

AIRGRAM

POL-2-1 BRAZ

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RM/R	AF	AF
1	1	1
ARA	EUR	FE
4	1	1
NEA	CU	USAM
5	1	1
E	P	IO
4	1	1
L	16A	AID
3	3	12
4/1	4/13	4/1
AGR	COM	FRB
2	2	1
INT	LAB	TAR
2	2	1
TR	XMB	AIR
2	10	10
ARMY	CIA	NAVY
10	20	10
OSD	USIA	NSA
22	11	3
PC	HEW	NSC
2	1	6

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TO : Department of State

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ARMY

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AIR FORCE

NEGATIVE

PSYCHOLOGICAL

NEGATIVE

GROUP 3 - Downgraded at 12 year intervals;
Not automatically declassified.

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POL:See last page:rb

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Clearances:

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POLITICAL

1. Castello Branco Averts Crisis in São Paulo

While dealing with the crisis in Amazonas with one hand (Item 2), President Castello Branco reached into São Paulo with the other last week to avert what seemed to be a rapidly-developing crisis there. "Hard line" military officers and civilians had seemed intent on forcing a showdown with the government over the immediate issue of the liability of Governor Adhemar de Barros to Police-Military Inquiry corruption investigations, arrest, and possible prosecution. Three of Adhemar's aides in the state government had been arrested by the IPM's in previous weeks, and it looked as though the governor would be the next victim. In anticipation of this possibility, Adhemar had rallied the support of a healthy segment of the state's professional politicians, and it seemed that President Castello Branco was soon going to have to decide between the "hard line" and Adhemar de Barros. To avoid such an unhappy dilemma, the President abruptly dismissed retired Army General Mena Barreto, the "hard lining" head of the IPM's which had Barros as a principal target, and directed the new national IPM director to assume responsibility for the two inquiries involved.

The following day, O Estado de São Paulo asserted that the makers of the revolution had compromised themselves in return for Adhemar's support of the revolutionary effort. Castello Branco's dismissal of Mena Barreto, he said, was the implementation of that "compromise of honor". This led Mena Barreto to issue a statement denying that he knew anything about such a deal and giving the government forty-eight hours to explain the entire case. Failure to do so, he said, would force him to "tell all" (presumably about Adhemar). This was the second occasion on which Mena Barreto had threatened lurid revelations, but it was not generally believed that the government would pick up the ultimatum laid down by the general or that the general would make good his threat.

The immediate reaction to Castello Branco's move seemed to be one of general acceptance even among some of the more vociferous "hard liners". In part this probably reflected a general recognition of the fact that Mena Barreto, having held a personal grudge against Adhemar for years, really lacked the disinterestedness to carry out an objective investigation of the governor's past. In any case, by moving as he did, Castello Branco skillfully avoided the showdown that seemed to be threatening last week, even if there

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remained the possibility that the question of Adhemar's fate was not finally settled. /For more detailed account, see ConGen São Paulo reporting./ (LIMITED OFFICIAL USE)

Comment: The long-range political implications of a "hard line" confrontation with the government over the case of Adhemar de Barros would, of course, have much greater significance than the fate of the governor himself. In this connection, it is possible that Castello Branco's action last week was motivated more by a recognition of the need to avoid an open confrontation than by a desire to spare Adhemar. It is likewise possible that the government might yet allow him to be punished for his past sins, though it would appear that this could only come about if a) it did not seem to represent a yielding of Castello Branco to "hard line" demands, and b) it did not encourage "hard line" moralists to press harder their demands for a complete purge. (CONFIDENTIAL)

2. Amazonas Crisis Dies Down: Neither Victors Nor Vanquished

The Amazonas crisis, which at one point seemed to pose the threat of military intervention in the state, died down this week (Week 33). In many respects the solution signalled a return to the status quo ante: Governor Artur Reis continued in office; the State Assembly is functioning normally; ex-Governor Plinio Coelho is at liberty (although being sought after by the police). Reportedly as many as 23 of the 30 members of the State Assembly have expressed hostility to the Reis government. However, faced with their own version of the realidade Brasileira, the assemblymen have agreed to reconsider the pay-raise bill which touched off the crisis. Meanwhile, Reis' never-accepted letter of resignation has reportedly been burned, and some friends say that the ashes will be sent to Senator Desiree Guarani, who so obviously longed to replace Governor Reis.

