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XR DOL 18 BRAZ HANDLING INDICATOR

TO : DEPARTMENT OF STATE

INFO: Brasilia, Rio and Recife

1963 MAY 27 PM 4 14

FROM : American Consulate, Salvador DATE: May 16, 1963

SUBJECT: GOVERNOR LOMANTO'S FIRST MONTH IN OFFICE

REF: DEPARTMENT OF STATE BUREAU OF INTER-AMERICAN AFFAIRS MAY 28 1963

SUMMARY

Despite a favorable economic outlook for the State of Bahia and a relatively calm political atmosphere, Governor Antonio Lomanto Junior faces a formidable financial problem which, at the end of his first month in office, is far from being resolved. He has gone to Brasilia and Rio to plead for help and hopes the Federal Government will respond with contributions much above those it is already giving the state. Federal funds and other outside help are the only resources the state has for work programs since state salaries far exceed state revenues.

The Governor has taken some courageous steps to balance the budget, but until this comes about, he will need considerable out of state help for urgently needed public works and services. Several new USAID and Food for Peace projects promise early implementation but the projects the Governor has proposed as those for "immediate implementation" in his four year development plan and on which he is placing great importance, appear to be far from realization even though they were presented to SUDENE and USAID in January. The Governor is disappointed over the delays in getting these projects implemented. He believes he has obtained SUDENE clearance for them, and therefore blames USAID for the slowness in getting them moving.

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We have much at stake in Bahia and in Lomanto's success as a Governor. He still is clearly a champion of democracy, a supporter of the Alliance for Progress, and a believer in private initiative. It behooves us to support him quickly and with enough to help him make the impact he has to make on the masses of this state if he is to retain the popular support which brought him to office.

At the end of the first month of Governor Antonio Lomanto Junior's administration, there continues to be an atmosphere of hopeful expectancy. It is substantiated by: a) the forecast of generally good crops throughout Bahia; b) installation in the past few months of several new industries in the Salvador area and the prospects of additional industrial enterprises in this region; c) favorable prices for cocoa; d) progress on several highways, especially on the Rio-Bahia highway which will soon be completely paved; e) the prospect of increased production of vegetable fiber crops, particularly sisal; and f) optimistic outlook for future revenues from natural rubber. There are other favorable economic straws, but these seem to be the principal ones.

On the political front, Governor Lomanto has not had strong opposition, nor has he been severely criticized. The only public criticism worthy of note has been against his signing of a protocol which gave the coalition that supported him the authority to nominate police and judicial agents in the municipalities. The headaches the governor saved in not having to select these appointed office holders may well have been worth the criticism he has had on this so far. The interest he has shown in extending economic benefits to the underprivileged throughout the state continues to bolster his popular support. His youth, enthusiasm, dynamism, and his consistent reference to himself as a man of the people have attracted adherents in the lower classes particularly. He is regarded as a lucky man, and many believe that he will bring luck to the state.

Despite these encouraging aspects of the Bahian scene, it is evident that the Governor has become increasingly concerned over the desperate financial situation of the state. He has shown signs of alarm at not being able to do enough, soon enough, to retain the good will and popularity which brought him to office. Distressed over the fact that state resources are on the order of 15 billion cruzeiros while state expenditures on salaries alone are around 22 billion cruzeiros, he has taken measures to prevent some increases in state salaries from becoming effective; he has decreed that no new personnel can be hired by the state (except for vacancies which require technically skilled individuals or which have to do with the judiciary) until salary costs are reduced to 60% of state revenues; and he has taken steps to tighten tax collections. His energetic Secretary of Finance is hopeful of doubling state income in about a year's time. Until revenues

exceed salary expenditures, the state must rely on Federal and other support for its program of works. It already receives Federal funds for roads, education, drought control, the San Francisco River Commission and a number of other activities. From PETROBRAS it receives 8% "royalties". But these resources are not considered sufficient to maintain the level of development which will reduce social and economic tensions and promote political stability.

The Governor is happy that educational programs, with USAID help, apparently will be implemented soon and that an expanded Food for Peace program for school lunches and for work fronts on roads and other public projects also may show fairly rapid action. Another encouraging development is that several new water and health projects as well as electrical power projects, also with USAID help, may be gotten under way soon in Bahia since they have already been approved by SUDENE as part of a regional program in the Northeast. But Governor Lomanto has counted heavily on USAID cooperation with the State Development Bank (BANFEB), the State Agriculture Fund (FUNDAGRO), and with the yet to be organized State Industrial Development enterprise (IDESCO) which have been receiving detailed scrutiny by USAID specialists.

Lomanto has attempted to speed up the processing of these "Projects for Immediate Application" -- part of his four-year plan. They were presented to SUDENE and USAID in January of this year. He considers that he has obtained the green light from SUDENE to conclude project agreements with USAID covering these development plans (subject to review by SUDENE) but feels USAID is not moving as rapidly as it indicated it would. He is disappointed that surveys with various waves of specialists coming to Salvador have not resulted in concrete steps so far, and reportedly wonders why these studies were not initiated earlier if they were considered essential to the signing of a general agreement.

