

INCOMING TELEGRAM *Department of State*

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1967 JAN 24 PM 11 19

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PP RUEHC
DE RUESUA 7539/2 0242325
ZNY CCCCCC
P R 242232Z JAN 67
FM AMEMBASSY RIO DE JANEIRO
TO RUEHC/SECSTATE WASHDC PRIORITY
INFO RUESUP/AMCONSUL SAO PAULO
ZEN/AMEMBASSY BRAZILIA
ZEN/AMCONSUL BELEM
ZEN/AMCONSUL BELO HORIZONTE
ZEN/AMCONSUL CURITIBA
ZEN/AMCONSUL PORTO ALEGRE
ZEN/AMCONSUL RECIFE
ZEN/AMCONSUL SALVADOR
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LIMDIS

7. DANGER OF THIS CONCEPT IS THAT DEFINITION OF NATIONAL SECURITY BECOMES MATTER OF JUDGMENT LARGELY RESERVED TO MILITARY WHICH ALREADY PRINCIPAL FOCUS OF POWER. A COROLLARY IS THAT MILITARY WILL FIND IT HARD TO TURN BACK CONTROL TO CIVIL POWER, THUS VIOLATING TRADITIONAL ROLE OF ARBITER OR UMPIRE.

8. ECONOMIC. THE GOVERNMENT'S ECONOMIC STABILIZATION AND REFORM PROGRAM HAS LAID EFFECTIVE BASES TO ACHIEVE ADMINISTRATION GOALS OF STABILITY, REFORM AND GROWTH. A SLOWED INFLATIONARY RATE; TAX REFORM, BANKING REFORM, BUDGET REFORM, HEAVY DECREASE IN SUBSIDIZATION OF STATE OWNED ENTERPRISES LIKE RAILROADS AND STEAMSHIP AUTARCHIES; SIGNS OF RENEWED INTEREST IN NEW FOREIGN INVESTMENTS; AN IMPROVED COMMODITY PRICE SUPPORT PROGRAM; REMOVAL OF PRICE CONTROLS, IMPROVED AGRICULTURAL CREDIT SYSTEM, GREATER FREEDOM TO EXPORT ALL INDICATE THAT GROUND WORK HAS BEEN LAID FOR FUTURE GROWTH.

9. UNFORTUNATELY, BENEFICIAL EFFECTS OF LONG-RANGE PROGRAM UNFELT BY MAN ON THE STREET, WHO IS SUFFERING EFFECTS SHORT-TERM DISLOCATIONS. BECAUSE OF CREDIT RESTRICTIONS MANY BUSINESSMEN IN DIFFICULTY, SALES ARE SLOW, AND LITTLE GROWTH IS EVIDENT. DESPITE MUCH CRUMELING AND REAL DISAFFECTION ESPECIALLY OF URBAN POPULACE, TEMPER OF PEOPLE REFLECTS

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MIXTURE APATHY AND NO MORE THAN SUFFERANCE OF GOVERNMENT BUT NO GROUNDSWELL OF OPPOSITION SUCH AS PRECEDED OVERTHROW OF GOULART, A SITUATION WHICH REFLECTS STRONG POWER POSITION OF GOVERNMENT.

10. THERE IS DEVELOPING CONSENSUS THAT ADMINISTRATION'S HASTY ISSUANCE AND SUBSEQUENT REVISION OF OTHERWISE SALUTARY LEGISLATION AND REGULATIONS HAS KEPT BUSINESS IN INSECURE STATE AND HAS RETARDED NEW INVESTMENT. GENERAL STATE OF AFFAIRS, INCLUDING POLITICAL TURMOIL RAISED BY CARRYING OUT ADMINISTRATION PROGRAM, HAS LED TO SOME CAPITAL FLIGHT. WHILE ACCURATE DATA NOT AVAILABLE FACT THAT OVER DOLS 40 MILLION WERE BOUGHT ON MANUAL MARKET IN DECEMBER 1966, IS INDICATION OF INSECURITY.