Most Brazilian political observers felt that the crisis was too remote and small-scale to present any major threat to national political stability. This feeling was accentuated by the events in São Paulo (Item 1) plus greater concern with general economic problems. In spite of some comic-opera overtones, however, the crisis was something of a test-case in which the GOB opted for pro-revolutionary solutions, even though this implied some rather open military tutelage. The government's handling of the crisis was generally endorsed. Correio da Manhã was almost isolated in its bitterness as it editorially commented "in Amazonas we may decide the destiny of the semi-democracy in which we live". (LIMITED OFFICIAL USE)

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3. Roberto Campos Explains Triennial Financial Plan to Congress

On August 13, 1964, Planning Minister Roberto Campos went to the Chamber of Deputies to introduce the administration's triennial financial plan. This plan represents the government's first attempt at a comprehensive definition of its overall effort to restore economic order to Brazil. The plan actually has three main parts; a proposed financial plan for the remainder of 1964 as well as for 1965 and a general economic program which purports to establish guidelines for government economic activity over the next few years. The financial plan constitutes an effort to counter inflation through reduction of government deficits. Non-essential expenditures are to be curtailed and revenues increased through higher tax rates and an improved collection mechanism. The outcome is expected to be a smaller real deficit in 1964 than in 1963 and a still smaller deficit for 1965. Another aspect is that of changes in the composition of government expenditures so as to increase the proportion of government activity directed at economic development of the country. The general economic program has as its objectives reasonable price stabilization and the restoration of the rate of economic growth attained by Brazil throughout most of the 1950's. The program contains policies regarding expansion of the money supply, wages, foreign exchange, the banking system, housing, education, development of the securities market, social security, etc. It also contains sectoral development plans designed to achieve a greater degree of overall coordination and control of development efforts throughout the nation. (UNCLASSIFIED)

4. Magalhães Pinto Joins Critics of GOB Economic/Financial Policies

During the past few weeks, the long-standing and comprehensible dissatisfaction with existing economic conditions has begun to take on new direction. In the immediate aftermath of the revolution, there was a general willingness to blame all economic ills on the evils of the Goulart regime. Unfortunately, the counterpart to this rationale was the belief that the new government would soon solve the basic problems and that conditions would noticeably improve in a short period of time. This, of course, has not been the case. Prices have continued to rise, there has been some increase in unemployment (although previous and current levels are impossible to determine with accuracy), etc.

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During the past week, Governor Magalhães Pinto joined the ranks of the critics of current GOB policies. On August 11 he met with Castello Branco and suggested an "urgent and total reformulation of the economic/financial policies of the government..." Magalhães Pinto repeated the general themes of Lacerda's earlier criticisms: (1) an anti-inflationary program must be maintained but (2) some readjustment must take place so that small and medium-level wage earners will not have to bear such a heavy share of the effects of such an austerity program. (Sidenote: Magalhães Pinto met quietly with Lacerda on August 11.) As in the case of his Guanabara counterpart, Magalhães Pinto placed the blame for current policies on Planning Minister Roberto Campos and Finance Minister Bulhoes.

Another aspect of the economic/political problem came in the form of public speculation concerning the need for revision of minimum wage scales--slightly less than six months after the previous changes.

Thus far the GOB has indicated firm resolve in maintaining its economic/financial policies. (LIMITED OFFICIAL USE)

5. Lacerda Appraises Government Policies

Carlos Lacerda had an hour-long meeting with President Castello Branco early last week, following which he told the press that he was completely identified with the President's position on Brazil's problems and that his only desire was to cooperate with the federal government. Castello Branco, he said, was "an excellent helmsman, a sure pilot of the ship of state".

