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The Outlook for Brazil

Submitted by

Richard Helms

DIRECTOR OF CENTRAL INTELLIGENCE

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James S. Lay Jr.
EXECUTIVE SECRETARY, USIB

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The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and the NSA.

Concurring:

Dr. R. J. Smith, Acting CIA Member of USIB

Mr. Thomas L. Hughes, Director of Intelligence and Research, Department of State

Vice Admiral Rufus L. Taylor for Director, Defense Intelligence Agency

Lieutenant General Marshall S. Carter, USA, Director of the National Security Agency

Abstaining:

Dr. Charles H. Reichardt for Assistant General Manager, Atomic Energy Commission; Mr. Sam Papich for Assistant Director, Federal Bureau of Investigation, the subject being outside of their jurisdiction.

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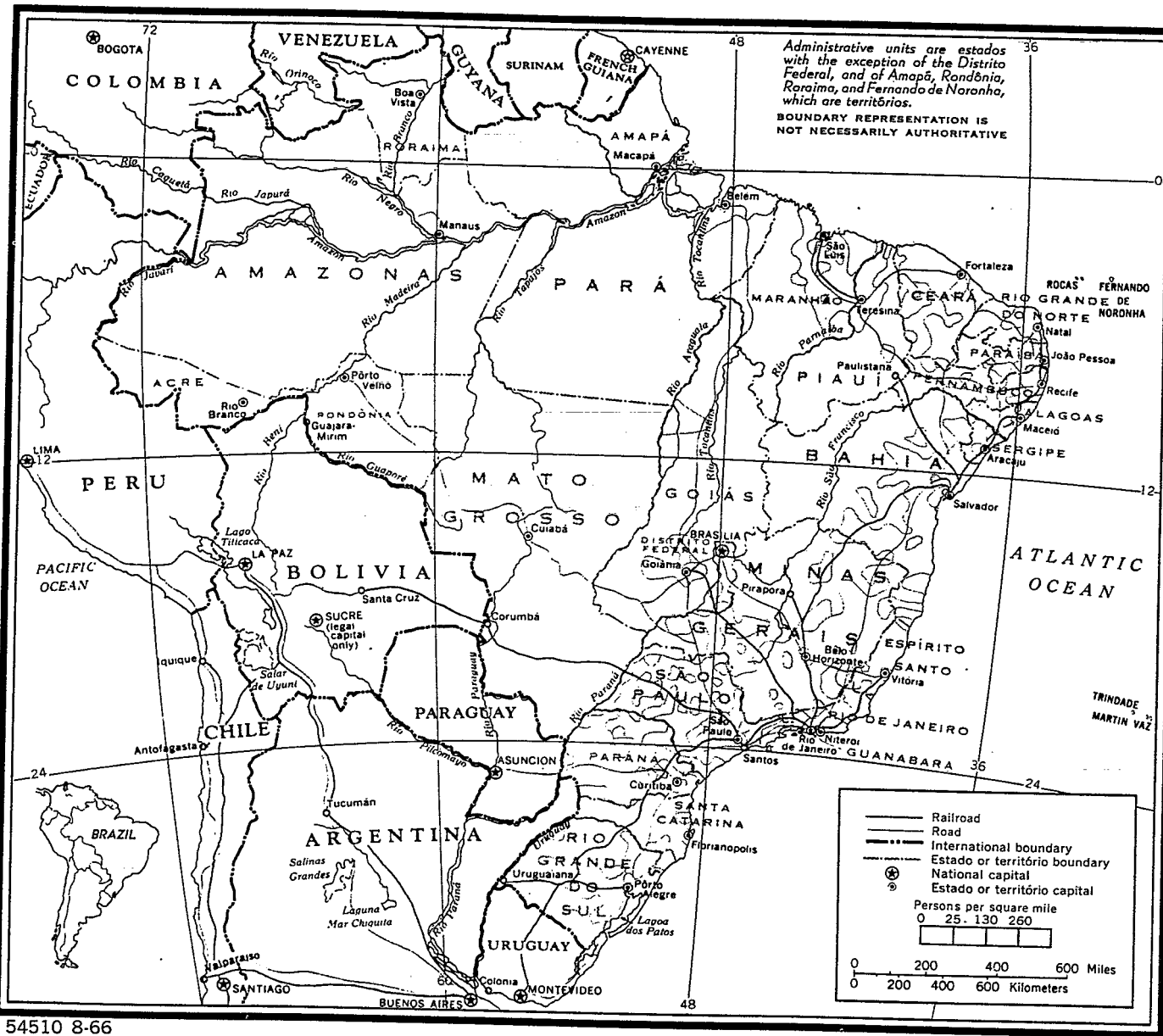
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BRAZIL