11. RELATIONS WITH THE UNITED STATES. GOB HAS DONE POORLY RE IMAGE IT PROJECTS ABROAD BUT THROUGH COMPROMISES AND JUSTIFICATIONS, EVEN STRATEGIC RETREATS, IT HAS KEPT CRITICISM AT TOLERABLE IF NOT HAPPY LEVEL. ABOVE ALL, IT HAS CAREFULLY AVOIDED DESTROYING FORMAL MECHANISM OF DEMOCRATIC INSTITUTIONS NECESSARY FOR SYSTEM RESPONSIVE TO PEOPLE.

12. BRAZIL HAS WORKED CLOSELY WITH USG AND EXCEPT WHEN US INTERESTS RUN DIRECTLY COUNTER TO THEIR OWN, E.G., PORTUGUESE AFRICAN COLONIES POLICY, PARAGUAYAN BORDER DISPUTE, ECONOMIC COMMITMENTS UNDER OAS CHARTER AND COMMODITY POLICY, HAS FOLLOWED US INITIATIVES ALMOST UNQUESTIONINGLY. THIS CONSISTENT WITH CASTELLO BRANCO BELIEF IN PARALLEL US-BRAZILIAN INTERESTS AND DISPOSITION FOR MIN JURACY MAGALHAES WHO HAS PUBLICLY SAID (IN UNIVERSALLY CRITICIZED STATEMENT) "WHAT IS GOOD FOR US IS GOOD FOR BRAZIL." UPPER LEVEL FOREIGN OFFICE OFFICIALS HAVE FAITHFULLY CARRIED OUT HIS POLICY BUT EXPERIENCE OF QUADROS AND GOULART ADMINISTRATIONS INDICATES POLICY OF TOO DEPENDENT AND TOO APPARENT ALL OUT COLLABORATION NOT ATTUNED TO SENTIMENTS OF ARTICULATE OPINION-FORMING ELEMENTS OF BRAZILIAN SOCIETY WHO SEE BRAZIL'S ROLE AS INCREASINGLY IMPORTANT ON WORLD SCENE AND HOLD THAT IT MUST THEREFORE ACT MORE INDEPENDENTLY.

13. EVEN CASTELLO BRANCO ADMINISTRATION NOW INCREASINGLY INSISTS ON LARGER ROLE IN JOINT OPERATIONS OF MILITARY NATURE.

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THIS COULD WELL REFLECT INCREASINGLY EFFECTIVE VOICE FOR NATIONALIST ELEMENTS IN ARMED FORCES, AND IS PROBABLY INDICATION THAT AGREEMENTS OF THIS NATURE WILL BE MORE DIFFICULT TO REACH.

14. NATIONALISM, WHICH DIRECTLY AFFECTS RELATIONS WITH US SINCE ONE OF ITS MOST VIRULENT FORMS IS ANTI-AMERICANISM, IS INCREASINGLY VOCAL. RESENTMENT OF US ROLE IN BRAZIL AND WORLD AMONG INTELLECTUALS AND STUDENTS, BOTH UNIVERSITY AND SECONDARY, IS BOTH INTENSE AND PROFOUND TODAY. PERHAPS EVEN MORE DISTURBING ARE NEW INROADS MADE IN CONSERVATIVE SECTORS SUCH AS INDUSTRIALISTS AND BUSINESSMEN WHO HAVE PERSONALLY FELT COMPETITION OF FOREIGN, USUALLY US, BUSINESS ENTERPRISES. A STEADY DRUMFIRE OF OFTEN INACCURATE ALLEGATIONS OF "DENATIONALIZATION" OF BRAZILIAN INDUSTRIES FEEDS THE SENTIMENT. THIS CAMPAIGN, CARRIED ON EFFECTIVELY BY WORD OF MOUTH, AS WELL AS BY IMPORTANT ELEMENTS OF PRESS INCLUDING EX-GOVERNOR CARLOS LACERDA, HAS REACHED EXTREME OF CHARGES THAT ALLIANCE FOR PROGRESS BEING USED AS INSTRUMENT OF "DENATIONALIZATION,"

(I.E. THAT ECONOMIC STABILIZATION PROGRAM WITH ITS CREDIT RESTRICTIONS "FORCED" ON BRAZIL BY UNITED STATES HAS AS ITS ULTERIOR MOTIVE WEAKENING OF BRAZILIAN INDUSTRIES SO CAN BE MORE CHEAPLY ACQUIRED BY US ENTERPRISES).

