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POLITICAL1. Congress Loses Power Over Budget

President Castello Branco on July 31 issued Complementary Edict No. 18, which forbids Congress to make any substantive changes in the draft budget which was submitted for the legislature's approval. Since Institutional Act No. 1 of April 1964, Congress has not been able to increase the ceilings set in the budget by the Executive Branch. It could, however, shift funds from one section of the budget to another and initiate public works projects, in an effort to get the biggest possible slice of the pie for constituents. Edict 18 limits such pork barrel activities to divvying up certain allocations for local government subsidization, for example Cr\$60 billion for local activities by the National Social Service Council. The rules of the new Edict also apply to legislative assembly control over state budgets. (UNCLASSIFIED)

COMMENT: This further restriction of legislative power was apparently decreed without the foreknowledge of even the Government's own leaders in the Congress. Accordingly, it has had a doubly negative reaction from the law-makers, which may be reflected in the quality of support accorded various projects the President is preparing to send for congressional consideration. Issuance of the Edict is further evidence of the political damage, both in terms of domestic support and to its international image, which the regime is willing to accept in order to carry out its fiscal program. (LIMITED OFFICIAL USE)

2. Party Affiliation Deadline Extended

Hitherto politically uncommitted aspiring candidates for the November 15 direct elections were given until August 18 to join either the MDB or ARENA by Complementary Edict No. 17, issued by the President on July 31. The Edict prohibits switching parties for those who are already members, and permits the registration of candidates for state and federal offices to be made at the party municipal level. (UNCLASSIFIED)

COMMENT: Apparently this move was found necessary because the Government considered that not enough candidates had registered by the former deadline of July 18. More importantly, many candidates had reportedly registered at the municipal level, unaware that a certain provision of Complementary Edict No. 9 would prevent them from running in state and federal contests. That provision is reversed by the present Edict. The measure does not appear to favor either ARENA or the MDB..(UNCLASS)

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3. Congress Reconvenes Facing Heavy Workload

After a desultory special session July 26-30, the Chamber of Deputies and the Senate convened on August 1 for the last regular session of the current Congress.

The item of most concern in the near future is the forthcoming constitutional reform, the draft for which is now in the hands of the Minister of Justice. It appears now that the draft, once cleared by the President, will be submitted to the ARENA congressional membership for comment and (slight) modification. The agreed text will be formally submitted to Congress, around the middle of the month or shortly thereafter, and the ARENA leadership will push for its passage without further amendment.

In addition to the annual budget and the new Constitution, the President has announced his intention to submit to this session of Congress seven major pieces of legislation on public administration, national security, the press, accountability of upper-level public officials, the state military police, federal education, and private enterprise. Government sources have said these bills would go forward to Congress before the end of August, but the actual timetable was being worked out in meetings which began August.4. (LIMITED OFFICIAL USE)

COMMENT: In order to enact this heavy legislative load in an election year, and facing probable MDB obstruction, the administration will probably resort to the "urgency" clause (Article 4) of Institutional Act No. 1. (LIMITED OFFICIAL USE)

4. Potential Crisis Over UNE Congress Passes

The National Union of Students (UNE) announced July 29 that its congress (see WEEKA 29) had been held secretly the previous night at the Franciscan Monastery in Belo Horizonte, by a group of members who evaded police surveillance. Election of a new directorate was announced in the statement. A number of students were arrested in Belo Horizonte but were released within a few days, and the presence of strong police contingents prevented any public demonstrations and thus frustrated the hopes of the Ação Popular (AP) element controlling the UNE, which had expected violent clashes between police and students and intended to parlay such incidents into a countrywide campaign against the Castello Branco government. The use of Franciscan and Dominican religious installations to shelter students arriving in Belo Horizonte for the congress has drawn considerable editorial criticism in the moderate press and the Brazilian Society for the Defense of Tradition, Family and Property, a local "legion of decency", issued a sharp attack on the priests concerned. (CONFIDENTIAL)

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5. President Joins ARENA

In a ceremony on July 28, President Castello Branco formally joined the ARENA party. In doing so he said that the opposition would have "the broadest guarantees" to compete in the elections, though in the nature of things they could not now aspire to govern the country. The opposition press has criticized the President for the latter statement, saying that it is hypocrisy to declare that the opposition can take part in the elections, but cannot expect to be allowed to win. (UNCLASSIFIED)

6. Budget Submitted to Congress

On the same day that the fiscal powers of Congress were sharply reduced (see item 1), the Government submitted its 1967 budget to Congress. It is a balanced budget, with both revenues and expenditures down slightly in real terms from 1966, with no provision for a 1967 federal pay raise (although an increase of, say, 25 percent could be accommodated by treasury bond sales and a probable excess of receipts over projected levels), and with a projected real decline of approximately 45 percent in subsidization of major transport entities, historically a principal element in Brazilian budget deficits. (LIMITED OFFICIAL USE)

7. Completion of Quarterly Review

Receipt on August 1 of a letter from Dr. Bulhões outlining a GOB credit program (with emphasis on rediscounts, compulsory reserve levels and Bank of Brazil lending activities) aimed at holding means of payment expansion to 6 percent during the 3rd quarter, completed the quarterly review of GOB economic performance begun in May. GOB performance had been found to have met all targets with the exception of those related to internal credit policy. For this reason a restatement of GOB intent in regard to the monetary situation was requested. On the basis of the Bulhões letter and satisfactory GOB performance in other areas, the Country Team has recommended disbursement to the GOB of the second tranche of the 1966 AID Program Loan. (LIMITED OFF USE)