Whereas only a few weeks earlier, he had strongly criticized government policies, the Guanabara governor stated on this occasion that he is satisfied with the government's overall policies, and that the government's financial policy is right even though its economic policy needs some minor corrections. In the case of the latter, he said, it is necessary to recognize that twenty-year old problems cannot be solved immediately. He did repeat his earlier criticisms of SUNAB, the federal supply agency, but he seemed to be of the opinion that Castello Branco agreed with his point of view on the food supply problem. Finally, Lacerda attributed previously circulating reports of his imminent break with Castello Branco to "intriguers" who were deliberately attempting to divide him from the President.

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Lacerda's kind references to the President and his general endorsement of government policy created the impression that a new period in his relations with the federal government was about to begin, that Lacerda now would cooperate wholeheartedly with the government and would maintain a discreet silence over whatever differences he might have with government policies or personalities.

The honeymoon lasted only three days. Speaking on television August 18, Lacerda publicly criticized the contemplated GOB purchase of AMFORP properties, stating that it would be "good for Bond and Share but bad for Brazil". He attacked Planning Minister Roberto Campos' role in the purchase negotiations and asked why President Castello Branco should even consider carrying out a "deal" effected between João Goulart and a "network" of interests.

He also accused General Golbery do Couto e Silva, head of the National Information Service, of misinforming President Castello Branco of what is really happening in the country. He traced Golbery's misinformation to the "National Disinformation Service" which, he said, subversive forces had created with the object of circulating false rumors that would create enough political instability to impede the advance of the Revolution. Evidence of this, he said, was in the circulation of rumors that he is at odds with Castello Branco. On this occasion, Lacerda found the government's economic policy to be "totally wrong" and he again attacked the operation and orientation of SUNAB:

Comment: About the only encouraging aspect of this latest series of Lacerda performances is that he has continued to stress his support of Castello Branco even while attacking government policies and ministers. This, of course, is a distinction that will become less valid over a protracted period since Castello Branco, unlike Goulart, insists on identifying himself with all policies of his government.

6. Lacerda Legislates Under Ato Institucional

Controversial Governor Carlos Lacerda last week decreed into law two executive bills which had not been acted upon by the state assembly within thirty days following their submission to the assembly. Lacerda justified this action by claiming that "the innovations of constitutional character imposed by the Ato Institucional in the process of legislative elaboration are applicable at the state level..." because the states cannot have

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a different constitution than the federal government. Thus, he argued, if Article 4 of the Ato provides that bills submitted to the Congress by the President automatically become law if not acted upon within thirty days, that same provision applies to bills submitted to state assemblies by governors.

Almost nobody agrees with Lacerda's opinion on the extension of the Ato Institucional to the state level. The responsible press has blasted him for usurping power of the assembly in an act of flagrant illegality; the state PTB and PSD termed the action dictatorial, and the PTB urged the public not to respect the laws (one of which increased sales taxes and the other of which allows for a restructuring of the state civil service). Even Justice Minister Milton Campos was reported to have opined that the Ato was not meant to be applied at the state level, but Lacerda refused to heed such reports, claiming that he had been assured that Campos would support his position. On August 18, nearly two-thirds of the members of the state assembly voted to refer the matter to the Federal Supreme Court, and it is their hope that an early decision will be forthcoming. (UNCLASSIFIED)

Comment: If the Supreme Court considers itself competent to rule at all on the applicability of the Ato, prevailing opinion is that the court will rule against Lacerda. How Lacerda might react to such a ruling is uncertain. (LIMITED OFFICIAL USE)

7. Calls for Increased US Aid

Jornal do Brasil's single editorial on August 16 was entitled "Indifference" and was devoted to a criticism of what the paper considered to be Washington's incomprehension of the significance of the latest Brazilian events and the subsequent slowness in offering greater financial assistance to the GOB. The paper rhetorically asked "What does Washington expect?...That Brazil single-handedly achieve economic-financial recuperation, paying all the tributes and sacrifices?...We still believe that the North American Government will be able to understand the extraordinary style of government and political comportment installed in Brazil. We no longer have to wait for 'proofs'...The first proof is the revolution itself...The second proof...is given by the government, people and Congress...who remain firm in giving political support to the economic/financial program adopted during the first hours of the revolution...What further proofs would the Department of State want? The emergency austerity program has been voted by the Congress...It is not a promise. The profits

