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Situation and Prospects in Brazil

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DIRECTOR OF CENTRAL INTELLIGENCE

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SITUATION AND PROSPECTS IN BRAZIL

CONCLUSIONS

A. The evidence concerning President Goulart's objectives is varied and conflicting, but he is essentially an opportunist whose inclinations and associations are populist and leftist. Under Goulart, Communists and their sympathizers have achieved a strong position from which to carry on a continuing expansion of influence over Brazilian policy. Goulart has—like Peron and Vargas—built his political power upon the labor movement, and it is possible that he would, if he could, try to establish a regime like that of Peron or Vargas or even one more clearly leftist. (*Paras. 6, 12, 41*)

B. Goulart is a shrewd political manipulator who has skillfully presided over a political scene of great complexity and diversity. He probably can continue for some time the balancing act he has carried on to date, but he has not shown himself notably resolute in resisting strong pressures, particularly from the left. Thus, he is likely to move further leftward if that is where the most vociferous and effective political opinion has been mobilized. There is a danger that he will become a captive of the left. (*Paras. 8, 16, 17*)

C. The further leftward Goulart may move, the greater will become the disaffection of rightists, conservatives, and some moderates. The military are reluctant to overturn a constitutional regime, but Goulart would be in great danger of a military coup effort if he engaged in patently unconstitutional action. One major obstacle to a successful coup attempt is the gradually tightening grip which Goulart is acquiring over the military services through retirements and appointments. (*Paras. 14, 18*)

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D. It is still too early to determine how effectively the stabilization program will be executed. In view of Goulart's past performance and political inclinations, it appears unlikely that he will hold the line steadfastly against attempts to water down the various commitments Brazil has made. (*Para. 31*)

E. We believe that the Goulart regime will seek, by a continuing series of actions and negotiations, neither to satisfy all US and other foreign requirements nor to fall so far short that the US and other foreign sources of aid would feel unable to provide the necessary assistance. If aid should be withheld, Brazilian economic and political tensions would become critical, and there would be serious danger of a drift toward authoritarianism. Even if aid is provided Brazil in the quantities needed, we believe there is a good chance that the course of Brazilian politics will continue moving toward leftist solutions for its internal difficulties. (*Paras. 42, 43, 44*)

F. The chances still favor Goulart's retirement from the Presidency at the end of the term, and there is still a fair chance that his successor will be more responsible. Nevertheless, the profound political and economic instability of the country and the strong positions being won by Communists, extreme leftists, and ultranationalists will tend to push the country toward more radical departures in domestic and foreign policies. This could lead ultimately to the establishment of an extreme leftist regime with a strongly anti-US character. (*Para. 44*)

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DISCUSSION

I. THE BRAZILIAN PROBLEM

1. The question of President Goulart's character and aims is the principal one troubling Brazilian politics and Brazilian-US relations today. Yet, the basic problem of Brazil, which has brought this question to the fore, is the profound political and economic instability associated with rapid economic expansion, institutional weaknesses, population growth, and the political awakening of millions of people who hitherto possessed little political power and only a limited means of expressing their hopes and expectations. In a sense, all the political crises of Brazil since the beginning of the Vargas dictatorship in 1930 have derived from this economic expansion and political awakening.

2. The current crisis, precipitated by the dramatic resignation of President Janio Quadros in August 1961, has been especially acute and prolonged. Joao Goulart succeeded to the Presidency only after a compromise with those who distrusted him, and this distrust continues. Goulart is and always has been supported by many of the same forces, particularly on the left, which formed the basis of Vargas' power. Indeed, Goulart was a protege of Vargas and built up his personal political strength by utilizing the funds and authority he possessed as Vargas' adviser and Minister of Labor and as Kubitschek's Vice President. He has been suspect throughout his career to the more established and conservative elements of the society, including the military, who have feared not only the man but the forces which supported him.

3. A plebiscite in January 1963 restored to Goulart those powers of the President which he had surrendered in the compromise that had brought him to office. The leadership he exercises, the appointments he makes, the directions he takes, the problems he encounters, have placed the character and capacity of the President even more in the limelight than before.

II. THE POLITICAL SCENE

The Goulart Regime

4. While the figure of President Goulart now looms large in Brazilian affairs, the government is by no means a one-man regime. The military establishment, although it contains a wide variety of political opinion, constitutes a major political element. The state governments have wide powers, even including that of treating with foreign governments on certain matters. The national political parties, though loosely organized and combining many heterogeneous groups, nevertheless constitute political forces with which the President must treat. Organized

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labor, despite Goulart's very great degree of influence within it, is not united in a single national organization or fully responsive to his direction. The Congress must be accommodated on various issues of financial and general legislative policy. The press, especially in Rio de Janeiro and São Paulo, is also a force to be reckoned with.