8. Decree Laws Facilitate Medium Term Commercial Credit

By Decree Laws 13 and 14 and Central Bank Resolution 31, the GOB has made it possible for authorized banks to accept time deposits of minimum 180 day term subject to monetary correction. In addition, banks with capital and reserves greater than Cr\$10 billion (of which there are approximately 50 in Brazil) are permitted to issue negotiable time deposit certificates. Savings attracted by these new devices are to be applied by the banks in medium-term loans also subject to monetary corrections. Potentially, these measures could amplify the role of Brazilian

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commercial banks - currently restricted by inflation to very short-term receivables financing - to include medium-term working capital and even investment financing. They could both increase the supply of such credit to the private sector and reduce its cost. (UNCLASSIFIED)

9. Leftists Stall CONTEC Affiliation with IFCCTE

With the tacit cooperation of National Bankworker's Confederation (CONTEC) president Ruy Armando Brito, leftist-Communist former CGT supporters succeeded in shelving discussion of CONTEC's proposed affiliation with the International Federation of Commercial, Clerical, and Technical Employees (IFCCTE) during last week's Recife Congress. (See WEEKA 29) (LIMITED OFFICIAL USE)

10. Wage Decree Provokes Resentment in Labor Circles

Decree Law 15, issued on August 3 by the GOB, bars all wage adjustments above the GOB formula, eliminating any remaining union negotiative functions. Using government figures, the annual increase for the typical worker whose contract is renewed in August 1966 will be 28%, compared with a rise of 40-50% in the cost of living during the past year. (UNCLASSIFIED)

COMMENT: Unionists are shocked by the severe inflexibility of the decree, which excludes even voluntary interim wage adjustments, bonuses, or upgrading. Pointed to as symbolic of the policy's unfairness was the escape clause for employers who allege inability to pay wage increases and the GOB failure to accompany its wage freeze with really effective controls on credit and prices. The business reaction was almost entirely positive. (UNCLASSIFIED)

MILITARY

11. Brazilian Navy CNO Requests Retirement

Unexpectedly, Admiral of the Squadron Arnaldo Toscano, Chief of Staff of the Brazilian Navy (equivalent to U.S. Navy CNO) requested retirement August 1. The request will probably be approved and become effective within 10 days. (CONFIDENTIAL)

COMMENT: A large number of retirement requests were submitted August 1, the last day to retire under provisions of the old retirement law which grants retirement promotion to the next higher grade with pay, or two higher grades with pay, depending upon number of years of service. This may have entered into Toscano's decision to retire, but surely is not the full story. Other factors are probably: 1) the service fight developing on formation of a Department of Defense, 2) the Presidential decision prohibiting Brazilian Navy participation in the Fifth Inter-

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American Naval Conference at Caracas (item 12), 3) that the normal tour of the CNO is 1-1/2 to 2 years and Toscano does not desire to step down to a lesser job. (CONFIDENTIAL)

12. Brazilian Navy Will Not Participate in Caracas Conference

President Castello Branco will not permit Brazilian Navy participation in the Fifth Inter-American Naval Conference because of the Venezuelan President's "systematic hostility towards Brazil." (CONFIDENTIAL)

COMMENT: This action is no doubt a disappointment to the Brazilian Navy, which considers itself a major partner in the defense of the Atlantic. (CONFIDENTIAL)

ALLIANCE FOR PROGRESS

13. Second AID Loan to the National Water Fund

On August 4 a loan agreement to increase the resources of the National Water Supply Loan Fund by Cr\$2 billion was signed by USAID Director Stuart Van Dyke. Initial funds of Cr\$6 billion were provided by USAID at the time the Water Fund was established in April 1965. Since then Cr\$22.5 billion in loans have been made to eleven cities and one state. Cities requesting financing must contribute one-third of the total cost. The long range objective of the water loan program is to create the institutional capacity to administer self-supporting municipal water systems. (UNCLASSIFIED)

14. AID Loan for Electric Power in Espirito Santo

USAID announced a \$13.3 million loan to the Central Brazilian Electric Energy Company to increase the electric energy production of the state of Espirito Santo. The hydro-electric station which will be built at Mascarenhas on the lower Doce River will produce 115 thousand kilowatts. When completed, the installation will almost double the existing generating capacity in the state.

The USAID loan will permit the Brazilian company to finance the dollar costs of three generating units, as well as transmission and distribution systems, equipment and technical services. The total investment in the hydro-electric installation, sub-stations and transmission facilities will be \$49 million. Increased energy production should begin in 1971. (UNCLASSIFIED)

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PSYCHOLOGICAL15. Texas Governor Cuts Short Visit

The mass slaying by a sniper in Austin took place during what had been planned as a four-day visit of Texas Governor John Connally to Brazil in connection with the 1968 Hemis-Fair. The Governor decided to cut short his visit and return to Austin immediately. The press gave considerable attention to both the Governor's visit and to the Texas tragedy. It is reported that for at least some Brazilians (and by extension the same might apply in other countries) the shooting changed prior beliefs that President Kennedy's assassination could not possibly have been the work of simply one deranged person. (UNCLASSIFIED)

16. Soviet Cultural Attractions

The popular Moscow Circus wound up a successful series of performances at the Maracanãzinho Stadium in Rio, where it played to virtually full houses. Hard on its heels came the Leningrad Ballet which, after much advance publicity, opens August 5 at the Municipal Theater. Despite relatively high prices (best seats roughly \$7, cheapest roughly \$3), there were long cues at the box office and the Rio appearances seem sure to be well received. (UNCLASSIFIED)

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