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remittance law has been voted and will be correctly regulated... A non-inflationary wage policy is in effect... We are determined to arrive at non-inflationary development with greater or lesser sacrifices... The democratic destiny of Brazil is assured. But democracy is an open regime which repels the imposition of absurd and unjustified sacrifices of internal consumption. To grow democratically and without major sacrifices, internal savings must be complemented by external aid. If the North American government is not capable of understanding this very soon... it will lose its opportunity in Brazil..."

The same themes were developed in a front-page editorial in the August 17 edition of O Globo entitled "What We Have the Right to Expect". O Globo's dour comment was that "if the United States does not realize that the time has come to extend to Brazil an efficient and operable plan of (financial) cooperation, it is not likely that the opportunity will repeat itself and is very probable that conditions will be created for the pendulum to swing in the other direction..."

Meanwhile, Castello Branco lunched with members of the Foreign Press Club on August 18, at which time he noted that up until now, no country in the world has managed to recuperate from a grave economic crisis without substantial foreign aid. (Two days later, on August 20, O Jornal editorialized that without foreign financial assistance of the magnitude of Marshall Plan aid, Brazil shall only be able to recuperate at the expense of hard and personal sacrifices. On the same day, Diario Carioca's main headline stated "Delay in Foreign Aid is Government Problem". (UNCLASSIFIED)

Comment: A Planalto accredited journalist told a Brasilia Embassy officer that the editorials mark the beginning of a campaign oriented by Castello Branco. The President, according to this report, will "officialize" the campaign once it gets going. (CONFIDENTIAL)

8. Repercussion of Admiral Aragão's Asylum in Embassy of Uruguay

If the Brazilian military has anything to say about it, Admiral Candido de Aragão may yet regret his decision to seek political asylum in the Embassy of Uruguay. Reportedly, the Navy has set up a 24 hour watch around the Embassy building, and unidentified military officers have been quoted in the press as vowing that if Aragão ever sets foot outside of the Embassy,

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safe conduct or not, he will be arrested. Whether the military would actually go to that extreme is problematical, but the noise made so far has probably been responsible for the GOB's delay on the Embassy's request for safe-conduct for Aragão. Reportedly, the question of safe-conduct for the leftist former Marine Corps Commandant will now be decided at the presidential level.

In a not entirely unrelated development, former Governor of Sergipe Seixas Doria reportedly was released last week from the Fernando de Noronha prison, where he had been held since shortly after the revolution. The IV Army, however, refused to provide Doria with transportation back to the mainland, and it was widely anticipated that Doria would be rearrested presently. (UNCLASSIFIED)

9. PTB to Commemorate Death of Getulio Vargas

All political observers will turn their eyes to left of center next week to watch the reaction to the PTB's August 24 commemoration of the tenth anniversary of the death of Getulio Vargas. Reportedly, there will be ceremonies at different spots around the country, and the congressional PTB, as well as several state party organizations, plan to issue manifestos as part of the ceremonies. The special significance of the ceremonies this year derives not only from the deposition of Goulart and Goulart's relationship to Vargas, but also from the fact that many of those who are leading the country today figured prominently in the circumstances surrounding Vargas' death. But even with a maximum PTB effort, the ceremonies this year could only amount to a pale reminder of those of last year when a mammoth political rally was held by João Goulart in Rio de Janeiro against the protests of Carlos Lacerda. (UNCLASSIFIED)

10. Juana Castro in Brazil

Juana Castro, Fidel's defecting sister, finally arrived in Brazil last week to begin a 30-day visit at the invitation of the wife of Foreign Minister Vasco Leito da Cunha. Although the invitation had been extended on a personal basis (Miss Castro and Mrs. da Cunha are personal friends), it became apparent immediately that the visit would serve political ends. On the day following her arrival, Miss Castro held a press conference at which she made an articulate and moving denunciation of her brother's socialist paradise. Later she appeared on television to tell much the same story, and she is now scheduled to address civic groups in several other cities. (UNCLASSIFIED)

