

22

POL 15-1 BRAZ

INCOMING TELEGRAM Department of State XR E 1 BRAZ

87

CONFIDENTIAL

Action
ARA

ZCESA132SUA272SUA267

022869

1967 APR 22 PM 3 38

Info
SS
SP
SC
L
H
P
USIA
NSC
INR
CIA
NSA
AID
E
AGR
COM
FRB
TAR
TRSY
XMB
RSR

PP RUEHC
DE RUESUA 10288 1121815
ZNY CCCCC
P R 221800Z APR 67
FM AMEMBASSY RIO DE JANEIRO
TO RUEHC/SECSTATE WASHDC PRIORITY
INFO RUESUZ/AMEMBASSY BRASILIA
STATE GRNC
BT
C O N F I D E N T I A L RIO DE JANEIRO 10288

MICROFILMED BY RM/R

R10
10288
4/22/67

SUBJECT: GENERAL ASSESSMENT GOB ECONOMIC TEAM, POLICIES AND PROGRAMS

1. FOLLOWING ASSESSMENT GOB ECONOMIC TEAM, THEIR ECONOMIC PROGRAMS, MEASURES PROBLEMS AND PROSPECTS MAY BE USEFUL AS BACKGROUND FOR MEETINGS WITH FINANCE MINISTER DELFIM NETO. OUR EVALUATION CURRENT ECONOMIC SITUATION ADEQUATELY COVERED IN RECENT COMMUNICATIONS.

2. GUIDING FIGURE IN DEVELOPMENT GENERAL ECONOMIC PROGRAM IS

PAGE 2 RUESUA 10288 C O N F I D E N T I A L
DELFIM NETO. THIS DUE IN PART INSTITUTIONAL FRAMEWORK FINANCE POLICY MACHINERY WHICH MAKES FINANCE MINISTER STRONG MAN IN TEAM BUT ALSO DUE PERSONAL INITIATIVE AND INDICATIONS NETO ONLY PERSON WHO HAS ARTICULATED GENERAL ECONOMIC PHILOSOPHY. ALL DIRECTORS CENTRAL BANK, INCLUDING PRESIDENT RUI LEME, FOLLOW HIS LEAD. PLANNING MINISTER HELIO BELTRAO INTENDS CONCENTRATE ON ADMINISTRATIVE REFORM AND IMPROVING EFFICIENCY GOVERNMENT OPERATIONS, WHICH ALSO CONSISTENT NETO S VIEWS. NETO AND BELTRAO HAVE NOT HAD ADEQUATE TIME, OWING IN PART LATTER S EXTENSIVE TRAVELS, COLLABORATE IN DEVELOPING APPROACHES TO NUMBER PRESSING ISSUES, BUT THEIR INTERESTS AND CAPABILITIES APPEAR COMPATIBLE. WHETHER THIS GROUP ABLE TO CARRY OUT A SOUND AND RATIONAL PROGRAM WILL DEPEND ON ABILITY COSTA E SILVA UNDERSTAND CONTENT AND NEED FOR MEASURES THEY WILL PROPOSE AND HIS WILLINGNESS ACCEPT CONSEQUENCES OF UNPOPULAR MEASURES. THERE ALREADY ARE MANY PRESSURES FOR EXPANSIONARY MEASURES FROM MANY INTERESTS, PUBLIC AND PRIVATE, E.G. BANKS, COFFEE AND LABOR. UNKNOWN FACTOR IS ROLE OF

2

CONFIDENTIAL

DECLASSIFIED
Authority NND 969000

CONFIDENTIAL

-2- RIO DE JANEIRO 10288 APRIL 22

MAGALHAES PINTO AND MACEDO SOARES IN SHAPING DOMESTIC ECONOMIC POLICIES.