15. CASTELLO BRANCO ADMINISTRATION'S ALL OUT PUBLIC SUPPORT US POLICIES HAS SERVED RATHER TO INCREASE ANTI-AMERICANISM THAN TO LESSEN IT. APART FROM INTERESTS OF THOSE ELEMENTS SEEKING WORSEN RELATIONS FOR POLITICAL ADVANTAGE, E. G. COMMUNISTS, LACERDA, MANY INTELLECTUALS, SOME POLITICIANS, THE REACTION IS PERHAPS NATURAL OUTCOME OF UNPOPULARITY OF GOVERNMENT, CLOSE LINK US TO ITS ECONOMIC AND, ENEVITABLY, POLITICAL POLICIES, AND RISKS AND FUTILITY OF ATTACKING GOVERNMENT ITSELF.

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16. FOREGOING IS NOT TO SAY THAT BRAZILIAN PEOPLE ARE ABOUT TO RISE UP IN ARMS AGAINST UNITED STATES SINCE LARGE RESERVOIR OF GOOD WILL CONTINUES TO EXIST THROUGHOUT COUNTRY, PARTICULARLY IN RURAL AREAS AND IN CITIES OTHER THAN MOST

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POPULOUS. IT DOES, HOWEVER, POINT UP PROBLEM THAT COULD BECOME INCREASINGLY IMPORTANT FACTORY IN OUR RELATIONS WITH GOB.

II. COSTA E SILVA: PROSPECT

18. IN COMPARISON CASTELLO BRANCO -- WHO NOTED FOR AUSTERE, SELF-CONTROLLED, INTELLECTUAL APPROACH TO MATTERS, -- COSTA E SILVA PERSONALLY MUCH MORE BLUFF, HEARTY, GREGARIOUS. HE NOT UNPOLISHED, HOWEVER, AND WHATEVER ELSE HE IS, COSTA E SILVA CERTAINLY NOT GOOD-NATURED DOLT PORTRAYED IN JOKES ABOUT HIM WHICH HEARD EVERYWHERE IN BRAZIL; NOBODY QUESTIONS NATIVE INTELLIGENCE. FACT THAT HE ABOUT TO ASSUME PRESIDENCY IN ITSELF INDICATES TALENT FOR MANEUVER, IF NOT POLITICAL ABILITY OF HIGHER ORDER, FOR COSTA E SILVA WILL SUCCEED TO NATION'S HIGHEST POST WITHOUT EVER HAVING HAD MORE THAN GRUDGING SUPPORT FROM CASTELLO BRANCO. HISTORY OF RELATIONSHIP BETWEEN TWO MEN LONG AND COMPLEX ONE, BUT IT CLEAR THAT CASTELLO BRANCO ACCEPTED COSTA E SILVA AS HIS SUCCESSOR ONLY WITH RELUCTANCE.

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THIS RELUCTANCE STEMMED FROM DOUBTS ABOUT COSTA E SILVA'S EQUANIMITY AND INTELLECTUAL PREPARATION FOR JOB, AND PROBABLY ALSO FROM MORE GENERAL DESIRE SEE CIVILIAN SUCCESSOR. IN ANY CASE, COSTA E SILVA HAS WON PRESIDENCY USING ARMED FORCES, PRINCIPALLY ARMY AS POWER BASE IN SO DOING. FOR FORESEEABLE FUTURE, ARMED FORCES WILL CONSTITUTE HIS PRINCIPAL CONSTITUENCY.