5. One measure of Goulart's importance is the depth and degree to which he is criticized and mistrusted. On the right, fear and hatred of the man is wide and deep. Some Brazilians, including many moderates, view him as a demagogic opportunist seeking to create a Peronist-type labor movement upon which to base a departure from present constitutional restrictions and to gain a permanent hold upon the Presidential office for his own glory and profit. Others see his aims as even more sinister—to destroy democracy, to dissolve the alliance with the US, to create a revolutionary society in Brazil, to align Brazil with the Soviet Bloc.

6. The evidence concerning Goulart's objectives is varied and conflicting. In both past and present, he has had a close association with known Communists, he has appointed some Communists and Communist sympathizers to high office, including to his personal staff, and he has removed a number of pro-US and anti-Communist officials from office. On the other hand, he has also removed leftist officials, continued to work with groups of all political complexions, and at times pursued a moderate course. His collaboration with Communists has contributed to the expansion of their influence in the labor movement. However, with the Communists threatening his long-established control over left-wing labor forces, he now appears to be encouraging a "third force" labor movement loyal and responsive to him. He appears to be supporting efforts to stabilize the economy in accordance with US requirements, despite an outcry from the left. He has never put forth nor sought to develop any rationale or blueprint for a radical reorganization of Brazilian society. Nevertheless, he has—like Peron and Vargas—built his political power upon the labor movement, and it is possible that he would, if he could, try to establish a regime like that of Peron or Vargas or even one more clearly leftist.

7. Goulart's practice of playing off one group with another was reflected in the June 1963 Cabinet changes. He appointed a conservative economist, Carlos Carvalho Pinto, as Minister of Finance, and a moderate, Amaury Oliveira e Silva, as Labor Minister, but he also named two extreme leftists, Evandro Lins e Silva as the Minister of Foreign Affairs, and Paulo de Tarso as the Minister of Education. The removal of General Kruel from the Ministry of War pleased the extreme left but the right's concern was at least partially assuaged by the replacement of Admiral Suzano as Minister of the Navy.

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8. What the record does demonstrate more than anything else is that Goulart is a shrewd political manipulator and a confirmed opportunist whose primary concern has been the acquisition and retention of political power. At the same time, he has few, if any, convictions as to broad policies and little comprehension of the grave economic and financial problems facing his government or of the merits of various means of attacking those problems. In strictly political matters he has made few, if any, tactical mistakes to date. He compromised to gain the Presidency and then manipulated his way back to full Presidential authority. While accepting the military as a key factor in the Brazilian body politic, he has progressively weakened its independence by removing officers from key posts and appointing others, including leftists, whom he thinks will be personally loyal to him. He consults people from a wide variety of backgrounds and political coloration. He has sought support from opposition parties and groups by including their leaders or representatives in his official family even though some are sworn political enemies. In short, President Goulart has demonstrated political skill of high order in presiding over a political scene of great complexity containing widely divergent political ideologies and antithetical political interests. If he has goals beyond political power, they are not clearly discernible.

Supporters, Oppositionists, and Subversives

9. In a political situation as complex as that in Brazil, and given the political *modus operandi* of Goulart, it is difficult to identify groups or political forces as outright supporters, oppositionists, or subversives. Some who support Goulart are in fact Communists or Communist sympathizers intent upon the subversion of the country; some who support him, such as the ultranationalists, are occasionally extremely critical of some of his policies, largely because they allege them to be pro-US or insufficiently radical. Opposition to the regime seems to run the entire political spectrum, but is predominantly on the right. Most of Goulart's supporters seem to be ultranationalists and leftists of one variety or other, but he also enjoys support among moderates, including many who are friendly to the US. The greatest potential threat to constitutional government in Brazil may be the non-Communist, ultranationalist, extreme left now seeking to control Goulart.

10. Among the opposition, there are of course some who can be clearly identified. Many senior military personnel, both active and retired, are strong oppositionists. (The non-commissioned officers include some strong supporters of the regime, but they are not at present an organized political force.) The governors of two key states, Carlos Lacerda of Guanabara (the former Federal District of Rio de Janeiro) and Adhemar de Barros of São Paulo, are active opponents who enjoy significant military support as well as that of their own political organizations. Of

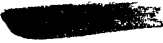
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the national political parties, Goulart's own Brazilian Labor Party and the Social Democratic Party can be counted as supporters, but both contain factions opposed to him. The other two major parties, the National Democratic Union and the Social Progressive Party, are opposition parties, but both contain factions cooperating with Goulart.

