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MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL EXECUTIVE  
COMMITTEE. MEETING OF DECEMBER 11, 1962. 10:00 A.M.

U. S. SHORT TERM POLICY TOWARD BRAZIL

Recommendation

It is recommended that

1. Within the next two weeks, i.e., before Christmas 1962, there be a discussion with President Goulart in general terms, which would reflect the views of President Kennedy and which would emphasize (a) U.S. concern over political and economic developments in Brazil; (b) U.S. desire to collaborate with Brazil in both political and economic fields; and (c) U.S. conviction that such collaboration will be impaired as long as certain difficulties persist. A proposed speaking paper to initiate such a discussion is contained in the draft at Tab A (it is left open whether the discussion on behalf of the President should be by a representative sent specially for that purpose or by the U.S. Ambassador speaking for and on instruction from the President).

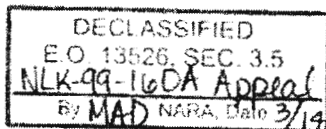
2. Thereafter there be conducted with President Goulart a continuing personal dialogue on behalf of President Kennedy (in which Presidential letters could be used as well as personal representations by the Ambassador) on selected specific issues of major importance. It is probable that the major immediate issues will concern Brazilian internal decisions in the economic field (economic stabilization and climate for private foreign investment). However, these will also have substantial political significance and internal political repercussions.

3. If President Goulart's initial reaction to these discussions should be favorable and he should begin to change accordingly the orientation of his government, the U.S. should avoid ostentatious favoritism toward those elements in Brazil friendly to us but hostile to President Goulart.

4. Actions which the U.S. should initiate in the OAS with respect to Cuba for the purpose of protecting national and hemispheric interests should not be avoided for fear of adverse Brazilian reaction. At the same time, otherwise unsound actions should not be initiated merely for the purpose of isolating Brazil.

5. The question of the date of a Presidential visit to Brazil should be deferred for the time being.

6. Any further large-scale assistance to Brazil in connection with an economic stabilization program should be considered only after Brazil had taken certain significant positive steps, both economic and political, and should be phased in accordance with Brazilian performance under such a program. Specific



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precondition should include satisfactory settlement of the IT&T Case, a clear Brazilian Administration position on remedying the defects in the present profits remittance law, and a public posture of collaboration in the Alliance for Progress, in addition to the necessary measures for economic stabilization.

Reasons

1. The existing alternatives for the United States are:

- A. To do nothing and allow the present drift to continue.
- B. To collaborate with Brazilian elements hostile to Goulart with a view to bringing about his overthrow.
- C. To seek to change the political and economic orientation of Goulart and his government.

2. Alternative A is rejected because the Brazilian internal and external financial crisis, with exhaustion of foreign exchange reserves, will require a United States reaction, either positive or negative, to the new Brazilian economic stabilization program to be presented in January. The present situation, in short, is unstable, and will have to turn soon either for the better or for the even worse. (See Tab B for description of present political and economic situation.)

3. Alternative B is rejected at this time because there is not sufficient evidence of either (a) effective military or civilian opposition leadership in Brazil in a position to act promptly; (b) an organized opposition movement with a present capacity and will to overthrow the Goulart government; (c) a near-future U.S. capability to stimulate such an operation successfully. The needs and possibilities of shifting to alternative B, however, must be kept under active and continuous consideration.

4. Alternative C is selected as the only feasible present approach and as one having a reasonable chance of success. It should in any case be tried before deciding to shift to Alternative B.

5. The following considerations indicate that representations should be made to President Goulart within the very near future:

(a) The Brazilian critical foreign exchange problem is imminent and the Dantas mission to the United States to seek large-scale economic assistance is expected in mid-January.

(b) President Goulart will be making decisions on new government appointments in anticipation of the restoration of the presidential system following the January 6 plebiscite.

(c) U.S. prestige and credibility are high and Soviet reliability correspondingly low as a result of the Cuban crisis. (This, however, may be a diminishing asset with the passage of time.)