19. COSTA E SILVA'S DEPENDENCE ON, AND RELATIONSHIP WITH, MILITARY LIKELY TO BE MORE SIGNIFICANT THAN HIS PREDECESSOR'S. AS WARMIN HE WON RESPECT AND SUPPORT FROM ARMY INTER ALIA BY CHAMPIONING THEIR BREAD-AND-BUTTER DEMANDS AS WELL AS CHAMPIONING (IF WITH MODERATION) HARDLINE SIDE OF REVOLUTION. AS PRESIDENT, HOWEVER, HE WILL HAVE TO PUT THESE SAME DEMANDS UP AGAINST OTHER PRIORITIES. WITHOUT CASTELLO BRANCO'S EXPERIENCE AND FAMILIARITY WITH NATIONAL AND WORLD AFFAIRS, COSTA E SILVA SEEMS BOUND RELY MORE ON HIS BRIGHT, YOUNG COLONELS AND IT COULD WELL BE THAT VIEWS OF THIS GROUP ON SUCH MAJOR ISSUES AS ROLE OF MILITARY, NATIONAL SECURITY, ECONOMIC DEVELOPMENT, ETC. WILL BE MORE IMPORTANT IN FUTURE THAN IN RECENT PAST. AND WHILE CASTELLO BRANCO ATTEMPTED KEEP TO MINIMUM ROLE OF MILITARY IN DECISION MAKING PROCESS, WE HAVE NO ACCURATE READING ON THIS SCORE RE COSTA E SILVA. BRAZILIAN MILITARY STRONGLY HIERARCHICAL, HOWEVER, AND AS LONG AS HE DOES NO VIOLENCE TO THEIR NEEDS AND ASPIRATIONS, PROBABLE THAT MILITARY AS GROUP WILL REMAIN LOYAL TO HIM, WITH SUCH DISSATISFACTION AS EXISTS PROBABLY REMAINING CONFINED TO "SORBONNE" GROUP, PARTICULARLY SINCE COSTA E SILVA OWES PRESIDENCY TO GROUP ANTAGONISTIC TO OR AT LEAST DISTRUSTFUL OF THAT GROUP.

20. WHILE A MAN OF RECOGNIZED HIGH NATIVE INTELLIGENCE COSTA E SILVA HAS NEVER FORMED PART OF INTELLECTUAL ELITE IN THE ARMY (SORBONNE GROUP) BUT LIKE MOST HIGH RANKING OFFICERS HAS LONG BEEN EXPOSED TO THEIR CONCEPT OF NATIONAL SECURITY. SO-CALLED NASSERISM THAT EXISTS IN BRAZILIAN ARMED FORCES DERIVES FROM THIS PHILOSOPHY, AND ITS POTENTIAL DANGER IS THAT IF NOT ADEQUATELY CONTAINED IT COULD LEAD TO CONVICTION THAT TASK OF MODERNIZING BRAZIL, ROOTING OUT ITS SUBVERSION

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AND CORRUPTION, IS HOPELESS UNDER CIVILIAN ADMINISTRATION AND THAT MILITARY OUGHT TO DO JOB ONCE AND FOR ALL.

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21. DESPITE EARLY DISFAVOR WITH WHICH COSTA E SILVA CANDIDACY VIEWED, POPULAR REACTION TO CASTELLO BRANCO ADMINISTRATION HAS NOW MADE PRESIDENT-ELECT BENEFICIARY OF HOPES AND FRUSTRATIONS OF MANY DISAFFECTED, AND OFTEN ANTAGONISTIC, GROUPS WHO ARE HOLDING BACK ON THEIR DEMANDS UNTIL HE TAKES OFFICE. NUMEROUS GROUPS AND INDIVIDUALS OPPOSING CASTELLO BRANCO ADMINISTRATION INCLUDING MDB ARE SEEKING ACCOMMODATION WITH PRESIDENT-ELECT. THUS FAR, COSTA E SILVA HAS STUDIOUSLY REFRAINED FROM ENUNCIATING A PROGRAM -- EXCEPT FOR VAGUE PUBLIC REFERENCES TO "HUMANIZED" ECONOMIC POLICY AND PRIVATE STATEMENT TO VISITING AMERICAN CONGRESSMAN THAT HE INTENDED TO RELAX ANTI-INFLATION MEASURES TO STIMULATE COUNTRY'S DEVELOPMENT. THESE EXPECTATIONS ARE BOTH OPPORTUNITY AND PROBLEM FOR COSTA E SILVA SINCE HE APPARENTLY WANTS TO BE POPULAR, BUT HE WILL BE OBLIGED

