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Control: 2865

Rec'd: JULY 3, 1963

3:35 PM

FROM: RIO DE JANEIRO

TO: Secretary of State

NO: 20, JULY 3, 3 PM (SECTION ONE OF TWO)

INFO:
RM/R FILES

OPERATIONAL IMMEDIATE

1. I MET ALONE WITH CARVALHO PINTO FOR HOUR AND HALF TUESDAY EVENING. AFTER EXCEPTIONALLY CORDIAL EXCHANGE COURTESIES, HE OPENED DISCUSSION BY DESCRIBING CIRCUMSTANCES HIS ACCEPTANCE OF FINANCE MINISTRY. DID SO ONLY WITH GREATEST RELUCTANCE AND FROM CONVICTION THAT MIGHT BE ONLY WAY PRESERVING DEMOCRATIC INSTITUTIONS. HE HAD TOLD GOULART HE FEARED ACCEPTANCE WOULD BE MISCONSTRUED AS CANDIDACY 1965 PRESIDENCY, WHICH WOULD SET AGAINST HIM ALL THE OTHER CANDIDATES, WHEREAS IN FACT HE HAD NO INTENTION SEEKING POLITICAL FUTURE. GOULART REPLIED THAT ONLY HE HAD BOTH CAPACITY TO DO JOB WELL AND ABILITY TO INSPIRE ALMOST UNIVERSAL CONFIDENCE IN BRAZIL AND THUS OBTAIN SOME ORDER AND TRANQUILITY OUT OF NEAR CHAOTIC SITUATION IN COUNTRY. MINISTER HAD ALSO EMPHASIZED TO GOULART THAT HE WAS TEAM WORKER AND NEEDED MEN OF OWN CONFIDENCE IN KEY SPOTS. SAID GOULART HAD CONCURRED AND GIVEN HIM CARTE BLANCHE. MINISTER HINTED THAT PRESIDENCY BANK OF BRAZIL LIKELY BE CHANGED, ALTHOUGH NOT STATING SO DEFINITELY.

2. MINISTER THEN MADE SUMMARY REVIEW OF ECONOMIC AND FINANCIAL SITUATION. SAID NO MIRACLES POSSIBLE. RECOGNIZED BOTH INTERNAL AND EXTERNAL FINANCIAL PROBLEMS VERY GRAVE BUT CONVINCED NOT INSOLUBLE. FELT DANTAS HAD MADE SUBSTANTIAL PROGRESS DESPITE 30 PERCENT INFLATION IN 1963 TO DATE. EMPHASIZED HE STILL VERY NEW AND IN STAGE COLLECTING INFORMATION, ASSEMBLING ADVISERS, AND DEVELOPING OWN UNDERSTANDING. HAD BEEN VERY DISAPPOINTED TO DISCOVER POOR ORGANIZATION WITHIN FINANCE MINISTRY, AND WAS SEEKING IMPROVE. HIS GOALS WERE ESSENTIALLY

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Authority NND 939529

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-2- 20, JULY 3, 3 PM (SECTION ONE OF TWO), FROM: RIO DE JANEIRO

SAME AS DANTAS, I.E. PROGRESSIVE REDUCTION OF INFLATIONARY RATE AND REASONABLE MAINTENANCE DEVELOPMENT, AVOIDING UNEMPLOYMENT, BUT DETAILS REQUIRED FURTHER TIME FOR DEVELOPMENT. HIS TENTATIVE TARGET WAS TO HOLD INFLATION IN 1963 TO TOTAL OF 50 PERCENT, OF WHICH 30 PERCENT ALREADY OCCURRED IN FIRST HALF, COMPARED WITH HIS FIGURE FOR 1962 OF 65 PERCENT. WE HAD SOME DISCUSSION WHETHER SAO PAULO INDUSTRIAL RECESSION REALLY DUE TO CONTAINMENT PROGRAM, I POINTING OUT DATA THAT BOTH BUDGET DEFICITS AND CREDIT EXPANSION THIS YEAR PROPORTIONATELY AS LARGE OR LARGER THAN OTHER RECENT YEARS. HE AGREED ON FACTS, SUMMARIZING HIS VIEWPOINT BY SAYING INFLATION CERTAINLY NOT YET CONTAINED BUT HE THOUGHT LESS DISORDERED AND ELEMENTS INCREASINGLY AVAILABLE TO MAKE A CONTAINMENT PROGRAM.

3. ON BUDGET DEFICIT, HE FORESAW SOMETHING SUBSTANTIALLY ABOVE 322 BILLION, BUT NOT YET READY MAKE NEW ESTIMATE. HE CONCERNED SIZE GOVERNMENT WAGE INCREASE, BUT CONFIDENT COMPULSORY LOAN WOULD BE ADOPTED. RETURNING TO BRASILIA TODAY WEDNESDAY TO WORK ON CONGRESS. BELIEVED LARGE POSSIBILITIES OF IMPROVING REVENUE COLLECTION, AND ORGANIZING FOR THIS. ANXIOUS NOT LET OTHER MINISTERS KNOW, SINCE WOULD ENCOURAGE HIGHER EXPENDITURES, AND RECOGNIZED MORE RELEVANT TO 1964 THAN THIS YEAR. ALSO IMPRESSED BY REPORTS IMF MISSION DOUBTS ON EFFECTIVENESS CONTROL MACHINERY, REGARDING BOTH BANK OF BRAZIL AND PUBLIC MINISTRY EXPENDITURES, AND WORKING ON IMPROVED ORGANIZATION TO CURE THIS DIFFICULTY.