THE OUTLOOK FOR BRAZIL

THE PROBLEM

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

CONCLUSIONS

A. Castello Branco has managed for the most part to preserve constitutional forms without endangering the objectives of the revolution and has retained solid military backing. His economic corrective measures are showing favorable results, but the results have come slowly and the measures have provoked widespread dissatisfaction.

B. The administration is determined to see that acceptable candidates are chosen in the series of elections scheduled for this fall. It is taking steps to ensure that no opponents will become governors in the indirect elections on 3 September in 12 states. But the touchiest election will be the direct popular one to be held on 15 November for federal congressmen and state legislators; Castello Branco may deem it necessary to interfere directly and obviously so as to retain a working majority in Congress.

C. Costa e Silva, who has been War Minister, is almost certain to be elected president by the present Congress on 3 October. He will probably not exert much influence in the "lame duck" period before his four-year term begins on 15 March. Castello Branco's policies will not change much in those months, though there will be some loss of momentum.

D. General dissatisfactions will persist, but the new government will probably succeed in keeping the opposition off balance and fragmented. At least to begin with, Costa e Silva's control over the military establishment will be firm, and we do not believe that a military coup against him is likely during the period of this estimate.

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E. Costa e Silva's administration is likely to be a marked departure from Castello Branco's, not in its broad goals, but in style of governing, in choice of key advisors, and in certain lines of policy. In some ways he will probably perform better; for example, he will give higher priority to public relations and may reduce popular opposition to some extent. He is likely to try for better relations with students and labor organizations, but will take whatever measures seem necessary to prevent a resurgence of the extreme left.

F. In other matters, however, Costa e Silva will probably not do as well. In his efforts to "humanize" the economic program, he may weaken present checks on inflation. Because he is less judicious and more a man of action than Castello Branco, we see more chance that he might resort to harsh, authoritarian methods. Finally, we think that he will put more emphasis on Brazilian nationalism and that in time this could cause friction in US-Brazilian relations.

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DISCUSSION

I. NATURE OF THE BASIC PROBLEMS

1. Along with its wealth of resources and its great potential for long-term progress, Brazil has an extraordinary array of political, economic, and social problems. These stem from misdevelopment as well as from underdevelopment. Efforts to deal with them are complicated by the sheer size of the country, the continuing preoccupation with sectional interests, and the booming growth of population.¹

2. The central government has been gaining power over the years, but the political system is a federal one and sectionalist attitudes remain important. In part this is due to the country's inadequate transportation and communications networks: with an area roughly equal to the US, Brazil has only one-tenth as many miles of railroads and highways—and only about five percent of its highways are paved. Sectionalist views gain strength, moreover, from the glaring economic disparities between regions, especially between the prosperous, industrialized south-central area and the impoverished, agricultural northeast. The political impact of sectionalism was apparent in the make-up of the traditional parties; even the major ones were convenient alliances among state and local interest groups, rather than national movements.

3. For the majority of Brazilians, the living standard is low. The per capita gross national product (GNP) of about \$200 is much below that of the other large Latin American countries. In the northeast and in some other rural areas, the peasants live in conditions comparable to those of South Asia. But, in the south-central area, living levels are about on a par with those of southern Europe. There is also a sharp contrast throughout the country between levels of living in the cities and those of the countryside. Consequently there is substantial internal migration, especially in the northeast, towards the cities, which are growing at a rate more than double that of the nation as a whole. Of the total population, only 55 percent is literate—even as defined by the 1962 government standard which required the individual only to write his name and assert that he could read. Educational facilities are grossly inadequate; it is doubtful that as many as 15 percent of the people have completed primary school.

