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MEMORANDUM

DATE: February 11, 1969

TO: DOM - Minister William A. Ellis

FROM: CG/NEAD - Donor M. Lion

SUBJECT: Comment on Dick's February 4 Memo to You Relating to My January 24 Memo and Recife's February 1 Cable on "Foreign Assistance Policy"

My memo to Minister Belton and you on Dick's CASP draft on strategy covers much of the ground I would deal with in answering Dick's February 4 memo. I'll try to avoid duplication. (At the end of this memo, a summary is presented of much of what we're saying from Recife.)

1. We cannot avoid close relatinns with the central authorities if we have a substantial aid program. But we can avoid having these relations regarded as fully congruent with the political excesses of the regime--by what our development targets are, by who the beneficiaries are, by the form our assistance takes, and, by how we explain what we are doing. In carrying out our program during the last year of the Goulart regime, we had close relations with a variety of central authorities--as well as with regional and state people.

2. We will not or need not by-pass the central government. I don't think we can. But, as an example, I doubt if they would turn down import financing just because we might want to channel or package it through state and regional development (banking) institutions. And I'm not too worried about working with the central government (and the states) on education programs. Association with the central government on education (or promoting employment or agrarian reform or distributive justice) is not what we are worried about. This is a very different form of identification from \$50 to \$75 million of balance of payments support.

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3. I certainly agree with Dick and others that B/P problems are a major bottleneck to long-run development. What I'm not sure of is that all the efforts we appear to support (and for which we make substantial resources available) which seek to achieve stabilization, are always related to the core cause of instability. We sometimes tend (less than the IMF, to be sure) to over-identify instability with monetary factors. Although important, they may be symptoms of structural problems with which the application of resources will not deal unless other appropriate measures are simultaneously taken. We've made good progress in a variety of areas here. But I'm not aware that we have done much in moving the Brazilians to adopt suitable incomes policy, for example, to get at some of the basic causes of instability.

4. Let me try to summarize our thinking here as it has evolved and been expressed over the past weeks in cables and memos to you and Bill Belton.

(1) Substantial US assistance is necessary to achieve USG development goals in Brazil. Its use as an expression of our reaction to political excesses (as well as to show political support for a regime) is unwise, risky, and harmful to the attainment of our long-run development targets.

(2) We have available to us other forms of expression if we wish to articulate US views of Brazilian political performance.

(3) We expect that our development goals and interests will remain essentially unchanged for some years. (The Alliance for Progress will continue to be a central part of US policy and Brazil's development requirements will not alter significantly over the years.)

(4) Whether the GOB or the political situation is precisely to our taste or not, we anticipate that Brazilian development policy will allow us to make good use of our resources.

(5) We should move the FY 68 program, doing our best to relate it to long-term development targets, to past commitments rather than to the present scene, and we should explain our policy, at least to selected US Congress and US press audiences on a background basis.

(6) Future assistance programs (dollars, food and local currency) should put fewer of our eggs in the central government basket, should positively identify the USG with a wider spectrum of Brazil's political structure and with beneficiaries and programs embracing much of what we already are trying to do: education; agriculture (production and agrarian reform); health.

(7) Our assistance strategy and content should stress economic growth, employment and improved income distribution, with sector, project and institutional aspects reflecting our wish to enlarge personal participation and the wider distribution of political power.

(8) We should continue to respond to macro-economic development obstacles, but our assistance techniques used to transfer resources to meet balance of payments and stabilization needs should move away from the past overwhelming reliance on the program loan and towards other vehicles for extending this kind of assistance.

Copies:
1. Minister Belton, Chargé
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