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A. Governor Guerra Upset in State Assembly Elections

L: Pernambuco's Governor, Paulo Pessoa Guerra, suffered a stinging setback March 13 when a coalition of MDB and Cid Sampaio (ex-UDN) candidates won 6 out of 7 executive committee seats in the State Assembly. A half dozen nominally pro-Guerra deputies also broke with the Governor, enabling the Cidistas to gain control of the Assembly offices. The election victory underscored Sampaio's political viability and is likely to give the ex-UDN wing a louder voice in the ARENA State Directorate. Meanwhile, the voices most often heard in Recife are those of Guerra supporters complaining that Sampaio bought the election and interpreting Guerra's defeat as a victory for those who are against the Revolution. The new Assembly officers are: President, Paulo Rangel Moreira (ex-UDN); 1st Vice President, Fabio Correa (ex-PSD), the only Guerra candidate elected; 2nd Vice President, Ferreira Lima Filho (ex-PTB), a MDB deputy; 1st Secretary, Inacio Valadares Filho (ex-UDN); 3rd Secretary, Livio Valenqa (ex-PSD) a MDB deputy; 3rd Secretary, Geraldo Pinho Alves (ex-PTB), a MDB deputy; and 4th Secretary, Silvio Pessoa Filho (ex-UDN).

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2. COMMENT: The Consulate General believes the Cidista victory reflects principally the immaturities of ARENA and the underdevelopment in local politics. The fight was not between pro and anti Revolutionary forces but between Cidista elements of the ex-UDN and Guerra's ex-PSD. The big question now is what increased influence, if any, Sampaio will have on the ARENA directorate. In a recent ARENA meeting held in Brasilia, it was announced that the ARENA directorate will be maintained at 34 seats and that Guerra attempts to have the three Cidista victors in the Assembly ousted from the government party were defeated. In a negative sense, this might be interpreted as a Sampaio victory but in real terms it only means that, so far at least, his voting strength in ARENA remains unchanged.

B. Striking Students Demand Ouster of Education Secretary

3. Two bombs exploded in the interior of Paraiba's Colégio Estadual March 17 and one student was imprisoned, as striking college students continued to call for the reinstatement of their dean, Dr. Daura Santiago Rangel. In a note distributed to the press, student leaders said, "The Reinstatement Committee of Striking Students of the Colegio Estadual of Joao Pessoa publicly announce their unalterable determination to remain in strike, despite all the campaign of lies and arrests promoted by enemies of the student class, until reparation is made for the injustices committed against Dona Daura and the students. We want further to manifest our repudiation for the sinister figure of the present Secretary for Education and Culture in this state, Msgr. Manuel Vieira." The students further declared that their objectives are simply to reinstate Dona Daura and to have Msgr. Vieira dismissed.

C. Member of Guerra's Cabinet Resigns Suddenly

4. Paulo Guerra's Secretary of State for Extraordinary Subjects, José Francisco de Melo Cavalcanti, submitted his resignation last week reportedly because he was miffed over his surprise substitution as Pernambuco's representative on the SUDENE Council. The real reason may be his sympathy for potential presidential candidacy of Coordination Minister, Cordeiro de Farias. Guerra's slightly qualified support of War Minister Costa e Silva would make for some incompatibility in Cavalcanti's continued presence in the government.

D. Third Naval District Commander Takes Office

5. Vice Admiral Mario Cavalcanti de Albuquerque on March 18 took over as Commander of the Third Naval District. Admiral Albuquerque is 57 years old, and numbers among his many former commands, the position of Director General of Naval Personnel.

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E. New Minimum Wage

6. News of the new minimum wage was received with little enthusiasm. A few progressive businessmen recognized it as a necessity in order to restore purchasing power and praised the government for choosing a "non-demagogic" level and making progress in reducing intra-regional differences. Labor spokesmen found the new wage inadequate and the president of the Pernambuco Federation of Rural Laborers doubted that the new wage level would have any practical significance since many landowners were not even paying field hands at the old level. The president of the Recife Union of Textile Workers commented that his main concern was to negotiate a new contract to take the place of the one which expired - the Conselho Nacional de Politica Salarial, he stated, had calculated that the cost of living had increased by 89.92% but had failed to provide guidelines for wage increases and management continued to allege that it was unable to pay any increase.

F. Business Climate

7. The optimism with which businessmen embarked into the New Year rapidly wilted during February and, by March, had been replaced by a mood of pessimism. No consensus existed concerning the cause of the let down; but there was general agreement that credit had become tight, that protested or late bills were accumulating, that sales were disappointing, that an unsettling inflationary spurt had taken place, and that troubled politics once more impeded economic progress. There was disappointment with the progress of the government's economic policy as businessmen expected that, by this time, the still-convalescing economy would be surging with renewed vigor. The inflationary pressure which marked the first two and a half months of the year appeared to be caused in large part by the widespread expectation that the cruzeiro would be devalued to at least Cr\$2,500 and possibly as much as Cr\$3,000 to the dollar sometime between April and May.

G. Psychological: AID Dilemma

8. After several months of gentle probing, the Recife press brought out into the public eye the question of the Special Northeast Agreement covering USAID's activities in the area. Sparked by the impending Deliberative Council meeting of SUDENE at which the Superintendent João Gonçalves plans to present SUDENE's short-term plans, JORNAL DO COMMERIO economic writer, Calazans Fernandes launched a series of three columns charging that if a new agreement were not signed, or firm commitments made under the present one, it signified the US intention to relegate Latin America to a secondary position with the war in Viet Nam as the reason. He also said USAID/Brazil Minister, Stuart Van Dyke had said the political climate and social conditions had changed in the Northeast since the 1964 Revolution, thus eliminating any need for the Special Agreement. Following on the heels of the Fernandes columns was an

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editorial, based largely on the same contentions, urging a new agreement. In reaction, a press release refuting each of the baseless contentions of Fernandes and the editorial was distributed. In Recife it was used only by the JORNAL DO COMMERCIO; and REPORTER ESSO and was picked up by Agencia Nacional.

9. COMMENT: The articles and editorial sparked considerable concern among the readers as to a possible deemphasis of the program in the Northeast.

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