4. The Brazilian economy made rapid gains in the period 1950-1961 under the administrations of Getulio Vargas and Juscelino Kubitschek. Their concentration was on industrialization at the expense of agricultural development, and industrial production increased at an average rate of nearly ten percent annually. Agricultural production grew at less than half this rate, and most

¹ With nearly 85,000,000 people, Brazil accounts for half the population of South America. In 1900 the Brazilian population was only a little more than 17,000,000. It will pass 200,000,000 before the year 2000, if the present annual growth rate of about three percent continues.

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of its growth came from extending the amount of land under cultivation rather than from an increase in productivity. But most important, their imprudent financial policies—and especially those of Kubitschek—gave impetus to inflationary trends.

5. Joao Goulart, who succeeded to the presidency in September 1961 after the brief tenure of Janio Quadros, proceeded to make things worse. He set new records for the deficit in the federal budget, and his nationalist and leftist attitude led to a sharp reduction in foreign investment. In 1962 the GNP growth rate fell appreciably; in 1963 it dropped to two percent and industrial output showed no gain at all. In the same two years the cost of living rose by 50 and then by more than 80 percent. Goulart acted with equal incompetence and irresponsibility in political matters. He permitted the power of leftist subversives to grow, and his policies nurtured an expansion of corruption and factionalism. Also, it became clear that he intended to try to continue in office beyond the expiration of his term and that one of the ways he intended to accomplish this was to subvert the military hierarchy by turning the noncommissioned officers against their superiors. By early 1964 he had brought Brazil to the edge of political and economic chaos.

II. THE CASTELLO BRANCO ADMINISTRATION

6. The military intervention which overthrew Goulart in 1964 and installed Castello Branco as President served to avert disaster. It was greeted with relief and approval by most political and civic elements in Brazil,² and with apathy by those who had previously been ardently vocal in support of Goulart. In view of the urgency and magnitude of Brazil's problems, the military leaders proclaimed their action as an authentic revolution and resolved not to relinquish power to civilian politicians until the foundations for national recovery had been laid. They armed Castello Branco with extraordinary powers with respect to the rest of the political system—powers which they were later to reinforce and expand.

7. For the most part, Castello Branco has exercised these powers with relative moderation and restraint. On some occasions, he has undertaken strong action on his own initiative; in other cases, he has had to resist hard-line pressures; and in still others, he has accommodated to such pressures. He has recognized from the beginning that his administration and its policies would continue to depend ultimately on military backing, and he has acted consistently to maintain unity among military leaders.

² Among those who welcomed the overthrow of Goulart were most of the leading figures of the Roman Catholic Church. The Catholic Church in Brazil does not exercise the same direct influence on government and public opinion that is characteristic of some of the Spanish-American countries. In 1964, however, Catholicism became the major vehicle for protests by women against the anti-Christian drift of the Goulart regime. There were also a small number of Catholic Church leaders sympathetic to Goulart because of his promises to bring about social and economic reform. These leaders have been increasingly critical of the performance of the Castello Branco government.

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Economic Gains

8. Castello Branco has undertaken a program of corrective economic measures devised by Planning Minister Roberto Campos and other officials of high technical competence. This included plans for the resumption of rapid growth rates and for social reform, but its main emphasis has been on bringing Brazil's hyperinflation under control. To avoid the social and political unrest likely to accompany a drastic deceleration, the administration has followed a deliberately gradualist policy.

9. The results have been essentially favorable, but they have come more slowly and painfully than the administration had hoped. The spiraling inflation was held to a rate of 87 percent in 1964 and cut back to 45 percent in 1965. So far this year it is running only slightly less than the 1965 rate and far higher than the government had hoped; however, this is partly due to necessary adjustment of price distortions arising from earlier inflationary periods. The budget deficit, for years a primary engine of inflation, has been virtually eliminated. Part of the payments on Brazil's large external debt have been rescheduled; for this year and next, debt repayments will amount to about 25 percent of projected export earnings. Exports expanded slightly in 1964 and considerably in 1965 to produce the first favorable trade balances since 1957.