11. The Communist Party has been illegal since 1947 but has gradually acquired considerable freedom of operation. It has only about 30,000 members and another 150,000-200,000 sympathizers. This is few in a country of 75,000,000 inhabitants and 18,000,000 eligible voters. Yet, the party and its sympathizers possess an influence and subversive potential far beyond that which the size of the party membership would indicate. Communists or their sympathizers occupy a number of important appointive offices in the government, including military commands. They hold important posts in the bureaucracy, labor, and student groups. They virtually control three of the country's five labor confederations. Some half-dozen Communists hold congressional seats under other party labels. The Communists work with such ultranationalists as Leonel Brizola, a brother-in-law of Goulart, and, as occasion warrants, with nationalist organizations such as the newly-created Popular Mobilization Front. The Communists and their allies exercise a strong influence in—and may be gaining control of—the governments of the city of Recife and the state of Pernambuco in the northeast.

12. The Communists have achieved a strong position from which to carry on a continuing expansion of influence over Brazilian policy. However, at the moment the Brazilian Communist Party probably should be classified as a supporter of the regime. One of its prime objectives is to regain legal status. Closely responsive to Moscow control, the leadership is following a non-revolutionary course and is limiting its activity to penetration and subversion of other groups and of the military and civil services, and to agitation on behalf of radical reform. The party's present emphasis upon the gradual approach has led to the splintering off of a small revolutionary faction of some 900 who call themselves the Communist Party of Brazil. This group and those peasant leagues which Francisco Julião leads have received Castro's blessing and, at least until recently, financial support. The rank and file members of the Brazilian peasant leagues, including those controlled by the Communists and Julião, appear to be primarily interested in social and economic betterment and not in revolution.

13. The most immediate threat to the Goulart regime comes from the right. Those who most mistrust Goulart's character and aims are rightist civilian politicians like Governor Lacerda, and retired military leaders like Marshal Denys, who led the opposition to Goulart's accession in 1961. The reasons for their distrust are simple and clear; they regard him as a dangerous leftist or worse—an outright Communist.



Moreover, he is charged with favoring and supporting a variety of unsavory characters who if not all Communists are equally dangerous. He is also deeply distrusted by the bulk of active military officers. Included in this group are many who have been deprived of influential positions. This conservative and rightist opposition is located largely in the populous Rio de Janeiro and São Paulo areas. Its only real hope for displacing the Goulart regime lies in obtaining the support of key military elements in order to bring off a joint civilian-military coup.

14. There are two major obstacles to its success. One is the reluctance of the military to overturn a constitutional government, and Goulart will probably continue to avoid acting in a patently unconstitutional manner. This deep-seated military tradition of legality clashes directly with military opposition to political extremism and anything associated with Communism. The issue so divided the officers corps in 1961 that it was unable to prevent Goulart's succession to the Presidency. The other obstacle is the gradually tightening grip which Goulart is acquiring over the military services through the appointment to key military posts of his own followers and of career-minded opportunists. The political views of the new Minister of War, General Jair Dantas Ribeiro, are unknown, but he is almost certainly loyal to Goulart. Command of the First Army in the key Rio de Janeiro military district is in the hands of leftists loyal to Goulart. Some important commands still are held by enemies of Goulart, but the gradual retirement or reassignment of senior officers is eliminating or isolating from command many who are not entirely loyal to him or are most disposed to join in a coup. Through these measures, Goulart has gone some distance toward neutralizing the power of the military to move against him.

15. The military constitute the only security force which could overthrow the regime or, alternatively, protect it from subversion from any other source. The Brazilian Armed Forces' personnel strength is distributed about as follows: Army, 150,000; Navy, 35,000; and Air Force, 26,000. The militarized police consist of about 90,000 men and in an emergency form part of the Army; they are, however, organized in state units and controlled by state governors. The civil police forces of some 70,000 are under state control and are not designed for dealing with major subversive action.

The Political Outlook

16. How Goulart conducts himself is a principal key to the future of Brazilian politics. If there is any clear purpose in his policy, it seems to be to weaken the centers of opposition and to prevent the rise of new centers of power. This can explain his removal of military

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leaders he deems untrustworthy, his support of extreme leftists in conservative strongholds, and his recent effort to develop a counterweight to Communist predominance in the labor movement. He probably can, if he will, continue for some time the delicate balancing act he has carried on to date. If he continues this kind of approach, he can probably preserve his freedom of action in the political arena and prevent a rightist civilian-military coup. Within this framework, however, it is extremely difficult to confront such important policy problems as the containment of inflation.

