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To : The Secretary
Through: S/S
From : INR - Thomas L. Hughes *Thomas L. Hughes*
Subject: Brazil: President Costa e Silva's First Year

President Costa e Silva has dealt with Brazil's problems better than most observers had expected. He has, however, continued the political restraints imposed by his predecessor and has not been notably responsive to pressures for social reforms. Although it poses no immediate threat to the government, dissatisfaction with the Revolution in general, and the present administration in particular, is widespread and growing. We examine in this paper Brazil's current major problem areas and attempt to give them perspective.

ABSTRACT

The armed forces retain the keys to power in Brazil. It is primarily from the military that the President draws his authority to govern and it is through the armed forces that he can ultimately, if necessary, impose his will upon the country. Yet despite the obvious importance of the military role, the day-to-day operations of government are entrusted to civilians. The armed forces seem to view their primary function as that of a "national conscience" to keep the nation true to the ideals of the 1964 Revolution.

The military in Brazil has long played a major role in political life but prior to the 1964 Revolution it had never attempted to use its power to bring about major changes in the country's institutions. Its present involvement in restructuring the nation's institutions of political and economic power is unprecedented, and military leaders are uncomfortable in

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their new roles. During the four years since the Revolution, the visible presence of the military has diminished but since it is the government's main support, the military's involvement has necessarily continued.

Giving direction to Brazil's national destiny entails a great deal of responsibility which the military, for the most part, knows it is not capable of accepting. Both President Costa e Silva and his predecessor, Castello Branco, were former Marshals of the Army, and since the Revolution the public has rarely attempted to distinguish between the armed forces and the presidency. As Brazil's problems are not capable of easy or short-term solutions, governmental failures and shortcomings tarnish the military's public image. Consequently, there is at once continued military pressure upon the government for better performance and pressure within the military to return to the barracks and to leave government to the civilians.

The present government of Brazil is an authoritarian and generally unpopular regime which continues the basic policies of the Revolution of 1964. It is not, however, a dictatorship, and derives almost as much strength from the lack of an effective opposition and from widespread public apathy as it does from the military establishment. Aware of the unfavorable public attitude toward the Revolutionary government, Costa e Silva has tried to improve his administration's image by allowing freer expression of opposition and nationalistic voices. He has permitted his Foreign Minister to stake out relatively more nationalistic foreign policy positions than the former government--and perhaps Costa e Silva

himself--would have preferred. Yet on the key domestic issue of whether to reform the new Constitution to permit a return to direct, presidential elections, the President has held firm against pressures for change. And recently, he heeded the advice of "hardline" military elements and banned the Broad Front of political opposition led by Carlos Lacerda.

On economic matters, the President has attempted to soften the Revolution's harsh image by stressing economic growth slightly more than containment of inflation. Thanks both to his own policies and to the residual effect of measures taken by the previous government, relatively satisfactory results have been achieved in both areas. Inflation for example, is down to 24.5% for 1967 as compared with 41.1% for 1966.

Brazilian-US relations remain warm and friendly but Brazil is seeking a more independent and equal position in its relationship with the US and is striving to enhance its status domestically and internationally as a future world power. This new stance is particularly evident on such issues as the renewal of the International Coffee Agreement and Brazilian opposition to the present draft treaty on nuclear nonproliferation. These manifestations of independence and "nationalism" are domestically popular and are expected to continue at about the present level. Despite this shift in Brazil's international stance, President Costa e Silva is still responsive to demonstrations of US solicitude for Brazil's views and conspicuous evidence of US respect for Brazil's sovereign equality in bilateral contexts therefore has considerable effect.

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A military coup does not seem likely during the next two to three years, although military concern and political tension will tend to increase during 1970 politicking for the January 1971 presidential election. Economic performance and growth was moderately good during 1967 and will continue to improve, but only modest progress toward overcoming fundamental social and economic problems is likely or even possible over the short term.