6. Confrontation of President Goulart on internal and external policies may produce a change of trend, but is unlikely to bring a total one-shot conversion. It will be necessary to maintain pressure and continually to join issue with him on specific topics. Having in mind our evaluation of President Goulart and our past experience with him this can best be accomplished by:

- A. Creation of a personal relationship between President Kennedy and President Goulart with repeated personal approaches to President Goulart on behalf of President Kennedy.
- B. Simple ad hoc approaches related to specific issues and situations.
- C. Seeking to influence key Goulart advisers receptive to our views.
- D. Continuing to encourage Brazilian moderate democratic elements in Congress, the Armed Forces and elsewhere who advocate domestic and foreign policies which we can support.
- E. Adjusting U.S. assistance and cooperation to Brazilian performance.
- F. Making any financial assistance required to meet immediate foreign exchange shortages available on a short-term basis on conditions implying no long-term commitment.
- G. Pressing President Goulart to take public positions on issues which are critical for U.S.-Brazilian cooperation.
- H. Large tolerance of Brazilian differences with us on non-essential matters.

7. With the passing of the Cuban crisis, Cuba is not a major issue in Brazil. Actions with respect to Cuba in OAS should not be contrived merely to challenge Brazil. But essential hemispheric decisions on Cuba can be utilized to apply pressure and force choices.

#### Discussion

In January or soon thereafter representatives of President Goulart, led by the new Finance Minister San Tiago Dantas, will be coming to this country to explore with us a large-scale, long-term program for bringing under control their deteriorating financial situation. They will be asking us for substantial financial assistance and for support in obtaining help from other governments and international agencies. However, it is undesirable to address ourselves seriously to this important problem without some clearing of the air

with the Brazilian government on recent adverse political developments in Brazil. Also we need to present our views on the political front immediately so that we can bring our influence to bear on important near-future political decisions (e.g., appointments to the new cabinet). A political confrontation and developments flowing from it could help clear the air sufficiently so that we will know in which direction to move not only in the matter of broad financial assistance but also in various other dealings with the Brazilian Government. Such a political confrontation now would be especially timely in view of the foregoing factors.

Unconditional support to the Goulart administration without a political confrontation might be justified now only if we wanted to gain time against a strong expectation that events within the country would bring about either the early overthrow of President Goulart or a near-future change in his policies. We might then continue unqualified support to maintain a favorable image of the U.S. in Brazil and to deny ammunition for diversionary tactics by President Goulart and his supporters. However, such unconditional support cannot be justified because (a) there is not sufficient expectation that either of the alternatives will come to pass without some positive action on our part; (b) our unconditional support could in fact encourage President Goulart and extremists around him to continue their present course and we would thus contribute to a further deterioration of the political and economic situation.

There are limited possibilities of confronting President Goulart on the international front. Unless Brazil should make a clear break with the rest of the countries of this hemisphere, an effective confrontation will be difficult. While the Brazilian position was ambiguous and deliberately confused during the recent Cuba experience, they did vote along with the other American Republics. It is possible that Brazil might be forced to shift its policy to avoid putting itself in isolation in the hemisphere. In this regard, however, we can only continue our firm policy in the OAS and confront or isolate Brazil only as Brazil makes such action necessary. We should not, however, overlook opportunities to deny prestige to Brazil's "neutralist, peace-making" role insofar as it encourages resistance to U.S. policy objectives in this hemisphere.

One should not expect that a major political confrontation with President Goulart will bring about his sudden and complete conversion. He will still maintain at least some of his alliances with leftist elements. He will still be limited by his own ineffectiveness and excessive preoccupation with political power maneuvers. A major political confrontation could, however, influence President Goulart toward a more moderate and more constructive political course, including much heavier reliance on center forces in the country willing to collaborate with him if he acts responsibly, in which more harmonious U.S.-Brazil relations could be maintained.