PAGE RUESUA 10288 C O N F I D E N T I A L

3. THERE IS GROWING EVIDENCE NEW GOB TEAM HAS SUBSTANTIALLY DIFFERENT APPROACH, EMPHASIS, AND STYLE IN ACHIEVING ECONOMIC DEVELOPMENT AND STABILIZATION OBJECTIVES. BOTH NETO AND BELTRAO BELIEVE THAT THE INEFFICIENT GOVERNMENT SECTOR HAS BEEN MAJOR OBSTACLE TO ACHIEVEMENT THESE OBJECTIVES; SOLUTION IS TO REDUCE ROLE OF GOVERNMENT IN ECONOMY AND STIMULATE GROWTH IN MORE EFFICIENT PRIVATE SECTOR. GOB HAS MADE CLEAR IT WILL GIVE SPECIAL EMPHASIS TO DEVELOPMENT AGRICULTURE TO REDUCE IMBALANCE BETWEEN INDUSTRY AND AGRICULTURE. NEW TEAM BELIEVES THAT UNDER PROTECTIVE TARIFF UNBRELLA INDUSTRIAL PLANT GREW FASTER THAN CAPACITY ECONOMY TO ABSORB PRODUCTION. MEANWHILE AGRICULTURAL AND COMMERCIAL SECTORS HAVE REMAINED STAGNANT.

4. INITIAL MEASURES TAKEN BY COSTA E SILVA GOVERNMENT IN FINANCIAL AREA ARE IN GENERAL CONSISTENT WITH THIS BROAD ECONOMIC PHILOSOPHY; THEY WERE INTENDED TO HAVE, AND HAVE HAD A FAVORABLE PSYCHOLOGICAL EFFECT ON ENTIRE ECONOMY. MOREOVER, TOTAL ECONOMIC COST OF MEASURES TAKEN TO DATE HAS

PAGE 4 RUESUA 10288 C O N F I D E N T I A L

NOT BEEN HIGH; AND NETO HAS STATED HE WILL MAKE COMPENSATING CUTS IN EXPENDITURES. HOWEVER, WE HAVE NO INDICATION THAT HE HAS DEVELOPED ADEQUATE PLANS TO DEAL WITH OVERALL FISCAL PROBLEM ARISING IN PART FROM REVENUE LOSSES FROM DECREE LAW 157 (FISCAL INCENTIVES TO INVESTMENTS IN STOCK MARKET) AND OTHER FISCAL MEASURES. REVENUE LOSSES FROM ALL THESE MEASURES ESTIMATED AT SEVERAL HUNDRED MILLION NEW CRUZEIROS FOR 1967.

5. FROM FEW COMMENTS BY NETO AND CONVERSATIONS FROM CLOSE ASSOCIATES WE BELIEVE NETO HAS A VALID PHILOSOPHY OF MONETARY MANAGEMENT WHICH IS ALSO CONSISTENT WITH ADMINISTRATION OBJECTIVE OF STRENGTHENING PRIVATE SECTOR. HE HAS SPOKEN TO US ABOUT "REDUCING EMISSIONS (WHICH WE TAKE TO MEAN PRIMARY MONEY) AND INCREASING MULTIPLIER". WE UNDERSTAND THIS TO MEAN THAT HE WOULD LIKE TO CONTAIN DOMESTIC CREDIT OF MONETARY AUTHORITIES WHILE INCREASING FLOW OF FUNDS TO PRIVATE SECTOR THROUGH COMMERCIAL BANKS THROUGH REDUCTION IN COMPIUSORY

