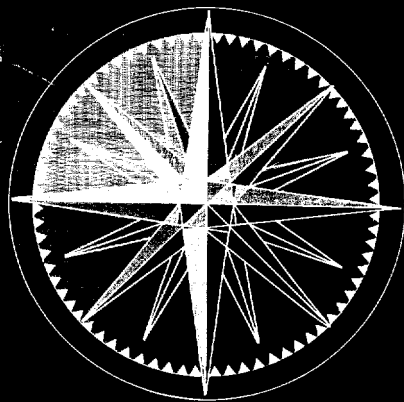


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SPECIAL REPORT

POLITICAL, MILITARY, AND ECONOMIC TRENDS IN BRAZIL

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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16 August 1963

POLITICAL, MILITARY, AND ECONOMIC TRENDS IN BRAZIL

Brazilian President Goulart is continuing his efforts to increase his personal power, and appears to be maintaining his alliance with the extreme left. He is tightening government control over news media, and is actively seeking to undermine Carlos Lacerda, Brazil's leading anti-Communist and governor of Guanabara State (the city of Rio de Janeiro). Goulart's measures to neutralize the army's capacity to monitor his government's political orientation appear also to have had significant effect. In the economic sphere, the tight foreign exchange situation--which has prompted Brazilian efforts to secure extensive US aid in recent years--remains critical.

Goulart's Campaign
Against the Press

The Goulart government's new effort to control news media apparently is an attempt to restrict the maneuverability of opposition elements and to swing public opinion in favor of the government's proposed "basic reforms." Goulart is also interested in indirectly warning his opposition against any antigovernment moves.

His administration is using existing machinery to exert its new pressures. It has announced a policy of setting aside one half-hour per week for radio discussion of "basic reforms" by high-level officials. This program is under the supervision of the government's national communications agency, headed by Josue Guimaraes, who is not known to be a Communist although he has frequent contacts with the Soviet Embassy. The government has also requisitioned considerable additional time to put its

point of view before the public in response to a recent antigovernment attack by Lacerda.

In addition, financial control is exerted over the press in several ways. Goulart threatened to demand immediate payment of a large loan to the Bank of Brazil by one magazine if it did not print an article by his anti-US brother-in-law, Congressman Leonel Brizola. A latent threat of which publishers are aware is that government subsidization of the newsprint industry puts the distribution of newsprint under Goulart's control.

The government is also exerting pressure by insisting on the collection of arrears on social security payments from newspapers. A prime target of this effort is Rio de Janeiro's Tribuna da Imprensa, which is connected with Lacerda. The Brazilian military's arrest of a leading newspaperman for publishing a secret military cable has contributed to the press intimidation campaign.

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GOULART

Goulart as Champion
of "Basic Reforms"

The antipress campaign has been complemented by the government's return, after a period of relative quiet, to a technique of appealing for mass support for "basic reforms." The most pertinent example of this appeal is the appearance of Goulart and his entire cabinet on 29 and 30 July in Recife, capital of pro-Communist Governor Arraes' state of Pernambuco. Goulart and Arraes both seized the opportunity to make demagogic appeals which were designed to give the impression that the federal and state authorities are doing everything possible to institute agrarian reform, and leaving the clear implication that Congress now is a bottleneck to effective action on this front. Arraes made a thinly veiled public attack on the Alliance for Progress, charging that the large landholders, backed by the resources of im-

perialism, are engaged in a campaign of bribery and lies with the object of justifying foreign loans direct to municipalities.

In contrast, Governor Aluisio Alves--who has a single-minded drive toward economic development of his state of Rio Grande do Norte--appears to be calling the bluff of the extreme leftists with respect to the Alliance for Progress. At a meeting in Recife of the Northeast Development Agency (Sudene), Alves presented Goulart with a memorandum signed by almost all northeast governors except Arraes. The memorandum asked the federal government to define its position toward the Alliance for Progress, either by declaring it desirable and beneficial and cooperating with it fully in the interest of development, or branding it as an instrument of imperialism and rejecting it entirely.



LACERDA

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Goulart apparently chose Pernambuco as the scene of his performance because of the relative ease with which a large crowd sympathetic to the extreme left can be mobilized there. Goulart visited Bahia in early August and again publicly emphasized that reforms were the alternative to violent revolution, mentioning President Kennedy's recent statements on the same theme. Goulart is reportedly planning an excursion to his home state of Rio Grande do Sul in the near future, in what will apparently be a further effort to present himself as the sincere reformer combating reaction.

