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PRIORITY (2771), JUNE 8 4 P.M.

FOR BELL, MANN, ROGERS AND SOLOMON

LIMDIS

1. CONFIRMING MY TELECON WITH SOLOMON THIS MORNING, I AM MOST DISTRESSED AT AMOUNTS AND TIMING ASSISTANCE TO BRAZIL CONTEMPLATED DEPTTEL 1702. THIS ASSISTANCE FALLS VERY FAR SHORT OF KIND OF POLITICAL AND ECONOMIC SUPPORT TO GOB, WHICH NEEDED THIS STRATEGIC TIME TO HELP TURN BRAZIL INTO LASTING EXAMPLE CFN 2771 BELL MANN ROGERS SOLOMON LIMDIS : 1702 GOB

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ACCOMPLISHMENTS AND LEADERSHIP UNDER AFP. WE MUST DO MUCH BETTER THAN REFTTEL SUGGESTS. I URGE THAT BEFORE END OF JUNE WE DEMONSTRATE MAXIMUM POSSIBLE SUPPORT FOR GOB EFFORTS. MY REASONING, ON WHICH I WILL EXPAND IN MY FORTHCOMING TALKS IN WASHINGTON BEGINNING JUNE 13, INCLUDES THE FOLLOWING CONSIDERATION:

2. AFTER YEARS OF FRUSTRATION, WATCHING ECONOMY BEING MISMANAGED AND COUNTRY BEING SUBVERTED, U.S. SUDDENLY FINDS A GOB GENUINELY WORKING IN FULL SPIRIT OF CHARTER PUNTA DEL ESTE. GOB NOT JUST TALKING ABOUT, BUT CONSTRUCTIVELY WORKING TO ACHIEVE ALL THREE MAIN OBJECTIVES OF CHARTER--DEVELOPMENT, STABILIZATION AND REFORM. IN INITIAL PHASES GOVERNMENT MUST DO MANY THINGS WHICH UNPOPULAR, AND IT NEEDS AND DESERVES U.S. SUPPORT. WHILE FINANCIAL POLICY MEASURES HAVE BEEN IMPLEMENTED SOMEWHAT SOLOWLY, THIS DUE GOVERNMENT DESIRE AVOID UNDUE AUSTERITY ON WORKING CLASSES, UNTIL REFORMIST NATURE OF GOVERNMENT WIDELY ESTABLISHED. FROM POINT OF VIEW LONG-RUN CONSOLIDATION OF REGIME AND POLITICAL SUCCESS MODERATE

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-2- 2771, JUNE 8, 4 PM, FROM RIO DE JANEIRO.

DEMOCRATIC GOVERNMENT, DIFFICULT QUARREL WITH THIS APPROACH.

3. BASIC TO INTERPRETATION OF BALANCE OF PAYMENTS ESTIMATE (TABLE I) OF WASHINGTON TEAM'S REPORT IS WHETHER BRAZILIAN CFN -10 GOB 13 2. US GOB 3. I

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PROBLEM IS APPROACHED NEGATIVELY, IN SENCE MERELY AVOIDING BANKRUPTCY, OR POSITIVELY, WITH VIEW CONTRIBUTING SUBSTANTIAL RESOURCES FROM ABROAD TO SUPPORT GOB OBJECTIVES STABILIZE COUNTRY'S FINANCES AND RESUME HIGH RATE OF ECONOMIC DEVELOPMENT. I AM CONFIDENT LATTER IS U.S. INTENTION.

4. ACCORDINGLY, SINCE IMPORT ESTIMATES IN BALANCE OF PAYMENTS TABLE DO NOT MAKE ALLOWANCE FOR ADDITIONAL ASSISTANCE TO STABILIZATION AND DEVELOPMENT, JUDGMENT OF THE AMOUNT OF ASSISTANCE THAT U.S. SHOULD GIVE SHOULD NOT BE BASED ON THE IMPORT FIGURE IN THE TABLE ALONE. ADDITIONAL IMPORTS IN SUBSTANTIAL VOLUME CANNOT ONLY BE ABSORBED, BUT ARE NECESSARY TO BACK UP A POSITIVE POLICY. (A FURTHER FACTOR THAT SHOULD BE TAKEN INTO ACCOUNT IS THAT DEBT RESCHEDULING FIGURE OF \$129 MILLION LOOKS VERY OPTIMISTIC, PARTICULARLY WITH THE TIME SLIPPAGES IN THE ORIGINAL TIMETABLE FOR DEBT RESCHEDULING, ESPECIALLY WITH RESPECT TO PRIVATE U.S. CREDITORS, WHICH HAS BEEN DESCRIBED IN RECENT TELEGRAMS.)

