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FERNANDA CONFORTO DE OLIVEIRA

International Financial Negotiations and Political Actors: The  
Breakdown in IMF-Brazilian Negotiations during the  
Administration of Juscelino Kubitschek (1957-1959)

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Dissertação apresentada ao Programa de Pós-Graduação em Relações Internacionais do Instituto de Relações Internacionais da Universidade de São Paulo, para a obtenção do título de Mestre em Ciências.

Orientador: Prof. Dr. Felipe Pereira Loureiro

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To those who believe in the power of knowledge  
to bring about fairness, development, and equality  
to societies.

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To all of you, my heartfelt gratitude.

“Once you learn to read, you will be forever free”

Frederick Douglass

## ABSTRACT

OLIVEIRA, Fernanda Conforto de. *International financial negotiations and political actors: the breakdown in IMF-Brazilian negotiations during the Administration of Juscelino Kubitschek (1957-1959)*. 2018. Master's Thesis (Master in International Relations) – Institute of International Relations of the University of São Paulo, São Paulo, 2018.

This Master's thesis analyzes the relationship between the International Monetary Fund (IMF) and the Brazilian government during the administration of Juscelino Kubitschek (1956-1961). It focuses on the years of 1957-1959, at the time when the Brazilian government was negotiating the country's first and second standby agreements with the Fund. The objective is to identify the conditions that led the Kubitschek administration to break down negotiations with the IMF in June 1959. Relying on IMF, Brazilian and North-American official documents, Brazilian newspapers and interviews with Brazilian officials, this study reveals that the Brazilian government only opened negotiations with the Fund in 1958 after Washington's intense pressure. The American government conditioned U.S. loans to Brazil to the signature of a standby agreement between Brazil and the Fund, instead of negotiating financial assistance directly with Rio de Janeiro as it had been doing until then. Washington employed the IMF as a way to advance its foreign economic policy agenda in Brazil. This harsh U.S. position remained consistent despite increasing Soviet overtures to Latin America. Given the Fund's stabilization demands and Brazil's poor stabilization performance, disagreements between the IMF and the Brazilian government built up, leading to the breakdown in the negotiations in June 1959. As a consequence, U.S.-Brazilian relations seriously deteriorated, encouraging President Kubitschek to embrace a more globalist foreign policy. These conclusions are relevant because they brought to light aspects that usually have been neglected by the literature: the crucial role played by the U.S. as to why Kubitschek's Brazil sought IMF financial assistance; the insufficiency of a narrow Cold War framework to explain why Washington took a hard stance on Brazil; and the link between the IMF-Brazilian breakdown and the roots of President Jânio Quadros' Independent Foreign Policy in the early 1960s.

Keywords: International Monetary Fund, Juscelino Kubitschek, United States, Standby Agreement, Financial Assistance

## RESUMO

OLIVEIRA, Fernanda Conforto de. *Negociações financeiras internacionais e atores políticos: a suspensão das negociações entre Brasil e FMI na Administração Juscelino Kubitschek (1957-1959)*. 2018. Dissertação (Mestrado em Relações Internacionais) - Instituto de Relações Internacionais da Universidade de São Paulo, São Paulo, 2018.

Esta dissertação analisa as relações entre o Fundo Monetário Internacional (FMI) e o Brasil durante a administração de Juscelino Kubitschek (1956-1961). A análise foca nos anos de 1957 a 1959, momento em que o governo brasileiro estava negociando o primeiro e o segundo acordo *standby* do país com o FMI. O objetivo é identificar as condições que encorajaram a administração Kubitschek a suspender negociações com o FMI em junho de 1959. Com base em documentos oficiais brasileiros, norte-americanos e do FMI, bem como em jornais brasileiros e em entrevista com oficiais brasileiros, esta pesquisa revela que o governo Brasileiro somente iniciou negociações com o Fundo em 1958 após intensa pressão de Washington. O governo dos Estados Unidos condicionou empréstimos ao Brasil à assinatura de um acordo *standby* entre Brasil e Fundo, ao invés de negociar ajuda financeira diretamente com o Rio de Janeiro como até então fazia. Washington utilizou o FMI para avançar sua agenda de política econômica externa no Brasil. Essa posição dura dos EUA se manteve consistente mesmo diante das crescentes ofensivas soviéticas na América Latina. Tendo em vista as demandas por estabilização do Fundo e o precário desempenho anti-inflacionário do Brasil, os desacordos entre FMI e o governo Brasileiro aumentaram, culminando na suspensão das negociações em junho de 1959. Consequentemente, as relações entre EUA e Brasil se deterioraram seriamente, encorajando o Presidente Kubitschek a adotar uma política externa mais globalista. Essas conclusões são relevantes porque lançam luz em aspectos normalmente negligenciados pela literatura: no papel crucial dos EUA na busca por ajuda financeira do FMI pelo Brasil de Kubitschek; na insuficiência de uma simples análise baseada no contexto da Guerra Fria para explicar a razão pela qual Washington assumiu uma posição dura em relação ao Brasil; e na relação entre a suspensão das negociações entre Brasil e FMI e as raízes da Política Externa Independente do Presidente Jânio Quadros no início da década de 1960.

Palavras-chave: Fundo Monetário Internacional, Juscelino Kubitschek, Estados Unidos, Acordo *Standby*, Ajuda Financeira

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## LIST OF ACRONYMS

|          |   |
|----------|---|
| BNDE     | National Bank for Economic Development<br><i>(Banco Nacional do Desenvolvimento Econômico)</i>              |
| ECLA     | Economic Commission for Latin America<br><i>(Comissão Econômica para a América Latina e o Caribe)</i>       |
| Eximbank | Export-Import Bank  |
| FIESP    | São Paulo Federation of Industries <i>(Federação das Indústrias de São Paulo)</i>                           |
| IBC      | Brazilian Coffee Institute <i>(Instituto Brasileiro do Café)</i>  |
| IMF      | International Monetary Fund   |
| JBUSED   | Joint Brazil-United States Economic Development Commission<br><i>(Comissão Mista Brasil-Estados Unidos)</i> |
| OPA      | Pan-American Operation <i>(Operação Pan-Americana)</i>  |
| PEI      | Independent Foreign Policy <i>(Política Externa Independente)</i>   |
| PEM      | Monetary Stabilization Plan <i>(Programa de Estabilização Monetária)</i>                                    |
| PSD      | Social Democratic Party <i>(Partido Social Democrático)</i>   |
| PTB      | Brazilian Labor Party <i>(Partido Trabalhista Brasileiro)</i>   |
| SUMOC    | Superintendence of Money and Credit <i>(Superintendência da Moeda e do Crédito)</i>                         |

## LIST OF ABBREVIATIONS

|           |  |
|-----------|--|
| AEAP      | <i>Arquivo Ernani do Amaral Peixoto</i>  |
| ALL       | <i>Arquivo Lucas Lopes</i>   |
| Amembassy | American Embassy in Rio de Janeiro   |
| ARC       | <i>Arquivo Roberto Campos</i>  |
| CDF       | Central Decimal File   |
| CGR       | Classified General Records   |
| CPDOC-FGV | <i>Centro de Pesquisa e Documentação Histórica Contemporânea do Brasil</i><br><i>– Escola de Ciências Sociais da Fundação Getúlio Vargas</i> |
| Deptel    | Telegram of the State Department   |
| EBDC      | Executive Board Documents Collection   |
| Embdes    | U.S. Embassy dispatch  |
| Embtel    | U.S. Embassy telegram  |
| EPL       | Dwight D. Eisenhower Presidential Library in Abilene, Kansas   |
| ESP       | <i>O Estado de São Paulo</i>   |
| GRDS      | General Records of the Department of State   |
| IMF       | Archives of the International Monetary Fund in Washington D.C.   |
| Intel     | Incoming telegram  |
| JB        | <i>Jornal do Brasil</i>  |
| Memo      | Memorandum of conversation   |
| NARA      | National Archives and Records Administration at College Park, Maryland   |
| Offmemo   | Office memorandum  |
| Outtel    | Outgoing telegram  |
| RFSP      | Records of the Foreign Service Posts of the Department of State  |
| RG        | Record Group   |
| RN        | Reference number   |
| WHDR      | Western Hemisphere Department Records  |
| WHDIOR    | Western Hemisphere Department Immediate Office Records   |

## LIST OF POLITICAL ACTORS

(relevant position in the period)

### IMF

|                      |   |
|----------------------|---|
| Bruno Brovedani      | Assistant Chief, Western Hemisphere Department                                    |
| David Finch          | Director, South American Office   |
| Gesualdo A. Costanzo | Chief, Latin American Division; Deputy Director,<br>Western Hemisphere Department |
| Jorge Del Canto      | Head, Western Hemisphere Department   |
| Merle Cochran        | Deputy Managing Director  |
| Per Jacobsson        | Managing Director   |

### BRAZIL

|                          |   |
|--------------------------|---|
| Augusto Marzagão         | Private Secretary to President Jânio Quadros  |
| Augusto F. Schmidt       | Advisor to President Juscelino Kubitschek   |
| Casimiro Ribeiro         | Director, SUMOC; Advisor to the Finance Minister  |
| Celso Furtado            | Director, BNDE  |
| Dênio Nogueira           | Official, SUMOC   |
| Ernani A. Peixoto        | Ambassador, Embassy in Washington D.C. (1956-1959)  |
| Gerald Smith             | U.S. Embassy official   |
| Henrique Rodrigues Valle | Chargé d’Affaires, Embassy in Washington D.C.   |
| Herculano B. Fonseca     | Director, SUMOC   |
| Inácio Tosta Filho       | Director, Foreign Trade Department of the Bank of Brazil<br>( <i>Carteira de Comércio Exterior, CACEX</i> ) |
| Jânio Quadros            | Governor of São Paulo (1955-1959);<br>President (Jan.-Aug. 1961)  |
| João Baptista Pinheiro   | Official, Development Council<br>( <i>Conselho do Desenvolvimento</i> )                                     |
| José Garrido Torres      | Executive Director, SUMOC (Jul. 1958-Aug. 1959)   |

|                         |   |
|-------------------------|---|
| João Goulart            | Vice President of Juscelino Kubitschek (1956-1961);<br>Vice President of Jânio Quadros (Jan.-Aug. 1961);<br>President (Aug. 1961-Mar. 1964) |
| José Maria Alkmim       | Finance Minister (1956-Jul. 1958)   |
| José Maria Whitaker     | Finance Minister of the Café Filho administration<br>(Apr.-Nov. 1955)   |
| José Sette Câmara Filho | Deputy Head, Presidential Civil Office;<br>Advisor to President Juscelino Kubitschek  |
| Lucas Lopes             | President, BNDE; Executive-Secretary,<br>Development Council (1956-Jul. 1958);<br>Finance Minister (Jul. 1958-Jun. 1959)                    |
| Lúcio Martins Meira     | Minister of Transport and Public Works (Jan. 1956-<br>Jan. 1959); President, BNDE (Jul. 1959-Jan. 1961)                                     |
| Octávio Bulhões         | Member of the National Economic Council<br>( <i>Conselho Nacional de Economia</i> , CNE)  |
| Octávio Paranaguá       | Executive Director to the IMF   |
| Paulo Guzzo             | Head, Brazilian Coffee Institute (Oct. 1955-Sep. 1958)  |
| Paulo Poock             | Director, Exchange Department of the Bank of Brazil   |
| Renato Archer           | Federal Deputy  |
| Roberto O. Campos       | Director, BNDE (1956-Jun. 1958); President, BNDE;<br>Executive-Secretary, Development Council<br>(Jun. 1958-Jun. 1959)                      |
| Sebastião P. Almeida    | President, Bank of Brazil (1956-Jun. 1959);<br>Finance Minister (Jun. 1959-1961)  |
| Teodoro Quartim Barbosa | Director-Superintendent, São Paulo Commercial and<br>Industrial Bank  |
| Walther M. Salles       | Ambassador, Embassy in Washington D.C. (1959-1961)  |

U.S.

|                  |  |
|------------------|--|
| Christian Herter | Under Secretary of State (1957-Apr. 1959); |
|------------------|--|

|                         |   |
|-------------------------|---|
|                         | Secretary of State (Apr. 1959-1961)   |
| Clarence A. Boonstra    | Director, Office of East Coast Affairs, State Department  |
| Douglas Dillon          | Undersecretary of State for Economic Affairs  |
| Charles W. Adair Jr     | Director, Office of International Financial and<br>Development Affairs, Bureau of Economic Affairs,<br>State Department |
| Dwight D. Eisenhower    | President (1953-1961)   |
| Ellis Ormsbee Briggs    | Ambassador, Embassy in Rio de Janeiro<br>(May 1956-May 1959)  |
| Frank Southard          | Executive Director to the IMF   |
| Harry Turkel            | Director, Office of Inter-American Regional Economic<br>Affairs, State Department                                       |
| Hawthorne Arey          | Director, Eximbank  |
| Hebert May              | Treasury Official, Embassy in Rio de Janeiro  |
| Henry Finch Holland     | Assistant Secretary of State for Inter-American Affairs,<br>State Department (Mar. 1954-Sept. 1956)                     |
| Howard Cottam           | Official for Economic Affairs, Embassy in Rio de Janeiro  |
| John Foster Dulles      | Secretary of State (Jan. 1953- Apr. 1959)   |
| John F. Kennedy         | President (1961-1963)   |
| John Moors Cabot        | Ambassador, Embassy in Rio de Janeiro<br>(May 1959-Aug. 1961)   |
| Maurice M. Bernbaum     | Director, Office of South American Affairs, Bureau<br>of Inter-American Affairs, State Department                       |
| Robert B. Anderson      | Treasury Secretary, Treasury Department (1957-1961)   |
| Roy Richard Rubottom Jr | Assistant Secretary of State for Inter-American Affairs,<br>State Department (Jun. 1957-Aug. 1960)                      |
| Samuel Clark Waugh      | President, Eximbank   |
| Tad Szulc               | Journalist, The New York Times  |
| Thomas Mann             | Assistant Secretary for Economic Affairs,<br>State Department   |
| Walter C. Sauer         | Executive Vice President, Eximbank  |

|                   |   |
|-------------------|---|
| William Martin    | Chairman, Board of Governors of the Federal Reserve System  |
| William T. Briggs | Official, Office of South American Affairs; Officer in Charge of Brazilian Affairs, Office of East Coast Affairs (Sep. 1958-Mar. 1959); Deputy Director, Office of East Coast Affairs (Mar. 1959-Aug. 1960) |
| Woodruff Wallner  | Official, Embassy in Rio de Janeiro   |

## SUMMARY

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## INTRODUCTION

In June 1959, Woodruff Wallner, official of the American Embassy in Rio de Janeiro, sent an important telegram to the U.S. Secretary of State, Christian Herter. After months of seemingly endless and arduous financial negotiations, the Brazilian government had just received the final response from the International Monetary Fund (IMF) regarding a proposal for the implementation of a stabilization program. The IMF approval was critical to Brazil. With it, the country could obtain loans to finance its high foreign commitments, avoiding a default. The Fund's response, however, was not auspicious. Wallner anticipated "strong emotional reaction" from the Brazilian President Juscelino Kubitschek. Roberto Campos, at that time President of the National Bank for Economic Development (*Banco Nacional do Desenvolvimento Econômico*, BNDE), had cautioned him that Kubitschek would probably "hit the ceiling" with the news – in fact, a few days later, Kubitschek broke down financial negotiations with the IMF. Wallner requested Herter to get the "fullest possible information [on] this matter [the] soonest". Without it, Wallner insisted, "we [the U.S. government] are seriously handicapped in dealing with a politico-economic situation which lies at the very heart of Brazilian-U.S. relations".<sup>1</sup>

This Master's thesis analyzes the relationship between the IMF and Brazil during the period of the Juscelino Kubitschek administration (1956-1961). It focused on the years of 1957-1959, at the time when the Brazilian government maintained financial negotiations with the Fund to sign the country's first and second standby agreements. The primary goal is to identify the conditions underpinning the Kubitschek government's decision to unilaterally "sever relations" (as most authors advocate) with the IMF in June 1959 in the midst of negotiations for a standby agreement.<sup>2</sup> Brazil is a crucial study because it is an outlier. Firstly, very few countries have broken up relations with the IMF throughout the Fund's history. Secondly, given the context of the Cold War, it was not expected that countries, other than those led by left-wing governments (Kubitschek was affiliated with the centrist Social Democratic Party, PSD), to disrupt relations with the IMF – an organization in which Western nations played a key role, especially the United

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<sup>1</sup> Incoming telegram (hereafter Intel) 1746, American Embassy in Rio de Janeiro (hereafter Amembassy) to John Foster Dulles, Jun. 3, 1959, National Archives and Records Administration at College Park, Maryland (hereafter NARA), Record Group (hereafter RG) 59, General Records of the Department of State (hereafter GRDS), Central Decimal File (hereafter CDF) 1955-59, Box 4316, Folder 832.10/5-259.

<sup>2</sup> See for instance, Daré (2004), Malan (2007), and Young (2013, 2014).

States, given that the Soviet Union (USSR) decided not to join the Fund.<sup>3</sup> Lastly, although Brazil has historically maintained traditional and friendly relations with the U.S., being one of its closest allies in Latin America, Brazil was the only country that severed relations with the Fund in the late 1950s. This was a time when the institution was pursuing negotiations for a standby agreement with many other nations in the region, such as Argentina and Chile.

In scholarly debates about the IMF-Brazilian relationship in the late 1950s, it is not clear why President Kubitschek sought the Fund's financial assistance at the beginning of 1958. On the one hand, most authors sustain that Brazil opened financial negotiations with the IMF for a standby agreement because the Fund support was crucial for Brazil to obtain foreign credits. From this perspective, the IMF played a crucial role in Brazil's quest for external financial resources when the country's deteriorating economic situation – marked by increasing inflation, a high external debt, and deepening deficits in the balance of payments – could have severely impaired Kubitschek's five-year development program, the so-called Targets Plan (*Plano de Metas*).<sup>4</sup> On the other hand, a few authors argued that Brazil sought the IMF not because the Brazilian government saw the Fund as a guarantor to access to foreign credits, but because the U.S. government had conditioned resources of the Export-Import Bank (Eximbank) for Brazil to an IMF agreement. These scholars diverge on the reasons why Washington would have done so though. Victor Young (2014, chap. 3), for instance, argued that this move was an attempt by Washington to defer credit requests so that to limit U.S. financial assistance to Latin American countries. Bevan Sewell (2010), in turn, asserts that the long-standing concerns about the Brazilian economy encouraged Washington to look for IMF assistance, as the Fund's stabilization demands were attuned with the U.S. perspective as to what was considered best for the Brazilian economy.

Another controversial issue in the literature is why Kubitschek “severed relations” with the IMF in June 1959 at all. Most scholars are convinced that Kubitschek made this decision because the so-called Monetary Stabilization Plan (*Programa de Estabilização Monetária*, PEM) – based on IMF requirements to cut down public spending and curtail the credit supply – was not compatible with the Targets Plan, and that it could have seriously compromised the latter's goals

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<sup>3</sup> For a further account as to why the USSR did not join the IMF see Chishti (1992).

<sup>4</sup> For this viewpoint see Bojunga (2001, p. 525-533), Campos (2007, p. 44-45), Daré (2004, chap. 3), Fassy (2000, p. 88-93), Leopoldi (1991), Maranhão (1994, p. 56-61), Lima (2006, p. 44), Oliveira (1993, chap. 2), Oliveira (2005, chap. 4), Pires (2006, p. 107-131), Silva (2000, p. 84), Skidmore (2000, p. 218-219), and Vizentini (2006).

hadn't it been dropped down. Aware of the severity of such a stern exercise, and the opposition of various economic sectors, particularly leaders of the manufacturing sector, Kubitschek chose to move forward with his development program.<sup>5</sup>

Although some authors recognize that the reasons for the breakup with the Fund rested on economic matters, they assert that Kubitschek turned it into a political act when the President noticed that IMF recommendations would cause him loss of popularity and lack of support from political parties and domestic interest groups. The breakup was then a deliberate attempt by Kubitschek to turn the Fund into a kind of scapegoat for economic problems and to surf on the nationalist tide. By making this move, Kubitschek was trying to divert the public opinion away from the country's serious economic problems, and to obtain the political support from nationalists, thus transferring the country's financial plight to his political successor.<sup>6</sup> Paulo Vizentini (2006) and Sewell (2010) also indicate that the disruption was a way to push Washington against the wall, forcing the U.S. to assist Brazil's economic development by relieving its financial external burden. Other researches, on the other hand, ascertain that Kubitschek's move rested mostly on political grounds (e.g., the breakup was not mainly driven by disagreements between Brazil and the Funds in terms of economic issues), as the President hoped to conquer popular support and to win a second mandate to lead the country in 1965 – at that time, reelection was not allowed according to the 1946 Constitution.<sup>7</sup> Rodrigo Lima (2006) and Gesner Oliveira (1993, chap. 2) do not even recognize that Kubitschek “severed relations” with the Fund as he sought to conclude negotiations afterward.

Despite their important contributions, the conclusions of the scholarly literature are still unsatisfactory. Most studies examine the IMF-Brazilian relations only as part of broader issues, such as the U.S.-Brazilian postwar relations, or the history of the Kubitschek government in a larger sense, which means that the IMF is not analyzed in a profound way, appearing just as a supporting actor on the scene.<sup>8</sup> Milton Daré (2004) and Lima (2006) are two exceptions who

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<sup>5</sup> For this perspective see Benevides (1979, chap. 5), Leopoldi, (1991), Leopoldi (2000, chap. 8), Maranhão (1994, p. 56-61), Oliveira (2005, chap. 4), Pires (2006, p. 107-131), Silva (2000), Skidmore (2000, chap. 5), Villela (2011), and Young (2013, 2014).

<sup>6</sup> See Daré (2004, chap. 3), Fassy (2000, p. 88-93), Malan (2007), and Oliveira (1993, chap. 2).

<sup>7</sup> For this point of view see Bojunga (2001, p. 525-533), Lopes (2006, chap. 9), Hensel et al. (1998), and Maran (1992).

<sup>8</sup> See, for example, Benevides (1979), Bojunga (2001), Campos (2007), Fassy (2000), Hensel et al. (1998), Leopoldi (1991), Malan (2007), Maran (1992), Maranhão (1994), Lopes (2006), Oliveira (2005), Pires (2006), Silva (2000), Skidmore (2000), Villela (2011), Vizentini (2006), and Young (2013, 2014).

devoted efforts to identify the reasons as to why Kubitschek “broke up relations” with the IMF in June 1959. However, these studies, as the literature in general, have a fragile empirical basis. They do not rely on IMF and U.S. official documents, thereby limiting their capacity to understand the issue from the perspective of key actors. Maria Victoria Benevides (1979), Maria Aparecida Campos (2007), Maria Antonieta Leopoldi (1991), Pedro Malan (2007), Thomas Skidmore (2000), Daré (2004), Lima (2006), and Oliveira (1993), for instance, base their arguments mostly on secondary sources, national newspapers and Brazilian official and public sources. A few exceptions in this sense are Sewell (2010), and Young (2014), who have employed only U.S. sources. Although these two last contributions have brought new and interesting evidence, Sewell’s work has a broader focus, surveying postwar U.S.-Brazilian relations, and Young basically assumes that the IMF follows the U.S. government command in financial negotiations. There are no studies that have employed IMF archive materials to look into IMF-Brazilian relations in the late 1950s. As far as we were able to find, this Master’s thesis will be the first to do it. As Fund negotiations with member countries are essentially conducted through confidential channels, it is extremely difficult to identify core decisions based on public documents, especially when taking into consideration Brazilian sources only. Therefore, there is an acute need for an in-depth analysis of the subject.

Although to reach conclusions on the reasons as to why Kubitschek chose to “disrupt relations” with the IMF is ambitious (and even maybe impossible), this Master’s thesis seeks to explain the conditions that led to this outcome. For this purpose, I conducted extensive archival research in U.S. and Brazilian archives and analyzed recently declassified IMF confidential sources. Not only did I have the fortune to access comprehensive series of materials from the IMF Executive Board and staff archives, some of which had never been seen before, but I also collected, and later cross-checked, more than one thousand U.S. and Brazilian documents related to IMF-Brazilian negotiations in the late 1950s. Regarding U.S. sources, I delved into official and confidential records of the State Department and the Foreign Service Posts of the State Department at the National Archives and Records Administration (NARA), in College Park, Maryland, and had access to a range of private collections and unpublished government documents available at the Dwight Eisenhower Presidential Library, in Abilene, Kansas. These archives provided me with substantial materials that show how U.S. officials exerted their influence upon Brazilian officials and what their intentions behind their actions were. I also dug

into Brazilian official sources and private collections at the Brazilian National Archive (*Arquivo Nacional*), the Archive of the Brazilian Ministry of Foreign Affairs (*Arquivo Histórico do Itamaraty*), and at CPDOC of the Getúlio Vargas Foundation (*Centro de Pesquisa e Documentação de História Contemporânea do Brasil da Fundação Getúlio Vargas*) in Rio de Janeiro.

Despite this extensive archival research, heavily based on written records, there are still important empirical gaps. Modern communication systems have facilitated personal meetings and direct telephone calls, leaving some discussions among policymakers undocumented. In an attempt to overcome these gaps, I also employed interviews with crucial Brazilian officials of the period, such as the Finance Minister Lucas Lopes, the BNDE President Roberto Campos and the personal assessor to the Finance Minister, Casimiro Ribeiro. These interviews are available at CPDOC-FGV, through the archive's oral history project. Also, I analyzed two of the major Brazilian newspapers of the postwar era – *O Estado de São Paulo* and *Jornal do Brasil*. Journalistic sources sometimes allow researchers to compare contrasting narratives, as journalists have access (off and on the record) to information that is not available in official and confidential documents. Moreover, newspapers are a channel through which policymakers and political and economic sectors voice their opinions. Tapping into such primary sources was essential to formulate my main argument.

Relying on this extensive archival research, this Master's thesis argues that the main condition that led to the breakup between Juscelino Kubitschek's Brazil and the IMF was the change in the U.S. foreign financial assistance policy towards Brazil, which took place between 1956 and the beginning of 1958. In other words, had it not been for this transformation in the U.S. policy, Brazil would not have opened negotiations with the IMF in early 1958 in the first place. Therefore, in contrast to what most studies have stated so far (such as Daré, 2004; Lima, 2006; and Skidmore, 2000), I argue that Brazil did not deliberately seek the Fund's financial assistance – through the signing of a standby agreement – in order to obtain further foreign aid. Instead, Brazil reached out to the Fund hesitantly and just after a severe pressure from Washington. In fact, in the words of Howard Cottam, Minister for Economic Affairs of the U.S. Embassy in Rio de Janeiro (1957-1960), the U.S. employed the IMF as a “mantle of multilateral anonymity” – in the Washington's perspective thus, the U.S. used the IMF – and not the State

Department – to advance U.S. economic policy requirements to Brazil on its behalf.<sup>9</sup> Instead of negotiating foreign financial assistance directly with Brazil as it had been doing until then, Washington conditioned loans to Brazil to a prior agreement between the Kubitschek government and the Fund. By doing this, the U.S. government was putting the responsibility for stringent stabilization policies on the Fund's back. This harsh U.S. position remained stable throughout the years of 1958 and 1959.

In the face of the IMF's increasing stabilization demands, particularly requests to unify Brazil's multiple exchange rates system, Kubitschek broke down negotiations with the Fund in June 1959. Similar to Lima (2006) and Oliveira (1993), I also argue that Kubitschek did not "disrupt relations" with the IMF as most studies assert (such as Daré, 2004; Malan, 2007; and Young, 2014) since he sought to resume financial negotiations with the Fund promptly after the breakup. Moreover, here it becomes evident that Kubitschek turned disagreements with the IMF into a political act, as some authors suggest.<sup>10</sup> Throughout the IMF-Brazilian negotiation process, due to what was considered by Brazilian officials as a U.S. intransigent position, Brazil's poor stabilization performance and the breakdown in negotiations with the Fund, U.S.-Brazilian relations reached a low, encouraging the Kubitschek administration to carry out a more globalist foreign policy, including overtures to the Soviet Union and to other communist countries.<sup>11</sup> In other words, I argue there that the roots of the so-called Brazil's Independent Foreign Policy have to be found in the deterioration of the U.S.-Brazilian relations that took place in the Kubitschek period.

Our case study suggests then that we must look into U.S. economic interests, U.S. influence over the IMF, and how it employed the Fund to carry out its foreign economic policy agenda in order to explain why Washington tenaciously forced Kubitschek to sign an IMF agreement in 1958 and 1959 even in face of the danger of ruining bilateral relations. A Cold War framework is not able to do the job by itself then. Researchers usually frame Washington's resistance to giving loans to Brazil and to Latin American countries in the postwar period under the context of the Cold War (the U.S.-Soviet strain, the political orientation of Latin American

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<sup>9</sup> "Economic Stress in Brazil-United States Relations", Oct. 1960, NARA, RG 59, GRDS, CDF 1960-63, Box 2412, Folder 832.00/10-1060.

<sup>10</sup> See, for instance, Daré (2004, chap. 3), Fassy (2000, p. 88-93), Malan (2007), and Oliveira (1993, chap. 2).

<sup>11</sup> The term "globalist" was first employed by Mario Gibson Barbosa, Foreign Minister of the government Emílio Médici (1969-1974), and later by President Ernesto Geisel (1974-1979). In both occasions, Barbosa and Geisel urged Brazil to widen the scope of its foreign policy worldwide so that to meet the country's needs. See Hurrell (2013, chaps. 5 and 6).

governments, the fight against communism, etc.).<sup>12</sup> For instance, Stephen Rabe (1988), an eminent scholar of postwar U.S.-Latin American relations, claims that the Eisenhower administration hesitated to concede loans to Latin America in the late 1950s because the U.S. was winning the Cold War in the region, given that there were no Soviet menaces to the hemispheric stability. Only the discontentment showed after Vice-President Richard Nixon's visit to Latin America in mid-1958 and the deterioration of U.S.-Cuban relations following the Cuban Revolution in January 1959, says Rabe, encouraged U.S. officials to look to Latin American financial needs more attentively. However, the findings presented here reveals that the Eisenhower administration maintained a tough stance towards Kubitschek's Brazil even after the Cuban Revolution and even during a period when Soviet Union offensives seemed increasingly rampant in the hemisphere. Therefore, economic matters overrode political concerns for Washington.

Moreover, analyzing IMF-Brazilian relations in the Kubitschek years helps us understand the Brazilian foreign policy in a broader sense. Authors acknowledge that increasing resentments in postwar U.S.-Brazilian relations stimulated Brazil to diversify international ties. However, researchers overlook the impact of IMF-Brazilian negotiations in the late 1950s as to the deterioration of the U.S.-Brazilian relations, which encouraged the Kubitschek administration to embrace a more globalist approach in foreign affairs.<sup>13</sup> Tracking this process of bilateral deterioration also brings to light dissonant voices among IMF, U.S. and Brazilian officials regarding foreign and domestic economic policies, which may help us to understand how debates shaped relations between the Fund, the U.S. and Brazil in the period. These discussions add weight to Rafael Ioris' argument (2013, 2017) that there was not a consensual definition of what economic policies Brazil should pursue to secure long-term economic growth during the so-called Populist Republic (1946-1964).

Furthermore, a clear understanding as to why Kubitschek sought to diversify Brazil's international links is essential to identifying the foundations of the so-called Independent Foreign Policy (PEI), considered one of the greatest turns in the history of the country's foreign policy. The PEI was launched by the Jânio Quadros administration (1961) and kept under the João Goulart presidency (1961-1964), having two primal objectives: to attain economic growth and a

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<sup>12</sup> See, for example, Hilton (1981), Rabe (1988), and Smith (2010, chap. 6).

<sup>13</sup> See, for example, Hilton (1981), Hurrell (2013), and Smith (2010, chap.6).

more independent role in foreign affairs. One of its key guidelines was that Brazil could maintain economic relations with communist countries while preserving historical ties with the West.<sup>14</sup> Given that some scholars argue that the PEI accounted for the change in Washington's position towards João Goulart, our study may also shed light on the conditions that led to the 1964 civil-military coup in Brazil and the 21-year military dictatorship that ensued it. At that time, the U.S. took a harsh stance by conditioning loans to Brazil to an IMF agreement after Goulart threatened to turn Brazil to the Soviets if U.S. credit was not forthcoming.<sup>15</sup> Analyzing the factors that led Kubitschek to expand commercial ties with the Soviet bloc in 1959 may help us ascertain Brazil's economic, political and social outlook in the late 1950s, which contributed to the socio-economic instabilities at the beginning of the 1960s that ultimately culminated in the 1964 coup.

More broadly, IMF-Kubitschek negotiations may contribute to the scholarship on U.S.-Latin American relations in the post-World War II period. In the late 1950s, the IMF was carrying out negotiations with others Latin American countries while Washington hesitated to providing financial assistance in support of the region's economic development. The Brazilian case helps us grasp then the nature of the U.S.-Latin American relations in the postwar era. Particularly since, despite being the closest U.S. ally in the hemisphere, Brazil was the only country that suspended negotiations with the IMF in the period.<sup>16</sup> In addition, a case study of IMF-Brazilian negotiations in the late 1950s may contribute to understanding broader issues concerning relations between Latin America and the IMF, as well as Latin American development in a larger sense. Given the long history by Latin American countries of high inflation rates, macroeconomic disequilibria, and successive attempts at monetary and fiscal stabilization, these countries have frequently resorted to IMF assistance.<sup>17</sup> Therefore, the Brazilian case provides a window for us to understand this creditor-debtor relation involving Latin American countries, developed countries, and the IMF at a crucial period in the regional Cold War.

As few studies have looked into IMF relations with borrower countries using archival research, this thesis may also add to the understanding of what Claudia Kedar (2013, p. 3) calls

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<sup>14</sup> For a comprehensive account of the PEI see Storrs (1973).

<sup>15</sup> For the change in Washington's policy towards Goulart's Brazil see Loureiro (2014, 2017b).

<sup>16</sup> For US-Latin American relations in the post-World War II see Hilton (1981), Rabe (1988), and Smith (2010). For IMF-Latin American relations in the 1950s see Kofas (1995, 1999, 2001, 2002), Kedar (2013), and Lichtensztein (1987).

<sup>17</sup> See Hutchison and Noy (2003).

the “routine of dependence”, which comprises “cyclical interactions that have been taking place routinely between the IMF and a borrower country”. In other words, Kedar asserts that the Fund maintains long-term relations with member countries even when no IMF agreement is in place. The extent to which the IMF preserves close relations or not with borrowers may vary over time, i.e., involving cyclical interactions. As the analysis of IMF and U.S. confidential documents allowed me to assess the inner relations between them and Kubitschek’s Brazil, this research may contribute to the scholarship on the insertion of developing countries in the global multilateral financial system and their interactions with developed countries through international financial institutions. Therefore, the present study may add to a more nuanced understanding of the foundations of the global financial system after World War II. In sum, the findings presented here have important implications not only for IMF-Brazilian relations in the late 1950s but also for the broader domain of Brazilian foreign policy, postwar U.S.-Latin American relations, Latin American development, and IMF-borrowing countries relations.

This Master’s thesis is organized in three chapters. Chapter one looks at U.S.-Brazilian relations from the beginning of Juscelino Kubitschek’s presidential term in 1956 to the beginning of IMF-Brazilian negotiations for a standby agreement in 1958, analyzing how and why the U.S. government changed its financial assistance policy towards Brazil and what the initial implications for U.S.-Brazilian relations of this decision were. Chapter two focuses on IMF-Brazilian relations in 1958, analyzing how and why the U.S. employed the IMF as its “mantle of multilateral anonymity”. I also look into the IMF’s stabilization demands to Brazil, the country’s responses to them, and the consequences of these IMF-Brazilian difficult negotiations for the U.S.-Brazilian relationship. Finally, chapter three analyzes the relationship between the IMF, the U.S., and Brazil in 1959, explaining why the U.S. maintained its harsh policy towards Brazil, and tracking the deterioration process of the relations between these three actors and the short-term outcomes deriving from the suspension of financial negotiations between Brazil and the IMF. At the end, I present the main conclusions.

## **Chapter one – U.S.-Brazilian economic relations, 1956-1958**

The U.S. emerged from the 2<sup>nd</sup> World War as a world power with global responsibilities. In opposition to President Franklin Roosevelt's (1933-1945) focus on Inter-American relations, in the 1950s the U.S. internal and foreign policies were targeted to fighting communism and preventing the Soviet Union from spreading its influence worldwide. President Harry Truman (1945-1953) laid down the basis of this policy. The reconstruction of Western Europe and Asia was in the U.S. front line of defense against communism, taking precedence over regional matters. A Marshall Plan was unfeasible for Latin America then, whose role was confined to being a U.S. ally in world affairs. Instead of providing direct economic assistance, Truman encouraged liberal trade practices and the creation of favorable environments for private investments and enterprises, and launched the so-called "Point Four", a program to foster U.S. technical cooperation to the Third World. The aim was to develop stable and self-sustainable economies in Latin America which did not require continuous U.S. economic assistance.<sup>18</sup>

President Dwight D. Eisenhower (1953-1961) maintained Truman's foreign policy guidelines for Latin America even though his tactics diverged in degree. He decided to stimulate capitalist endeavors actively, in particular, with the purpose of countering arguments of the Economic Commission for Latin America and for the Caribbean (ECLA). At that time, Latin American countries were facing serious economic difficulties due to a drop in commodities prices (their major exportable goods). The ECLA sustained then that foreign financial assistance was critical to fostering economic development and overcoming underdevelopment through rapid, state-supported, import-substitution industrialization. In contrast, the Eisenhower administration decided to employ Export-Import Bank (Eximbank) loans to counter state intervention in the economy by refusing credits to state companies – such as the Brazilian oil state-monopoly Petrobrás –, and encouraging private investors to request U.S. loans for state-supported development areas. By influencing governments' and businesses' mindset, Washington expected to accomplish its goals with minimum financial direct costs.<sup>19</sup>

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<sup>18</sup> For the U.S. foreign policy for Latin American in the postwar period see Brands (2009), Hilton (1981), O'Brien (2007), Rabe (1988, 2016), Sewell (2010), Smith (2010), and Young (2014).

<sup>19</sup> For the ECLA and the Eisenhower administration's foreign policy for Latin America see Rabe (1988) and Ioris (2017, p. 60-69).

Latin American countries reacted wrathfully to postwar U.S. foreign economic policy, notably since American receptiveness to assisting Latin America's economic development during the wartime fostered optimism about U.S. collaboration in the postwar.<sup>20</sup> As in other Latin American countries, official and unofficial circles in Brazil were eagerly debating the need for rapid industrialization to conquer economic and political autonomy. However, all postwar Brazilian presidents, Eurico Gaspar Dutra (1946-1951), Getúlio Vargas (1951-1954), and João Café Filho (1954-1955), were disappointed with Washington's resistance to conceding loans to Brazil. After all, the country had been a close U.S. ally and traditional friend.<sup>21</sup> In Brazil's eyes, U.S. generous Marshall Plan to Europe, in contrast to Washington's negligence towards Latin America, symbolized a way of keeping Latin Americans as colonial suppliers of raw materials to the developed world. Although the Joint Brazil-United States Economic Development Commission (JBUSED) lighted up hopes for U.S. economic cooperation during Truman's years, Brazil's disillusion deepened when Eisenhower unilaterally terminated it in 1953.<sup>22</sup> In this context of increasing U.S.-Brazilian resentment, the recent-elected Brazilian President Juscelino Kubitschek (1956-1961), like his predecessors, engaged in economic negotiations with the U.S. government to request Eximbank assistance in support of the national development.

This chapter surveys U.S.-Brazilian economic relations from 1956 to the beginning of 1958, analyzing why the Brazilian government opened negotiations with the IMF in early-1958 for a standby agreement and what was the U.S. government's role in this story. The chapter argues that IMF-Brazilian relations in the late 1950s have to be interpreted within the framework of U.S.-Brazilian economic relations, particularly when it comes to the provision of Eximbank loans to Brazil. In 1956, U.S.-Brazilian negotiations for economic cooperation concluded with the Eximbank accepting to analyze the provision of funds to Kubitschek's development program in exchange of Brazil's commitment to control inflation in order to create a favorable environment for foreign private capital. However, the Kubitschek administration's anti-inflation performance in 1956 and 1957 was poor – most likely due to internal difficulties. Although aware of growing USSR menaces and escalating anti-U.S. sentiment in Brazil, in early 1958 Washington changed its foreign financial assistance policy towards Kubitschek's Brazil.

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<sup>20</sup> For postwar visions in Latin America see Rabe (2016, chap. 2).

<sup>21</sup> For U.S.-Brazilian relations before World War II see Burns (1966).

<sup>22</sup> For U.S.-Brazilian relations during Eisenhower's years see Hilton (1981, p. 600-617), and Smith (2010, chap. 6). For a long-term perspective of U.S.-Brazilian relations see Hirst (2006). For the JBUSED see Faro and Silva (1991, p. 55), Lafer (1970, p. 57), Silva (2000, p. 79), and Vianna and Villela (2011, p. 9).

Economic factors played a pivotal role in Washington's decision to condition new Eximbank loans to an IMF standby agreement instead of negotiating financial assistance directly with the Brazilian government as it had been doing. Under the pressure of need, the Kubitschek administration opened discussions with the Fund in March 1958.

U.S.-Brazilian economic relations throughout the years of 1956-1958 allow us to put IMF-Brazilian negotiations in proper context. Most scholars assert that Kubitschek sought a Fund standby agreement in 1958 because the IMF's approval of Brazil's economic policy was critical to accessing foreign loans at a time when increasing economic difficulties could have impaired the progress of the national development.<sup>23</sup> However, here it becomes evident that Washington forced Brazil to come to an agreement with the IMF in order to secure access to U.S. credits.

This chapter comprises four sections. Section one contextualizes U.S.-Brazilian discussions in 1956 for economic cooperation. Section two analyzes Brazil's anti-inflation performance throughout the years of 1956-1957, Washington's negative responses to it and how U.S.-Brazilian initial resentments built up. Section three observes why and how the U.S. changed its foreign financial assistance policy towards Kubitschek's Brazil, transferring financial negotiations from the Eximbank to the IMF. The last section presents a conclusion.

### *1.1 The 1956 Anti-Inflation Program and the Targets Plan*

The years preceding Kubitschek's presidential term were characterized by severe economic, political and social difficulties. There was an increasing inflationary trend, a growing external imbalance in the balance of payments, and a rising foreign debt. Moreover, the Brazilian population and economic sectors, including businesspeople, coffee growers, military and workers, were increasingly discontent about economic conditions and certain governmental policies. For instance, coffee growers criticized the valued exchange rate for exports and businesspeople complained about the 100% minimum wage increase in 1954. During his campaign, Kubitschek proposed a "National Development Plan" (*Plano Nacional de Desenvolvimento*) aimed at increasing the national investment rate in order to address macroeconomic challenges. Kubitschek's optimistic rhetoric about rapid, state-led industrialization, and economic growth won the October 1955 presidential elections based on the

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<sup>23</sup> See Bojunga (2001, p. 525-533), Campos (2007, p. 44-45), Daré (2004, chap. 3), Fassy (2000, p. 88-93), Leopoldi, (1991), Lima (2006, p. 44), Maranhão (1994, p. 56-61), Oliveira (1993, chap. 2), Oliveira (2005, chap. 4), Pires (2006, p. 107-131), Silva (2000, p. 84), Skidmore (2000, p. 218-219), and Vizentini (2006).

alliance between Brazil's two major parties at the time, the leftist Brazilian Labor Party (*Partido Trabalhista Brasileiro*, PTB), and the centrist Social Democratic Party (*Partido Social Democrático*, PSD). Kubitschek assumed the Brazilian presidency in January 1956 in a context of growing political polarization and economic difficulties.<sup>24</sup>

In February 1956, President Kubitschek set up a Development Council (*Conselho de Desenvolvimento*), Brazil's first permanent central planning agency, whose purpose was to lay down thirty goals related to five key economic sectors: energy (targets 1-5), transport (targets 6-12), agriculture (targets 13-18), heavy industry (targets 19-29), and education (target 30). A 31<sup>st</sup> goal was added later: the construction of the new national capital, Brasília. These goals became the so-called Targets Plan (*Plano de Metas*), a five-year, state-led development program which promised results compatible with fifty years of economic growth. Previous studies of the former JBUSEDC, the ECLAC, and the National Bank for Economic Development (BNDE, a state bank), composed the basis of Kubitschek's program devised to expand national industry, particularly in fields of intermediary and durable consumer goods. External and domestic resources were meant to be applied to overcome bottlenecks in the national economy by investing in priority development sectors so that to increase economic growth. Foreign capital was then considered critical to offsetting Brazil's low savings and reducing deficits in the balance of payments due to rising imports for this fast-paced industrialization. Kubitschek pursued foreign investments for his plan tenaciously.<sup>25</sup>

In light of Vice-President João Goulart's leftist links (he was affiliated with PTB), the U.S. government invited the recently-elected Brazilian President to the U.S. before his inauguration in January 1956 to explore his positions further (HILTON, 1981, p. 617-618). Acknowledging that Kubitschek could express wishes for U.S. financial assistance during his visit, Eximbank and State Department officials agreed that U.S. lending power had to be used as

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<sup>24</sup> For economic, political, and social challenges during the Gaspar Dutra (1946-1951), Getúlio Vargas (1951-1954), and João Café Filho (1954-1955) administrations see Leopoldi (1991, p. 77-81), Orenstein and Sochaczewsky (1990, p. 171-172), and Vianna and Villela (2011).

<sup>25</sup> For further explanations on the Targets Plan see Benevides (1979, chap. 5), Daré (2004, chap. 3), Faro and Silva (1991), Lafer (2002), Leopoldi (1991, p. 84-86), Lopes (2006, chap. 8), Malan (2007, p. 99), and Oliveira (1991). For the BNDE see Lafer (1970; 2002). For the importance of foreign capital to the Targets Plan see Ioris (2017, p. 60-82).

to encourage “the Brazilian housekeeping necessary to give that country the status of a good credit risk”.<sup>26</sup>

Officials of the Office of South America Affairs of the State Department suggested that Assistant Secretary of State for Inter-American Affairs Henry Holland emphasize to Kubitschek the need for “prompt and firm measures” to contain inflation and correct deficits in the balance of payments. Since in past occasions, such as in 1953 and 1955, Brazil had failed to tackle its economic and financial difficulties in return of U.S. financial assistance, this time “special U.S. assistance is necessarily contingent upon real progress [...] in achieving economic stabilization through such corrective measures”. Three policy areas deserved attention: a balanced budget, limits to credit expansion, and a reform of the country’s multiple exchange rates system. U.S. officials suggested that Holland gave special emphasis to the need for simplifying the exchange rates system in order to encourage long-term exports (especially coffee, Brazil’s most exportable good), and to ease the burden of imports such as oil and oil derivatives (which represented a significant share of the country’s energy supply).<sup>27</sup>

In order to improve prospects for increased U.S. financial assistance, BNDE Director Roberto Campos elaborated an “Action Plan” for Kubitschek’s trip, whose main strategy was to fit Brazil’s national development within the U.S. foreign policy towards Latin America. As Latin America was a focus area for exporting U.S. private capital, the Brazilian government would have to pursue Washington’s economic cooperation by compromising to encourage private capital inflow and to curb inflation as a precondition for the country’s development. In particular, Kubitschek would have to commit to an anti-inflation program that foresaw a reform of Brazil’s multiple exchange system so that to control external deficits and encourage long-term exports. Moreover, Kubitschek would have to, at least, present intentions to review the oil policy that placed Petrobrás as an oil state-monopoly in order to allow foreign private capital participation in

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<sup>26</sup> Memorandum of Conversation (hereafter Memo), “Refunding of Brazil’s Short and Medium-Term Indebtedness”, Jan. 26, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/1-356.

<sup>27</sup> Letter, Rodolf Cahn to Lyon and Henry Holland, “Brazil: Program of Economic Reforms”, Oct. 14, 1955, NARA, RG 59, Records of the Bureau of Inter-American Affairs, Subject Files Relating to Regional Economic Affairs, 1956-1959, Box 5, Folder Latin American Economic Papers REA-Conover 1958. For the Eximbank loans granted to Brazil in 1953 and 1955 see Sewell (2010).

the oil field. Otherwise, the Action Plan argued, U.S.-Brazilian relations would never reach a stronger level of cooperation (CAMPOS, 2004, chap. 9).<sup>28</sup>

In January 1956, Kubitschek went to Key West, United States, to meet President Eisenhower with the purpose, among others, of obtaining U.S. economic cooperation in support of the Targets Plan. Kubitschek made it clear to Eisenhower that the success of his development program relied on “the friendship of the United States”.<sup>29</sup> He also emphasized to Secretary of State John Foster Dulles that his primal aim was to make Brazil attractive for foreign private investments (SEWELL, 2010 p. 1469). To reiterate this point, Finance Minister José Maria Alkmim reassured Vice-President Richard Nixon and Assistant Secretary Henry Holland of Kubitschek’s primary focus: to curb inflation, to contain deficits in the balance of payments, and to obtain national and foreign resources for the Targets Plan. Kubitschek also stressed to Holland that his highest priority was a program for economic development as a way of fighting communism. Holland suggested that approval of U.S. financial assistance would be easier if proposals outlined in Kubitschek’s development program “were part of a global, coordinated program designed to attack Brazil’s economic problems on a broad scale”. Kubitschek agreed with Holland that Brazil should review its multiple exchange rates system for encouraging exports.<sup>30</sup> These findings contradict Malan’s (2007, p. 100) presumptions that Kubitschek’s sole purpose during the trip to Key West was to call the world’s attention to his development program, the Targets Plan, and not for “prescribed medicines whose unique goal is that of monetary stability”.

Authors argue that meetings in Key West widened political and economic divergences between Rio de Janeiro and Washington as U.S. officials insisted on the need for economic

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<sup>28</sup> Memo, “Memorando para Kubitschek em preparação de sua visita aos Estados Unidos”, Jan. 1956, Centro de Pesquisa e Documentação Histórica Contemporânea do Brasil, Escola de Ciências Sociais da Fundação Getúlio Vargas (hereafter CPDOC-FGV), Arquivo Roberto Campos (hereafter ARC), Folder RC 1955.05.02.

<sup>29</sup> “Telephone calls”, Jan. 5, 1956, Dwight D. Eisenhower Presidential Library in Abilene, Kansas (hereafter EPL), Eisenhower, Dwight D.: Papers as President, 1953-61, Ann Whitman File, DDE Diary Series, Box 12, Folder Jan '56 Phone calls. For a detailed account of the meetings that Kubitschek held while in the U.S. during his trip in early 1956 see Wrzos (1960).

<sup>30</sup> Memo, “Conversation with the President-elect of Brazil regarding Economic Matters”, Jan. 6, 1956, NARA, RG 84, Records of the Foreign Service Posts of the Department of State (hereafter RFSP), Classified General Records (hereafter CGR) 1941-1963, Box 116, Folder 350 Brazil - Jan-May 1956; Memorandum, Conselho do Desenvolvimento, “Cooperação econômica entre os Estados Unidos da América e o Brasil”, Apr. 25, 1956; Conselho do Desenvolvimento - GT Assuntos Financeiros Internacionais, “Renegociação das dívidas brasileiras com os Estados Unidos da América – obtenção de recursos em dólares para o Programa de Desenvolvimento”, CPDOC-FGV, Arquivo Ernani do Amaral Peixoto (hereafter AEAP), Folder EAP emb 1956.04.13.

stabilization as to encourage free trade, refusing Kubitschek's requests for official loans.<sup>31</sup> However, evidence has it that U.S. officials were enthusiastic with the new Brazilian administration. Eisenhower considered that his meeting with Kubitschek had been "absolutely perfect".<sup>32</sup> Holland was satisfied with Kubitschek's willingness to "attack" Brazil's economic problems and felt encouraged by conversations.<sup>33</sup> Referring to Kubitschek's first address to the nation as President of Brazil, U.S. Embassy official Gerald Smith found his speech "politically courageous" and thought that perhaps never before the Brazilian people had heard their President speak so firmly on inflation.<sup>34</sup>

Upon returning to Brazil, Finance Minister José Alkmim authorized the Development Council to set up a work group to follow up on topics discussed in Washington. In April 1956, official João Pinheiro of the Development Council was designated to initiate negotiations with the U.S. government for economic cooperation in support of Brazil's development program, the Targets Plan. Vice-President João Goulart joined him with the purpose of reassuring the Brazilian government's anti-communist approach. Pinheiro and Goulart presented to U.S. officials the main guidelines of the new administration. Kubitschek was going to implement an "Anti-Inflation Program" to address Brazil's macroeconomic challenges, and to create an appropriate environment for foreign investors by curbing inflation, balancing the national economy and overcoming deficits in the balance of payments. In return, Rio de Janeiro hoped for U.S. assistance in negotiations for postponing the country's debt service with the Eximbank, the IMF and U.S. private bankers, as well as by providing Eximbank loans to projects in infrastructure areas not deemed attractive to private investments, such as transports (railroads, ports, and roads) and power outlets.<sup>35</sup>

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<sup>31</sup> See, for example, Hilton (1981, p. 618), Hurrell (2013, p. 94), and Sewell (2010, p. 1469-1471).

<sup>32</sup> "Telephone calls", Jan. 5, 1956, EPL, Eisenhower, Dwight D.: Papers as President, 1953-61, Ann Whitman File, DDE Diary Series, Box 12, Folder Jan '56 Phone calls.

<sup>33</sup> Memo, "Conversation with the President-elect of Brazil regarding Economic Matters", Jan. 6, 1956, NARA, RG 84, RFSP, CGR 1941-1963, Box 116, Folder 350 Brazil - Jan-May 1956.

<sup>34</sup> US Embassy dispatch (hereafter Embdes), Amembassy to State Department, "Comments on Kubitschek's Anti-Inflation Address", Feb. 27, 1956, NARA, RG 59, CDF 1960-63, Microfilmed NO-1511, Roll 7.