17. There is, of course, no guarantee that he can or will continue his present course. We cannot be certain that he is not already so involved with the extreme left as to be its witting or unwitting prisoner, although this does not now appear to be the case. He may also be forced further to the left by shifting political forces which he cannot control. The Communists, extreme leftists, and ultranationalists may succeed in organizing large and hitherto politically inarticulate groups to such a degree of effectiveness as to confront Goulart with extreme pressure. He has not shown himself to be notably resolute in resisting strong pressures, and he is likely to move further leftward if that is where the most vociferous and effective political opinion has been mobilized.

18. The further leftward Goulart may move, the greater will become the disaffection among rightists, conservatives, and some moderates, and at some point even those military now disposed not to interfere with constitutional government might join in plots against the regime. If Goulart should embark upon a course—such as an effort to close Congress and rule by decree or to prolong his term of office beyond the end of the original Quadros term in January 1966—deemed clearly unconstitutional by the military, those who are not close adherents of Goulart would seek to overturn him. In such circumstances it is possible that civil disturbances and even civil war might erupt. If he took actions which were not clearly unconstitutional but only of dubious constitutionality, the situation might become very confused, and the outcome would depend greatly upon the balance of political forces within the military establishment at the time.

19. Brazil's political future will also depend greatly upon Brazil's economic condition and upon its relationship with the US. The Brazilian Government initiated, in January 1963, an economic stabilization program designed to gain US and other foreign economic assistance. This program, as we indicate in the succeeding paragraphs, deals with difficult problems and faces serious hazards, both political and economic.

III. THE ECONOMIC SITUATION

20. *Strengths and Weaknesses of the Brazilian Economy.* The Brazilian economy expanded rapidly throughout the postwar period and has considerable potential for sustained growth over the long run. From 1950 through 1961 real gross national product (GNP) increased at an average annual rate of about six percent or nearly three percent on a per capita basis. Investment, including foreign investment, has been large and has been concentrated in the industrial sector, whose output has expanded at an annual rate of nine percent. These very large growth rates dropped sharply in 1962, when GNP increased by only 3.5 percent. Foreign investment, which contributed significantly to economic growth, has declined in the face of nationalistic policies that increasingly limit investment opportunity and security. During this period of rapid expansion Brazilian industry made rapid strides, especially in chemicals, plastics, machine tools, motor vehicles, cement, and paper.

21. The Brazilian economy, however, has serious imbalances. Electric power is in short supply, transportation and communication services are inadequate, and the level of technology in much of industry is low. Food production for domestic consumption has been increasing at the rate of four percent per year, which barely exceeds the annual rate of increase in population, now over three percent, and is below the rate of expansion of urban population. Postwar economic progress, moreover, has been unevenly distributed among the major regions and economic classes in Brazil. The area in the triangle of Belo Horizonte-Rio de Janeiro-São Paulo has been the principal beneficiary, whereas in the northeast of Brazil—which contains one-third of the total population—the per capita level of GNP probably has been declining over the past decade. In the generally prosperous South the large number of chronically underemployed slum dwellers is increasing, since urban population growth exceeds employment opportunities.

22. *The Foreign Payments Problem.* Economic expansion in Brazil has been accompanied by chronic financial crises. Brazil has had a major foreign payments problem since the early 1950's, and this is the most urgent economic problem facing the Goulart administration. The foreign debt now totals nearly \$3 billion, most of which is maturing in the near future. Payments now estimated at over \$700 million due in 1963 include \$450 million owed to private and official US creditors. In early 1963 Brazil had virtually exhausted its unpledged reserves of gold and foreign currency. The 1963 balance of payments deficit is now estimated at about \$500 million.

23. The present magnitude of Brazil's payments crisis is in large part attributable to Brazil's drive for rapid industrialization and its use of short-term funds to finance long-term development objectives. Since

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1953 one balance of payments obligation has been piled on top of another in order to maintain a relatively constant volume of imported petroleum, semifabricated metals, heavy machinery, and other products essential for urban-oriented development. At the same time, world prices for coffee and other exports (e.g., cacao, cotton, and sugar) declined. Diversion of resources from export production and the use of inflation to finance development reached new heights under Kubitschek, who favored industrial production for the domestic market and sponsored construction of a new capital at Brasilia. All these factors, combined with the absence of new investment in export industries, have caused Brazil's foreign exchange earnings to stagnate. As a result, the country is unable to finance needed imports, to cover a growing burden of current account charges (profit remittances, freight, insurance, and commission fees), and to meet heavy obligations on foreign debts.

