

84

THE WHITE HOUSE
WASHINGTON

~~Confidential~~ Thursday, June 22, 1967

NOTE FOR WALT ROSTOW

Walt -

Last week we sent the President a memo on Brazil describing their failure to meet program loan objectives and our decision not to release further tranches until new targets were renegotiated. The plan was for Jack Tuthill to tell Costa e Silva the sad news.

Jack is back in Brazil. He has taken another look at the situation and concludes the timing is bad to hit Costa e Silva. He states his reasons persuasively in the cable (Tab A).

ARA has gone back to him with a cable saying he is in the driver's seat and he should use his judgment (Tab B).

WGB
WGBowdler
DECLASSIFIED
Authority NSC 1-6-81 letter
By inf, NARS, Date 1-13-81

Attachments

Rio's 11938, 6/20 (Tab A).

Deptel to Rio 214140, 6/22 (Tab B).

~~Confidential~~

INCOMING TELEGRAM *Department of State*

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Action

NNNNVZCZCESB070

ARA

PP RUEHC RUFNCR

DE RUESUA 11938 1712135

ZNY CCCCC

Info

P 202130Z JUN 67

FM AMEMBASSY RIO DE JANEIRO

017021

SS

TO RUEHC/SECSTATE WASHDC PRIORITY

GPM

INFO RUFNCR/AMEMBASSY PARIS

SP

RUESUZ/AMEMBASSY Q BRASILIA

SC

STATE GRNC

L

BT

~~CONFIDENTIAL~~ RIO DE JANEIRO 11938 SECTION 1 OF 2

H

PARIS FOR PALMER (IBRD MEETING)

NSC

INR

SUBJECT: BRAZIL ECONOMIC ASSISTANCE

CIA

REFERENCE: STATE 211932

NSA

ATD

PC

E

1. SINCE RETURNING TO RIO, I HAVE REVIEWED THE STRATEGY IMPLICIT IN REFTEL IN TERMS OF EVOLVING POLITICAL SITUATION AND ECONOMIC STEPS TAKEN BY THE GOVERNMENT DURING PAST FEW WEEKS. ON BASIS THIS REVIEW, I FEEL THAT STRATEGY PROPOSED IS PREMATURE AND RUNS UNACCEPTABLY HIGH RISK OF ADVERSE POLITICAL REACTION. IT

BOB

FRB

TRSY

RSR

RSC

MIGHT WELL RESULT IN BREACH WHICH WOULD DESTROY RELATIONSHIPS WE ARE ATTEMPTING TO BUILD AND WOULD BE VERY DIFFICULT TO REPAIR. AN ALTERNATIVE COURSE OF ACTION IS AVAILABLE WHICH I BELIEVE WILL BE BETTER MEANS ACCOMPLISH ENDS WE SEEK.

2. THERE IS NO QUESTION THAT A NUMBER OF STEPS WHICH THE NEW GOVERNMENT HAS TAKEN ARE ILL-ADVISED. THERE IS ALSO NO DOUBT THAT THEY HAVE FAILED SO FAR TO COMPLY WITH IMPORTANT GOALS ESTABLISHED IN THE CIAP LETTER. FOR US, THE QUESTION IS HOW AND WHEN CAN WE BRING THEM TO FACE UP TO THE PROBLEM OF THE CIAP LETTER AND THE PROGRAM LOAN. HOWEVER, FOR THE PRESENT GOVERNMENT NEITHER THE CIAP LETTER NOR THE U.S. PROGRAM LOAN CAN BE CONSIDERED AN OVERRIDING CONCERN. THE PRESIDENT IS FACED WITH INTENSE PRESSURE FROM ALL SIDES. TO CONFRONT THE PRESIDENT WITH WHAT HE MIGHT WELL CONSIDER AN ULTIMATUM A TIME WHEN HE IS HARRASSED ON A MULTITUDE OF OTHER PROBLEMS WOULD, VERY LIKELY PRODUCE

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E.O. 12958, Sec. 3.6

NIJ 03-228

By *no*, NARA, Date *2-6-04*

~~CONFIDENTIAL~~

-2- RIO DE JANEIRO 11938 SECT 1 OF 2 6/20/67

RESULTS EXACTLY CONTRARY TO OUR INTENT.