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BRAZIL: PRESIDENT COSTA E SILVA'S FIRST YEAR

Costa e Silva Exercises Presidential Power with Caution and Reserve

President Costa e Silva's exercise of leadership and his use of the presidential powers have been more cautious, phlegmatic, and low-key than some of his supporters and well-wishers would like. He has tended to be non-assertive and forbearing administratively and politically--and, in the view of many high level military officers, too permissive of political opposition. He gives each of his ministers a relatively free rein in matters within their jurisdiction, reserving to himself generally only unreconciled inter-ministerial conflicts and broad policy decisions. He is apparently reluctant to involve himself and his office's prestige in narrowly political, personal, or bureaucratic problems. To provide a coordinating body to discharge some of the executive functions, he has moved to bolster the staff and policy role of the National Security Council which is patterned much like the NSC of the US during the period 1952-1960.

Costa e Silva, formerly War Minister under President Castello Branco, was the armed forces' candidate to succeed Castello Branco and to head the "Second Government of the Revolution." He enjoys the support of the military generally, but like his predecessor, he prefers not to test that support by opposing a military consensus on a major problem or policy. Given the close similarity of the President's views and those of his senior military officers however, there is little likelihood that insurmountable differences will develop. In his first year, Costa e Silva has demonstrated an ability to play off opposing military cliques, to appeal to some military desires while undercutting others, and generally to preserve a considerable, if not unlimited, degree of independence and maneuverability.

When confronted with unacceptable demands or policy recommendations, he has tended to procrastinate and to use the time gained to explore and exploit weaknesses in the position of those exerting pressure and to bolster positions he finds acceptable. Despite his reluctance to act under pressure, he has managed to make hard--even unpopular--decisions when convinced of the need to do so. Examples of this ability are his decisions to tolerate political dissent, to devalue the cruzeiro, and to adhere to a tough wage control policy. On the other hand, he has been able to softpedal and bide his time on issues such as the purchase of supersonic aircraft and on his Foreign Ministers' nuclear policy position virtually the whole of his year in office.

Cabinet Changes are Expected Soon

The President has reportedly been considering cabinet changes almost since his inauguration, but his original cabinet remains intact. He has at times been concerned over the actions of ambitious Foreign Minister

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José Magalhães Pinto, whose outspoken, rather free-wheeling, and nationalistic approach has caused problems for the President in the international field. Other ministers have also created problems for the President: the Labor Minister, the Education Minister, the Agriculture Minister, the Finance Minister, and the Air Minister have each blundered politically or technically during the first year. Though sorely tempted and often pressed to replace one or more of these ministers, the President has not yet done so, partly perhaps because he has felt that to make early replacements of his own appointees would reflect on him personally. In the cases of his Foreign Minister, José Magalhães Pinto and his Labor Minister, Jarbas Passarinho (both of whom are former state governors who entertain strong presidential ambitions), their retention in the cabinet has given him the benefit of whatever political support they have and has, moreover, given him some measure of control over their political activities. The factor of independent political strength has been a particularly strong consideration with respect to the Foreign Minister who, in 1966, received more votes in his campaign for Federal Deputy than any other candidate in Brazil.

The Air Minister incurred presidential displeasure by publicly making known his recommendation that Brazil purchase French Mirage III jets--a recommendation which the President has not accepted. This could lead to the Air Minister's departure from the Cabinet, which will probably be explained as a routine change in military commands and high staff posts as a result of retirements and promotions.

Whatever changes the President does make in his Cabinet are likely to reflect his desire for increased efforts in the areas of housing, agriculture, education and general economic development. In speeches marking his first year in office, Costa e Silva repeated his desire to accomplish more in these priority fields.

Costa e Silva, the Military and the Revolution

The leaders of Brazil's armed forces see the military's present role and degree of involvement in political life as necessary to lay a foundation which will preserve the benefits of the Revolution of 1964. The immediate goals of the Revolution--elimination of corruption and communist influence, and the reform of national political institutions were largely accomplished but the military remains vigilant against relaxation which could restore the status quo ante. Thus, the military considers its presence in the political and governmental arena over some indefinite period of time as essential to the accomplishment and perfection of economic growth and political restructuring.