24. In 1960, the final year of the Kubitschek administration, Brazil incurred a deficit on current account of \$538 million. In 1961, default was averted only through a major rescheduling of payments and a large infusion of new credits from the US, the International Monetary Fund (IMF), and other foreign creditors. Quadros committed himself to a major financial stabilization program designed to reduce the size of the deficit on current account, but failed to implement it fully; the program collapsed after Quadros' departure. The current account deficit increased from \$243 million in 1961 to \$365 million in 1962.

25. *The Inflation Problem.* The recent high rate of inflation in Brazil has aggravated the problem of foreign payments, not only by discouraging exports but also by discouraging foreign investment and encouraging flight of domestic savings. The level of prices in Brazil rose by an average of about 20 percent per year during the period 1950-1958. This caused little concern since politically articulate groups in Brazil have generally believed that inflationary policies are an incentive to economic development. Since 1959, however, prices have been increasing at twice the previous pace or more. During 1962, prices rose by over 50 percent, and in the first four months of 1963 prices rose by 20 percent.

26. The primary vehicle for inflation in Brazil has been the policy of covering the budgetary deficits of the federal government through expansion of the money supply. Budgetary deficits grew ever larger toward the end of the Kubitschek administration, when government spending was accelerated under his "program of goals" without comparable increases in budgetary revenues. During 1962 the government's cash deficit was 280 billion *cruzeiros* (well over \$500 million at the free exchange rate which prevailed toward the end of the year) or about a third of total budgetary expenditures.

27. *The Administration's Response.* Goulart took no decisive action toward alleviating the mounting domestic financial and foreign payments crises until assured of restoration of the full Presidential powers. Before turning to the US for assistance Goulart adopted a three-year plan for economic development (1963-1965) drafted by a leftist-nationalist adviser, Celso Furtado, and converted by San Thiago Dantas into a working program for resolving Brazil's problems. The plan sought to maintain rapid economic growth while gradually reducing domestic inflation. A seven percent annual rate of growth in GNP is to be supported by annual foreign loans and capital investment of \$500 million to maintain developmental imports at the levels of recent years. The rate of inflation was to be cut back to 25 percent in 1963, 15 percent in 1964, and 10 percent in 1965 through various measures of internal reform, including decreases in government expenditures and increases in revenue, the reduction of subsidies, and the use of "noninflationary" means to finance government deficits.

28. In late 1962 and early 1963, while exploratory conversations looking to the procurement of US assistance were being held in Brazil, the Goulart administration raised taxes on income and consumption, devalued the *cruzeiro*, and removed subsidies on imported wheat, newsprint, and petroleum. In March, Dantas obtained a tentative US Government commitment of about \$400 million in support of Brazil's program of stabilization and development through May 1964. This commitment was granted in recognition of the Goulart administration's undertaking to carry out various stabilization measures and to negotiate substantial assistance from the IMF from Europe and Japan. As of early June the US had released a total of \$84 million in aid to Brazil, \$30 million of which was used to repay the 90-day short-credit loan negotiated earlier in the year. Release of further US aid remains contingent upon achievement of satisfactory arrangements for the purchase of US public utility properties as well as upon Brazilian performance on stabilization and the progress of Brazilian negotiations with the IMF and the European creditors. The IMF has extended \$60 million to compensate for declines in export prices for agricultural products but is awaiting evidence of a sustained anti-inflationary effort before continuing negotiations for a standby agreement with Brazil.

29. While the stabilization plan initially appeared to meet the requirements of Brazilian politics admirably—solution of the financial crisis without austerity—in fact it has encountered stiff political resistance. Restrictions on credit to check inflation have produced a slowdown in the industrial sector of the economy, particularly in the automobile industry, and have antagonized industrial and commercial interests. The military and public employees opposed the restriction of their wage increase to 40 percent as envisaged in the Dantas program. In May the administration responded by agreeing to a 70 percent wage

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increase but is seeking legislation for a forced loan in the form of higher income taxes to finance this new budgetary cost. Nevertheless, the extreme leftist-nationalist forces, led by Brizola, are out in full cry against the administration's stabilization program, the US-Brazilian understandings, the negotiations with the IMF, and the negotiated purchase of foreign public utility holdings. The issue of land tenure, especially a proposed constitutional amendment permitting compensation for expropriated lands over an extended period of time, has also exacerbated political frictions.