3. THE FOLLOWING FACTORS SHOULD BE CAREFULLY WEIGHED AS PART OF THE CONTEXT IN WHICH WE ARE OPERATING:

(A) WHILE IT IS ALMOST INEXCUSABLE THAT COSTA E SILVA WAS PRESIDENT-ELECT FOR FIVE MONTHS AND HAS NOW BEEN IN OFFICE FOR MORE THAN THREE MONTHS WITHOUT HAVING DEVELOPED AN ECONOMIC PROGRAM, THIS IS NOT SURPRISING IN VIEW HIS BACKGROUND AND THE NATURE OF THE MAN. THE DECISIONS TAKEN BY THE GOVERNMENT TO DATE HAVE BEEN AD HOC DECISIONS. HE IS TESTING THE POLITICAL FORCE OF VARIOUS ECONOMIC GROUPS AND IS RELUCTANT TO TAKE GENERAL ECONOMIC MEASURES.

(B) THE PRESIDENT IS UNFAMILIAR WITH ECONOMICS. HE WILL REQUIRE A GREAT DEAL OF BRIEFING ON ECONOMIC SUBJECTS FROM HIS ADVISERS, AND MAY HAVE TO LEARN SOME LESSONS THE HARD WAY. IT IS AT LEAST ENCOURAGING THAT HE IS NOW AWARE OF THE FACT THAT HIS BUDGET IS IN A DANGEROUS DEFICIT POSITION, AND HE HAS TAKEN A HARD STAND AGAINST FURTHER DEMANDS FROM THE STATES

FOR EMERGENCY FINANCING (MANY OF THESE STATES ARE BASIC TO HIS POLITICAL SUPPORT).

(C) THE CABINET WITH WHICH HE IS OPERATING HAS NOT DEVELOPED INTO A TEAM, NOR HAS ANY SINGLE MEMBER ASSUMED THE ROLE OF "PRIME MINISTER" PLAYED BY ROBERTO CAMPOS IN THE PREVIOUS GOVERNMENT.

(D) THERE IS LITTLE QUESTION THAT THE "RECESSION" IN THE BRAZILIAN ECONOMY DURING THE PAST SEVERAL MONTHS HAS HAD A STRONG INFLUENCE ON THE PRESIDENT'S THINKING. HE IS COMMITTED TO GETTING THINGS MOVING. HE CANNOT BE UNAWARE, IN ADDITION, OF THE FACT THAT THE COFFEE PRICE DECISION WAS GREETED WITH APPROVAL BY THOSE WHO COMMENTED PUBLICLY ON IT INCLUDING THE USUALLY CONSERVATIVE O ESTADO DE SAO PAULO WHICH HAS SHARPLY CRITICIZED HIS ECONOMIC PROGRAM TO DATE. UNLIKE CASTELLO BRANCO, HIS ECONOMIC DECISIONS ARE HEAVILY INFLUENCED BY HIS DESIRE TO BUILD ON POPULAR BASE WHICH HE CANNOT ACHIEVE IF ECONOMIC CONDITIONS DO NOT IMPROVE.

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-3- RIO DE JANEIRO 11938 SECT 1 OF 2 6/20/67

GIVEN THE STATE OF RESTLESSNESS AND DISSATISFACTION WHICH CHARACTERIZED LARGE NUMBERS OF BRAZILIANS AT THE END OF THE PAST REGIME, HE MAY WELL SEE ECONOMIC EXPANSION AS THE ONLY WAY TO PREVENT SERIOUS POLITICAL INSTABILITY IF NOT HIS SURVIVAL IN OFFICE - AS IT MAY WELL BE. SINCE THE ISSUES HAVE NOT YET BEEN CLEARLY DEFINED, THE ANTAGONISTS ARE ALSO LARGELY UNIDENTIFIED. THERE HAS NOT YET BEEN SUFFICIENT TIME FOR LINES TO FORM. THIS WILL COME ABOUT AS THE SITUATION EVOLVES.

(E) AS FREQUENTLY REPORTED, PRESIDENT IS ALSO ATTEMPTING TO PROJECT A POSTURE OF "INDEPENDENCE," AWARE OF THE POLITICAL LIABILITIES WHICH CASTELLO BRANCO ASSUMED IN HIS EXTREMELY CLOSE RELATIONSHIP WITH U.S. GOVERNMENT HAS MADE IT CLEAR THEY WILL NOT ACCEPT PRESSURE ON INTERNAL POLICIES EVEN IF THIS SHOULD LEAD TO UNFAVORABLE REPERCUSSIONS IN THE FOREIGN POLICY FIELD. THEY ARE A HYPER-SENSITIVE GOVERNMENT EASILY GIVEN TO MISINTERPRETING OUR MOTIVES. THEY ARE ALREADY A LOSS TO UNDERSTAND OUR FAILURE TO RESPOND FAVORABLY - OR EVEN SYMPATHETICALLY -

TO THEIR REQUEST FOR F-5'S AND M-16'S (RIO 11681). (I MIGHT ADD THAT I SHARE THEIR REACTION IN THIS REGARD. THE POSSIBILITY OF A CONFRONTATION IN THE ECONOMIC FIELD COMING AT THIS TIME WOULD SIGNIFICANTLY CONTRIBUTE TO THE GROWING FEELING THAT THE U.S. IS LESS INTERESTED IN THE NEEDS OF THE COSTA E SILVA GOVERNMENT THAN IT IS IN CONTINUING ALLEGED ADVANTAGES U.S. ENJOYED UNDER HIS PREDECESSOR. THIS IS NOT A REASONABLE REACTION BUT ON WHICH HAS MADE SOME INROADS IN PUBLIC AND PROBABLY GOVERNMENT SECTORS.