<sup>35</sup> Memorandum, Conselho do Desenvolvimento, "Cooperação econômica entre os Estados Unidos da América e o Brasil"; "Memorando", CPDOC, AEAP, Folder EAP emb 1956.04.13; Letter, Lucas Lopes to José Maria Alkmim, Jun. 7, 1956, CPDOC-FGV, ARC, Folder RC e ag 1955.05.02; Letter, Samuel Waugh to Lucas Lopes, "Missão Lucas Lopes", Jul. 20, 1956, CPDOC-FGV, ARC, Folder RC e ag 1952.11.24; Embdes 1111, Amembassy to State Department, "Anti-Inflation Program", May 4, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

The Anti-Inflation Program was going to be implemented alongside the Targets Plan to promote economic development with price stability. There were two policy areas to limit the expansion of the money supply: budget and credit. The Kubitschek administration compromised to lower public deficits through a “Savings Plan” and by controlling expenses of federal-owned enterprises, improving the tax collection and creating a customs tariff to increase public revenues. The government was going to limit the credit supply by imposing credit ceilings upon the Bank of Brazil’s operations with the public and private sectors and by raising rediscount ceilings and reserve requirements of commercial banks. Lastly, increases of the minimum wage would be moderate. The Anti-Inflation Program did not prescribe policies to reform the country’s multiple exchange rates system although recognizing that it was problematic.<sup>36</sup>

Although the majority of scholars assert that the problem of rising inflation rates and increasing external deficits received little or no attention in the various scratches of the Targets Plan, what follows is that Kubitschek compromised before the U.S. government to implement a stabilization program alongside the Targets Plan as part of his government’s main guidelines.<sup>37</sup> These findings oppose earlier researches who argued that Kubitschek ended up with no particular domestic policy strategy to meet Washington’s desires for monetary containment since the inflow of foreign private capital to Brazil throughout the years of 1956-1957 was favorable.<sup>38</sup> Although the inflow of foreign private capital was indeed expressive in this period – particularly due to Kubitschek’s boosterish policies, such as by allowing foreign capital entrance without exchange coverage – the fact remains that the Kubitschek administration devised a specific domestic policy strategy to please U.S. interests by promising to curb inflation.<sup>39</sup>

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<sup>36</sup> Memo, E .M. Bernstein to Cochran, “Discussion with the Brazilian Authorities”, Mar. 26, 1956, Archives of the International Monetary Fund in Washington D.C. (hereafter IMF), Central Files, Country Files, Brazil, Box 4, Folder Economic Stability, 1956 – 1957; Memorandum, Conselho do Desenvolvimento, “Cooperação econômica entre os Estados Unidos da América e o Brasil”, Apr. 25, 1956, CPDOC-FGV, AEAP, Folder EAP emb 1956.04.13; Embdes, Amembassy to State Department , “Proposed Anti-Inflation Program for 1956”, Mar. 6, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/1-356.

<sup>37</sup> For this perspective see Benevides (1979, chap. 5), Bojunga (2001, p. 525-533), Campos (2007), Fassy (2000, p. 88-93), Ioris (2017, p. 60-82), Leopoldi, (1991), Lessa (1983, p. 28-85), Malan (2007, p. 100-101), Oliveira (1993, chap. 2), Orenstein and Sochaczwsky (1990), Silva (2000), Skidmore (2000, chap. 5), Villela (2011, p. 37-38), Vizontinni (2006), and Young (2014, chap. 3). As far as we were able to find, Lopes (2006, chap. 9) is the only author who mentions the 1956 Anti-Inflation Program.

<sup>38</sup> See, for example, Benevides (1979, chap. 5), and Young (2014, chap. 3).

<sup>39</sup> For the inflow of foreign private investments to Brazil during Kubitschek’s years see Malan (2007), and Shapiro (1994, chap. 3). For an in-depth analysis of Kubitschek’s policies to attract foreign private capital see Shapiro (1994).

However, Brazil's Anti-Inflation Program did not foresee policies to abolish exchange controls. Discussions about the need for simplifying the country's multiple exchange rates system and pegging exchange transactions at the free world market rate gave rise to heated debates within the Kubitschek administration. The Brazilian President acknowledged the complexity of the situation at stake. On the one hand, Brazilian technicians who occupied central positions in the administration, such as BNDE President Lucas Lopes and BNDE Director Roberto Campos, and foreign technicians, such as those from the U.S. and the IMF, favored reforming the system. On the other hand, Kubitschek's highly competent assessors, such as the industrialist Augusto Frederico Schmidt, found the existing system necessary (CAMPOS, 2004, p. 309-312; LOPES, 1991, p. 231-234).<sup>40</sup>

At that time, the Superintendence of Money and Credit's (*Superintendência da Moeda e do Crédito*, SUMOC) Instruction 70 of 1953 defined the format of Brazil's multiple exchange rates system. There was a free market for invisible and non-registered capital transactions and a second sector for official payments, trade transactions, invisibles related to trade, and most of the registered capital (table 1.1). In the second sector, exports were divided into three categories, and their effective exchange rates comprised the official buying rate (Cr\$ 18.36 per US\$ 1) plus established bonuses. Traditional exports (coffee and cocoa and cocoa derivatives) received lower bonuses and less exported goods (the majority of exports), higher. On the import side, there were three main effective rates: official selling rate (Cr\$ 18.82 per US\$1) for special imports such as newsprint, fixed surcharges added to the official rate for government imports including oil and oil derivatives and wheat, and variable surcharges added to the official rate for the remaining imports (private imports). Private imports were purchased in public auctions and divided into five categories to which the SUMOC allocated currency availability according to the essentiality of products: essential goods had lower exchange rates and products deemed superfluous, higher. The differential between effective exports and imports rates composed the Exchange Profits account (*Conta de Ágios e Bonificações*).<sup>41</sup>

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<sup>40</sup> Interview Casimiro Ribeiro (1981, p. 20-27); Interview José Sette Câmara Filho (1992).

<sup>41</sup> Letter EBS/55/40, Acting Secretary to Members of the Executive Board, "Exchange System – Brazil", Aug. 31, 1955, CPDOC-FGV, ARC, Folder RC e bn de 1955.05.26. For the quantitative import control prevailing before SUMOC's Instruction 70 see Lafer (1970, p. 60), Leopoldi (1991, p. 77-79), and Sochaczewsky (1993, p. 80-83). For further details on Instruction 70 see Leopoldi (1991, p. 79-80), Loureiro, (2017a, chap. 1), Orenstein and Sochaczewski (1990, p.173-175), Sola (1982, chap.4), and Vianna and Villela (2011, p. 13-16).

*Table 1.1* The structure of the Brazilian multiple exchange rates system at the beginning of 1956

| <b>1<sup>st</sup> Sector</b> | <b>Free market</b>          | Invisibles and non-registered capital transactions  |   |
|------------------------------|-----------------------------|---|---|
|                              | <b>Preferential imports</b> | Newsprint, oil and oil derivatives, wheat and consumption and capital goods considered essential for economic development and national security |   |
| <b>2<sup>nd</sup> Sector</b> | <b>Private imports</b>      | Five categories   | Remaining imports ranging from essential to superfluous |
|                              |                             | 1 <sup>st</sup> Category  | Coffee  |
|                              | <b>Exports</b>              | 2 <sup>nd</sup> Category  | Cocoa and cocoa derivatives                             |
|                              |                             | 3 <sup>rd</sup> Category  | Majority of exports                                     |

Source: Letter EBS/55/40, Acting Secretary to Members of the Executive Board, “Exchange System – Brazil”, Aug. 31, 1955, CPDOC-FGV, ARC, Folder RC e bn de 1955.05.26.

Discussions about whether to reform the exchange rate system centered on the so-called “Whitaker Plan”. Former Finance Minister José Whitaker proposed this Plan in 1955, at the end of the Café Filho government (1954-1955), to establish a more realistic parity for the *Cruzeiro* by gradually eliminating subsidies for preferential imports and selling all exports (except coffee) at a fluctuating rate (CAMPOS, 2004, p. 248-254).<sup>42</sup> Kubitschek called up a meeting with SUMOC’s Council (Brazil’s central monetary authority) on March 17, 1956, to get over the impasse. BNDE President Lucas Lopes and BNDE Director Roberto Campos voted in favor of the reform. For them, encouraging exports was critical to ending Brazil’s external deficits – Campos later confessed in an interview that his primal goal at that time was to turn Brazil into a major export country. Bank of Brazil President Sebastião Almeida and Brazilian Executive Director to the IMF Octávio Paranaguá, in turn, voted against the reform. Finance Minister José Alkmim gave the final word, deciding not to reform the multiple exchange rates system on the grounds that the time was not politically convenient. He feared social and political repercussions that increases in the cost of living and industrial production could cause, as subsidies for imports would lower with the aforementioned reform. Kubitschek agreed with Alkmim, particularly in light of major

<sup>42</sup> Letter EBS/55/40, Acting Secretary to Members of the Executive Board, “Exchange System – Brazil”, Aug. 31, 1955, CPDOC-FGV, ARC, Folder RC e bn de 1955.05.26. For the Whitaker Plan see Oliveira (1993, p. 35-39), and Skidmore (2000, p. 198-202).

military upsurges at the beginning of 1956 which had almost prevented him from taking office.<sup>43</sup> Those favoring a reform then pushed for a “second-best solution”: a tariff reform that implemented a customs tariff, which was later incorporated as part of the Anti-Inflation Program to increase public revenues (CAMPOS, 2004, p. 248-312; LOPES, 1991, p. 238-239).<sup>44</sup>

In fact, reforming Brazil’s multiple exchange rates system in the 1950s was intricate. Institutional constraints precluded active credit, monetary and fiscal policies, leaving the exchange system as the Brazilian government’s sole instrument for implementing changes in the country’s economic policy. Moreover, higher exchange rates for imports considered non-essential protected the national industry. The differential between more valued rates for traditional export and subsidized rates for preferential import also composed a powerful source of capital accumulation for private and public industries, as it transferred resources from export to manufacturing sectors.<sup>45</sup> SUMOC’s Instruction 70 indeed yielded important resources for Kubitschek’s Targets Plan. Likewise, Instruction 113 was essential to attracting foreign private capital to Brazil by guaranteeing that equipment imported as direct foreign investment received public subsidies in order to enter the country without exchange coverage.<sup>46</sup> According to Leopoldi (2000, chap. 8), the Whitaker Plan sparked much concern among industrialists, which only calmed down after Kubitschek officially announced that no reform would occur.

After analyzing Brazil’s Anti-Inflation Program presented in April, U.S. Embassy officials found it appropriate, although considering that Kubitschek had “incurred the wrath of various political and business forces by refusing to proceed with the much-discussed ‘exchange reform’ on the grounds that it would be inflationary”. State Department and U.S. National Security Council officials were equally satisfied. Even so, U.S. Embassy officials remained skeptical. They informed the State Department that only a small group of technocrats around BNDE Director Roberto Campos were pressing for anti-inflation policies in Brazil, inferring that Kubitschek and Finance Minister José Alkmim had only supported these policies because they

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<sup>43</sup> For the military upsurges of Aragarças and Jacareacanga see Dulles (1970), and Benevides (1979, chap.4).

<sup>44</sup> Interview Casimiro Ribeiro (1981). Section 1.2 discusses this tariff reform.

<sup>45</sup> For the difficulties in managing credit, fiscal and monetary policies see Loureiro (2017a, chap. 1). For further explanations on the exchange system and how industrialists benefited from it see Leopoldi (1991, p. 77-84), Leopoldi (2000, chap. 8), Furtado (2007, chap. 5), Sola (1982, chap. 4), and Villela (2011).

<sup>46</sup> For SUMOC’s Instructions 70 and 113 and their importance to the Targets Plan see Leopoldi (1991), Shapiro (1994, chap. 2), Orenstein and Sochaczewsky (1990), and Vianna and Villela (2011).

knew that U.S. and IMF experts considered such measures key to economic development and stabilization.<sup>47</sup>

President Eisenhower, Secretary of State John Dulles and Assistant Secretary Henry Holland were very receptive with Kubitschek's loan requests. Brazilian officials were optimistic as Eisenhower had authorized discussions to initiate negotiations for economic cooperation between the American and Brazilian governments. Official João Pinheiro then began conversations with State Department and Eximbank officials about Brazil's economic problems, debt refunding, and resources for the development program (LOPES, 1991, p. 178-180).<sup>48</sup> However, Eximbank Vice-President Walter Sauer was not as receptive. He told Pinheiro on a personal basis that Brazil would be better off paying its foreign debts as it would strengthen the Brazilian position with foreign creditors. For Sauer, the relief to Brazil would do no good as it was low, only permitting imports of a few more consumer goods. Pinheiro was dismayed at Sauer's statements in light of Eisenhower's receptiveness.<sup>49</sup>

Holland and Director Maurice M. Bernbaum of the Bureau of Inter-American Affairs of the State Department opposed Sauer's viewpoint vehemently. Regardless of any economic advantages of not refunding debts – such as forcing the Brazilian government to realize the need for foreign private capital participation in the oil state-monopoly Petrobrás) –, for them, political risks involving Soviet menaces in the Latin America justified financial concessions to Brazil. Pinheiro had advised Bernbaum that the “best way to cause chaos and the downfall of Kubitschek is to press too rapidly on the petroleum situation”. Pressing Kubitschek could, therefore, open doors to a USSR “Economic Assistance” offensive. According to Holland, at that time Moscow was “engaged in an astute and aggressive campaign to expand diplomatic and commercial relations in Latin America”, having as primary targets Argentina and Brazil and as main weapon Soviet willingness to supply oil equipment to national oil monopolies in contrast to U.S.

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<sup>47</sup> Embdes 1111, Amembassy to State Department, “Anti-Inflation Program”, May 4, 1956; Office memorandum (hereafter Offmemo), Bernbaum to Holland, “Position to be taken on Brazilian request for refunding outstanding balances of Eximbank \$300 million loan and \$75 million credit, and additional development loans on their individual merits”, Jun. 5, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456; Memorandum, OCB Working Group on Latin America, “June 7, 1956 Draft of Outline Plan of Operations for Brazil - sent to Board Assistants formally June 8, 1956”, Jun. 8, 1956, EPL, White House Office, National Security Council Staff: Papers, 1948-61, OCB Central File Series, Box 24, Folder OCB 091. Brazil (File #1) (7) [June 1955 - June 1956].

<sup>48</sup> Letter, Ernani Peixoto to Lucas Lopes, May 9, 1956, CPDOC-FGV, AEAP, Folder EAP emb 1956.01.13; Letter, Lucas Lopes to Alkmim, Jun. 7, 1956, CPDOC-FGV, ARC, Folder RC e ag 1955.05.02.

<sup>49</sup> Letter, Lucas Lopes to José Alkmim, Jun. 7, 1956, CPDOC-FGV, ARC, Folder RC e ag 1955.05.02; Offmemo, Bernbaum to Holland, “Export-Import Bank Attitude on Brazil's Request for Loan Refunding”, Jun. 1, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

unwillingness to do so.<sup>50</sup> In fact, in the late 1950s, American-Soviet tensions were growing in the underdeveloped world mostly because the U.S.' and the USSR's room for maneuvering in Europe, which had been their primary area of struggle until then, was diminishing.<sup>51</sup>

Recent studies have showed that in mid-June 1956, while U.S.-Brazilian economic negotiations were taking place, a Brazilian delegation went to Russia and some of its members shared wishes to restore trade and diplomatic relations with the Soviet Bloc. The delegation was impressed by USSR oil refineries as Petrobrás lacked equipment and technicians.<sup>52</sup> For Holland, if Argentina and Brazil remained firm in combating communism and encouraging free enterprise, USSR overtures to the hemisphere would fail. However, if they weakened, “our [U.S.] position throughout Latin America will be calamitously impaired”. By refusing to assist Rio de Janeiro, “the sure and certain result would be [the] acceptance of Soviet aid” as it would fuel resentments, cool relations with the Kubitschek administration, undo the goodwill shared during Kubitschek and Vice-President João Goulart’s visits to Key West, and ultimately lead to a USSR economic offensive. Therefore, political matters outweighed the economic advantages of refusing credits to Kubitschek.<sup>53</sup>

Despite their efforts, Holland and Bernbaum were unsuccessful in changing Eximbank officials’ views. The Bank persisted that refunding Brazilian debts would only postpone economic instabilities and jeopardize future loan requests. Nonetheless, State Department and Eximbank officials embraced a middle ground solution. They would request that a Brazilian mission came to the U.S. to discuss how Washington could best assist Brazil’s development program. Therefore, instead of communicating a final decision on debt refunding and analyzing

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<sup>50</sup> Offmemo, Bernbaum to Holland, “Position to be taken on Brazilian request for refunding outstanding balances of Eximbank \$300 million loan and \$75 million credit, and additional development loans on their individual merits”, Jun. 5, 1956; Offmemo, Holland to Belton, Jun. 5, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

<sup>51</sup> For a further account on this process and the reasons why the American and Soviet room for maneuvering in Europe was diminishing at that time see Brands (2009, chap. 1).

<sup>52</sup> For this visit to the USSR in mid-1956 see Caterina (2018).

<sup>53</sup> Offmemo, Bernbaum to Holland, “Position to be taken on Brazilian request for refunding outstanding balances of Eximbank \$300 million loan and \$75 million credit, and additional development loans on their individual merits”, Jun. 5, 1956; Offmemo, Holland to Belton, Jun. 5, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

funds for single projects, as usual, the Eximbank would commit itself to consider global financings to Kubitschek's Targets Plan.<sup>54</sup>

In July 1956, BNDE President Lucas Lopes headed the Brazilian mission to the U.S. According to Lopes, throughout the whole negotiation process, Brazilian officials restressed commitments to implement the Anti-Inflation Program alongside the Targets Plan so that to end inflation and, eventually, also reform the multiple exchange rates system (LOPES, 1991, chap. 6). The negotiations concluded with the Eximbank compromising to finance development projects in public and private sectors and authorizing, for the time being, a long-term credit line of US\$ 151.4 million as an initial step in supporting the Targets Plan. However, financing was strictly contingent upon the Kubitschek administration's capacity to controlling inflation, mainly through the Anti-Inflation Program, in order to place the national economy in a sound and strong financial position.<sup>55</sup> The U.S. National Security Council then defined that Washington was going to "encourage, through the Export-Import Bank, the financing of sound economic governmental development projects or private commercial projects" to Brazil so that to maintain close and friendly ties with Kubitschek as a key component of the U.S. foreign policy in Latin America. However, positive support was going to be given only "during the period in which it [the Kubitschek administration] is striving to place Brazil's economy on an even keel" in order to create a favorable environment for foreign private investments and enterprises, and to encourage free trade practices.<sup>56</sup>

The Brazilian press, local politicians and Brazilian officials reported their feelings that U.S.-Brazilian economic cooperation was heading to a new direction. They expressed what seemed to be a new orientation in the Eximbank's loan policy: the Bank was now willing to cooperate by investing in projects which had not received credits at the time of the Joint Brazil-

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<sup>54</sup> Offmemo, Bernbaum to Holland, "Meeting at the Export-Import Bank on the Policy to be Followed toward Brazil's Application for Financial Assistance", Jun. 22, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

<sup>55</sup> Memorandum, Jul. 20, 1956; Letter 70/920.(22)(20), Ernani do Amaral Peixoto to José Carlos de Macedo Soares, "O interesse brasileiro e a política global dos Estados Unidos da América", Jan. 24, 1957, CPDOC-FGV, AEAP, Folder EAP emb 1956.01.13; Letter, Samuel Waugh to Lucas Lopes, Jul. 20, 1956, CPDOC-FGV, ARC, Folder RC e ag 1952.11.24.

<sup>56</sup> Operations Coordinating Board, "Outline Plan of Operations for Brazil", Jul. 2, 1956, EPL, White House Office, National Security Council Staff: Papers, 1948-61, OCB Central File Series, Box 25, Folder OCB 091. Brazil (File #2) (2) [June 1955 - January 1957].

United States Economic Development Commission.<sup>57</sup> The Brazilian Ambassador to the U.S., Ernani Peixoto, thought that this possibly meant a new U.S. foreign policy to Latin America. For him, “never before we [Brazil] had had such a propitious opportunity to conquer the objectives of our economic policy through bilateral relations with the United States”. He strongly believed that at this time Washington was willing to participate in the Brazilian development.<sup>58</sup>

### *1.2 Brazil’s performance under the 1956 Anti-Inflation Program*

The 1956 Anti-Inflation Program slowly became real. In April 1956, Kubitschek’s Development Council approved an eight-point program that included policies to limit budget deficits and constrain credit expansion. Accordingly, Kubitschek issued a circular instruction to implement a “Savings Plan” and increased service rates charged by federal-owned enterprises.<sup>59</sup> The government also approved SUMOC’s Instruction 135, increasing the reserve requirements of commercial banks to the maximum level permissible by law.<sup>60</sup> Despite these efforts, public deficits and credit supply continued to rise.<sup>61</sup>

Evidence suggests that the government seemed to lack the power to rein in ministries and autarchies in containing their expenses.<sup>62</sup> Growing public investments and congressional approval of a 70% salaries increase for public employees also enlarged the expenditures. Moreover, Brazilian authorities felt that further increases in rates of federal-owned enterprises were no longer feasible.<sup>63</sup> According to SUMOC Director Casimiro Ribeiro, Kubitschek preferred to finance deficits of public enterprises by issuing fiat paper money as he regarded this maneuver as politically beneficial. Although inflationary, Kubitschek argued, issuing money represented a good thing for the public in general. When prices increased, the population would blame the

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<sup>57</sup> O Estado de São Paulo (hereafter ESP), “A nova orientação do Eximbank”, Oct. 2, 1956, p. 46; Jornal do Brasil (hereafter JB), “Contrário o Ministro da Fazenda à reforma cambial”, Dec. 23, 1956. 1º caderno, p. 6 and 10, ed. 298.

<sup>58</sup> Letter 70/920.(22)(20), Ernani do Amaral Peixoto to José Carlos de Macedo Soares, “O interesse brasileiro e a política global dos Estados Unidos da América”, Jan. 24, 1957, CPDOC-FGV, AEAP, Folder EAP emb 1956.01.13.

<sup>59</sup> Letter, G.A.Costanzo to Jorge Del Canto, Apr. 28, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956.

<sup>60</sup> Report SM/58/7, Members of the Executive Board to The Secretary, “1957 Consultation – Brazil”, IMF, Reference number (hereafter RN) 249346. Available at: [www.archivescatalog.imf.org](http://www.archivescatalog.imf.org). Access in Jul. 2018.

<sup>61</sup> Report SM/58/7, Members of the Executive Board to The Secretary, “1957 Consultation – Brazil”, IMF, RN 249346. Available at: [www.archivescatalog.imf.org](http://www.archivescatalog.imf.org). Access in Jul. 2018.

<sup>62</sup> ESP, “Sinopse do desenvolvimento econômico-financeiro”, May 26, 1956, p.42-43.

<sup>63</sup> Report SM/58/7, Members of the Executive Board to The Secretary, “1957 Consultation – Brazil”, IMF, RN 249346. Available at: [www.archivescatalog.imf.org](http://www.archivescatalog.imf.org). Access in Jul. 2018.

private sector, not the government.<sup>64</sup> In the credit arena, Kubitschek and Finance Minister José Alkmim remained firm in maintaining higher reserve requirements for commercial banks regardless of protest from the banking and business sectors for a loosen credit policy.<sup>65</sup> However, credits from the Bank of Brazil to the public and private sectors continued to grow. Bank of Brazil President Sebastião Almeida preferred to work with non-explicit ceilings by channeling resources into productive investments, basing loan decisions on the merit of individual applications.<sup>66</sup> At that time, the imposition of credit ceilings was the only instrument available to control the expansion of credit from the Bank of Brazil. With no ceilings, Brazil's credit policy continued to be loose.<sup>67</sup>

U.S. Embassy officials considered Brazil's net public savings "negligible" and inferred that the Bank of Brazil's increased loans nullified the effects of higher reserve requirements to private banking institutions. As a result, increased money supply made inflation grow even more. On top of this, instead of simplifying the multiple exchange rates system as Washington wanted, the Brazilian government approved adjustments that added further complexities to it by extending the so-called "symbolic purchase system" to more exportable commodities.<sup>68</sup> Through the symbolic purchase system, the government paid exporters the difference between the world market prices of exportable commodities and their respective domestic prices. By including more exports into the system, Kubitschek and Alkmim aimed at easing pressures of commercial and rural sectors for more depreciated exchange rates while maintaining appreciated exchange rates

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<sup>64</sup> Interview Casimiro Ribeiro (1981, p. 27-33).

<sup>65</sup> ESP, "Restrição de crédito e confrontos estatísticos", Sep. 25, 1957, p. 18; ESP, "Declarações do sr. Alkmim sobre problemas nacionais", Oct. 27, 1956, p. 46;

Memo, "Brazil-Current Monetary and Fiscal Situation", Sep. 28, 1956, IMF, Western Hemisphere Department Records (hereafter WHDR), Western Hemisphere Department Immediate Office Records (hereafter WHDIOR), WHDAI Country Files, Box 31 File 1;

Embdes 379, Amembassy to The State Department, "Brazil's approaching problems", Oct. 4, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4305, Folder 832.00/6-357;

Letter, Rio to Penido, "Perguntas da imprensa de São Paulo ao Presidente da República em 'Campeões da Democracia' – dia 10.12.56", Dec. 17, 1956, CPDOC-FGV, ARC, Folder RC e ag 1955.05.02.

<sup>66</sup> Letter, G.A.Costanzo to Jorge Del Canto, Apr. 18, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956; Memo, "Brazil-Current Monetary and Fiscal Situation", Sep. 28, 1956, IMF, WHDR, WHDIOR, WHDAI Country Files, Box 31 File 1; Report SM/58/7, Members of the Executive Board to The Secretary, "1957 Consultation – Brazil", IMF, RN 249346. Available at: [www.archivescatalog.imf.org](http://www.archivescatalog.imf.org). Access in Jul. 2018.

<sup>67</sup> For Brazil's credit policy at the time see Loureiro (2017a, chap.1).

<sup>68</sup> Embdes 533, Amembassy to State Department, "Progress Report on Minister Alkmim's Anti-Inflationary Effort", Nov. 2, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/7-1056; R. Bird to Files (ARA), "Balance Sheet on Control of Inflation in Brazil", Apr. 15, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

to lower the cost of living and of industrial production. In practice, the symbolic purchase system established different exchange rates for each exported commodity and, sometimes, to each transaction, making the multiple exchange rates system even more complex..<sup>69</sup> Overall, aside from allowing entry of foreign capital without exchange coverage through Instruction 113, U.S. Embassy officials believed that Kubitschek was not making new inducements to encourage these investments.<sup>70</sup>

In the hope for further development loans in support of the Targets Plan, Finance Minister José Alkmim insistently asked U.S. Embassy officials to report to Washington “the strong and successful measures which the Brazilian Government has been applying to ‘put its house in order’ and in particular to curb inflation”.<sup>71</sup> However, upon Brazil’s poor anti-inflation performance in 1956, the U.S. Embassy Economic staff proposed that Washington adequately set forth the conditions under which Rio de Janeiro could draw upon Eximbank credits. For the Embassy, U.S. officials who negotiated economic cooperation with Brazilians in mid-1956 had not made these conditions adequately clear. In their absence, Washington would likely come under political pressure to approve loans even if no anti-inflation policies were in place. The Embassy suggested then that no loan contract or additional commitments should be assumed for financing long-term development projects of public utility until “reasonable” monetary stability was accomplished.<sup>72</sup>

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<sup>69</sup> Letter, G.A.Costanzo to Jorge Del Canto, Apr. 28, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956; “Minutes of the Meeting with Mr.Tosta Filho”, Mar. 17, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958; Letter, Rio to Penido, “Perguntas da imprensa de São Paulo ao Presidente da República em ‘Campeões da Democracia’ – dia 10.12.56”, Dec. 17, 1956, CPDOC-FGV, ARC, Folder RC e ag 1955.05.02; ESP, “Declarações do sr. Alkmim sobre problemas nacionais”, Oct. 27, 1956, p. 46; ESP, “Aprovado o projeto revalidando os antigos títulos eleitorais”, Nov. 1, 1956, p. 5; ESP, “A reforma cambial e o sr. José Maria Alkmim”, Nov. 6, 1956, p. 31; ESP, “A política financeira do governo da União”, Dec. 23, 1956, p. 32; JB, “Contrário o Ministro da Fazenda à reforma cambial”, Dec. 23, 1956. 1º caderno, p. 6-10, ed. 298.

<sup>70</sup> Embdes 533, Amembassy to State Department, “Progress Report on Minister Alkmim's Anti-Inflationary Effort”, Nov. 2, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/7-1056; R. Bird to Files (ARA), “Balance Sheet on Control of Inflation in Brazil”, Apr. 15, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

<sup>71</sup> Embdes 325, Amembassy to State Department, “Side-Purpose of Minister Alkmim's Attendance at Fund and Bank Meetings”, Sep. 17, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/7-1056; G.A.Costanzo to Jorge Del Canto, May 11, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956; Amembassy to State Department, “Memorandum of conversation with Secretary of Finance of the State of São Paulo”, Jul. 10, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/7-1056.

<sup>72</sup> Embdes 693, Amembassy to State Department, “Export-Import Bank Loans to Brazil”, Dec. 20, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/7-1056; R. Bird to Files (ARA), “Balance Sheet on Control of Inflation in Brazil”, Apr. 15, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

In April 1957, BNDE President Lucas Lopes sent a letter to Eximbank Director Hawthorne Arey notifying him of Kubitschek's intention to request Eximbank participation in Brazilian hydroelectric projects Furnas and Três Marias.<sup>73</sup> The Eximbank's stance was entirely consistent with the U.S. Embassy's recommendations.<sup>74</sup> Arey told State Department officials that the "participation in either project at this juncture is most unlikely in view of the lack of progress of the Kubitschek Administration in attacking the problem of inflation, the control of which had been an oft-declared [its] prime objective". He was particularly troubled by Alkmim's attempts to argue that inflation was under control. The Eximbank was willing to provide new loans only upon evidence of the Brazilian government's intent to stabilize the economy and reduce the inflation rate.<sup>75</sup> U.S. Embassy official Hebert May then informed Alkmim, Lopes and BNDE Director Roberto Campos of the Eximbank's decision: the general economic situation "was not now such as to warrant the belief that such loans would serve a very good purpose". Alkmim insisted that the Eximbank was "obviously badly informed" and "thoroughly mistaken in its belief that inflation continues to be a serious problem in Brazil".<sup>76</sup>

In May 1957, official João Pinheiro of the Development Council went to the U.S. on a mission to request Eximbank loans. Alkmim instructed Pinheiro to sustain that inflation would have been much worse had it not been for Kubitschek's stabilization policies in 1956, as well as to compromise, on behalf of the Brazilian government, to implement budget and credit measures so that to limit monetary expansion in 1957.<sup>77</sup> Alkmim also cautioned U.S. Ambassador Ellis Briggs that Washington should consider political matters in analyzing the loan request, as "communists might make very effective use of any information that Export-Import Bank [was] refusing [to] grant additional loans to Brazil on [the] grounds of continuing inflation".<sup>78</sup>

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<sup>73</sup> Memo, "Eximbank Policy in Brazil", Apr. 22, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1/757. (Eximbank and State officials).

<sup>74</sup> Embdes 1296, Amembassy to The State Department, "Export-import Bank policy toward Brazil", May 24, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

<sup>75</sup> Memo, "Eximbank Policy in Brazil", Apr. 22, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1/757.

<sup>76</sup> Letter, Herbert K. May to Ernest Siracusa, Apr. 26, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1/757.

<sup>77</sup> Briggs to Secretary of State, May 8, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

<sup>78</sup> Intel 1161, Rio de Janeiro to Secretary of State, Apr. 27, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1/757; Memo, "Pinheiro's Mission to Washington", May 17, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757; Embdes 1296, Amembassy to The State Department, "Export-import Bank policy toward Brazil", May 24, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757; Outgoing telegram (hereafter Outtel) 1147, State Department to Amembassy, May 28, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

U.S. Embassy officials acknowledged that there was not an easy solution for problems between Rio de Janeiro and the Eximbank, maintaining that the “carrot and stick” approach (Eximbank loans and anti-inflation policies, respectively) had to prevail. On the other hand, following Finance Minister José Alkmin’s warnings, the Embassy adverted State Department officials that political difficulties were likely to arise due to the Eximbank’s refusal to grant loans, possibly culminating in charges that the Bank had turned “unfriendly or is interfering in Brazil’s domestic affairs”. Such statements could become “politically explosive” as extreme nationalists could distort such evidence, seriously embarrassing the Kubitschek administration and U.S.-Brazilian relations.<sup>79</sup>

Regardless of possible economic and political difficulties, the Eximbank dismissed the Brazilian government’s loan request, deciding to keep track of Brazil’s anti-inflation performance in 1957 to determine whether there was being actual progress in containing inflation.<sup>80</sup> Pinheiro was disturbed by the impasse. The Brazilian Embassy Counselor, Henrique Rodrigues Valle, notified Roy Rubottom, who had replaced Herry Holland as Assistant Secretary of State for Inter-American Affairs, of the “total impression” created among Brazilian officials that the Eximbank, and perhaps Washington, “have changed their policy toward Brazil and are no longer prepared to assist in its economic development”. Rubottom and Eximbank Director Hawthorne Arey reiterated that large-scale development financing was unwise under increased inflation.<sup>81</sup>

In 1957, budget deficits and credit supply continued to grow despite policies to limit monetary expansion, such as higher reserve requirements for private banking institutions and the Tariff Reform of August 1957. Although scholars usually focus on the impact of the Tariff Reform on Brazil’s multiple exchange rates system,<sup>82</sup> the primal purpose of establishing a

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<sup>79</sup> Intel 1272, Amembassy to Secretary of State, May 22, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757; Embdes 1296, Amembassy to The State Department, “Export-import Bank policy toward Brazil”, May 24, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

<sup>80</sup> Outtel 1147, State Department to Amembassy, May 28, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757; “Financing for Development Projects to be raised only at Brazilian Initiative”, Twelfth General Assembly, Sep. 16-22, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/7-857.

<sup>81</sup> Memo, “Pinheiro’s Mission to Washington”, May 17, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757; Outtel 1147, State Department to Amembassy, May 28, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757; JB, “Fundo Monetário concordou com o aumento das tarifas”, Jul. 27, 1957. 1<sup>o</sup> caderno, p. 13, ed. 172; JB, “Não houve recusa do Eximbank a fazer empréstimos ao Brasil”, Jun. 30, 1957. 1<sup>st</sup> caderno, p. 24, ed. 150.

<sup>82</sup> See, for instance, Daré (2004), Leopoldi (1991), Oliveira (1993) and Orestein and Sochaczewsky (1990, p. 173-175).

customs tariff as defined in the 1956 Anti-Inflation Program was to increase public revenues.<sup>83</sup> However, the Tariff Reform indeed allowed simplifications in the multiple exchange rates system as the new *ad valorem* tariffs partly substituted the system's role in protecting the national industry. Import categories prevailing in the auction market were then simplified from five to two: a "general", for essential products, and a "special" for goods considered nonessentials (table 1.1). Subsidies for preferential imports, including oil and oil derivatives, wheat, and newsprint, all Petrobrás' imports, and equipment deemed essential for national development, reduced as well.<sup>84</sup> Despite these measures, the national press reported what seemed to be the prevailing feeling among the population that the government had forsaken its 1956 Anti-Inflation Program.<sup>85</sup> Moreover, the Brazilian Coffee Institute (*Instituto Brasileiro do Café*, IBC) introduced an extra bonus for coffee exports, implying further public expenditures.<sup>86</sup>

At the end of 1957, the Brazilian government again approached the Eximbank to request loans for hydroelectric projects. As inflation persisted, the Eximbank's stance remained consistent: "such large scale development projects are not suitable for financing at this time".<sup>87</sup> U.S. Embassy officials considered that Rio de Janeiro once again had failed to control inflation, vigorously criticizing the "lunatic, if not suicidal" coffee policy due to higher expenditures for extra bonuses. They foresaw serious difficulties for the next two-four years that could hamper Brazil's growth. Internally, a persistent inflationary trend and high foreign commitments could exacerbate imbalances in the economy. Externally, the situation of the balance of payments was critical. There were no foreseen significant improvements in exports and little could be done to compress imports since all luxury items had already been excluded from imports. Based on the expectations of depleted dollar reserves, unbalanced economic growth, and inflation for 1958, the

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<sup>83</sup> Embdes 1111, Amembassy to State Department, "Anti-Inflation Program", May 4, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

<sup>84</sup> G.A.Costanzo to Jorge Del Canto, "Brazil - Conversations with officials of the Bank of Brazil and Superintendency of Money and Credit, June 10-11, 1957", Jun. 17, 1957, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. A. June 1957; "Personal contacts with Brazil", Jul. 11, 1957, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>85</sup> ESP, "Balanço anual", Dec. 29, 1957, p. 33.

<sup>86</sup> G.A.Costanzo to Jorge Del Canto, "Brazil - Conversations with officials of the Bank of Brazil and Superintendency of Money and Credit, June 10-11, 1957", Jun. 17, 1957, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. A. June 1957; The Deputy Managing Director to O. Paranagua, "Brazil: New Export Arrangements for Coffee", Jun. 25, 1957, IMF, Central Files, Country Files, Brazil, Box 4, Folder Multiple Currency Practices, 1956-1968.

<sup>87</sup> "Financing for Development Projects to be raised only at Brazilian Initiative", Twelfth General Assembly, Sep. 16-22, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/7-857.

Embassy expected that the “Uncle Sam will again be invited to tidy up the chicken-house and supply a new nest egg”.<sup>88</sup>

### *1.3 From the Eximbank to the IMF*

Although the Kubitschek administration failed to control inflation in 1956 and 1957, U.S. Embassy officials sustained that the Eximbank should continue to extend loans to the Brazilian government in light of political matters at stake involving a possible USSR offensive.<sup>89</sup> At the end of 1957 and the beginning of 1958, political and civil circles were eagerly debating whether Brazil should renew trade and diplomatic relations (which had been broken since 1947) with the Soviets. At the launch of Sputnik I (the first artificial Earth satellite) in late 1957, Nikita Khrushchev, First Secretary of the Communist Party of the Soviet Union, declared to Brazilian journalists that Moscow would be glad to commercialize with Brazil provided diplomatic relations be first restored, emphasizing the benefits of USSR-Brazilian relations. Kubitschek promised to publicly announce whether his government would restore relations with the Soviet Bloc on January 31, 1958.<sup>90</sup> U.S. Embassy and State Department officials were paying close attention to developments, keeping in constant contact with the Brazilian Ministry of Foreign Affairs and the Armed Forces. Initially, U.S. Ambassador Ellis Briggs believed that USSR-Brazilian trade relations were unlikely at that time. However, when Kubitschek delayed his announcement about a definite decision regarding relations with Moscow from January to the end of February in order to first consult Congress, Briggs and State Departments officials saw in it a worrisome move. For them, Kubitschek was changing scores in “deliberately holding off a decision in order to observe the tenor of Congress in which, more than likely, there is [a] considerable sentiment in favor of renewal”.<sup>91</sup>

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<sup>88</sup> Embdes 379, Amembassy to State Department, “Brazil's approaching problems”, Oct. 4, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4305, Folder 832.00/6-357; Embdes 724, Amembassy to State Department, “Brazil in 1958”, Dec. 31, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 2469, Folder 611.32/2-355.

<sup>89</sup> Embdes 379 Embdes 724 Ibid.

<sup>90</sup> ESP, “O Perigo das Relações Comerciais com a URSS”, Jan. 19, 1958, p.29; Offmemo, Siracusa to Rubottom, “Possible Brazilian Resumption of Relations with the Soviet Union”, Jan. 21, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 2600, Folder 632.35-6-2355. For further details on Nikita Khrushchev’s statements to Brazilian journalist at the launch of Sputnik I and ongoing debates regarding USSR-Brazilian relations at that time see Caterina (2018, p. 10-12).

<sup>91</sup> US Embassy telegram (hereafter Embtel) 908, Amembassy to State Department, Jan. 16, 1958; Letter, Briggs to Bernbaum, Feb. 10, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 2600, Folder 632.35-6-2355; Embdes 540, Amembassy to State Department, “Chamber of Deputies Asks Government to Explain Brazil’s Failure to Establish Diplomatic and Commercial Relations with Soviet Union”, Nov. 21, 1957; Offmemo, Siracusa to Rubottom, “Brazil-

For U.S. Embassy officials, it was of U.S. national interest to keep on assisting Rio de Janeiro, particularly given the forthcoming economic difficulties due to continued inflation, strained foreign reserves and increased gaps in the balance of payments. Substantial additional Eximbank loans combined with “a continuation of the carrot-stick technique” were necessary to assist the Brazilian government in going through difficulties in the balance of payments and to foster balanced economic growth. The Embassy based its suggestion on political grounds. Internally, nationalism continued to rise. The political and psychological climate pointed to weak executive control, with “irresponsible partisan bickering” and a “disruptive effect of ultra-nationalism with its basically anti-foreign and anti-U.S. bias”. This critical situation could set in motion political developments against American interests. Externally, the Embassy was aware that Rio de Janeiro had been “ardently curried by Russia, with ‘Soviet Trade’ advertised as a solution for [the] overproduction of coffee”, and believed that if Washington did not reassess its policy towards Brazil’s oil state-monopoly Petrobrás, gaps would be open for a USSR approach to assist oil development.<sup>92</sup> President Eisenhower shared Briggs’ beliefs that it remained the U.S. national interest to keep Brazil in “an even keel” particularly since a USSR drive in Latin America was a “distinct possibility and threat”.<sup>93</sup>

In mid-February 1958, Finance Minister José Alkmim advised Brazilian Ambassador Ernani Peixoto to officially request an Eximbank three-month standby credit agreement of US\$ 100 million to cover imports from the U.S.<sup>94</sup> The loan would serve for “psychological purposes”, since New York buyers, aware of Brazil’s poor dollar reserves, were holding off coffee purchases, betting on a drop in coffee prices deriving from expected massive amounts of

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USSR relations”, Feb. 6, 1958; Offmemo, Siracusa to Rubottom, “Kubitschek’s Changing Attitude on Relations with Russia”, Jan. 29, 1958; Letter, Ellis Briggs to Maurice Bernbaum, Feb. 10, 1958; Offmemo, Siracusa to Rubottom, “Possible Brazilian Resumption of Relations with the Soviet Union”, Jan. 21, 1958; Offmemo, Siracusa to Rubottom, “Kubitschek’s Changing Attitude on Relations with Russia”, Jan. 29, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 2600, Folder 632.35-6-2355.

<sup>92</sup> Embdes 379, Amembassy to State Department, “Brazil’s approaching problems”, Oct. 4, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4305, Folder 832.00/6-357; Embdes 724, Amembassy to State Department, “Brazil in 1958”, Dec. 31, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 2469, Folder 611.32/2-355.

<sup>93</sup> Offmemo, Ellis O. Briggs to Rubottom, “Call on President Eisenhower re Brazilian Matters”, Oct. 16, 1957, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/7-857.

<sup>94</sup> Intel 1044, Rio de Janeiro to Secretary of State, Feb. 13, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158; Memo, “Brazil’s Request for \$100,000,000 Standby Credit”, Feb. 14, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158; Outtel 934, State Department to Amembassy, Feb. 14, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

Brazilian coffee in the market.<sup>95</sup> At that time, a weakening in the coffee market (Brazil's most exportable good), particularly from 1957 onwards, alongside massive imports in 1956 and 1957 were causing increasing deficits in the balance of payments and draining Brazil's foreign reserves fast.<sup>96</sup> U.S. Embassy and State Department officials were aware of the country's external burden. Coffee shipment was low, and dollar reserves were almost drained out, totaling US\$ 2.5 million in January and US\$ 13.5 million in February (Brazil's imports totaled US\$ 1,179 billion in 1958). Credit lines with New York Banks were also lowering at a fast pace due to high borrowing interest rates.<sup>97</sup>

Officials of the Office of South America Affairs held tentative discussions with Eximbank Director Hawthorne Arey about Peixoto's loan request. Arey informed that Eximbank officials found José Alkmim "a disaster", "the worst Finance Minister Brazil has ever had". The Bank was "probably unwilling to do anything for Brazil as long as Alkmim is around". Eximbank officials advised Assistance Secretary Roy Rubottom to elucidate to Peixoto that it was contrary to the general policy of the Eximbank to grant standby credits, thus encouraging Brazil to open discussions with the International Monetary Fund, which had been created for this purpose.<sup>98</sup> Rubottom's initial response to Peixoto was in line with these suggestions: since deficits in the balance of payments were not considered temporary, more efficient policies other than providing short-term loans were necessary. Therefore, an approach to the IMF was advisable. Peixoto was reluctant, pondering that the Fund could not assist Brazil. However, he agreed to consult the Brazilian Executive Director to the IMF, Octávio Paranaguá.<sup>99</sup>

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<sup>95</sup> Intel 1044, Rio de Janeiro to Secretary of State, Feb. 13, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

<sup>96</sup> Report SM/58/7, Members of the Executive Board to The Secretary, "1957 Consultation – Brazil", IMF, RN 249346, p.76. Available at: [www.archivescatalog.imf.org](http://www.archivescatalog.imf.org). Access in Jul. 2018. For coffee exports in the 1950s see Malan (2007, p. 101-104); Southard to Jacobsson, "Brazil", Aug. 8, 1957, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>97</sup> Offmemo, Siracusa to Rubottom, "Ambassador Peixoto's visit", Feb. 14, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 2293, Folder 601.3211/1-1158; Embdes 878, Amembassy to State Department, "Miscellaneous Financial Problems Discussed with Bank of Brazil", Feb. 13, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158; Embtel 1101, Amembassy to State Department, Feb. 27, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

<sup>98</sup> Offmemo, Siracusa to Rubottom, "Ambassador Peixoto's visit", Feb. 14, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 2293, Folder 601.3211/1-1158.

<sup>99</sup> Outtel 934, State Department to Amembassy, Feb. 14, 1958; Memo, "Brazil's Request for \$100,000,000 Standby Credit", Feb. 14, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158; [Ernani Peixoto], "Gestões junto ao Departamento de Estado", [Feb. 1958?]; Letter, Ernani do Amaral Peixoto to José Maria Alkmim, Feb. 21, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

In light of Eximbank official's views, Assistance Secretary Roy Rubottom held conversations with Undersecretary of State for Economic Affairs Douglas Dillon, Treasury Secretary Robert Anderson and the U.S. Executive Director to the IMF, Frank Southard, to discuss the Brazilian economic situation. They felt that the general feeling prevailing among the North-American financial community, and in the IMF in particular, was that Brazil had arrived at an extremely difficult macroeconomic situation due to bad fiscal policies and over-spending in 1957. On the one hand, they deliberated that to become involved in standby negotiations with the consequent implementation of severe disciplinary measures would be "impolitic", ultimately straining the traditional friendship between the two countries. Surrendering to Rio de Janeiro's request would also encourage a chain of similar requests from other countries of the so-called Free World. On the other hand, Brazil was not to anticipate a U.S. bailout.<sup>100</sup>

Based on these assumptions, Rubottom, Dillon, Anderson, and Southard agreed to encourage the initiation of IMF-Brazilian negotiations for a standby credit agreement as soon as it was possible. In case the discussions did not develop well, the U.S. Embassy would emphasize "that only if Brazil agrees to IMF procedure and accepts probably stern corrective measures could [the] U.S. give consideration to participation in a stabilization program". Washington would not make commitments but would remain open-minded to provide further assistance towards making effective stabilization measures agreed between Brazil and the Fund. From their perspective, this seemed to be the only solution for the Brazilian situation, as an operation like Finance Minister José Alkmim had requested (an Eximbank standby agreement) would only postpone the day of reckoning, thus possibly straining long-term U.S.-Brazilian relations.<sup>101</sup>

U.S. Ambassador Ellis Briggs agreed that an Eximbank standby agreement had to be examined within the framework of long-term U.S.-Brazilian relations and Brazilian economic difficulties. In particular, considering best exchange policies in accordance with American interests that the Brazilian government should implement to deal with problems in the balance of payments. On the other hand, Briggs advised that Washington should, at least, request Brazilian economic data in order not to give the impression that the U.S. was suggesting an IMF approach

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<sup>100</sup> Outtel 938, State Department to Amembassy, Feb. 15, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158; Memo, "Brazilian Financial Difficulties", Feb. 25, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

<sup>101</sup> Ibid.

without examining Brazil's economic outlook.<sup>102</sup> However, Secretary of State John Dulles was adamant. Although Briggs suggested the procedure was reasonable and indicated in most cases, any delay in giving Alkmim "strong recommendation [that] Brazil [should] consult [the] IMF might encourage him [to] believe or pressure us by acting as though he believed [that] our request for data implied possible unilateral U.S. action which [is] not [...] in cards". Dulles instructed Briggs to make this position clear to Alkmim personally.<sup>103</sup>

On February 24, U.S. Embassy official Hebert May notified Alkmim that Brazil should seek assistance from the IMF, which had been created precisely to provide standby credits. Alkmim wondered whether this meant that Washington was unwilling to assist Brazil. May clarified that his government had made no decision related to helping Brazil, only recommending it to approach the Fund. Alkmim expressed concerns that negotiations with the IMF were going to delay meeting Brazil's urgent economic problems, but he would, accordingly, inform Brazilian Ambassador Ernani Peixoto to approach the Fund.<sup>104</sup>

Facing U.S. pressures for opening negotiations with the IMF, for the first time after World War II (as far as we know and as far as the documents allow us to say), a Brazilian President directly threatened Washington to reestablish relations with the Soviet Union in the absence of U.S. economic assistance. On February 26, before publicly announcing his decision regarding the renewal of USSR-Brazilian relations, President Kubitschek affirmed to U.S. Ambassador Ellis Briggs that due to Brazil's difficult economic situation, his "administration [was] under great and growing pressure to deal with [the] Soviet Bloc". His "government's ability to resist that pressure might be affected by [the] extent to which [the] U.S. [was] able to assist Brazil to meet [its] current economic crisis".<sup>105</sup> Kubitschek's threats contradict Loureiro's (2017b) claims that João Goulart (1961-1964) was the first President to make use of such intimidations in the postwar period with the purpose of forcing Washington to assist Rio de Janeiro financially.

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<sup>102</sup> Intel 1068, Amembassy to Secretary of State, Feb. 16, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158; Intel 1075, Rio de Janeiro Secretary of State, Feb. 19, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

<sup>103</sup> Outtel 956, Dulles to Amembassy, Feb. 20, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

<sup>104</sup> Intel 1089, Amembassy to Secretary of State, Feb. 24, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-1158.

<sup>105</sup> Embtel 1098, Amembassy to Secretary of State, Feb. 26, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

Secretary of State John Dulles was astonished, interpreting Kubitschek's threats as not only confined to reestablishing trade relations but also possibly diplomatic ties. Even still, he did not retreat from his position. Economic matters were ahead of political concerns regardless of Kubitschek's threats. Dulles requested Briggs to emphasize to Kubitschek the unanimous conclusion upon which U.S. officials had arrived: Eximbank loans did not involve standby credits, thus extending such credits to Brazil at that point would increase indebtedness, not providing a proper solution to problems. Although sympathetic of the difficulties besetting the Brazilian government and desiring to help it, given U.S. traditional and friendly relations with Brazil and personally with Kubitschek, Washington "earnestly" recommended consultations with the IMF. Advice from an international multilateral organization was considered politically more palatable than American interference in Brazilian domestic affairs. In case Kubitschek wished to exploit the opportunity to displace its coffee surplus through trade ties with the USSR, the U.S. government would understand it. However, given Brazil's strong nationalistic sentiment, which Kubitschek had advised that communists could exploit it to press for USSR interests, caution was necessary not to reestablish diplomatic relations. "To open doors to Soviet agents through a mission in Rio this time would [...] maximize [the] problems Kubitschek [would] face [...] and would make more difficult his constructive cooperation with [the] U.S.," Dulles adverted.<sup>106</sup>

Briggs did not find it appropriate to convey Dulles' message to Kubitschek until the subject on trade and diplomatic relations with the USSR was brought up again because the Brazilian President had followed the U.S. advice.<sup>107</sup> In fact, it seems that there was no option left for Rio de Janeiro to obtain balance of payments loans other than to approach the IMF. Brazil's gold holdings in the Federal Reserve Bank of New York were not sufficient to meet its credit needs with a loan secured by gold. Moreover, after holding preliminary discussions with Fund officials as Finance Minister Alkmim had instructed him, Brazilian Ambassador Ernani Peixoto felt that an official approach to the IMF was inevitable. Any foreign loan to Brazil would be contingent upon an agreement with the Fund and implementation of monetary, fiscal and exchange policies given that IMF officials did not consider Brazil's foreign exchange crisis temporary. Peixoto and IMF Executive Director Octávio Paranaguá also acknowledged that

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<sup>106</sup> Telegram of the State Department (hereafter Deptel) 984, Foster Dulles to Amembassy, Mar. 3, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

<sup>107</sup> Intel, Amembassy to Secretary of State, Mar. 6, 1958, NARA, RG 59, GRDS, CDF 1955-59, Box 4313, Folder 832.10/1-757.

Washington could not request such a stern economic exercise to Brazil as U.S.-Brazilian relations would deteriorate. Although the IMF was not considered an appropriate first-option solution given the urgent need for loans and the Fund's usually long process to concede credits, on February 27 Peixoto received official instructions to continue financial negotiations with the IMF.<sup>108</sup>

### *Concluding remarks*

By analyzing U.S.-Brazilian economic relations from 1956 to early 1958, it becomes clear that Washington forced Rio de Janeiro to open negotiations with the IMF for the signature of a standby agreement. In 1956, Kubitschek reached out to the U.S. government to request U.S. economic cooperation in support of his five-year, state-led development program, the Targets Plan. His administration compromised before the U.S. government to curb inflation through an Anti-Inflation Program with the purpose of creating a favorable environment for foreign private investors in return of Washington's financial aid. U.S. officials seemed enthusiastic about the new Brazilian administration and agreed to initiate negotiations. For State Department officials, political risks at stake regarding Soviet overtures to Latin America justified financial concessions. Denying assistance would cool off cordial relations with the Kubitschek administration, opening doors to Moscow's offensives. The Eisenhower administration then decided to extend economic assistance to Brazil in order to maintain close and friendly ties. Loans would be given only while the Brazilian government was progressing in curbing inflation though.