30. *Trade with the Soviet Bloc.* Concurrent with its effort to resolve its financial and development problems through US and other foreign assistance, Brazil has been exploring the possibility of broader economic relations with the Soviet Bloc. Trade with the Bloc totaled \$138 million in 1962, which constituted 5 to 6 percent of Brazil's foreign commerce. In April of 1963 Brazil concluded a five-year trade and payments agreement with the USSR to increase the value of Brazilian-Soviet trade considerably above the 1962 level of \$70 million. The agreement calls for values of \$160 million in 1963, \$200 million in 1964, and \$225 million in 1965, and Brazil received concessions that could facilitate trade with the Soviet Bloc as a whole. The major commodities to be exchanged are coffee, cotton, and rice from Brazil, and petroleum, wheat, and machinery and equipment from the USSR. By 1965, if the projected trade volumes are met, the USSR could provide up to one-third of Brazil's estimated import requirements of crude oil and petroleum products.

31. *Economic Prospects.* It is still too early to determine how effectively the stabilization program will be executed. The plan appears economically sound, it has been publicly endorsed by several administration leaders, including new Finance Minister Carvalho Pinto, and important parts of it have already been implemented. On the other hand, President Goulart himself has yet to make an open and full commitment to it, and in view of his past performance and political inclinations, it appears unlikely that he will hold the line steadfastly against concerted attempts to water down the various commitments which Brazil has made.

32. Should major US and IMF financial aid be withheld, Brazil would be faced with critical balance of payments problems during the next two years and would be forced to take drastic measures. Much of the foreign debt might be defaulted if not repudiated, remittances would be cut and perhaps prohibited, foreign private investment would virtually cease, and Brazil would probably resort to a policy of extreme economic nationalism. Relief from remittance and debt payment obligations would permit the country to maintain at least a minimum level of imports with current proceeds from exports, although lower growth rates, increased unemployment, and even more severe inflation could be expected.

33. The USSR, even with the collaboration of the Communist countries, could not be expected to fill the gap caused by the disruption of normal economic relations with the US and Western Europe. However, the USSR could at least ensure that the goals of the Soviet-Brazilian trade agreement are met. In the event of prolonged US-Brazilian differences, the Soviets would probably consider that the situation offered a sufficiently attractive opportunity to justify considerable efforts to help. They would be particularly eager to do so if anti-US agitation was widespread and led by the Brazilian Government itself. Although the USSR would be reluctant to take on a large program, especially in view of its heavy commitments in Cuba and elsewhere, Brazilian needs may be such as to permit the Soviets to make an important contribution without assuming major obligation for Brazil's economic viability. For example, the Soviets could supply much, if not all, of Brazil's oil import requirements (equal to 20 percent of total imports) although this would divert supplies from other markets. In any event, whether or not the USSR and other Communist States moved in to help, Brazilian politics would almost certainly take on an increasingly radical tone, US-Brazilian relations would become acrimonious at best, political tension would rise between leftist and conservative elements, and the internal political situation would become more critical.

34. Even with US aid, Brazil will have persistent economic and financial problems. Programs for the northeast and for land reform will still require difficult decisions and effective administration; food production and production for export will need to be stimulated; much of the economic infrastructure will need to be modernized and expanded. If economic growth is to be sustained—and the Brazilians are determined that it should be—foreign capital investment, substantial technical assistance, and probably some kind of balance of payments support will be required for some years to come. In view of the very considerable political, economic, and social instability which seems likely to plague the country for many years, the climate is unlikely to be very favorable for private foreign investment.

IV. BRAZILIAN FOREIGN POLICY

35. Brazilian foreign policy and Brazilian-US relations will be profoundly affected by such domestic developments as the extent to which Goulart's government adopts radical policies, the reaction of conservative and moderate forces, the will and ability of the government to carry out the stabilization program, and the degree to which Western countries provide economic aid. It should be recalled that Brazilian foreign policy during the past decade has become increasingly nationalist and "independent." The "made-in-Brazil" label was present under Vargas and clearly evident under Kubitschek. Quadros launched Brazil upon a boldly "independent" policy with much fanfare. Goulart has been less

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noisy than his predecessors in asserting Brazil's claim to international stature, but he has continued the basic policy of his predecessors.