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TO SEEK POPULARITY IN WAYS THAT WILL NOT SERIOUSLY DAMAGE ECONOMIC PROGRAM OR HIS SUPPORT IN ARMED FORCES. THESE PRESSURES WILL BE ON HIM TO PREVENT UNBRIDLED EXPRESSION OR DEVELOPMENT OF POLITICAL OPPOSITION WHICH COULD STALL HIS PROGRAM. AT PRESENT, HE HAS GREAT DEAL OF SUPPORT THROUGHOUT SOCIETY, BUT IT IS CONDITIONED TO PRODUCING VISIBLE RESULTS IN SHORT TERM, ESPECIALLY IN ECONOMIC FIELD. COSTA E SILVA WILL BE FACED ALMOST IMMEDIATELY WITH DELICATE AND COMPLEX SOCIAL SITUATION, IN WHICH HE IS CHARGED TO RESOLVE INTERESTS OF ARMED FORCES AND PUBLIC DEMANDS WITHOUT RECOURSE TO INSTITUTIONAL ACTS AND WHEN THE MYSTIQUE OF REVOLUTION AND BOGEY OF GOULART HAVE LESS MEANING. COSTA E SILVA IS AWARE OF DOUBTS REGARDING HIS CIVILIAN LEADERSHIP CAPACITY AND HAS EMPHASIZED PUBLICLY THAT HIS ADMINISTRATION WILL BE TEAM EFFORT. EXTRAORDINARY IMPORTANCE, DIRECTLY RELATING TO ADMINISTRATION'S INTENTIONS AND CAPABILITIES, HAS THEREFORE BEEN ATTACHED TO NAMING OF HIS CABINET AND OTHER ADVISORS. RAINE
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NOTE: Paragraph 17 missing. Serviced for verification.

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Reference: STATE UNNUMBERED, January 25.

Rio De Janeiro 7539, paragraph 17 reported missing is due to error in numbering. No (rpt no) omission in text.

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INFO RUESUP/AMCONSUL SAO PAULO

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LIMDIS

22. COSTA E SILVA ADMINISTRATION FACES THREE PRINCIPAL CONTINGENCIES:

A) A LONG-SUFFERING, POPULACE PERHAPS CLOSE TO END OF WILLINGNESS TO ACCEPT FURTHER SACRIFICES WHO MIGHT BE LED TO ACTIVE PROTEST BY A LEADER SUCH AS LACERDA WHO WOULD FILL THE POLITICAL

LEADERSHIP VACUUM AMONG MASSES. LACERDA HIMSELF HAS A NOT TO BE UNDERESTIMATED CAPABILITY SHOULD HE DECIDE ON OPEN OPPOSITION TO COSTA E SILVA, TO GOAD HIM INTO OVER REACTON CONSEQUENCES OF WHICH DOUBTLESS WOULD BE INCREASED AUTHORITARIANISM.

B) FAILURE OF ECONOMY PICK-UP SUBSTANTIALLY WOULD ALMOST CERTAINLY RAISE GENERAL DISSATISFACTION TO DANGER LEVEL; VISIBLE ECONOMIC GROWTH WITHIN A YEAR MAY BE ESSENTIAL FOR HIS SURVIVAL; AND

C) IF IN ATTEMPTING "HUMANIZE" GOVERNMENT PROGRAM HE PROVES TOO TOLERANT WITH RECALCITRANT CIVILIAN ELEMENTS AND UNHEEDFUL OF DEMANDS OF MILITARY HARDLINE AND OTHER COMMITTED "REVOLUTIONARIES", HE COULD WELL BE REMOVED BY MILITARY WITHIN ONE OR TWO YEARS OR FACE A COMPLETELY NEW SET OF CIRCUMSTANCES SUCH AS LOSING HIS FREEDOM OF ACTION TO MILITARY WHILE STILL RETAINING OFFICE.

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III. IMPLICATIONS FOR U.S. POLICY

23. IN ITS FIRST SIX MONTHS AT LEAST NEW ADMINISTRATION SHOULD PROJECT MORE DEMOCRATIC IMAGE THAN ITS PREDECESSOR. WHICH SHOULD MAKE COOPERATION OVER WHICH U.S. CONGRESSIONAL AND PRESS OPINION EXERCISE SOME INFLUENCE, FAR LESS COMPLICATED THAN

IN PAST.