If there is such a political confrontation, it is unlikely that President Goulart will react violently against the representations or against the U.S. unless our posture is too drastic. It will be necessary to avoid any suggestion that President Goulart is incompetent or ineffective. It may be necessary in the discussion to acknowledge some of the leftist

developments of the past eight months as part of an understandable past political strategy even while we object thereto in terms of their adverse impact on U.S.-Brazil relations. It may be necessary to stress the importance of key government personnel more fully representative of Brazilian political thinking as a basis for effective Brazil-U.S. relations, rather than directly criticizing the quality and character of recent cabinets. In short, the confrontation must be phrased so as to avoid any avoidable offense to President Goulart.

The confrontation must also offer positive inducements. Not only might there be a citation of the unhappy experience of other nations which have trusted the communist nations too much, but there should be positive expressions about President Kennedy's great hopes for the future of Latin America; about the need for hemispheric solidarity in improving, and accelerating advances under, the Alliance for Progress; and about the special leadership role of Brazil as the southern giant. It would be useful, too, to cite the precedent of President Goulart's early political patron, Getulio Vargas, who in the early '40s made the wise decision of putting Brazil unequivocally on the side of the Allies and who developed a special relationship with President Roosevelt in so doing. Additionally it would be desirable to hold forth the promise of serious consideration to their request for help on their larger financial program, based on a serious effort to promote development within a framework of financial stabilization. All of this would be phrased as contingent upon the expectation that obstructions to effective Brazil-U.S. relations would be removed.

From past experience it is probable that President Goulart will appear reasonably responsive in any confrontation along the lines suggested above. However, experience has also demonstrated that President Goulart can be glib on general assurances and weak on specific performance. It would therefore be desirable for the U.S. Ambassador to follow up and discuss one at a time in subsequent conversations with President Goulart all of the important items covered in the general confrontation. One meeting, for example, might be on the subject of positive steps being taken by the U.S. to move ahead on the Alliance for Progress and the matching steps which should be taken by the Brazilian Government to give positive constructive support to the Alliance as a joint Latin American-U.S. venture. Another meeting might be devoted to the climate for private investment and obstructions thereto. There will be many other specific issues for similar follow-up.

The foregoing course of action could discourage, but is not designed specifically to cope with, the possibility that President Goulart may have decided, or may decide, to move toward a left-wing dictatorship or toward other undemocratic developments, with the support of his extreme leftist allies. This might involve suspending the Congress or intervention in the government of various states. If there should be future developments in this direction, the United States should be ready to shift rapidly and effectively to Alternative B—collaboration with friendly democratic elements, including the great majority of the military officer corps, to unseat President Goulart.

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Proposed Speaking Paper

I have been asked by President Kennedy to have this discussion with you at first hand because circumstances beyond our control made it impossible for him to come to Brazil in person last month. The President has a deep personal interest in Brazil and in its future as the leading nation of Latin America, and he hopes that conditions will permit a personal visit in the not too distant future. It is precisely because he recognizes so keenly the importance of our relationships that he has asked me to see you now.

President Kennedy -- and all of us in his Administration -- are convinced that if we -- the two giant nations of this Hemisphere -- work together, wonders can be done for the prosperity, peace and growth in freedom of Brazil, of the Western Hemisphere, and of the world at large. But if we fall apart, or drift apart, we foresee a very perilous future, in which Brazil itself would be among the most to suffer. And I must say in all candor that there have been many signs in the last nine months of just such a perilous drift.

What is our concept of how Brazil and the United States can and should work together? We have no desire for or interest in a satellite relationship. We have no desire to intrude upon Brazilian sovereignty or the responsibility of Brazilians for the destiny of your country, which we know can be one of the world's great nations. We have no quarrel with independence in foreign-policy making, if that independence is constructively employed. But the fact is that geography and history have combined to make your nation and ours the two giants of this hemisphere, and to make this hemisphere the greatest actual and potential power center in the world.

It was action based on this Hemisphere -- action in which your soldiers and ours fought side by side -- which saved Europe from domination by German Nazism. It was support from this Hemisphere which kept Western Europe after the war from being overrun by Russian Communism, and which made possible a new economic and political rebirth of Western Europe, with stronger democratic institutions, assured human liberties, and more widespread social justice than ever before.