36. US-Brazilian relations reached a high point during World War II after more than a century of harmonious relations. They have declined partly from the growing nationalism of Brazilians of all political colorations and the belief that Brazil is on the threshold of great power status, and partly from the conviction that the US after World War II did not reciprocate adequately for Brazil's close cooperation during the war. The decline in relations has been hastened by pressure from ultranationalists and extreme leftists who picture the US as responsible for Brazil's economic difficulties and as desirous of keeping Brazil in a subordinate relationship with the US. Whatever the relations which develop between the US and Brazil during the next few years over financial questions, Brazil is unlikely to abandon its national and independent line. A moderate or rightist regime might cooperate more closely with the US but it would continue Brazilian assertions of independence in international affairs and leadership in Latin America.

37. In particular, the Goulart regime will probably not significantly alter Brazilian policy regarding Cuba, and Goulart might seek again to have Brazil play the role of mediator (as he attempted during the October 1962 missile crisis) between Cuba and the US. He might go so far as to seek Cuba's readmission to the OAS and the re-establishment of diplomatic and economic relations between Cuba and other American nations. To dramatize further Brazil's aspirations for leadership of Latin America, Goulart will probably continue to make recommendations and suggestions for joint Latin American action, especially on economic questions. He seems unlikely to be deterred by the fact that, except in Mexico, Brazil's ventures in inter-American relations have aroused jealousy and not won much approval in Latin America. In general, we believe that Brazil under Goulart will increasingly seek to limit the scope of the inter-American system and to play a larger role upon the world stage.

38. We do not believe that the Goulart regime will align itself closely with the Soviet Bloc. It will probably expand its economic relations with the Soviet Bloc within economically feasible limits; indeed, it would probably be advantageous for the Brazilian economy if it could in this manner increase its export market and reduce its need for imports from the dollar area.

39. There does not seem to be much chance that Brazilian-US relations will significantly improve during the Goulart regime. Indeed, further deterioration could result, not only from circumstances surrounding execution of the financial agreements, but from a variety of other matters as well. Goulart will be particularly susceptible to pres-

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sure from leftist and ultranationalist elements and will probably follow anti-US courses on such questions as measures designed to isolate Cuba, some aspects of the Alliance for Progress, and the status of US-owned enterprises.

V. THE BRAZILIAN FUTURE

40. The longer term future of Brazil depends upon a variety of factors—the evolving character of Brazilian politics, the manner in which economic problems are attacked and the degree to which they are surmounted, and the way in which Brazilian-US and Brazilian-Soviet relations develop. The character and aims of the Goulart regime and the execution of the US-Brazilian financial agreements will greatly affect the character of these longer term factors.