Pressures on Goulart

The tactics of the extreme leftists and the leftist ultranationalists suggest that they believe they can force Goulart to make major concessions to their points of view. Extremist elements of Goulart's Brazilian Labor Party (PTB) have thus far blocked PTB efforts to come to an agreement with the centrist Social Democrats on an agrarian reform bill. Extreme leftists are also threatening that their recently formed Popular Mobilization Front will break with Goulart. This threat may prove effective.

Relatively conservative groups, such as congressmen from the two major centrist parties, are exerting less vocal and possibly less effective pressure. The sharpest form of pressure in this sector

continues to be the defiant resistance and counterattack by Lacerda. Lacerda's leadership has had the effect of stiffening the center and right opposition to Goulart.

Despite Lacerda's opposition, Goulart seems clearly to be making significantly more concessions to the left. Recent army promotions and key command assignments, for example, have strengthened the leftist ultranationalist network in the army, despite the retirement in July of extreme leftist First Army Commander Osvaldo Alves. The extreme left is likely to be benefited, moreover, by the federal government's efforts to federalize at least some of Governor Lacerda's militarized police in Guanabara State.

The Brazilian Senate's approval on 7 August of the nomination to the Supreme Court of extreme leftist Foreign Minister Evandro Lins e Silva is a further step toward giving President Goulart a sympathetic court majority. The increase of extreme leftist influence in the court is likely to assist Goulart's apparent ambition to intervene in Guanabara and depose Lacerda.