24. IF COSTA E SILVA HAS LITTLE SUCCESS IN IMPROVING BUSINESS CONDITIONS AND ECONOMIC AND SOCIAL CONDITIONS OF LOWER AND LOWER-MIDDLE URBAN CLASSES (INCLUDING CIVIL SERVICE AND MILITARY), SCAPEGOAT ANTI-AMERICANISM CAN BE EXPECTED TO REACH LEVEL DAMAGING TO U.S. INTERESTS BY LIMITING ADMINISTRATION'S FREEDOM OF ACTION IN ITS RELATIONS WITH U.S.

25. IT IS UNLIKELY THAT U.S. WILL IN FUTURE FIND GOB FOREIGN POLICY SO CLEARLY LINKED TO U.S. MORE LIKELY BE REPLACED BY CAUTIOUSLY NATIONALISTIC POSTURE ON PART OF COSTA E SILVA ADMINISTRATION FOSTERED BY NEW PRESIDENT'S NATURAL INCLINATION AND ALSO RESPONSIVE TO PUBLIC OPINION. WE MAY ANTICIPATE, THEREFORE, THAT MUCH MORE SKILL AND PERSUASION WILL BE NECESSARY THAN IN PAST TO KEEP BRAZILIANS AT OUR SIDE ON IMPORTANT MATTERS. WE WILL HAVE TO THINK IN TERMS OF EXERCISING MORE DISCRIMINATION IN REQUESTS FOR AUTOMATIC COOPERATION OF DIPLOMATIC OR MILITARY NATURE.

26. DEPENDING ON COSTA E SILVA'S INCLINATION AND CAPABILITY OF HIS

FOREIGN MINISTER, BRAZIL COULD, AS A RESULT OF MORE VISIBLY INDEPENDENT FOREIGN POLICY (WHILE STILL CLOSELY ATTUNED US OBJECTIVES), ASSUME A LARGER LEADERSHIP ROLE AMONG THOSE LATIN AMERICAN NATIONS WHO NOW SEE BRAZIL TOO CLOSELY TIED TO US POLICIES.

27. IF NATIONALISM AND ANTI-AMERICANISM INCREASE, FURTHER LEGISLATION RESTRICTING U.S. AND OTHER FOREIGN ENTERPRISES IN BRAZIL CAN BE ANTICIPATED.

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28. A MODERATELY NATIONALISTIC PUBLIC POSTURE ON PART OF THE COSTA E SILVA ADMINISTRATION WOULD LIKELY EFFECTIVELY BLUNT PROFESSIONAL ANTI-AMERICANISM AND MAKE EFFORTS OF BRAZILIAN BUSINESS ANTI-AMERICANISM FAR LESS EFFECTIVE.

29. PROGRAM COSTA E SILVA ADMINISTRATION ADOPTS TO CONTAIN INFLATION AND IN SUCH CRUCIAL SECTORS AS AGRICULTURE AND EDUCATION, IN WHICH LATTER TWO CASTELLO BRANCO MADE LITTLE HEADWAY, WILL HAVE DIRECT BEARING ON OUR AID PROGRAMS AND POLICIES. EQUALLY IMPORTANT TO ALL U.S. PROGRAMS IN BRAZIL WILL BE GREATER SENSITIVITY NEW ADMINISTRATION LIKELY TO DEMONSTRATE ON PRESENCE LARGE NUMBERS AMERICAN CIVILIAN AND MILITARY

TECHNICIANS, IMPORTANT TARGET FOR NATIONALISTIC ATTACKS. IT MAY BECOME NECESSARY BEGIN TO THINK IN TERMS OF SUBSTITUTING MORE TECHNICAL TRAINING FOR BRAZILIANS IN U.S. FOR AMERICAN TECHNICIANS IN BRAZIL.

30. THE GREATEST DILEMMA FOR U.S. WOULD COME IF COSTA E SILVA ADMINISTRATION FAILS TO MOBILIZE MASS SUPPORT TO SURMOUNT THESE FORMIDABLE CHALLENGES AND FINDS ITSELF IN DEEP POLITICAL TROUBLE. OUR CHOICE MIGHT THEN BE THAT OF STEPPING UP SUPPORT FOR AN INCREASINGLY AUTHORITARIAN GOVERNMENT OR ACCEPTING THE RISK OF A COUP, WHICH IN TURN COULD LEAD TO AN OUTRIGHT MILITARY DICTATORSHIP OR A PROTRACTED PERIOD OF POLITICAL INSTABILITY.