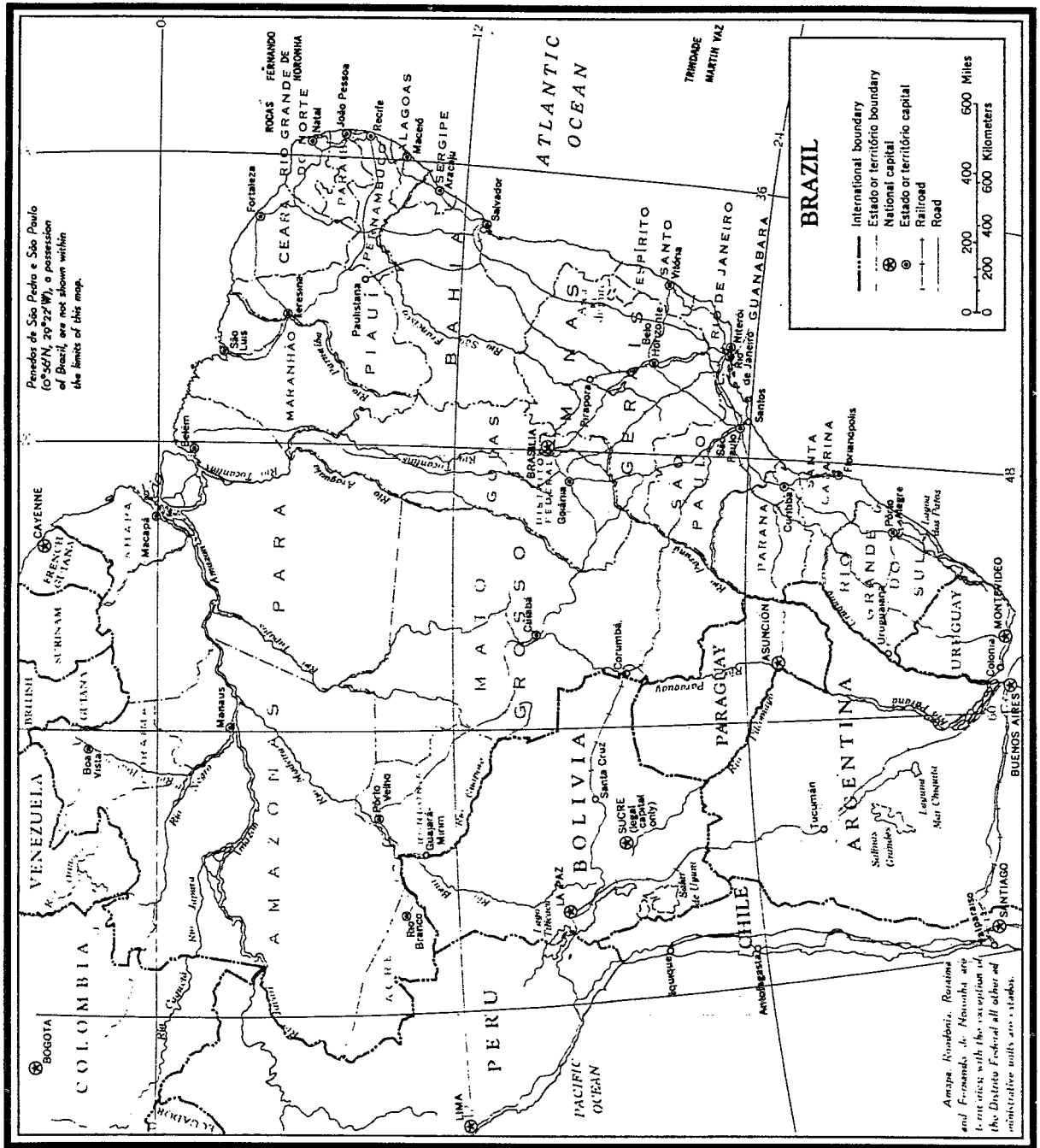
41. As we have indicated, Goulart is essentially an opportunist whose inclinations and associations are populist and leftist. His political power rests heavily upon the labor movement, and he is subjected to heavy pressure from extreme leftists and ultranationalists. If, as a result of these inclinations and pressures, he cannot or will not prevent the Brazilian stabilization program from falling short of US requirements, and if as a consequence needed foreign assistance is not provided, Brazilian economic and political tensions will indeed become critical. In this event, official pique and leftist pressure might cause Brazil to move rapidly down the path toward ultranationalism and an authoritarian solution, with ill consequences for US-Brazilian relations. On the other hand, it could also lead Goulart and his associates to take the drastic measures necessary to meet US and other foreign requirements. Conceivably it could also lead to a coalescence of conservative and moderate elements in an effort to remove Goulart and to establish a regime more likely to win foreign confidence and to carry out a more austere economic policy.

42. We are inclined to believe that if needed foreign assistance should not be forthcoming and particularly if current aid should be cut off, there would be serious danger of a drift toward authoritarianism. The extreme outcry against the US which would come from the ultranationalists and extreme leftists would strike a responsive chord in many shades of Brazilian opinion. Most Brazilians are nationalists and have long felt some disappointment about the extent of US help to Brazil, and the economic hardships and dislocations which would result from a deepening economic crisis would affect large numbers of peoples in all classes. It would, therefore, be difficult to mobilize much support for an effort to remove Goulart in what would appear as an effort to please the US, and it would be much easier to gain support for measures—such as repudiation of debts, seizure of US properties, and increasing cooperation with the Soviet Bloc—which would discomfit the US and move Brazilian policy further leftward.

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43. We believe that the Goulart regime will seek, by a continuing series of actions and negotiations, neither to satisfy all US and foreign requirements nor to fall so far short that the US and other foreign sources of aid would feel unable to provide necessary assistance. Even if aid is provided Brazil in the quantities needed, we believe there is a good chance that the course of Brazilian politics will continue moving toward leftist solutions for its internal difficulties.

44. We believe that the chances still favor Goulart's retirement from the Presidency at the conclusion of his constitutional term in January of 1966, and that there is still a fair chance that his successor will be someone more responsible and perhaps more steadfast in adhering to gradualism and hemispheric cooperation. On the other hand, the profound political and economic instability of the country and the increasingly strong positions being won by Communists, extreme leftists, and ultranationalists will tend to push the country toward more radical departures in domestic and foreign policies. This could lead ultimately to the establishment of an extreme leftist regime with a strongly anti-US character.



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