10. The government's deflationary measures and a severe drought which limited agricultural production caused GNP to fall two to three percent in 1964; per capita consumption declined by nearly five percent. Tight credit and a slackening of consumer demand led to an industrial recession in the first half of 1965, but agricultural output for 1965 was high, owing chiefly to a big coffee crop. For the year as a whole, GNP rose by about five percent. Industrial output had largely recovered by the end of 1965—a trend which continued during the first half of this year.

Political Losses

11. Despite his many talents of leadership, Castello Branco does not project the kind of image that excites the Brazilian body politic. It is difficult in any case to keep people enthusiastic about taking bitter medicine when they see no quick cure. The Castello Branco administration has been notably unsuccessful in public relations on its economic program, as well as on other matters.

12. Most Brazilians have felt the hurt, in greater or lesser degree, of the government's economic corrective measures. Labor is dissatisfied that policies originally designed to keep real wages constant have actually resulted in a decline in real wages since 1964. The business community, which had generally supported the stabilization policies, has become more critical this year. Marginal firms continue to be forced out of business; bank credit was tightened again in the early part of this year; and many businessmen complain that they can't keep up with the series of new regulations on taxes, financing, prices, and foreign exchange. The coffee growers' association is resentful because govern-

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ment pricing policies are reducing their margin for profit. Moreover, the continuing increase of prices in 1966 gives rise to the contention that all the tribulation is for nothing.

13. This general dissatisfaction with the government's program has added to its problems in dealing with the Congress and the political parties. Castello Branco initially formed a congressional bloc to support the administration, and his advisers were not above issuing pointed threats from time to time to keep members of Congress in line. In October 1965, however, the victory of opposition candidates in important gubernatorial elections disturbed many of Castello Branco's military colleagues. At their insistence, Castello Branco promulgated a Second Institutional Act, which extended the period in which the President could cancel the mandates of elected officials, instituted indirect election of the President and abolished all political parties. To replace the 13 parties which had been represented in Congress, Castello Branco established standards and regulations governing the formation of new "provisional" parties, designed to be national in scope and less prone to corruption and special interest than the old ones. Only two qualified: the pro-revolution National Renewal Alliance (ARENA) and the opposition Brazilian Democratic Movement (MDB). A third group, the followers of former governor Carlos Lacerda of Guanabara state, a dynamic political leader who has become a bitter opponent of the government, failed to qualify. Most of them are now affiliated with the MDB.

14. ARENA and MDB were brought into being not simply to strengthen the administration bloc in Congress, but to provide a framework for the elections this fall. It is Castello Branco's hope that they can also, in the long run, become the foundation for a new, and more effective, representative system of government. ARENA, based largely on the old National Democratic Union and to a lesser extent the old Social Democratic Party, has had many more members of Congress join its ranks than has the MDB. It is not clear what role the MDB can, or will in practice be permitted, to play in opposition. And the concept of turning ARENA and the MDB into an enduring two-party system seems dubious; they have been imposed artificially from above, neither can be considered a cohesive, disciplined entity, and both are sorely lacking in grassroots support.

III. THE OUTLOOK

The Fall Elections

15. After some bold and shrewd maneuvering, Marshal (Ret.) Arthur da Costa e Silva, the former War Minister, has managed to win the ARENA nomination and Castello Branco's backing as the revolution's candidate in the presidential election to be held on 3 October. The election is indirect, with Congress doing the voting; ARENA has large majorities in both the Senate and Chamber of Deputies. The MDB, after some vacillating, decided to boycott the presidential election. Under these circumstances, Costa e Silva is certain to win.

16. In the September gubernatorial elections to be held in 12 of Brazil's 22 states, the government has initiated measures to ensure that no opponents will be elected. In addition to decreeing that the election be indirect—by the state legislatures—specific steps have been taken, such as the ouster of Governor Adhemar de Barros of Sao Paulo and the requirement that ARENA state legislators vote strictly along party lines, to avoid their casting ballots for opposition candidates. Faced with the certainty of defeat, the MDB national leadership has urged that MDB state leaders boycott these elections as well.

17. The touchy elections, as far as the government is concerned, are the congressional elections scheduled for 15 November. They are to be by direct popular vote. An entire new federal Chamber of Deputies is to be chosen, along with one-third of the Senate; new legislatures are also to be elected in all the states. Discontent with Castello Branco's policies is likely to hurt ARENA candidates and strengthen MDB nominees, particularly in urban areas where the labor vote is significant. Acutely aware of this, some 180 ARENA deputies (of a total of 256 ARENA deputies in the 409-seat chamber) at one time petitioned for a constitutional amendment that would permit them to run as individuals and not on a party ticket.