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C O N F I D E N T I A L (SECTION 1 OF 4) RIO DE JANEIRO 7539

LIMDIS

SUBJECT - SITUATION AND CONTINGENCY EVALUATION.

1. AS CASTELLO BRANCO ADMINISTRATION DRAWS TO CLOSE AND AN UNTRIED AND LARGELY UNKNOWN CHIEF EXECUTIVE IS ABOUT TO ASSUME OFFICE, STOCK-TAKING OF WHERE BRAZIL STANDS TODAY, IS LIKELY TO GO IN NEXT FEW YEARS, AND ITS IMPLICATIONS FOR US POLICY, IS OF HIGH IMPORTANCE. THE FOLLOWING ATTEMPTS PROVIDE ESSENTIALS OF SITUATION AS BRIEFLY AS POSSIBLE CONSISTENT WITH OUTLINING ADEQUATE PICTURE. WHILE PERSONAL EVALUATION IT HAS GENERAL CONCURRENCE CT MEMBERS ALTHOUGH SEVERAL BELIEVE OVER ALL TONE PROBABLY TOO PESSIMISTIC AND OVERLY EMPHASIZES ANTI-AMERICANISM. ANY LATERAL DISTRIBUTION OTHER THAN CONSULATES IN BRAZIL LEFT TO DEPT. DISCRETION.

1. CASTELLO BRANCO: RETROSPECT

2. PRESIDENT CASTELLO BRANCO'S ADMINISTRATION WILL PROBABLY END AS ONE OF MOST UNPOPULAR IN COUNTRY'S RECENT HISTORY BUT PARADOXICALLY THE MAN HIMSELF IS JUST AS LIKELY TO BE REMEMBERED WITH NOSTALGIA WITHIN TWO YEARS. HE HAS BEEN A SEVERE TASK MASTER, OFTEN CALLED RUTHLESS AND DICTATORIAL BUT FEW INDEED CREDIT HIM WITH OTHER THAN BEST OF MOTIVES AND OBJECTIVES, EVEN IF THEY DISAGREE WITH HIS METHODS. ON OTHER HAND, ALTHOUGH EVERYONE IS AWARE THAT HIS HAND GUIDES, SUPPORTS AND IS RESPONSIBLE FOR VIRTUALLY ALL ACTIONS OF HIS GOVERNMENT, RESENTMENT IS VENTED LARGELY ON THOSE EASIER TO ATTACK THAN PRESIDENT, NOTABLY PLANNING MINISTER ROBERTO CAMPOS, CENTRAL BANK DIRECTOR

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DENIO NOGUEIRA, FINANCE MINISTER BULHOES, PRICE CZAR BORGHOFF AND SOME OF THE MORE AUTHORITARIAN MILITARY FIGURES (INCLUDING EX-WAR MINISTER COSTA E SILVA UNTIL HIS CANDIDACY TO THE PRESIDENCY WAS CONSOLIDATED.) IN PUBLIC EYE THESE ARE MORE RESPONSIBLE FOR THEIR ECONOMIC AND POLITICAL WOES THAN PRESIDENT HIMSELF WHO IS THOUGHT OFTEN TO BE ILL-ADVISED BY HIS TECHNOCRATS ON THE ECONOMIC SIDE AND SOMETIMES FORCED TO TAKE EXTREME ACTIONS BY MILITARY HARDLINE, HE MANAGES TO PRESERVE SOMETHING OF A FATHER IMAGE ADMIRER AT LEAST FOR HIS HONESTY AND INTEGRITY. CASTELLO BRANCO'S PERSONAL AUSTERITY, HIS BLAMELESS PRIVATE LIFE, AND HIS GENERALLY CORRUPTION-FREE ADMINISTRATION HAVE UNDOUBTEDLY REDUCED PUBLIC ATTACKS ON HIS GOVERNMENT.