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4. ON CREDIT CEILINGS AND EXPANSION, STILL COLLECTING DATA. HAD BEEN TOLD LARGE CREDIT EXPANSION FIRST HALF LARGELY RELATED TO EXPORT PROMOTION OF CORN AND OTHER AGRICULTURAL COMMODITIES, BUT COLLECTING DATA TO CONFIRM. HE MUCH CONCERNED ABOUT SIZE OF SUBSIDIES, BUT STILL DEVELOPING INFORMATION AND POLICY. REPORTS FROM SAO PAULO INDICATE SOME RECOVERY IN AUTOMOTIVE AND TEXTILE INDUSTRIES, AND HE SEEMED NO LONGER TO FEEL VERY HEAVY PRESSURE FOR FURTHER CREDIT EXPANSION.

5. ON COFFEE, HE REVIEWED POLICY ADOPTED END LAST WEEK,

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-3- 20, JULY 3, 3 PM (SECTION ONE OF TWO), FROM: RIO DE JANEIRO
EXPLAINING REASONS FOR LAST MINUTE CONCESSIONS WHICH ESTABLISHED
DOMESTIC PURCHASE PRICE AT 11 THOUSAND CRUZEIROS BUT ON 90
TO 180 DAY PAYMENT BASIS. GP-3.

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Action

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Control: 2883

Rec'd: JULY 3, 1963

4:02 P.M.

Info

FROM: RIO DE JANEIRO

INFO:

RM/R FILES

SS

TO: Secretary of State

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NO: 20, JULY 3, 3 P.M. (SECTION TWO OF TWO)

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6. SAID HE BELIEVED THAT DOMESTIC BUDGET AND CREDIT SITUATION COULD BE MANAGED, DESPITE GREAT DIFFICULTIES, BUT WAS ESPECIALLY CONCERNED ON BALANCE OF PAYMENTS AND FOREIGN EXCHANGE POLICY. WAS NOW DRASTICALLY RESTRICTING IMPORTS AND SEEKING TO ENCOURAGE EXPORT EXPANSION, AND RECOGNIZED THAT IMPORT CURTAILMENT MIGHT BECOME DANGEROUS IF CARRIED TOO FAR. IN THIS FIELD ALSO, HE STILL COLLECTING DATA AND DEVELOPING APPRECIATION. I MENTIONED PROBLEM WHEAT AND PETROLEUM SUBSIDIES IN RELATION EXCHANGE RATE, AND HE STATED THIS ONE OF MANY TOPICS HE HAD NOT YET CONFRONTED. STATED HIS INTENTION TO REACTIVATE DISCUSSIONS WITH IMF ON STANDBY, BUT ONLY AFTER SOME BREATHING SPELL TO GET OWN IDEAS IN ORDER AND TO GET VARIOUS POLICY ISSUES SETTLED. AT ONE POINT, HE MENTIONED PERIOD OF 30 TO 45 DAYS AS POSSIBLE TIME SPAN NEEDED TO PREPARE FOR IMF TALKS; THIS IS KEY ISSUE WE WILL FOLLOW UP IN MEETING NEXT SATURDAY. HE SAID IDEA OF FOREIGN DEBT MORATORIUM WAS ABSOLUTE NONSENSE, AND HE WOULD HAVE NOTHING TO DO WITH IT. HIS CENTRAL PLEA, WHICH HE MADE WITH EMPHASIS AND SOME EMOTION, WAS FOR SOME BREATHING SPELL, ESPECIALLY ON JULY TREASURY PAYMENT AND POSSIBLY DECEMBER EXPORT-IMPORT BANK 12 MILLION. HE HAD ASKED GOULART TO MENTION THESE POINTS TO PRESIDENT KENNEDY IF THEY MET IN ROME, AND HAD BEEN SEEKING TELEPHONE GOULART TO GET REPORT ON DISCUSSION. COMMUNICATIONS WITH BRASILIA WERE OUT YESTERDAY AFTERNOON. I CONFIRMED THAT QUESTION HAD BEEN MENTIONED.