On May 7 Governor Lomanto went to Brasilia to present the state's case to the Federal Government and plead for help. The four principal measures he seeks are: (1) a loan to assist with the payment of salaries and state debts; (2) funds to enable him to buy up current food crops to provide stocks which will stabilize food prices; (3) increased royalties from PETROBRAS; (4) retention by the state of a part of the federal take derived from the export of cocoa.

When Governor Lomanto returns from his visit to Brasilia and Rio, he will be in a position to know just what funds he can count on for his works program and as counterpart for USAID assistance. It is hoped that on our part we will be in a position to speak clearly to him on any issues that have to be resolved before we are formally able to commit our help to him on projects still pending, particularly those embraced in the "Projects for Immediate Implementation."

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Because Bahia depends so much on Federal sources for help in getting out of its financial quagmire, Lomanto has tried not to antagonize President Goulart even though it is doubtful that he is in sympathy with all of the President's policies and tactics. When newspapers announced that Lomanto had signed the Adhemar de Barros Manifesto, an anti-administration document, President Goulart is reported to have sent Lomanto a sarcastic telegram. Lomanto publicly denied having signed the Manifesto and on May 7, on arriving at Brasilia, he told a reporter he did not consider the Manifesto "opportune" because of current national tensions.

Lomanto has sought to use the prestige of the PTB in his contacts with Goulart. This gave him little advantage last January at the time he suddenly returned from the United States in a vain attempt to influence Goulart in the formation of the current cabinet. Nevertheless, on his call on the President May 8, he was accompanied by Federal Deputies Clemens Sampaio, State PTB chief; and Manoel Novais, the designated head of the new PTB of Bahia which incorporates the Novais-led State PR representation. (Lomanto also had with him his Secretaries of Finance and Education and a representative of Bahia's commercial association and cacao interests -- Geraldo Dannamann.) It is not known if the PTB representation was helpful to Lomanto this time. Its two key Bahian figures present with Lomanto do not enjoy a good reputation; however, they head up the strongest pro-administration forces in the political coalition which supported Lomanto. (Representation of the UDN -- a potent member of the coalition -- would not likely be helpful to Lomanto in his effort to gain Goulart's sympathy.)

There has been a hint that a working relationship may develop between Lomanto and former Bahia Governor and now Minister of Commerce and Industry, Antonio Balbino, the most influential member of Bahia's PSD, who opposed Lomanto's election. If this should come to pass, Lomanto may well get more out of the Federal Government than he can by using the leverage of the PTB, Goulart's own party.

While Lomanto may be permitting himself to take a cool glance at conservative forces represented by Balbino, he has extended a warm hand to Bahian labor. During May Day functions he spoke out strongly in favor of labor organizations and their rights; he went to a ceremony inaugurating a poultry farm for the communist-dominated Mataripe Refinery employees and spoke to the workers in their own language; at another function he declared himself in favor of agrarian reform and of a Constitutional Amendment to get it under way. He permitted communist-led May Day rallies to take place without police interference of any sort. (This had the beneficial effect of reducing the attention given to the rallies and preventing Communist labor leaders from capitalizing on a case against Lomanto. It also had the effect of reducing attendance at the rallies.) A newspaper report to the effect that Lomanto went so far as to give his blessing to the C. G. T.

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(Commando Geral dos Trabalhadores) has been forcefully denied by several close associates.

These May Day developments produced alarm among Lomanto's conservative supporters and friends. To newspaper editor Odorico Tavares of Chateaubriand's Diarios Associados, who printed a strongly worded editorial asking if this was the man whose election the conservative papers had supported, Lomanto is reported to have said: "Would you rather have labor led by the Communists or by me?"

Some of Lomanto's critics are saying he is trying to please everyone and is succeeding in pleasing no one. While some of his actions and tactics may be the subject of sneers and second thoughts among the conservative and sophisticated groups that have been friendly to him, he continues to have the good will of Bahia's masses who, like many of the higher classes, are waiting to see what he can do and are willing to give him a fair chance to prove himself.

CONCLUSION:

During his first month of office, Lomanto has taken some courageous but as yet unproven steps to bring order to state finances; he has maintained an atmosphere of activity and dynamism which has been helpful in preserving the attitudes of optimism which accompanied his entry into office. Despite the generally favorable economic outlook for the state, he faces formidable problems in his attempt to show tangible results quickly. The various developmental programs with which the US is associated are helpful to him but more aid will be needed. Even if the Federal Government can come part way in meeting his requests for help, he will need outside assistance to make the sort of impact which can preserve his popularity with the masses. Although some of the state enterprises which Lomanto sponsors tend to smack of socialism, the Consulate is convinced he is still solidly with us in his belief in democracy, the Alliance for Progress, and private initiative. He continues to deserve our assistance, and within the limits imposed on us, we should try to meet the State's requests for help and do so with urgency. The manner in which we react to Bahia's needs can well mean the success or failure of Lomanto's governorship. The Consulate believes we have a big stake in making Lomanto a success. If he should be unable to produce an impressive impact and do so fairly soon, democracy may suffer an irreparable setback in this state. The progress that Bahia makes in the next year or two will certainly mean much to the Northeast and, indeed, to the direction Brazil will move in the future.

Harold M. Midkiff

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