CONFIDENTIAL

DECLASSIFIED

Authority NND 969000

CONFIDENTIAL

-3- RIO DE JANEIRO 10288 APRIL 22

RESERVE RATION. HE ADMITS THAT RATION CANNOT AND NEED NOT BE REDUCED NOW BECAUSE OF UNEXPECTEDLY HIGH BANK LIQUIDITY, BUT MESSAGE IS CLEAR THAT HE WOULD LIKE TO DO SO WHEN SITUATION PERMITS. HIS APPROACH WOULD SET MONEY SUPPLY AS MONETARY POLICY TARGET INSTEAD OF NET DOMESTIC CREDIT AND RESERVE RATIO, AS UNDER CURRENT FUND STANDBY AND CIAP LETTER COMMITMENTS. USING MONEY SUPPLY AS GUIDE MONETARY POLICY AND REDUCING RESERVE RATIO SO AS TO CHANNEL MORE FUNDS THROUGH COMMERCIAL BANKS ARE ACCEPTABLE MEASURES ONLY IF NET DOMESTIC CREDIT MONETARY AUTHORITIES CAN BE CONTAINED WELL BELOW CURRENTLY PROJECTED LEVEL. AS IN FISCAL AREA THERE APPEARS BE TENDENCY TO IMPLEMENT THAT PORTION OF APPROACH WHICH IS POLITICALLY POPULAR, *NIZ*. MAINTENANCE OF UNCHANGED RESERVE RATION WHEN BANK LIQUIDITY ROSE TO EXCESSIVE LEVEL. THUS FAR NO FIRM EFFORT IS APPARENT TO BRING ABOUT NECESSARY CONTAINMENT OF PRIMARY CREDIT THROUGH FISCAL POLICY, COFFEE, POLICY, BANK OF BRAZIL LENDING POLICY, ETC.

6. IN PURSUANCE OBJECTIVE OF INCREASING AGRICULTURAL PRODUCTION, NETO INTENDS USE MINIMUM PRICE PROGRA TO MAXIMUM EXTENT POSSIBLE AND TO ALLOCATE ADDITIONAL CREDIT TO AGRICULTURAL SECTORS THROUGH COMMERCIAL BANKS. TO EXTENT COMMERCIAL BANKS CAN SATISFY AGRICULTURAL CREDIT NEEDS IN LIEU BANK OF BRAZIL LENDING, THERE COULD BE LESS EXPANSION NET DOMESTIC CREDIT THAN PREVIOUSLY PROJECTED. BUT AS YET THERE IS NO EVIDENCE OF PROGRAM TO INCREASE COMMERCIAL BANK PARTICIPATION IN AGRICULTURAL CREDIT PROGRAMS AND MINIMUM PRICE PROGRAM.

7. IN SUM, WHILE NETO SEEMS TO HAVE A COHERENT ECONOMIC PHILOSOPHY, HE HAS THUS FAR IMPLEMENTED SERIES OF MEASURES OF MORE POPULAR VARIETY WHICH ARE CONSISTENT WITH THAT PHILOSOPHY, BUT HAS FAILED TO TAKE THE LESS POPULAR COMPLEMENTARY MEASURES WHICH ARE NECESSARY TO FORGE A FIRM AND CONSISTENT ECONOMIC PROGRAM. WE ARE AWARE OF PRESSURES FROM MANY SIDES TO CONTINUE POPULAR MEASURES AND REFRAIN FROM HADDER DECISIONS. THE MAJOR QUESTION TO BE ANSWERED OVER THE NEXT FEW MONTHS IS WHETHER THE GOVERNMENT WILL HAVE THE WISDOM AND INTEGRITY TO RESIST THESE PRESSURES. ADDING TO THEIR PROBLEM WILL BE THE NECESSITY OF INCREASED PUBLIC SECTOR EXPENDITURES IN EDUCATION AND HEALTH, IN ADDITION TO AGRICULTURE, IF PROGRESS IS TO BE MADE TOWARD ACHIEVING STATED DEVELOPMENT OBJECTIVES OF OSTASILVA GOVERNMENT. TO MAKE THESE EXPENDITURES WILL REQUIRE SIGNIFICANT REFORMULATION PUBLIC SECTOR EXPENDITURE PROGRAM. THERE HAS BEEN LITTLE INDICATION THAT NETO AND HIS TEAM HAVE FACED UP TO THIS PROBLEM.

TUTHILL

CONFIDENTIAL

DECLASSIFIED

Authority NND 969000