peru, Colombia, and Venezuela. Fundamentally, however, Brazil deprecates the idea of competing blocs in Latin America and promotes instead the concept of Hemisphere solidarity.

## VI. PROBABLE DEVELOPMENTS

41. Regardless of the policies pursued by Vargas during the remainder of his term, Brazil will continue to be subject to great political and economic stresses and strains. Vargas, dependent on both the right and left for support, will probably pursue a middle-of-the-road course at least until the congressional elections in the fall of 1954. He will continue recently initiated efforts to avoid foreign exchange deficits and will attempt to control inflation. In these efforts he will probably be able to enlist the active support of influential moderate-rightist elements which are anxious to improve Brazil's international economic situation.

42. Vargas will probably succeed in establishing less inflationary government financial policies. Nevertheless, the cost of living will probably continue to rise and social unrest will probably increase among the urban lower income groups. This trend may lead to considerable popular disorder, but will probably not by itself present a serious threat to the stability of the government.

43. The nationalistic attitude prevalent with regard to the exploitation of Brazilian mineral resources will probably continue to deter foreign investments in this field. Brazil's petroleum resources will probably not be developed on a large scale. Should the result of the

1954 congressional elections strengthen Vargas' political position, he might attempt to liberalize the nationalistic petroleum law so as to attract foreign private capital. However, in view of the nationalistic emotions aroused by this issue, it is unlikely that such an attempt would succeed.

44. Vargas will continue to seek foreign developmental loans. He will undertake the minimum retrenchment which he considers necessary for that purpose, and will also take political action designed to soften the economic requirements of foreign lending institutions. If he should succeed in obtaining large development loans before the 1954 congressional elections, his political position would be greatly strengthened. A failure to obtain loans by then, however, would not greatly weaken Vargas' political position if he had adopted domestic measures which the moderate conservatives believed would alleviate Brazil's economic difficulties.

45. Vargas will probably continue to pursue a middle-of-the-road course throughout his presidential term, unless his political position is seriously weakened by the results of the 1954 elections. In the latter event, he might adopt a more nationalistic course in response to increasing extremist pressures.

46. In the event of a severe economic deterioration, conservative groups might countenance a more nationalist program if they foresee no quick end to Brazil's difficulties. It is also possible that Vargas, should he become apprehensive of a deterioration of his political position, might take extreme measures to build up mass support. Should he appeal to the masses over the heads of the Congress and the military, or should he move precipitately to consolidate organized labor as a source of political support, he would probably be removed from office by moderate and conservative elements, including the Army, which are hostile toward dictatorship and toward labor-leftist elements.

47. Reports that Vargas is in ill-health suggest the possibility of his becoming physically or mentally incapable of coping with the strenuous problems of governing. The constitution provides that in the event of the

President's death or incapacitation the Vice-President should serve the remainder of the term as President. The present Vice-President is Joao Cafe Filho. If he came to power he would probably pursue moderate policies. He would in particular avoid alienating the conservatives, including the Army, since he would probably estimate that his crucial support would come from those elements.

48. The Communists will continue to enjoy ample opportunities for agitation, in view of the continuing economic and social dislocations of the mass of the people. They will probably continue to exploit those issues which already have aroused considerable popular feeling, in particular the rising cost of living. Their association with such issues will probably enhance their influence and further their efforts to obtain legalization of the Party. Their primary objective will continue to be to stimulate anti-US feeling in order to neutralize Brazil as an effective ally of the US. The Communists will be unable to win control of the government, but their influence in official circles and popular opinion will probably increase.

49. Brazil will almost certainly continue to support the United States on major issues between the US and the Soviet Bloc, but, if not granted the special consideration to which it feels entitled, with particular reference to further developmental loans, it may pursue an increasingly independent course in economic matters. A desire to strengthen its bargaining position vis-a-vis the United States will be an important factor in Brazilian diplomacy. Brazil will seek to establish closer economic relations in Latin America and with Europe, including efforts to increase its non-strategic trade with the Soviet Bloc. It may also re-establish diplomatic relations with the USSR and other nations of the Soviet Bloc. These developments would enhance the prestige and influence of the Communists in Brazil.

50. Brazil will continue to oppose Argentine bids for the leadership of Latin America. It will oppose any Argentine political or economic penetration of neighboring countries and the development of any Argentine-dominated economic bloc in South America.

51. In the event of general war Brazil would almost certainly enter the war actively in support of the United States. Its contribution would consist primarily of making available strategic raw materials and air and naval

bases, and of honoring its commitments to furnish forces for Hemisphere defense. Under pressure it might also furnish a small expeditionary force for use outside the Hemisphere.