On the other hand, the military is well aware that historically its role has been more restricted; that its constitutional mandate does not justify perpetual military rule; that the public will acquiesce in a strong military role in national life over a long time only if it is played backstage; that the problems with which the Revolutionary administrations have grappled, if soluble, are essentially long-term; and that its image will be dimmed and tarnished and its future influence probably diminished the closer the military is to the front of the stage and the longer it is on the stage at all. There is, therefore, a countervailing desire among the military to withdraw to the wings and let political life in Brazil revert to civilian hands.

Costa e Silva willingly assumed the mantle of the Revolution as the armed forces' candidate to succeed Castello Branco as president. Most of the military leaders are persuaded that while they can nudge him in a given direction, by and large they must abide by his decisions and support his efforts. As a braking force on presidential action and as a last resort, the military retains an implicit veto power. As a positive force, however, the military may be the most important but it is not the only pressure group, a fact which most military leaders recognize. Those who believe otherwise--mostly in the middle and junior grades--lack cohesion and do not have a common program or an acceptable alternative to President Costa e Silva.

Because of the above factors, Costa e Silva has been able to turn a seemingly deaf ear to military voices urging cabinet changes, a crackdown on overt political opposition elements, a more nationalistic foreign policy and either a softer or a harder line on various domestic problems. Moreover, few if any great differences presently exist between the President and his military forces. It is therefore most unlikely that the military will force his hand. Perhaps the issue of greatest sensitivity in this respect is that of Carlos Lacerda. Lacerda, as governor of Guanabara, was an early and prominent conspirator with the military against the government of President Goulart. Later, because of his own presidential aspirations, he broke with President Castello Branco. He remains the foremost and most articulate political opponent of the Revolutionary government. He has charged that the government has betrayed the Revolution, has allowed renewal of corruption, has demonstrated incompetence, and has sold out the national interest. Lacerda has called upon the military to return to the barracks in behalf of democracy and, incidentally, so he can have a chance at the presidency through direct popular elections. The President attempts to ignore Lacerda and has resisted the temptation to debate with the possessor of the sharpest tongue and the richest vocabulary of invective in Brazil. But the military has been stung by Lacerda's attacks. Some have urged the President to strip him of political rights or otherwise curb his tongue or

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correct him. Lacerda's provokations in the midst of recent, nationwide student disturbances finally moved the President to act and he indirectly struck at Lacerda by banning the activities of the Broad Front political organization which Lacerda led. The move does not affect Lacerda's own political rights but was probably intended as a stern warning to him to moderate his tone or risk more stringent measures. Since the banning of the Front, Lacerda has been uncharacteristically quiet and recently embarked on an extended European vacation to allow the political atmosphere to clear.

Economic Performance and Program

Costa e Silva has continued the major economic stabilization policies of his predecessor, i.e., containment of inflation and economic development. Some of the supporters of President Castello Branco were alarmed by Costa e Silva's pre-inaugural talk of "humanizing" the Revolution but their fears that the new President would seek cheap popularity at the expense of the Revolution's gains have proved largely unfounded. "Humanization" has turned out to be no more than a desire to make less abrasive the effects of the Revolution's programs where that has been possible. For example, the wage restraint policy was modified slightly last summer and was recently further modified, through the usual increase in the minimum wage, to check but not reverse the rate of decline in labor's real wages. Another wage adjustment is expected shortly as, for the first time since 1964, labor unrest appears to be becoming a major problem. Domestic price supports for food crops were increased by Costa e Silva's government but hopes for crop diversification were somewhat dimmed by a restoration of coffee producers' subsidies which had been cut back under Castello Branco. Scheduled rent increases were lowered slightly to ease the burden on tenants, although the move was discouraging to new building by private enterprise. An improvement in the operation of the National Housing Bank, which languished during most of the previous administration, is expected, however, to stimulate middle and lower income housing.