Now there is gradually being forged a new relationship between Western Europe and North America, which we call the Atlantic Community. It is based on a recognition of the simple fact that science and communications have made this a smaller and smaller planet on which all our peoples are increasingly interdependent, whether we like it or not. We would like to see that relationship of constructive cooperation, freely undertaken by the sovereign will of the participating peoples, come to include the great Latin American continent as a full partner -- as one of the pillars of mutual strength and mutual enrichment. And we believe that can be done in this generation -- here and now -- not merely as some dream for the misty future.

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Staff (ULK:TR:282)  
BY Ym NARS DATE 4/21/79

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What are the obstacles? In Latin America, they are economic underdevelopment, resulting social tensions, political instability, and political opposition from the world Communist movement -- a movement which detests the thought of a strong, prosperous, free, and self-reliant Latin America.

The central purpose of President Kennedy's new Latin American policy, symbolized by the Alliance for Progress, is to help in a massive and sustained cooperative effort to overcome the obstacles of economic underdevelopment, social injustice, and resulting political instability. It was our hope that Brazil, creator of the far-sighted concept of Operation Pan America and a most constructive contributor to the drafting of the Charter of Punta del Este in August, 1961, would be in the vanguard of this effort, as well as in the effort to make the Latin American Free Trade Area a nucleus for dynamic economic cooperation among the Latin American nations. It is still our hope that this may be the case, despite the delays and disappointments of the past year in which all of us have some share of the blame.

When we speak of a prosperous, free, and self-reliant Latin America, with economic modernization and constantly increasing social justice, we do not mean a carbon copy of our North American institutions or "the American way of life". Every nation must work out its own cultural and institutional patterns. We do mean - as we know you do - representative democracy and civil liberties, because without these, national self-determination is not true self-determination of peoples but the mere whim of autocrats -- whatever protective coloration of popular support they may manufacture. And we share with you the view that, while some of the old traditions of Latin American life enrich the culture of the world, other old traditions create entrenched injustice and backwardness and require basic reforms. But we would like to see - as I assume you would - truly progressive reforms -- reforms which make the power of government serve the genuine interests of the people -- and not mere demagoguery which pretends to satisfy popular aspirations without building the means for higher economic production, better social distribution, and fuller participation by all groups and areas of the nation which are essential to a real fulfillment of legitimate popular desires.

Mr. President, when you visited Washington last April you spoke in eloquent terms of the need for perfect understanding between the two greatest nations of this hemisphere. President Kennedy was indeed happy to read your reaffirmation of this need in your letter to him of December 6. In the eight months since your visit, however, we have watched with concern a number of developments which threaten to undermine that understanding. Let me review the more important ones, as they have appeared to us:

1. The deterioration of domestic economic and financial conditions within Brazil, with inflation nearing 5 percent per month, has created grave
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social and economic tensions, now endangering the continuation of general economic growth, and these conditions have not been combatted by your Government along the lines indicated by you last April. On the contrary, new forms of costly subsidies and other inflation-stimulating policies have been adopted.

2. There has been a steady deterioration of the external economic situation, with foreign exchange reserves exhausted and a balance-of-payments deficit of record proportions in prospect for 1963. This situation has been worsened by policies which have discouraged foreign investment, encouraged some flight of Brazilian capital, and failed to take advantage of export opportunities. The increasing rate of inflation has much to do with this.

3. The Alliance for Progress has not been taken up by your government in that spirit of cordial cooperation called for by the Charter of Punta del Este. In the April talks, a fresh start was envisaged in this field which has not been followed through. We recognize bureaucratic and administrative weaknesses on our side, as well as yours, in getting this large and complex program effectively under way, and we are determined to remedy ours. But cooperation cannot be a one-way street, and we have observed in some Brazilian government agencies -- SUDENE, ENDE, and others -- a spirit of hostility, of passive resistance, or even of active obstructionism against the success of the program.

