

Pal B Lacerda

SUBJECT

Memorandum of Conversation
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AMERICAN EMBASSY

Subject: Conversation with Carlos Lacerda

Participants: Carlos Lacerda
 Sergio Lacerda (Lacerda's son)
 Alfredo Machado (Businessman and confidant of Lacerda)
 Congressman Henry S. Reuss
 Frank Carlucci, Executive Officer
 Richard E. Schwartz, Escort Officer for Congressman Reuss

Copies to: Ambassador Tuthill Mr. Belton, DCM ECON
 Mr. Midkiff MINECON USIS
 Mr. Carlucci POL/R
 Congressman Reuss ADMIN

At the request of Congressman Reuss, Carlos Lacerda granted an interview in his office at Rua do Carmo 27, GB. Almost all of the one and one-half hour conversation was devoted to a series of monologues by Lacerda in response to questions of Congressman Reuss.

Congressman Reuss opened with the observation that he supported the original goals of the Alliance for Progress. Lacerda responded that the "Kennedy dream" is dead, and thereafter proceeded to comment in a disorganized fashion on several topics which are summarized below.

Frente Ampla

Lacerda does not expect it to be understood by Americans since most Brazilians still do not understand it. At one point in the conversation Lacerda said he knew the Embassy considers him a "cheap opportunist." He stated that it had been very difficult for him to approach Kubitschek and Goulart, and emphasized that many of his followers are unhappy about his alliances with them. But the overriding interest of all civilian politicians is in restoring civilian rule. He sees the principal task of the frente as preventing the military from extending its control beyond 1970.

Lacerda sees himself as the principal spokesman for the middle class. Goulart has inherited the image of Vargas as the protector of the workers. Kubitschek symbolizes the development of Brazil and has support from all classes. Lacerda hopes to add Janio Quadros to his coalition. He mentioned even Carlos Prestes as one he would be willing to work with to restore civilian rule.

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Lacerda made several references to Goulart and stated that, although Goulart was a failure as President, he was not a failure as a leader. He went to some length to relate a joke that Goulart had told him about the Russians' inability to support ten Vietnams in Latin America. He also mentioned that Goulart was under much pressure from Brizola for having joined the frente.

The frente ampla is the only way to provide the people with a sense of participation in the government. This sense of participation is necessary to avert guerilla war. At another point Lacerda raised the possibility of armed conflict after 1970 between competing military groups, if civilian rule is not restored by then.

In commenting on Goulart's and Kubitschek's status as cassados, Lacerda made no effort to disavow his presidential ambitions although he did not raise the subject directly.

The present government

Lacerda's comments centered on the need for participatory democracy. The people must have a sense of accomplishment in improvement projects in order for reform to be achieved. The people feel separated from the present government.

At least three, and possibly four, generals and colonels in the present cabinet are maneuvering to be Costa e Silva's successor. There are fascist and neo-fascist elements in the government. Although the dictatorship is the mildest possible, Costa e Silva has not dismantled the authoritarian structure established by his predecessor and his promise not to use it is a small concession.

In the last three years the Brazilian military, previously frustrated, idle, and impoverished, has acquired a taste for power. It has no intention of relinquishing power to the civilians who so often used to call on it for political aid. "I too am guilty," he said, "of the politician's habit in Brazil of calling on the military to 'cut the knot' from time to time. Now the military have said that if the politicians are always calling on us we might as well run the show."

Lacerda did not think the GOB would allow elections before 1970. However, at one point he predicted a severe financial crisis in 1968 followed by an economic collapse. This could lead to a restoration of civilian rule before 1970, due to the resultant split of military unity. Lacerda claimed that only another year of record crops could foil this prediction.

The government is greatly mistaken in denying freedom to organized labor. Strong, independent trade unions are necessary if guerilla war is to be avoided. The possibility of four or five unions being communist-controlled is not very important. Mr. Carlucci stated that the Embassy argued for greater trade union autonomy in our dealings with the Brazilian government. Lacerda noted that if this were the case we had had no effect.

Economic policy

Lacerda's comments were well-sprinkled with references to "physicocrats" and "technocrats" in power during the past three years. He described Roberto Campos as having applied 17th and 18th century theories in a 19th century fashion.

Foreign capital cannot develop Brazil because there is simply not enough of it for a country as large as Brazil, particularly in view of U.S. needs at home and in other areas of the world. Instead, Brazil must supply its own capital. This can be done by printing money at the rate of a 20% annual increase, but at no greater rate. Lacerda recognized the possible dangers in this approach, but feels the alternative is more dangerous.

Wage policies must be changed so as to increase the purchasing power of the people. Economic development depends on making consumers of 80 to 90 million people who are not present in the consumer goods market in any meaningful sense. In response to a question by Congressman Reuss Lacerda replied that the proposed Latin American common market is basically unimportant to Brazilian development.

Brazilian industry consumes hard currency without earning any. Lacerda indicated that raising the level of consumption and number of consumers would remedy this. When questioned further by Congressman Reuss on this point, he agreed that this problem could be alleviated by concentration on labor-intensive activities with a low import component, such as education and agriculture.

The most important areas for economic development are education and agriculture. In education it is best to concentrate on technical training for teen-agers. Literacy programs for adults are economically unproductive and likely to be damaging to the individual.

Food production must be increased. Lacerda wants a program of "rural reform", explaining that "agrarian reform" has too many undesirable connotations. The present agrarian reform program is doing nothing but procrastinating. He did not elaborate on his

"rural reform" idea except to state that it is not enough to just give every farmhand his own piece of land and to refer vaguely to cooperatives.

U.S.-Brazilian relations

It is "disgusting" that U.S. aid programs, despite all the money and personnel the U.S. puts into them, have not done much good or won friends for the U.S. In fact, they are making more enemies all the time. Project loans which require U.S. companies to perform engineering and other work are particularly bad. After the revolution the U.S. should have given Brazil a loan fund to help stabilize its currency, exercising only general supervision instead of utilizing technical assistance with Americans involved in every aspect of the economy.

Most of the difficulties between the U.S. and Brazil are not the fault of the American people or government but of a few selfish individuals, principally American businessmen. Also the GOB must take much of the blame. Lacerda's objections center on the excessive remission of profits to the U.S. He discussed the question of royalties at some length. He considers them unjustified in most cases and further inflated by spurious payments for "technical assistance."

The proposed double taxation treaty with the U.S. means that Brazil will help to pay income taxes to the U.S. David Nasser was recently prevented by American advertiser pressure from publishing an article in "O Cruzeiro" about the treaty.

Lacerda discussed at some length the question of the profits of the Light Company (x). After years of unrealistically low rates, the Light has made fantastic profits since March of 1964 and has been granted a rate structure that will continue such profits. With just a portion of the profits it has been required to retain in Brazil, the Light has built the largest investment bank in Brazil. The profits are so excessive, and its expansion into other areas so rapid, that Light recognizes the danger and is thinking of selling out.

(x) Wholly owned subsidiary of Brazilian Traction Light and Power, a Toronto holding company. Rio and São Paulo Light were merged into a single company a few months ago.

At the end of the conversation, Lacerda asked Congressman Reuss to remind Senator Fulbright of him and stated that he has a great respect for Fulbright. Lacerda is planning to visit the United States at the end of October to make speeches at Oregon University and Stanford.

Drafted by:
R. A. Schwartz:ep



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