The major change, in fact, was only a mild shift in emphasis to give relatively more attention to economic growth than to containment of inflation, and that change was the result primarily of the need to stimulate recovery from the recession of late 1966 and early 1967. The success of the government's economic programs is, in fact, attributable to Costa e Silva's continuation of the policies laid down by his predecessor. Indeed, the residual effect of those policies can be credited with many of the present administration's economic achievements. But for whatever reason, it is undeniable that Brazil's economic picture brightened during Costa e Silva's first year in office. Inflation was down to 24.5% (compared with 41.1% in 1966 and 45% in 1965), gross domestic product rose from four to five per cent

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and business confidence was restored as the government's commitment to growth with stability became evident. A good harvest and a business upturn toward the end of 1967 were also instrumental in assuring relative, economic strength. For the period 1968-1970, growth targets have been set at seven to eight per cent for the industrial sector and five to six per cent for agriculture. The goal on inflation control now is to continue reducing the rate of inflation each year without holding out specific year-end targets.

In sum, economic performance and management of the economy under Costa e Silva have been relatively good. On the other hand, Brazil faces problems such as debt service obligations, a decline in export earning caused by depressed world coffee prices and persistent tendencies toward government deficits, solutions for which will require continued and perhaps unpopular efforts over a number of years. More important from the political point of view, the government has not been able to develop an income policy which would keep up the general purchasing power and yet avoid wage-price spirals.

Relations with the US--the Framework*

The US and Brazil have a long history of friendly relations; it is within this historical framework that current and future bilateral relations can most meaningfully and objectively be considered. The ups and downs of US-Brazilian relations have occurred within a continuum of mutual respect and general cordiality, coupled, however with Brazil's long-range trend toward a more independent status. This trend has contained a strong element of nationalism which has sometimes been manifested in anti-American sentiment.

The fall of the Goulart government, which had weakened US-Brazilian ties, and the advent of the Revolutionary Castelo Branco administration resulted in a bilateral relationship of exceptional closeness, mutual support, and Brazilian deference to the US. Neither nationalism nor anti-Americanism disappeared under Castelo Branco, but their expression in strong terms was repressed and countered by the Revolutionary government throughout most of Castelo Branco's three-year term. The present administration, however, has sought to restore a balance, and return to a more "normal" state of bilateral relations. In part, this is calculated to reduce the domestic unpopularity of the government of the Revolution.

*See Research Memorandum RAR-7, "Brazilian Foreign Policy Under President Costa e Silva," April 12, 1968 (CONFIDENTIAL/NO FOREIGN DISSEM), which provides a more extensive discussion of this subject.

Brazilians are highly conscious of their country's size, resources, and potential. They object to any bilateral relationship which smacks of inequality. In a recent speech, President Costa e Silva gave credit to the importance of foreign assistance in development efforts, but re-emphasized the overriding need and primary responsibility of Brazil to help itself develop. Laying out a number of economic goals and discussing his government's development strategy, he stated that no great country now exists south of the Equator and asserted Brazil's determination to build one.

Significant US-Brazilian Issues and Differences Between the Foreign Minister and the President

President Costa e Silva seems convinced that close and friendly relations with the US are essential. His conviction seems to derive from common interests between the two countries and as recognition of the US' interest in a strong, modern Brazil and the importance of US aid to Brazil's development. He considers Brazil the foremost ally of the US in Latin America, and one which will one day be a major world power.

Foreign Minister Magalhães Pinto, on the other hand, has a more immediate concern--his own political advancement. Magalhães Pinto, an astute politician sensitive to public moods, tries to use the Foreign Ministry to enhance his presidential prospects. He has worked to expand and intensify Brazil's export diversification and expansion program, a program that is popular with the people, the industrial-commercial sector, and the military. He has emphasized the need to reduce Brazil's dependence on the US as its major trading partner and is strongly pushing increased trade with all European countries and with those of Eastern Europe in particular. He has assumed the role of the foremost defender of Brazil's right to develop nuclear power as it sees fit in pursuit of peaceful developmental goals, and has strongly criticized the present US-USSR draft treat on nuclear non-proliferation (NPT) as an attempt by the nuclear powers to perpetuate the non-nuclear status of less developed states.