4. Private foreign investors, especially North American ones, have been subjected to campaigns of intense hostility, with threats of expropriation, some actual cases of expropriation, and discriminatory legislation. Despite your repeated statements of welcome to constructive foreign investment, legislation going beyond the correction of abuses to the point of sterilizing the reinvestment of profits earned beyond a limit of 10 percent has been adopted and not corrected by the promised legislative improvements. The IT&T case, which was supposed to have been settled in April, still remains unsettled -- a major irritant in our public and Congressional attitudes toward Brazil and understandably so. Two formal notes, of March and July, protesting against unwarranted discrimination against the long established American exports of sulphur to Brazil, are still unanswered. The negotiations for the transfer of foreign-owned public utility concerns to Brazilian ownership, about which you spoke so enthusiastically to President Kennedy in April, have so far yielded no results and appear to be moving at a snail's pace if at all.



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During the period of Prime Minister Brochado de Rocha's office, the absurd concept of a "spoliative process", previously a mere demagogic slogan, was erected into official governmental doctrine. And there are widely spread rumors that advisers in various governmental agencies have pressed for the confiscation of foreign-owned iron mining operations, petrochemical industries, meat-packing plants, coffee exporting firms, pharmaceutical manufacturers, and others.

Our concern here is not only with the protection of legitimate American business interests in Brazil. It is also with the interests of Brazil's own rapid economic development, in which foreign private investment has played so important and constructive a part in recent years and which is needed for the further modernization and even more rapid economic growth which we would like to see in the future. The atmosphere generated in recent months has already reduced net private investment (from all countries) from \$170 million last year to \$70 million this year, and threatens to dry it up altogether. We are simply not in a position to replace these losses with public funds of our taxpayers, and even if we were, public funds cannot supply the skills and technology and administrative capacity which private investors have to offer. These advantages were fully pointed out by the report of the Joint Committee of the Brazilian Congress on the profits remittance bill, which also showed that between 1954 and 1961, the net inflow of private direct investment amounted to \$721 million, as against an outflow of profits and dividends of only \$269 million.

5. At the same time, we have noted with concern the infiltration into positions of influence -- including civil government and military posts, and in trade union and student group leadership with the acquiescence or even active encouragement of the government -- of Communists, communist sympathizers, or radical nationalists with a declared antagonism to the United States, to inter-American cooperation through the Alliance for Progress and otherwise, and to the free world at large. In the case of the CNTI, there has been a break with world democratic labor organizations which has created the most acute dismay in American labor circles.

6. We have placed high hopes on the Organization of American States, the oldest regional political organization in the world, not only as an instrument for the peaceful settlement of intra-American disputes but also as a means by which the American Republics can join forces and bring their collective influence to bear in defense against outside aggression - direct or by means of infiltration and subversion - and now as a means for coordinating the joint efforts of the entire Hemisphere in speeding up economic and social progress. In the last several months, however, the Brazilian attitude toward the OAS has fallen far short of the constructive role which should be expected from the leading nation of Latin America.

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In the Cuban case in particular, despite our other differences at the Punta del Este conference in January, the Brazilian delegation not only subscribed to, but actually joined in drafting a most vigorous condemnation of the Fidel Castro regime, declaring it a Marxist-Lennist government publicly aligned with the doctrine and foreign policy of the communist powers, which in turn was held to be incompatible with the principles of the inter-American system. This condemnation was based on the undemocratic character of the regime, its denial of civil liberties, and especially on its links with the international Communist movement and its use as a base of communist subversion in other American Republics. More recently however, in spite of Brazil's most welcome support for the naval quarantine during the Soviet missile base crisis of October, official and semi-official statements of high Brazilian officials have given the impression of a far greater interest in what is called "protecting the right of Fidel Castro to carry through his revolution unimpeded" than in protecting the rest of the Hemisphere against the flow of funds, propaganda material, training of guerrilla units, and other forms of Communist subversion based on Cuba.