GP-3 TUTHILL

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6-2-S

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Action VZCZCESB084SUA646
ARA PP RUEHC RUFNCR
DE RUE SUA 11938/2 171222Z
Info : ZNY CCCCC
P 202130Z JUN 67
SS * FM AMEMBASSY RIO DE JANEIRO
GPM TO RUEHC/SECSTATE WASHDC PRIORITY
SP INFO RUFNCR/AMEMBASSY PARIS
SC RUESUZ/AMEMBASSY BRASILIA
L STATE GRNC
H BT
~~CONFIDENTIAL~~ SECTION 2 OF 2 RIO DE JANEIRO 11938
PARIS FOR PALMER (IBRD MEETING)

CIA 4. ONE FACTOR WHICH AFFECTS OUR STRATEGY IS THAT THE
NSA BRAZILIAN GOVERNMENT FEELS UNDER NO PRESSURE TO DRAW
AID AGAINST THE PROGRAM LOAN. THEIR DESULTORY PERFORMANCE
PC IN COMPLYING WITH THE CONDITIONS PRECEDENT FOR THE
E FIRST TRANCHE IS A REFLECTION OF THE ATTITUDE.
BOB THEIR FOREIGN EXCHANGE POSITION IS STRONG. THEY
FRB HAVE SHOWN THAT THEY WISH TO KEEP THE IMF OUT OF THE
TRSY DECISION-MAKING PROCESS. MANY OF THEM VIEW THE
PROGRAM LOAN AS A WAY BY WHICH THE U. S. FINANCES ITS

RSR
RSC PAGE 2 RUE SUA 11938/2 ~~CONFIDENTIAL~~
EXPORTS, AND THEREFORE OF GREAT INTEREST TO US. OUR
LEVERAGE SHOULD NOT BE OVERESTIMATED.

5. GIVEN THIS CONFIGURATION, I THINK IT WOULD BE
PREMATURE TO CONFRONT THE PRESIDENT WITH WHAT MIGHT APPEAR
TO HIM TO BE AN ULTIMATUM. BEFORE SUCH AN
APPROACH IS MADE TO HIM. WORD SHOULD COME TO HIM
THROUGH HIS MINISTERS OF THE U.S. CONCERN ON THIS
SUBJECT, AND HOPEFULLY HE WILL BECOME FURTHER PER-
SUADED OF THE SERIOUSNESS OF HIS OWN ECONOMIC PROBLEMS-
NOT SO MUCH IN TERMS OF THE CIAP LETTER, BUT RATHER
IN TERMS OF HIS OWN GOALS FOR BRAZIL. I WOULD THERE-
FORE PROPOSE THAT WE DEFER THE APPROACH TO THE
PRESIDENT UNTIL WE HAVE HAD TIME TO LET AN AWARENESS
OF OUR CONCERN REACH HIM THROUGH HIS MINISTERS. AT
THAT TIME (AND WE WOULD HAVE TO BE PREPARED TO MOVE
QUICKLY IF NECESSARY), I WOULD APPROACH THE PRESIDENT
ALONG THE LINES OF THE AIDE MEMOIRE REFERRED TO IN
REFTEL. MEANTIME, I PROPOSE TO HOLD CONVERSATIONS
ALONG THESE LINES WITH KEY MEMBERS OF THE GOVERNMENT,

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-2- RIO DE JANEIRO 11938, 202130Z JUN 67, SECTION II OF II.

AND ASK OTHER MEMBERS OF THE STAFF HERE TO DO LIKEWISE. I SEE NO HARM IN ALLOWING THE DATE FOR THE RELEASE OF THE NEXT TRANCHE OF THE PROGRAM LOAN TO PASS WITHOUT SUCH A RELEASE, NOR WOULD I ANTICIPATE ANY PRESSURE FROM THE BRAZILIANS FOR THE FUNDS. MEAN-TIME, I WOULD EXPECT THAT THE GOVERNMENT WOULD BEGIN TO FIRM UP ITS ECONOMIC POLICY, LEARN A FEW LESSONS THE HARD WAY, AND WITH OUR PRODDING (AND THAT OF IMF AND THE WORLD BANK)

COME OUT WITH A DEFENSIBLE PROGRAM. THE POLICY WILL NOT BE EVERYTHING WE WANT, BUT THE ALTERNATIVE OF A CONFRONTATION ON THIS ISSUE - ADDED TO THE FRUSTRATION AND SUSPICION ALREADY AROUSED BY THE M-16 AND F-5 ISSUES, CARRIES HEAVY RISKS OF A POLITICAL RUPTURE.