The President and the Foreign Minister apparently do not fully agree on the NPT issue. Costa e Silva inherited and adopted his predecessor's nuclear policy which led Brazil to sign the Latin American Nuclear Free Zone Treaty while reserving Brazil's right to pursue unlimited nuclear research, including research on peaceful nuclear explosive devices. When Magalhães Pinto forcefully, and in nationalistic tones, enunciated that position in the forum of NPT discussions in Geneva, the President did not object publicly. He did, however, tell Magalhães Pinto privately to avoid exacerbating relations with the US over the issue and to refrain from whipping up nationalist passions on it within Brazil. His words had little

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apparent influence; consequently, the President began to build up the nuclear policy role of his more moderate Minister of Mines and Energy. A confrontation occurred at an October meeting of the National Security Council and the President expressly delimited the respective roles of the Foreign Minister and the Minister of Mines and Energy in nuclear policy. However, even this move has likewise had little apparent effect, at least with respect to Brazil's policy on the NPT.

Similar indications of other policy differences have occurred. One example was the Foreign Minister's apparent encouragement of Air Force desires to purchase French Mirage supersonic aircraft rather than the less costly US F-5 jets preferred by Costa e Silva. Despite his preference for the US plane, the President is reserving his options and postponing a decision by asking for advanced interceptor components for the F-5 which had not been contemplated by the US.

During 1967, conflict between US coffee importing interests and Brazil over Brazil's subsidy treatment of her soluble coffee exports threatened to block the way for US signature of the International Coffee Agreement and probably disrupt this important pact. Protracted negotiations finally won a compromise provision in the agreement which was generally acceptable although the details of its application have still to be settled. Costa e Silva in this instance has moderated the nationalist thrust of positions articulated by Brazil's Foreign Minister and the Brazilian soluble coffee interests, but he and his administration are still unable to meet all of the US criticisms of the favoritism given to the producers of soluble coffee. The President's willingness to adjust on this issue without surrendering may point to a path which our bilateral relations could follow more and more frequently. At the same time, when the US position strikes at powerful domestic interests, it will be difficult if not impossible for the government to accede to the US demand.

The President, Congress, and Party Politics

Brazil has always had a strong Executive. In modern Brazil, the Executive has had even more power than the Executive in the US system after which it was patterned. Moreover, the development in Brazil of numerous small parties representing special interests or regions resulted in an unwieldy, multi-party system which limited the ability of Congress to exercise its powers effectively.

The Revolution stripped Congress of some of its powers and strengthened further the powers of the President. Congress itself ratified the result of this action by approving the new constitution which became effective on March 15, 1967, adding, however, many amendments, some of which were

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significant. Previously, the Revolutionary government had abolished the thirteen legal political parties and brought about the establishment of two, new parties which were mere amalgams of incumbent elected representatives simply divided into supporters and opponents of the administration. The government party, ARENA, enjoys a two-to-one majority over the opposition party, the MDB. A third party could be established, but the conditions it would have to meet are rather formidable.

The goal of political reconstruction has yet to be achieved however, as the two parties have only recently begun to organize at the state level. At municipal, state and national levels, legislative politics typically functions within the framework of the old parties, which in some cases are even formally recognized as "sub-parties." The result has not, of course, fortified the role of Congress vis-a-vis the Executive.

Furthermore, President Costa e Silva has tended to ignore party problems and party politics, preferring to deal with ARENA party leaders as he would with loyal subordinate officers. He has failed to give ARENA or the Congress responsibility or a defined role. Confused and without a recognized role, Congress has been little more than a petty debating society. Despite its defects, however, Congress could play a more useful gadfly role through greater use of its power to question Cabinet ministers, and a more creative legislative role through greater use of its power to initiate legislation. There are slight indications on both sides of Congress that modest steps in these directions may be taken this year. If so, Costa e Silva, by eschewing strong party leadership, may have inadvertently fostered the evolution of a more viable party system and a more positive congressional role.