U.S.-Brazilian initial resentments began when the Eximbank denied new loans to the Brazilian government in early 1957 due to the country's poor anti-inflation performance in 1956 and 1957. In early 1958, U.S. officials considered that Brazil had arrived at a challenging macroeconomic situation due to increasing inflation rates and deepening foreign gaps. They deliberated that putting off the implementation of necessary disciplinary measures could strain long-term U.S.-Brazilian relations. Instead of negotiating foreign financial assistance directly with the Kubitschek administration as it had been doing until then, Washington changed its foreign financial assistance policy by conditioning access to U.S. loans to the signature of a standby agreement between Rio de Janeiro and the IMF. By doing this, Washington was putting

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<sup>108</sup> [Ernani Peixoto], "Gestões junto ao Departamento de Estado", [Feb. 1958?], Letter, Ernani do Amaral Peixoto to José Maria Alkmin, Mar. 6, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

the responsibility of requesting harsh stabilization policies on the IMF's back – hiding its own foreign economic policy agenda then. Brazilian officials resisted vehemently. Kubitschek even threatened to renew relations with the Communist Bloc. However, U.S. officials remained firm. U.S. economic interests took precedence over political concerns related to USSR threats. Given the country's difficult financial situation, the Brazilian government was obliged to approach the Fund. Hence, to understand IMF-Brazilian relations in the late 1950s, we must look into U.S.-Brazilian economic relations in the period, notably when it comes to the provision of Eximbank loans. The next chapter addresses IMF-Brazilian negotiations in 1958.

## Chapter two – IMF-Brazilian relations, 1958: the “mantle of multilateral anonymity”

The International Monetary Fund (IMF) is a Bretton Woods institution created in 1944, during the 2<sup>nd</sup> World War. By the time when it was conceived, the IMF's leading role was to further international economic cooperation among nations, to expand a balanced growth in international trade and to guarantee exchange rate stability. To this end, the Fund mostly concentrated on short-term aspects of economic problems of member countries, notably on the balance of payments and related financial, monetary and exchange policies. Aside from keeping constant and close contact with its members, the IMF's most tangible form of assistance was making its resources available to members facing temporary imbalance in foreign accounts while they took corrective steps to restore equilibrium. These loans came from the IMF's financial reserves, which are constituted by members' deposits and divided into five *tranches*. Up to the second *tranche*, withdrawals are allowed with no strings attached. From the third on, members have to apply for a standby agreement, during which they have foreign currencies for their disposal even though withdrawals depend on compliance with a stabilization program agreed with the Fund. The IMF staff is responsible for negotiating and surveilling borrowers' performance under the standby, while the Executive Board, composed of representatives of few member countries, effectively deliberates over such arrangements. The IMF Managing Director is a key component as he/she heads the staff and chairs the Executive Board.<sup>109</sup>

Although the original design of the Fund did not give the U.S. government full control over it, authors recognize that Washington's dominant economic, political and military role in the postwar period shaped the IMF's economic principles and institutional outline almost entirely. The Fund became a pivotal mechanism to foster economic cooperation, and to stave off a new financial crisis by encouraging free trade and economic stabilization. U.S. industrialists and Congress members were enthusiastic about accessing external markets as a way of prospering in postwar years. Encouraging member countries to free their exchange rates was particularly critical to avoiding international monetary instabilities that could hinder the new commercial system. The Fund then became an efficient apparatus for lowering exchange restrictions that limited the access of U.S. goods to foreign markets. Washington used IMF funds and the

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<sup>109</sup> For the IMF's role, its financial assistance, and bureaucratic structure see Almeida (1999, p. 22-39), Carreau (1970), International Monetary Fund (1954), Lichtensztejn and Baer (1987), and Vreeland (2007).

withholding of Fund membership to push countries to support U.S. economic policies, thus integrating them into the North-American economy.<sup>110</sup> In March 1959, Undersecretary of State for Economic Affairs Douglas Dillon highlighted before the U.S. House Committee on Banking and Currency that the Fund’s “objectives have been similar to those of our [U.S.] own foreign financial policy” and fundamental to “the achievement of the objectives of our overall foreign economic policy” (KOFAS, 1995, p. 214). In May of that same year, members of the U.S. Council on Foreign Relations stressed that the IMF “can cope with situations that are difficult for the United States acting alone, especially in providing means to insist on conditions ensuring effective use of aid without the whole onus being on the United States”.<sup>111</sup>

Although Brazil is a founding member of the IMF, the country’s interactions with the Fund only intensified in the mid-1950s. Similar to what happened to other peripheral countries, mainly in Latin America, the IMF became central for the debate on economic development. At that time, the Fund was pushing a range of Latin American countries, including Argentina and Brazil, for almost identical stabilization programs both in objectives and modality. It employed a universal formula to curb inflation and reduce external deficits by curtailing public spending, tightening credit, and devaluing exchange rates. However, bringing Latin American countries’ multiple exchange rates systems to a halt was particularly difficult. The format of multiple exchange rates systems was essential to protecting the nascent national industry and generating resources for the import-substitution industrialization process. IMF-Brazilian negotiations in 1958 are part of a broader scenario of international negotiations in which several Latin American countries, with similar constraints, were also engaged with.<sup>112</sup>

This chapter addresses IMF-Brazilian negotiations in 1958 for the signature of the first standby agreement between the Brazilian government and the Fund. The aim is to understand the conditions that led the Brazilian President Juscelino Kubitschek to suspend negotiations with the IMF for a second standby agreement in June 1959. More specifically, to analyze the consequences for U.S.-Brazilian relations of Kubitschek’s bold move. Chapter one showed that

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<sup>110</sup> For the US influence on the IMF in postwar years see Eichengreen (2012, chap. 4), Kedar (2013, chap. 1), Kofas (1995, 1996, 1999, 2001, 2002), and Woods (2006, chap. 1).

<sup>111</sup> Council on Foreign Relations - Study Group on the United States Foreign Economic Policy, “Foreign Aid, 1959”, May 8, 1959, EPL, Fitzgerald, Dennis A. Papers, 1945-69, Box 2, Folder Council of Foreign Relations and the American Assembly (1).

<sup>112</sup> For IMF stabilization programs throughout Latin America in the 1950s see Kedar (2013, chap. 3), and Kofas (1995, 1996, 1999, 2001, 2002). For a long-term perspective of IMF-Latin American relations see Nemiña and Larralde (2018), and Remmer (1986).

the Kubitschek administration would not have opened discussions with the IMF had not it been for the change in Washington's financial assistance policy towards Brazil. Here, in chapter two, it is clearer how and why the U.S. employed the IMF as its "mantle of multilateral anonymity": by transferring to the Fund the responsibility for requesting stringent stabilization policies, which were part of Washington's foreign policy agenda in Latin America. I also look into IMF stabilization demands to Brazil and, mainly from the standpoint of policymakers involved, analyze the political, economic, social, and, at times, bureaucratic constraints that precluded Brazil's stabilization performance, notably when it came to devaluing the multiple exchange rates. As approaching its longtime friend was no longer an option for the Kubitschek government to meet Brazil's precarious financial situation, here it becomes evident how U.S.-Brazilian resentments evolved in 1958. The evidence gathered here shows that U.S. economic interests continued to outweigh political concerns for Washington's decision to maintain a tough stance on Rio de Janeiro.

Kubitschek's decision to suspend negotiations with the IMF in June 1959 opens a window for understanding the Brazilian foreign policy in a larger sense. Andrew Hurrell (2013) supports that postwar U.S.-Brazilian relations and Brazil's quest for diversifying its international ties are critical to understanding the Brazilian foreign policy. However, the literature on postwar U.S.-Brazilian relations often overlooks the role that IMF-Brazilian negotiations in the late 1950s played as to deepening U.S.-Brazilian resentments, encouraging the Brazilian government to pursue a more globalist foreign policy.<sup>113</sup> Moreover, assessing IMF-Brazilian relations may add to a more nuanced understanding of creditor-debtor power relations in the postwar era. Only a few studies have addressed the relationship between the IMF and borrower countries in the 1950s through archival research.<sup>114</sup> Hence, this (and the next) chapter allows us to grasp the nature of the American influence upon the IMF at a crucial period during the Cold War, and the routine interactions that Kedar (2013) professes to take place between Fund and borrowing countries officials.

This chapter is divided into seven subsections. Section one briefly contextualizes IMF-Brazilian relations from 1944 to 1958. Section two analyzes IMF-Brazilian negotiations for the country's first standby agreement in 1958. Section three analyzes difficulties that the Brazilian

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<sup>113</sup> See, for example, Hilton (1981), and Smith (2010, chap. 6).

<sup>114</sup> See, for instance, Kedar (2013), and Kofas (2002).

government encountered to implement stabilization policies, and the pursuit of new U.S. loans. Section four discusses the Brazilian performance under the IMF agreement until the elaboration of the Monetary Stabilization Plan (*Programa de Estabilização Monetária*, PEM), which will be analyzed in section five. Section six observes IMF and U.S. views on the Brazilian stabilization performance in 1958. Section seven offers a conclusion.

### *2.1 IMF-Brazilian relations, 1944-1957*

IMF staff officials visited Brazil on several occasions throughout the years of 1946-1950 and became well acquainted with the country's economic difficulties. By the 1950s, Brazilian officials began inviting Fund officials for receiving recommendations on how to deal with inflation. The IMF was particularly interested in Brazil's multiple exchange rates system, which had been approved it on a "temporary" basis. Fund officials constantly urged the Brazilian government to adopt anti-inflationary measures so that a reform of the multiple exchange rates system could eventually take place. They even participated in the elaboration of one of these reform proposals – the so-called "Whitaker Plan" of 1955.<sup>115</sup>

IMF-Brazilian interactions continued when President Kubitschek took office in 1956. IMF Executive Director Octávio Paranaguá requested a Fund visit to "bring its [IMF] expert administrative machinery where policy is translated into practice [Brazilian Finance Ministry]".<sup>116</sup> Accordingly, Gesualdo Costanzo, Chief of the Latin American Division and Deputy Director of the IMF Western Hemisphere Department, came in April 1956 to "get acquainted with the local authorities and technicians" and to make Kubitschek "more conscious of the need for anti-inflationary measures".<sup>117</sup> Aside from meeting with governmental officials, Costanzo also approached the business and banking communities "to strengthen the position of those elements pushing for anti-inflation measures". Costanzo was satisfied with what he had seen in Brazil and notified Jorge Del Canto, Head of the IMF Western Hemisphere Department, of his progress in "making many contacts and friends which will expedite future [IMF] work

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<sup>115</sup> Report, "Personal contacts with Brazil", Jul. 11, 1957, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>116</sup> O. Paranagua to The Acting Managing Director, "Fund Technician For Brazil", Mar. 28, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956.

<sup>117</sup> Jorge Del Canto to G.A.Costanzo, Apr. 24, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956; Memorandum, "Discussion with the Brazilian Authorities", Mar. 26, 1956, IMF, Central Files, Country Files, Brazil, Box 4, Folder Economic Stability, 1956 - 1957.

here”.<sup>118</sup> Together with the IMF Managing Director Per Jacobsson, Del Canto also came in mid-1957 to meet Kubitschek, Finance Minister José Alkmim, and other Brazilian officials. They had fruitful discussions and, afterward, Jacobsson sent personal and warm letters to them thanking the reception.<sup>119</sup>

In 1956 and 1957, the IMF staff kept track of economic developments in Brazil, including adjustments in the multiple exchange rates system and Brazil’s performance under the 1956 Anti-Inflation Program, about which Fund officials were critical of the Kubitschek administration’s failure to keep budget and credit ceilings within its limits.<sup>120</sup> The sharp downturn in Brazilian foreign reserves at the end of 1957 led Alkmim to submit a request to draw upon Brazil’s second *tranche* of US\$ 37.5 million from the IMF.<sup>121</sup> Alkmim stated before the IMF Executive Board his intentions of gradually depreciating the country’s exchange rate, aiming at a reform of the multiple exchange rates system. He also committed to lowering public deficits and limiting public and private credit supply. As Alkmim seemed vigorously compromised with stabilization policies, the Board approved his request, releasing the second *tranche*.<sup>122</sup> By the time when Kubitschek opened discussions to withdraw from Brazil’s third *tranche* and, thus, to apply for a standby agreement in March 1958, Fund officials were well informed of the country’s economic difficulties and very much acquainted with Brazilian officials as a consequence of their constant interactions since 1944.

## 2.2 Brazil’s first IMF standby agreement

An IMF mission came to Brazil in mid-March 1958. This was the first step for assessing whether there would be a possibility of signing a standby agreement with Brazil. The mission’s goal was to obtain the most recent information about the Brazilian economy and ascertain which

<sup>118</sup> G.A.Costanzo to Jorge Del Canto, Apr. 28, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956.

<sup>119</sup> Per Jacobsson to José Maria Alkmim, Jul. 9, 1957; Herculano Borges da Fonseca to Jorge Del Canto, Jul. 26, 1957; Per Jacobsson to Interfund, Aug. 14, 1957; Per Jacobsson to Enrico Aguiar Salles, Sep. 16, 1957; Per Jacobsson to José Maria Alkmim, Sep. 16, 1957; Per Jacobsson to Paulo Pook Correa, Sep. 18, 1957; Per Jacobsson to Alcides da Costa Vidigal, Sep. 18, 1957, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Jacobsson and Staff August 1957.

<sup>120</sup> G.A.Costanzo to Rooth, May 29, 1956, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo, G. April-May 1956.

<sup>121</sup> EBS/57/58 Supplement 2, The Secretary to Members of the Executive Board, “Use of the Fund’s Resources - Brazil”, Sep. 30, 1957, IMF, Executive Board Documents Collection (hereafter EBDC). Available at: <http://archivescatalog.imf.org/detail.aspx>. Access in: Feb. 2018.

<sup>122</sup> “Minutes of Executive Board Meeting 57/49”, Oct. 2, 1957, IMF, EBDC. Available at: <http://archivescatalog.imf.org/detail.aspx>. Access in: Feb. 2018.

measures the Kubitschek administration would have to undertake to achieve monetary stability.<sup>123</sup> In particular, the mission's objective was to look into the causes of the country's inflation and external deficit, identifying whether the difficulties derived from "temporary" causes, such as the low in coffee prices in the world market, or from "structural" causes, such as inappropriate budget, credit, and exchange policies.<sup>124</sup> However, being acquainted with Brazil's economic difficulties augmented IMF officials' leeway to negotiate. They already came with a preconceived idea of the causes of the Brazilian inflation and with a draft stabilization program. According to IMF staff officials, because the Brazilian economy was "extremely precarious",<sup>125</sup> the mission had to elucidate that the difficulties were "only a symptom of a far more serious imbalance in the Brazilian economy".<sup>126</sup>

For IMF staff officials, Brazil's postwar economic growth had been sustained in a climate of inflation and credit expansion, considered the leading causes of the country's frequent economic problems. Four main elements were contributing to this trend. First, official and academic circles were nurturing principles that inflation led to economic growth. This thinking allowed for credit expansion and appreciated exchange rates with the purpose of obtaining resources for development and consumption. Kubitschek's Target Plan, in particular, had an "ambitious" investment rate. Second, further minimum wage increases seemed inevitable in light of previous increases, such as in 1956. Higher salaries would raise pressures for increased prices. Third, there was a structural weakness in the balance of payments deriving from a heavy dependence on preferential imports alongside a heavy schedule for debt service and an exchange rate structure that did not encourage exports. This exchange rate structure also led to lower coffee sales as appreciated export rates priced Brazilian coffee out of the world market – however, Fund officials recognized that the Mexico Agreement, through which Latin American coffee producing countries had agreed to withhold from export part of their coffee production, inhibited Brazil to make a drastic change in its coffee policy. Last, the policy of financing coffee surplus was

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<sup>123</sup> "Mission's Terms of Reference", IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>124</sup> Letter, Jorge Del Canto to Jacobsson and Cochran, "Brazil - Tentative Views on Use of the Fund's Resources", Mar. 7, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

<sup>125</sup> "Brazil-Technical Mission - Briefing Paper", Mar. 7, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958.

<sup>126</sup> Letter, Jorge Del Canto to Per Jacobsson and Merle Cochran, "Brazil - Tentative Views on Use of the Fund's Resources", Mar. 7, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

Brazil's major inflationary factor in the economy, as the government had to issue large amounts of fiat paper money for this purpose.<sup>127</sup>

The IMF staff prepared a draft stabilization program allegedly recognizing that enormous political courage would be necessary to implement it. The program had four main points: budget, credit, coffee financing, and exchange policies. Brazil would have to reduce public spending sharply, and the Bank of Brazil would have to restrain from financing most of the public deficit. The Bank of Brazil would have to establish credit ceilings, and the government should implement new policies to absorb the excess of reserves from commercial banks. Rio de Janeiro would have to finance coffee stockpiling only with earmarked exchange profits. The remaining exchange balance should be sterilized to offset unexpected inflationary pressures. Lastly, if the Fund was to assist Brazil through this process crisis, an exchange system reform would be “earnestly desirable”.<sup>128</sup>

IMF Director Gesualdo Costanzo headed the IMF mission to Brazil in March 1958. Fund officials held several meetings with Brazilian authorities for understanding characteristics of the Brazilian economy and what the country's budget, credit and exchange policies in 1958 would be. The mission emphasized that Rio de Janeiro would have to commit to a stabilization program; otherwise, new credits would only provide a "short breath spell" for economic problems. They also stressed that IMF assistance would most likely combine with other sources, such as from the U.S. Treasury and the Eximbank.<sup>129</sup>

During these meetings with IMF officials, the Brazilians did not show an intention to change ongoing policies. Finance Minister José Alkmim insisted that Brazil's foreign crisis was temporary, not structural: it stemmed from speculations of coffee exporters and a drop in coffee's world prices. Although expressing the desire to cut public deficits down to minimum levels,

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<sup>127</sup> Ibid; Letter, Jorge Del Canto to Per Jacobsson and Merle Cochran, “Brazil – Tentative Views on Use of the Fund's Resources”, Mar. 7, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958; Letter, B. Brovedani to Jorge Del Canto, Dec. 1, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil. In 1951, former President Getúlio Vargas reinstated the policy of financing the excess coffee production. The government also implemented a coffee valorization program. Coffee exchange rates were appreciated due to coffee's demand inelasticity in world markets, as more depreciated coffee rates would encourage higher production with no foreseeable external markets to export to. See Furtado (2007, chap.5).

<sup>128</sup> Letter, Jorge Del Canto to Per Jacobsson and Merle Cochran, “Brazil – Tentative Views on Use of the Fund's Resources”, Mar. 7, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958; “Brazil - Reform of the Exchange System”, Mar. 7, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>129</sup> “Minutes of the Meeting with Minister of Finance,” Mar. 10, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958.

Alkmim explained that only after Congressional elections at the end of 1958 such line of action would be possible as political pressures for higher budget expenditures would ease after the elections. Alkmim and Bank of Brazil Director Tosta Filho were also reluctant to end the symbolic purchase system (which equalized domestic prices of Brazilian exportable commodities with their respective world prices so that to give exporters better export terms). They sustained that the symbolic purchase system already provided sufficient incentives for exporters; there was no need for depreciating export rates through an exchange reform then.<sup>130</sup> Bank of Brazil President Sebastião Almeida rejected all suggestions of establishing credit ceilings in operations of the Bank. According to him, credit requesters went to the Bank when commercial banks turned them down, thus refusing credits to agriculture and industry would make production to suffer. Besides, he already was eliminating speculative credits by channeling resources only to “real and productive” transactions.<sup>131</sup> IMF Director Gesualdo Costanzo cautioned Alkmim that the IMF Managing Director Per Jacobsson would most likely refuse Brazil’s request for a standby agreement since the government was unwilling to commit to any program based on assumptions that budgetary and credit curtails were politically unfeasible.<sup>132</sup>

When discussions ended, the IMF mission handled its conclusions to Alkmim. According to the Fund, Brazil’s foreign crisis was structural, and not temporary: difficulties would continue to exist even if there were higher revenues from coffee exports. On top of this, the internal and external situation for 1958 was not promising. Public spending and credit expansion would cause large budget gaps and coffee financing would likely cost twice as much as it had cost in 1957. Inflation would raise exchange rates in auction markets, making it difficult to reduce governmental subsidies for preferential imports. This situation would lead to higher domestic prices or even scarcity of basic goods; besides, Brazil would run out of foreign reserves. If the Brazilian government used all immediate exchange earnings for not defaulting on foreign commitments, the country would be defenseless against external fluctuations. Therefore, a

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<sup>130</sup> “Minutes of the Meeting with Minister of Finance”, Mar. 10, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958; “Minutes of the Meeting with Mr. Tosta Filho”, Mar. 17, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958.

<sup>131</sup> “Minutes of the Meeting of March 19, 1958, 4:00 P.M. Rio de Janeiro”, Mar. 19, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958.

<sup>132</sup> Intel, Amembassy to Secretary of State, Mar. 20, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

program to secure internal and external economic stability was the only solution. If the IMF approved Rio de Janeiro's program proposal, then a standby agreement could be signed.<sup>133</sup>

Fund officials inferred that the Finance Minister José Alkmim's reluctance to change economic policy stemmed from his belief that the Brazilian government could obtain U.S. financial assistance without an IMF-based program. Alkmim stressed that he had already asked Bank of Brazil President Sebastião Almeida to "pursue a highly restrictive credit policy" and was going to request Congress to raise the legal reserve requirements from commercial banks. The most he could do for the time being was to postpone some budget expenditures though. He insisted that there were political difficulties involved in cutting down public spending and reforming the exchange system. Fund officials found Alkmim anxious to obtain a final reply from the IMF, even if it was a refusal. For them, he would most likely renew requests for U.S. assistance letting Washington know that the Fund had turned the Brazilian government down. However, IMF Managing Director Per Jacobsson also was intransigent: no stabilization program, no standby agreement.<sup>134</sup>

At the same time when IMF-Brazilian negotiations were taking place, Alkmim once again approached Washington together with SUMOC Director Casimiro Ribeiro and Brazilian Ambassador Ernani Peixoto. He sent a direct letter to Treasury Secretary Robert Anderson and resorted to U.S. Embassy and State Department officials desperately requesting an urgent loan of US\$ 50 million on a temporary basis. Brazil expected to reach the peak of its financial crisis with no foreign reserves within four to five months. Alkmim instructed Peixoto to emphasize that difficulties were temporary, and not structural, as the IMF had concluded. They were also going to stress that the IMF's slow working pace would exhaust dollar supplies by the time Brazil and the Fund reached an agreement. Hence, U.S. assistance was politically and economically of utmost importance as refusing credits to Brazil was against the goodwill shared between Rio de Janeiro and Washington.<sup>135</sup>

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<sup>133</sup> Typewritten document, [Ernani Peixoto] (inferred author of the document), "Nº4 Negociações com o Fundo Monetário Internacional", [1958?] (Inferred date of the document), CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; G.A.Costanzo to Per Jacobsson, "Mission to Brazil", Mar. 21, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958.

<sup>134</sup> Ibid.

<sup>135</sup> Typewritten document, [Ernani Peixoto], "Nº 1: Gestões junto ao Departamento de Estado", [1958?]; Typewritten document, [Ernani Peixoto], "Nº4 Negociações com o Fundo Monetário Internacional", [1958?]; Typewritten document, [Ernani Peixoto], "Nº 5 Negociações com o Departamento do Tesouro" [1958?], CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; Memo, "Brazilian Financial Problem", Mar. 14, 1958; Intel, Amembassy to Secretary of State, Mar. 18, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

The State Department's response to Alkmim's request remained the same: first, an IMF agreement and, later, talks with Washington. Assistant Secretary Roy Rubottom knew about Alkmim's unwillingness to commit to an IMF program and of the bad shape of Brazil's foreign reserves and coffee exports.<sup>136</sup> U.S. Ambassador Ellis Briggs thought that Brazilian officials' resistance to complying with an IMF agreement derived from their "hallucinations" that the country was considered a pivotal country in Latin America and that its financial crisis could be overcome by "injecting dollars" in the economy.<sup>137</sup> From the U.S. political standpoint, it was more advisable that Rio de Janeiro agreed to a stern program with an "impartial" international organization, such as the IMF. Like other Latin American countries, such as Chile and Peru, Brazil would have to sign a Fund arrangement before accessing U.S. economic assistance then. Furthermore, Washington did not want to undermine the effectiveness of the IMF by surrendering to Rio de Janeiro's requests.<sup>138</sup> Treasury Secretary Robert Anderson restated that Brazil's difficulties were structural, following the same line of reasoning as that of the IMF. To show U.S. good intentions, Anderson hinted that Brazilian officials should obtain a loan from the American financial community secured by Brazilian gold for the country's immediate needs.<sup>139</sup>

With only US\$ 13.6 million in dollar balances in March 1958 (Brazilian imports amounted to US\$ 1,179 billion in 1958), Kubitschek and Brazilian officials went for talks at the end of that month with the U.S. Ambassador Ellis Briggs. Briggs reported that Finance Minister José Alkmim "belabored" for four hours about the need for an immediate short-term loan, arguing that Brazil's dollar crisis could not wait for a long-range IMF program.<sup>140</sup> Kubitschek and Alkmim showed great distress about the U.S. Treasury Secretary's suggestion for applying for a secured loan backed by the country's gold reserves to the U.S. financial community. Doing

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<sup>136</sup> "Nº 1: Gestões junto ao Departamento de Estado", CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; Intel, Briggs to Secretary of State, Mar. 12, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158; Siracusa to Rubottom, "Background for luncheon meeting with Ambassador Peixoto", Mar. 13, 1958; Siracusa to Rubottom, "Briefing notes for meeting with Ambassador Peixoto March 31", Mar. 31, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

<sup>137</sup> Telegram, Briggs to Secretary of State, Mar. 20, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 115, Folder 350 Brazil 1958.

<sup>138</sup> Memo, "Brazilian Financial Problem", Mar. 14, 1958; Outtel, Herter to Amembassy, Mar. 16, 1958; Intel, Amembassy to Secretary of State, Mar. 18, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

<sup>139</sup> Robert B. Anderson to José Maria Alkmin, Mar. 21, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; Outtel, Dulles to Amembassy, Mar. 21, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

<sup>140</sup> Intel, Amembassy to Secretary of State, Mar. 23, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

so would “trigger [a] devastating and perhaps mortal attack on his [Kubitschek] government”, harming U.S.-Brazilian relations since Kubitschek's fragility would provide a "heaven-sent opportunity for ‘enemies of the United States’”.<sup>141</sup> The Brazilian President declared himself “prepared to take any ‘reasonable steps’ including sacrifices in terms [of] his development program (but not abandonment thereof) and belt-tightening” in the case Washington decided to assist Rio de Janeiro.<sup>142</sup>

Briggs alerted State Department officials that, contrary to what they had initially thought, IMF-Brazilian negotiations were possibly heading against U.S. interests. Alkmim had first approached Washington and was told to go to the IMF. As he had reached no agreement there, Alkmim requested U.S. assistance and was again “brushed off”. Briggs’ fears rested on political grounds. As the financial crisis was getting worse each day, Kubitschek would most likely use Washington as a scapegoat for the country’s problems. Brazilian politicians and national press had already been making statements against Washington. As the crisis developed, doors would open for the Soviets to step in.<sup>143</sup> However, Secretary of state John Dulles remained firm regardless of the political matters brought up by Ambassador Briggs. According to Dulles, American assistance had to contribute for Brazil's lasting benefit, not to support the maintenance of current (and inadvisable) economic policies. Moreover, proving loans without a comprehensive IMF-based program was against U.S. policy and could generate domestic criticism regarding the misuse of limited U.S. financial resources. Therefore, without an IMF-backed program, the U.S. government would not get congressional approval to aid Brazil.<sup>144</sup>

Brazilian Embassy officials were hopeless. U.S. and IMF officials seemed convinced that Brazil's foreign crisis was structural, not temporary. In fact, Brazilian Embassy officials concurred with American and Fund views: Rio de Janeiro would be better off accepting an IMF program as accessing new credit would minimize the effects of the foreign crisis and allow

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<sup>141</sup> Intel 1224, Amembassy to Secretary of State, Mar. 24, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

<sup>142</sup> Intel 1233, Amembassy to Secretary of State, Mar. 24, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

<sup>143</sup> Intel, Amembassy to Secretary of State, Mar. 23, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158.

<sup>144</sup> Outtel, Dulles to Amembassy, Mar. 29, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4313, Folder 832.10/1-1158; Siracusa to Rubottom, “Briefing notes for meeting with Ambassador Peixoto March 31”, Mar. 31, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

Kubitschek's development program to continue.<sup>145</sup> After hearing Washington's position from Briggs (instructed by Dulles), Finance Minister José Alkmim immediately requested SUMOC Director Casimiro Ribeiro to put together a stabilization program. In case the IMF approved the Brazilian program, Washington would then be ready to discuss the long-term balance of payments problems.<sup>146</sup>

By mid-April 1958, the Brazilian stabilization program proposal was ready for submission. The plan had three main goals: a balanced budget, a restrained credit supply, and an equilibrated balance of payments. Public spending would decrease to limit budget deficits to Cr\$ 25 billion in 1958. In the credit arena, the Bank of Brazil would increase its rediscount rate, and Kubitschek would ask Congress to increase the legal limits of obligatory reserves requirements from private banks. There would be ceilings on credit supply from the Bank of Brazil to the private and public sectors. The financing of coffee stocks would not be inflationary as resources of the Exchange Profits account would be earmarked specifically for this purpose. Moreover, the government would no longer bear the whole burden for financing coffee stocks: coffee growers would have to retain 40% (approximately 8 million bags) of their production without public compensations. The government would only purchase unsold coffee stocks out of the export target of 15 million bags (60% of the 1958-1959 harvest). Lastly, preferential imports would have their exchange rates increased from Cr\$ 22, Cr\$ 51.32 and Cr\$ 53.82 (depending on the product – table 2.1 below) to Cr\$ 60 per 1 US\$. Imports of oil and oil derivatives, wheat and newsprint materials would then receive lower governmental subsidies. Imports of consumption and capital goods essential to economic development and national security, which also included suppliers' credits (industrial products and equipment that foreign private investors conceded as credit) would receive less public subsidies as well.<sup>147</sup>

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<sup>145</sup>Memorandum, [Brazilian Embassy in the US], Mar. 31, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

<sup>146</sup> Intel, Amembassy to Secretary of State, Apr. 1, 1958; Amembassy to State Department, "Brazilian request for foreign financial assistance", Apr. 2, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/4-158.

<sup>147</sup> Offmemo, Western Hemisphere, Exchange Restrictions and Legal Departments to The Managing Director, "Brazil-Proposed Basis for Negotiations on Use of Fund Resources", Apr. 24, 1958; Aide Memoire", Apr. 30, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

*Table 2.1 Exchange rates as of April 1958 – before the proposed reform (per 1 US\$)*

|                             |   |                    |
|-----------------------------|---|--------------------|
| <b>Official rates</b>       | Selling   | Cr\$ 18.36         |
|                             | Buying  | Cr\$ 18.82         |
| <b>Private imports</b>      | General category  | Cr\$170            |
|                             | Special category  | Cr\$ 380           |
| <b>Preferential imports</b> | Consumption and capital goods considered as essential to economic development and national security | Cr\$ 51.32         |
|                             | Oil and oil derivatives   | Cr\$ 53.82         |
|                             | Newsprint   | Cr\$ 22            |
| <b>Exports</b>              | Coffee (effective rate of Cr\$ 37.5 plus bonuses)   | Cr\$ 50            |
|                             | Cocoa and cocoa products  | Cr\$ 43.06         |
|                             | All other products (symbolic purchase system)   | Cr\$ 67 to Cr\$ 90 |
| <b>Free market</b>          | Invisible and capital   | Cr\$ 120           |

Source: Offmemo, Western Hemisphere, Exchange Restrictions and Legal Departments to The Managing Director, “Brazil-Proposed Basis for Negotiations on Use of Fund Resources”, Apr. 24, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

The IMF working group on Brazil found that the Brazilian government was finally showing greater awareness of the seriousness of the financial plight as it seemed more prepared to take measures than it had been the case during the IMF mission. Even so, it considered that weaknesses of the Brazilian program regarding budget and exchange policies were amenable to negotiation. The IMF would not make concessions too early in the negotiations since the Chase Manhattan Bank had just granted Rio de Janeiro a US\$ 30 million credit line pledged to the Brazilian coffee. The final agreement could then wait as long as it was necessary until the Kubitschek government showed firm assurances of commitment.<sup>148</sup>

The IMF staff found the proposed credit and coffee policies satisfactory. However, Rio de Janeiro would only get an IMF standby agreement credit after officially announcing the new coffee program, as coffee financing was considered “the most serious, single inflationary problem in the Brazilian economy”. On the other hand, fiscal and exchange policies fell short of

<sup>148</sup> Del Canto to The Managing Director, “Brazil – Use of Fund Resources, Apr. 22, 1958; Offmemo, Western Hemisphere, Exchange Restrictions and Legal Departments to The Managing Director, “Brazil-Proposed Basis for Negotiations on Use of Fund Resources”, Apr. 24, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

expectations. Budget deficits could not exceed Cr\$ 20 billion in 1958 (not Cr\$ 25 billion as in the Brazilian proposal) and this was not subject to negotiation. Discussions would mostly center on the exchange rate policy. The symbolic purchase system had to end so that export categories could be reduced to two (instead of three): one for coffee and cocoa and cocoa products at Cr\$ 70 per 1 US\$, and another for all other products at Cr\$ 100 per 1 US\$ (tables 2.1 above and 2.2 below). Moreover, the exchange rates for preferential imports would have to increase to Cr\$ 100 per 1 US\$. Last, surplus from the Exchange Profits account not used for coffee financing would have to be sterilized for offsetting inflationary pressures. The IMF staff presented these exigencies to Brazilian officials at the end of April 1958.<sup>149</sup>

Secretary of State John Dulles concurred with IMF's views and planned to maintain "intimate confidential contact with [the] IMF via [the] U.S. [Executive] Director in [an] attempt [to] assure [the] IMF presses Brazil [to the] maximum extent feasible to deal adequately with payments problem and adopt [the] most constructive program possible". Dulles was confident that Rio de Janeiro had to acknowledge that the stabilization program was not just necessary to meet financial problems and obtain IMF approval, but also to convince the U.S. that the Brazilian government was making the most effort towards curbing inflation.<sup>150</sup>

However, the Kubitschek administration refuted all IMF requests, arguing that its top priority was to increase the investment rate for strengthening economic development. The government saw no point in promoting exports by depreciating the exchange rates as this could induce inconvenient changes in investments – the multiple exchange rates system with appreciated rates for exports and depreciated rates for imports was a source of capital accumulation for the national industry. Therefore, according to Brazilian officials, reaching an exchange rate of Cr\$ 100 per 1 US\$ for preferential imports was very unlikely. Doing so would double the cost of production and the cost of living, resulting in significant social and economic disturbances with inflationary effects and pressures for higher wages. Moreover, depreciating coffee export rates would only decrease the prices of the Brazilian coffee, potentially causing a price war between coffee producing countries. Sterilizing the Exchange Profits account was also unacceptable: 10% of total money supply for 1958 (Cr\$ 200 billion) was being expected to come

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<sup>149</sup> Offmemo, Western Hemisphere, Exchange Restrictions and Legal Departments to The Managing Director, "Brazil-Proposed Basis for Negotiations on Use of Fund Resources", Apr. 24, 1958; Aide Memoire", Apr. 30, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

<sup>150</sup> Outtel, Dulles to Amembassy, Apr. 23, 1958; Outtel, Dulles to Amembassy, Apr. 25, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/4-158.

from this source. Also, a budget deficit of Cr\$ 25 billion for 1958 would be more acceptable than Cr\$ 20 billion. Lastly, the government rejected the idea of issuing a decree on the coffee policy as it would disturb the coffee market.<sup>151</sup>

*Table 2.2* Main points of discussion during IMF-Brazilian negotiations of 1958 for a standby agreement

|                        | <b>Brazilian proposal presented in mid-April</b>                 | <b>IMF demands expressed at the end of April</b>  | <b>Brazilian response</b> |
|------------------------|--|---|---------------------------|
| <b>Fiscal policy</b>   | Budget deficit of Cr\$25 billion                                 | Budget deficit of Cr\$20 billion<br>Sterilize resources of the Exchange Profits account not used for coffee financing   | Not possible              |
| <b>Exchange policy</b> | Increase preferential imports exchange rates to Cr\$60 per 1US\$ | Increase preferential imports exchange rates to Cr\$100 per 1US\$<br>End the symbolic purchase system and reduce export categories from three to two: one for coffee and cocoa and cocoa products at Cr\$70 per 1US\$, and another for the remaining exports at Cr\$100 per 1US\$ | Not possible              |

Source: Offmemo, Western Hemisphere, Exchange Restrictions and Legal Departments to The Managing Director, "Brazil-Proposed Basis for Negotiations on Use of Fund Resources", Apr. 24, 1958; Aide Memoire", Apr. 30, 1958; "Remarks on the Aide Memoire of April 30, 1958", IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

Finance Minister José Alkmim called U.S. Ambassador Ellis Briggs and asked for State Department officials to urge the IMF not to lose sight of important political considerations while interpreting Brazil's economic proposals. Alkmim claimed to be under "ferocious attack and political enemies are screaming for his head".<sup>152</sup> He needed foreign loans urgently to calm down critics. At that time, various groups, such as the commercial sector and the Economic Committee in Congress, were criticizing Alkmim for resisting an exchange rate system reform and putting

<sup>151</sup> "Remarks on the Aide Memoire of April 30, 1958", IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

<sup>152</sup> Intel, Amembassy to Secretary of State, Apr. 27, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/4-158.

aside stabilization policies.<sup>153</sup> Despite pressures, Alkmim continued to profess that he was “irrevocably against [an] exchange reform”. For him, only the rich who wished to have more would benefit from a reform “at the cost of the many [middle and working class] who have little and will end up having nothing”.<sup>154</sup>

Briggs acknowledged that the IMF’s intransigent attitude indeed affected the stability of Kubitschek administration.<sup>155</sup> U.S. Embassy officials only hoped that, by the time when Rio de Janeiro and the Fund reached an agreement, Washington would be finally able to discuss substantial and long-term loans to fend off Brazil’s foreign accounts in “a better atmosphere, with the onus for most of the unpalatable conditions having already been placed upon an international body”. They also expected that such an IMF program would substitute the “kind of personal, improvising operation” way Finance Minister José Alkmim was used to run the economy. On the other hand, the Embassy inferred that, despite criticisms, Alkimim was “a power within the present Administration and commands the confidence of President Kubitschek”.<sup>156</sup>

Alkmim informed the U.S. Embassy that negotiations with the IMF were going “very badly”. According to him, although Brazilian and IMF officials had arrived in virtual agreement on the internal finances, IMF Managing Director Per Jacobsson was making “impossible” exigencies as to the exchange rate policy. Alkmim was incensed by Jacobsson’s “intransigent, impatient [and] irritable” attitude as he “won’t listen and doesn’t understand political problems confronting Brazil”. Alkmim appraised U.S. officials that he would present another counter-proposal to the Fund even though Brazilian officials were pessimistic about the likelihood of signing an IMF agreement. He urged the U.S. Embassy to persuade Jacobsson into being “less intransigent and recognize Brazil political difficulties”.<sup>157</sup>

After this, Briggs sent several telegrams to Secretary of State John Dulles. He claimed that it was “wrong to dismiss Alkmim’s fears of social, political and economic disturbances

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<sup>153</sup> ESP, “Responde Alkmim a críticas dirigidas ao seu ministério”, Feb. 26, 1958, p. 8; ESP, “Remodelação ministerial”, Jun. 20, 1958, p. 3; Amembassy to State Department, “Brazil: Economic Assessment - February-April, 1958”, May 7, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4306, Folder 832.00/4-358.

<sup>154</sup> Embassy to Secretary of State, May 3, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4322, Folder 832.15/4-1855.

<sup>155</sup> Intel, Amembassy to Secretary of State, Apr. 27, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/4-158.

<sup>156</sup> Amembassy to State Department, “Brazil: Economic Assessment - February-April, 1958”, May 7, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4306, Folder 832.00/4-358.

<sup>157</sup> Embassy to Secretary of State, May 8, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4322, Folder 832.15/4-1855.

resulting from [the] large and abrupt increase of costs [of] several import and service payments".<sup>158</sup> Although it was difficult to assess the political impact of unpopular measures, the sudden announcement of increased exchange rates for preferential imports would "at the very least severely strain [the] existing government and could conceivably have more serious results" as the Brazilian government had been vigorously focusing on economic growth.<sup>159</sup> The U.S. Embassy advised that "to accept [Managing Director Per] Jacobsson's exigencies would be worse for Brazil than not receiving IMF and U.S. aid" and stressed the "political importance of favorable resolution [of] these matters for Brazil-U.S. relations".<sup>160</sup>

While waiting for Fund views on his counter-proposal, in mid-May 1958 Finance Minister José Alkmim approached the U.S. Embassy for the second time during financial negotiations with the IMF for the signature of Brazil's first standby agreement to request a "small" American financial assistance. Alkmim explained that Kubitschek had been trying to temporize by obtaining short-term credits from the Chase Manhattan Bank. However, Rio de Janeiro had run out of options for avoiding an upcoming financial "catastrophe". This situation was also dangerous to Washington, Alkmim cautioned, as it would be far more difficult to deal with Brazil's and the U.S.' "common enemy".<sup>161</sup> However, after learning from Alkmim's assistants, including SUMOC Director Casimiro Ribeiro and Bank of Brazil Director Paulo Pook, that the Brazilian government could move closer to IMF demands, U.S. Ambassador Ellis Briggs advised the State Department not to provide emergency assistance. On the other hand, Briggs inferred that the Managing Director Per Jacobsson should unbend to some extent at least to demonstrate a preoccupation with Brazilian political concerns.<sup>162</sup>

The IMF staff considered that the Brazilian counter-proposal did very little to advance the negotiations: Rio de Janeiro had just accepted to limit budget deficits to Cr\$ 20 billion and to end the symbolic purchase system (which equalized domestic prices of exportable commodities with their respective export prices). For the IMF staff, the Kubitschek administration appeared

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<sup>158</sup> Intel 1514, Amembassy to Secretary of State, May 9, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4322, Folder 832.15/4-1855.

<sup>159</sup> Intel 1521, Amembassy to Secretary of State, May 9, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4322, Folder 832.15/4-1855.

<sup>160</sup> Intel 1509, Amembassy to Secretary of State, May 8, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4322, Folder 832.15/4-1855.

<sup>161</sup> Intel, Amembassy to Secretary of State, May 16, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

<sup>162</sup> Intel, Amembassy to Secretary of State, May 17, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

unwilling to make binding promises regarding exchange policies as it resisted acknowledging the need for fundamental changes in economic policy.<sup>163</sup> In mid-May, IMF Managing Director Per Jacobsson informed Brazilian officials that he would approve the program counter-proposal provided that new registrations of suppliers' credit not exceeded the levels of December 1957 and that export and import rates depreciated a bit more. On the export side, coffee and cocoa and cocoa derivatives should commercialize at Cr\$ 43 per 1 US\$. The remaining exports should split into two categories: one with exchange rate of Cr\$ 70 and a second of Cr\$ 92 per 1 US\$. Preferential transactions would have their exchange rate increased to Cr\$ 70 per 1 US\$ (table 2.1).<sup>164</sup>

As no U.S. loan was forthcoming and no other financing sources were available, Finance Minister José Alkmim accepted Jacobsson's demands in the exchange arena. On May 26, 1958, he sent an official standby agreement request to the IMF. As Argentina's, Brazil's stabilization program was, by no means, written by Brazilian authorities only then. Instead, it was a direct result of seemingly lengthy and challenging discussions with highly professional and very well informed IMF staff officials.<sup>165</sup> Rio de Janeiro would compromise with a stabilization program to contain the monetary expansion in 1958 through fiscal, credit and coffee policies. At a second stage, Brazilians would revise the country's multiple exchange rates system. Moreover, Brazil's external deficits would not exceed US\$ 200 million in 1958. For this purpose, the government compromised to cut off currency availabilities in the auction market and to simplify the multiple exchange rates system according to Jacobsson's requests. Also, Brazilian officials would maintain close consultations with the IMF staff to implement a unitary exchange rate policy in the future. On June 3, 1958, the Kubitschek administration signed Brazil's first IMF standby agreement of US\$ 75 million. The government would have one year to purchase other IMF member's currencies in exchange of *Cruzeiros*.<sup>166</sup> During this period, the government would keep

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<sup>163</sup> Offmemo, Jorge Del Canto and Irving S. Friedman to The Managing Director, "Brazil- Draft Letter Submitted by Mr. Paranaguá", May 13, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements.

<sup>164</sup> Intel, Amembassy to Secretary of State, May 21, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258; Otávio Paranaguá to Casimiro Ribeiro, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

<sup>165</sup> For Argentina's standby agreement in the late 1950s see Kedar (2013, chap. 3).

<sup>166</sup> EBS/58/25 Supplement 3, The Secretary to the Members of the Executive Board, "STAND-BY ARRANGEMENT – BRAZIL", Jun. 2, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

the IMF staff aware of developments in the fiscal, credit and exchange field at intervals following the Fund's demands.<sup>167</sup>

As in others Latin American countries, including Argentina, the signature of Brazil's first standby agreement opened a window for a range of IMF monitoring and surveillance procedures. According to Kedar (2013, chap. 3), these activities would pave the way to long-term interactions between IMF and borrowing countries officials, giving rise to a non-coercive socialization process and creating an epistemic community of experts through which local officials internalized the Fund's working norms and economic ideas. Later, says Kedar, they would defend and promote the liberalization of national economies. This process is a key component of the so-called "routine of dependency" – routine and cyclical interactions that take place between IMF and borrowing countries officials – and, thus, of the postwar global financial system.<sup>168</sup>

Although Rio de Janeiro signed an IMF standby agreement, Kubitschek did not give up on hopes of obtaining direct U.S. financial assistance. On May 27, 1958, one day after Alkmim sent the standby request to the IMF, Brazilian Ambassador Ernani Peixoto solicited an appointment with President Eisenhower to deliver a letter from Kubitschek in which he expressed his desire for a greater effort in Pan-American cooperation.<sup>169</sup> Kubitschek officially announced the so-called Pan-American Operation (*Operação Pan-Americana*, OPA) on June 20, 1958, in response to the growing anti-U.S. sentiment in Latin America showed after U.S. Vice-President Richard Nixon visited the continent in mid-1958. The OPA asked for a change in the U.S. foreign policy. Washington should increase aid substantially to Latin America as a way of overcoming underdevelopment and revolutionary threats in the hemisphere. OPA pushed for development promotion in inter-American affairs. However, Washington's reluctant responses to OPA deepened U.S.-Brazilian resentments. Despite continuously emphasizing its goodwill towards Latin American difficulties, the U.S. shut down prospects for potential economic cooperation. U.S. responses to OPA ended up being one of the main reasons behind Rio de Janeiro's

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<sup>167</sup> Letter, Merle Cochran to José Maria Alkmim, Jun. 6, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>168</sup> For further information on the "routine of dependency" see Kedar (2013).

<sup>169</sup> Rubottom to The Acting Secretary, "Appointment for Brazilian Ambassador to see President Eisenhower", May 27, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258; Memorandum for the President, Christian A. Herter to Dwight Eisenhower, "Requesting Appointment for Brazilian Ambassador Peixoto", May 28, 1958, EPL, Herter, Christian A. Papers, 1957-61, Series I Chronological Files, Box 4, Folder [Chronological Files] May 1958 (1).

initiatives towards a more globalist foreign policy, encouraging Brazil to strengthen relations with Latin American countries.<sup>170</sup>

U.S. officials' reactions when IMF-Brazilian negotiations terminated, in fact, elucidate U.S. intentions not to change its foreign financial assistance policy towards Kubitschek's Brazil even though Washington tried to assuage anti-U.S. sentiments. To illustrate the attempts to overcome critics, the U.S. Embassy advised that Washington should emphasize the difference between American and IMF loans. While Eximbank loans would be to the "entire Brazilian nation and people, in pursuance [of] traditional American policy of extending [a] helping hand to good friends like Brazil who experience [a] period [of] temporary difficulties"; the IMF's had been "granted on assurance of modifications [of] Brazilian internal [and] external financial policies".<sup>171</sup> Furthermore, at the time of the meeting between President Eisenhower and Brazilian Ambassador Ernani Peixoto in early-June 1958, Eisenhower urged Peixoto to reaffirm his goodwill in U.S.-Latin American relations. He also argued that IMF-Brazilian misunderstandings stemmed from the lack of knowledge of the Brazilian population about the country's economic difficulties.<sup>172</sup> At that time, Treasury Secretary Robert Anderson also reassured Peixoto that "financial collaborations Brazil-U.S. 'will now be easier in view of Brazil-IMF agreement'".<sup>173</sup>

Even still, U.S. officials remained unwilling to aid Rio de Janeiro in the absence of binding stabilization commitments despite Kubitschek's Pan-America Operation. Secretary of State John Dulles found OPA's official announcement inappropriate. For him, Kubitschek had failed to refer to the need for "self-help through marshaling domestic and foreign private resources and through effective fiscal measures".<sup>174</sup> However, the U.S. Embassy acknowledged that, although U.S.-Brazilian relations had been of friendship, the plea for financial assistance, the national financial plight, and the growing anti-Americanism in Latin America were causing frustration. This situation had driven U.S.-Brazilian relations to a critical paradox. On the one

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<sup>170</sup> For OPA and US responses to it see Ioris and Ioris (2013, p. 135), Hilton (1981), Hurrell (2013, chap. 1) Moura (1991), Oliveira (2005, chap. 4), Rabe (1988, chap. 6), Sewell (2010, p. 1471-1473), Smith (2010, p. 143-147), Skidmore (2000, p. 215-230), Vizentini (2006) and Young (2014, chap. 3).

<sup>171</sup> Intel, Amembassy to Secretary of State, May 28, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

<sup>172</sup> Memo, "Ambassador Peixoto's Call on President Eisenhower to Deliver Letter from President Kubitschek", Jun. 5, 1958, EPL, Eisenhower, Dwight D.: Papers as President, 1953-61, Ann Whitman File, International Series, Box 4, Folder Brazil (6).

<sup>173</sup> Intel, Amembassy to Secretary of State, Jun. 3, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

<sup>174</sup> Outtel, Dulles to Amembassy, Jun. 25, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

hand, while Brazil desperately needed U.S. financial assistance, the growing anti-U.S. sentiment was evident in the country. On the other hand, the U.S. government had worldwide responsibilities. Still according to the Embassy, Washington could not have the "monogamous relationship that Brazil professes to want". For this reason, to maintain a continuous dialogue with Brazil, Washington had to insist on exchange and anti-inflation policies as a way for Brazil to better use its internal resources.<sup>175</sup>

### *2.3 Initial difficulties in implementing stabilization policies and the pursuit of Eximbank loans*

Kubitschek and Finance Minister José Alkmim officially requested Eximbank loans as soon as IMF-Brazilian negotiations concluded. They were desperate. Brazil's credit lines with U.S. banking institutions were exhausted, and dollar balance was close to zero. Kubitschek promised to undertake the IMF-based program even though it would be politically difficult, and Alkmim asked the Eximbank to surmount all administrative hurdles in order to provide loans urgently.<sup>176</sup> However, the Eximbank would need some time to consider all aspects of Brazil's economic situation before entering into major commitments. On top of this, some U.S. officials, such as Ambassador Ellis Briggs, were of the opinion that the exchange policy as agreed with the IMF would not have a positive impact on the Brazilian economy. For him, Washington should request additional belt-tightening.<sup>177</sup>

On June 26, 1958, Lucas Lopes replaced José Alkmim as Finance Minister, leaving the BNDE presidency and his position as Secretary-General of the Development Council to former BNDE Director Roberto Campos. The U.S. Embassy understood that Lopes had taken office to "enlist greater help from the U.S."<sup>178</sup> According to SUMOC Director Casimiro Ribeiro, Lopes' and Campos' prominent roles in the negotiations for U.S. economic cooperation in 1956 had

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<sup>175</sup> Amembassy to State Department, "Transmittal of Memorandum - 'Dialogue for US-Brazil Economic Relations'", Jul. 11, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

<sup>176</sup> Ernani Amaral Peixoto to Samuel C. Waugh, Jun. 05, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; Amembassy to State Department, "Brazilian Application to Eximbank for Standby Credit", Jun. 10, 1958; Outtel, Amembassy to Secretary of State, Aug. 1, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/7-258.

<sup>177</sup> Intel, Amembassy to Secretary of State, May 28, 1958; Intel, Amembassy to Secretary of State, Jun. 4, 1958; Outtel, Dulles to Amembassy, Jun. 9, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

<sup>178</sup> Amembassy to State Department, "Brazil-U.S. Relations: a Forecast for 1959", Jan. 19, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

given Rio de Janeiro greater prestige before the IMF.<sup>179</sup> Officially, José Alkmim resigned to run for deputy in the 1958 Congressional elections.<sup>180</sup> However, evidence has it that Kubitschek asked him to leave. Brazilian officials, including Campos, Ribeiro and the federal deputy Renato Archer, claimed that Kubitschek was not able to resist the political opposition coming from coffee growers against Alkmim, who was deemed as incompetent in dealing with the foreign crisis due to lower coffee exports (CAMPOS, 2004, p.339).<sup>181</sup>

In opposition to José Alkmim, Lopes favored reforming Brazil's multiple exchange rates system. In fact, he only accepted to become Finance Minister because Kubitschek had committed to support him on unifying all multiple exchange rates except the rates of preferential imports of oil and oil derivatives, wheat and newsprint (LOPES, 1991, p. 230-233). According to Carlos Lessa (1983, p. 28-85), the government wanted to maintain the preferential treatment for oil and oil derivatives and wheat in attempts to lower the cost of living. These subsidies reduced prices of goods, such as gas, diesel, and bread, which composed an important share of the population's living expenses. Newsprint importers, says Lessa, also received subsidies as they constituted influential groups in public opinion, including national newspapers. Technocrats that worked with Lopes hoped that the 1956 Anti-Inflation Program and exchange unification would finally receive space in the national economy (CAMPOS, 2004, p.343). Moreover, Brazilian newspapers indicated that the nomination of Garrido Torres, who supported reforming the multiple exchange rates system, as SUMOC's Executive Director also meant that the national economic policy was heading to a new direction: that of stabilization.<sup>182</sup>

The U.S. Embassy recognized that Lopes had taken office in a difficult situation. Lopes would have to face up economic compromises before the IMF, implementing policies that could engender social unrest.<sup>183</sup> On top of this, Brazilian officials appeared unaware of former Finance Minister José Alkmim's promises to the Fund. It seems that Alkmim held little discussions about the negotiations with the IMF in official circles.<sup>184</sup> During negotiations with the Eximbank, it

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<sup>179</sup> Interview Ribeiro (1981, p.56).