18. The administration has decided instead on other devices which will be advantageous to ARENA. One is a provision permitting candidates in rural areas to have ballots printed and distributed in advance. This will give ARENA the opportunity to capitalize on its larger supply of funds and its better organization in the countryside. Another is a requirement for linked voting: that is, the voter must cast his ballot for state and federal candidates of the same party. The fact that all or almost all of the governorships, with their patronage and spending powers, will be in hands friendly to the administration should improve prospects for ARENA in the state contests—and linked voting would carry over this advantage to the federal ones. There is certain to be, as well, some careful advance screening of candidates, with a number of disqualifications.

19. If, as the elections draw closer, the government thinks their outcome uncertain, it might simply decide to cancel them. More likely, it will hold them on schedule, anticipating some loss of support in Congress and the state legislatures, but calculating that by various precautions it can ensure continuing working majorities. Although Castello Branco would clearly prefer to avoid the necessity for starker action, it should be noted that the Second Institutional Act empowers him to dissolve Congress at will or to unseat members without assignment of cause.

The "Lame Duck" Period

20. If the administration resorts to obvious manipulation during the actual voting or to the dissolution of the new Congress, this might rally the opposition and provoke some local disturbances, but no real threat to the government seems likely to ensue. However, assuming that Castello Branco manages through less drastic devices to obtain the required working majority in the November

congressional elections, the period until inauguration of the new president on 15 March is likely to pass fairly smoothly. Costa e Silva will be concentrating on lining up key members of his government and preparing himself for office; he may be absent from Brazil for substantial periods on semiofficial visits to the US and other countries. Castello Branco's policies will be a continuation of those he has been following, although there may be a reduction in efficiency due to the departure of some cabinet ministers who will be running for office. Castello Branco may try to undertake a number of actions which he considers to be necessary but which might be politically awkward for Costa e Silva to accomplish. These probably would include creation of a Ministry of Defense and a permanent revision of the constitution designed to institutionalize the *ad hoc* reforms of the revolution.

21. Most matters which might have provoked controversy between Costa e Silva and Castello Branco have been ironed out in advance. For example, the two men seem in complete agreement on the commanders of Brazil's key military forces—the first, second, third, and fourth armies. A different kind of factor likely to contribute to a quiet interregnum is the season: from the beginning of December to the beginning of March is summer vacation time. Congress is in recess, school is out, Carnival is in. Political activity is seldom intense in these months.

Economic Prospects

22. Despite some significant progress, Castello Branco will pass on to the Costa e Silva government a wide range of unfinished business. A major disappointment to the administration is that its stabilization efforts are only succeeding in holding the increase in cost of living to 35 or 40 percent for 1966 as a whole. This will be, nevertheless, an improvement over the two prior years. More encouraging is the degree to which the government is reducing its budgetary deficit, one of the main causes of inflation. It declined from 27 percent of expenditures in 1964 to 16 percent in 1965 and is estimated at only about 6 percent this year. Moreover, most of this deficit for 1966 will be financed through Treasury bonds, rather than through the more inflationary procedure of bank borrowing.

23. The overall economic growth rate for 1966 will probably be about five percent, the same as for 1965. This year's increase will stem primarily from an increase in industrial output, however, while last year's was mostly due to an expansion of agricultural production, in which exceptionally good weather was a factor. The economic prospect for 1967 is less certain. In part it will depend on whether the new government modifies present policies and programs—and if so, to what extent. We believe that the achievements made so far provide a foundation for gains in 1967 at least equal to those being registered this year, both in terms of stabilization results and in terms of general growth.

24. Along with this fairly favorable prospect, the Costa e Silva government will inherit a large accumulation of popular and business discontent. The bur-

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den of this program of economic correctives is heavy, and it falls largely on the lower income groups and marginal entrepreneurs who can afford it least. If these groups feel any relief from the economic pinch between now and the inauguration of the new president next March, it will probably be only slight.