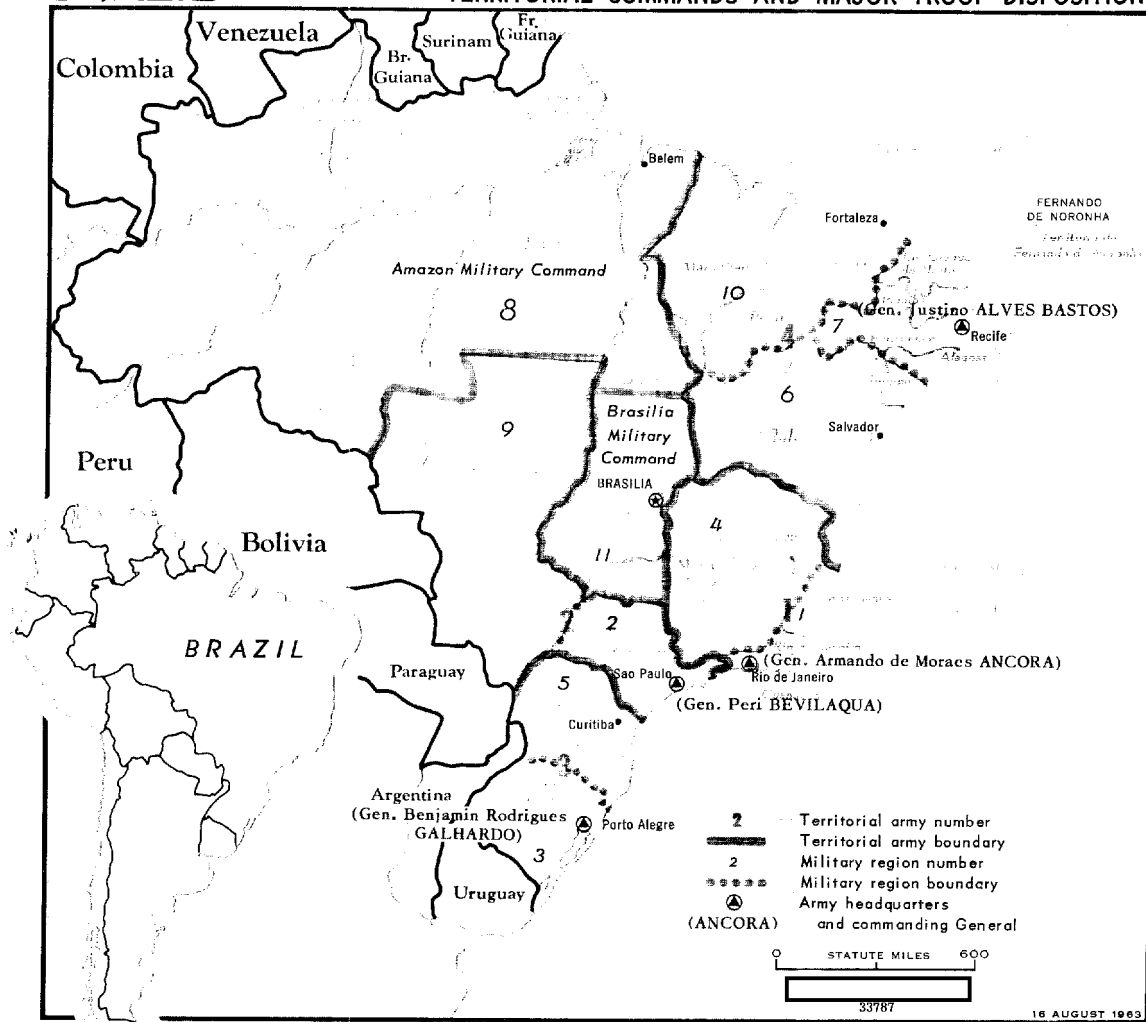
The Military

Goulart has made considerable progress in neutralizing the military as a check on his political actions. Possibly remembering the military's insistence that he be dismissed as labor minister in 1954 when

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BRAZIL

TERRITORIAL COMMANDS AND MAJOR TROOP DISPOSITIONS



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he had advocated raising the wage for common laborers above that for enlisted men, Goulart has moved cautiously, although steadily, to build support among key officers.

His first minister of war, for example, was Nelson de Melo --anti-Communist and allied with moderate ex-President Kubitschek rather than with Goulart. De Melo was followed by General Amaury Kruehl, who is also an anti-Communist but who had strong loyalty to Goulart because of their common origin in Rio Grande do Sul, Brazil's Texas. Most recently, Goulart has appointed to the post Jair Dantas Ribeiro, who apparently believes that it is the duty of an army officer to carry out the directives of elected officials without regard to the political implications.

Under General Ribeiro, the four key army commands have been changed. The Brazilian Army does not have four strongly pro-Goulart generals of appropriate rank for these posts. General Peri Bevilacqua, who was allowed to retain his command of the Second Army in Sao Paulo, is widely considered to be extremely erratic, and possibly close to insane. Officers recognized as weak in character were given the important First Army (General Armando Ancora) and Third Army (General Benjamin Galhardo) commands in Rio de Janeiro and Porto Alegre. The small Fourth Army in Recife--remote from Brazil's center of power--was given

to a relatively able anti-Communist, General Alves Bastos, who is considered more pro-Goulart than his predecessor. This army has been used by Goulart as a depository for able anti-Communists who might give him trouble if more strategically located.

Goulart appears to be using his power over promotions to improve the position of his supporters and to inhibit other officers in their expressions of opposition to him. Of 16 officers promoted to the rank of brigadier general or higher on 26 July, eight have leftist ultranationalist connections while the others are known as "legalists," like War Minister Ribeiro. Goulart's promotion policy is strengthening pro-Communist influence in the army since the officers with Communist sympathies are usually pro-Goulart. Among the officers promoted on 26 July is Argemiro de Assis Brasil, an extreme leftist who is described by the US army attaché as probably controlled by the Communist Party. Assis Brasil was far down the list of officers eligible for promotion, a fact which suggests his promotion resulted from Goulart's intervention.

Among the sweeping changes made in key posts on 6 August was the assignment of pro-Goulart General Bandeira de Moraes as commander of the important second military region (Sao

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Paulo). He replaces General Mourao Filho, long an active leader of the anti-Goulart forces in the military.

The government has also announced the transfer of additional troops to reinforce the garrison in Brasilia and more troops are due to follow. The US army attaché believes that the build-up of forces in the capital may be aimed at bringing pressure on the congress to pass Goulart's controversial agrarian reform program.

The Economic Situation

The chronically critical foreign exchange situation has not improved. While no figures on the balance-of-payments results from the first half of 1963 are yet available, the indirect evidence of the movement of various compensatory financing items suggests that Brazil in fact financed a deficit of 250 to 300 million dollars during the period January-June 1963. A deficit of similar proportions is in sight for the second half of the year.

The Brazilian Government's estimate of its July-December

foreign exchange position counts on export revenues close to \$600 million--a 15-percent increase over early projections--to eliminate that part of its deficit for which it foresees no financing. There appears to be no objective justification for such a projected export increase.

The cost-of-living rise --which President Goulart indicated in June had been brought under control--came to 30.8 percent for the first six months of the year. The new conservative finance minister, Carvalho Pinto, hopes to keep the rise for 1963 to 60 percent.

General business conditions, however, appear to have improved considerably after a downturn last March. The improvement was especially noted in retail and wholesale trade across the country, with improvement in both hard and soft consumer lines. Production in Brazil's automobile industry has been slower to recover than in most other lines. Even in this industry, however, there seems to be a degree of buoyancy, as indicated by recent price increases, which apparently are to be continued.

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