<sup>180</sup> ESP, "Alkmim vai desincompatibilizar-se; o Brasil vai vender café à URSS", Mar. 1, 1958, p. 3.

<sup>181</sup> Interview Renato Archer (1978, p. 164-165), Interview Casimiro Ribeiro (1981, p. 58).

<sup>182</sup> JB, "Política de câmbio", Jul. 9, 1958. 1º caderno, p. 15, ed. 157.

<sup>183</sup> Amembassy to State Department, "Weekly economic review", Jun. 27, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder Econ. WEEKA 1958.

<sup>184</sup> ESP, "Nada se sabe sobre a liberação da quota do FMI", Jun. 10, 1958, p.8; Amembassy to The State Department, "Brazil: Economic Assessment - February-April, 1958", May 7, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4306, Folder 832.00/4-358; Amembassy to State Department, "Current financial developments", Jun. 4, 1958;

became evident to U.S. officials that “no one, including [the] present finance Minister Lopes, has heretofore been acquainted with provisions [of] Alkmim[’s] letter to [the] IMF”. They found this situation “especially serious”, particularly because Rio de Janeiro had already drawn upon Fund resources. The Eximbank demanded a new round of negotiations so that a “clear and unambiguous agreement between [the] Brazilian government and [the] IMF as [a] condition for initiation [of] detailed consideration [for] Eximbank assistance”.<sup>185</sup>

According to Lourdes Sola (1982, p. 153-154), both José Alkmim’s poor technical expertise and the acute foreign exchange restraint made him compromise with measures that would have unbearable consequences to the Brazilian economy. However, to judge from the misinformation about the IMF-based program, what seems is that Alkmim possibly did not intend to implement some policies promised to the Fund at all. During his statement to the nation about the signature of the standby arrangement, Alkmim claimed that the Fund had granted credits upon the belief that the Kubitschek administration would continue with prevailing internal and external policies, not changing them.<sup>186</sup> Moreover, SUMOC Director Casimiro Ribeiro had allegedly informed the U.S. Embassy that Alkmim did not have intentions of announcing a more restrictive coffee policy as agreed with the Fund.<sup>187</sup>

In order to lay the basis for further loan requests, Finance Minister Lucas Lopes approached the IMF as soon as he assumed the Ministry to explain that many policies under the standby were “impracticable”. There were difficulties regarding the timing and manner in which these measures should be implemented. Lopes’ misgivings related to three areas: suppliers’ credit (credits as industrial equipment that foreign private investors granted), external deficits, and the coffee policy. First, suspending new registrations of suppliers’ credit for Kubitschek’s development program would bring his Five years’ Plan to a halt. More flexibility would be utterly necessary then. Second, deficits in the balance of payments would certainly surpass US\$ 200 million in 1958. By July 1958, all foreign reserves had already drained out, and the

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Amembassy to State Department, "Transmittal of Memorandum - 'Dialogue for US-Brazil Economic Relations'", Jul. 11, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

<sup>185</sup> Intel, Amembassy to State Department, Jun. 27, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

<sup>186</sup> Amembassy to State Department, “Weekly economic review”, Jun. 6, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder Econ. WEEKA 1958, p.1.

<sup>187</sup> JB, “Informe especial sobre café”, Jun. 22, 1958. 1º caderno, p. 24, ed. 143.

Amembassy to State Department, “Brazilian Application to Eximbank for Standby Credit”, Jun. 20, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

perspectives for the second semester were not optimistic (CAMPOS, 2004, p. 340; LOPES, 1991, p. 248-249).<sup>188</sup> Last, in the wake of coffee growers' pressures, Lopes did not find feasible to implement a more austere coffee policy. Producers demanded governmental purchases of all coffee surpluses, and not just some part of them, as it had been promised to the Fund. Lopes had invoked the army to counter coffee growers' attempts to perform a "March for Production" (*Marcha da Produção*) – a motorized protest encompassing about 200,000 vehicles that would leave from Paraná state, marching through São Paulo and Minas Gerais states towards the presidential Catete Palace in Rio de Janeiro.<sup>189</sup> Lopes acknowledged the strong lobby that coffee producers had in Congress even though he did not support the financing of coffee stocks (LOPES, 1991, p.239-247).

In mid-July 1958, Brazilian representatives notified the IMF staff that circumstances had compelled them to change agreed policies. They clarified that deficits in the balance of payments would potentially be higher and that the coffee policy would also have to change since the previous policy did not provide incentives for coffee growers. Coffee growers would no longer bear alone with almost the whole burden of coffee financing as former Finance Minister José Alkmim had promised before the Fund. The government would then purchase coffee surplus that before would not receive any public compensations at values below market prices. Also, the effective exchange rate for coffee would depreciate from Cr\$ 43 to Cr\$ 54 per 1 US\$ to increase the receipt of coffee producers. Lopes reiterated compromises on the fiscal and credit fields and promised to remain active in bringing the balance of payments into line in 1959.<sup>190</sup>

The IMF staff was not at ease about these revised policies. The Head of the Western Hemisphere Department, Jorge Del Canto, stressed to Brazilian officials the importance of the Brazilian standby agreement for IMF relations with other countries, such as Argentina. The new

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<sup>188</sup> Intel, Amembassy to State Department, Jun. 27, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258; Letter to SUMOC's Council, Aug. 18, 1958, Arquivo Lucas Lopes (hereafter ALL), Folder LL mf 1957.12.23.

<sup>189</sup> Interview Casimiro Ribeiro (1981, p.17-18); Intel, Amembassy to State Department, Jun. 27, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258. For the March for Production see Leopoldi (1991), Lopes (2006, chap. 9) and Sola (1982, chap. 4).

<sup>190</sup> Lucas Lopes to Per Jacobsson, Jul. 8, 1958, CPDOC-FGV, ARC, Folder RC e bnde 1952.11.24; Offmemo, Irving S. Friedman and G.A. Costanzo to The Managing Director, "Brazil: Modification of Stand-by Arrangement", Jul. 17, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements; The Secretary to Members of the Executive Board, "Brazil - Stand-by Arrangement and Exchange System", Jul. 25, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959; "Minutes of Executive Board Meeting 58/40" Jul. 30, 1958, IMF, EBDC. Available at: <http://archivescatalog.imf.org/detail.aspx>. Access in: Feb. 2018.

coffee policy had "destroyed this [Brazil's standby] agreement" as it would require exchange profits that should have been sterilized to offset inflationary pressures. Del Canto suggested that if Rio de Janeiro wished to increase coffee producers' receipt and was requesting U.S. assistance, then the exchange rate for preferential imports would have to rise to Cr\$ 80 instead of Cr\$ 70 per 1 US\$ as the standby had determined. The additional exchange profits due to higher preferential rates would offset the financial effects of the revised coffee policy, thus reestablishing stability.<sup>191</sup>

Brazilian officials diverged in opinions, discussing whether a sudden or a gradual adjustment of the exchange rates would be more feasible.<sup>192</sup> In the end, Finance Minister Lucas Lopes agreed with the IMF staff's requests. He addressed a letter to Managing Director Per Jacobsson stating that a "comprehensive exchange reform is in the best interest of Brazil, and [he] welcome the efforts of the Fund in helping to achieve this objective".<sup>193</sup> On behalf of the Brazilian government, Lopes committed himself before the IMF Executive Board "to make a complete review of the exchange system later in the year [1958]". Accordingly, the IMF Executive Board approved the revised policies.<sup>194</sup>

With the IMF standby agreement on track again, U.S.-Brazilian negotiations for new Eximbank loans could then resume. The Brazilian government requested a US\$ 150 million loan and expressed wishes to obtain US\$ 50 million from U.S. private banks to satisfy deficits in European currencies. The Eximbank refused to refinance Brazil's debts with European countries or commercial banks though.<sup>195</sup> Despite Kubitschek's insistence on a higher loan, Secretary of State John Dulles and U.S. Embassy officials maintained that US\$ 100 million would be sufficient to meet deficits in the balance of payments for 1958.<sup>196</sup> U.S. commercial banks also

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<sup>191</sup> "Re: Taxa especial única para importações preferenciais", CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; Irving S. Friedman and G.A.Costanzo to Per Jacobsson, "Brazilian Exchange System", Jul. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959; "Minutes of Meeting with Brazilian Representatives", Jul. 21, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>192</sup> "Re: Taxa especial única para importações preferenciais", CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06; "Minutes of Meeting with Brazilian Representatives", Jul. 21, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>193</sup> Letter, Lucas Lopes to Per Jacobsson, Jul. 25, 1958, CPDOC-FGV, ALL, Folder LL mf 1957.12.23

<sup>194</sup> The Secretary to Members of the Executive Board, "Brazil - Stand-by Arrangement and Exchange System", Jul. 25, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959; Per Jacobsson to Jose Garrido Torres, Jul. 30, 1958, IMF, Central Files, Country Files, Brazil, Box 4, Folder Multiple Currency Practices, 1956-1968.

<sup>195</sup> Outtel, Dulles to Amembassy, Aug. 1, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/7-258.

<sup>196</sup> Outtel, Amembassy to Secretary of State, Aug. 1, 1958; W.T.M. Beale to Dillon, "Brazilian Loan", Aug. 1, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/7-258.

conceded US\$ 58 million to Brazil.<sup>197</sup> The Eximbank granted the credit after “successful conclusion of discussions with the International Monetary Fund concerning measures to improve the financial and economic position of Brazil”.<sup>198</sup> The Eximbank-Brazilian agreement strictly stressed that Rio de Janeiro would have to carry out the IMF-based stabilization program.<sup>199</sup> In 1958, the Kubitschek administration financed Brazil’s convertible currency deficit of US\$ 195 million with IMF, Eximbank, and U.S. private banks sources.<sup>200</sup> IMF-Brazilian negotiations of 1958 show that Eximbank and U.S. banks loans did not come in response to the OPA’s plea for financial assistance as Vizentini (2006) assumes.

*Table 2.3* Balance of payments loans granted to Brazil in 1957 and 1958 (millions US\$)

| <b>Period</b> | <b>Grantee</b>       | <b>Value</b> |
|---------------|----------------------|--------------|
| October 1957  | IMF                  | 37.5         |
| May 1958      | Chase Manhattan Bank | 30           |
| June 1958     | IMF                  | 37.5         |
| August 1958   | Eximbank             | 100          |
| August 1958   | U.S. private banks   | 58           |

Sources: "Minutes of Executive Board Meeting 57/49", Oct. 2, 1957, IMF, EBDC. Available at: <http://archivescatalog.imf.org/detail.aspx>. Access in: Feb. 2018; Intel, Amembassy to Secretary of State, May 17, 1958 NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258; EBS/58/25 Supplement 3, The Secretary to the Members of the Executive Board, “STAND-BY ARRANGEMENT – BRAZIL”, Jun. 2, 1958; “Export-Import Bank of Washington. REpublic 7-7890. For Saturday a.m.’s release at 5:30 p.m., E.S.T.”, Ago. 8, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

#### *2.4 The Brazilian standby status of performance*

The U.S. Embassy believed in Finance Minister Lucas Lopes’ command to meeting Brazil’s promises before the IMF. Lopes had already fulfilled two major steps he was supposed to when getting in office: to pursue financial stability, and to reduce primary inflationary pressures. U.S. officials expected that his “Savings Plan” would likely slow down Kubitschek’s Targets Plan to a pace more adequate for Brazil’s economic situation. On the other hand,

<sup>197</sup> “Export-Import Bank of Washington. REpublic 7-7890. For Saturday a.m.’s release at 5:30 p.m., E.S.T.”, Aug. 8, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

<sup>198</sup> Export-Import Bank of Washington, Jan. 1, 1959, EPL, White House Central Files, Official file, 1953-1961, Box 155, Folder OF 15 Export-Import Bank of Washington 195-9-60 (1).

<sup>199</sup> Brazilian Embassy in the US to the Ministry of Foreign Affairs, “Negociações Brasil-Estados-Unidos”, Aug. 5, 1958, Arquivo Histórico do Itamaraty, Brazilian Diplomatic Missions, Telegramas (rec.), 1958, Folder 52-1-5.

<sup>200</sup> Memo, Bernbaum to Rubottom, “Policy Regarding Balance of Payments Loan Assistance to Brazil During 1959”, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

Embassy officials acknowledged that the Congressional elections in October 1958 would be a hurdle for blocking minimum wage increases and financing coffee stockpiling with exchange profits only.<sup>201</sup> Despite Lopes' efforts, SUMOC officials had low expectations that budget deficits would be kept within limits agreed with the IMF. In the first half of 1958, debts had already outpaced ceilings and chances were to continue to rise.<sup>202</sup>

Albeit Lopes had been active in holding down budgetary expenditures, BNDE President Roberto Campos believed that his biggest problem was countering domestic credit. Bank of Brazil President Sebastião Almeida, who was also a member of the São Paulo Federation of Industries (*Federação das Indústrias do Estado de São Paulo*, FIESP), continued to hesitate in controlling credit supply. Despite initial disagreements, Bank of Brazil Director Paulo Pook reported to U.S. Embassy officials that Almeida appeared more cooperative. He had allowed the SUMOC's Council to help the Bank better allocate limited credit facilities.<sup>203</sup> Even so, credit expansion to the public and private non-banking sector and financing to banking institutions continued to grow.<sup>204</sup> Moreover, although Lopes had been in close contact with influential deputies, Congress had not yet approved the bill to increase reserve requirements from commercial banks.<sup>205</sup>

Despite difficulties in the budget and credit fields, Lopes was optimistic about overcoming political attacks due to his coffee policy and anti-inflation proposals. He enlightened U.S. Embassy officials of Kubitschek's increased interest in economic and political problems and

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<sup>201</sup> Intel, Amembassy to Secretary of State, Jun. 24, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258; Amembassy to State Department, "Economic assessment", Jul. 28, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder 500 Economic Matters.

<sup>202</sup> Report, Superintendência da Moeda e do Crédito, "Análise da expansão de crédito bancários e dos meios de pagamento em 1958, e crítica da política monetária", 1958, CPDOC-FGV, ALL, Folder 1957.12.23; J. Del Canto to The Managing Director, "Brazil - Status of Performance under the stand-by", Nov. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

<sup>203</sup> Amembassy to State Department, "Monetary Stabilization Measures", Sep. 30, 1958; Amembassy to State Department, "Miscellaneous Financial Matters", Oct. 10, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/9-458.

<sup>204</sup> Report, Superintendência da Moeda e do Crédito, "Análise da expansão de crédito bancários e dos meios de pagamento em 1958, e crítica da política monetária", 1958, CPDOC-FGV, ALL, Folder 1957.12.23; Offmemo, G. Escobar to Bruno Brovedani, "Brazil - Current Fiscal and Monetary Position With Respect to Proposed Ceilings", Sep. 8, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>205</sup> Amembassy to State Department, "Brazilian Application to Eximbank for Standby Credit", Jul. 7, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/7-258; J. Del Canto to The Managing Director, "Brazil - Status of Performance under the stand-by", Nov. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

willingness to assist him surmounting such critics.<sup>206</sup> Coffee growers, in particular, were pushing the government to purchase coffee surplus at higher prices. Lopes' negative responses to producers' requests led the President of the Brazilian Coffee Institute, Paulo Guzzo, to resign in September 1958. Lopes claimed that he could not change the coffee policy as any revision would influence the confidence of foreign creditors (LOPES, 1991, p. 242).<sup>207</sup> Even though a sudden drop in Brazilian coffee prices due to Guzzo's resignation caused more profound exchange deficits in September, until then, exchange profits were meeting legal financing requirements, including the financing of coffee stocks.<sup>208</sup>

Difficulties also arose in the exchange field. Bank of Brazil Director Tosta Filho blamed the U.S. government for preventing Brazil from increasing its exports. He did not want the symbolic purchase system to be terminated and planned to increase the proportion of exports to be commercialized at more appreciated rates.<sup>209</sup> However, the SUMOC's Council extinguished the symbolic purchases system and continued to depreciate export rates.<sup>210</sup> Although satisfied with SUMOC's actions, representatives of the commercial sector kept demanding for the government to dismantle the multiple exchange rates system entirely. In June 1958, BNDE President Roberto Campos held a conference promoted by the Brazilian Federal Trade Association (*Federação das Associações Comerciais do Brasil*). Critics spoke up against

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<sup>206</sup> Amembassy to State Department, "Brazilian Application to Eximbank for Standby Credit", Jul. 7, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/7-258.

<sup>207</sup> JB, "Razões do dólar e do cruzeiro", Aug. 17, 1958. 2º caderno, p. 9, ed. 191; Offmemo, Moeen A. Qureshi to John R. Woodley, "Brazil", Sep. 8, 1958; Offmemo, B. Brovedani to Del Canto, "Brazil-Recent Developments", Sep. 3, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 7, Folder C/Brazil/1760 Stand-by Arrangements.

<sup>208</sup> Report, Superintendência da Moeda e do Crédito, "Análise da expansão de crédito bancários e dos meios de pagamento em 1958, e crítica da política monetária", 1958, CPDOC-FGV, ALL, Folder 1957.12.23; J. Del Canto to The Managing Director, "Brazil - Status of Performance under the stand-by", Nov. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

<sup>209</sup> Amembassy to State Department, "Current financial developments", Jun. 4, 1958; Amembassy to State Department, "Brazilian Application to Eximbank for Standby Credit", Jun. 10, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

<sup>210</sup> The Secretary to Members of the Executive Board, "Brazil - Stand-by Arrangement and Exchange System", Jul. 25, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959; The Secretary to Members of the Executive Board, "Brazil - Changes in Exchange System", Oct. 10, 1958; The Secretary to Members of the Executive Board, "Brazil - Changes in Exchange System", Oct. 30, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

SUMOC's Instruction 70 for benefiting industries with preferential import rates whereas there were almost no incentives for encouraging primary exports other than coffee.<sup>211</sup>

Changes were also occurring on the import side of the exchange system. In early June 1958, while José Alkmim was still Finance Minister, the SUMOC rose exchange rates of preferential imports of oil and oil derivatives, wheat and newsprint from Cr\$ 53.82 and Cr\$ 22 to Cr\$ 58.82, and for equipment and goods considered essential for economic development and national security from Cr\$ 51.32 to Cr\$70 per 1 US\$ (table 2.1), as Rio de Janeiro had agreed with the IMF.<sup>212</sup> However, when it came to lowering subsidies for imports of the Brazilian oil state-monopoly Petrobrás, pressures apparently increased against the government. Nationalists and nationalist sectors of the Armed Forces demanded lower exchange rates for Petrobrás' imports. The government then had to appreciate these rates from Cr\$70 to Cr\$ 58.82 per 1 US\$.<sup>213</sup> Alkmim "felt that the political pressure was so great that he could not avoid the action which he took". U.S. Embassy official Hebert May was particularly frustrated as Alkmim's action incited doubts on the extent to which the Brazilian government intended to take its commitments seriously.<sup>214</sup>

Finance Minister Lucas Lopes continued to adjust the exchange rates for imports as agreed with the Fund. Lopes reduced the supply of foreign exchange in the auction market and rose all preferential exchange rates (including Petrobrás' imports) from Cr\$ 58.82 and Cr\$ 70 to Cr\$ 80 per 1 US\$. Although Lopes managed to move closer to IMF demands despite political pressures, he no longer would attempt to do an overarching reform of Brazil's multiple exchange rates system as he had promised to the Fund Executive Board at the time when he assumed as Finance Minister. He testified in a public statement that an exchange revision was neither

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<sup>211</sup> JB, "Simplificar as exportações e rever custo de câmbio", Jun. 11, 1958. 1º caderno, p. 13, ed. 133; JB, "Governo não debela inflação porque não quer, não sabe ou não pode - prof. Gudin", Jun. 13 1958. 1º caderno, p. 15, ed. 135; JB, "Reforma cambial", Jun. 15, 1958. 1º caderno, p.29, ed.137.

<sup>212</sup> Amembassy to State Department, "Brazilian Application to Eximbank for Standby Credit", Jun. 10, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258; O. Paranaguá to Per Jacobsson, "Brazil - Exchange System", Jun. 11, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>213</sup> JB, "Pressão militar modificou a Instrução 158 da SUMOC", Jun. 18, 1958. 1º caderno, p. 4, ed. 139.

<sup>214</sup> Amembassy to State Department, "Brazilian Application to Eximbank for Standby Credit", Jun. 20, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4314, Folder 832.10/5-258.

possible nor desirable until there was not monetary stability and enough international reserves to correct excessive exchange rate fluctuations.<sup>215</sup>

In November 1958, the IMF staff showed disappointment with Brazil's performance under the standby agreement. The fiscal deficit would exceed the agreed limits, as well as the credit supply from the Bank of Brazil and commercial banks. Moreover, the IMF staff still expected the coffee policy to be inflationary. Fund officials were particularly distraught that Lopes would not reform the multiple exchange rates system, inferring that this attitude was bound to thwart the IMF Executive Board as the reform was “one of the key points for discussions with the Minister [Lopes]”.<sup>216</sup> The SUMOC's Council (Brazil's central monetary body) acknowledged that the country's economic plight and ongoing poor stabilization performance precluded any prospects for requesting further Eximbank and IMF loans.<sup>217</sup>

### 2.5 *The Monetary Stabilization Plan*

In November 1958, Brazilian officials presented the Monetary Stabilization Plan (PEM) to the IMF staff. The PEM was an attempt to achieve stabilization gradually. It resembled the 1956 Anti-Inflation Program, as it also aimed at promoting economic development with price stability by controlling monetary expansion. There were two phases to attain monetary stability. The first was a stage of “transition and readjustment”, from mid-1958 to end-1959, to slow down inflation while allowing a certain degree of monetary expansion so that the national economy could absorb wage adjustments without unemployment. The second phase was “stabilization” *per se*, from 1960 on, aimed at achieving stability and equilibrium in the balance of payments. The Program focused on four policy areas: public finance, currency and credit, wages, and balance of payments. There were multiple targets and limits to budget deficits and credit expansion, including cuts in public expenditures, tax reform, and ceilings upon global expansion of money supply and bank credit. Furthermore, minimum wage increases in 1959 would be sufficient to

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<sup>215</sup> JB, “Ministro da Fazenda anuncia novas possibilidades à exportação de produtos”, Oct. 5, 1958. 1° caderno, p. 5, ed. 233; The Secretary to Members of the Executive Board, “Brazil - Changes in Exchange System”, Oct. 10, 1958, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959; Offmemo, Moeen A. Qureshi to John R. Woodley, “Brazil”, Sep. 8, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 7, Folder C/Brazil/1760 Stand-by Arrangements.

<sup>216</sup> J. Del Canto to The Managing Director, “Brazil - Status of Performance under the stand-by”, Nov. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

<sup>217</sup> Report, Superintendência da Moeda e do Crédito, “Análise da expansão de crédito bancários e dos meios de pagamento em 1958, e crítica da política monetária”, 1958, CPDOC-FGV, ALL, Folder 1957.12.23.

reestablish the purchasing power of wages prevailing in 1956. The government would devalue the *Cruzeiro* gradually, and the exchange rates of preferential imports progressively end to restore equilibrium in the balance of payments.<sup>218</sup>

IMF staff officials analyzed the PEM thoroughly.<sup>219</sup> They concluded that Finance Minister Lucas Lopes' Program was not an emergency plan to deal with the overall Brazilian economic plight. Instead, it was a step toward global economic planning of the national economy.<sup>220</sup> They concluded that the PEM differed from the IMF standby agreement in fundamental ways. In particular, by allowing for greater budget deficits and credit expansion and not foreseeing a comprehensive exchange reform. Moreover, the IMF staff disbelieved Rio de Janeiro's ability to fulfill the PEM's monetary ceilings. By early December, currency issue already stood higher than established limits. Fund officials inferred that the Executive Board would be unlike to approve further drawings in case the Brazilian government did not live up to its standby compromises. Allowing Rio de Janeiro to withdraw from the IMF without compliance would increase difficulties that the Fund faced to enforce IMF-based programs in other countries, implying that such programs were only a matter of formality.<sup>221</sup>

Indeed, the PEM had a more gradualist approach to stabilization than the IMF standby agreement. Authors claim that the Argentinian and Chilean painful experiences with IMF-backed programs at that time drove Brazilian policymakers to this gradualist line of reasoning.<sup>222</sup> Although evidence suggests that Lopes and BNDE President Roberto Campos were observing the Argentinian case closely,<sup>223</sup> the PEM also reflects debates that had been present in the Brazilian policymaking since the formulation of the Targets Plan. In fact, Brazilian officials testified that

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<sup>218</sup> "Programa de estabilização monetária para o período de setembro de 1958 a dezembro de 1959 - recomendações, análises, apêndices estatísticos e anexos", CPDOC-FGV, ARC, Folder RC e cd 1956.09.00; G. Escobar to Bruno Bronadani, "Brazil - Stabilization Plan for 1959", Nov. 12, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960; Amembassy to State Department, "Monetary Stabilization Plan", Oct. 16, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/9-458.

<sup>219</sup> G. Escobar to Bruno Bronadani, "Brazil - Stabilization Plan for September-December 1958", Nov. 12, 1958; G. Escobar to Bruno Bronadani, "Brazil - Stabilization Plan for 1959", Nov. 12, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

<sup>220</sup> Jorge Del Canto to The Managing Director and The Deputy Managing Director, "Stabilization Program in Brazil", Nov. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

<sup>221</sup> Jorge Del Canto and Irving S. Friedman to The Managing Director, "Brazil-Brief for Discussions with Minister of Finance", Dec. 4, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>222</sup> See Campos (2007, p. 44), Fassy (2000, p. 88-109), Skidmore (2000, chap. 5), and Sola (1982, p. 152-157).

<sup>223</sup> Memo, "Memorandum of conversation between Minister Edmundo Penna Barbosa da Silva and Mr. Howard R.", Dec. 19, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder 500 Economic Matters.

the PEM was a mere continuation of the 1956 Anti-Inflation Program.<sup>224</sup> Hence, although some authors sustain that the PEM did not fit within the Brazilian economic context at that time – as it foresaw stabilization while the country was tenaciously pursuing industrialization –, what follows is that the debate about monetary stability alongside economic development had been present in the Brazilian policymaking since the 1956 Anti-Inflation Program.<sup>225</sup> These findings also suggest that the PEM was not proposed solely due to the increasing inflationary rate and IMF pressures in 1958, as scholars usually assume.<sup>226</sup>

U.S. Embassy officials considered the PEM “a broad attack on important elements of the inflationary problem” in comparison to the 1956 Anti-Inflation Program. However, as IMF officials, they remained skeptical about the Kubitschek administration’s ability to accomplish it. For them, the Brazilian government was bound to continue with its past behavior of surrendering to pressures of opposing influential groups and classes. Moreover, ignoring the coffee policy and dealing superficially with the deficits in the balance of payment could “destroy the plan completely”. The Embassy found “it difficult to believe that the Government will carry [the PEM] through with the necessary determination to lay the basis for long-term stabilization”.<sup>227</sup>

Finance Minister Lucas Lopes indeed faced a range of difficulties to get the PEM through. He devised a cunning strategy to circumvent factors that could block its approval, including not mentioning a coffee policy nor referring to specific exchange policies. He considered those to be difficult matters to announce for Congress approval (LOPES, 1991, p. 234-238). Despite his strategies, Congress voted expenditures above those previously planned, enacted the tax reform only partly, and approved a minimum wage increase way above the limits that the PEM had fixed.<sup>228</sup> The only option left to Lopes then was to elaborate a new “Saving Plan” that foresaw higher budget deficits for 1959.<sup>229</sup> The PEM also tipped the scales against the credit policy and the tax reform. Business, commercial, and rural groups across the country were nervous that a

<sup>224</sup> See Campos (2004, p. 344-348), Lopes (1991, p. 234), and Interview Dênio Nogueira (1989, p. 30-33).

<sup>225</sup> For this viewpoint see, for example, Campos (2007, p. 45-52).

<sup>226</sup> See Bojunga (2001, p. 525-533), Fassy (2000, p. 88-93), Leopoldi (1991), Skidmore (2000, chap. 5), and Young (2014, chap. 3).

<sup>227</sup> Amembassy to State Department, “General Analysis of Monetary Stabilization Plan”, Nov. 6, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/11-358.

<sup>228</sup> See Benevides (1979, chap. 5), and Sola (1982, chap. 4).

<sup>229</sup> Geral Smith to Hebert May, “Conversation with Minister of Finance Lopes concerning Iron Curtain Trade and Investments, Operation Pan-America, Brazil's monetary stabilization program, American Can and other items”, Nov. 28, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder 500 Economic Matters; Intel, Amembassy to Secretary of State, Dec. 3, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/11-358.

more restrictive credit policy would affect production.<sup>230</sup> Bank of Brazil President Sebastião Almeida backed such claims of the business community, encouraging protests against credit restriction.<sup>231</sup> A representative of the São Paulo Federation of Industries (FIESP), of which Almeida was also a member, publicly stressed that the PEM was doomed to failure if the government did not come up with an alternative financing source for the national industry.<sup>232</sup>

Brazilian officials were apprehensive as to whether the Kubitschek administration would remain in power given the social and political unrest. SUMOC Director Garrido Torres and the international press reported the growing menacing of social uproar and riots in major cities, such as Rio de Janeiro, against worsening economic conditions. Brazilian newspapers, business circles, private banks, and the labor resisted higher taxes and fares of public utilities and the particularly unpopular credit policy. For Torres, there was little hope to overcome the general dissatisfaction as the PEM called for severe measures to which very few people had sympathy.<sup>233</sup> Apparently, not even the President nurtured much affection for the Program, as Lopes himself and other Brazilian officials latter recognized.<sup>234</sup> According to Maran (1992), following the IMF's and Lopes' economic counsel to cut public spending could bring Kubitschek's greatest project to a halt: the building of the new national capital Brasília in a remote, uninhabited area. Brasília could be a symbol of modernity and a monument that represented Kubitschek's legacy. Therefore, says Maran, a more restrictive monetary policy was not of the President's liking.

Despite difficulties, Finance Minister Lucas Lopes assured U.S. Embassy officials that he would move forward with the credit policy. Bank of Brazil President Sebastião Almeida would not have an alternative. Lopes had personally taken charge of the Bank's activities, and Almeida would remain in the Bank presidency only if he agreed with the credit policy regardless of his excellent reputation with São Paulo businesspeople and bankers that opposed the government.

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<sup>230</sup> ESP, "O Plano de Estabilização Monetária e os Bancos Particulares", Oct. 25, 1958, p. 24; ESP, "Pareceres sobre o Plano de Estabilização Monetária", ESP, "Manifesta-se a SRB sobre o plano de estabilização", Nov. 04, 1958, p. 27; ESP, "O pronunciamento das classes produtoras sobre o assunto", Nov. 11, 1958, p. 25; ESP, "À estabilização monetária", Nov. 27, 1958, p. 59; JB, "200 milhões de dólares", Dez. 12, 1958. 1º caderno, p. 15, ed. 291.

<sup>231</sup> See Campos (2004, p. 353), Gribbin (1979) and Villela (2011).

<sup>232</sup> Amembassy to State Department, "São Paulo Reaction to Federal Government's Monetary Stabilization Plan", Oct. 29, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/9-458.

<sup>233</sup> Amembassy to Secretary of State, "Memorandum of Conversation with the Executive Director of SUMOC Concerning Miscellaneous Financial Matters", Dec. 17, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/11-358; Gerald Smith to Hebert May, "Conversation with Minister of Finance Lopes concerning Iron Curtain Trade and Investments, Operation Pan-America, Brazil's monetary stabilization program, American Can and other items", Nov. 28, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder 500 Economic Matters; "NYT", Nov. 9, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>234</sup> See Campos, (2004, p.352), Lopes (1991, p.235), and Interview Octávio Bulhões (1989).

However, in the exchange field, things seemed more difficult: an exchange system reform was unlikely. Although Lopes wanted to pass all products to the free market; the unrest had been such that he could not take the risk. Lopes was confident that if he reformed the exchange system, he would leave the Finance Ministry: only with a dictatorship a reform like that could be enacted.<sup>235</sup>

### *2.6 The Brazilian performance under the IMF standby agreement*

IMF staff officials were deeply upset with Brazil's stabilization performance in 1958. There was evidence of excessive bank credit and high deficits. From all monetary and credit targets, Rio de Janeiro had only complied with the Bank of Brazil lending levels to states and municipalities. All other budget and credit goals had exceeded limits. Congress also had failed to approve the bill to increase legal reserve requirements for commercial banks. Moreover, the IMF expected that coffee financing would be higher than estimates.<sup>236</sup>

Fund officials warned SUMOC Director Garrido Torres and IMF Executive Director Octávio Paranaguá that in the absence of a policy justification as to why the Brazilian government was not living up to its promises, the staff would write a very critical report to the Executive Board. Torres and Paranaguá tried to assuage critics, claiming that the new financial administration “would not have subscribed to such rigid ceilings as promised in the standby” by the former Finance Minister José Alkmim. They stressed that Finance Minister Lucas Lopes believed in a gradual approach to stop inflation and inferred that no IMF program should “kill the patient”. IMF officials continued frustrated, particularly because Lopes would not reform the exchange system as he had promised to the Executive Board in July 1958 after assuming the Ministry. Torres and Paranaguá claimed not to know on what basis the IMF had assumed that Rio

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<sup>235</sup> Geral Smith to Hebert May, "Conversation with Minister of Finance Lopes concerning Iron Curtain Trade and Investments, Operation Pan-America, Brazil's monetary stabilization program, American Can and other items", Nov. 28, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder 500 Economic Matters.

<sup>236</sup> Jorge Del Canto to Per Jacobsson, “Brazil - Status of Performance under the stand-by”, Nov. 14, 1958, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960; Letter, Jorge Del Canto and Irving S. Friedman to The Managing Director, “Brazil-Brief for Discussion with Minister of Finance”, Dec. 4, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil; Offmemo, G.A. Costanzo to The Managing Director, “Brazil- Stand-by limits and performance”, Feb. 5, 1959, IMF, Central Files, Country Files, Brazil Files, Box 19, File 7, Folder C/Brazil/1760 Stand-by Arrangements.

de Janeiro would review Brazil's multiple exchange rates system. In response, the Fund staff required Lopes to justify what had gone wrong officially.<sup>237</sup>

Lopes went to Washington in early December 1958 to discuss with IMF and U.S. officials matters related to Brazilian financial and development problems.<sup>238</sup> BNDE President Roberto Campos and he explained in-depth to Fund officials Brazil's difficulties and perspectives. They assured IMF Managing Director Per Jacobsson that they had not had enough time to implement the IMF-based program entirely and blamed the Bank of Brazil for the excessive monetary expansion. IMF Executive Director Octávio Paranaguá elucidated to the Fund Executive Board that it was "hard to enforce [credit ceilings] from an administrative standpoint because of the autonomous nature of the Bank [of Brazil]". Although the Executive Directors were frustrated with Rio de Janeiro's failure, they agreed to postpone the IMF official consultations under the standby agreement from December 1958 to April 1959 in order to give Lopes the opportunity of showing effective results.<sup>239</sup>

U.S. Ambassador Ellis Briggs inferred from Lopes' explanations that it had not been his fault that the government was facing substantial difficulties in getting the PEM through. Kubitschek's failure to mobilize Congress to approve budget and tax measures was to blame. Personal discussions with Lopes in Washington had "manifest continuing personal confidence we [the U.S.] have in him, while pointing to our concern about [the] damage being done by circumstances beyond his control". For Briggs, Lopes' "immediate personal staff still probably represent our [U.S.] best hope in [the] Brazilian internal and external financial and general economic situation". Briggs suggested that "we [U.S.] should do whatever is possible to strengthen his standing with Kubitschek and thus aid him in stiffening back of latter".<sup>240</sup>

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<sup>237</sup> Jorge Del Canto to Merle Cochran, "Visit of Dr. José Garrido Torres, Executive Director for SUMOC to the International Monetary Fund", Nov. 9, 1958, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 31, File 3, Folder Brazil.

<sup>238</sup> Telegram, Brazilian Embassy in the US to the Ministry of Foreign Affairs, "Viagem do Ministro Lucas Lopes aos Estados Unidos da América. Política financeira do Brasil", Dec. 5, 1958, Arquivo Histórico do Itamaraty, Brazilian Diplomatic Missions, Telegramas (rec.), 1958, Folder 52-1-5.

<sup>239</sup> Ernani do Amaral Peixoto to Secretaria de Estado, Dec. 1958; EBS/58/81, The Secretary to Members of the Executive Board, "Brazil-Postponement of Consultations under Stand-by Arrangement and Repurchase Commitment", Dec. 12, 1958; "Draft Minutes. Executive Board Meeting 58/58", Dec. 18, 1958; "Nota sobre o adiamento das consultas com o Fundo Monetário Internacional e da recompra de \$ 20.25.000", Dec. 19, 1958, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

<sup>240</sup> Intel, Amembassy to Secretary of State, Dec. 3, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/11-358.

Assistant Secretary Roy Rubottom also applauded Lopes' statement about the need for sound economic policies.<sup>241</sup>

However, since Lopes had already apprised U.S. officials that the Brazilian government was going to inevitably need financial assistance in 1959, and in the face of the failure to fulfill IMF commitments, Briggs considered it necessary to brief him of the significant difficulties that the Kubitschek administration would face in approaching Washington to request new loans.<sup>242</sup> For the U.S. Embassy, "the technique of the carrot (U.S. Treasury aid) and stick (International Monetary Fund admonitions and requirements) is still applicable" to continuously encourage a favorable climate for private investment in Brazil.<sup>243</sup> Indeed, the Brazilian government was going to confront harsh difficulties in accessing new U.S. credit in 1959. The country's convertible reserves were estimated to exhaust at the end of February 1959. However, the IMF consultation about the Brazilian performance under the 1958 standby agreement was scheduled only for April.<sup>244</sup>

#### *Concluding remarks*

This chapter analyzed IMF-Brazilian financial negotiations in 1958 for the country's first standby arrangement. It also looked into the Fund's stabilization demands to Brazil, the country's responses to them, and the initial consequences of IMF-Brazilian stronger interactions to U.S.-Brazilian relations. Here it became clear that Washington used the IMF as its "mantle of multilateral anonymity" in an attempt to transfer the responsibility of requesting strict stabilization policies to the Fund. In Washington's views, Kubitschek's prevailing economic policy should not continue. Rio de Janeiro had to implement anti-inflation policies to become a country with a good credit risk so that to encourage the inflow of private capital. However, getting involved in difficult financial negotiations that requested a stern economic exercise could harm U.S. bilateral relations with Brazil. Washington then used the IMF apparatus (not its

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<sup>241</sup> Memo, "Brazil-United States Relations: Brazilian Economic Problems: Operation Pan America", Dec. 5, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

<sup>242</sup> Amembassy to Secretary of State, "Conversation with Minister of Finance Lucas Lopes on Miscellaneous Financial Matters", Dec. 17, 1958; Amembassy to Secretary of State, "Memorandum of Conversation with the Executive Director of SUMOC Concerning Miscellaneous Financial Matters", Dec. 17, 1958, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/11-358.

<sup>243</sup> Amembassy to State Department, "Brazil-U.S. Relations: a Forecast for 1959", Jan. 19, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/1-258.

<sup>244</sup> Letter, Octávio Paranaguá to Juscelino Kubitschek, Feb. 10, 1959, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

government agencies, such as the State Department) to attain the objectives of its foreign economic policy in Brazil, notably when it came to situations that imposed difficulties for the U.S. acting alone.

Because of IMF-Brazilian constant interactions even when no standby arrangement was in place, Fund officials initiated discussions with the Brazilian government in 1958 aware of economic difficulties at stake, which enhanced their leeway to negotiate. Former Finance Minister José Alkmim resisted signing a standby agreement throughout the whole negotiations process even though Washington brushed him off time and again. Alkmim was finally compelled to compromise with an IMF-based program, opening doors to closer interactions between Fund and Brazilian officials through the IMF's monitoring and surveillance procedures. U.S. reactions after the signature of Brazil's first standby arrangement with the Fund evidence that Washington did not plan to change its foreign financial assistance policy to Kubitschek's Brazil regardless of the Pan-American Operation proposal and growing resentments due to IMF-Brazilian negotiations.

Opposition to austere policies, particularly in the exchange field, seemed intense even though the new Finance Minister Lucas Lopes appeared more engaged in meeting IMF exigencies than Alkmim. There were political, economic, social and bureaucratic difficulties to cut down public expenditures, to limit the credit supply, and to dismantle the multiple exchange rates system. Fund officials were deeply disappointed with Rio de Janeiro's standby performance, particularly with Lopes' statements that he no longer would reform the exchange rate system in 1958. U.S. Embassy officials understood that Kubitschek was responsible for Brazil's failure to fulfill IMF promises though, inferring that the Brazilian government would encounter severe difficulties in new loan requests in 1959. The next chapter analyzes the U.S.-Brazilian and IMF-Brazilian negotiations for provisions of Eximbank and IMF credits in 1959.

### Chapter three – The Breakdown

The late 1950s and early 1960s is a critical period for Latin America. Politically, U.S.-Soviet tensions were shifting to and intensifying in the underdeveloped world. In the first years of the Cold War, Europe was a pivotal area of struggle between the U.S. and the Soviet Union. However, in the late 1950s, several factors, such as the emergence of a balance of power in Europe and the downfall of European colonialism, restricted the room these superpowers had for maneuvering in the region. As a consequence, Washington and Moscow began competing fiercely over the support of the Third World.<sup>245</sup> The rally picked up in Latin America particularly after the Cuban Revolution of January 1959. The Revolution interacted dynamically with the U.S.-Soviet strain, exacerbated internal conflicts of Latin American countries, such as political instabilities, and heightened the ideological ferment about decolonization and the rise of the Third World. The deterioration of U.S.-Cuban relations that ensued ultimately transformed Cuba from a U.S. trade partner to a Soviet ally. The Revolution reverberated throughout Latin America, deepening anti-U.S. sentiments. Several Latin American leaders, including the Brazilian President Jânio Quadros (Jan.-Aug. 1961), became increasingly distant from U.S. policy.<sup>246</sup>

Economically, Latin American countries were facing growing difficulties due to a sharp deterioration in the terms of trade for commodities (their main exportable goods). To narrow the gap between developed and developing countries, Latin American leaders turned to foreign capital as a way of obtaining resources for their industrialization process.<sup>247</sup> According to Kedar (2013, chap. 3), the pursuit of foreign resources at that time led to a critical paradox. In seeking economic development and independence, Latin American countries became more dependent on the international financial community, and especially on the IMF. Kedar argues that by signing a Fund standby agreement in 1958, the Argentinian President Arturo Frondizi (1958-1962) opened doors to close and long-term interactions between Argentinian and IMF officials. This has set in motion an internationalization process that later engaged local policymakers and economists in advocating the liberalization of the Argentinian economy.<sup>248</sup> In fact, in the late 1950s and early

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<sup>245</sup> For further details on this process see Brands (2009, chap. 1).

<sup>246</sup> For the Cuban Revolution see Brands (2009, chap. 2), and Rabe (1988, chap. 7; 2016, chap. 4)

<sup>247</sup> For further information on the drop in commodities prices at that time see Rabe (1988), and Ioris (2017, p. 60-69).

<sup>248</sup> The internationalization process refers to “non-coercive ways which a hegemonic nation can exercise power and secure the acquiescence of other nations” and is “facilitated by the almost permanent interactions between the IMF

1960s, many other Latin American countries, such as Chile, Colombia, Ecuador, and Peru, were undertaking financial negotiations with the Fund and implementing IMF-based stabilization programs as well.<sup>249</sup> IMF operations were also intensifying in other regions. Article VIII of the Fund determined that member countries could not maintain discriminatory exchange rates arrangements, and article XIV established that all monetary restrictions had to end by the early 1950s. Although liberalization did not occur at the pace initially planned as European and Latin American countries insisted on maintaining exchange restrictions to protect their national industries, by 1959 European countries restored exchange convertibility massively as their foreign reserves improved in the period.<sup>250</sup>

Kubitschek suspended negotiations with the IMF for a standby agreement in June 1959 – even though U.S.-Brazilian relations had been traditionally marked by friendship – in this context of political and economic turbulence in the hemisphere. Which were the conditions that led to this outcome? What were the implications for U.S.-Brazilian bilateral relations? Chapter one showed that Rio de Janeiro opened negotiations with the Fund in March 1958 due to the change in the U.S. foreign financial assistance policy throughout the years of 1956 and 1957. Chapter two investigated how and why the U.S. employed the IMF as its “mantle of multilateral anonymity”, and how the Fund’s stabilization demands and Brazil’s poor stabilization deepened U.S.-Brazilian resentments. This chapter addresses U.S.-Brazilian and IMF-Brazilian financial negotiations in 1959. Here it becomes evident that Washington continued to use the Fund as its “mantle of multilateral anonymity” until the end of 1959 to advance its foreign economic policy agenda (mainly to promote free trade and to foster a favorable private investment climate). The U.S. maintained this harsh position despite escalating Cold War tensions, and even after the Cuban Revolution. As in 1958, this decision was economically motivated. Ongoing stabilization programs in Latin American countries and the risk of undermining the IMF as a competent international organization played a vital role in this regard. In 1959, the Fund became intransigent on exchange matters. Kubitschek then broke down negotiations, turning it into a political move.

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and its borrowers”. In Argentina’s case, Argentinian “local representatives and institutions internalized the standards, working norms, precept, and ideas of the IMF”, giving rise to an “epistemic community”. For IMF-Argentinian relations and the paradox Latin American leaders faced in the 1950s see Kedar (2013, chap. 3).

<sup>249</sup> For IMF stabilization programs throughout Latin America in the 1950s see Kedar (2013, chap. 3), Kofas (1995, 1999, 2001, 2002), and Nemiña and Larralde (2018).

<sup>250</sup> For further information on how and why European countries adhered to article VIII of the IMF by 1959 see Eichengreen (2012, chap. 4).

As U.S.-Brazilian relations deteriorated considerably, Rio de Janeiro sought a more globalist foreign policy, signing a trade agreement with Moscow in December 1959.

Financial negotiations of 1959 may add to the understanding of the Brazilian national development in a broader sense. In the second half of the 1950s, Brazil was experiencing a profound transformation. Social groups urged a redefinition of the traditional agrarian basis. A vibrant debate on what national development meant and which policies the government should follow was taking place among government employees, intellectuals and representatives of business associations and labor unions. According to Ioris (2013, 2017), at that time there was no consensus as to how to attain long-term economic growth though.<sup>251</sup> By assessing the stance of Brazilian officials in these negotiations, a substantial part of the ongoing debate prevailing in official circles comes to light. These debates also illustrate the so-called “routine of dependence” – cyclical interactions between IMF and borrowing countries officials that take place routinely.<sup>252</sup> As with Argentina, the signature of Brazil’s first standby agreement in 1958 intensified the interactions between Brazilian and IMF officials to the point that in 1959 locals started playing a double-game by siding with Fund officials in order to make effective IMF demands.

IMF-Brazilian negotiations of 1959 also reveal the roots of the so-called Independent Foreign Policy (*Política Externa Independente*, PEI) of Presidents Jânio Quadros (Jan.-Aug. 1961) and João Goulart (1961-1964). The PEI is regarded as a significant shift in the course of the Brazilian foreign policy. It contemplated two primal goals: to carve out an autonomous role in foreign affairs, and to promote national economic development. For these purposes, the PEI argued that Brazil could pursue economic relations with communist countries without suffering ideological influences, while maintaining its historical links with the West. Understanding what encouraged a globalist approach in Kubitschek’s foreign policy may shed light on the reasons as to why his successors, Quadros and Goulart, sought to expand trade and renew diplomatic relations with the Communist Bloc then.<sup>253</sup> Moreover, since some scholars ascertain that the U.S. government took a harsh stand towards Goulart by conditioning U.S. loans to an IMF agreement because of the PEI, analyzing the PEI’s foundation may enlighten the economic and political

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<sup>251</sup> For debates on the national economic development in Kubitschek’s years see Ioris (2013, 2017).

<sup>252</sup> See Kedar (2013).

<sup>253</sup> For a comprehensive analysis of the PEI see Storrs (1973).

difficulties in the late 1950s that contributed to the instabilities in the early 1960s which ultimately led to the 1964 civil-military coup.<sup>254</sup>

This chapter has four subsections. Section one analyzes U.S.-Brazilian and IMF-Brazilian financial negotiations in the first half of 1959. Section two describes the breakdown in negotiations between Rio de Janeiro and the Fund in June 1959. Section three observes the short-term impacts of Kubitschek's bold attitude to U.S.-Brazilian and IMF-Brazilian relations. The last section closes the piece.

### *3.1 The quest for U.S. loans and a second IMF standby agreement*

According to BNDE President Roberto Campos, when Finance Minister Lucas Lopes arrived in Brazil back from his trip to the U.S. in December 1958, he faced significant difficulties in convincing Kubitschek to approve a small exchange rate reform. The President feared the political and social repercussions of abolishing subsidies for preferential imports, including oil and oil derivatives, newsprint and wheat (CAMPOS, 2004, p. 357-358). However, without the reform, the IMF was bound to disapprove Brazil's performance under the 1958 standby agreement during consultation due in April 1959. Besides, for Lopes and Campos, ongoing reforms in Europe and Argentina justified an exchange rate reform in Brazil.<sup>255</sup> In the beginning of 1959, European countries were adhering to article VIII of the IMF (it prohibited discriminatory exchange rates arrangements) (EICHENGREEN, 2012, chap. 4). Moreover, the Argentinian President Arturo Frondizi had just signed the country's first IMF standby agreement. Unlike Brazil, from the start, the Fund was satisfied with Frondizi's efforts to fulfill stabilization targets, including a reform to unify Argentina's multiple exchange rates system (KEDAR, 2013, chap. 3).

In mid-January 1959, Lopes managed to approve his reform even though Kubitschek accepted it hesitantly (CAMPOS, 2004, p. 357-358; RIBEIRO, 2002, p. 108). Exchange rates for imports and exports rose substantially, affecting internal prices (table 3.1 below). According to Campos, after this reform, Kubitschek became intransigent, not accepting further adjustments into the exchange rate system – diminishing subsidies for imports of oil and oil derivatives, wheat and newsprint could be critical as gas and bread composed a significant part of the population's

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<sup>254</sup> See Loureiro (2014, 2017b).

<sup>255</sup> Amembassy to State Department, "Possible exchange reform and other financial matters", Jan. 6, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

living expenses, and influential groups (such as the press) imported newsprint.<sup>256</sup> Moreover, according to Lopes, Kubitschek was determined to control internal price increases, as he perceived this as the major factor influencing the 1960 presidential elections.<sup>257</sup> In this sense, still according to Campos, the primal disadvantage of Lopes' reform was that, while it still maintained the differential between exchange rates for imports and exports, Kubitschek grew more adamant than ever on exchange matters (CAMPOS, 2004, p. 357-358).

*Table 3.1* Exchange rates from April 1958 to January 1959 (per 1 US\$)

| <b>Adjustments in the exchange system</b> |   | April 1958 (before the first standby agreement) | Adjustments in 1958                  | January 1959 (after Lopes' reform)                                 |
|---|---|---|--------------------------------------|--|
| <b>Official rates</b>                     | Buying  | Cr\$ 18.36                                      |                                      | Cr\$ 18.36   |
|   | Selling   | Cr\$ 18.82                                      |                                      | Cr\$ 18.82   |
| <b>Private imports</b>                    | General category  | Cr\$170   |                                      | Cr\$219.65   |
|   | Special category  | Cr\$ 380  |                                      | Cr\$363.89   |
| <b>Preferential imports</b>               | Consumption and capital goods considered essential for economic development and national security | Cr\$ 51.32                                      | Cr\$ 80                              | Cr\$100  |
|   | Oil and oil derivatives   | Cr\$ 53.82                                      | Cr\$ 80                              | Cr\$100  |
|   | Newsprint   | Cr\$ 22   | Cr\$ 22                              | Cr\$ 37.05 and Cr\$ 64.39 (depending on weight of the publication) |
| <b>Exports</b>                            | Coffee  | Cr\$ 50   | Cr\$ 54                              | Cr\$60   |
|   | Cocoa and cocoa products  | Cr\$ 43.06                                      | Cr\$ 43                              | Cr\$70   |
|   | All other products  | Cr\$ 67 to Cr\$ 90 (symbolic purchase system)   | Cr\$ 70 and Cr\$ 92 (two categories) | Cr\$100 (one category)   |
| <b>Free market</b>                        | Invisible and capital   | Cr\$ 120  |                                      | Cr\$145  |

<sup>256</sup> For Kubitschek's testimony about Lopes' small exchange reform of January 1959 see Ribeiro (2002, p. 108).

<sup>257</sup> Embdes 849, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Jan. 29, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

Source: Offmemo, Western Hemisphere, Exchange Restrictions and Legal Departments to The Managing Director, "Brazil-Proposed Basis for Negotiations on Use of Fund Resources", Apr. 24, 1958, IMF, Central Files, Country Files, Brazil Files, Box 19, File 6, Folder C/Brazil/1760 Stand-by Arrangements; Letter, Octávio Paranaguá to Per Jacobsson, Jan. 7, 1959; Letter, Jorge Del Canto to Per Jacobsson, "Brazil", Jan. 23, 1959; Letter, Costanzo to The Managing Director, "Brazil-Stand-by Limits and performance", Feb. 5, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2, Folder Brazil.