6. AS WITH EVERY NEW GOVERNMENT, THE PRESENT GOVERNMENT IS GOING THROUGH A PERIOD OF CONFUSION AND SORTING OUT. THE PROCESS HAS TAKEN LONGER THAN WE HAD HOPED, BUT MY ESTIMATE OF THE CHANCES OF A VIABLE POLICY EMERGING ARE GOOD. IF I AM WRONG, WE

PAGE 4 RUESUA 11938/2 ~~CONFIDENTIAL~~
WILL HAVE TO RE-EXAMINE, IN ANY EVENT, THE WHOLE U.S. ASSISTANCE STRATEGY (AND NO PROGRAM LOAN RELEASE WOULD HAVE BEEN MADE MEANTIME). IF I AM RIGHT, WE WILL HAVE SAVED OURSELVES CONSIDERABLE BLOOD-LETTING AND, AT A MINIMUM, NEEDLESS BAD FEELINGS WHICH WOULD ADVERSELY AFFECT OUR RELATIONS WITH AN IMPORTANT AND VALUED ALLY WHO AS NOTED ABOVE IS ALREADY UNSURE OF OUR DESIRE TO TREAT HIM AS SUCH.

GP-3 TUTHILL

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OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

CONFIDENTIAL

RECEIVED
U.S.C. 214140
JUN 22 2 26 PM '67

43
Origin
55
Info:

ACTION: AmEmbassy RIO DE JANEIRO PRIORITY
INFO: AmEmbassy BRASILIA
AmEmbassy PARIS

JUN 22 8 40 AM '67

STATE 214140

SUBJECT: Brazil: Economic Assistance

REF.: Rio 11938

JOINT STATE/AID MESSAGE

LIMDIS

- ☒ DATA
- ☒ BOWEN
- ☒ BUDGET
- ☒ DAVIS
- ☒ GIBBSBURG
- ☒ HAMILTON
- ☒ JESMAN
- ☒ JOHNSON
- ☒ JORDEN
- ☒ KEESEY
- ☒ KOWAL
- ☒ MOYERS
- ☒ TAYLOR
- ☒ WILKINS

PARIS for Mr. Donald Palmer (IBRD Meeting)

1. We have no objection to Ambassador deferring approach to Costa e Silva.
2. As you know, we have felt for some weeks that we might not be able disburse second tranche of Program Loan, and now it is quite clear that we won't, based on present Agreement. While this is naturally very disappointing, and while we may not be able to influence GOB's economic/financial decisions very much now, given range of factors outlined

DECLASSIFIED
E.O. 12958, Sec. 3.5
State Dept. Guidelines
By jc, NARA, Date 6-12-03

Drafted by ARA-LA/BR:JBKubisch:6/21/67:ds	Tel. Ext. 3066	Telegraphic transmission and classification approved by: ARA - Mr. Sayre
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Clearances:
PC - Mr. Lion (Para. 1, phone)
Treasury - Mr. Costanzo (Para. 1, phone)

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reftel, importance and far reaching consequences of these decisions demand that we make every effort be as constructive a force as possible during the coming months.

3. Questions of strategy turn on your assessment of economic/financial prospects, what influence we can have, and how this influence can best be brought to bear. For example, while we would hate to see major setbacks on economic side in Brazil, there may be nothing we can do to prevent them, and net damage might be less if we saved whatever influence and resources we have to use at a more promising moment, say later this year.

4. Decision as to whether it preferable to approach Costa e Silva before or after Ministers, with or without side memoire, or at all, is entirely up to Ambassador. From previous messages and our talks in Washington last week, we had impression that key Ministers and members of GOB already knew of our concern on this subject. In any case, what is required now, it seems to us, is that you and we recognize clearly that existing Program Loan Agreement is collapsing. Tactically, a key question would be should we try to renegotiate it promptly, or should we try and let it ride for a while without making any

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disbursement and without renegotiating it, but also without any confrontation that might be untimely and carry heavy political risks. You will no doubt want to consider these and other alternatives in making your recommendations on this general subject, which we hope to receive by July 3.

5. Palmer may wish to comment separately from Paris.

GP. 3.

END.

KATZENBACH

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