5. I HAVE JUST RETURNED FROM A WEEKEND IN MATO GROSSO TRAVELING IN THE COMPANY OF ROBERTO CAMPOS, DURING WHICH I HAD UNIQUE OPPORTUNITY TO SPEND LONG HOURS PROBING HIS IDEAS OF GOVERNMENT'S POLICIES TO COME. IT IS CLEAR THAT HE HAS CFN 4. \$129 5.

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IN MIND PERFECTING THE GOVERNMENT'S PROGRAM FOR 1964 AND BRINGING THE GOVERNMENT'S PROGRAM FOR 1965 (INCLUDING THE 1965 BUDGET AND A COMPREHENSIVE "PROGRAM OF GOVERNMENT") TO A STAGE WHERE THEY COULD FORM THE BASIS FOR COMPREHENSIVE DISCUSSIONS TO OBTAIN IMF. U.S. AND OTHER FINANCIAL ASSISTANCE IN LATE

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-3- 2771, JUNE 8, 4 PM, FROM RIO DE JANEIRO.

AUGUST OR EARLY SEPTEMBER. HE IS RECONCILED TO WAITING FOR LARGE AND LONG TERM COMMITMENTS OF INTERNATIONAL ASSISTANCE UNTIL THAT TIME, BUT I HAVE NO DOUBT THAT IF THE U.S. WERE TO CONFINE ASSISTANCE IN JUNE TO THAT DESCRIBED IN REFTEL, CAMPOS (AND MANY OTHERS IN GOB) WOULD FEEL USG WAS LETTING NEW BRAZILIAN GOVERNMENT DOWN WITH A THUD AND TREATING IT HARDLY BETTER THAN GOULART.

6. IN SUMMARY, I BELIEVE U. S. MUST SHOW SUBSTANTIAL POSITIVE SUPPORT FOR NEW BRAZILIAN GOVERNMENT, WHICH IN LAST TWO MONTHS HAS ALREADY ACCOMPLISHED MUCH MORE TOWARD AFP OBJECTIVES THAN PREVIOUS GOVERNMENT IN 2 1/2 YEARS, AND MORE THAN MANY OTHER LA GOVERNMENTS CAN SHOW. IT IS SIMPLY NOT ENOUGH DO FOR NEW GOB HARDLY MORE THAN WOULD HAVE BEEN DONE FOR GOULART. IS NOT ENOUGH JUST TO ASK WHETHER U.S. ASSISTANCE WILL AVOID BANKRUPTCY AND ALLOW MINIMUM LEVEL OF IMPORTS. INSTEAD, WE MUST CONSIDER WHAT LEVEL ASSISTANCE IS NECESSARY TO SUPPORT A
CFN 1964 1965 1965 6. 2 1/2

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POSITIVE GROWTH AND REFORM PROGRAM AND TO KEEP UP AND ENCOURAGE MOMENTUM OF ACTION WHICH NEW GOB HAS BEGUN. SPECIFICALLY, I RECOMMEND THAT DURING JUNE, U.S. BE PREPARED TO DO FOLLOWING: (A) PROGRAM LOAN OF NOT LESS THAN \$60 MILLION WITH COUNTER-PART TO BE USED FOR DEVELOPMENT-REFORM PURPOSES, WITHOUT SEPARATION INTO TWO PHASES MENTIONED REFTEL, AND (B) APPROVE APPROXIMATELY \$125 MILLION IN PROJECTS NOW PENDING, INCLUDING \$45 MILLION FOR HIGHWAYS.

7. QUESTION ELIMINATING DOLLAR FINANCING FOR LOCAL COSTS ROADS, REFLECTED IN REFTEL, IS SUBJECT IN ITSELF WHICH I SHALL ALSO WISH DISCUSS DURING WASHINGTON CONSULTATIONS. I CONSIDER ROAD PROGRAMS OF HIGHEST PRIORITY AND SEE ABSOLUTELY NO JUSTIFICATION OMIT ROAD CONSTRUCTION FROM AID ASSISTANCE.

GP-3. GORDON

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