Since Brazilian foreign reserves would likely exhaust at the end of February 1959, Lopes could not wait until the IMF consultation in April to obtain foreign loans. In mid-January, he approached U.S. Embassy officials to say that Brazil acutely needed Eximbank loans. Without U.S. credit, his small exchange reform of January 1959 could fail. Lopes promised to curtail public expenditures and investments, and to ask Congress approval for increasing reserve requirements of commercial banks.<sup>258</sup> Embassy officials inferred that Washington would have to "consider Brazilian appeals for economic assistance in the light of actions Brazil should take to maintain a favorable private investment climate" in order to "keep our enemies from polluting the reservoir of traditional Brazilian good will". However, they were skeptical about Lopes' stabilization promises despite his just recently approved exchange rate reform. For them, although Lopes was credible, Kubitschek was a "weak" and "vacillating" President who was unable to overcome political pressures, and who did not fully support his Finance Minister. On top of this, they thought that Argentina's "vigorous" actions on stabilization proved that when a country facing the same constraints as Brazil really wished, it managed to put forward sound economic measures.<sup>259</sup> Embassy officials then notified Lopes that the U.S. government was going to wait for the IMF consultation in April since U.S. loans would probably be contingent to a new standby agreement with the Fund. However, such was the foreign exchange restraint that Lopes decided to ask for an IMF official to come to Brazil as soon as possible.<sup>260</sup>

IMF Director Gesualdo Costanzo came at the end of January.<sup>261</sup> He was very strict with Brazilian officials, especially in light of Argentina's good stabilization performance. Rio de

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<sup>258</sup> Amembassy to State Department, "Possible exchange reform and other financial matters", Jan. 6, 1959; Amembassy to State Department, "Exchange Reform and Balance of Payments Deficit", Jan. 9, 1959; Embdes 824, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Jan. 22, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>259</sup> Amembassy to State Department, "Brazil-U.S. Relations: a Forecast for 1959", Jan. 19, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Folder 611.32/1-258; Embdes 824, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Jan. 22, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>260</sup> Amembassy to State Department, "New Request for Balance of Payments Assistance from Export-Import Bank", Jan. 13, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559.

<sup>261</sup> Intel, State Department to Amembassy, Jan. 22, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; Jorge Del Canto to Per Jacobsson and Merle Cochran, Jan. 23,

Janeiro would have to come up with a “very complete and well-integrated program for domestic monetary stabilization”. In particular, all imports and exports (except for coffee, which could be partly sold at Cr\$ 60 per 1 US\$) would have to pass to the free market (table 3.1). Moreover, drawings would be phased-out (not automatic as in 1958), and conditioned to appropriate stabilization performance. Lopes was confident about signing a second standby agreement with the Fund. However, Costanzo and U.S. Embassy officials remained unfaithful to his stabilization promises. In fact, Lopes himself recognized that Kubitschek “strongly opposed” a comprehensive reform. According to him, former Finance Minister José Alkmim had convinced Kubitschek that freeing the exchange rates would “provoke [a] revolution”. Lopes also acknowledged that, there were “almost no Brazilians who would be favorable [...] with the exception of a few economists”. The Brazilian industrial community particularly opposed an exchange reform as it would wipe out the protection of the national industry. Moreover, the population would infer that the government was “delivering Brazil’s destiny to foreigners, i.e., [the so-called] ‘entreguismo’”. Lopes was certain that it would be “very hard” to convince Kubitschek on this matter as he would “carry the onus of any criticism [...] without having favorable results to show”.<sup>262</sup>

In light of Costanzo’s strict position, State Department, Treasury and Eximbank officials analyzed Lopes’ loan request made in January thoroughly. They inferred that Washington was in a peculiar situation. Providing loans to Brazil would mitigate Kubitschek’s support for stabilization policies. However, refusing credits would lower Lopes’ prestige to a level that he would have to leave office without “deliver the goods”. Everyone concerned was “perturbed at the lack of progress by the Brazilians” though. Director Harry Turkel and other officials of the Office of Inter-American Regional Economic Affairs then suggested a solution that all those involved embraced. Unless Washington wished to continue to provide loans to Rio de Janeiro indefinitely, U.S. funds would have to be granted “pari passu with IMF’s contribution”. Like other Latin American countries, Brazil should access credits in monthly installments following the Fund’s assessment. They argued that Washington was not “being any tougher [with Brazil]

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1959, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>262</sup> Embdes 849, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Jan. 29, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

[...] than we have been with others [Latin American countries]”.<sup>263</sup> Assistant Secretary for Economic Affairs Thomas Mann and other high-ranking officials agreed that the U.S. government should take a “strong” stance in support of the IMF.<sup>264</sup>

At the end of January, Secretary of State John Dulles instructed the U.S. Embassy to notify Kubitschek that a new IMF agreement was mandatory for Rio de Janeiro to access U.S. credit.<sup>265</sup> By then, it had already passed a month since Fidel Castro marched into Havana on January 1<sup>st</sup> alongside his guerillas. Although in early 1959 Castro’s intentions behind the Cuban Revolution were still unclear for the U.S. (and maybe even for himself), there was a general discontentment with political, economic and social conditions, and the population blamed the U.S. for their infortunes.<sup>266</sup> Despite the Revolution, U.S. economic interests continued to take precedence over political concerns for Washington’s decision regarding financial assistance to Rio de Janeiro. Director Maurice Bernbaum of the Office of South American Affairs acknowledged that the political risks of taking this tough position were tremendous: there would be offensive gestures from the Soviet Bloc. Moreover, Kubitschek could fall due to difficult economic conditions, or he could veer towards an anti-U.S. approach, using Washington as a scapegoat for Brazilian problems, and causing “severe damage” to U.S.-Brazilian relations. Even so, Bernbaum sustained that the U.S. government would have to face these risks unless it wished to continue to cover the Brazilian external deficit. Besides, the Uruguayan Ambassador, Julio Lacarte, had adverted Bernbaum that Latin American leaders undergoing stabilization were watching the U.S. response to Brazil closely. Being soft with Kubitschek could damage U.S. bilateral relations with other Latin American countries.<sup>267</sup>

The U.S. Embassy also foresaw great political risks. Kubitschek could “take his ‘case’ to the Brazilian people, [...] stirring up anti-U.S. feelings”, if compelled to undertake a stabilization program as a precondition for “IMF-U.S. balance of payment aid”. However, Embassy officials

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<sup>263</sup> William Briggs to Ellis Briggs, Jan. 23, 1959; William Briggs to Ellis Briggs, Jan. 27, 1959; William Briggs to Ellis Briggs, Feb. 4, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>264</sup> Offmemo, Adair to Mann, “Brazil's Balance of Payments Problem”, Feb. 10, 1959; Mann to Adair, Feb. 16, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559.

<sup>265</sup> Department to Amembassy, Jan. 31, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>266</sup> For the Cuban Revolution see Rabe (1988, chap. 7; 2016, chap. 4)

<sup>267</sup> Memo, Bernbaum to Rubottom, “Policy Regarding Balance of Payments Loan Assistance to Brazil During 1959”, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; Memo, “Pending Financial Negotiations with Brazil”, Jan. 29, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559.

did not consider that this was the case. Kubitschek needed financial assistance urgently and no alternative sources, neither European nor Russian, were in sight.<sup>268</sup> In fact, in late 1958 Finance Minister Lucas Lopes informed the Embassy that Kubitschek's and Soviet's "dreams" of renewing trade relations had no substance at all: no "specific proposals in those directions have ever been received and none are now under consideration in the Brazilian Government".<sup>269</sup> Moreover, for Embassy officials, there was "nothing in the personality of Kubitschek himself which suggests that he would be willing to undertake a fight of this sort, with so little to gain and so much to lose". They also believed that an IMF program was economically and politically feasible in Brazil. Economically, there was no "unfavorable or discriminatory" treatment in comparison to other Latin American countries. Also, the announcement of the Monetary Stabilization Plan (PEM) in 1958 had provided the framework through which the government could "easily and clearly" stress that an IMF-based program was "exclusively in the interest of Brazil [...], without pressure from any foreign source". Politically, the government had been adjusting the exchange rates since 1958 without "significant political difficulty". Along with the State Department, the Embassy asserted that "piecemeal advances, totaling hundreds of millions of dollars annually" did not solve Brazil's basic economic problems. Hence, the IMF should not surrender to such political threats.<sup>270</sup>

After U.S. Ambassador Ellis Briggs (instructed by Dulles) informed Kubitschek of Washington's decision, he insisted on discussing directly with the Eximbank. Kubitschek promised full support to Finance Minister Lucas Lopes and offered to undertake all steps Argentina was implementing, except for reforming the country's multiple exchange rates system – such a line of action would increase prices nationwide, triggering social unrest and unforeseen consequences. However, Briggs discouraged Kubitschek to approach the Eximbank.<sup>271</sup> Kubitschek's position was not homogenous within his administration. In a separate meeting, Lopes went behind the President's back and played a double-game. He assured U.S. Embassy

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<sup>268</sup> Embtel 974, Amembassy to State Department, "Political Possibility of Certain Stabilization Measures", Feb. 26, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559.

<sup>269</sup> Gerald Smith to Hebert May, "Conversation with Minister of Finance Lopes concerning Iron Curtain Trade and Investments, Operation Pan-America, Brazil's monetary stabilization program, American Can and other items", Nov. 28, 1958, NARA, RG 84, RFSP, CGR 1941-1963, Box 119, Folder 500 Economic Matters.

<sup>270</sup> Embtel 974, Amembassy to State Department, "Political Possibility of Certain Stabilization Measures", Feb. 26, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559.

<sup>271</sup> Intel, Amembassy to the Secretary of State, Feb. 3, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559.

officials that “the U.S. Government was wise to insist that Brazil reach an agreement with the IMF before approaching the Export-Import Bank”.<sup>272</sup> Lopes’ statements illustrate that, in fact, there was no consensus about which policies the country should implement to achieve long-term economic growth at that time, as Ioris (2013, 2017) argues. It also elucidates what Kedar (2013) terms as “routine of dependency” – routine and cyclical interactions between IMF and borrowing countries officials that create an epistemic community, which ultimately encourage local officials to promulgate the liberalization of national economies. As we shall see, Lopes’ attitude was not a single occurrence among Brazilian officials.

In early February, Lopes announced to the press that negotiations with the Fund would precede talks with Washington.<sup>273</sup> IMF officials once again took a hard stance: they were going to negotiate a new standby agreement with Rio de Janeiro only after the country showed a better record of stabilization performance.<sup>274</sup> U.S. officials also remained firm: an IMF agreement was a prerequisite for U.S. loans. For Frank Southart, American Executive Director to the IMF, the Fund Managing Director Per Jacobsson would naturally be “stiff” given that he was sensitive to Brazil’s unsatisfactory stabilization performance. Southart remembered that Washington would continue to face difficulties in dealing with the Brazilian economic plight “unless basic corrective measures were taken now”.<sup>275</sup> Eximbank President Samuel Waugh noted that the U.S. attitude towards Brazil was “hardening very rapidly”, stressing that Kubitschek’s Pan-American Operation (OPA) announced in mid-1958 – which called for greater U.S. economic assistance to Latin America’s development – had done “nothing to soften” it. Waugh instructed Southart not to get too involved in these negotiations so that to allow “the Fund to tell the Brazilians all of the necessary unpleasant truths concerning what constitute effective programs”.<sup>276</sup> In mid-February, the U.S. Embassy apprised Bank of Brazil Director Paulo Pook that no “softer” approach would

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<sup>272</sup> Embdes 884, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Feb. 5, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>273</sup> JB, “Negociações sobre US\$ em Washington: Governo nega umas coisas, outras não”, Feb. 6, 1959. 1° caderno, p. 4, ed. 31; Intel, Amembassy to the Secretary of State, Feb. 6, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4315, Folder 832.10/1-559; Briggs to the Secretary of State, Feb. 6, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>274</sup> Embdes 933, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Feb. 16, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>275</sup> William Briggs to Ellis Briggs, Feb. 16, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>276</sup> William Briggs to Ellis Briggs, Feb. 12, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

be taken. Pooch reiterated that Kubitschek feared a “military or civilian revolution” as eliminating import subsidies would increase the cost of living.<sup>277</sup>

An IMF mission was scheduled to come to Brazil at the end of March to assess its accomplishments under the 1958 standby agreement as part of the consultation due in April 1959. However, such was the hurry to obtain foreign loans that the Brazilian government decided to send SUMOC Director Casimiro Ribeiro and Pooch to Washington D.C. at the beginning of March to approach the IMF for the third time in 1959. Finance Minister Lucas Lopes cautioned U.S. Embassy officials about the “rigidity with which President Kubitschek would resist insistence by the IMF upon a substantial modification of Brazil’s foreign exchange system”. He had instructed Ribeiro and Pooch to say that an exchange reform was politically unfeasible. Ribeiro particularly feared the influence of Augusto Schmidt, one of Kubitschek’s closest advisors, on the President. Schmidt openly opposed Lopes because he owned “a number of businesses firms [...] and has been angered by any suggestion of an anti-inflationary policy”. Ribeiro supposed that Kubitschek “would reluctantly accept a substantial modification of the system, as long as [it] would not call for a large immediate increase in the exchange rate applicable to petroleum and wheat”. Regardless of Kubitschek’s position, Lopes had his exchange reform proposal to present to the Fund.<sup>278</sup>

In early March, Pooch and Ribeiro traveled to Washington D.C. to expound a revised version of the Monetary Stabilization Plan (PEM) for 1959 to the IMF.<sup>279</sup> Most of the budget and credit ceilings were revised upward to allow a higher monetary expansion in order to avoid unemployment and unfavorable social repercussions. Moreover, the government would not comprise with further modifications in the exchange system in that year so that to stave off social and political unrest. Pooch and Ribeiro then showed Lopes’ exchange reform proposal to IMF officials, underlying that Kubitschek had rejected it. The proposal foresaw most exports and imports in the free market. Coffee exports would continue to commercialize at Cr\$ 60 per 1 US\$,

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<sup>277</sup> Embdes 933, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Feb. 16, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>278</sup> Embdes 942, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Feb. 18, 1959; Embdes 985, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Mar. 2, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>279</sup> Outtel, Briggs to Secretary of State, Feb. 26, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

and preferential imports of oil and oil derivatives, wheat and newsprint unify to Cr\$ 100 per 1 US\$. From July 1959 onward, preferential rates would rise gradually until full unification in January 1960 (table 3.1).<sup>280</sup>

IMF staff officials Jorge Del Canto and Gesualdo Costanzo were particularly concerned about the credit and exchange policies. Apparently, they eased after Ribeiro clarified that a higher credit supply was necessary for financing coffee stocks that year. The Brazilian exchange policy remained the most challenging matter.<sup>281</sup> For them, failing to reform the multiple exchange rates system meant “not only the retention of the existing unrealistic rate structure but also the prospect that Brazil would continue to go from one exchange crisis to another”. They insisted that “the longer it [exchange adjustments] were delayed, the larger the necessary adjustment would be and the greater the political difficulties eventually to be overcome”. Pooch and Ribeiro elucidated that an exchange rate reform was necessary from a technical standpoint. However, Kubitschek was “firmly opposed to the general level of domestic prices and from a political standpoint be so unacceptable as to create the dangerous risks of social upheaval”. Hence, “in the view of the Brazilian authorities these [political matters] were of overriding consideration”.<sup>282</sup> IMF officials concluded that the PEM’s major weakness was that it “fails to deal with the country’s fundamental balance of payments disequilibrium”. The year 1959 would be the third consecutive of “serious” foreign exchange strain “with no end in sight”. The exchange system would continue to penalize exports and to subsidize imports. The financing of deficits with medium-term external loans was creating an “impossible” debt service schedule for the upcoming years. For Fund official, only an exchange rate reform on Lopes’ terms would give some hope for the Brazilian financial plight.<sup>283</sup>

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<sup>280</sup> Embdes 945, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Feb. 19, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; Brovedani to G.A. Costanzo, “Brazilian Stabilization Plan for 1959”, Mar. 5, 1959, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960; Working Party on Brazil to The Acting Managing Director, “Brazil – Financial Policies for 1959”, Mar. 12, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2, Folder Brazil; “Programa de Estabilização Monetária para 1959”, CPDOC-FGV, ALL, Folder LL mf 1957.12.23.

<sup>281</sup> “Brazil – Minutes of the Fourth Meeting held in Office of Director, Western Hemisphere Department”, Mar. 4, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2, Folder Brazil; Octávio Paranaguá to Ernani Peixoto, Mar. 17, 1959. CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

<sup>282</sup> “Brazil – Minutes of the Meeting held in Office of Director, Western Hemisphere Department”, Mar. 3, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2.

<sup>283</sup> Working Party on Brazil to The Acting Managing Director, “Brazil – Financial Policies for 1959”, Mar. 12, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2.

U.S. Embassy officials also remained stiff. The fact that American officials considered an IMF-backed program economically and politically feasible in Brazil “opens the way, therefore, for the stern exercise, and the stern exercise will soon begin, as it should”. Washington had played “the first act of this little play” without “trepidation” by successfully requesting a Fund agreement on the grounds that Latin American countries would access U.S. credit under such terms. Hence, the U.S. should “let the IMF huff and puff, breath fire, utter dire threats, and swashbuckler all through act one”. When the Fund was finally satisfied, then there was no need to be “more catholic than the Pope” (stricter than the IMF). However, Washington had to be careful not to see “the second act curtain falling on the corpse of Brazilian-American relations” so that to avert a “nasty showdown in act two, with us on stage and [the] IMF in the wings”. Although Brazilians were unlike to attack the U.S. since they were “good at avoiding showdowns”, U.S. officials had to be prepared to recognize the “breaking point” after “got as much as we can get”. The breaking point was “when the harming will have to stop. That is when the art of the theatre will have to begin”.<sup>284</sup> Officials of the Office of South American Affairs of the State Department concurred that “the best option would be to stay behind the IMF and get the best terms Washington could so that to avoid a showdown” until reaching “the breaking point”.<sup>285</sup>

As soon as Ribeiro arrived in Brazil back from Washington D.C., he urged the SUMOC’s Council to approve an exchange reform. The Brazilian Executive Director to the IMF, Octávio Paranaguá, insisted for Ambassador Ernani Peixoto to persuade Kubitschek into eliminating exchange restrictions. Paranaguá regretted that under “a brainless regime such as the existing in the United States, no one in the administration that would want to or could take the responsibility of lending more than two hundred million dollars to solve Brazil’s balance of payments problems in 1959”.<sup>286</sup> Finance Minister Lucas Lopes was going to do everything in his power to convince Kubitschek on this regard as well. Ribeiro and Pooch even confided to the U.S. Embassy that they hidden information on estimates of exchange earnings for 1959 from Kubitschek on purpose

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<sup>284</sup> Woodruf Wallner to William Briggs, Mar. 13, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>285</sup> William Briggs to Woodruf Wallner, Mar. 23, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>286</sup> Octávio Paranaguá to Ernani Peixoto, Mar. 17, 1959, CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

in order to prevent him from relieving credit control and incurring larger budgetary deficits (Ribeiro and Pook played a double-game).<sup>287</sup>

At the end of March, the IMF mission headed by Director Gesualdo Costanzo finally came to Brazil to evaluate whether the country had fulfilled compromises outlined in the 1958 standby agreement. By then, Brazilian foreign reserves were critical. There were US\$ 28 million in dollar balances, small working balances in European currencies and US\$ 120 million in gold (imports totaled US\$ 1,210 billion in 1959). Moreover, all credit lines with New York and European banks were exhausted. On top of this, the Armed Forces kept warning the government of the “serious social unrest” due to increases in the cost of living.<sup>288</sup> It soon became clear to Costanzo that Kubitschek would neither reform the multiple exchange rates system nor comply with the PEM’s fiscal and credit targets for 1959. Kubitschek claimed that he had a political approach to economic problems. His government used administrative measures to contain inflation, including by subsidizing imports. In another meeting, Lopes lamented that former Finance Minister José Alkmim and Deputy Horácio Lafer, who “strongly opposed” an exchange reform, were the dominant forces in Kubitschek’s party, the Social Democratic Party (PSD). According to him, under such circumstances, reforming the exchange rate system indeed was politically unfeasible. Lopes confessed to IMF officials his intentions to resign if unable to conclude a Fund agreement, even if Kubitschek fell due to the lack of foreign currencies.<sup>289</sup> Fund officials reinforced before the SUMOC that the Brazilian government would have to unify the multiple exchange rates, as well as to implement a policy of monetary containment in order to sign a second standby agreement with the IMF in 1959.<sup>290</sup>

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<sup>287</sup> Embdes 1073, Amembassy to State Department, “Prospective Brazilian Request for Balance of Payments Assistance”, Mar. 18, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>288</sup> G.A.Costanzo to The Managing Director and The Deputy Managing Director, “Brazil-Outlook for Stabilization”, Mar. 27, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2.

<sup>289</sup> Ibid.

<sup>290</sup> “Outline of statement to make orally before SUMOC”, Mar. 24, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2.

*Table 3.2* Disagreements regarding the Brazilian exchange policy during negotiations for a second IMF standby agreement in 1959

| <b>Lopes' exchange reform proposal presented to the IMF in early March</b>  | <b>Kubitschek's position expressed to the IMF mission at the end of March</b> | <b>Demands presented by the IMF mission</b> |
|---|---|---|
| Most exports and imports to the free market. Coffee exports continue at Cr\$60 per 1 US\$. Preferential imports of oil and oil derivatives, wheat and newsprint unify to Cr\$ 100 per 1 US\$. | The exchange system remains unchanged (table 3.1)                             | Brazil should unify the exchange rates      |
| Exchange rates for preferential imports raise gradually until full unification in 1960  |   |   |

Source: Embdes 985, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Mar. 2, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; Working Party on Brazil to The Acting Managing Director, "Brazil – Financial Policies for 1959", Mar. 12, 1959, IMF, WHDR, WHDOIR, WHDAI Country Files, Box 32, File 2.

While in Rio de Janeiro, IMF Director Gesualdo Costanzo also met U.S. Embassy officials. Costanzo assured them that, in discussions with Brazilians, he had stressed that the Eximbank would not negotiate a loan before Brazil came to terms with the Fund. Moreover, he had made it clear that an "exchange reform would be an indispensable prerequisite" for financial negotiations.<sup>291</sup> Despite his efforts, in Costanzo's view, Kubitschek "will be prepared to enact the necessary exchange reform only when the alternative to doing so becomes even more unpalatable". The President had an "obviously political" orientation, showing no awareness of the need for reforming the multiple exchange rates system, and Lopes had little support in and out of the government. Also, Kubitschek kept upset with Lopes' frankness with the IMF, wishing that he had more of negotiating tactics of the former Finance Minister José Alkmim (who negotiated the 1958 standby agreement with the IMF). Costanzo was certain that only an exchange crisis that obliged Kubitschek to reduce imports sharply would convince him to enact the reform. Hence, the IMF staff would recommend that the Executive Board disapprove the

<sup>291</sup> Embdes 1073, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Mar. 18, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

request for a new standby agreement.<sup>292</sup> Costanzo hoped that Washington, accordingly, would not lend assistance to Brazil.<sup>293</sup>

Aware of IMF recommendations, Kubitschek insisted for U.S. Embassy officials to understand the country's political problems.<sup>294</sup> Finance Minister Lucas Lopes and Bank of Brazil Director Paulo Pooch, on the other hand, continued to play a double-game. They ensured Embassy officials that Washington was right in conditioning new loans to Brazil to a Fund agreement.<sup>295</sup> The climate in the presidential Catete Palace seemed tumultuous due to the impasse with the IMF. According to SUMOC Director Casimiro Ribeiro, Kubitschek was extremely impatient, continually seeking a solution for the financial plight. There was always someone suggesting a remedy, and the President's financial advisors spent long hours clarifying why such ideas were not appropriate for solving economic problems. For Ribeiro, discussions were becoming "so crazy, that I sometimes feel as though I am looking at a Salvador Dali painting". In the meantime, Kubitschek kept urging Brazilian officials to persuade U.S. officials into assisting Brazil.<sup>296</sup> However, his pleas did not soften them. In early April, Christian Herter, who had replaced John Dulles as Secretary of State, instructed the U.S. Embassy to convince Kubitschek of the need for a "suitable IMF program" to deal with financial problems. Along with IMF Director Costanzo, Herter believed that a period of stalemate while Brazilian foreign reserves decline was the sole effective manner of persuading Kubitschek of the necessity for belt-tightening and convincing him of the firmness of the U.S. and IMF positions.<sup>297</sup>

While IMF-Brazilian negotiations were on deadlock, in early April, Brazilian Ambassador Ernani Peixoto and IMF Executive Director Octávio Paranaguá requested to the State Department an Eximbank credit to alleviate the Brazilian exchange crisis. They explained

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<sup>292</sup> Embdes 1113, Amembassy to State Department, "Activities and Reactions of the International Monetary Fund Mission in Rio de Janeiro, Mar. 16-25, 1959", Mar. 26, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/3-259.

<sup>293</sup> Amembassy to Secretary of State, control 320, Mar. 23, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>294</sup> Amembassy to Secretary of State, Mar. 27, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>295</sup> Embdes 1120, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Mar. 30, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>296</sup> Embdes 1149, Amembassy to State Department, "Prospective Brazilian Request for Balance of Payments Assistance", Apr. 6, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>297</sup> Outtel, Herter to Amembassy, Mar. 31, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/3-259; Operations Coordinating Board, Apr. 6, 1959, EPL, White House Office, National Security Council Staff: Papers, 1948-61, OCB Secretariat Series, Box 10, Folder OCB 319.1 Activity Report (File #5) (1).

that the Kubitschek administration wished to postpone negotiations with the Fund until September, when the country's quota share in the IMF would increase from US\$ 150 to US\$ 280 million (a larger quota would enable larger withdrawals). Until then, U.S. assistance would be utterly necessary as discussions with international financial organizations, particularly the IMF, were not in sight. Peixoto and Paranaguá affirmed that economic difficulties were temporary, not structural as the IMF insisted. It derived from low coffee prices in the world market and the burden of foreign debts from previous years. Moreover, contrary to what IMF officials thought, the Brazilian government's budget and credit policies were in line with the 1958 standby agreement. The government also intended to unify all multiple exchange rates except for coffee rates. However, depreciating preferential import rates altogether as the IMF demanded was unwise. Lopes' small exchange rate reform of January 1959 had caused wide repercussion in the economy. Further adjustments could culminate in unpredictable social and political consequences. Besides, the differential between exchange rates for imports and exports yielded important resources that safeguarded the implementation of stabilization policies. For instance, exchange profits financed coffee stocks without the need of issuing fiat paper money.<sup>298</sup>

After hearing Brazilian officials' financial pleas, officials of the Bureau of Inter-American Affairs of the State Department and others concerned reached a consensus. They "strongly" believed that Rio de Janeiro would have to work out a "thorough stabilization program" with the IMF. Economic matters continued to override. Expansionary budget and credit policies were the real causes of internal price increases, not exchange unification, as Kubitschek persisted. Postponing the implementation of anti-inflation policies would prolong deficits. In particular, an "extensive exchange reform" to "increase foreign exchange earnings by promoting exports" was "clearly necessary". The IMF had suggested such a course of action, with which the Finance Minister Lucas Lopes agreed. Hence, Brazil would have to undergo belt-tightening sooner better than later, even though Kubitschek would "apply all pressures [...] to get the United States to depart from this position".<sup>299</sup> Eximbank President Samuel Waugh and other high-ranking officials of the Bank were firmer than ever: the Brazilian government should declare a default on

<sup>298</sup> Memo, "Brazilian Economic Problems", Apr. 8, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4307, Folder 832.00/3-359.; William T. Briggs to Woodruff Wallner, Apr. 15, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; "Confidential", Apr. 6, 1959; "Aide Mémoire", Apr. 10, 1959; "Some notes on the Brazilian payments problem", [Apr.1959], CPDOC-FGV, AEAP, Folder EAP emb 1958.03.06.

<sup>299</sup> Offmemo, Adair to Mann, "Brazilian Balance of Payments Problem", Apr. 10, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/3-259.

debt service in the absence of an IMF agreement. For them, any sign of weakness from Washington could undercut the U.S. stand with other Latin American countries which were following IMF-based programs.<sup>300</sup> Assistant Secretary Roy Rubottom then conveyed to Brazilians that U.S. agencies had “a strong feeling” about an IMF agreement being “an essential prerequisite to discussions looking to financial assistance from this Government”.<sup>301</sup>

In mid-April, Kubitschek sent Teodoro Quartim Barbosa, Director-Superintendent of the São Paulo Commercial and Industrial Bank (*Banco do Comércio e Indústria de São Paulo*), to assist Ambassador Ernani Peixoto in financial negotiations.<sup>302</sup> Barbosa would try to obtain loans from U.S. commercial banks against Brazilian coffee stocks.<sup>303</sup> For U.S. Ambassador Ellis Briggs, this was an “end run” effort to obtain U.S. assistance without approving an exchange reform.<sup>304</sup> Lopes was certain that Quartim’s mission meant that Kubitschek found him and other officials, such as BNDE President Roberto Campos, “poor bargainers” because they concurred with U.S. and IMF views.<sup>305</sup> SUMOC Director Garrido Torres also believed that, because Kubitschek did not understand Brazilian economic problems, he nurtured resentments against Lopes, Campos, and economists working with them as they consented with IMF views. For this reason, their position within the Kubitschek administration was critical.<sup>306</sup>

According to the Brazilian official João Pinheiro, there was a massive public campaign in place to expel Lopes and Campos. Business and industrial sectors were “playing a leading role” in it, having Kubitschek’s assessor, Augusto Schmidt, as a prominent leader. These groups were determined to replace Lopes and Campos “with people of their own choice” since stabilization

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<sup>300</sup> William T. Briggs to Woodruff Wallner, Apr. 15, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>301</sup> Memo, “Brazilian Economic Problems”, Apr. 8, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4307, Folder 832.00/3-359; State Department to Amembassy, Apr. 11, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; Operations Coordinating Board, Apr. 13, 1959, EPL, White House Office, National Security Council Staff: Papers, 1948-61, OCB Secretariat Series, Box 10, Folder OCB 319.1 Activity Report (File #5) (2).

<sup>302</sup> Outtel, May to Secretary of State, Apr. 15, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>303</sup> Memo, “Brazilian Negotiations for Dollar Loan Against Coffee Stocks”, Apr. 29, 1959; Department to Amembassy, May. 1, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>304</sup> Outtel, Briggs to Secretary of State, Apr. 16, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>305</sup> Outtel, May to Secretary of State, Apr. 15, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>306</sup> Embdes 1219, Amembassy to State Department, “Miscellaneous Financial Matters”, Apr. 16, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

policies were “inimical to their business interests”. Moreover, the Brazilian people saw the IMF as a “creature of the United States Government” and blamed it for pushing “unwise” measures.<sup>307</sup> The national press also reported what appeared to be the prevailing idea of economic sectors that Brazil should “abandon” the IMF.<sup>308</sup> Journalist Tad Szulc of the New York Times had learned from Kubitschek’s press secretary and, later, informed U.S. officials that the President intended to replace Lopes “by someone like ex-[Finance] Ministers [José] Alkmim or [deputy Horácio] Lafer” if no foreign loans were forthcoming. Kubitschek would not “commit political suicide” by enacting an exchange rate reform since he had already run “tremendous political risks” in resisting pressures from financial, business and labor groups for a loose credit policy. In the absence of U.S. loans, he “would still not be beaten: he would carry his case to Brazilian public opinion in a press, radio and TV conference”.<sup>309</sup> Lopes acknowledged that this great political resistance would heighten at the announcement, in June, of an austere coffee financing policy for the 1959-1960 harvest.<sup>310</sup> Despite rising political opposition, Pinheiro, playing a double-game, assured that U.S. officials should not approve funds before an IMF agreement.<sup>311</sup>

In late April, Brazilian officials learned that Teodoro Barbosa’s mission to the U.S. had failed. New York bankers gave up on conceding credits to Brazil after IMF officials said that it would jeopardize financial negotiations.<sup>312</sup> Upon Kubitschek’s orders, Lopes began elaborating a new exchange rate reform proposal that got as close as possible to IMF requirements. However, financial negotiations would not be easy. Kubitschek was “vehemently determined to refuse to take certain exchange reform measures which he considers would cause political chaos”. Edmundo Barbosa da Silva of the Ministry of Foreign Relations cautioned the U.S. Embassy that the President “under no circumstances bow under pressure, but would choose another course and would only go down fighting”. Kubitschek reserved himself the right to decide whether prescribed policies were politically feasible in Brazil regardless of their acceptability by other

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<sup>307</sup> Memo, “Brazil’s Financial Problems”, May. 4, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>308</sup> JB, “O Brasil e o Fundo Monetário”, Apr. 19, 1959, 2° caderno, p. 11, ed. 90.

<sup>309</sup> Outtel, Briggs to Secretary of State, Apr. 24, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>310</sup> Embdes 1382, Amembassy to State Department, “Conversation with Minister of Finance Lucas Lopes”, May 29, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>311</sup> Memo, “Brazil’s Financial Problems”, May 4, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>312</sup> Memo, “Brazilian Negotiations for Dollar Loan Against Coffee Stocks”, Apr. 29, 1959; Department to Amembassy, May 1, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

countries.<sup>313</sup> At that time, European countries were eliminating their exchange restrictions, and Latin American countries, such as Argentina, were implementing IMF-based programs.

In mid-May, Assistant Secretary for Economic Affairs Thomas Mann visited Brazil. Kubitschek tried to persuade him into assisting his government. He alerted that a “revolution or civil war might well ensue” without U.S. financial assistance. The increase in internal prices due to adjustments in the exchange system in January 1959 had already caused social tension. A comprehensive exchange reform could lead to uncontrollable social and political upheaval. A truck strike demanding lower oil and oil derivatives import rates would be the first consequence. Nationalists (stimulated by communists) were using inflation to attack the U.S. government and his administration. Failure to assist Brazil would further strengthen nationalists. Kubitschek insisted that Mann guide U.S. assistance without strict policies that could lead to social turmoil and deteriorate U.S.-Brazilian relations. Despite his efforts, Mann’s response remained the same. Washington could not assist Brazil as easily as any other country. The whole world wanted loans. Giving Rio de Janeiro a special treatment would trigger an avalanche of loan requests. Besides, an essential part of the U.S. policy was to assist IMF experts in promoting economic stability worldwide.<sup>314</sup>

After Mann’s visit, for the first time in 1959, political matters came into the scene for the analysis of financial assistance to Brazil. U.S. officials reported to President Eisenhower the critical state of U.S.-Brazilian relations. Nationalists (guided by communists) were pressuring for a more restrictive approach to foreign private capital, demanding a more “independent foreign policy, renewed contacts with the Soviets and departure from Brazil’s traditional reliance upon and close collaboration with the U.S.”. These matters would come about during the presidential elections of 1960.<sup>315</sup> Officials of the Bureau of Inter-American Affairs of the State Department inferred that U.S. assistance to Brazil at that point was only justifiable on political grounds. Economically, Kubitschek’s argument that exchange adjustments would raise the cost of living was not valid – expansionary credit and budget policies were the real causes of inflation.

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<sup>313</sup> Outtel, Wallner to Secretary of State, May 6, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>314</sup> Outtel, Wallner to Secretary of State, May 11, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 121, Folder 320 Brazil-U.S. 1959-61; Amembassy to State Department, “Conversation between President Kubitschek and Assistant Secretary Thomas Mann”, May 12, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>315</sup> Memorandum for the President, “Problem in United States - Brazilian Relations”, May 1959, EPL, Eisenhower, Dwight D.: Papers as President, 1953-61, Ann Whitman File, International Series, Box 4, Folder Brazil (5).

Surrendering to his request meant either accepting claims that further prices increase would lead to his overthrow, or that he would react with “extreme violence if pressed too hard is too great, and the possible consequences too severe, too risk”. Washington also had to analyze what would be the consequences of a softer approach to Kubitschek for U.S. relations with his political successor and for bilateral relations with Latin American countries undergoing stabilization.<sup>316</sup> State Department officials then decided “not [to] intervene [in order] to attempt to influence the Fund in its decision, at least until we believe that a definite impasse has been reached”. Latin American countries had to deem the IMF an “independent, objective, expert international organization” that acted regardless of U.S. political influences.<sup>317</sup>

The Brazilian government’s “new and major” exchange reform proposal was ready for submission to the IMF in mid-May. Kubitschek had agreed with it despite fearing political and social repercussions.<sup>318</sup> Apparently, he did not listen to his financial advisors anymore, who insisted that long-term benefits would outweigh short-term price increases resulting from an exchange reform. Kubitschek hoped that the U.S. and the Fund would not be strict as overcoming the hurdle of approving a thorough exchange reform was impossible for him. BNDE President Roberto Campos and Brazilian Ambassador Ernani Peixoto urged U.S. Embassy officials to ask for the IMF to be more reasonable this time. However, U.S. officials regretted that proposals were “intentions” rather than “commitments”, inferring that Fund Executive Directors were likely to refuse the Brazilian program.<sup>319</sup>

SUMOC Director Casimiro Ribeiro and Bank of Brazil Director Paulo Pooch presented the Brazilian proposal to the IMF at the end of May 1959. According to Ribeiro, Finance Minister Lucas Lopes insisted for them to reach an agreement with the Fund at all costs. His financial team was “the last stronghold of rationality” within the Brazilian government, and this exchange reform proposal was the furthest he could go with Kubitschek. Lopes was distraught because Kubitschek wanted to use the Fund as a “scapegoat, from the political standpoint”.<sup>320</sup>

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<sup>316</sup> Offmemo, Samuel Eaton to Charles Adair, “Brazil”, May 21, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>317</sup> Offmemo, Samuel Eaton to Charles Adair, “Brazil - Main Conclusions Reached in Luncheon Conversation with ARA”, May 15, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>318</sup> Amembassy to State Department, “Possible Modifications of Foreign Exchange System”, May 13, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>319</sup> Outtel, Wallner to Secretary of State, May 25, 1959; Embdes 1382, Amembassy to State Department, “Conversation with Minister of Finance Lucas Lopes”, May 29, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>320</sup> Interview Ribeiro (1981, p. 58-59).

The Brazilian program foresaw a policy of monetary containment: cuts in public expenditures, higher fares of federal-owned enterprises, ceilings upon the Bank of Brazil's credit operations with the private and public sectors, and an austere coffee financing policy. In the exchange field, all imports and exports would pass to the free market, except for coffee and cocoa and cocoa derivatives. However, exchange rates of preferential imports would rise gradually during a transitional period. Until 1961 (the end of Kubitschek's term), imports of oil and oil derivatives, wheat, newsprint, Petrobrás' and government's imports would receive subsidies. For the time being, preferential exchange rates would remain at US\$ 100 per 1 US\$ - except for oil and oil derivatives (these rates would immediately rise to US\$ 130 per 1 US\$). In addition, the general category of the auction market would be extinct whereas the special category would remain (table 3.1).<sup>321</sup>

IMF staff officials delivered their conclusions about the Brazilian program proposal on June 1, 1959. At that time, Ribeiro and Poock were in a problematic situation. On the day before, Lopes had suffered a heart attack and was incommunicable; whereas Kubitschek wanted to fight (LOPES, 1991, p. 253).<sup>322</sup> The Fund concluded that Brazil was undergoing a severe crisis with social, political and economic consequences due to rising internal prices and persistent external deficits. Rio de Janeiro's ability to correct this situation was crucial to avoiding economic retrogression and securing long-term development. To establish "a sound and enduring process of economic development", the Brazilian government would have to reform the multiple exchange rates system in order to end its artificiality (it discouraged exports and encouraged imports). Fund officials considered that the Brazilian program proposal corresponded relatively well on internal financial targets. However, the exchange rate reform proposal fell short from expectations. Preferential imports and the special category of the auction market (not only the general) would have to end immediately.<sup>323</sup>

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<sup>321</sup> Amembassy to State Department, "Possible Modifications of Foreign Exchange System", May 13, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259; "Outline of Brazilian Government Program", Jun. 1, 1959, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>322</sup> Interview Casimiro Ribeiro (1981, p. 34).

<sup>323</sup> Staff members of working party on Brazil to Managing Director, "Brazilian Government Program", Jun. 1, 1959, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960.

*Table 3.3* Brazil's exchange reform proposal of May 1959 and the IMF position

| <b>Brazilian proposal</b>   | <b>IMF position</b>  |
|---|--|
| All imports and exports to the free market                                    |  |
| Coffee and cocoa and cocoa derivatives would continue with fixed rates        |  |
| The exchange rates of preferential imports would rise gradually until 1961    | Preferential imports and the special category of the auction market should end immediately |
| The general category of the auction market would extinct; the special, remain |  |

Source: Staff members of working party on Brazil to Managing Director, "Brazilian Government Program", Jun. 1, 1959, IMF, Central Files, Country Files, Brazil, Box 6, Folder C/Brazil/420 Stabilization Program 1958-1960; "Outline of Brazilian Government Program", Jun. 1, 1959, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

U.S. Embassy officials expected a "strong emotional reaction" from Kubitschek, urging the State Department to obtain the "fullest possible information [on] this matter [the] soonest". Otherwise, Washington would be "seriously handicapped in dealing with a politico-economic situation which lies at [the] very heart of Brazilian-U.S. relations".<sup>324</sup> State Department officials promptly initiated discussions about financial assistance to Brazil. Economic interests continued to be pivotal for their decision. If Kubitschek chose not to resume negotiations with the Fund, the Eximbank could phase-out its loans. However, the Eximbank was "extremely reluctant" to assist the Brazilian government without an IMF agreement and would possibly try to force it to default. Although a default could make Brazilians realize the severity of their economic situation, this was a "pretty strong medicine" politically and could damage the confidence of investors. Therefore, Washington should condition assistance to an IMF agreement to set the Fund in between Brazil and the U.S. in policing stabilization performance.<sup>325</sup> State Department officials remembered that the IMF had an "extremely useful function of prescribing sometimes painful, but desirable, remedies in connection with balance of payments problems when we [U.S.] would not feel free to do so". It was "much more difficult politically for one government to prescribe to another one what it should do in the delicate area of financial policy than it is for an international agency of recognized competence in the field". Not requesting a Fund agreement to Rio de

<sup>324</sup> Intel 1746, Amembassy to Secretary of State, Jun. 3, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>325</sup> Offinemo, Samuel D. Eaton to Charles W. Adair, "The Problem of Assuring Brazilian Performance Under a Stabilization Program", Jun. 1, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

Janeiro “would invite invidious comparisons from other countries which we have held to this requirement and would also court pressures from still others for like easier treatment”.<sup>326</sup>

The American Executive Director to the IMF, Frank Southard, officials from the State and Treasury Departments, and the Eximbank soon reached a consensus that the Kubitschek administration would have to resume negotiations with the Fund. Washington would be in a weak position to enforce policies without IMF pressures. Hence, the U.S. government should maintain the “status quo temporarily, i.e., until 1961, at a price which we can afford to pay and in ways that will neither undermine stabilization efforts on which we are embarked in other countries nor open the door to unbridled demands from other countries”. A minimum program to reschedule foreign payments would be the single concession to Brazil.<sup>327</sup> The State Department then informed these conclusions to the U.S. Embassy.<sup>328</sup> U.S. officials’ decision to maintain a tough stance on Rio de Janeiro suggests that Brazil mattered less than other countries.

### *3.2 The breakdown in negotiations*

On June 2, Director Paulo Pook of the Bank of Brazil informed Kubitschek that on the day before the IMF had disapproved the Brazilian program proposal.<sup>329</sup> BNDE President Roberto Campos insisted for Kubitschek to depreciate the exchange rates – the Fund condemned the continuance of certain exchange restrictions under the proposed program. However, according to Campos, the President was extremely irritated, constantly mumbling the words “I cannot stand these people anymore”. Kubitschek, says Campos, also met BNDE Director Celso Furtado, who spoke about the Fund’s preponderance and interference in domestic affairs, urging Brazil to reaffirm its sovereignty (CAMPOS, 2004, p. 359-360). Kubitschek gathered with bankers, economists, Congress members, and diplomats to acknowledge their opinion as well. On June 3, he instructed SUMOC Director Casimiro Ribeiro and Pook (the Brazilian negotiators to the IMF) “to discontinue further conversations [with the Fund] and return to Rio”.<sup>330</sup> A few days

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<sup>326</sup> Offmemo, Charles Adair to Mann, “Role of the IMF in Brazilian Negotiations Regarding Balance of Payments Assistance”, Jun. 1, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>327</sup> William Briggs to Woodruff Wallner, Jun. 4, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>328</sup> Intel Department to Amembassy, Jun. 4, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>329</sup> Paulo Pook to Kubitschek, Lucas Lopes and Ernani Peixoto, Jun. 2, 1959, CPDOC-FGV, AEAP, EAP emb 1958.03.06.

<sup>330</sup> Interview Casimiro Ribeiro (1981, p.64-65); Intel 1746, Amembassy to Secretary of State, Jun. 3, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

later, Kubitschek held an official meeting (for which Campos was not invited) with Furtado, Ribeiro, his advisor Augusto Schmidt, and other officials to discuss future steps regarding the IMF. Both Ribeiro and Furtado felt that Kubitschek was going to sever relations with the Fund regardless of issues brought up during discussions. Ribeiro sustained that there had been technical disagreements and supported that disrupting relations with the IMF would preclude attempts to obtain U.S. loans. According to Ribeiro, all presents urged Kubitschek to publicly break up with the IMF so that to stave off its interference in Latin American affairs.<sup>331</sup>

Kubitschek officially announced his decision during a lunch with Brazilian Senators at the Laranjeiras Palace on June 9. Following the suggestions of Brazilian officials, he reaffirmed Brazil's sovereignty, claiming that the Fund had demanded policies upon which only the country could decide.<sup>332</sup> Kubitschek elucidated that disagreements rested on technical grounds. Brazil could not bear further increases in the cost of living as a result of depreciated exchange rates. Moreover, given the difficulties with the Fund, the Brazilian international political economy would change substantially. Economic and financial matters would be transferred from technical to political grounds. Rio de Janeiro would negotiate financial aid directly with the U.S. government, and Brazilian officials hinted that they would seek USSR trade.<sup>333</sup> A few days later, the U.S. intelligence found out through the Brazilian Chamber of Commerce that the Soviet trade delegation in London had offered to purchase Brazilian coffee worth US\$ 100 million. U.S. officials considered that this offer was "probably designed to exploit the Brazilian international financial crisis" as such amount of coffee was over the Soviet rate of consumption.<sup>334</sup>

Recent studies show that the USSR had been attempting to reestablish trade and diplomatic relations with Brazil throughout Kubitschek's presidential term. According to Caterina (2018), until June 1959, Kubitschek had been cautioning not to approach the USSR mostly for two main reasons: the internal resistance coming from conservative forces (mainly

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<sup>331</sup> For further information on this meeting see Interview Ribeiro (1981, p. 65-67), Campos (2004, p. 362), Furtado (1989, p. 70-73), and JB, "Governo diz oficialmente que FMI intrometeu-se em soberania brasileira", Jun. 13, 1959. 1º caderno, p. 1, ed. 136.

<sup>332</sup> JB, "Governo diz oficialmente que FMI intrometeu-se em soberania brasileira", Jun. 13, 1959. 1º caderno, p. 1, ed. 136.

<sup>333</sup> JB, "Virada na política econômica: missão à Rússia", Jun. 10, 1959. 1º caderno, p. 1, ed. 133; ESP, "Kubitschek anuncia que não mandará emissários ao FMI", Jun. 10, 1959, p.34; New York Times, Jun. 11, 1959, Central Files, Country Files, Brazil Files, Box 19 File 7 Folder C/Brazil/1760 Stand-by Arrangements.

<sup>334</sup> "Synopsis of State and Intelligence material reported to the President", Jun. 16, 1959, EPL, White House Office, Office of the Staff Secretary: Records, Subject Series, Alphabetical Subseries, Box 14, Folder Intelligence Briefing Notes, Vol. 1 (8).

high-ranking military officials and the Catholic Church) that opposed resumption of relations with the Soviet Bloc, and because the President had been nurturing hopes for a greater U.S. economic cooperation through the Pan-American Operation (which asked for U.S. participation in Latin American development).<sup>335</sup> Evidence gathered here then suggests that only after the impasse with the IMF, the Kubitschek administration indicated intentions to pursue a trade agreement with Moscow. Washington's resistance to assist Brazil and the IMF intransigence regarding exchange matters apparently were catalysts for this decision.

On June 12, Deputy Horácio Lafer read an official note to Congress on Kubitschek's behalf. He reiterated that the IMF had suggested measures that would impact the cost of living negatively. There would be a social catastrophe if transportation and bread prices increased. Moreover, a policy of credit squeeze would depress national production. These measures did not suit the Brazilian context. Lafer declared that Kubitschek would bear the financial burden as long as financial negotiations did not infringe the mutual respect shared between Brazil and the IMF.<sup>336</sup> Deputies declared war against the U.S. under claims that the Fund was a U.S. creature whose purpose was to impair the Brazilian economic development. The Majority leader, Armando Falcão, read a letter signed by most deputies expressing their support for Kubitschek, who had acted in the interest of the nation. Opposition in Congress was minimal.<sup>337</sup> After Lafer's announcement, IMF officials came public to argue they had not tried to influence the course of the national economy. Their sole task had been to assist Brazil in attaining monetary stability.<sup>338</sup>

Kubitschek officially communicated the U.S. Embassy that "the Brazilian mission to [the] IMF will be ended" given its persistence on an exchange rate reform deemed politically

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<sup>335</sup> For further information on USSR-Brazilian relations in the period, Soviet overtures to Brazil before June 1959 and Kubitschek's attitude on this matter see Caterina (2018).

<sup>336</sup> JB, "Governo diz oficialmente que FMI intrometeu-se em soberania brasileira", Jun. 13, 1959. 1º caderno, p. 1, ed. 136; Amembassy to State Department, "The administration presents its case to Congress on IMF negotiations", Jun. 18, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>337</sup> ESP, "Violentos debates na Câmara contra as decisões do F.M.I.", Jun. 11, 1959, p.4; ESP, "Amplia-se o Movimento de Apoio a Fernando Ferrari", Jun. 11, 1959, p. 4; JB, "Câmara dos Deputados", Jun. 16, 1959. 1º caderno, p. 5, ed. 138; ESP, "Novo debates na Câmara a respeito do Fundo Monetário", Jun. 16, 1959, p. 4; JB, "Câmara dos Deputados", Jun. 20, 1959. 1º caderno, p. 5, ed. 142; ESP, "Carta de Alkmim desvenda o embuste da posição oficial", Jun. 27, 1959, p. 3; Outtel, Amembassy Rio de Janeiro to Secretary of State, Jun. 12, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>338</sup> JB, "FMI desmente que tivesse tentado intrometer-se na política interna do Brasil", Jun. 13, 1959. 1º caderno, p. 1, ed. 136.

impossible. He also mentioned that people in Brazil equated the Fund with the U.S.<sup>339</sup> Given that Kubitschek had set up a Technical Committee to discuss IMF requirements, the Embassy was faithful that that he had not closed all doors to the Fund though. According to BNDE President Roberto Campos, the President, in fact, seemed calmer and open to alternatives even though he was more adamant than ever on exchange policies.<sup>340</sup> Assistant Secretary Roy Rubottom, on the other hand, was astonished to learn that Kubitschek had publicized IMF matters. He expected Brazil to discuss with the U.S. quietly and emphasized to Brazilian officials the necessity of distinguishing the IMF from the U.S. Moreover, following the decision that U.S. officials had reached in early June (at the time when the Fund refused the Brazilian program proposal), Rubottom insisted that the Eximbank would only discuss financial issues with Brazil alongside the Fund.<sup>341</sup> U.S. Embassy officials publicly reiterated that financial assistance would not be granted: Washington would only assist in negotiations to refinance Brazil's foreign commitments.<sup>342</sup>

As U.S. Embassy officials thought, by mid-June, Kubitschek indeed seemed more prone to resume negotiations with the IMF. He promised to the Embassy that he would do whatever possible to work out a solution for the impasse with the Fund within his limits of accommodation.<sup>343</sup> The national press also publicized that the banker Walter Moreira Salles, who was going to replace Ernani Peixoto as Brazilian Ambassador to the U.S., was going to head a mission to recommence discussions with the Fund and to get in good terms with Washington.<sup>344</sup> Salles also appeared prone to get this matter over with. He cautioned U.S. Embassy officials that the remaining of the Kubitschek administration was critical to U.S.-Brazilian relations: the possibility of Kubitschek moving closer to communism was a distinct threat. In Salles' views

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<sup>339</sup> "Synopsis of State and Intelligence material reported to the President", Jun. 10-11, 1959, EPL, White House Office, Office of the Staff Secretary: Records, Subject Series, Alphabetical Subseries, Box 14, Folder Intelligence Briefing Notes, Vol.1(8).

<sup>340</sup> Embtel 1804, Amembassy to Secretary of State, Jun. 11, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>341</sup> Memo, "Brazil's Present Position regarding IMF", Jun. 10, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>342</sup> Outtel, Amembassy to Secretary of State, Jun. 13, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>343</sup> "Synopsis of State and Intelligence material reported to the President", Jun. 15, 1959, EPL, White House Office, Office of the Staff Secretary: Records, Subject Series, Alphabetical Subseries, Box 14, Folder Intelligence Briefing Notes, Vol.1(8).

<sup>344</sup> JB, "Moreira Sales será o Embaixador em Washington", Jun. 18, 1959, 1º caderno, p. 1, ed. 140.

reaching an agreement with the Fund was the ultimate solution for Brazilian problem.<sup>345</sup> In fact, Kubitschek did not “disrupt relations” with the IMF as most authors assume given that he intended to resume negotiations promptly after the breakup.<sup>346</sup> The act was a symbolic breakup, even though he, indeed, broke down negotiations. It seems that Kubitschek turned technical disagreements with the Fund into a political act, as some authors sustain.<sup>347</sup> According to Maran (1992), he aimed at conquering support to run for a second mandate in the 1965 presidential elections – at that time reelection was prohibited under the 1946 Constitution. The symbolism of his attitude is even more evident as he made a public discourse about the breakup that rose nationwide appeal after manifesting his wishes to resume negotiations with the IMF to U.S. officials.

