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BI-WEEKLY SUMMARY (July 8 - July 21)

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CONSULATE OF THE UNITED STATES  
OF AMERICA

JUL 28 1967

BELEM, PARA, BRAZIL

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POLITICALA. Palmares Crisis Continues

1. Despite the announcement early this month that the Sugar and Alcohol Institute would intervene two usinas in Palmares, the crisis still continues in that southern Pernambuco city. The Institute has not yet been able to reach agreement with an administrator contracted for the job and impatient and unemployed workers almost daily threaten to invade the city in search of food. Last week, the state government sent 50 tons of emergency food supplies to the area prompting USAID, in response to a request from the state, to offer its assistance in feeding the workers and their families. Meanwhile, the situation remains basically unchanged.

2. COMMENT. The IAA seems to be ill-suited to meeting this kind of crisis, seeing no recourse other than to substitute new management for old. Moreover, neither IBRA nor GERAN has yet demonstrated their capacity for coping with similar problems.

ECONOMICB. Hirschman Remarks Spark Controversy

3. Simple mention in Rio newspapers of Professor Albert Hirschman's report on article 34/18 investment incentives was enough to provoke a stir in the Northeast.

4. Usually restrained Rubens Costa (president of the Banco de Nordeste) admitted that he hadn't seen the report, but spoke out anyway, objecting to Hirschman's assertion that (1) the BNB has been remiss in neglecting agricultural development, (2) that the 34/18 process should have a planned criteria and a projected date for its termination, (3) that the BNB has been bureaucratic foot-dragging in release of 34/18 money, and (4) that considerable amounts of second-hand equipment could be imported and used in the Northeast.

5. Later, the Jornal do Comercio editorially commented on the last point, saying that Brazil had made enough sacrifices, that it doesn't need to accept semi-obsolete equipment of low productivity, and now has the capacity to manufacture most of its own equipment new.

6. (Both Rubens Costa and SUDENE head, Euler Bentes, have since been sent advance copies of Hirschman's report which is being translated for possible publication in Brazil.)

C. ICM Gains Support

7. In a July 17 Recife meeting, representatives of the commercial associations of nine Northeastern states approved unanimously a resolution calling for continuation of the ICM (circulation tax) system and a uniform tax rate throughout Brazil. The group also will ask the GOB to reduce the ICM to 10% on all commodities bound for export and to 12% for all goods in interstate commerce as well as to exempt beans, manioc flour, fertilizers and insecticides from payment of any of the tax.

8. There was little hint beforehand that the businessmen would be anything but hostile to the ICM. A lengthy talk by Benedito Silva (a Getulio Vargas Foundation economist who helped author the tax) and recent rebounds in state tax collections helped change their minds.

9. Silva said that the ICM itself has not been at fault for low state revenues. He instead blamed the collection mechanism. There are not enough collection agencies, he said, and many of the smaller municipalities, not knowing how to compute the tax, haven't really tried. He cited Maranhao as an example of a state which has done things right: Collections have risen in Maranhao from NCr\$18 million the first semester of 1966 to NCr\$37 million under the ICM system.

F. IBRA Tax Receipts Down

10. An estimated 200,000 rural landholders in the Northeast as of last week had not paid IBRA (Instituto Brasileiro de Reforma Agraria) their rural land tax. The number in default represents 35% of all rural landholders in the region, and the loss in revenue to IBRA is put at 1.8 million new cruzeiros, or about 45% of the IBRA budget.

11. Recognizing that many small landholders operate at close to margin, IBRA's attitude has been a resigned shrug of the shoulders and the statement that no one will be fined on the overdue tax until November, when the fine will be only 5% of the total. Several wry commentaries have already pointed out that the delinquent will pay with money that is 10-15% less valuable.

PSYCHOLOGICAL

E. Seaborg Visit and Northeastern Fall-Out

12. In what might be termed "a fall-out of the Seaborg visit," the Northeast press took to its editorial pens this week to advocate Brazil's entry into the Atomic Club -- under its own power.

13. Admitting that neither a stockpile of hardware nor the peaceful nuclear gadget was just around the corner (five to ten years was the estimate), the Jornal de Comercio said it's time to begin. "How much longer will we stay in an under-developed position or in the condition of a satellite, clients of those who want to make private use of the production of nuclear energy?" "President Costa e Silva is right," the editorial continued, "it is time to seek a place in the Atomic Club."

14. The Jornal, in several editorials, noted the obstacles: the billions of dollars involved in nuclear development and its dearth of scientists, some of which are either in voluntary or involuntary exile, and others who went abroad to earn more money. It is the responsibility of the Brazilian government, the Jornal said, to encourage the return of these scientists. "With so few within the country, we cannot afford the luxury of wasted talent," the newspaper stated.

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