7. While recognizing the usefulness for Brazilian commerce of expanding your trade into new areas, we have observed a tendency to exaggerate the importance of economic and other relationships with the Soviet bloc to a degree wholly out of proportion to their true significance, and to permit bilateral trading agreements with the Communist countries to become the basis for discrimination against exporters from free world countries, including the United States, which are many times as important to the economic well-being of Brazil. Other nations which have followed this course have learned to their sorrow that they have lost more than they have gained.

8. In other applications of Brazil's "independent foreign policy", there have been disturbing signs of a type of systematic neutralism, often veering toward hostility against the free world nations and their principles which have been declared by you as the basis of Brazil's international orientation.

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We are of course aware that Brazil has been passing through a crisis of regime ever since the resignation of President Janio Quadros, and that attention has been concentrated on these problems of regime, often at the expense of dealing with the real and urgent problems of policy facing your government. Nevertheless, we cannot be indifferent to the indications that powerful groups and individuals, many of them in office or strongly influencing official decisions, would like to see Brazil go the way of Cuba, or would like at least a socialized totalitarian regime, at the beginning perhaps free from dependence on the Soviet Union, as Castro's Cuba was for a brief period,

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but bargaining for advantage between the free and Communist groupings in the world through some kind of double blackmail. And some of these individuals apparently believe that the United States should and will underwrite a regime of this nature through financial aid of massive proportions.

The course that Brazil should follow is one for Brazilians to determine. But as a nation with grave responsibilities in the world and especially in this hemisphere, the United States cannot be indifferent to that course, and we must naturally make our own decisions as to financial aid and other support. And it is our judgment that an effort to create a socialized totalitarian Brazil would lead inevitably and quickly to a Communist-dominated and Soviet-oriented Brazil - a tragedy for your nation and for the future of world peace and freedom.

Within the next few weeks, we are about to engage in a comprehensive review with your representatives of your new proposals for economic development and financial stabilization, including the needs for external financial support over the coming years. It is our earnest hope that those proposals will in fact be designed to promote economic and social progress and reform within a framework of increasing monetary stability, and will be acceptable not only to us but also to the international institutions and other free world capital-supplying nations whose support will be essential to a successful passage of Brazil through the economic difficulties of the coming few years.

We have faith in the future of Brazil as a great nation, and in the capacity of the Brazilian economy, if properly managed, to meet in ever-growing measure the desires of your people. The forward strides made in the last thirty years give us confidence that a decade, or even less, of sustained effort, with adequate outside support, can place this nation firmly on the road to self-sustained further growth, taking its place as a pillar of strength in the family of free nations. We hope that Brazil will be playing its part in aiding other less well-endowed nations, and in particular will lead Latin America in closer economic integration to the benefit of all.

If a wise course is chosen, we know that the necessary outside resources can be mustered to help carry Brazil through this period of transition. We are prepared to cooperate fully and enthusiastically. The means of our cooperation must of course respect the technical standards that long experience has shown to be essential to really fruitful results from international assistance. But we cannot cooperate with persons and institutions which are systematically opposed to cooperation with us - whether for ideological or for other motives. Nor can or should our Congress or our public be expected to ignore official statements or actions which give the appearance of such opposition.

In conclusion, Mr. President, it appears to us that as you embark on the definitive phase of your presidency, you are faced with momentous decisions on



the direction of Brazil's future. They can be compared only with the vital decision made by your great predecessor Getúlio Vargas when he placed Brazil squarely on the side of the free world in its struggle against German Nazi tyranny. The relationship established between Getúlio Vargas and Franklin Roosevelt in that era was the high point in the century and a half of Brazilian-American friendship. In President Kennedy's considered opinion, the needs of today call for an equally close and cordial relationship in facing the problems of economic and social backwardness in this hemisphere through the Alliance for Progress and in facing the dangers to world peace and to human liberties both within and outside the hemisphere. It is his earnest hope that he and you will maintain a close and frequent personal relationship over the coming months and years which will enable your Administration and his to work together as firm allies in these pressing and difficult tasks.