On June 17, Kubitschek addressed, at the presidential Catete Palace, industrialists, students, Congress members, Luís Carlos Prestes, leader of the Brazilian Communist Party (*Partido Comunista Brasileiro, PCB*), and two thousand protesters holding signs in favor of trade and diplomatic relations with the USSR and China. During the speech, he did not mention intentions to reopen discussions with the Fund and placed disagreements on technical grounds. Also, he sustained that Brazil could not remain a commodity export country vulnerable to foreign importers and called Latin American countries to fight for freedom. Kubitschek closed his speech stating that Brazil’s “friends are those who comprehend that here, for us, to do the housekeeping is to enhance our richness, is to grow our economic power”.<sup>348</sup> The leftist press, City Council members, and labor leaders congratulated him. The Majority leader in Congress declared the support of 171 deputies.<sup>349</sup> Thousands of letters to Kubitschek arrived on a daily basis. Mayors of

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<sup>345</sup> Outtel, Amembassy to Secretary of State, Jun. 15, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; “Synopsis of State and Intelligence material reported to the President”, Jun. 16, 1959, EPL, White House Office, Office of the Staff Secretary: Records, Subject Series, Alphabetical Subseries, Box 14, Folder Intelligence Briefing Notes, Vol.1(8).

<sup>346</sup> For this viewpoint see Benevides (1979, chap. 5), Bojunga (2001, p. 525-533), Daré (2004, chap. 3), Fassy (2000, p. 88-93), Lopes (2006, chap. 9), Leopoldi, (1991), Leopoldi (2000, chap. 8), Hensel et al. (1998), Malan (2007), Maran (1992), Maranhão (1994, p. 56-61), Oliveira (2005, chap. 4), Pires (2006, p. 107-131), Silva (2000), Skidmore (2000, chap. 5), Villela (2011), and Young (2014).

<sup>347</sup> See, for instance, Daré (2004, chap. 3), Fassy (2000, p. 88-93), Malan (2007), and Oliveira (1993, chap. 2).

<sup>348</sup> ESP, “O Presidente evita fazer críticas diretas ao FMI”, Jun. 18, 1959, p. 48; JB, “Manifestantes foram ao Catete apoiar o Governo no caso do F.M.I.”, Jun. 18, 1959. 1º caderno, p. 4, ed. 140; “Presidência da República”, Arquivo Nacional, Arquivo da Agência Nacional, Box Noticiário de Rádio, junho 1959, Folder “A voz do Brasil” 17/6/1959.

<sup>349</sup> JB, “Vereadores apoiaram, com a UDN de fora, voto de louvor ao Presidente: FMI”, Jun. 13, 1959. 1º caderno, p. 7, ed. 136; JB, “Alkmim apóia a atitude do Presidente da República em relação ao Fundo Monetário”, Jun. 15, 1959. 1º caderno, p. 5, ed. 137; Intel 132, US Consulate in São Paulo to Amembassy, Jun. 19, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 129, Folder 501 Financial Matters. General July-December 1959; “Congresso Nacional”,

many cities, workers, public employees, artists and other groups praised his patriotic, nationalistic and brave act.<sup>350</sup> Finance Minister Lucas Lopes, BNDE President Roberto Campos, and other Brazilian officials, on the other hand, condemned his gesture. For them, Kubitschek envisaged political gains (CAMPOS, 2004, p. 362; LOPES, 1991, p. 251-252).<sup>351</sup>

State Department officials remained firm regardless of Kubitschek's speech: Washington would not alter its foreign financial assistance policy toward Brazil. To minimize repercussions of this stringent position, the U.S. would assist the country in negotiations to reschedule its debt service.<sup>352</sup> According to Rabe (1988), the deterioration of U.S.-Cuban relations throughout 1959, which followed the Cuban Revolution of January, encouraged U.S. officials to pay closer attention to Latin American financial needs (particularly because the Revolution stirred up Latin American people, who urged for economic development and social justice). However, despite increasing Cold War tensions in the hemisphere, the U.S. government remained stiff, not assisting the Brazilian government.

### *3.3 The aftermath*

Kubitschek's act echoed throughout Latin America. The New York Times reported that "a rebellion" against the IMF was shaping up. Matters involved went "to the heart of the relationship between economic crisis and political instability in the hemisphere". Washington was to blame for "intervening in the internal affairs of Latin American countries" by "demanding adherence to IMF demands".<sup>353</sup> The Brazilian press claimed that Latin American countries were not satisfied with IMF operations. Peru had temporarily suspended negotiations to withdraw from the Fund. The Chilean press asserted that Latin American leftist political forces were pleased

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Arquivo Nacional, Arquivo Agência Nacional, Box Noticiário de Rádio, junho 1959, Folder "A voz do Brasil" 26/6/1959.

<sup>350</sup> "Presidência da República", Arquivo Nacional, Arquivo Agência Nacional, Box Noticiário de Rádio, junho 1959, Folders "A voz do Brasil" 19/6/1959; "A voz do Brasil" 20/6/1959; "A voz do Brasil" 22/6/1959; "A voz do Brasil" 23/6/1959; "A voz do Brasil" 24/6/1959; "A voz do Brasil" 25/6/1959; "A voz do Brasil" 26/6/1959; "A voz do Brasil" 27/6/1959; "A voz do Brasil" 30/6/1959.

<sup>351</sup> Interview Octávio Bulhões Bulhões (1989) and Interview Dênio Nogueira (1989, p. 39).

<sup>352</sup> Intel, State Department to Amembassy, Jun. 17, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959; Octávio Paranaguá to Ernani Peixoto, Jun. 18, 1959, CPDOC-FGV, AEAP, EAP emb 1958.03.06.

<sup>353</sup> Brazilian Embassy to the Ministry of Foreign Affairs, "Fundo Monetário Internacional. Comentários do New York Times", Jun. 17, 1959, Arquivo Histórico do Itamaraty, Missões Diplomáticas Brasileiras, Telegramas (rec.), 1959 (jan.-jun.), Folder 52-1-6.

with the breakup. The “Movement pro-Argentinian Oil” praised Kubitschek’s act.<sup>354</sup> Since anti-U.S. forces in Argentina were urging the Brazilian President to continue the rebellion against elements infringing the Latin American sovereignty, the U.S. Embassy in Buenos Aires asked the U.S. Embassy in Rio de Janeiro how it could show that Brazil was like an ill patient who consults the doctor and then refuses to take the prescribed medicine on the basis that the latter was trespassing his/her private life.<sup>355</sup> The Embassy in Colombia cautioned the State Department that the “consequences for [an] excellent recovery program to date” could be severe if the U.S. appeared to be yielding to Brazilian demands, particularly since excessive political pressures continued to menace stabilization in that country.<sup>356</sup> IMF officials persisted that the Fund was an international organization, not a U.S. agency.<sup>357</sup> However, in fact, Washington used the IMF as its mantle of multilateral anonymity to put forward its foreign economic policy agenda.

Former Secretary of State John Dulles described the Latin American picture as “boiling in many places” to the National Security Council. He found the significance of “Kubitschek’s breach” with the IMF remarkable for this process. The Argentinian President, Arturo Frondizi, was facing fierce communist opposition and could fall because he was fighting inflation. Nevertheless, Dulles persisted that Washington should not change its foreign financial assistance policy toward Brazil. If the U.S. loaned money without an IMF agreement, “the result could be very serious in its long-range consequences for U.S. policy throughout Latin America”.<sup>358</sup> In late June, upon the request of U.S. Senator William Fulbright, the State Department released a report about Brazil’s financial plight, outlining its recurrent attempts and failures to curb inflation in the postwar period. Fulbright stressed that Brazil had failed more than any country in fulfilling its promises before the Fund. Along with Dulles, he sustained that the U.S. should not lend assistance without an IMF-based program that foresaw exchange policies. Moreover, Assistant Secretary Roy Rubottom declared that IMF-Brazilian negotiations were a major problem for

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<sup>354</sup> ESP, “Per Jacobsson Preocupado”, Jun. 16, 1959, p.48; ESP, “A posição do Brasil constitui problema para o FMI e os EUA”, Jun. 16, 1959, p. 48.

<sup>355</sup> Intel, US Embassy in Buenos Aires to Amembassy, Jun. 18, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>356</sup> Intel, Embassy Bogota to Secretary of State, Jun. 17, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>357</sup> ESP, “Per Jacobsson Preocupado”, Jun. 16, 1959, p.48; ESP, “A posição do Brasil constitui problema para o FMI e os EUA”, Jun. 16, 1959, p. 48.

<sup>358</sup> “Discussion at the 410th Meeting of the National Security Council, Thursday, June 18, 1959”, Jun. 18, 1959, EPL, Eisenhower, Dwight D.: Papers as President, 1953-1961, Ann Whitman File, NSC Series, Box 11, Folder 410th Meeting of NSC June 8, 1959.

Washington.<sup>359</sup> In fact, Kubitschek's resistance to adhere to IMF demands could put a U.S. regional interest at risk. As the breakup reverberated throughout Latin America, it could preclude ongoing stabilization programs in the region.

U.S. Embassy officials feared that Kubitschek "will consider it [the State Department's report] a direct slap at him".<sup>360</sup> Rubottom's and Fulbright's statements could trigger "a final straw driving Kubitschek to open conflict with [the] U.S. Govt", thus inflaming public opinion and aggravating anti-U.S. emotions.<sup>361</sup> Such claims, indeed, brought anger to Kubitschek and elements around him, including communists.<sup>362</sup> The Embassy was trying to alleviate these effects.<sup>363</sup> The new U.S. Ambassador to Brazil, John Moors Cabot, was attempting to redress the U.S. image in Brazil given the growing anti-U.S. sentiment and opposition to U.S. private capital after the break down in IMF-Brazilian negotiations.<sup>364</sup> However, Kubitschek continued to rage. He declared to U.S. Embassy officials that he would place his financial needs and economic problems on political grounds to make "the United States willing or unwilling to extend financial aid without politically onerous conditions".<sup>365</sup> Augusto Marzagão, Private Secretary to the presidential candidate Jânio Quadros, was afraid that the IMF situation could lead Kubitschek to an extreme move. He could leave the presidency to Vice-President João Goulart, which could lead to a military coup. According to Marzagão, Kubitschek intended to pull Brazil out of the Fund and to assemble a Latin American front against it.<sup>366</sup> Cabot cautioned the State Department that the ensuing weeks would bring "increasingly difficult and delicate problems in our relations

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<sup>359</sup> ESP, "Relatório do Dep. De Estado sobre a situação do Brasil", Jun. 21, 1959, p. 1; JB, "EUA: Brasil foi país que mais desacatou o FMI", Jun. 21-22, 1959. 1ºcaderno, p. 1, ed. 143; JB, "Com estabilização o Brasil terá maior ajuda dos EUA, diz Departamento de Estado", Jun. 21-22, 1959. 1ºcaderno, p. 4, ed. 143; Outtel, Wallner to Secretary of State, Jun. 21, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>360</sup> Memo, "Report on Brazilian Financial Problems; Senate Committee on Foreign Relations", Jun. 19, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>361</sup> Outtel, Wallner to Secretary of State, Jun. 19, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>362</sup> Outtel, Wallner to Secretary of State, Jun. 22, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>363</sup> Outtel, Wallner to Secretary of State, Jun. 20, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

<sup>364</sup> For a comprehensive account of Cabot's role in Brazil in 1959 and growing opposition to US private capital see Streeter (1994).

<sup>365</sup> Rubottom to the Acting Secretary, "Request for Appointment for Ambassador John Moors Cabot", Jun. 19, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/5-559.

<sup>366</sup> Memo, "Brazil Discussions with International Monetary Fund", Jun. 18, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 128, Folder 501 Financial Matters. General January-June 1959.

with Brazil”.<sup>367</sup> A few days later, the national press announced that Kubitschek already had a plan to guide a trade mission to Moscow.<sup>368</sup>

Officials of the Office of South American Affairs acknowledged to U.S. agencies that “attempts to approach the problem with the Brazilians on an economic basis have failed”. Now, “little” was the chance that IMF-Brazilian negotiations would resume. Kubitschek would most likely influence the choice of his successor in the 1960 presidential elections and “be willing to destroy the climate of Brazil-United States relations in order either to force credits from us or to shift the blame for Brazil’s economic difficulties to this country”. Between providing or refusing loans, U.S. officials suggested a third course of action that included insistence for an IMF agreement.<sup>369</sup>

Providing loans with no strings attached would deepen Brazil’s fiscal burden. The next president would inherit the economic crisis, thus worsening and perpetuating U.S.-Brazilian resentments and diminishing the chances of policy change. Moreover, surrendering to Kubitschek’s “pistol-to-our-head tactics” would result in “extremely serious” consequences to U.S. relations with Latin American countries undergoing stabilization. On the other hand, if the U.S. refused loans, Kubitschek would use the IMF as a scapegoat for economic problems. This attitude would exacerbate anti-U.S. sentiments, encouraging Brazil to approach the Soviets and to assume a neutralist position in foreign affairs. Both options were harmful to U.S. long-term interests. Kubitschek’s prestige (he had nationwide support for the breakup) could not control the 1960 elections so that the next president would not follow an anti-U.S. path. Hence, U.S. officials suggested that Washington kept insisting on an IMF agreement.<sup>370</sup> In recognition of the “delicate political overtones to financial problems facing Brazil at this time”, the Secretary of State Christian Herter decided to make the first (small) concession to Brazil based on political matters. Aside from rescheduling the Brazilian debt service, the Eximbank would assist in negotiations to refinance debts with other creditors, such as European and New York bankers.<sup>371</sup> Even so, U.S. direct financial assistance would not be forthcoming.

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<sup>367</sup> Rubottom to the Acting Secretary, “Request for Appointment for Ambassador John Moors Cabot”, Jun. 19, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/5-559.

<sup>368</sup> JB, “Presidente já dispõe de plano para orientar reatamento com a URSS”, Jun. 25, 1959, p.1.

<sup>369</sup> Offmemo, Briggs to Rubottom, “Political aspects of Brazilian balance of payments situation and our involvement therein”, Jun. 22, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>370</sup> Ibid.

<sup>371</sup> Outtel, Herter to Embassy, Jun. 24, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

On June 30, the Brazilian Foreign Minister Francisco Negrão de Lima informed Herter that the newly-nominated Ambassador Whalter Salles would finally open discussions with the U.S. to find a solution for problems with the IMF. Lima asked for his close attention as IMF matters reached U.S.-Brazilian relations. Herter replied that U.S. officials would follow these issues with great interest.<sup>372</sup> Kubitschek also promised U.S. officials to seek a public occasion to dispel the anti-U.S. trend in Brazil and assured that Salles would come to terms with the Fund (in fact, Kubitschek did not “break up relations” with the IMF).<sup>373</sup> However, U.S.-Brazilian discussions would not be easy. Expansionary monetary policies (Kubitschek had abandoned the Monetary Stabilization Plan – former President of the Bank of Brazil, Sebastião Almeida had replaced Lucas Lopes in the Ministry of Finance) were deepening the financial burden.<sup>374</sup> For U.S. Embassy officials, a more loosen credit policy and higher compensations for the financing coffee of stocks were “striking evidence” that Kubitschek wanted to maintain the political support of business and major agricultural groups (mainly coffee growers).<sup>375</sup> On top of this, the Brazilian government was facing severe difficulties to finance deficits with no foreseeable creditors to provide long-term low-interest loans.<sup>376</sup>

Salles urged U.S. officials to support negotiations for obtaining US\$ 50 million with the Federal Reserve Bank of New York. Rio de Janeiro would only be able to finance its deficits with short-term loans and gold as collateral.<sup>377</sup> Initially, State Department officials decided not to “take responsibility for Brazilian efforts [to] meet financing problems apart from rescheduling debts”.<sup>378</sup> Salles insisted for them to reconsider this decision, otherwise the public perception of

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<sup>372</sup> Francisco Negrão de Lima to Christian Herter, Jun. 30, 1959, Arquivo Histórico do Itamaraty, Missões Diplomáticas Brasileiras, Telegramas (exp.), 1959, Folder 52-3-2; Brazilian Embassy to the Ministry of Foreign Affairs, “Fundo Monetário Internacional. Balanço de pagamentos do Brasil”, Jul. 22, 1959, Arquivo Histórico do Itamaraty, Missões Diplomáticas Brasileiras, Telegramas (rec.), 1959 (jul.-dec.), Folder 52-1-7; William Briggs to Woodruff Wallner, Jul. 10, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 121, Folder 320 Brazil-U.S. 1959-61; Operations Coordinating Board, Jul. 13, 1959, EPL, White House Office, National Security Council Staff: Papers, 1948-61, OCB Secretariat Series, Box 10, Folder OCB 319.1 Activity Report (File #5) (4).

<sup>373</sup> Outtel, Wallner to Secretary of State, Jul. 4, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 129, Folder 501 Financial Matters. General July-December 1959.

<sup>374</sup> Paul J. Brand and Edgar Jones to Per Jacobsson, “Brazil - Change in Exchange Rate for Coffee”, Jun. 30, 1959, IMF, Central Files, Country Files, Brazil, Box 5, Folder C/Brazil/420 Exchange Controls and Restrictions 1956-1959.

<sup>375</sup> Intel 14, Amembassy to Secretary of State, Jul. 2, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>376</sup> Octávio Paranaguá to Ernani Peixoto, Jul. 14, 1959, CPDOC-FGV, AEAP, EAP emb 1958.03.06.

<sup>377</sup> Intel, Embassy to Secretary of State, Jun. 25, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

<sup>378</sup> Outtel, Murphy to Embassy, Jun. 25, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/5-259.

Washington's willingness to assist Brazil would shift negatively. Moreover, Kubitschek would certainly be able to resume negotiations with the Fund if there was "cooling off period" in U.S.-Brazilian relations, during which this credit would ease the financial strain.<sup>379</sup> Salles' remarks encouraged State Department officials to make a second (small) concession to Rio de Janeiro based on political matters. They asked the Federal Reserve Bank to approve Salles' loan request, hoping to "improve climate for such [balance of payments loans] discussions and support our political objectives of maintaining close and friendly relations with Brazil".<sup>380</sup> The Bank, accordingly, opened a line of credit against Brazilian gold.<sup>381</sup>

At that time (early July), State Department officials were analyzing whether to continue to condition U.S. loans to an IMF agreement since the Kubitschek administration's most likely poor stabilization performance would depreciate the character of the Fund.<sup>382</sup> However, apparently, in U.S. officials' eyes, Brazil no longer deserved the special attention it used to receive in the years before World War II.<sup>383</sup> Assistant Secretary Roy Rubottom remembered that Latin American countries were keenly interested in U.S. moves toward Brazil. "Serious repercussions would certainly ensue" if elements opposing IMF-backed programs in those countries noticed that Washington would assist Rio de Janeiro. Under these circumstances, State Department and Embassy officials agreed that Brazil would have to sign an IMF agreement so that not to harm U.S.-Latin American relations. Moreover, in order not to impugn the Fund's authority, the Brazilian government could determine a stabilization program within its political and economic limits.<sup>384</sup> The Embassy then informed Brazilian officials that the Fund would be flexible towards credit and fiscal policies but would probably remain rigid in exchange matters.<sup>385</sup> Kubitschek was incensed. He "would not accept the IMF program because [it was] politically impossible and that his position on this score had wide popular support". Kubitschek claimed that the "Brazilian

<sup>379</sup> Intel 43, Amembassy to Secretary of State, Jul. 6, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>380</sup> Letter, Douglas Dillon to William Martin, Jul. 7, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>381</sup> Operations Coordinating Board, Jul. 13, 1959, EPL, White House Office, National Security Council Staff: Papers, 1948-61, OCB Secretariat Series, Box 10, Folder OCB 319.1 Activity Report (File #5) (4); Octávio Paranaguá to Ernani do Amaral Peixoto, Jul. 14, 1959, CPDOC-FGV, AEAP, EAP emb 1958.03.06.

<sup>382</sup> Letter, Boonstra to Woodruff Wallner, Jul. 2, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 129, Folder 501 Financial Matters. General July-December 1959.

<sup>383</sup> For US-Brazilian special relations in the first half of the 20<sup>th</sup> century see Burns (1966).

<sup>384</sup> Letter, Woodruff Wallner to Clare Boonstra, Jul. 10, 1959; Letter, Boonstra to Woodruff Wallner, Jul. 17, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 129, Folder 501 Financial Matters. General July-December 1959.

<sup>385</sup> Embdes 69, Amembassy to State Department, "Possibility that conversations with IMF will be resumed", Jul. 21, 1959, NARA, RG 84, RFSP, CGR 1941-1963, Box 129, Folder 501 Financial Matters. General July-December 1959.

people believed [that the] IMF [was] simply [a] mouth-piece of [the] U.S. Government and its tough conditions have consequently awakened [a] wave of strong resentment against [the] U.S.”. U.S. Ambassador John Cabot just observed that the “IMF was not as inflexible as he seemed to think”.<sup>386</sup>

Rubottom was extremely irritated. There was no point in establishing a “cooling off period”, as Salles had suggested, when Kubitschek was the only one heated up. For him, such a period was just a way of postponing substantive action. Salles would have to resume discussions with the IMF as soon as possible.<sup>387</sup> Cabot, on the other hand, sustained that the Brazilian people needed “time to forget about his [Kubitschek’s] blast against the IMF” and inferred that “IMF stabilization measures are about as popular as the plague” in Latin America.<sup>388</sup> In mid-August, accordingly, Salles assured U.S. officials that Rio de Janeiro continued prone to resume negotiations with the IMF.<sup>389</sup> Brazilian officials had been working on a new stabilization program proposal to present to the Fund.<sup>390</sup> However, State Department officials remained skeptical. Various policy statements of senior officials kept evidencing that “Kubitschek and his most influential advisers believe that the United States cannot run the risk of withholding support from Brazil”.<sup>391</sup>

Apparently, Brazilian officials nurtured a different perception about the country’s essentiality for the U.S. policy in Latin American as that of U.S. officials. José Sette Câmara, the head of Kubitschek’s staff, publicly stressed that either the U.S. “faces the problem now, aiding us with basic measures [...], or it will have to do it later, under pressure from the always growing danger of Soviet expansion”. Brazilian Embassy officials also manifested that the U.S. should recognize “its obligation to supply it [foreign assistance]”, otherwise “assistance will be sought from Russia with Brazil accepting the risks”. State Department officials were certain that Kubitschek believed that “in a showdown the United States would have to aid Brazil, in amounts

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<sup>386</sup> Intel, Amembassy to Secretary of State, Jul. 22, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/5-559.

<sup>387</sup> Rubottom to Cabot, Jul. 24, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/5-559.

<sup>388</sup> Cabot to Rubottom, Aug. 3, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/5-559.

<sup>389</sup> Intel 245, Amembassy to Secretary of State, Aug. 11, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>390</sup> Embdes 110, Amembassy to State Department, “Brazilian stabilization program”, Jul. 28, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>391</sup> Offmemo, Alton Hembra to Boosntra, “Brazilian views regarding inevitable U.S. policy”, Aug. 12, 1959, NARA, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

and on terms of the latter's choosing, and without regard to a stabilization agreement with the IMF".<sup>392</sup> On top of this, criticism continued to rise upon the IMF's and U.S.' attitudes. For SUMOC Director Herculano Fonseca, the argument that balance of payments problems always stemmed from excessive imports was not suitable for Latin America. The deterioration of terms of trade (drop in commodities prices) was the real problem. Unless Washington wished to receive mounting financial assistance requests, the IMF had to revise its policy.<sup>393</sup> In late August, Ambassador Walter Salles confirmed what U.S. officials already suspected: an IMF agreement was unlikely due to the Brazilian political situation.<sup>394</sup>

Furthermore, some statements were leading U.S. Embassy officials "to suspect [that the] GOB [government of Brazil] may be considering some new step affecting United States interests". Foreign Minister Horácio Lafer expressed his concern to U.S. Ambassador John Cabot that a "growing resentment in Brazil fancied United States obstruction [of] Brazilian coffee exports to [the] Soviet Union", advising that it was not Washington's call to prevent Rio de Janeiro from engaging in regular trade with the Soviets. Lafer also publicly announced that the Ministry of Foreign Relations was studying commerce with Russia, and Ambassador Edmundo Penha Barbosa da Silva already had information about this plan. For Embassy officials, there was little doubt that the Kubitschek administration was considering trade relations with the USSR. The matter was whether diplomatic relations were also in consideration.<sup>395</sup>

Despite U.S. officials' concerns, Kubitschek lived up to his promises. In October, Brazilian officials approached the IMF to withdraw from Brazil's first *tranche* of US\$ 48 million. A month before, the Fund had reviewed the quota share of member countries. The revision came from Washington's decision to increase the IMF's resources and to elaborate other assistance programs, as the existing was "either inadequate or not designed" to cope with Latin America's persistent balance of payments deficits. Brazil's quota was then revised upward from US\$ 150 to US\$ 280 million. Since the country had paid part of its debt to the IMF throughout 1959 and given its larger quota, Brazil could withdraw a higher first *tranche* without the need of a

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<sup>392</sup> Ibid.

<sup>393</sup> Embdes 234, Amembassy to State Department, "Miscellaneous financial matters", Aug. 31, 1959; Embdes 267, Amembassy to State Department, "Miscellaneous financial matters", Sep. 10, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>394</sup> Embdes 208, Amembassy to State Department, "Miscellaneous financial matters", Aug. 24, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4316, Folder 832.10/7-159.

<sup>395</sup> Intel 460, Amembassy to Secretary of State, Sep. 16, 1959, NARA, RG 59, GRDS, CDF 1960-1963, Box 2469 Folder 611.32/5-559.

stabilization program (compliance with an IMF-based program was mandatory from the third *tranche* onward).<sup>396</sup> However, the IMF staff disapproved the Brazilian government's request. The country was not making efforts related to domestic credit, fiscal policy and exchange rate system and was using short-term loans extensively to finance its deficits, deepening the debt burden. Fund officials advised Brazilian officials to seek financial assistance from other sources.<sup>397</sup>

Assessor Augusto Schmidt threatened U.S. Ambassador John Cabot that, unless Washington “accept the responsibility for developing the economy of Latin America [...] on the terms postulated by Brazil, the attraction of a Soviet-type economic organization would become irresistible to Latin American countries”. Secretary of State Christian Herter was astonished by Schmidt's claims and advised Cabot to avoid him “in so far as possible”.<sup>398</sup> In early December, Bank of Brazil Director Paulo Pooch informed the U.S. Embassy that Kubitschek was not even considering initiating discussions with the IMF or Washington anymore. The government was “living on a day-to-day basis and not giving any thought at all to the future”.<sup>399</sup> A few days later, the national press announced that Ambassador Edmundo Barbosa would head the Brazilian Commercial Mission to Moscow, under the instructions of Foreign Relations Minister Horácio Lafer. The Kubitschek administration had just signed a commercial agreement with Russia for exporting coffee and cocoa and cocoa derivatives in exchange for oil and oil derivatives and equipment for the oil industry.<sup>400</sup> According to Caterina (2018), Kubitschek was careful not to renew diplomatic relations with the Soviets at that time mostly due to intense internal opposition coming from the military. In light of the critical state of U.S.-Brazilian relations, U.S. Ambassador John Cabot made a plea for Assistant Secretary Roy Rubottom to assist Brazil. However, Rubottom rejected his suggestions (STREETER, 1994).

According to Rabe (1988, chap. 8), in 1960, the Eisenhower administration shifted its foreign policy towards Latin American considerably. U.S. officials were alarmed by the

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<sup>396</sup> “Developments in Latin American economic, EPL, Thomas C. Mann Papers, 1950-61, Chronological file, Box 1, Folder Chron File Apr.-June 1959 (1).

<sup>397</sup> Offmemo, Irving Friedman, Gesualdo Costanzo and Joseph Gold to The Managing Director, “Brazil-Use of First Credit Tranche”, Oct. 14, 1959, Central Files, Country Files, Brazil Files, Box 18 File 6 Folder C/Brazil/1710 Exchange Transactions.

<sup>398</sup> Herter to Cabot, Oct. 28, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 2469, Folder 611.32/5-559.

<sup>399</sup> Embdes 591, Amembassy to State Department, “Possible French loan to Brazil, possible exchange control revisions and other matters of special interest to the export-import bank and the IMF”, Dec. 10, 1959, NARA, RG 59, GRDS, CDF 1955-1959, Box 4317, Folder 832.10-10.259

<sup>400</sup> Embdes 741, Amembassy to State Department, “Brazil-USSR Trade and Payments Agreement”, Jan. 19, 1960, NARA, RG 59, GRDS, CDF 1955-1959, Box 1328 Folder 632.61/11-161. For further details on the USSR-Trade agreement of December 1959 see Caterina (2018).

revolutionary ferment that the Cuban Revolution brought about. Latin American people kept asking for economic and social progress, and saw Fidel Castro as a hope for change. At the beginning of the year, Eisenhower took a tour throughout the region and was stunned by the poverty and terrible living conditions. After the trip, says Rabe, he recognized that the U.S. foreign policy, which had been focused on fostering free trade and encouraging private investments, had failed. In mid-1960, he launched the Social Progress Trust Fund to assist social infrastructure projects as a way of battling communism. However, contrary to Rabe's arguments, evidence gathered here show that the U.S. position towards Kubitschek's Brazil remained stiff until the end of his term in 1961, even though the state of U.S.-Brazilian relations was critical.

In September 1960, Cabot cautioned the State Department that the U.S.-Brazilian relations "are now, or will shortly be, at a crossroads". Rio de Janeiro had possibly opted to follow an independent foreign policy, which meant "the breakdown of the inter-American system" (HILTON, 1981, p. 623). According to Streeter (1994), Brazilians showed a massive preference for a more independent foreign policy in public opinion polls. By 1961, more than half of the people surveyed declared a preference for a neutral stand in the Cold War, and about three-quarters favored relations with Russia and China. Against this background, in October 1960, Cabot advised Secretary of State Christian Herter that the "time has come [to] demonstrate [that the] U.S. Government [is] prepared [to] provide reasonable help to Brazil". It was "especially important to provide such relief [...] as a means of helping [the recently-elected President] Jânio Quadros [to] establish his governmental program in [a] atmosphere containing [a] minimum element of desperation". The U.S. government should not "put him in [the] position of finding necessary to beg for U.S. help immediately upon assuming office".<sup>401</sup> Embassy official Howard Cottam recognized that "the mantle of multilateral anonymity does not hold in this case, because [the] GOB [Government of Brazil] has already presented us to its public as the unseen bogey man in any IMF action".<sup>402</sup>

However, the State Department believed that "long-term refunding at this time" implied technical and policy problems. Furthermore, to assist Kubitschek could be "hazardous". Quadros would complain that "such action shifts obligations forward to Kubitschek advantage and

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<sup>401</sup> Intel 507, Amembassy to Secretary of State, Oct. 11, 1960, NARA, RG 59, GRDS, CDF 1960-1963, Box 1584 Folder 732.5-MSP/1-2160.

<sup>402</sup> "Economic Stress in Brazil-United States Relations", Oct. 1960, NARA, RG 59, CDF 1960-1963, Box 2412, Folder 832.00/10-1060.

Quadros detriment rather than aiding country”. U.S. officials then deliberated that the American policy “could be again reviewed after Quadros inauguration in light [of the] new Government’s programs and policies”, refusing Ambassador Cabot’s pleas for the U.S. to assist Kubitschek’s Brazil.<sup>403</sup> Assistant Secretary for Economic Affairs Thomas Mann queried the “pros and cons on the questions of whether, during the Kubitschek regime, we could have done more for Brazil without undermining the IMF”. However, what mattered was “to get off to a new and imaginative start with the Quadros regime”. For him, it was important “to exchange ideas and have a meeting of the minds on what we can do and what Brazil can do to get our relations back to the track”.<sup>404</sup> In fact, to weaken the IMF by providing direct loans to Brazil could put a U.S. global economic interest at stake. The Fund was a key element of the U.S. foreign economic policy to foster free trade not only in Brazil and Latin America but in other regions as well, such as Europe.

By the time when he finished his term in 1961, Kubitschek had left an ambiguous legacy to Brazil’s economic development. On the one hand, several goals of his economic development program, the Targets Plan, were accomplished, providing a key basis for the expansion of the country’s industrialization in the decades to come. On the other hand, his government left Brazil in severe economic and financial strains, including a growing inflation rate, high-interest short-term foreign liabilities, and increasing deficits in the balance of payments – elements that would contribute to the destabilization of the Brazilian democracy in the early 1960s.<sup>405</sup>

In early 1961, President Jânio Quadros requested a U.S. loan to deal with Brazil’s fragile financial situation. The John F. Kennedy (1961-1963) administration based its decision on political grounds. Brazil’s support was crucial to the success of the recently-launched Alliance for Progress, a major U.S. economic assistance program for Latin America. Moreover, Quadros had compromised to move away from his Independent Foreign Policy (PEI), which defended the right to self-determination and sustained that Brazil could approach the Soviets while preserving close relations with the West (Quadros opposed intervention against Cuba and expanded trade and renewed diplomatic relations with the USSR). Based on these political considerations, the U.S. government asked the IMF to relax its demands. Washington provided substantial economic

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<sup>403</sup> Outtel 505, State Department to Amembassy, Oct. 20, 1960, NARA, RG 59, GRDS, CDF 1960-1963, Box 1584 Folder 732.5-MSP/1-2160.

<sup>404</sup> Letter, Thomas Mann to The Under Secretary of State, “Evaluation Report from Brazil”, Nov. 2, 1960, NARA, RG 59, CDF 1960-1963, Box 1584 Folder 732.5MSP/1-2160.

<sup>405</sup> For the Targets Plan and the fragile financial situation in which Kubitschek left his successor Jânio Quadros see Faro and Silva (1991), and Loureiro (2014, p.327).

assistant to Quadros and granted loans even after Rio de Janeiro presented a poor stabilization performance under an IMF-supported program with which Quadros had agreed. In August, Quadros suddenly resigned, leaving the presidency to Vice-President João Goulart. Washington did not welcome Goulart, who was linked to the labor movement. As Goulart moved closer to the PEI's guidelines, even threatening (as Kubitschek had done in 1958) to turn to the Soviets in the absence of U.S. loans, Washington hardened its stance, conditioning credits to an IMF agreement. The failure to reach an agreement with the Fund prevented Brazil from obtaining foreign resources. The economic and social crisis that ensued led to the 1964 civil-military coup, ousting Goulart from power.<sup>406</sup> Although some authors assert that in the 1950s and 1960s the U.S. employed economic assistance to change the political orientation of Brazilian governments, evidence gathered here shows that Eisenhower had a much more economic approach to the U.S. foreign policy in Latin America than Kennedy.<sup>407</sup>

#### *Concluding remarks*

This chapter analyzed U.S.-Brazilian and IMF-Brazilian financial negotiations in 1959. It also looked into the Fund's stabilization demands to the Brazilian government, the country's responses to it and how financial discussions impacted upon U.S.-Brazilian relations in the period. In 1959, Washington continued to employ the IMF as its mantle of multilateral anonymity. The Fund was an essential element in the U.S. foreign economic policy to encourage free trade, and to create a favorable climate for foreign private investments and enterprises, particularly by eliminating exchange restrictions to guarantee the free flow of the dollar in the world. The U.S. government maintained a tough stance on Rio de Janeiro by demanding adherence to a second IMF standby agreement even though Cold War tensions were building up in Latin America, and even if U.S.-Brazilian resentments were widening. U.S. economic interests were ahead of political concerns. Moreover, giving in to Kubitschek's pressures could harm U.S. bilateral relations with other Latin American countries which were undergoing stabilization, as well as jeopardize the implementation of IMF-based programs throughout the region. Granting direct financial assistance to Brazil also could undermine the IMF as a competent international

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<sup>406</sup> For further information on US-Brazilian economic relations during the administration of Jânio Quadros and João Goulart see Loureiro (2014, 2017b).

<sup>407</sup> See, for instance, Loureiro (2014).

agency in the global financial system, putting a U.S. global economic interest at stake. By maintaining this stringent policy, U.S.-Brazilian relations deteriorated considerably.

In 1959 (as in 1958), Kubitschek approached the IMF hesitantly and after intense pressure from Washington. Financial negotiations were not easy. Kubitschek feared that further internal price increases above the levels that the small exchange reform of January had already raised would trigger social unrest and unforeseen consequences. However, the IMF was adamant. In that year, European countries massively eliminated exchange restrictions and Latin American countries, including Argentina, were living up to their promises before the Fund. The Brazilian government would then have to approve a comprehensive exchange reform as well. Although Kubitschek resisted, his views diverged from those of some important Brazilian officials. Finance Minister Lucas Lopes, BNDE President Roberto Campos, and other officials kept playing a double-game, joining ranks with IMF officials. Their attitude shows that there was not a consensus as to what course the country should follow to attain economic development. It also elucidates the “routine of dependence” – Brazilian officials, in fact, promulgated IMF economic principles.

In June 1959, the IMF and Rio de Janeiro reached an impasse. Kubitschek then demanded the return of the Brazilian negotiators to Brazil. Kubitschek did not sever ties with the IMF given that he manifested intentions to conclude financial negotiations soon afterward – Brazilian officials even approached the IMF again to withdraw from the Fund. Hence, the Brazilian President made of the breakup a political act, conquering nationwide support. During the second half of 1959, U.S.-Brazilian resentments furthered. Washington maintained a hardline stance on the Kubitschek administration by not lending assistance even though Brazilian officials hinted to approach the Soviets, and despite escalating U.S.-Soviet strain following the Cuban Revolution. In December 1959, Kubitschek reestablished trade relations with Russia, embracing a more globalist foreign policy. Washington did not assist Kubitschek until the end of his term in 1961. The Brazilian President then left an ambiguous legacy for the country’s national development. On the one hand, he furthered Brazil’s industrial basis. On the other hand, he left the country in serious financial and economic strain, which contributed to the destabilization of the Brazilian democracy in the early 1960s.

## CONCLUSION

To understand the conditions that made Juscelino Kubitschek's Brazil to sever negotiations with the IMF in June 1959 – in the midst of discussions for a standby agreement – we must look into U.S.-Brazilian relations in the late 1950s. The Kubitschek administration only sought financial assistance from the Fund in 1958 because Washington conditioned U.S. loans to a standby agreement with the IMF. Since a direct U.S. demand for Brazil to implement a harsh stabilization program would damage U.S.-Brazilian relations, Washington decided to put this responsibility on an international financial organization. Hence, the Dwight Eisenhower administration chose to employ the IMF as a mantle of multilateral anonymity, hiding Washington's own agenda. This harsh U.S. position was economically motivated. Washington employed American and the Fund financial assistance in order to change Brazil's domestic economic policies, creating a favorable environment for foreign private capital in the country. In other words, the U.S. government decided to use a multilateral organization – in this case, the International Monetary Fund –, and not its own governmental institutions (the State Department), to advance an economic agenda in Brazil. The estrangements between Kubitschek's Brazil and the IMF evolved as the Fund's stabilization demands increased, especially when it came to exchange rate reform, and as the country did not live up to economic policy targets agreed with the Fund. Consequently, U.S.-Brazilian resentments deepened, encouraging the Kubitschek administration to pursue a globalist foreign policy, which included overtures to the Soviet Bloc. This tough U.S. position remained constant throughout the years of 1958-1959, even though Moscow's offensives in the hemisphere increased substantially.

The Eisenhower administration did not assume this hardline position with Brazil since the beginning of the Kubitschek government though. The U.S. policy for foreign financial assistance towards Brazil changed during the years of 1956-1958. In 1956, Kubitschek reached out to the U.S. government for requesting economic cooperation in support of his five-year, state-led economic development program – the Targets Plan (*Plano de Metas*). At that time, the U.S. foreign economic policy focused on employing U.S. financial assistance to incentive free market initiatives in the hemisphere, protecting and exporting U.S. private capital to Latin America. Because the Kubitschek administration made a commitment with Washington to set up a favorable environment to attract foreign private capital – which essentially included a pledge to

control price increases through an Anti-Inflation Program –, the State Department decided to support Kubitschek's Targets Plan. According to U.S. officials, to deny financial aid at that moment could lead to a deterioration of cordial relations with Brazil at the outset of the Kubitschek government, opening doors to USSR offensives. Hence, it was decided that the U.S. would make financial concessions to Rio de Janeiro in order to maintain friendly relations with Brazil, driving away any prospects of approximation between the Kubitschek administration and the Soviets. However, financial assistance would be given while Brazil sought to stabilize its economy. In 1956 and 1957, the country failed to meet the Anti-Inflation Plan's budget and credit ceilings – most likely due to internal difficulties. In early 1958, U.S. officials changed its previous approach, deciding to condition new U.S. loans to Brazil to an IMF standby agreement. Their decision rested on economic grounds. Brazil had reached an extremely serious economic situation due to rising inflation and deepening external deficits. U.S. officials' conclusions then was that to put off the implementation of anti-inflation policies in the Brazil would only end up harming U.S.-Brazilian relations in the long-term. Even though Brazilian officials resisted vehemently, and despite the fact that President Kubitschek threatened to reestablish relations with the Soviet Bloc if Washington did not change its position, U.S. officials remained firm.

In fact, the Eisenhower administration used the Fund as its mantle of multilateral anonymity. In the 1950s, the U.S. employed IMF loans to pressure countries to support a U.S. economic foreign agenda. It was particularly important to eliminate exchange restrictions which limited access to the free international flow of the dollar. As a multilateral institution focused on making sure that its members opened their foreign accounts, the Fund was an efficient mechanism for this purpose. Brazil started negotiations with the IMF in March 1958, aiming at signing its first standby agreement. Negotiations were difficult, especially regarding the country's exchange policy. IMF officials demanded that Brazil unified its multiple exchange rates system. However, Brazilian officials were hesitant to do it since the format of the exchange system was considered crucial for the economy and the industrialization process. The Brazilian government approached the U.S. many times trying to negotiate a financial assistance package directly with Washington. Nevertheless, the U.S. government's position remained stable regardless of Kubitschek's Pan-American Operation (which called for greater U.S. financial assistance to Latin America), and growing U.S.-Brazilian resentments. Rio de Janeiro was finally compelled to relinquish to a stabilization program that, by no means, was solely devised by Brazilian

authorities, opening doors to closer interaction between local and IMF officials. The country's stabilization performance under the standby agreement was poor despite the so-called Monetary Stabilization Plan (PEM). There were political, economic, social and bureaucratic difficulties in complying with budget, credit and exchange policies. Given Brazil's failure, U.S. officials foresaw severe difficulties for the country to obtain further U.S. loans in 1959.

In 1959, the Brazilian government was again obliged to approach the Fund after severe pressure from Washington. Kubitschek was adamant on exchange matters. Further increases in internal prices due to higher exchange rates for preferential imports could cause intense social unrest. However, the Fund was intransigent as well. In that year, European countries restored exchange convertibility, and some Latin American countries, such as Argentina, were successfully implementing IMF-based programs. Rio de Janeiro would then have to undergo a comprehensive exchange reform. Kubitschek resisted, whereas some Brazilian officials played a double-game as they concurred with IMF and U.S. views. In June, Kubitschek and the IMF reached an impasse. The President broke down negotiations with the Fund mostly due to technical disagreements, making of it a political act. The U.S. continued to use the IMF as its mantle of multilateral anonymity throughout 1959 despite increasing Soviet overtures to Latin America – particularly after the Cuban Revolution –, and even though U.S.-Brazilian relations were deteriorating considerably. In fact, U.S. economic interests were ahead of political concerns related to Cold War tensions. Surrendering to Kubitschek's pressures could cause severe consequences to U.S. relations with other Latin American countries which were following IMF requirements and impair Fund-backed programs throughout the region. It could also weaken the IMF position in the global financial system, menacing a U.S. global interest. As Washington remained firm, U.S.-Brazilian relations reached a low, and Kubitschek sought a globalist foreign policy. In December 1959, Brazil sent a trade delegation to the Soviet Union, opening doors for an increase in commercial affairs and the reestablishment of diplomatic relations. Even still, Washington did not assist Kubitschek until the end of his presidential term in 1961.

The conclusions presented bring several contributions to the literature. First, the primary condition that led to the breakdown in IMF-Brazilian relations was the change in the U.S. foreign financial assistance policy towards Kubitschek's Brazil that occurred in 1956, 1957 and early 1958. Put it simply, contrary to what most scholarly work has stated so far, the Kubitschek administration only reached out to the Fund after intense pressure from Washington – it did not

seek the IMF deliberately because its support was fundamental for the country to obtain foreign credits at a time of increasing financial difficulties.<sup>408</sup> Had it not been for this change, Kubitschek would not have opened financial negotiations with the IMF in the first place. Second, in contrast to what most authors indicate (such as Daré, 2004; Malan, 2007; and Young, 2014), Kubitschek did not “sever relations” with the Fund in June 1959. Instead, the Brazilian President broke down negotiations, making of it a political act. Kubitschek sought to resume financial negotiations promptly after the breakup by sending the Brazilian Ambassador Whalter Salles on a mission to the U.S. in an attempt to get in good terms with the Fund and Washington. Later on in 1959, the Brazilian government approached the IMF again. Kubitschek then turned technical disagreements with the IMF into a political act. This attitude became particularly evident when he announced his decision of not approaching the Fund anymore in a public speech on June 17 (which raised nationwide appeal), even though he had manifested intentions of concluding negotiations with the Fund to U.S. officials.

This study also showed that a Cold War framework – taking the context of the Cold War to analyze Washington’s resistance to giving loans to Brazil in the postwar era – does not explain why the U.S. government tenaciously forced Kubitschek’s Brazil to come to terms with the IMF in 1958 and 1959. Although some studies sustain that the Eisenhower administration became more flexible about financially assisting Latin America in the face of growing U.S.-Soviet tension in the late 1950s and early 1960s (particularly after the 1959 Cuban Revolution), the evidence gathered here showed that this was not the case with the Kubitschek administration.<sup>409</sup> Washington did not change its foreign financial assistance policy toward Brazil despite increasing Soviet menaces to the hemisphere, and even if resentments in U.S. bilateral relations with the country were getting stronger. In fact, we must investigate U.S. economic interests, U.S. influence over the Fund and how Washington employed the IMF to advance its foreign economic policy agenda in Brazil at that time to understand why the U.S. government took this hard stance on the Kubitschek administration.

Moreover, Brazil’s case scrutinized here indicates that we must look into IMF-Brazilian negotiations in the late 1950s (something that the literate usually neglects) to understand the

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<sup>408</sup> For this viewpoint see Bojunga (2001, p. 525-533), Campos (2007, p. 44-45), Daré (2004, chap. 3), Fassy (2000, p. 88-93), Leopoldi (1991), Maranhão (1994, p. 56-61), Lima (2006, p. 44), Oliveira (1993, chap. 2), Oliveira (2005, chap. 4), Pires (2006, p. 107-131), Silva (2000, p. 84), Skidmore (2000, p. 218-219), and Vizentini (2006).

<sup>409</sup> See, for instance, Rabe (1988).

deterioration in postwar U.S.-Brazilian relations and why Kubitschek's foreign policy team strengthened its globalist perspective.<sup>410</sup> Understanding what led Kubitschek to diversify the country's international ties, including by signing a trade agreement with the Soviet Bloc, also brings to light the roots of the Independent Foreign Policy (PEI) – considered a significant change in the history of Brazil's foreign policy. This research argued that the foundations of the PEI are found in the deterioration of the U.S.-Brazilian relations during Kubitschek's years. These findings may also shed light on the socio-economic instabilities in the early 1960s (which led to the 1964 civil-military coup) as a result of Washington's hard position towards the Brazilian President João Goulart, also conditioning U.S. loans to an IMF agreement. Lastly, the process of bilateral deterioration enlightens the divergent positions among IMF, U.S., and Brazilian officials, adding to the argument that there was not a consensus as to what economic policies Brazil should implement to attain economic growth and development in the postwar period.

Furthermore, IMF-Kubitschek negotiations illustrate the so-called “routine of dependence” (routine and cyclical interactions between local and IMF officials which give rise to an epistemic community), considered a key component of the global financial system of the post-World War II period.<sup>411</sup> This fact became particularly evident when, in 1959, several Brazilian officials played a double-game, siding with IMF officials' positions. In this sense, Brazil's case helps us better grasp the nature of the U.S. influence over the IMF at a crucial period of the Cold War and to develop a more nuanced understanding of U.S.-Latin American and IMF-Latin American relations at that time. In fact, in the late 1950s and early 1960s, Washington hesitated to provide financial assistance to other Latin American countries as well, and the Fund was carrying out negotiations throughout the region. In sum, the conclusions presented here contribute not only to the scholarship on IMF-Brazilian relations in the second half of the 1950s, but for broader issues as well, including the history of the Brazilian foreign policy, postwar U.S.-Latin American relations and IMF-Latin American relations, Latin American development, and creditor-debtor relations in the postwar global financial system.

Despite the matters this study shed light on, a broad range of areas of research are still open and need in-depth analysis though. First, even though it became evident here that

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<sup>410</sup> See, for example, Hilton (1981), Hurrell (2013), and Smith (2010, chap.6).

<sup>411</sup> See Kedar (2013).

Washington employed the IMF as its mantle of multilateral anonymity, it is still necessary to investigate the relations between U.S. and IMF officials and how the U.S. effectively exerted its influence over the Fund in the period. Second, further analysis as to how internal economic and political groups influenced the Brazilian policymaking about the course of the national economic policy is also necessary. Third, since this research showed that U.S. economic interests took precedence over political matters related to the Cold War, further research is needed to understand how and to which extent Cold War threats and U.S. economic interests shaped IMF-Latin American and U.S.-Latin American relations at that time. Last, there is an acute need to understand to what extent IMF stabilization demands coincided and/or contrasted with concepts of development under discussion in the U.S. and the IMF (and also possibly in the Soviet Union), and between and within Latin American countries in the period.

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APPENDIX

Document 1: Embdes 1111, Amembassy to State Department, "Anti-Inflation Program", May 4, 1956, NARA, RG 59, GRDS, CDF 1955-59, Box 4312, Folder 832.10/5-456.

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, Rio de Janeiro 1377 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. May 4, 1956 DATE ARK

REF : Despatch 1111, March 6, 1956.

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SUBJECT: Anti-Inflation Program ARMY-4 NAVY-2 AIR-1 TA

This document will summarize, and comment upon, the anti-inflation program of the Kubitschek administration, as revealed to date. As will be spelled out below, the program is still in its initial stages and, indeed, has not yet been fully formulated. In addition, statistical data are not yet available to indicate the degree of its success. However, a general analysis of the program appears appropriate at this time in view of the various anti-inflationary measures which have recently been taken, and in view of the fact that two comprehensive documents constituting official statements of that program have recently become available. The more important of these documents, six copies of which are submitted herewith as Enclosure 1, is entitled "Economic Cooperation between the United States and Brazil, Vol. I," which document was recently taken to Washington by Sr. João Pinheiro, an officer of the Development Council.\* The second document, an English translation of which is submitted as Enclosure 3, is an "exposition" by Minister of Finance Alkmin, setting forth the Government's anti-inflation program at a closed session of the Development Council on April 12, 1956, chaired by President Kubitschek. Enclosure 4 is a translation of a news story quoting a press release summarizing the eight-point anti-inflation program which was formulated at the meeting. It is interesting to note that the eight-point program was taken directly from Minister Alkmin's "exposition" and that much of the anti-inflationary discussion in Enclosure 1 was copied verbatim from that "exposition."

A summary of the more specific components of the anti-inflation program appears below:

I. Concerning the Budgetary Deficit

A. Reducing and Distributing Expenditures

\* The balance of payments aspects of this document will be discussed in a separate Embassy despatch. Six copies of the original Portuguese text are submitted herewith as Enclosure 2. Enclosure 1 was translated by Brazilian officials.

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## Document 1

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|  | <div style="border: 1px solid black; padding: 2px; display: inline-block;"> <b>CONFIDENTIAL</b><br/> <i>(Classification)</i> </div> | Page _____ of _____<br>End. No. _____<br>Desp. No. _____<br>From _____ |
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1. President Kubitschek has approved the adoption of an "economy plan" involving the reduction of Governmental expenditures in 1956 by about 10 billion cruzeiros. According to the plan formulated by certain Governmental technicians, authorized and appropriated expenditures in the amount of 4,438 million cruzeiros would be cancelled, and expenditures totalling 5,378 million cruzeiros would be postponed to 1957. However, as revealed by the confidential Presidential Circular of April 25 submitted as Annex 2 of Enclosure 1, the specific details of the plan have not yet been agreed upon, although a deadline of May 15, 1956, has been set for final formulation of those details and for issuance of the necessary implementary instructions.

2. The Minister of Finance has been instructed to prepare, by May 15, a monthly schedule of authorized expenditures, so as to maintain those expenditures so far as possible within the limits of the variable monthly revenues.

3. The President has established the rule that "the utilization of special credits,\* save those designed to the payment of salaries of civilian and military personnel and those which are to be met with specified funds from (entailed) receipts shall not be allowed."

4. Required contributions to the Social Welfare Institutions have been raised so as to increase their revenues sufficiently to cover their respective commitments "instead of depending upon special credits of the Federal Government in order to meet the deficits which they have been experiencing up to now."

5. Tighter control has been established over the financial practices of Federal Treasury representatives throughout Brazil, by requiring that they deposit daily into special accounts at the Bank of Brazil all of their respective cash "surpluses" in excess of CR\$500,000. Furthermore, all payments in excess of CR\$50,000 must be made by way of nominative checks drawn against those accounts, and all payments in excess of CR\$100,000 must be made by way of nominative and "crossed" or "confirmed" checks against those accounts.

**B. Increasing Revenues**

1. Efforts will be made to perfect tax-collection procedures, to make the "bureaucratic machine more dynamic," and to improve "fiscalization." However, "we do not mention the improvement of the tax collection as an element for covering the (30 billion cruzeiros)

\* The utilization of "special credits" pertains to the practice whereby the Government has approved the expenditure of funds for "emergency" purposes, on the premise, which has always proven valid, that the Congress would later enact legislation authorizing the special credits retroactively. See Despatch 1137, March 12, 1956, and Despatch 513, October 19, 1955.

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## Document 1

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... deficit mentioned because as the revenues have been over-estimated by Congress, the improvement of the collection will be absorbed in the effort to reach the figure adopted by the Legislative Power."

2. Measures have already been taken by the Administration which will have the effect of increasing the receipts derived from provision of industrial services by over two billion cruzeiros during the last eight months of 1956. The two measures mentioned in particular have been: (a) recent "standardization" of railroad tariffs by means of separate "Orders" of the Ministry of Transportation, establishing all of the tariffs of the different railroad lines at the highest levels then prevailing, resulting in increases up to 70 per cent in some cases; and (b) the elevation of mail and telegraph rates, pursuant to Ministry of Transportation Order 223, dated April 14, 1956.\*

3. Other increases of charges for Government services "are being studied (planned)," with the expectation that "readjustment of other tariffs of transportation" will yield during the rest of 1956 an additional 1.0 billion cruzeiros, while adjustment of other fees and charges will yield still another 1.0 billion cruzeiros.