The Non-party Opposition

Aside from the MDB, the foremost opposition forces are found among students and intellectuals, labor, the church, the Frente Ampla, (Broad Front)--as noted above, recently banned--and a badly fragmented communist movement. The Frente Ampla was an amorphous creation promoted by Lacerda as an amalgamation of all opposition forces. Ex-President Kubitschek quickly joined as did, more recently, former President Goulart. Both of the ex-Presidents were deprived of their political rights by the Revolution, however, and Lacerda, as he probably planned, was able to play the leading role in the Front, although Kubitschek probably remains the single most popular political figure in Brazil. Goulart, whose party base in the past was the Brazilian Labor Party, forged by the late President Vargas, seems to have lost much of his labor support when he entered the alliance with Lacerda. Not surprisingly, Lacerda also lost much of the sympathy he had had enjoyed among the military when he invited Goulart into his Frente Ampla.

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Moreover, the Vargas family itself has refrained from associating with Lacerda, as have ex-President Quadros and Leonel Brizola, the demagogic brother-in-law of Goulart, who now apparently commands some sympathy within labor's radical left.

The labor movement itself has not been free of government domination since the early 1930's. It thrived politically only when it was politically supported by government; when that support ceased with the Revolution, labor's political strength evaporated. By March 1964, the major portion of the labor movement was heavily infiltrated by communists. The Revolutionary government ousted both corrupt and communist union leaders and later gradually returned control to union members under the traditional paternalistic guidance of the Ministry of Labor. Impolitic, heavy-handed, and shortsighted government tactics in labor union affairs, however, coupled with the decline in workers' real wages as a result of wage control measures have permitted communist elements to regain some of their former influence in numerous unions. Partly as a consequence, labor confederations over the past year have begun to serve again as vehicles for the expression of labor's political and economic discontent. Government measures to prevent further decline in real wages and to stimulate increased housing starts will help somewhat, although probably not enough to mitigate labor discontent significantly. Illustrative of worker dissatisfaction is the recent "wildcat" strike in Belo Horizonte which eventually involved 15,000 metalworkers in the first labor challenge to the government's wage policy since the Revolution.

Students, primarily at the university level, have been in the vanguard of opposition to the Revolutionary governments. The National Student Union (UNE) was dominated by a coalition of communists and leftist Catholic radicals at the time of the Revolution and students active in the UNE were considered, rightly in most cases, to be enemies of the Revolution. The government's clumsy attempts to reorganize student politics at the state and national level and to create a replacement for the UNE have so far been complete failures. Although Costa e Silva as a candidate spoke of a dialogue with students, the government has done little to initiate such an exchange. Its efforts to meet student demands for more and better institutions and for other improvements have been meager and inadequate because of budgetary problems and an ineffective Minister of Education. These factors contributed to the general anti-government attitude in student circles which fueled recent nationwide disturbances following the death of a student during a protest demonstration. The President recently appointed a special commission to study student and educational problems; however, the appointment of a military officer as its head drew derision from the students, and the commission's efforts thus far do not appear promising.

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The Church in Brazil is not of one mind on the Revolution or the programs and priorities of the Costa e Silva government. But the most outspoken sector of the Church hierarchy is quite negative. Dom Helder Camara, Archbishop of Olinda and Recife has charged the government with insufficient attention to the needs of rural labor, agrarian reform, and social and economic development in northeastern Brazil. Other archbishops, bishops, and priests have made similar or additional complaints, all of which tend to irritate the commanding military and police officers in regional and local posts. Church cooperation with activist students in the recent disturbances, in campaigns protesting alleged US birth control programs for Brazil (which the Brazilian press widely reported as "sterilization") and US designs on the Brazilian educational system have also nettled the authorities. Costa e Silva's policy vis-a-vis the Church is, however, one of tolerance and respect and he has sought both to enlist the Church's cooperation and to correct the misapprehensions of some of its leaders. He has enjoyed some success in this endeavor.