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11. Local Metal Workers Union Threatening Strike

In a meeting held Friday, August 14, the Guanabara Metal Workers Union turned down an employers' proposal granting the workers a 90 percent wage increase and a new contract which would run for a period of twelve months. The membership voted to start a "slow-down strike" should the employers not agree to their demands, which include: a) an immediate 100 percent wage increase (with a ceiling to the increase of Cr.\$65,000) and a provision for an additional automatic cost of living increase after six months; b) retroactive (to Feb., 1964) readjustment of wages to cover cost-of-living increase for previous six months; c) a new minimum wage of Cr.\$55,000 for metal workers (present minimum is Cr.\$42,000); and d) payment to the union of the difference between the old and new salaries for the first seven days work of all non-unionized employers.

The National Department of Labor is now attempting to mediate the differences between management and labor.

Comment: This dispute, like that of the Air Transport Workers, is an indication of the growth of labor opposition to GOB economic and labor policy. This union was a base of communist power during the Goulart administration (it was controlled by Benedicto Cerqueira, WFTU Board member, presently in exile in Yugoslavia) and it is possible that communists, working through intermediaries, are now taking part in the intra-union bargaining that will eventually determine the union's final position in the dispute.
(LIMITED OFFICIAL USE)

MILITARY

ARMY

1. Patron of Brazilian Army Honored

The annual week-long celebration in honor of the patron of the Brazilian Army began on August 17 with the laying of a wreath at the tomb of the Duke of Caxias by the Minister of War. This was the first of many events scheduled by First Army units in Rio which will culminate on August 25 with a ceremony to present the Order of Military Merit. Other Army units around the country will hold similar celebrations. (UNCLASSIFIED)

Comment: The Week of Caxias will take on new importance this year as the Army intends utilizing it to strengthen its

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present image before the nation. With the successful revolution as a backdrop, the normally well-organized and directed activities of the week are scheduled to be larger and more colorful. President Castello Branco will preside over the August 25 presentation of the Order of Military Merit. A major political address is anticipated at this time. (UNCLASSIFIED)

2. New Professor of Portuguese at West Point

Lt. Colonel Professor Sergio Moraes Rego Reis of the Military College of Rio de Janeiro has been appointed Professor of Portuguese at the U. S. Military Academy, West Point, N. Y. Colonel Moraes Rego is the brother of one of the special military assistants to President Castello Branco. (UNCLASSIFIED)

NAVY

1. MINAS GERAIS and Embarked Aviation

Commencing last Friday morning (August 14) with the entrance of the Brazilian Navy aircraft carrier MINAS GERAIS into the port of Rio with five navy airplanes and one helicopter aboard, the old feud between Brazilian Navy and Air Force as to who will fly from the ship has returned to the front pages of the local press. When MINAS steamed out of Rio on Tuesday (August 18) on her way to participate in UNITAS V operations with U. S., Argentina and Uruguay, she still had the planes aboard. On Wednesday (August 19), however, by Presidential Order the five fixed-wing aircraft were flown from the ship to the Naval Air Station at São Pedro d'Aldea. It appears that MINAS will, however, operate helicopters during the UNITAS exercises. There has been press speculation that this recent outburst on the question of embarked aviation will bring forth an early presidential decree resolving the dispute between the two services. (UNCLASSIFIED)

Comment: There has been at least one report that the President's decision will take the form of a compromise in which the Air Force will retain control of the fixed-wing aircraft and the Navy will get the five Air Force helicopters presently in use aboard the carrier. (CONFIDENTIAL)

2. Brazilian Naval Academy Graduates

On Saturday, August 15, 160 graduates of the Brazilian Naval Academy received their swords symbolizing completion of the

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course. President Castello Branco and Governor Carlos Lacerda participated in the ceremony. (UNCLASSIFIED)

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