4. It is hoped that the customs tariff bill now in Congress will be enacted within the next two months, so as to increase Government revenues "from six to seven billion cruzeiros" during the second half of the year. "If the new customs tariff is not approved by Congress within the coming two months, the Bank of Brazil will have to use the net balance of the exchange surcharges in order to finance the National Treasury temporarily." "The most important fact, however, is that there will practically be no increase of resources to the Bank of Brazil in turning the revenues from exchange surtaxes (agios) into a revenue of customs tariffs. Thus, to the degree of success of the measures for reduction of the federal financial deficit, the financial support received by the Bank of Brazil from the National Treasury may absorb almost all of the 11 billion cruzeiros of expanded resources foreseen in the credit plan, discussed below." \*\*

\* Despatch 1352, dated April 27, 1956.

\*\* The latter sentence has been translated by the Embassy from the Portuguese text from which Enclosure 1 was derived. The Embassy's translation will be used in this despatch whenever that contained in Enclosure 1 is considered inadequate.

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## Document 1

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**C. Non-Inflationary Financing of the Deficit**

It is estimated in Enclosure 1 that the 1956 budgetary deficit would total 30 billion cruzeiros, except for the fact that the economy plan will reduce expenditures by 10 billion cruzeiros, increased charges for Government services will yield 4 billion cruzeiros, and customs tariffs will yield 6 billion cruzeiros, accordingly leaving a total deficit of 10 billion cruzeiros. The proposals for financing the 10 billion cruzeiro deficit are as follows:

1. "The Treasury will request advances from the Bank of Brazil only up to the amounts which may be covered by this Bank without aggravating inflationary pressures through excessive issuance of paper currency."
2. "Our objective is, accordingly, to obtain the largest possible portion of the finances needed by the Treasury outside of the Banco do Brasil.  
  
"As is notorious, the market for Government securities is the poorest possible, due to mistakes committed in the past and due to the inflation, which discourages the acquisition of long-term, debt-bearing securities (the Consolidated Public Debt of Brazil is perpetual).  
  
"That being the case, we are depending essentially, in the present situation, upon the placing of short-term securities, Treasury Letters . . .  
  
"We have already authorized the Banco do Brasil to dispose of Treasury Letters of 90-day and 180-day maturities. For the purpose of making those Letters more attractive, . . . we have determined that, in addition to the (legally) fixed return of interest of 6 per cent per annum, the Letters in question shall be sold below par. The 90-day Letters shall be sold at a price of 99.25, which will give to the bearer an effective income of 9.07 per cent per annum, and the 180-day Letters shall be sold at the price of 98, which will yield to the bearer an effective return of 10.2 per cent."
3. However, attention was once more called to the fact that present legislation requires the redemption of all Treasury Letters during the year of issue, thereby seriously limiting their usefulness in financing the annual deficit. Accordingly, "the Executive will seek to obtain legislative authorization for the emission of such securities with redemption foreseen during fiscal years different from that in which they are issued." \*

\* See Despatch 1267, dated April 9, 1956, and Despatch 1209, dated March 28, 1956, page 10.

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## Document 1

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| <p style="text-align: center;"><b>CONFIDENTIAL</b><br/>(Classification)</p> <p>4. In the Introduction to Enclosure 1, gratification is expressed with respect to the evidence of a growing money market for private capital issues. "The Government, through all means at its command, is studying new methods to stimulate and intensify this highly promising tendency, and is seeking to create conditions of assurance which will inspire confidence among those holding securities of the Government itself." "For that purpose, a plan is being prepared for the placing of medium-term securities with a true guarantee against devaluation of the cruzeiro (possibly by establishing a close tie to the quotation of the dollar on the free market), during the time that the results of the anti-inflation program are not felt more strongly."</p> <p>II. Concerning Controls over Bank Credit</p> <p style="padding-left: 2em;">A. <u>Global Credit Ceiling</u></p> <p style="padding-left: 4em;">"It will be undesirable to permit a growth of the means of payment in excess of 8 per cent this year, a rate which will surpass that of the national income but which is considered acceptable, taking into account the desirability that there not be initiated an anti-inflationary program with excessively drastic components, which would moreover be difficult to implement in view of the financial and political difficulties which the Government will have to meet in 1956."</p> <p style="padding-left: 4em;">It is estimated, in Enclosure 1, that an 8 per cent expansion of the money supply would amount to 14 billion cruzeiros. It is further estimated that an overall credit expansion of 22 billion cruzeiros would result in a 14 billion cruzeiros of money supply, the remaining 8 billion cruzeiros being absorbed by savings deposits, bank reserves, etc. . . Accordingly, "The permissible expansion of banking operations for 1956 will be in the order of 22 billion cruzeiros."</p> <p style="padding-left: 4em;">"The expansion will have to be distributed in equivalent shares (11 billion cruzeiros) between the two sectors: (a) monetary authorities and (2) commercial banks. However, . . . the Monetary authorities will allocate for Federal Treasury financing a certain portion (approximately three billion cruzeiros) of the expansion registered in the resources of the commercial banks."</p> <p style="padding-left: 2em;">B. <u>Bank of Brazil</u></p> <p style="padding-left: 4em;">1. "By order of the President, the Minister of Finance instructed the President of the Bank of Brazil to establish, in addition to the measures already in force, global ceilings for the operations of the Departments of that credit establishment, a control system which possesses great administrative advantages. The Government is already in possession of a study on the</p> | <p>Page _____ of _____</p> <p>Encl. No. _____</p> <p>Disp. No. _____</p> <p>From _____</p> |
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prepared by specialized technical agencies. It should be mentioned that the Agricultural and Industrial Credit Department's operations are being carried out in accordance with an agricultural credit budget with a maximum limit, which will be effective until new instructions are issued, equivalent to the maximum total balances registered at the end of 1955, exception being made for certain types of specialized credit (for small producers and activities connected with wheat) which enjoy greater flexibility but which do not represent a considerable portion of the total of the said Department."

Appendix 9 of Enclosure 1 cites the monthly credit extensions by Departments of the Bank of Brazil through March, 1956, in comparison with the monthly credit ceilings that would have been in effect had the Bank of Brazil adopted the provisional credit budget which has been suggested for it by certain Government technicians, allowing for an increase of 11 billion cruzeiros during the year. For the Bank as a whole, outstanding loans at the end of March totalled 511 million cruzeiros less than would have been permitted under the proposed credit budget.

2. "Standards for the control and selection of loans which were put into effect during the administration of Sr. Eugênio Gudin as Minister of Finance are being strictly complied with; among those measures are included those pertaining to the reduction of credit conceded to old clients who now show high financial capacity and who, if they were to continue to benefit from official loans, would be able to divert their own resources toward less essential undertakings."

**C. Commercial Banks**

1. "The control of direct financial assistance to the commercial banks and the holding back of the operations of the Bank of Brazil will be sufficient to establishment of quantitative limits on the expansion of credit by the (commercial) banks." Accordingly, "a) the total of rediscounts to commercial banks in 1956 will have as the maximum limit the balance registered on December 31, 1955; b) there will be more severe selectivity in rediscount operations; c) assistance loans by the Banking Mobilization Fund will be limited in duration to a maximum of 30 days."

2. "The Government is considering the possibility of increasing the bases for the collection of the compulsory bank deposits, with the objective of obliging the commercial banks to finance the Government, during the present emergency." On the other hand, "we are counting upon the absorption of an appreciable sum of Treasury Letters by the commercial banks. The Letters, of the type that will be issued, constitute a good investment for banks, it being noted that they do not require administrative expenses such as those resulting from the granting

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and control of loans . . . The interest which the bankers may show for the new Treasury Letters may perhaps obviate the imposition, by the SUMOC Council, of an Instruction requiring an increase of bank deposits to the order of SUMOC, 50 per cent of which may be effected in Federal public-debt securities."

**D. Federal Savings Banks**

1. On April 26, 1956, the Minister of Finance transmitted a Confidential Notice to the President of the Superior Council of the Savings Banks previously that those Savings Banks which register increases of deposits by more than five million cruzeiros during 1956 must deposit 50 per cent of the amount of the excess at the Bank of Brazil. The Savings Bank can not utilize the fund so deposited at the Bank of Brazil except for the purchase of Treasury Letters.

2. On March 13, 1956, the Minister of Finance issued Order No. 76, limiting the authority of the Savings Bank to grant mortgage loans and reinforcing the existing prohibition against creation of new posts without prior approval by the Minister of Finance.

**E. Social Welfare Institutions**

"The Minister of Finance has entered into personal understandings with the Minister of Labor, Industry and Commerce for controlling the Social Welfare Institutions with the objective of preventing them from immoderately expanding the use of their funds in real-estate transactions."

**Comments**

The anti-inflation program of Brazil, so far as it has been formulated to date, has followed closely many of the recommendations prepared by Roberto Campos and certain other economic and financial advisors of President Kubitschek.\* The weaknesses of the Campos recommendations have been carried over into the official program\*\*, as have some, though not all, of the strong points of

\* Despatch 1111, dated March 6, 1956, submitted a translation of those recommendations, together with the Embassy's analysis thereof.

\*\* For example, as conceded in Enclosure 1, an 8 per cent expansion of the money supply would probably still be inflationary, though much less so than has been the case in recent years. (See Despatch 1111) for a more complete analysis of this important matter.

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those recommendations. On the other hand, the program still appears to be in an embryonic stage and its weaknesses may yet be overcome.

An analysis of various aspects of the anti-inflation program appears below:

1. The Budgetary Deficit
  - a. The 10 billion cruzeiro economy plan will certainly contribute greatly toward reducing the budgetary deficit and combatting inflation.
  - b. The various increases in charges for Government and autarquia services will likewise contribute significantly toward reducing the budgetary deficit. However, those increased charges (e.g., railroad tariffs) have also involved higher costs of production. The anti-inflationary impact of reducing the budgetary deficit would therefore be negated to the extent that bank loans to producers were expanded as to meet the higher costs of production. The objective of reducing the deficits deriving from the provision of Government and autarquia services might better have been achieved by reduction of the costs of providing those services (for example, excessive payrolls) or by extricating the Government from the occupation of providing some of the services, turning the businesses over to private enterprise.
  - c. Enactment of the proposed customs tariffs would ease the problem of the budgetary deficit, per se, and would have the desirable effect of giving the Government greater control over the resulting revenues than it now has over the agio (exchange surtax) profits. However, as is admitted in the Campos report as well as in Enclosure 1, the advantages vis-a-vis budgetary effects would be counter-balanced by the disadvantages vis-a-vis credit controls. Moreover, the estimate that customs revenues would amount to 6 billion cruzeiros during the last six months of 1956 or an average of one billion per month, seems over-optimistic even on the assumption that the tariffs will be enacted before July, unless -- as seems unlikely -- those tariffs yield greater revenues than have been derived from the agios.

During the last six months of 1955, net agio "profits" totalled CR\$2,798 million, or a monthly average of CR\$466 million.\* During the first three months of 1956, net agio profits totalled CR\$1,571 million, or a monthly average of CR\$527 million.\*\*

\* Despatch 1023, February 15 and Despatch 1069, February 27.

\*\* Despatch 1069, February 27; Despatch 1172, March 20; Despatch 1327, April 20.

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To be sure, the gross agios have been increasing during the recent years, but so have the exchange bonuses paid to exporters. It is possible that the customs tariffs alone could yield one billion cruzeiros a month, i.e., more than the net agios. However, it is clear that in order to reach that figure, and even assuming that the tariffs are super-imposed upon the agio system (as is being contemplated), some other means would have to be found for paying high effective exchange rates to exporters, such as by drawing upon the Federal budget or by requiring the Bank of Brazil to absorb an exchange loss. Possibly, the exchange system could be so revised and so coordinated with the tariff structure as to permit high customs revenues without deriving losses from foreign exchange transactions. But the Embassy is unaware of any planning toward that objective, and the problem is certainly very difficult.\*

d. Accordingly, the problem of the budgetary deficit is likely to be more difficult than portrayed in Enclosure 1, if only on the score that customs revenues have been overestimated. In addition, however, it is important to note that even the estimate of a 30 billion cruzeiros deficit was based upon a considerable overestimate of regular budgetary revenues, as was conceded in the Campos report and in Enclosure 1, page 28.\*\*

\* Assume, for example, a single fixed exchange rate applicable to both exports and imports, and assume that that rate is set at a figure equal to the weighted average of present effective exchange rates. Assume, further, that this would have no effect either on foreign exchange earnings, necessitating a modification in the supply of foreign exchange available for imports, or on the income distribution within Brazil, influencing the cruzeiro demand for imports. The gross agios obtainable under those conditions would then be equal to the present net agios, and any establishment of tariff rates resulting in a higher cruzeiro cost of imports would have the effect of reducing the effective demand for imports, which might be contrary to economic development policy as well as inflationary. Moreover, the assumptions are unrealistic. Exporters now receiving more than the average export rate would certainly resist an appreciation of the rate (from their point of view). Export receipts would probably be affected adversely. And the redistribution of income in favor of coffee exporters would probably affect the cruzeiro demand for demands.

\*\* See bottom of page 10 for second footnote.

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In the opinion of the reporting officer, the weakest point of the Government's anti-inflation program, as it was of the Campos recommendations, is the lack of specific and drastic proposals for improving tax collections. There is unquestionably considerable tax evasion, and it seems likely that effective tax enforcement -- through the imposition of real punishment upon even a few tax evaders -- would contribute greatly toward balancing the budget and thereby alleviating or even eliminating the pressures upon the Bank of Brazil to finance budgetary deficits.

e. The decision to issue Treasury Letters with effective rates of interest of 9.07 - 10.20 per cent seems commendable. Interest rates of that height will, of course, prove undesirably burdensome for the Treasury. However, the large scale sale of Government securities to the commercial banks is desirable at this time in view of the budgetary deficit facing the Government and in view of the need to control bank credit, as well as for the purpose of avoiding undue financial difficulties for the commercial banks as a consequence of credit controls, and the banks have shown virtually no interest in purchasing long-term Government securities or even short-term securities at the legal rate of 6 per cent per annum. The

\*\* See Despatch 1111, March 6, 1956, pp. 9 - 11, for a more complete discussion of this matter. Fragmentary data about collections early in 1956 indicate that receipts have been surprisingly higher than had been anticipated, but the general conclusions of Despatch 1111 are still believed to be valid. Repeated efforts to obtain 1956 revenue data from official sources have so far proven unsuccessful, but such efforts will continue to be made and the data will be reported when received. The Government's estimate of a 30 billion cruzeiro deficit rather than the previous estimate of 26.4 billion cruzeiros, as reported in Despatch 1111, is based upon the fact that the latter estimate assumed that the President would veto that portion of the Federal pay increases (the Congressionally approved bill for which was reported in Despatch 1143, dated March 13, 1956) which extended the increases to temporary employees of the Government. The President did in fact veto that portion of the bill, but later reinstated it, thereby increasing the cost of the bill by an estimated 3.6 billion cruzeiros.

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request that Congress authorize the Executive to redeem the Treasury Letters in fiscal years different from the date of issue appears to be justifiable for the purpose of maintaining a floating debt beyond individual fiscal year periods, although the obstacles in the path of redeeming the Letters at the end of one fiscal year and issuing new and equivalent Letters at the beginning of the next fiscal year do not appear insuperable, though they would doubtless be troublesome.

f. On the otherhand, this reporting officer sees little advantage, and sees several difficult implementory and psychological disadvantages, in the proposal which is under consideration for the issuance of medium-term securities with "guarantees" against impairment deriving from internal or external devaluation of the cruzeiro.

2. The Control of Bank Credit

The sector of the Government's anti-inflation program which has provoked the most controversy and which has to date been the least formulated is that which pertains to the control of bank credit. There has been fairly universal agreement, at least in the abstract, with the need to alleviate and, if possible, to eliminate the budgetary deficit as the major source of inflation, particularly in view of the widespread skepticism as to the economic utility, and even the honesty, of Government operations.\* Contrariwise, tight credit is generally considered an evil in Brazil on the grounds that "credit promotes production, and production is anti-inflationary," and the prevailing high rates of interest on bank loans -- ranging in recent years between 12 per cent and 24 per cent even on prime loans -- have encouraged the illusion that what is needed is more, rather than less, credit availabilities.

\* Of course, the problem of balancing the budget gets more difficult when one moves from the abstract to the specific. Considerable opposition has already been registered with respect to various proposed budget cuts which have leaked to the press. For example, certain Governors have protested against cuts in road construction in their States on the grounds that the cuts would create unemployment and that the roads are needed even though they do not fit into the National Road Development Plan. Indeed, it was doubtless knowledge that there would be such opposition that has motivated President Kubitschek in keeping his Economy Plan confidential up to now.

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| <p>Nevertheless, Roberto Campos and other advisers of President Kubitschek and Minister Alkmin appear to have waged a successful educational campaign in this regard, and the Government has publicly announced that two points of its eight-point anti-inflation program (Enclosure 4) will consist of "Fixation of ceilings for the expansion of loan operations of the Banco do Brasil and official credit establishments" and "Disciplining of private bank credit, in order to avoid disorderly appeals of the banks to the Carteira de Redescontos, which will be able, under present circumstances, to attend only to operations of the most essential and reproductive character." The uncertainties about Brazilian credit control now derive from the problem of the implementary measures needed to effectuate the foregoing statements of policy.</p>  |  |
| <p>a. <u>The Bank of Brazil</u></p>  |  |
| <p>According to Enclosure 1, the Minister of Finance has instructed the President of the Bank of Brazil "by order of the President" "to establish global ceilings for the operations of the Departments of that credit establishment." Yet, as clearly implied in that same document, the only Department which has in fact been operating under such a ceiling is the Agricultural and Industrial Credit Department, which has merely been continuing the policy which it was following in 1955. The fact that specific credit ceilings have not yet been set for the other Departments may not prove important if those Departments apply very restrictive credit restrictions <u>in practice</u>. And the statistics through the end of March indicate that actually the Bank of Brazil has followed restrictive credit practices. However, the lack of specific credit ceilings may prove to be a significant weakness of the anti-inflation program as the pressures upon the Bank of Brazil increase, as they usually do, beginning in April or May.</p> |  |
| <p>b. <u>Commercial Banks</u></p>  |  |
| <p>The policy that "the total of rediscounts to commercial banks in 1956 will have as the maximum limit the balance registered on December 31, 1955" is a very important bulwark of the anti-inflation program. As long as that policy continues to be enforced *</p>  |  |
| <p>* As reported in Despatches 1326 and 1327, each dated April 20, 1956, <u>total</u> rediscounts by the Bank of Brazil at the end of March, 1956, amounted to 22,562 million cruzeiros as compared with 24,263 million cruzeiros at the end of 1955. This reflected decreases of outstanding rediscounts of 880 million cruzeiros <u>vis-a-vis</u> the Bank of Brazil and 821 million cruzeiros <u>vis-a-vis</u> commercial banks. Total outstanding rediscounts increased by 1,215 million cruzeiros during the week ending April 7, but it is believed that this increase was represented entirely or almost entirely by rediscounts to the Bank of Brazil, allied to the currency issue of 1,200 million cruzeiros during that week.</p>   |  |
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commercial banks will be unable to expand their credit operareably except to the extent which is made possible as a result of credit expansion by the Bank of Brazil, assuming -- as seems very likely -- that their reserve requirements are not reduced. \*

However, even if the Bank of Brazil restricts its credit expansion during 1956 to 11 billion cruzeiros, the target set in Enclosure 1, the resulting increase in the resources of the commercial banks could result in an expansion of loans by those banks far in excess of the 11 billion cruzeiro target which was also set for them in Enclosure 1, unless the reserve requirements of the commercial banks are considerably increased. \*\*

It is stated, in Enclosure 1, that the Government is hoping to sell "an appreciable sum" of the new Treasury Letters to commercial banks and that, if it succeeds in doing so, the SUMOC may refrain from the imposition of increased reserve requirements for those banks. The sale of enough Treasury Letters to the commercial banks could in fact absorb so much of their resources as to obviate the need for increasing their reserve requirements. But it is not yet possible to say that the commercial banks would actually be disposed voluntarily to purchase the new Treasury Letters and a SUMOC instruction similar to the old Instruction 108 may prove necessary, as proposed in the Campos report.

**3. Final Comments**

The Brazilian Government seems to have committed itself to serious efforts on several fronts to combatting inflation. In addition to the evidences summarized above, the Government has refrained from demogogic promises with respect to elevation of minimum wages, despite the political pressures upon it to do so. It has incurred the wrath of various political and business forces by refusing to proceed with the much-discussed "exchange reform," on the grounds that it would be inflationary. It has so far resisted the pressures of various State Governors for increased Bank of Brazil loans. The minimum export prices for cotton recently

\* Preliminary data compiled by SUMOC indicate that the outstanding balance of commercial bank loans increased by roughly 4,450 million cruzeiros during the months of January and February, 1956. This large increase may, however, be attributed to the seasonally large-excess reserves held by those banks at the end of 1955 (Despatch 1259, April 6, 1956) and it is likely that those excess reserves have now been reduced to more normal working levels.

\*\* See the discussion of this problem in Despatch 1111.

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established by the Bank of Brazil were set at figures considerably lower than those being urged upon it. The fact that many of the basic provisions contained in Enclosure 1 were embodied in the "exposition" delivered at a closed session of the Development Council with the President and his Cabinet present (Enclosure 3) may be taken as further evidence that the Minister of Finance, at least, is serious about combatting inflation.

However, the basic weakness of the present situation is the fact that the public at large and all of the important political and economic groups of the country range from being either apathetic about some parts of the program (e.g., the proposed budget cuts) or outright antagonistic (e.g., on tight credit policies vis-a-vis the public and State and Municipal Governments). Moreover, there is even some evidence of difference of opinion within the Government itself. The evident reluctance of the President of the Bank of Brazil to establish credit ceilings for the various Departments of that Bank is a case in point. Similarly, certain financial circles within the Government continue to press for exchange reform, publicly and/or privately, in spite of the statements by the President and the Minister of Finance that the "reform" will not take place this year.

The principal forces working for an effective anti-inflation program are believed to be: 1) Roberto Campos and a very small group of economists working with him, and 2) knowledge by President Kubitschek and Minister Alkmin that foreign experts, particularly those of the United States and the International Monetary Fund consider such a program necessary for the stability and economic development of Brazil. The big question, then, is how long these forces can continue to stand up against the pressures of various political and economic groups in Brazil.

For the Ambassador  
*Herbert K. May*  
 Herbert K. May  
 Treasury Attaché

Coordinated:  
*Robert P. Terrill*  
 Robert P. Terrill  
 Counsellor of Embassy  
 for Economic Affairs

Enclosures:  
 1. 6 copies of "Economic Cooperation between the United States and Brazil, Vol. I"  
 2. 6 copies of "Cooperacão Economico entre Os Estados Unidos e O Brasil, Vol. I"  
 3. "Exposition of Motives," April 12.  
 4. Clipping from "O Globo," April 14.

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| <p style="text-align: center;"><u>Exposition of Objectives Made by the Minister of Finance<br/>at the April 12, 1956, Meeting of the Development Council</u></p> <p>Financial policy constitutes a continuous process of conscious governmental action, conducted within the framework of fixed goals and principles, conducted as though that action is within a system of communicating vessels, demanding correlated efforts and uninterrupted vigilance of the Government in various fields -- foreign exchange, credit, and budgetary.</p> <p>In each of these fields, it is permanently necessary that there be adjustment of ideas and interests, such that the activities in the public and private sectors of the economy develop harmoniously and usefully.</p> <p>The Government cannot be replaced in the promotion of equilibrium in those sectors, and this will be even more the case during the phase of inflation. There is no possible option between participating or failing to participate -- the Government cannot avoid the alternative of assuming its responsibilities and acting in accordance with them.</p> <p>As soon as a financial policy is formulated and if the Government is prepared to execute it with clarity and with firmness, it becomes impossible to deny the importance of the budget as an instrument for the coordination and control of public service activities and as an instrument, also, for stimulating and directing the economy.</p> <p>The public services program for the present fiscal year is being unfolded through the medium of the budget, translated into monetary terms. That program will necessarily affect the national economy, be it by means of fiscal pressure or by the redistribution of income or by the orientation of the employment of productive resources.</p> <p>Consequently, the growing importance of the budget demands that the practices employed up to now in Brazil be modified. The Executive Power cannot continue to admit, that once his proposed budget has been presented to the National Congress, his work has been terminated. On the contrary, it has become necessary that he accompany his transmittal, welcoming corrections which are imposed upon it, but defending inflexibly the unity and coherence of the programs whose budgetary expression is embodied in the proposal.</p> |  |
| <p>The action of the Legislature must be respected, but very often its proposals, well-intentioned and sound, frustrate themselves by</p>   |  |
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| <p>the absence of coordination or of better and more accurate information. For example, there may frequently be observed a disproportion between ends and means with respect to certain amendments made by the Congress: projects which would require strong concentration of resources are contemplated with scanty and obviously uneconomical appropriations. In practice, the Executive will perceive the impossibility of executing them or will begin them at a slow and absurd pace.</p>                                 |   |  |
| <p>However, it must be admitted that very often the chiefs of services or their superiors run to the Committees and their supporters in the Chamber and in the Senate, with the objective of obtaining increases and amendments in the appropriations of interest to them, even though not conforming with the solutions adopted in the proposal. This is a habit which must be extinguished. How can the Executive pretend to preserve the integrity of his proposal if his agents are the first to seek to undermine it?</p> |   |  |
| <p>In order that the effectivity of this idea be guaranteed in the best way, it appears opportune and desirable that, by means of a Circular, it be recommended to the departmental chiefs and to public servants in general that they abstain from direct recommendations for alterations in the Budgetary Proposal.</p>  |   |  |
| <p>Finally, in order to make valid what is here proposed, there will have to be a direct collaboration of the Minister of Finance with the leaders of the Majority in order to keep on a straight road those subjects of a financial character which are of interest to the Government. By so doing, there will not be repeated the disorientation, the tumultuous discussions, the addition of expenditures without the necessary coverage of revenue.</p>  |   |  |
| <p>The present Government was confronted by a financial picture of profound gravity, composed of a financial deficit transferred from earlier fiscal years in excess of Cr\$20 billion and of a current budgetary deficit of about Cr\$30 billion.</p>   |   |  |
| <p>Accordingly, it would not be sufficient to neutralize the insufficiency of budgetary receipts, because it would also be incumbent upon the Government to reduce the floating debt of the Treasury, among which the Economic Reequipment Fund alone amounted on December 31, 1955, to the figure of Cr\$5 billion.</p>   |   |  |
| <p>It was accordingly important to adopt rigorous means of financial administration, not only with respect to the improvement of tax collection procedures, but also with respect to the energetic repression of superfluous expenditures or of those expenditures which, while undoubtedly useful, do not conform with the "Development Plan."</p>  |   |  |
| <p>In this order of ideas, suitable measures must be taken aimed towards solution of the following problems:</p>   |   |  |
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I - The position of the National Treasury at the Banco do Brasil S.A. as a source for generating issuance of paper money;

II - Controlling variable budgetary expenditures in accordance with the monthly flow of revenues.

With respect to the first of the points indicated above, along with the recommendations transmitted to the collecting agencies for the purpose of increasing revenues, there was established the rigorous control of drawings against the account, "Expenditures of the Union" in the Banco do Brasil S.A., with the objective of drawing together and fiscalizing practically all sources of budgetary expenditures.

Other complementary measures, meanwhile, would be advisable and were proposed:

- a - The control of the cash surpluses in the Treasuries (Pagadorias e Tesourarias);
- b - The payment by nominative and marked checks for expenditures in excess of Cr\$50,000 or Cr\$100,000;
- c - The rigorous fiscalization of compliance with those measures; and
- d - The monthly explanation of payments, supplements, or advances corresponding to more than one-twelfth of the budgetary appropriations.

By virtue of the controls which were established, we were able to pass over the month of March without resorting to the emission of paper money.

Beginning with the month of April, we were hoping to be able to adopt directives aimed toward accomplishing the second of the programmed objectives: the correlation of budgetary expenditures with the monthly flow of revenues.

Two types of provisions were established. On the one hand, together with DASP, we studied possible economies in budgetary expenditures. On the other hand, we sought to organize a specific scheme for scheduling expenditures, preserving the monthly limits established by probable revenues. We could thereby obtain a valuable index of budgetary and financial control using simultaneously the two studies, the Economy Plan and the Plan for the Application of Resources. In the speech of March 13, the Ministry of Finance reported, with the sincerity due to the country and to the Government of the Republic, that, if the problem of avoiding inflationary repercussions from Treasury operations were resolved during March, the problem would be

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... to the month of April in which we would necessarily have solve the problem by practical measures.

Accordingly, on March 20, with Exposition of Motives No. 282, the Ministry of Finance transmitted to the President of the Republic proposals for Circulars to be issued by the Secretariat of the Presidency, which constituted part of the totality of measures designed to vanquish the inflation.

The proposed Circulars provided:

- a - The elaboration, by March 31, by the Ministries and other organs, of the detailed economy plan of about Cr\$10 billion, so that at the beginning of April the Government would be armed by an instrument for the effective control of public expenditures;
- b - The conclusion, by April 15, of the schedule for the application of expenditures as a function of monthly revenues;
- c - The freezing of special credits, there being liberated only those destined to the payment of civil and military servants or those which derive from special revenues;
- d - The amendment of obligations already contracted against appropriations included in the Economy Plan, with the view toward maintenance of the levels established in the Plan;
- e - The revision of the fees, prices, and charges received for the rendering of public services, paid directly by the users or consumers, which were fixed a long time ago and which no longer correspond to present price levels, since they are not in accord with the very cost of the service;
- f - Measures complementary to the Economy Plan, such as the collection at the Banco do Brasil S.A. of cash surpluses and obligatory payment by check against the bank account so established.

In the referenced Exposition of Motives, we had pointed out, in the conclusion, that the proposed measures having been effected, the Ministry of Finance would be in a condition to proceed with execution of the 1956 budget with more favorable perspectives, if the Ministry's actions were conditioned well to the severity with which public expenditure was processed in each sector of the Government.

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|   | <p>The suggested revisions depended, fundamentally, upon the immediate and full support of the President of the Republic.</p> <p>It remains now to put them into practice, in their entirety, for the reality, expressed by an accumulated financial deficit of about Cr\$46 billion, permits nothing except a constant appeal to the energetic parsimony of expenditures, according to the austere principles which condition the activities of the present Government.</p> <p>Another important element for the solution of the problem of meeting the strong financial deficit which is before us in 1956, is that of the acquisition of non-inflationary financing by the National Treasury. Our intention is to request from the Banco do Brasil advances only up to an amount which can be met by that establishment without aggravating inflationary pressures, that is to say, without provoking excessive issuance of paper money by means of the well-known process.</p> <p>Our objective is, accordingly, to obtain the largest possible portion of the finances needed by the Treasury outside of the Banco do Brasil.</p> <p>As is notorious, the market for Government securities is the poorest possible, due to mistakes committed in the past and due to the inflation, which discourages the acquisition of long-term, debt-bearing securities (the Consolidated Public Debt of Brazil is <u>perpetual</u>).</p> <p>That being the case, we are depending essentially, in the present situation, upon the placing of short-term securities, Treasury Letters, of fixed maturity and which do not present to the purchasers, in an acute form, the problem of monetary devaluation and that of the resale on the stock exchanges, in case of need for realizing the value of the security.</p> <p>We have already authorized the Banco do Brasil to dispose of Treasury Letters of 90-day and 180-day maturities up to an amount of Cr\$5 billion. For the purpose of making those Letters more attractive, and examining the situation prevailing in the Brazilian money market realistically, we have determined that, in addition to the fixed return of interest of 6 per cent per annum, the Letters in question shall be sold below par. The 90-day Letters shall be sold at a price of 99.25, which will give to the bearer an effective income of 9.07 per cent per annum, and the 180-day Letters shall be sold at the price of 98, which will yield to the bearer an effective return of 10.2 per cent.</p> <p>That level of remuneration is obviously burdensome for the public exchequer, and we only accept it as an emergency measure and in view of our belief that that burden will be compensated by the _____</p> <p style="text-align: center;"><b>LIMITED OFFICIAL USE</b></p> |

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**General benefits, for the country, which derive from the reduction of the rate of emission of paper currency. As soon as we begin to feel the first symptoms of monetary stabilization we will undertake to revise the policy of paying high interest on Treasury Letters.**

Still with reference to the Treasury Letters, we wish to call attention to the need of obtaining legislative authorization for the emission of such securities with redemption foreseen during fiscal years different from that in which the Treasury Letters are issued. In the prevailing legislation, the Government has to redeem its Letters within the same fiscal year, which represents little assistance for Federal finances in present circumstances, it being noted that redemption is made in the last quarter of the year precisely at the time in which the Banco do Brasil generally experiences the greatest pressures toward expansion of credit.

There already exists in the Congress a Project of Law which provides for authorization to the Executive to emit Letters at variable prices, interest rates, and times, with redemption permissible during fiscal years different from that of the emission. The cited Project, No. 75 of 1955, of the Chamber of Deputies, attends to the general needs of the Treasury in this matter. We believe, however, that it would be opportune for the Executive, in proposing the urgent approval of the Project in question, to suggest that the Executive also be authorized to emit securities with a clause of guarantee against monetary devaluation, which, in our view, would be a fundamental element for success in disposal of medium-term obligations under present circumstances. The clause of guarantee against monetary devaluation could be related to price indices or the dollar quotation, or some other index, in accordance with conclusions which may come from the specialized studies being undertaken by the Executive Power.

In the emergency plan for financing 1956 public expenditures without the corresponding revenues, we included the absorption, voluntary or compulsory, of a certain portion of the increases of resources which certain important types of financial institutions may register during the present year.

As could not fail to be the case, monetary and banking measures have an intimate connection with measures of a fiscal nature; that interlocking connection becomes especially necessary in this initial phase of combatting the strong inflationary pressures which already are being felt and those which will be felt soon.

With respect to the official credit institutions, we have already had the occasion to advise their respective administrators, through instructions issued by the President of the Republic, that there be established ceilings for credit operations and that there be furnished with the necessary frequency the data which make it possible to examine the general evolution of the operations of the establishments in question.

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The Carteira de Redescontos will not be able to exceed, during the present year, the total balance of its operations with banking establishments (except the Banco do Brasil) registered at the end of 1955, and will only be able to concede loans to banks, upon collateral of Treasury Letters in cases of recognized necessity. We are counting upon the absorption of an appreciable sum of Treasury Letters by the commercial banks. The Letters which will be emitted constitute good application for the banks, it being noted that they do not require administrative expenditures such as those deriving from the concession and control of loans. Moreover, the banks meet, in certain seasons of the year, problems of excess reserves which will be resolved in a more satisfactory fashion by the acquisition of Treasury Letters than by means of the less flexible process of increasing the level of loans. The interest which the banks are showing for the new Treasury Letters will perhaps make it possible to avoid the imposition, by the SUMOC Council, of an instruction requiring an increase of bank deposits to the order of SUMOC, 50 per cent of which, as is known, may be effected in Federal public-debt securities.

With respect to the Federal Savings Banks, we issued, on March 13, Order No. 76, limiting the authority of the administrators of those Banks with respect to the concession of mortgage loans, continuing the prohibition against creation of new positions, and prohibiting measures relative to the readjustment of salaries, without prior authorization of the Minister of Finance. We intend this week to issue another Order, complementing that just cited, providing that those Federal Savings Banks which register in 1956 an increase of deposits superior to Cr\$5 million must turn over to the Banco do Brasil, 70 per cent of the value of that increase; the resources thus collected at the Banco do Brasil will not be able to be moved by the Savings Banks, except for the acquisition of Treasury Letters.

We believe that other institutions retaining large public savings, such as the insurance and capitalization companies, will be able to absorb an appreciable sum of the Treasury Letters without reducing the income derived from their operations.

In resumé, the governmental action will have to observe the following principles and measures:

- a - Strict collaboration of the Minister of Finance with the leaders of the Government in the two Houses of the National Congress for the management of matters of a financial nature in the interest of the country;
- b - Stimulation, by measures within the disposition of the Government, of the improvement of revenues, by means of improvement of collection procedures;

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- c - Establishment of a program for the compression of expenditures, there being included the transfer of credits by means of the utilization of accounts payable ("Restos a Pagar");
- d - Freezing of special credits, these being unfrozen only for payment of civil and military servants or where they apply to the account of resources derived from specific revenues;
- e - Revision of rates, prices, and charges for the rendering of public services directly paid for by the users or consumers;
- f - The obtaining of non-inflationary finances for whatever deficit is registered notwithstanding the adoption of the above-mentioned provisions;
- g - The adoption of a system for the placement of public securities more consistent with the present economic-financial situation;
- h - Fixation of ceilings for the expansion of loan operations of official credit institutions.

Finally, no postponable budgetary expenditure will be made, nor will any expenditure be admitted outside of the budget.

With respect to the autarquias, their personnel rosters will not, under any condition, be increased nor altered with any increase of cost, the objective being not only to comply with the recent decree with respect to this matter, but also to enable the Treasury to furnish them with their necessary resources.

With the firm and honest objective of overcoming the financial and economic crisis, we must convince ourselves that each sector of the Government, each Ministry, each organ of administration in general, must accept a quota of sacrifice which in the present situation cannot be denied or delayed.

The fight against inflation -- it is necessary to emphasize -- is not incumbent exclusively upon the Ministry of Finance. If the other Secretaries of State, the autarquias, and other public entities do not help him, by predisposing themselves to a period of severe austerity, the security of this country and its internal tranquillity will be exposed to grave risks.

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The President of the Republic has accompanied his Ministers with the Budgetary problem, with an anticipated deficit greater than ever before encountered in all the history of the Republic.

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Translation of News Item in O GLOBO,  
April 14, 1956:

**TO STOP INFLATION AND DETER PRICE INCREASES**

We can divulge the fact that the day before yesterday there was a meeting at Catete Palace, under the Presidency of Sr. Juscelino Kubitschek, of the National Development Commission, convoked with the objective of establishing concrete measures for combatting inflation and against the increase of the cost of living.

Official Note

At the end of the meeting, the Secretary of the President of the Republic distributed to the press the following official note:

"The National Development Council met yesterday, in Catete Palace, under the Chairmanship of Sr. Juscelino Kubitschek, with all the Ministers of State, the Chiefs of the Military and civilian households of the Presidency, and the Presidents of the Bank of Brazil and of the National Bank for Economic Development being present. Beginning their labors, the President of the Republic declared that he had convoked the meeting for the purpose of establishing concrete measures for the combatting of inflation and against the increase of the cost of living, basic worries of his Government.

Exposition of the Minister of Finance

"The Minister of Finance made a broad and detailed exposition of the financial situation of the country, enumerating the various provisions taken and to be taken, by order of the President of the Republic, for the purpose of stopping the inflation and deterring the increase of prices.

Against the Inflation

"Then, President Juscelino Kubitschek reaffirmed the inflexible determination of the Government to continue its anti-inflationary policy, emphasizing, meanwhile, that he did not desire to create, with that unalterable decision, a dismal climate of defeatism, but simply to face reality, above all because he is convinced that all difficulties will be overcome, it being possible for the public to have confidence in the actions of its present directors.

Budgetary Problems

"The President of the Republic then confronted his Ministers with the budgetary problem, with an anticipated deficit greater than ever before encountered in all the history of the Republic,

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| <p>...ing the figure of 30 billion cruzeiros, after the increases recently conceded to civil servants and the personnel of "verbas" 3 and 4. To these 30 billions there must be added another 20 billion cruzeiros, which correspond to the balance of Treasury obligations accumulated in various preceding fiscal years, under the form of accounts payable, "funds and grants," deposits and other accounts to be liquidated.</p>   |   |
| <p><u>Economic-Financial Inheritance</u></p>   |   |
| <p>"This being the economic-financial inheritance which he received, the President of the Republic recommended to the Ministers the greatest attention toward all measures tending to diminish the deficit, so as to permit a better budgetary situation next year.</p>  |   |
| <p>"With the firm determination of overcoming the inflation and cleaning up the painful budgetary situation, the President of the Republic announced the following provisions, to be rigorously executed:</p>  |   |
| <ol style="list-style-type: none"> <li>1) Economy of expenditures, this being undertaken in a regime of the most complete austerity, such that the Government will not effect any budgetary expenditure which can be postponed, nor will it permit any expenditure outside of the budget;</li> <li>2) The most complete limitation upon new admissions into the public service, nominations for the public service being restricted to the indispensable minimum, there continuing to be in effect the Presidential Order prohibiting the creation of any new posts whatsoever;</li> <li>3) Fixation of ceilings for the expansion of loan operations of the Banco do Brasil and official credit establishments;</li> <li>4) The non-granting of levels of financing which could stimulate an increase of price of merchandise in relation to the prices of the past year;</li> <li>5) Disciplining of private bank credit, in order to avoid disorderly appeals of the banks to the Carteira de Redescontos, which will be able, under present circumstances, to attend only to operations of the most essential and reproductive character;</li> <li>6) Reform of the charges of the industrial autarquias, so as to reduce their huge deficits, promoting at the same time measures to increase the efficiency of their services;</li> <li>7) Perfecting tax-collection procedures, making the bureaucratic machine more dynamic, and improving fiscalization;</li> </ol> |   |
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(8) Freezing of special credits, liberating only those destined to the payment of public servants and payment of the personnel of "verbas" 3 and 4.

Other Provisions

"Just as these measures seek to impede at all costs an increase of the prices of goods of prime necessity or essential services, inasmuch as the supreme objective of all of the Government's anti-inflationary measures is to improve the well-being of the people, other measures are also being taken which will be applied with energy, firmness, and safety.

"Accenting that proposal, President Juscelino Kubitschek recalled that the prices of goods and services only doubled between 1920 and 1938, but increased more than five times between 1938 and 1955.

"Nevertheless, the Government is confronting the situation with optimism, certain that it will surmount all difficulties. The measures announced for economy of expenditures will create the conditions necessary for a firm execution of the development program, which will improve in a stable form the conditions of life of the Brazilian people."

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*Conf. ARVA*  
*832.10/5-4-56*

*Encontro do Conselho do Desenvolvimento  
Rio de Janeiro  
May 4, 1956.*  
*R/MR*

COOPERAÇÃO ECONÔMICA  
ENTRE  
OS ESTADOS UNIDOS E O BRASIL

VOL. *1*

CONSELHO DO DESENVOLVIMENTO  
ABRIL DE 1956

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COOPERAÇÃO ECONÔMICA ENTRE OS ESTADOS UNIDOS E O BRASIL

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RESUMO E CONCLUSÕES

1. O presente documento foi elaborado para servir de base ao prosseguimento das negociações preliminares iniciadas pelo senhor Ministro da Fazenda com as autoridades americanas.
2. Essas negociações objetivam:
  - a) a modificação das condições de pagamento das dívidas a prazo médio contraídas com o Eximbank; e
  - b) obtenção de recursos em divisas necessário ao programa de desenvolvimento econômica.
3. A situação atual das obrigações existentes é a seguinte: ( em dólares )
  - a) soma a pagar, de 1956 a 1961, - US\$ 982,1 milhões ou 63,67 % do total de compromissos em dólares (US\$ 1.544,4 milhões ) , dos quais US\$ 316,7 milhões correspondem à amortização e juros dos empréstimos obtidos no Eximbank.
  - b) a liquidação dessas obrigações em tão curto prazo exigiria o desembolso de uma soma anual excessivamente onerosa e prejudicial à manutenção dos níveis de comércio com os Estados Unidos, e a obtenção de novos financiamentos.
4. O esquema que se propõe visa ao seguinte:
  - a) estender por um prazo mais longo o serviço dessa dívida de modo que a amortização dos financiamentos a longo prazo, a amortização da dívida a ser consolidada e os novos financiamentos a serem contratados durante o próximo quinquênio, não ultrapasse um limite de US\$ 100 milhões anuais e US\$ 150 milhões a partir de 1961.
5. Esses objetivos seriam atingidos mediante:
  - a) a aceitação pelo EXIMBANK de um novo esquema de pagamentos segundo o qual o atual saldo devedor de US\$ 290,6 milhões seria amortizado em 20 anos, a partir de 1959, mantendo-se, até então, o serviço de juros nas bases atuais;
  - b) negociações diretas com o grupo de banqueiros liderada pelo "The First National City Bank of New York", para modificação dos prazos de liquidação do empréstimo de US\$ 200 milhões com garantia ouro;
  - c) ulteriores entendimentos com o Fundo Monetário Internacional, para renovação dos encargos resultantes da compra de moeda, no montante de US\$ 65,5 milhões.
6. Com o êxito dessas negociações, conseguir-se-ia transferir para o fu-

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turo e dispersar encargos ora concentrados em cinco anos num total de US\$ 438,7 milhões ou seja um défice cambial de US\$ 87,7 milhões por ano, em média.

7. Criar-se-iam, assim, disponibilidades para:
  - a) normalização de importações essenciais dos Estados Unidos da América;
  - b) utilização de "supplier's credit" em maior escala;
  - c) contratação de novos financiamentos para os investimentos programados, os quais, só nos setores de energia, transporte, indústrias básicas, mineração e alimentação, elevam-se a mais de US\$ 800 milhões, segundo as primeiras estimativas.
8. Na primeira parte do trabalho expõe-se as medidas unilaterais encetadas pelo Governo brasileiro para:
  - a) combater a inflação; e
  - b) corrigir os desequilíbrios do balanço de pagamentos.
9. Procura-se, a seguir, justificar, com elementos indicativos da constante expansão da economia brasileira, a possibilidade de uma assistência financeira dos Estados Unidos da América ao Brasil, em bases bem mais amplas, e em harmonia com as diretrizes de ordem política geral enunciadas pelo Presidente Eisenhower.
10. Documenta-se em outra parte do trabalho o crescente interesse de capitais particulares estrangeiros em investimentos e financiamentos no Brasil. A realização desses projetos, entretanto, dependerá do fortalecimento da infra-estrutura da economia brasileira, particularmente naqueles setores que, pela sua natureza não oferecem atrativos aos capitais privados e para os quais o Governo brasileiro espera obter financiamentos de instituições de crédito do Governo americano.
11. Finalmente são examinados outros assuntos pendentes nas relações entre o Brasil e os Estados Unidos, tais como: energia atômica; aquisição de excedentes agrícolas americanos; aquisição de navios para a Marinha Mercante brasileira; liquidação dos interesses americanos no Banco da Borracha.

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A - INTRODUÇÃO

O atual Governo do Brasil tem um programa estudado e conhecido. Esse programa é o mesmo que o Senhor Presidente da República apresentou durante sua campanha eleitoral, e que o povo brasileiro aprovou e homologou nas urnas.

Considerando que o Governo deve ser uma unidade perfeita, com uma só orientação, um dos primeiros atos do Senhor Presidente da República, foi criar um órgão de nível ministerial, o Conselho Nacional de Desenvolvimento Econômico que, sob sua Presidência, vem estudando a política de expansão econômica do país, preparando planos e programas para cuja execução concorrem harmoniosamente todos os órgãos da Administração.

Apoiando decididamente a livre empresa, à qual deve caber a maior parcela do esforço de expansão da nossa produção, o Governo vem orientando suas atividades no sentido de agir como criador de condições propícias ao trabalho incentivador da riqueza nacional, e só excepcionalmente exercendo a ação de investidor pioneiro e supletivo.

Com a firme determinação de vencer a inflação e desafogar a angustiada situação orçamentária, o Senhor Presidente da República determinou as seguintes providências que estão sendo rigorosamente executadas:

- 1) poupança nos gastos, prosseguindo-se num regime da mais completa austeridade, não realizando o Governo nenhuma despesa orçamentária adiável, nem admitindo qualquer gasto fora do orçamento;
- 2) limitação, a mais absoluta, de novas admissões no serviço público, restringindo-se as nomeações ao mínimo indispensável, permanecendo de pé a ordem presidencial proibindo a criação de quaisquer novos cargos;
- 3) fixação de tetos para a expansão das operações de empréstimos do Banco do Brasil e estabelecimentos oficiais de crédito;
- 4) não conceder níveis de financiamentos que possam estimular o aumento de preço das mercadorias, em relação aos do ano passado;
- 5) disciplinamento do crédito bancário privado, para evitar apêlo desordenado dos bancos à Carteira de Redescontos

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- que deverá, na conjuntura atual, atender somente às operações de caráter reprodutivo mais essencial;
- 6) Reforma das tarifas nas autarquias industriais, de modo a diminuir os seus vultosos "deficits", promovendo-se ao mesmo tempo medidas que aumentem a eficiência dos serviços;
  - 7) aperfeiçoamento do mecanismo da arrecadação, dinamizando a máquina burocrática e melhorando a fiscalização;
  - 8) congelamento dos créditos especiais, liberando-se somente os destinados ao pagamento de funcionalismo e do pessoal das verbas 3 e 4.

Novos esforços vêm sendo desenvolvidos para tornar a política de comércio exterior do Brasil mais ativa e realista, visando à conquista de novos mercados, à diversificação das exportações e à expansão de seu volume.

A política de investimentos vem sendo orientada no sentido de atrair capitais estrangeiros para auxiliar o nosso desenvolvimento.

Embora agindo cautelosamente de início, em apenas 90 (noventa) dias de Governo, o Senhor Juscelino Kubitschek de Oliveira imprimiu um sentido novo à administração brasileira.

Primeiro, assegurando a unidade de ação de todos os órgãos do Governo; segundo, orientando-a coerentemente na execução de planos tecnicamente elaborados, seja para a recuperação das finanças nacionais - como o plano de combate à inflação - seja para a solução dos problemas básicos do país - como o Plano Nacional de Desenvolvimento, baseado precipuamente no trinômio "Energia, Transportes e Alimentação".

Esse esforço de coordenação estende-se também às administrações dos Estados e aos governos municipais no sentido de que, em suas respectivas jurisdições, secundem o Governo Federal, seja quanto à política anti-inflacionária, seja quanto à articulação dos planos locais e investimentos com o Programa Nacional de Desenvolvimento Econômico.

Sem alarde e obedecendo a essa orientação única, racionalmente pré-estabelecida, vão sendo tomadas providências para corrigir as

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deficiências da máquina administrativa e fazê-la funcionar no sentido dos objetivos visados. Assim é que, para corrigir os "deficits" dos serviços industriais do Estado, as tarifas respectivas foram majoradas; as companhias concessionárias de serviços públicos, cujas atividades dependem de importações, foram autorizadas a rever suas tarifas, de modo a permitir que as mesmas reflitam os encarecimentos decorrentes das oscilações cambiais.

Igualmente, foram elevadas substancialmente as contribuições para os Institutos de Previdência Social, de modo a que as suas receitas sejam suficientes para cobrir os encargos respectivos, em vez de dependerem de créditos especiais do Governo Federal para fazer face aos "deficits" que até agora apresentavam.

No tocante a capitais nacionais para os investimentos básicos, o Governo vem prosseguindo na prática de mobilizar poupanças individuais através de adicionais cobrados sobre o imposto de renda, obtendo assim os recursos para o Banco Nacional do Desenvolvimento Econômico; ou de adicionais sobre o consumo de combustíveis líquidos, formando assim o Fundo Rodoviário Nacional e parte do Capital da Petrobrás.

Paralelamente às medidas de combate à inflação, vem procurando criar condições que permitam a formação de um mercado interno de capitais, a exemplo do que existe em outros países.

O Governo, para financiar "deficits" por processos não inflacionários, e a iniciativa privada, para os seus empreendimentos, poderão recorrer a esse mercado. O número crescente de "Investment Trusts" e companhias de investimentos funcionando no país atestam o interesse cada vez maior que o mercado brasileiro vem despertando em capitalistas nacionais e estrangeiros. A subscrição de títulos das Empresas Elétricas Brasileiras e das várias Companhias Telefônicas, no interior do país, constituem um índice animador da participação das pequenas poupanças individuais em grandes empreendimentos básicos. Inicia-se, assim, vigorosamente, no Brasil a era da democratização do capital.

O Governo, por todos os meios ao seu alcance, está estudando novos métodos para estimular e intensificar essa tendência altamente promissora, e procurando criar condições de garantia que inspirem confiança aos tomadores dos seus próprios títulos.

Nesse sentido acha-se em preparo o lançamento de títulos de prazo médio, com garantia real (possivelmente através de uma vinculação à cotação do dólar no mercado livre) para fazer face à desvalorização do cruzeiro enquanto não se façam sentir mais positivamente os resultados do programa de combate à inflação. Os títulos, que constituem parte desse programa - visam a atrair capitais inativos, ou aplicados em especulações imobiliária e cambial, para minorar o "deficit" orçamentário sem que para isso se torne necessário a paralização de obras inadiáveis ao fortalecimento da infra-estrutura.

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Essa firmeza de ação, acerto das providências de ordem interna, clara definição de programas a longo prazo, não podiam deixar de criar a certeza de que algo de novo está acontecendo no Brasil, reforçando a confiança generalizada no futuro do país.

Como não podia deixar de acontecer, diante desse clima de confiança que a atual administração criou, o capital privado internacional tem afluído em volume cada vez maior, em busca das imensas oportunidades de investimentos que o desenvolvimento do Brasil oferece.

Nesse particular, pode-se mencionar vários empreendimentos concretos, e outros em vias de realização, que trarão substanciais aumentos em nossa receita cambial pelo incremento das exportações, ou diminuição em nossos gastos de divisas pela produção no Brasil de bens ora importados.

Entre os primeiros, avulta pela sua significação a exportação de manganês do Amapá, a ser iniciada próximamente, como resultado de uma feliz associação de capitais privados americanos e brasileiros.

Os planos de expansão da Cia. Vale do Rio Doce e da Cia. Aços Especiais Itabira S.A. (ACESITA) encontraram eco nos meios financeiros dos Estados Unidos da América, atraindo a atenção de grupos poderosos, como os de Nelson Rockefeller e associados; Cyrus Eaton e associados; Cleveland Cliffs Co. e Chesapeake & Ohio Railway.

