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DEPARTMENT OF STATE

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TO : Department of State

1965 DEPARTMENT OF STATE
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FROM : Amembassy RIO DE JANEIRO

DATE: November 23, 1965

SUBJECT : Castello Branco's Nov. 11 and Nov. 13 Speeches --
 The Labor View

REF : Embtels 1115 and 1123, November 14, 1965.

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Castello Branco's November 11 speech before the Legislative Assembly of the State of Rio offered little of direct interest to labor. He did refer to the decelerating increases in the cost of living (42% to October of this year, down from 65% for the same period in 1964) and to improvements in the Social Security System, asserting that inefficiencies due to maladministration are being eliminated and the system is now running a surplus rather than a deficit. At the same time benefits in money and medical assistance are increasing. "Against payments of 167 billion cruzeiros in the first half of 1964, we made payments of 386 billion cruzeiros in the second half of the same year, which was slightly increased in the first six months of this year."

The President added "In order to extend to all workers the benefits of Social Security, the Government has almost completed the bills being prepared by the Ministry of Labor, with the participation of labor and business, with the object not only to perfect the current system, but also to extend to rural and domestic workers identical benefits."

Castello Branco had the following to say about foreign loans and grants "Each contribution must receive our recognition. Solely for the reequipping of our hospitals, we can count on financing from West Germany on the order of 15 billion cruzeiros and from France 11 billion cruzeiros. We have concluded an agreement with AID which will furnish us with \$6½ million for the eradication of malaria, and we have signed

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ARA Labor Advisor;
 INR;
 Labor Dept: ILAB LA
 Area Spec.; ILAB Div
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an agreement with the Pan American Health Organization for the preparation of specialists. Dozens of other activities connected with public health testify to the diligence of the government in this important sector."

In his November 13 address at the Ministry of Finance, the President reported on the status of his government's economic program and outlined some of the country's future needs in promoting stabilization and development. The President spoke at length about labor programs, heralding the third phase of the government's stabilization program. Christened the "New Laborism," this phase of the program is primarily devoted to giving real value to wages.

The President asked labor leaders to guide him "from the outset" and solicited the cooperation of business. He pointed out that the nation could not distribute more than it produces and that salary increases must therefore be tied to increases in production "which in no country is greater than 6-7% per year." He said that increases in profits produced by greater productivity must be shared with the workers and "that the patience and comprehension of the working class must have its counterpart in entrepreneurial austerity," not in conspicuous consumption, but investment. He will require entrepreneurs in industry and commerce "to collaborate in the maintenance of the real wages of the worker, doing all possible to absorb costs without increasing prices, improving their productivity, reducing waste and inefficiency."

The "New Laborism" calls for a "democratization of opportunities," said the President; "the demanding of salaries doesn't exhaust the mission of trade unions, nor does it constitute their only program. The Government hopes that the unions will associate with it in developing educational reforms which will enable them to participate in providing opportunities of training and education of the workers. The Government intends to give the unions an important role in the solution of the problem of housing for their members. An equally important concern in which the Government and the worker must participate is the creation of new job opportunities for a population which is growing explosively."

"It is equally important," the President added, "to create new jobs by regaining business confidence to attract more foreign and domestic investment." (UNCLASSIFIED)

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Comment. The 42 percent increase in cost of living this year, quoted by President Castello Branco in his November 11 speech, is based on figures compiled by the Getulio Vargas Foundation. It is interesting that the unpublished official Ministry of Labor figures show an increase of almost 56 percent.

The President's speech confirms his past sympathetic support for trade union cooperative housing projects and AFL-CIO loans for such projects. Labor sources indicate that the President has shown interest in expediting such loans for trade union cooperative housing projects with AFL-CIO, AID and IDB loan participation and in overcoming the technical and legal obstacles (see TOAID 140 and Embtel 2621).

The President's November 13 speech represents his first major effort to deal directly with labor's problems and its role in economic development. While there has been little public reaction yet, the address was conciliatory towards labor, expressing the intention of the government to equalize the burden of the economic policies by demanding more cooperation from management.

The President's reference to tying wage increases to productivity may confirm Labor Ministry reports that the GOB and Congress would approve a revision of Law 4725 to reinstate the productivity factor in wage adjustments.

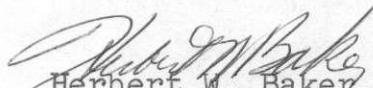
The President's speech demonstrated his concern about the importance of increasing and sharing of productivity increases in Brazil. While he made no specific proposals, the time may be opportune for promoting consideration of a labor management productivity center to translate this general statement of policy into specific action along the lines of similar centers in Europe during the Marshall Plan.

Inasmuch as Castello Branco made no specific proposals various interpretations of the "New Laborism" are possible. The GOB may be contemplating a more liberal labor policy, especially in view of the President's call for more labor "maturity" and awareness of the role of labor in industrially developed nations. The impact of "New Laborism" will largely depend on the specific changes in government policies such as the revival and implementation of the proposed collective bargaining law as well as more support of trade union mutual aid activities in the fields of cooperative housing, worker banks or credit unions, trade union hospitals and medical services and retail cooperative stores to compensate for the burdens borne by labor in the economic stabilization program. (LIMITED OFFICIAL USE)

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A-507, from
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For the Ambassador:


Herbert W. Baker,
Labor Attache

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