3. POLITICAL. IN SOME RESPECTS CASTELLO BRANCO HAS PROVED HIGHLY CAPABLE POLITICAL STRATEGIST. IN FACE OF TREMENDOUS ODDS HE HAS ESTABLISHED EFFECTIVE POLITICAL BASE WHICH WILL BE INHERITED AT OUTSET BY HIS SUCCESSOR. COSTA E SILVA WILL HAVE MORE THAN ADEQUATE TOOLS WITH WHICH TO CARRY ON GOVERNMENT IF USED CAREFULLY AND ABLY. ALL IMPORTANT GOVERNORS SUPPORT ADMINISTRATION. NEW CONGRESS GIVES GOVERNMENT HEALTHY MAJORITY AND ARMED FORCES

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STILL UNITED IN SUPPORT OF REVOLUTION'S PROGRAM. PRESIDENT HAS THROUGH AND UNPOPULAR PRESS LAW WHICH WILL SERVE, HOWEVER, TO RESTRAIN PRINTED EXCESSES, WITHOUT SERIOUS FUTURE REACTION IF USED MODERATELY. THE NEW CONSTITUTION GIVES EXECUTIVE CONSIDERABLY MORE POWER THAN IT HAS EVER HAD BEFORE UNDER DEMOCRATIC PROCEDURES AND THE CENTRAL GOVERNMENT MORE POWER AT THE EXPENSE OF THE STATES. THUS IT SHOULD BE RELATIVELY EASY FOR NEW PRESIDENT TO LEGISLATE, AND POWER STRUCTURE HAS BEEN CREATED WHICH, IF MAINTAINED, WILL GIVE COSTA E SILVA GOOD CHANCE TO NAME HIS SUCCESSOR.

4. THIS HAS NOT BEEN ACCOMPLISHED WITHOUT COST. AMONG THOSE GENUINELY INTERESTED IN PRESERVING DEMOCRACY IN BRAZIL, THERE IS MUCH CONCERN. THE LEFT HAS BEEN GIVEN ISSUES ON WHICH IT CAN EFFECTIVELY PLAY. IT REMAINS TO BE SEEN HOW VOCAL POLITICAL DISSATISFACTION CAN BECOME UNDER THE NEW RULES OF A QUALIFIED DEMOCRATIC SYSTEM.

5. NEW NATIONAL SECURITY LAW, ANOTHER PIECE OF MAJOR LEGISLATION, IS EXPECTED TO BE DECREED SHORTLY. IT EXPECTED REFLECT PHILOSOPHY OF MILITARY'S INTELLECTUAL ELITE THAT, BRIEFLY PUT, BELIEVES THAT ANY FACTOR OR ELEMENT WHICH DISTURBS

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PAGE 5 RUESUA 7539/1 C O N F I D E N T I A L
STABILITY AFFECTS NATIONAL SECURITY AND THUS OF LEGITIMATE CONCERN
TO MILITARY. SOME ASPECTS THIS PHILOSOPHY TO BE FOUND IN DRAFT
PRESS LAW WHICH, INTER ALIA, WOULD HAVE MADE OFFENSE ANY
WRITING WHICH "COULD PROVOKE LACK CONFIDENCE IN BANKING SYSTEM
OR PREJUDICE GOVERNMENT'S CREDIT." (FINAL VERSION, HOWEVER,
CHANGED BY CONGRESS READS: "AND WHICH PROVOKES LACK CONFIDENCE
...ETC.")

6. WHILE MANY BRAZILIANS ARE NOT OVERLY CONCERNED BY THESE
INNOVATIONS SINCE THEY BELIEVE (AND HISTORY GIVES MANY EXAMPLES)
SEVERELY RESTRICTIVE MEASURES ARE RARELY ENFORCED AND CAN BE
CHANGED, MANY OF MORE IMPORTANT SPOKESMEN AND ACTIVISTS OF THE
"REVOLUTION" - PRINCIPALLY MILITARY - SEE TIME AS HAVING COME
FOR PROFOUND CHANGES IN BRAZILIAN BODY POLITIC. THEY BELIEVE
NATION MUST BE MODERNIZED ALONG UNIQUELY BRAZILIAN LINES
DIFFERING FROM TRADITIONAL LIBERAL US AND FRENCH MODELS. RAINE
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