7. IT WAS CLEAR TO ME THAT MINISTER STILL NOT TOO FAMILIAR WITH STRUCTURE DANTAS-BELL AGREEMENTS, OF WHICH I LEFT HIM

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-2- 20, JULY 3, 3 P.M. (SECTION TWO OF TWO) FROM RIO DE JANEIRO

COPY. I SUMMARIZED HISTORY OF MARCH TALKS, SUBSEQUENT IMF MISSION CONCLUSIONS, AND OUR OWN PRESENT INTERIM POLICY AS REFLECTED PUBLICLY IN SECRETARY RUSK'S TESTIMONY TO SENATE COMMITTEE JUNE 11. STATED THAT I OBVIOUSLY COULD NOT SPEAK FOR WASHINGTON ON POSTPONEMENT JULY TREASURY PAYMENT, BUT FELT IT WOULD NOT BE IMPOSSIBLE IF THERE WERE AN AGREED PROGRAM OF PROCEDURAL STEPS FOR ARRIVING AT A NEW OVERALL ECONOMIC AND FINANCIAL PROGRAM, ALONG LINES OF DANTAS-BELL EXCHANGE BUT WITH ADJUSTMENTS IN DETAILS AND TIMETABLE. WE AGREED TO MEET SATURDAY AT 11 A.M., AFTER HIS RETURN FROM BRASILIA, TO DISCUSS NATURE SUCH TIMETABLE AND ELEMENTS PROGRAM.

8. ON AMFORP, MINISTER INDICATED FELT STRONGLY SHOULD BE RESPONSIBILITY OF OLIVEIRA BRITO, WHO HE EMPHASIZED NOT AT ALL A DEMOGOGIC TYPE, SINCE PROBLEM INCLUDED TECHNICAL QUESTIONS OF INVENTORY AND PRICE FALLING UNDER MINES RATHER THAN FINANCE MINISTRY. I SAID UNDERSTOOD GOULART HAD REQUESTED SOME POSTPONEMENT FROM PRESIDENT KENNEDY, AND THAT THIS WAS NOT IN ITSELF OBJECTIONABLE, PROVIDED THAT THERE WERE REAL UNDERSTANDING ON ARRANGEMENTS, INCLUDING FORMAL AMENDMENT OF MEMORANDUM WITH COMPANY REVISING DATE FOR CONTRACT AND DOWN PAYMENT AND DESCRIBING NATURE OF INVENTORY TO BE TAKEN IN INTERIM. I ALSO GAVE MINISTER MARCH 8 LETTER OF GOULART TO PRESIDENT KENNEDY, POINTING OUT THAT WITHDRAWAL OF GOB UNDER DEMAGOGIC ATTACK FROM BRIZOLA WOULD RAISE GRAVE QUESTION OF GOOD FAITH BETWEEN PRESIDENTS AND CAST DOUBT ON ANY NEW UNDERTAKINGS BY GOB IN RELATION TO U.S. MINISTER WAS SURPRISED AT CONTENT OF LETTER, WHICH HE HAD NOT SEEN OR HEARD OF, AND WILL ALMOST CERTAINLY DISCUSS WITH GOULART.

9. FINALLY, MINISTER CONCURRED VIGOROUSLY WITH MY OBSERVATION THAT CRISES OF PAST SEVERAL MONTHS THREATENED TO UNDERMINE HOPES FOR STABILIZATION, HOPES FOR DEVELOPMENT, AND POSSIBLY EVEN MAINTENANCE DEMOCRATIC INSTITUTIONS. HE SAID THAT POLARIZATION OF EXTREME POLITICAL VIEWS WAS TOTALLY UNJUSTIFIED BY BASIC ATTITUDES OF BRAZILIAN PEOPLE, AND HIS CENTRAL POLITICAL TASK WAS TO COMBAT THIS POLARIZATION. HE EXPRESSED CONCERN ON

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ABSENCE OF EFFECTIVE GOVERNMENTAL LEADERSHIP IN CONGRESS,
BUT FELT THAT GENERAL POLITICAL CLIMATE HAD SOMEWHAT IMPROVED
SINCE NEW CABINET APPOINTED AND PROSPECTS MODERATELY OPTIMISTIC.

10. MY GENERAL IMPRESSION WAS STRONGLY FAVORABLE WITH RESPECT TO THE INTELLIGENCE, SINCERITY, AND ORIENTATION OF CARVALHO PINTO, BUT HE IS STILL OBVIOUSLY VERY GREEN AS FINANCE MINISTER, IS FEELING WAY, AND WANTS TO HAVE MORE SOLID BASIS BEFORE UNDERTAKING ANY COMMITMENTS. HE IS RIGOROUSLY HONEST. HOW HE WILL STAND UP IN EVENT OF CONFLICT WITH MORE RADICAL MINISTERS OR OTHER GOULART APPOINTEES, AND HOW FAR HE WILL FIGHT FOR AND GET GOULART BACKING ON CRITICAL ISSUES, REMAIN TO BE TESTED.

11. INCIDENTALLY, CAMPOS NOW TELLS ME HE MORE INCLINED TO STAY ON AS AMBASSADOR, AT LEAST FOR SOME MONTHS, PARTLY AS RESULT STRONG DANTAS ADVICE TO DO SO. DECISION CONTINUES DEPEND ON FURTHER TALKS WITH CARVALHO PINTO, EVANDRO LINS, AND GOULART HIMSELF. CAMPOS EXPECTS TO SEE FORMER TWO FRIDAY WHEN THEY RETURN TO RIO AFTER THURSDAY'S BRASILIA CABINET MEETING.

GP-3

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7-3-63

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PER R. ELTZ

OFFICE ARA/ECA

CASE NUMBER 710029 LEADS

DATE 3-1-77

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