The prospects for rural insurgency are poor in Brazil; the people are unsympathetic to outsiders, tend to follow the lead of local "bosses" and landowners, lack organizing spirit and ability and are inclined to fatalistically accept things the way they are. Furthermore, the security forces are capable of controlling any presently conceivable rural insurgency and the forces favoring armed insurgency are badly divided. The most ambitious scheme formulated thus far involves Carlos Marighella who was expelled last year from the Central Committee of the orthodox (pro-Moscow) Brazilian Communist Party.

Marighella's dissident group would like to form a revolutionary front with like-minded persons now linked with Brizola, members of a dissident faction of the pro-Peking Communist Party of Brazil and members of the Radical Popular Action organization, which is composed primarily of students. However, the prospects for close cooperation among these disparate elements seem slight. It is improbable that anything more than isolated and sporadic urban terrorist activity could be carried out by would-be insurgents.

The Outlook

The performance of the Costa e Silva government thus far supports the view that it will continue in power through the President's normal period in office. Costa e Silva appears capable of coping with any likely military demands, though he may occasionally have to effect minor policy readjustments to reduce military pressures. Congress may make some progress toward recapturing prerogatives, but this is contingent upon the development of a

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viable party system rooted in state and national realities. We assume that the next presidential election will be through Brazil's new electoral college system rather than direct. Nonetheless, it is possible that the government candidate will be seriously contested even in an indirect election. In that event the scenario would be similar in some respects to a contest for a major party nomination in the US, without primary elections, however, and with the probability of a government victory on the first or second ballot.

Brazil's present economic problems will continue for some time to affect the tenor of politics as well as the nation's rate of development. Export diversification will probably continue and the present trend in increased exports of processed and manufactured goods may give Brazilian industry a healthy boost. A higher percentage of Brazil's domestic requirements for capital equipment will be locally produced, but there are serious apprehensions about the long-term outlook for industrial expansion in the absence of an enlargement of the national market. Most of Brazil's industrial growth is concentrated in the southern states and is centered on São Paulo. While there is some export of capital from the South to the sprawling, impoverished and underdeveloped regions of the country (mainly the Northeast), this has been largely an industrial investment. For decades, little attention has been given to the country's agricultural problems (other than coffee production) and industrial development, strongly supported by foreign aid, has not helped the large mass of rural poor in Brazil. Even in urban areas, the implantation of industry has been more psychological (highlighting development per se, uplifting local pride) than beneficial to the major portion of the populace. It must be recognized, however, that the size and regional diversity of land and agricultural problems in Brazil forestalls any rapid or dramatic moves by this or any other government. Commercial agriculture has already responded to improve its pricing policies and considerable headway can be made toward cheaper and better food and raw material supply. More can and should be done, especially outside the relatively prosperous southern states.

If Brazil seriously desires to become a great, modern, industrialized power (and she undoubtedly does) it will be necessary for her to improve living standards in her vast and impoverished regions. Otherwise, these areas will contribute little to national growth and progress, will prevent Brazil from developing the mass, domestic market her economy needs and will continue to require special subsidy arrangements and tax incentives merely to maintain the status quo. Brazil's vast size and population would then serve as a drag upon development instead of being national assets.

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The domestic economic integration which Brazil now seeks is part of the long-term process of nation building. Brazil is in the throes of extending national authority over its hitherto locally controlled political system and of forging a single state out of its agglomeration of maritime and industrial centers and untamed backlands. In the struggle toward full nationhood, which coincides with ambitions to bridge the poverty and technology gap, Brazil may not always show unwavering affinity for the US. Nonetheless, during Costa e Silva's term of office at least, the forces for maintaining good relations with the United States seem to outweigh the factors for divisiveness.

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