The New Government

25. Costa e Silva, who will be 64 on election day, is sharply different in personality from Castello Branco, once his classmate at the Brazilian military academy. Castello Branco tends to be reserved, contemplative, and judicious; Costa e Silva is gregarious, shrewd, more ready to compromise, and often painfully outspoken. Costa e Silva is not a member of the "Sorbonne" group of military intellectuals of which Castello Branco is the leading figure, nor was he a member of the Brazilian Expeditionary Force which fought alongside American troops against the Germans in Italy during the Second World War. He tends to be more Brazilian and less internationalist in outlook than Castello Branco.

26. Costa e Silva is, nonetheless, a strong figure in his own right. More troop commander than staff strategist, he retains numerous useful contacts among officers in subordinate command positions. He is something of an opportunist politically and showed cleverness, as well as boldness, in his maneuvering to get Castello Branco's endorsement for the presidency. His wife is politically ambitious for Costa e Silva and influential with him.

27. While pursuing the same broad goals, Costa e Silva's administration is likely to be a marked departure from Castello Branco's in style of governing, in choice of key advisors, and in certain lines of policy. For one thing, Costa e Silva will rely on different military advisors. Castello Branco himself will not have much influence on the new administration. And in contrast to Castello Branco's strong preference for working with political figures formerly associated with the conservative National Democratic Union, Costa e Silva will probably seek to improve relationships with a number of members of the former Social Democratic and Labor Parties.

28. Though general dissatisfactions will persist, the new administration will probably manage to keep its political opposition off balance and fragmented. Carlos Lacerda has been fairly well isolated politically, and we doubt that he can make a comeback in the next year or two. Costa e Silva may give high priority to a remolding and strengthening of ARENA to serve as a stauncher political base. To the extent that he plays ball with some of the old political forces he is likely to incur the displeasure of young hardliners among the military officers. At least to begin with, however, his control over the military establishment will be firm, and we do not believe a military coup against him is likely within the period of this estimate.

29. Costa e Silva will probably face some increase in agitation on the part of the extreme left, which has suffered a major loss of strength and influence since the 1964 revolution. Recent terrorist activities in Recife, Brasilia, and Sao

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Paulo are indicative of the continuing capability of antiregime elements to initiate isolated violence. This capability is limited, however, and is unlikely to constitute a serious threat to stability during the period of this estimate. Exiles in neighboring countries and their associates in Brazil may seek to mount an insurgency campaign, but the present state of preparedness of security forces dooms such adventures to almost certain failure.

30. In some ways, Costa e Silva's administration will probably perform better than its predecessor. We believe, for example, that he will give more attention to public relations and will probably have greater success in cultivating popular support. He will probably appoint some individuals sympathetic to the problems of student groups and labor organizations—elements of the population with which the Castello Branco government was unable to maintain any rapport. However, Costa e Silva is not likely to make changes sufficient to provoke a serious military reaction, and he can be expected to take all necessary measures to prevent a resurgence of the extreme left.

31. In other matters, we think the new government may not do as well. Costa e Silva has said that while he intends to continue the anti-inflation program, he thinks that it has been applied too rigidly in the past and that the suffering of low-income groups must be eased. He is almost certain not to include the present Planning Minister Roberto Campos in his cabinet, although he probably will keep on most of the other economic technicians. Costa e Silva is quick to admit that he knows little about economics; he may loosen present stabilization measures—especially wage restraints—too much and too soon, letting inflation get out of hand once again.

32. If only because Costa e Silva is less judicious and more a man of action than Castello Branco, we see a somewhat greater chance that, in the press of circumstance, he might resort to harsh, authoritarian measures. Such measures, particularly if long sustained, would tend to sharpen existing political antipathies, broaden the opposition to the administration and jeopardize prospects for eventual resumption of constitutional, representative government. We also think that Costa e Silva will be inclined to put more emphasis on nationalism than did Castello Branco and that in time this could produce friction in US-Brazilian relations. Similarities of attitude and interest on some matters are likely to draw Costa e Silva's government into closer cooperation with the military government of Argentina—the more so since he and Onganía are personal friends. These tendencies will cause concern in such governments as those in Uruguay, Chile, and Venezuela, and may add to existing strains within the Organization of American States.

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