Os entendimentos com esses grupos já conduziram a acordo de princípio, devendo os resultados materiais dessa negociação não só abrir novas perspectivas para a participação do capital privado estrangeiro no desenvolvimento da economia brasileira, mas acelerar a expansão das exportações de minério de ferro, de três para dez milhões de toneladas por ano, além da expansão da produção de aços especiais na ACESITA.

Só os três empreendimentos acima enumerados, deverão contri- buir com mais de US\$ 150.000.000 de dólares anualmente para a receita cambial do Brasil.

Quanto às iniciativas destinadas a substituir importações, poder-se-ia enumerar o programa de refinarias de petróleo, a fábrica de asfalto de Cubatão; a inauguração das usinas Mannesmann para fabricação de tubos de aço sem costura, em Minas Gerais; a ampliação da Cia. Ferro e Aço de Vitória, pela Ferrostaal, de Essen, a expansão da indústria de fabricação de peças para veículos automotores, em que, além das companhias americanas, numerosas companhias tradicionais da indústria automobilística européia vêm fazendo substanciais investimentos, que deverão conduzir à progressiva produção de veículos automóveis, quase 100% nacionais, sob

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o estímulo das instruções 126 e 127, da SUMOC, que começam a produzir seus resultados positivos.

Nos setores de indústria química básica, além do continuado esforço governamental para a realização da Fábrica Nacional de Álcalis, em Cabo Frio - ora em vias de conclusão - grandes consórcios internacionais, principalmente europeus, disputam a primazia em desenvolver no Brasil a fabricação de produtos de sua especialidade.

A indústria de cimento, antes um dos itens consideráveis de pauta de importação do Brasil, já atinge hoje, com os novos investimentos nesse setor, uma capacidade de produção muito próxima de atual nível de consumo nacional.

Nas indústrias de metais não ferrosos, principalmente alumínio, estão em andamento programas de expansão das companhias genuinamente nacionais, como a Companhia Brasileira de Alumínio, e das associadas à ALCAN (Alumínio do Brasil S.A. e Electro Química S.A.), que acaba de apresentar ao Governo brasileiro proposta para a instalação de uma fábrica, com a capacidade de 20.000 toneladas, na área servida pela energia da Companhia Hidrelétrica do S. Francisco.

Emissários da Kayser Aluminium Co. encontram-se no Brasil negociando acordos para iniciar aqui suas atividades.

A produção de numerosos bens de consumo, utensílios elétricos para uso doméstico, máquinas de costura, máquinas de escrever, bicicletas, motocicletas, etc, tem respondido à crescente procura do considerável mercado nacional que, por si só, justifica hoje investimentos, como os que a indústria privada vem realizando.

Essa rápida enumeração (sobre a qual se encontrarão dados mais específicos em outra parte deste trabalho) permite apreciar a profunda alteração que vem se processando na economia brasileira. Da mesma, deverá resultar, segura e progressivamente, uma diminuição do grau de dependência em que secularmente nos encontramos em relação à exportação de uns poucos produtos-chave de nossa agricultura.

A realização de todos êsses empreendimentos ampliará ainda mais a crescente demanda de bens e serviços no mercado interno, aumentando a capacidade de absorção de matérias primas e equipamentos. Não se pode falar, entretanto, numa redução de despesas em divisas, como resultado líquido do aumento da produção substitutiva de importações. Haverá, isto sim, uma alteração na estrutura de nossas importações à medida que sua participação percentual em relação ao produto nacional bruto descrecer.

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O ritmo em que se processar essa transformação é que determinará o grau de dependência da economia brasileira das oscilações do preço do café nos mercados internacionais. Nesse sentido - e somente assim - haverá economia de divisas com a crescente industrialização do país.

Quando expoentes do capital privado da Europa e dos Estados Unidos da América se mostram, assim, confiantes e dispostos a participar da evolução econômica do Brasil, acreditamos que não nos faltarão financiamentos das instituições governamentais americanas, para, com os capitais governamentais brasileiros promovermos a infra-estrutura sobre a qual se edificará, com os citados capitais privados, o futuro progresso do país.

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B - ASSUNTOS FINANCEIROS

Na entrevista realizada, a 2.2.56, com os Senhores R. Nixon e H. Holland, respectivamente Vice-Presidente dos Estados Unidos da América e Subsecretário de Estado para os Assuntos da América Latina, o Senhor J.M. Alkimim - Ministro da Fazenda do Brasil delimitou alguns aspectos dos problemas econômicos e financeiros com os quais o Governo se defronta para executar os seus planos de recuperação e desenvolvimento.

Para resolver esses problemas, muitos dos quais dependem da cooperação dos Estados Unidos da América, o Governo brasileiro vem empreendendo um vigoroso programa de ação que compreende os seguintes setores:

- I - Combate à inflação e medidas para o equilíbrio das finanças nacionais;
- II - Política corretiva das causas do desequilíbrio do balanço de pagamentos;
- III - Obtenção de recursos em moeda nacional e em divisas para financiar os investimentos necessários a fim de que sejam atingidas as metas do Plano Nacional de Desenvolvimento Econômico.

O programa de combate à inflação e a contenção e disciplina das despesas em divisas dependem fundamentalmente de medidas unilaterais do governo brasileiro que já foram encetadas.

O êxito da renegociação das dívidas e a obtenção de recursos em dólares para a realização do Programa de Desenvolvimento Econômico dependem, porém, da cooperação que o governo norte-americano se disponha prestar ao Brasil.

Cada um desses campos de ação foi objeto de estudos técnicos cujas conclusões sumarizamos a seguir.

I - Programa de combate à inflação

De há muito, a rápida elevação dos preços (média de 18% no último quinquênio e de 20% nos dois últimos anos) vinha exigindo providências enérgicas para impedir que a inflação atingisse o ponto crítico, do qual nos aproximamos a passos largos.

Conquanto ainda não hajam podido as autoridades monetárias brasileiras deter o processo inflacionário, as medidas adotadas a partir do último trimestre de 1954 e posteriormente, propiciaram uma redução do ritmo da expansão monetária, ainda que insuficiente.

A expansão global do crédito bancário em 1955 foi da ordem

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de 14,3% (29,5 bilhões de cruzeiros), contra 28,1% (45,2 bilhões de cruzeiros) em 1954. Para essa redução do ritmo expansionista contribuiu diretamente o comportamento das operações das Autoridades monetárias com o setor não bancário da economia nacional. Os empréstimos das Autoridades monetárias mostraram expansão de 17,1% (18,2 bilhões), contra um aumento de 40% (30,5 bilhões) em 1954. O nível geral do crédito concedido pelos bancos comerciais alçou-se de 11,4% (11,3 bilhões em 1955, contra 17,5% (14,8 bilhões) em 1954.

A elevação do índice geral de preços (calculado pela Fundação Getúlio Vargas) foi da ordem de 11,5% em 1955, para um aumento de ... 24,7% em 1954, confronto dos meses de dezembro.

O aumento das pressões inflacionárias em 1956 obrigaram a atual administração a empreender um programa coordenado de combate à inflação, dando-lhe sentido progressivo de política que deverá inicialmente diminuir o ritmo inflacionário e posteriormente conter essa tendência que vem subvertendo o nosso sistema econômico.

Esse programa é baseado na fixação de um limite global de expansão dos meios de pagamento e do crédito bancário, admitindo-se para isso uma taxa suportável, sem graves inconvenientes para a economia do país, em fase de desenvolvimento. (8% ou sejam 22 bilhões de cruzeiros em 1956).

Foi determinado ao Banco do Brasil a fixação de tetos máximos para suas operações de crédito em 1956, e órgãos técnicos especializados elaboraram, para orientação das Autoridades Monetárias, um "Orçamento de Crédito", que prevê as distribuições das operações das referidas autoridades nos diversos setores, e uma projeção mensal levando em conta as variações de ordem estacional.

Procurando eliminar as causas das crescentes solicitações do crédito oriundas do setor público, foram programadas medidas de correção do deficit orçamentário federal, que envolvem compressão de despesas num montante de 9,9 bilhões de cruzeiros, e a revisão de emolumentos e de tarifas de serviços industriais, além do deslocamento em 1956 para o setor público de recursos de Caixas Econômicas, Bancos Comerciais e outras instituições financeiras que normalmente se dirigiam ao setor privado.

Quanto aos empréstimos dos bancos comerciais, além da influência limitada que representará a contenção das operações do Banco do Brasil com o setor não bancário de economia, serão tomadas medidas de ação direta, tais como:

- a) - o total dos redescontos a bancos comerciais em 1956

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terá como limite máximo o saldo registrado em .....  
31.12.55;

- b) - maior rigor seletivo nas operações de desconto;
- c) - limitação ao máximo de 30 dias dos prazos de empréstimos assistenciais da Caixa de Mobilização Bancária.

No tocante à política de revisão de salário mínimo, o governo seguirá orientação cautelosa, a fim de evitar que os reajustamentos se façam em excesso das possibilidades reais da economia nacional.

Na execução do primeiro ano de um programa de combate à inflação é recomendável pôr-se menor ênfase restritiva no primeiro semestre, e se aumentarem as restrições na segunda metade do ano. Não obstante as medidas adotadas e os resultados positivos obtidos nos primeiros três meses de administração, o atual governo do Brasil reconhece que deverá e poderá mostrar maior progresso no decorrer do ano em curso.

Em apêndice encontra-se exposição minuciosa das principais providências administrativas que constituem os instrumentos de execução do programa anti-inflacionário do Governo.

Vale observar, a propósito, que a cooperação que os Estados Unidos devem ao Brasil no tocante à extensão do prazo de liquidação dos compromissos cambiais brasileiros terá, além dos efeitos fundamentais colimados, a vantagem de facilitar a ação das Autoridades Monetárias brasileiras, reduzindo nos próximos anos o vulto das compras oficiais de moedas estrangeiras no mercado interno, para liquidação dos referidos compromissos, o que aliviará as pressões no sentido da expansão dos meios de pagamento.

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II - Política corretiva do desequilíbrio do balanço de pagamentos

Desde 1947 a economia brasileira vem sofrendo de um forte e crescente desequilíbrio em seu balanço de pagamentos, em transações correntes. Se em alguns anos, como em 1950, 1953 e 1955 (dados preliminares) foi registrado saldo positivo, isto só foi possível graças a uma forte compressão das importações, permanecendo, porém, o desequilíbrio em estado latente. Dentre os fatores

para esta situação, podemos distinguir:

1. Estrutura de nossa pauta de exportação notoriamente dependente do preço do café nos mercados internacionais;
2. Sobrevalorização do cruzeiro em relação as outras moedas, o que decorreu da inflação interna aliada a política de rigidez da taxa cambial;
3. Ausência de formulação de uma política geral coordenando o ímpeto do desenvolvimento econômico com as reais possibilidades dos recursos no país e no exterior.

Essas circunstâncias determinaram o endividamento progressivo da economia brasileira, cujos encargos cambiais decorrentes de empréstimos, créditos e financiamentos a prazos médio e longo, no período 1956/61 elevaram-se a um total de US\$ 1.147,0 milhões de dólares em todas as moedas, em 29.2.56 dos quais 982,1 milhões em moedas conversíveis.

i.e.:

Compromissos decorrentes de financiamentos estrangeiros registrados

na SUMOC

(posição em 29.2.56)

(em milhões US\$)

| A N O S          | TÔDAS AS MOEDAS | % DO TOTAL | Moedas Conversíveis | % DO TOTAL |
|------------------|-----------------|------------|---------------------|------------|
| 1956 .....       | 149,3           | 8,50       | 106,6               | 6,90       |
| 1957 .....       | 189,0           | 10,76      | 154,2               | 10,00      |
| 1958 .....       | 204,7           | 11,62      | 170,5               | 11,10      |
| 1959 .....       | 217,6           | 12,38      | 189,8               | 12,30      |
| 1960 .....       | 265,8           | 15,18      | 251,0               | 16,25      |
| 1961 .....       | 120,6           | 6,89       | 110,0               | 7,12       |
|                  | 1.147,0         | 66,33      | 982,1               | 63,67      |
| A PARTIR DE 1962 | 607,8           | 33,67      | 562,3               | 36,33      |
|                  | 1.754,8         | 100,00     | 1.544,4             | 100,00     |

FONTE: SUMOC - Departamento Econômico - Divisão de Investimentos e Financiamentos Estrangeiros.

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Esses totais representam a soma das obrigações registradas na SUMOC, e constituem responsabilidades cambiais do Governo Brasileiro, seja diretamente, pelos empréstimos e créditos obtidos por entidades Governamentais, seja por financiamentos concedidos a entidades privadas, com garantia oficial.

Quanto à sua natureza, essas obrigações se classificam em:

1. Empréstimos para desenvolvimento econômico

Deferidos pelo BIRD e EXIMBANK para projetos específicos (Siderúrgica Nac., Hidro-Elétrica do S.F. etc); e

2. Empréstimos de consolidação de dívidas

contraídas originariamente a curto prazo e posteriormente consolidadas para amortização a prazo médio ou longo, como, por exemplo, o empréstimo de ..... US\$ 300 milhões junto ao EXIMBANK, para regularização dos atrasados comerciais, formados a partir de 1950; e a consolidação da Dívida Externa (D.L. nº.. 6.019, de 23 de novembro de 1943).

A 29/2/56 o total dos compromissos para a consolidação de dívidas, inclusive juros, montava a US\$ 760 milhões em todas as moedas, dos quais US\$ 691,6 em moedas conversíveis.

Dessa última parcela, US\$ 290,6 milhões correspondem ao saldo dos empréstimos de US\$ 300 milhões, de US\$ 75 milhões com o EXIMBANK; e US\$ 200 milhões do empréstimo com garantia ouro, contraída com o grupo de banqueiros norte-americanos, liderados pelo "The First Nacional City Bank of N. York.

Tendo em vista a necessidade de alívio do balanço de pagamentos, quer para fazer face aos gastos de importação para reposição e manutenção do equipamento já instalado, quer para criar disponibilidades para o programa de desenvolvimento econômico; e em face da pronunciada concentração dessas obrigações em período relativamente curto, ou seja, 5 a 7 anos, duas providências imediatas se tornam evidentes, além daquelas que só poderão produzir resultados a longo prazo:

1. prosseguimento e aperfeiçoamento das medidas de contenção e disciplina das despesas em divisas; e
2. renegociação dos prazos para a liquidação dos empréstimos junto as autoridades governamentais norte-americanas e junto ao grupo de banqueiros liderados pelo City Bank.

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1. Contenção e disciplina das despesas em divisas

A contenção de despesas em divisas vem sendo realizada através da observância de orçamentos semestrais do câmbio, cuja técnica de elaboração e execução foi aprimorada nestes últimos três anos de tal forma que já se pode hoje contar com um instrumento efetivo de execução de política cambial.

Os orçamentos de câmbio relativos ao 1º e ao 2º semestres de 1955, por exemplo, revelam resultados positivos, como se pode depreender do quadro a seguir:

ORÇAMENTO DE CÂMBIO - 1º SEMESTRE DE 1955DESPESA

US\$ 1.000.00

| DISCRIMINAÇÃO                | Previsão     | Execução     | + ou -  |
|------------------------------|--------------|--------------|---------|
| <u>Moedas conversíveis</u>   | <u>408,5</u> | <u>339,7</u> | - 68,8  |
| Importações .....            | 323,0        | 243,5        | - 79,5  |
| Serviços .....               | 44,0         | 53,0         | + 9,0   |
| Capitais .....               | 41,5         | 43,2         | + 1,7   |
| <u>Moedas inconvertíveis</u> | <u>445,7</u> | <u>377,2</u> | - 158,3 |
| Importações .....            | 441,0        | 297,2        | - 143,8 |
| Serviços .....               | 3,5          | 12,0         | + 8,5   |
| Capitais .....               | 20,6         | 18,0         | - 2,6   |
| Compra de ouro .....         | 0,4          | -0-          | - 0,4   |

ORÇAMENTO DE CÂMBIO - 2º SEMESTRE DE 1955

US\$ 1.000.000

| DISCRIMINAÇÃO                | Previsão     | Execução     | + ou -  |
|------------------------------|--------------|--------------|---------|
| <u>Moedas conversíveis</u>   | <u>606,5</u> | <u>508,2</u> | - 98,3  |
| Importações etc. ....        | 335,0        | 251,2        | - 83,8  |
| Serviços .....               | 44,8         | 57,6         | + 12,8  |
| Capitais .....               | 226,7        | 199,4        | - 27,3  |
| <u>Moedas inconvertíveis</u> | <u>564,6</u> | <u>440,3</u> | - 163,0 |
| Importações .....            | 516,2        | 356,5        | - 159,7 |
| Serviços .....               | 4,1          | 11,8         | + 7,7   |
| Capitais .....               | 43,9         | 33,3         | - 10,6  |
| Compra de ouro .....         | 0,4          | -0-          | - 0,4   |

FONTE: SUMOC - Departamento Econômico - Divisão de Balanço de Pagamentos.

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O esforço realizado no setor cambial pode ser apreciado igualmente pelo comportamento da "posição futura" de câmbio do Banco do Brasil que, de 30 de junho de 1955 a 7 de março de 1956, apresenta melhorias de US\$ 221,0 milhões, em tôdas as moedas, e de US\$ 175,4 milhões, em moedas conversíveis como segue:

POSICÃO DE CÂMBIO DO BANCO DO BRASIL

(US\$ 1.000.000)

|             |             | <u>Tôdas as moedas</u> | <u>Moedas conversíveis</u> |
|-------------|-------------|------------------------|----------------------------|
| <u>1953</u> | 31.12 ..... | 587,7 V                | 495,7 V                    |
| <u>1954</u> | 30.6 .....  | 734,0 V                | 685,6 V                    |
|             | 31.12 ..... | 916,0 V                | 855,9 V                    |
| <u>1955</u> | 30.6 .....  | 985,0 V                | 879,3 V                    |
|             | 30.9 .....  | 913,6 V                | 817,5 V                    |
|             | 31.12 ..... | 870,6 V                | 794,6 V                    |
|             | 7.3 .....   | 764,3 V                | 703,9 V                    |

Fonte: Carteira de Câmbio do Banco do Brasil.

Confirmando os resultados da política de contenção de despesas apontadas, o levantamento preliminar do Balanço de Pagamentos do Brasil para 1955 apresenta saldo positivo na Balança Comercial de US\$ 301 milhões, sendo \$ 166 milhões em moedas conversíveis, \$ 88 milhões em moedas de conversibilidade limitada e US\$ 47 milhões em moedas inconversíveis.

Registra ainda um saldo global de US\$ 13 milhões nas transações correntes, decomposto em um deficit de \$ 8 milhões na área das moedas conversíveis, superavit de \$ 60 milhões na de conversibilidade limitada e deficit de \$ 39 milhões em inconversíveis.

Êsses resultados somente foram possíveis graças a um programa ordenado de compressão de importações, a despeito da crescente pressão da procura resultante do desenvolvimento econômico do país.

As cifras a seguir, referentes à importação brasileira nos últimos 5 anos, evidenciam a política de austeridade que vem sendo adotada pelo Governo.

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IMPORTAÇÃO  
(Em US\$ 1.000.000)

| PRODUTOS          | 1951    | 1952    | 1953    | 1954    | 1955*   |
|-------------------|---------|---------|---------|---------|---------|
| Petróleo .....    | 204,1   | 245,5   | 237,2   | 259,2   | 255,8   |
| Trigo .....       | 129,3   | 129,7   | 180,2   | 125,8   | 142,1   |
| Outros .....      | 1.653,7 | 1.610,8 | 901,3   | 1.248,5 | 908,9   |
| Total Geral ..... | 1.987,1 | 1.986,0 | 1.318,7 | 1.633,5 | 1.306,8 |

Fonte: S.E.E.F. do Ministério da Fazenda

(\*) Estimativa.

O valor das importações nacionais, em 1955, excetuados petróleo e trigo, sofreu redução de 28% em relação a 1954.

Além do decréscimo nas aquisições de veículos, seus pertences e acessórios, que decaíram de US\$ 118,3 milhões em 1953 para US\$ 110,4 em 1955, outros itens essenciais sofreram reduções ainda mais fortes, como se verifica pelo quadro abaixo:

Em US\$ 1.000.000

| PRODUTOS                 | 1954 | 1955 | + ou - em relação a 1954 |
|--------------------------|------|------|--------------------------|
| Ferro e aço e s/ligas .. | 29,4 | 6,9  | - 76%                    |
| Metais não ferrosos .... | 30,7 | 26,9 | - 47%                    |
| Barrilha .....           | 6,5  | 4,0  | - 39%                    |
| Soda cáustica .....      | 12,5 | 8,4  | - 35%                    |

Mesmo a concessão de licenças de importação para equipamentos financiados no exterior foi objeto da mais severa restrição. Basta mencionar que projetos, num montante de cerca de US\$ 200 milhões, em sua grande parte referentes a empreendimentos do maior interesse para a economia nacional, tiveram o seu atendimento postergado.

O Brasil não poderia continuar indefinidamente na prática de obter financiamentos de natureza diversa, quer para os seus programas de investimentos, quer para fazer face a desequilíbrios temporários de seu Balanço de Pagamentos, sem correlacioná-los com as reais possibilidades de amortização a longo prazo.

Esse processo vinha nos aproximando rapidamente do ponto de saturação em que novos financiamentos, embora atendendo a necessida-

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des básicas, ou seriam incompatíveis com a nossa capacidade de pagamentos ou importariam na suspensão do serviço de amortização de outros encargos.

Daí a necessidade de um planejamento da contratação de novas obrigações face aos compromissos existentes, projetando-se os encargos num prazo de 20 a 25 anos, segundo um programa compatível com a receita cambial previsível.

Enquanto não se acentuarem os resultados das medidas em execução para estímulo das exportações e intensificação do ingresso de capitais estrangeiros, pode-se estimar em US\$ 720 milhões a receita anual em moedas conversíveis, proveniente das exportações, única em que seguramente poderá basear-se um esquema de encargos cambiais para os próximos anos.

Em contraposição, necessita-se de um mínimo, praticamente incoersível de US\$ 600 milhões de dólares por ano para o custeio das importações (CIF), isso se se conseguir transferir para o futuro compromissos num total de US\$ 438,7 milhões e deixando-se de atender a vultosas necessidades de importação para substituição do equipamento técnico existente no país e a manutenção do ritmo atual de desenvolvimento econômico.

Excetuado o risco de nova guerra mundial e com certo otimismo, pode-se admitir que as perdas eventuais no volume de ingresso de divisas provenientes do café possam ser compensadas pelo incremento de outras exportações.

Essas considerações levam à conclusão de que mesmo sem qualquer melhoria da nossa posição em transações correntes, o Brasil poderia destinar, nestes próximos cinco anos, cêrca de US\$ 100 milhões para atender a compromissos financeiros externos.

A política de austeridade na aplicação de divisas, o progresso na substituição de importações, o estímulo ao ingresso de capitais e financiamentos particulares, além de uma utilização hábil das facilidades de crédito a médio prazo, permitem ampliar-se para US\$ 150 milhões a partir de 1961, o montante anual destinado a atender as obrigações financeiras existentes e as adicionais requeridas pelo Programa de Desenvolvimento Econômico.

Nessa ordem de idéias o Governo atual concluiu pela necessidade de renegociar as condições de liquidação dos empréstimos contraídos com o EXIMBANK e o grupo de banqueiros norte-americanos, segundo o plano cujas bases passamos a expor:

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2. Renegociação das dívidas

No que tange ao EXIMBANK, o saldo devedor atual, de ..... US\$ 290,0 milhões seria amortizado em 20 anos, a partir de 1959, mantendo-se, até então, o serviço de juros nas bases atuais. (Vide anexo).

Na colunas 9, 10 e 11 do quadro em apêneo, acham-se indicados os montantes anuais das amortizações e juros estabelecidos para os dois empréstimos (US\$ 300,0 milhões e US\$ 75,00 milhões) contraídos com o EXIMBANK. Segundo esse esquema, deveríamos pagar US\$ 316,7 milhões nos próximos sete anos, ou sejam US\$ 52,0 milhões, em média, até 1961 e .... US\$ 12 milhões em 1962. Como se vê, só o serviço dessa dívida absorveria mais de metade da soma considerada suportável normalmente pelo Balanço de Pagamentos do Brasil nos próximos 5 anos para esse fim. Se adicionarmos a esse encargo as somas correspondentes aos financiamentos de projetos específicos existentes, mais as prestações da dívida externa consolidada, (old portfolio debt) chegaremos à cifra total de US\$ 872,1 milhões, ou seja uma média anual de US\$ 174,4 milhões por ano, que exprime a concentração de obrigações durante este quinquênio, em níveis incompatíveis com as necessidades imperiosas do desenvolvimento da economia brasileira e consequente elevação dos níveis do intercâmbio com os Estados Unidos.

O impacto do atendimento desses compromissos, em prazo tão exíguo, pode ser evidenciado pela observação dos dados a seguir:

AMORTIZAÇÃO E JUROS DE COMPROMISSOS DECORRENTES  
DE FINANCIAMENTOS ESTRANGEIROS

- Moedas convertíveis -

US\$ 1.000.000

| A N O S    | Amortização e<br>juros (1) | Exportação    | % sobre a<br>exportação |
|------------|----------------------------|---------------|-------------------------|
| 1951 ..... | 81,8                       | 917,7 (2)     | 3,47                    |
| 1952 ..... | 84,2                       | 760,7         | 5,80                    |
| 1953 ..... | 58,7                       | 774,4         | 7,60                    |
| 1954 ..... | 68,5                       | 600,2 (3)     | 16,43                   |
| 1955 ..... | 107,0                      | (*) 622,3 (3) | 17,20                   |
| 1956 ..... | 106,6                      | (720,0) (4)   | 14,72                   |
| 1957 ..... | 174,2                      | (720,0)       | 21,40                   |
| 1958 ..... | 170,5                      | (720,0)       | 24,60                   |
| 1959 ..... | 189,8                      | (720,0)       | 26,30                   |
| 1960 ..... | 251,0                      | (720,0)       | 34,90                   |
| 1961 ..... | 110,0                      | (720,0)       | 15,40                   |
| 1962 ..... | 61,6                       | (720,0)       | 8,50                    |
| 1963 ..... | 45,8                       | (720,0)       | 6,25                    |
| 1964 ..... | 40,3                       | (720,0)       | 5,6                     |
| 1965 ..... | 39,4                       | (720,0)       | 5,5                     |

FONTES: SUMOC - Departamento Econômico  
S.P.F.P. - Ministério da Fazenda.

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Observações referentes ao quadro da página anterior.

- (\*) - Estimativa;  
 (1) - Estados Unidos, Canadá, BIRD e FMI;  
 (2) - Aumento de exportação consequente da Guerra da Coreia  
 (3) - Retração do mercado do café;  
 (4) - Estimativa baseada na hipótese de uma exportação média mensal em moedas conversíveis, de US\$ 60 milhões, geralmente aceita.

Como se vê, o "record" de amortização e juros, no último quinquênio, verificou-se em 1955, já em consequência do pesado ônus resultante do início de amortização da dívida com o EXIMBANK.

A manutenção do esquema existente, envolvendo, como se disse, pagamentos crescentes até 1962 para amortização de todos os encargos em dólares americanos implicaria em reduções ainda mais drásticas do que as impostas em 1955 ao comércio com os Estados Unidos da América.

O quadro abaixo mostra o esforço maior de contenção de importações na área do dólar de modo a liberar a parcela necessária de divisas para atender aos pagamentos de obrigações financeiras nessa moeda:

IMPORTAÇÕES POR ÁREAS MONETÁRIAS

US\$ 1.000.000

| ANOS       | Moedas<br>Conversíveis | %    | Outras<br>moedas | %    | Total       |
|------------|------------------------|------|------------------|------|-------------|
| 1951 ..... | 1.088,1                | 54,7 | 899,0            | 45,3 | 1.987,1     |
| 1952 ..... | 1.129,7                | 56,8 | 856,3            | 43,2 | 1.986,0     |
| 1953 ..... | 632,0                  | 48,0 | 686,7            | 52,0 | 1.318,7     |
| 1954 ..... | 829,3                  | 51,0 | 804,2            | 49,0 | 1.633,5     |
| 1955 ..... | 451,1                  | 34,5 | 855,7            | 65,5 | 1.306,8 (*) |

FONTES: S.E.E.F. - Ministério da Fazenda - (\*) - Estimativa.

A correlação entre o declínio das importações em dólares e o aumento de pagamentos de amortizações e juros torna-se mais evidente pelo quadro a seguir:

CORRELAÇÃO ENTRE IMPORTAÇÕES E AMORTIZAÇÕES EM DÓLARES

US\$ 1.000,000

| A N O S    | Importações<br>(CIF) | Amortizações<br>e juros | %     |
|------------|----------------------|-------------------------|-------|
| 1951 ..... | 1.088,1              | 31,8                    | 2,83  |
| 1952 ..... | 1.129,7              | 44,2                    | 3,92  |
| 1953 ..... | 632,0                | 58,7                    | 9,30  |
| 1954 ..... | 829,3                | 98,5                    | 11,87 |
| 1955 ..... | 451,1                | 107,0                   | 23,70 |

FONTES: S.E.E.F. - Ministério da Fazenda.

SUMOC - Departamento Econômico

Divisão de Balanço de Pagamentos.

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Como é óbvio, se se mantiver o esquema atual de pagamentos, o declínio e a substituição de importações na área dólar serão ainda mais agravados.

Quanto à estrutura do comércio com os Estados Unidos da América, tem-se verificado uma tendência para importações crescentes de equipamentos e produtos semi-elaborados.

A consolidação, ora alvitrada, liberaria recursos, portanto, não para a importação de bens de consumo, mas sobretudo para a intensificação das compras de equipamentos e peças para reposição que, pela sua própria natureza, normalmente não seriam pagáveis a vista.

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III - Recursos em divisas p/o Programa de Desenvolvimento Econômico

O esquema proposto, em relação ao EXIMBANK, (Vide coluna nº 15 do quadro anexo) criaria um desafôgo cambial da ordem de US\$ 35,5 milhões por ano ou US\$ 177,5 milhões nos cinco anos. Se somarmos a essa cifra o alívio que se espera obter da alteração dos prazos de liquidação da dívida para com o Grupo de Banqueiros privados, (US\$ 195,7) e a renovação dos encargos resultantes da aquisição de moedas no Fundo Monetário Internacional (US\$ 65,5 milhões) teremos um total de US\$ 438,7 milhões de dólares, no período em consideração, ou sejam US\$ 87,7 milhões por ano, em média.

A situação atual e a que resultaria do êxito das gestões ora em curso se acham representadas no gráfico anexo, do qual ressalta a concentração de encargos e sua ulterior dispersão em bases programadas de acôrdo com critérios mais racionais e consentâneos com as possibilidades de nosso balanço de pagamentos.

A margem, assim criada, permitirá:

- a) a satisfação de um mínimo de importações essenciais;
- b) a utilização de "supplier's credit" em maior escala;
- c) a contratação de novos financiamentos para execução do programa de desenvolvimento econômico.

Essas conclusões decorrem da análise da atual estrutura da economia brasileira, sem entrar na especulação do crescimento que resultará da realização dos novos investimentos contemplados.

O exame retrospectivo de nossa situação econômica confirma o seu sentido evolutivo que, no tocante particularmente aos encargos financeiros externos e em comparação com a nossa capacidade de pagar, mostra uma posição hoje incomparavelmente mais favorável de que há vinte anos.

Assim é que, em 1933, um ano após ao da consolidação da dívida externa brasileira, o total dos compromissos com o exterior, inclusive atrasados comerciais, montava a US\$ 1.337 milhões. Decorridos 22 anos, o total da dívida externa em tôdas as moedas (inclusive compromissos potenciais, tais como câmbio vendido, etc) cifrava-se pelo equivalente a US\$ 2.319 milhões em 31.12.55. Tendo a receita cambial do Brasil e voluído de US\$ 251 milhões em 1933, para US\$ 1.928 milhões aproximadamente, em 1954, em tôdas as moedas, constata-se acentuated declínio percentual entre o montante da dívida externa e a receita cambial. Enquanto essa correlação era de 535% em 1933, presentemente atinge apenas a 120%(\*).

(\*) "Boletim" da Superintendência da Moeda e do Crédito - Vol.I - Nº 1 - pag. 13.

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Acresce notar que os dados do comércio com os Estados Unidos da América, no período de 1920 a 1955, acusam um saldo favorável ao Brasil superior a US\$ 2 bilhões.

Cumpra assinalar porém, que os compromissos financeiros atuais são, em sua maior parte, resgatáveis a médio e curto prazo, em contraste com os existentes em 1933, cujos prazos de resgate eram muito mais dilatados.

A economia brasileira, através de sua história, sempre revelou uma vigorosa capacidade de expansão e de adaptação às variações da posição competitiva de seus produtos no mercado internacional.

A inflação e a manutenção, desde 1939, da mesma taxa de câmbio, prevalecte, sob o aspecto formal, até agora, têm constituído, sem dúvida, fatores relevantes de desestímulo às exportações brasileiras.

No que se refere à taxa de câmbio as sucessivas administrações têm procurado corrigir as distorções ocorridas com a adoção de medidas de emergência como as operações cinculadas; os acordos bilaterais de comércio; a instituição da pauta mínima, logo após a promulgação da Lei 1807, de 7.1.53, que criou o mercado livre de câmbio; as bonificações instituídas pela Instrução 70, da SUMOC e, mais recentemente, a criação da Área de Conversibilidade Limitada.

A simples enumeração dessas medidas demonstra que o Governante não tem procurado orientar a política de comércio exterior, nestes últimos anos, no sentido do multilateralismo, bem como do abandono dos controles quantitativos e do arbítrio administrativo.

O incremento às exportações não será, porém, resolvido apenas com a adoção de medidas cambiais, inclusive pela introdução de uma taxa flexível de câmbio.

Depende fundamentalmente da remoção dos pontos de estrangulamento da economia brasileira, da mecanização de sua agricultura e da ampliação de suas indústrias de base.

A falta de transportes, por exemplo, tem sido responsável pela perda de elevadas percentagens das safras de cereais, pelo desestímulo à expansão da pecuária e pela reduzida atividade no setor de produção mineral, permanecendo praticamente inexploradas as inensas reservas brasileiras de minérios de ferro e manganês.

A constante tendência ao crescimento, revelada através de todos os índices econômicos e demográficos, entretanto, justifica eloquentemente a confiança no futuro do Brasil.

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Os desajustes de que hoje padecemos refletem o dinamismo expansionista, ainda que desordenado, dessas forças de crescimento.

O Governo atual, visando a eliminar os pontos de estrangulamento que, presentemente, entorpecem o desenvolvimento do país, traçou um programa de investimentos básicos, para cuja realização é indispensável a cooperação financeira dos Estados Unidos da América.

Esse programa, consubstanciado nas chamadas "Metas de Desenvolvimento Econômico", está sendo re-examinado para a determinação de estimativas mais rigorosas dos seus custos, quer em moeda nacional, quer em divisas.

Conforme a estimativa preliminar apresentada no documento submetido aos Senhores R. Nixon e H. Holland, pelo Ministro da Fazenda do Brasil, esses investimentos, em moeda estrangeira, são da ordem de US\$ . 805 milhões de dólares, para transportes, energia, indústrias básicas, mineração e alimentação. Cada uma dessas "metas" será objeto de projetos específicos, com os elementos usuais de informação exigidos para a concessão do crédito respectivo.

Para a realização do programa contemplado, não se baseia o Governo brasileiro apenas na obtenção de financiamentos de instituições de crédito internacionais ou Governamentais, mas também numa utilização de "supplier's credit" em maior escala. Nesse particular, tem havido um maior interesse da parte de entidades privadas européias, cujos financiamentos concedidos a importadores brasileiros montavam a US\$ 107,6 milhões, em 31.12.55, enquanto que, grupos americanos participavam apenas com US\$ 17,6 milhões do total, exigindo, via de regra condições de pagamento bem mais desfavoráveis que os seus competidores.

Tanto do ponto de vista de ampliar-se esse tipo de cooperação econômica com o Brasil, quanto de corrigir a posição de inferioridade competitiva em que se encontram os exportadores americanos, seria desejável que as autoridades norte-americanas houvessem por bem criar maiores facilidades para estimular esse tipo de financiamentos, atentando ainda para a forma de sua liquidação.

Aprovado o esquema de consolidação das dívidas a prazo médio, acima delineado, e programado mais racionalmente o emprêgo das disponibilidades oriundas da receita cambial, fica evidenciada a possibilidade de contratação de novos empréstimos, cujo reembolso é perfeitamente compatível com a nossa atual capacidade de pagamento.

Se não bastassem considerações de ordem econômica para justificar por si só uma assistência financeira dos Estados Unidos da América

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es no Brasil em bases bem mais a-plas, poderiam ser ainda invocadas considerações de ordem política, predicadas nas reiteradas afirmações do Presidente Eisenhower, sobre a política geral do Governo norte-americano em relação aos países subdesenvolvidos.

Já tendo atingido um grau de maturidade política capaz de resistir, sem solução de continuidade em suas instituições democráticas, as vicissitudes políticas peculiares à América Latina, o Brasil poderá, com a cooperação americana ora pleiteada, iniciar a nova era de progresso tão ançada pelo seu povo.

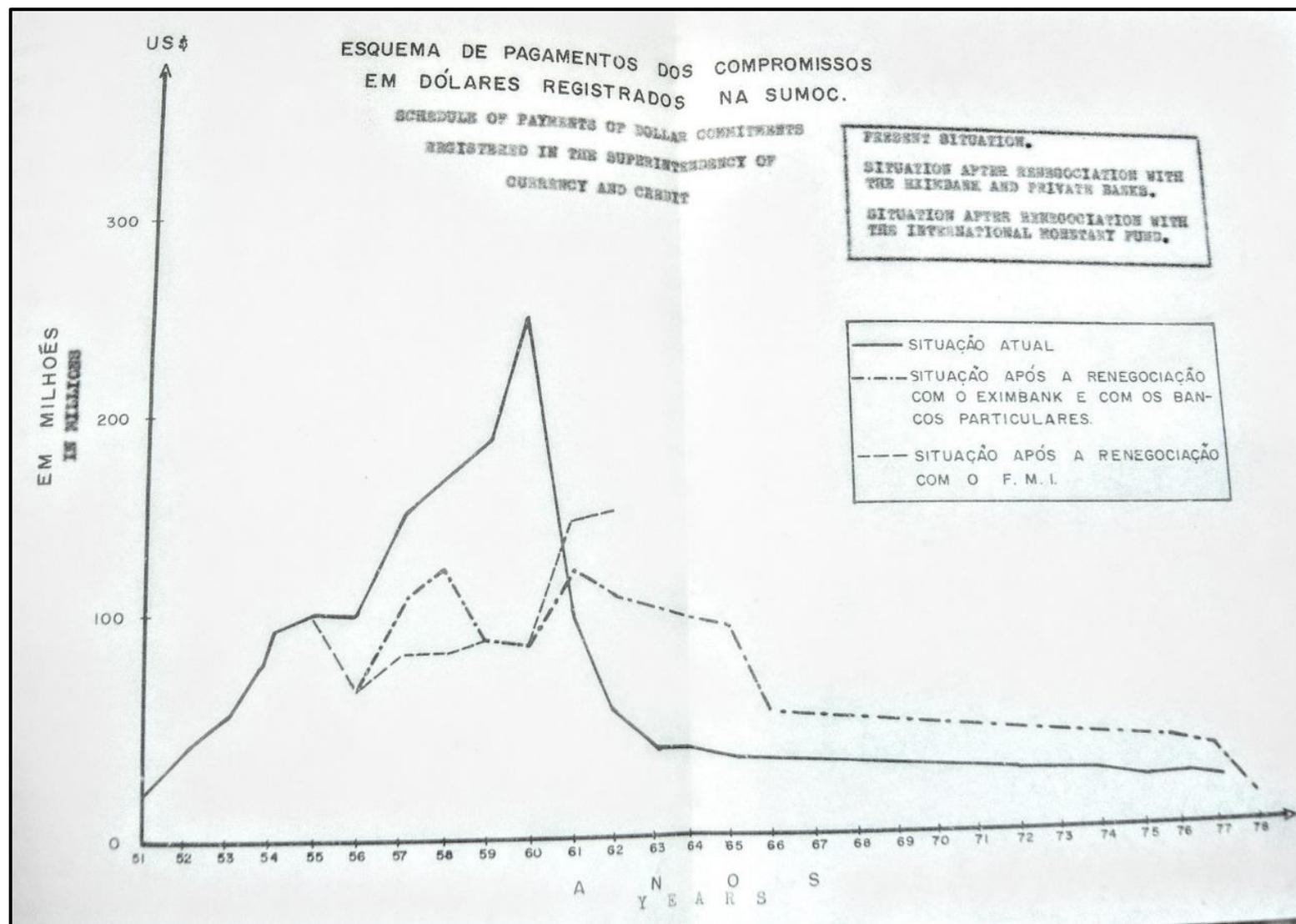
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**EXCHANGE COMMITMENTS RESULTING FROM LOANS AND CREDITS**  
**IN CONVERTIBLE CURRENCIES (\*)**  
 (UP TO FEBRUARY 29, 1956)  
 US\$ 1,000,000

| YEARS  | I - LONG - TERM DEBT        |              |            |  | II - DEBT FOR REFUNDING |                        |                                   |   | REFUNDING PLAN          |                 |                              |  | NET EXCHANGE RELIEF (18-14) | YEARS     |   |  |  |                             |               |                      |      |
|--|-----------------------------|--------------|------------|--|-------------------------|------------------------|-----------------------------------|---|-------------------------|-----------------|------------------------------|--|-----------------------------|-----------|---|--|--|-----------------------------|---------------|----------------------|------|
|  | A. FOR ECONOMIC DEVELOPMENT |              |            |  | B. OTHER INDEBTEDNESS   |                        |                                   |   | COMPLEMENTARY FINANCING |                 |                              |  |                             |           | TOTAL COMMITMENTS BEFORE CONSOLIDATION (8 + 13) |  |  |                             |               |                      |      |
|  | I.B.R.D. (1)                | SINIBANK (2) | OTHERS (3) | TOTAL LOANS FOR ECONOMIC DEVELOPMENT (1 + 2 + 3) (4) | I.M.F. (5)              | OLD PORTFOLIO DEBT (6) | TOTAL OF OTHER INDEBTEDNESSES (7) | TOTAL INDEBTEDNESS NET SUITABLE FOR REFUNDING (4 + 7) (8) | COMPLEMENTARY FINANCING |                 |                              | TOTAL COMMITMENTS BEFORE CONSOLIDATION (8 + 13) (14) |                             |           | DEBT CONSOLIDATION SCHEMES                      |  | TOTAL COMMITMENTS BEFORE CONSOLIDATION (8 + 13) (14) | NET EXCHANGE RELIEF (18-14) |               |                      |      |
|  |                             |              |            |  |                         |                        |                                   |   | 300 MILLION (9)         | 75 MILLION (10) | TOTAL SINIBANK (9 + 10) (11) |  |                             |           | PRIVATE BANKS (200 MILLION) (12)                | TOTAL COMPLEMENTARY FINANCING (11 + 12) (13) |  |                             | SINIBANK (15) | PRIVATE BANKERS (16) |      |
| (1)  | (2)                         | (3)          | (4)        | (5)  | (6)                     | (7)                    | (8)                               | (9)   | (10)                    | (11)            | (12)                         | (13)   | (14)                        | (15)      | (16)  | (17)   | (18)   |                             |               |                      |      |
| 1948   | 2,654                       | 19,865       | 24,354     | 46,873   | -                       | 11,820                 | 11,820                            | 58,693  | 42,000                  | 1,815           | 43,815                       | 4,090  | 47,905                      | 106,598   | 5,934   | 5,500  | 11,434   | 70,127                      | -             | 36,471               | 1956 |
| 1949   | 5,368                       | 26,197       | 28,12      | 59,775   | 25,000                  | 11,820                 | 36,820                            | 96,555  | 50,400                  | 1,815           | 52,215                       | 5,453  | 57,668                      | 154,223   | 10,172  | 5,500  | 15,672   | 112,227                     | -             | 41,996               | 1957 |
| 1950   | 6,770                       | 22,690       | 31,068     | 60,528   | 40,500                  | 11,820                 | 52,320                            | 112,848   | 50,400                  | 1,815           | 52,215                       | 5,453  | 57,668                      | 170,516   | 10,172  | 5,500  | 15,672   | 128,520                     | -             | 41,996               | 1958 |
| 1951   | 7,390                       | 18,300       | 27,756     | 53,446   | -                       | 11,820                 | 11,820                            | 65,266  | 50,400                  | 1,815           | 52,215                       | 72,274   | 124,489                     | 189,755   | 24,703  | 5,500  | 30,203   | 95,469                      | -             | 94,266               | 1959 |
| 1952   | 7,373                       | 17,239       | 26,500     | 51,312   | -                       | 11,499                 | 11,499                            | 62,811  | 50,400                  | 1,815           | 52,215                       | 72,274   | 124,489                     | 189,755   | 24,703  | 5,500  | 30,203   | 95,469                      | -             | 94,266               | 1959 |
| 1953   | 7,970                       | 13,974       | 25,743     | 47,287   | -                       | 10,958                 | 10,958                            | 58,245  | 50,400                  | 1,815           | 52,215                       | 135,982  | 188,177                     | 251,008   | 24,194  | 5,500  | 29,694   | 92,405                      | -             | 94,266               | 1959 |
| 1954   | 7,567                       | 12,721       | 25,149     | 45,437   | -                       | 3,873                  | 3,873                             | 49,310  | 17,712                  | 34,054          | 51,766                       | -  | 51,766                      | 110,011   | 23,686  | 45,500                                       | 69,186   | 127,431                     | -             | 158,503              | 1960 |
| 1955   | 7,552                       | 8,930        | 22,459     | 40,114   | -                       | 1,219                  | 1,219                             | 45,807  | -                       | 12,301          | 12,301                       | -  | 12,301                      | 61,511    | 23,177  | 44,400                                       | 67,577   | 116,887                     | -             | 174,640              | 1961 |
| 1956   | 7,548                       | 5,815        | 22,459     | 38,141   | -                       | 967                    | 967                               | 39,108  | -                       | -               | -                            | -  | -                           | 45,807    | 22,969  | 43,300                                       | 65,969   | 111,776                     | -             | 55,276               | 1962 |
| 1957   | 6,874                       | 5,325        | 22,459     | 34,658   | -                       | 792                    | 792                               | 36,789  | -                       | -               | -                            | -  | -                           | 43,333    | 22,160  | 42,200                                       | 64,360   | 107,693                     | -             | 62,731               | 1965 |
| 1958   | 6,022                       | 5,233        | 22,459     | 33,894   | -                       | 662                    | 662                               | 35,450  | -                       | -               | -                            | -  | -                           | 39,108    | 21,651  | 41,100                                       | 62,751   | 101,859                     | -             | 62,731               | 1965 |
| 1959   | 5,406                       | 5,140        | 22,459     | 33,005   | -                       | 636                    | 636                               | 34,556  | -                       | -               | -                            | -  | -                           | 36,789    | 21,143  | -  | 21,143   | 57,932                      | -             | 21,143               | 1966 |
| 1960   | 4,609                       | 4,865        | 22,459     | 31,933   | -                       | 567                    | 567                               | 32,500  | -                       | -               | -                            | -  | -                           | 34,556    | 20,634  | -  | 20,634   | 56,064                      | -             | 20,634               | 1966 |
| 1961   | 4,810                       | 4,589        | 22,459     | 31,658   | -                       | 517                    | 517                               | 31,837  | -                       | -               | -                            | -  | -                           | 32,500    | 19,109  | -  | 19,109   | 53,258                      | -             | 19,109               | 1969 |
| 1962   | 4,607                       | 4,497        | 22,459     | 31,563   | -                       | 274                    | 274                               | 32,175  | -                       | -               | -                            | -  | -                           | 32,175    | 18,599  | -  | 18,599   | 51,609                      | -             | 18,599               | 1970 |
| 1963   | 4,609                       | 3,404        | 32,459     | 30,472   | -                       | -                      | -                                 | 30,472  | -                       | -               | -                            | -  | -                           | 31,837    | 18,091  | -  | 18,091   | 50,776                      | -             | 18,091               | 1971 |
| 1964   | 3,507                       | 2,311        | 22,459     | 28,277   | -                       | -                      | -                                 | 28,277  | -                       | -               | -                            | -  | -                           | 30,472    | 17,583  | -  | 17,583   | 49,528                      | -             | 18,091               | 1972 |
| 1965   | 2,062                       | 2,219        | 22,459     | 26,740   | -                       | -                      | -                                 | 26,740  | -                       | -               | -                            | -  | -                           | 26,740    | 17,074  | -  | 17,074   | 45,351                      | -             | 17,074               | 1974 |
| 1966   | 1,950                       | 2,126        | 22,459     | 26,535   | -                       | -                      | -                                 | 26,535  | -                       | -               | -                            | -  | -                           | 26,535    | 16,566  | -  | 16,566   | 43,306                      | -             | 16,566               | 1975 |
| 1967   | 976                         | -            | 22,459     | 23,435   | -                       | -                      | -                                 | 23,435  | -                       | -               | -                            | -  | -                           | 23,435    | 16,057  | -  | 16,057   | 42,592                      | -             | 16,057               | 1976 |
| 1968   | -                           | -            | -          | -  | -                       | -                      | -                                 | -   | -                       | -               | -                            | -  | -                           | -         | 15,548  | -  | 15,548   | 38,963                      | -             | 15,548               | 1977 |
| 1969   | -                           | -            | -          | -  | -                       | -                      | -                                 | -   | -                       | -               | -                            | -  | -                           | -         | 15,040  | -  | 15,040   | 15,040                      | -             | 15,040               | 1978 |
| TOTAL  | 120,523                     | 206,624      | 525,669    | 852,816  | 65,500                  | 86,067                 | 151,567                           | 1,004,383   | 261,312                 | 55,430          | 316,742                      | 223,252  | 539,994                     | 1,544,377 | 423,705   | 244,000                                      | 667,705  | 1,672,088                   | -             | 127,711              | 1978 |
| Outstanding debt as of January, 31 1956 Interest exchanged | 38,507                      | 180,460      | 352,141    | 571,108  | 65,500                  | 70,992                 | 136,492                           | 707,600   | 245,627                 | 45,000          | 290,627                      | 200,000  | 490,627                     | 1,198,227 | 290,627   | 200,000                                      | 490,627  | 1,198,227                   | -             | -                    | -    |

Remarks: (\*) - Does not include lines of credit, from Bankers abroad to the Banco do Brasil, swaps, and other short term financial operations.  
 (\*\*) - Amortizations and interest, allowing for the total utilization of all registered loans.  
 (\*\*\*) - Net exchange relief in the period 1956 / 60 amounts to US\$ 379.2 million.  
 (1) - Does not include US\$75, US\$15 and US\$18.9 million dollar loans, granted to the Brazilian Traction, Toronto, Canada. Such loans which are used by the Brazilian Traction, together with its own funds, to grant its subsidiaries in Brazil financings which as last recorded in SUNC amount to US\$ 255 millions. These operations are computed in the column "OTHERS".  
 (2) - Does not include the US\$ 67.5 million dollar loan granted to INDÚSTRIA E COMÉRCIO DE MINÉRIOS S/A "ICOMI", which will be paid with part of the product of ore exports. This operation's debit balance, however (US\$35 millions), is computed in the line of Outstanding debt.  
 (3) - Does not include amortization on the loans which still do not have final payment schedule, and on which only the interest has been computed. These loans are the following: Brazilian Traction, to its subsidiaries in Brazil; US\$255,118,051.60; American and Foreign Power Co. Inc., Brazilian Electric Power Co. to its subsidiaries in Brazil, US\$49,140,837.66; International Telephone and Telegraph Co. to Cia. Telefônica Nacional US\$14,313,46; Manaus Harbor Ltd. to its subsidiaries in Brazil US\$330,000.00; Bindler Hamlyn Co. to Pernambuco Tramways & Power Co. Ltd. US\$2,559,130.00 These amounts are included, however, in line of outstanding debt.  
 (6) - Estimate of the remittances necessary to settle external public debt in dollars and sterling, by the probable Stock Exchange quotation, according to the Inter National Bank for Reconstruction and Development's estimate.  
 (10) - Of the US\$75 million dollars loan, only US\$45 million dollars have been used. The term for utilization of the US\$30 million's balance has already expired.

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APÊNDICE - IA. FINANÇAS PÚBLICAS

É propósito firme do atual Governo lançar mão de todos os recursos ao seu alcance no sentido de contar as fortes pressões inflacionárias que já se fazem sentir no início de sua administração e as que se anunciam para futuro próximo.

Em verdade, o Governo já deu começo de execução ao seu programa de combate à inflação, que no setor interno abrange, necessariamente, dois pontos fundamentais, intimamente ligados: finanças públicas e crédito bancário.

No setor de finanças públicas várias medidas já foram tomadas: umas tiveram ampla divulgação pela imprensa nacional, outras o Governo decidiu não anunciar publicamente, por considerar a publicidade excessiva prejudicial à eficiência das medidas.

Ação junto ao Congresso

Uma das primeiras preocupações do atual Governo foi, antes de mais nada, evitar o agravamento do forte deficit previsto para 1956, quando junto ao Congresso, e usando o recurso do veto, no sentido de evitar exagerados aumentos de vencimentos de funcionários públicos.

Tal ação junto ao Congresso, todavia, para ser eficiente, precisa processar-se na fase da tramitação da proposta orçamentária apresentada pelo Executivo. É o que se pretende fazer em 1956, relativamente ao orçamento para 1957. Não admitimos a concepção de que, uma vez apresentada a proposta orçamentária ao Congresso, está terminada a tarefa do Executivo. Ao contrário, deve êle acompanhar atentamente a tramitação da sua proposta, acolhendo as correções que se impuzeren, porém defendendo in flexivelmente a unidade e coerência dos programas cuja expressão orçamentária estruturou na proposta. A ação do Legislativo é respeitável, mas muitas vezes frustram-se propósitos seus, generosos e sadios, à falta de coordenação ou melhores e mais seguras informações. Exemplo típico é o do forte deficit financeiro herdado pelo atual Governo.

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A previsão do deficit das finanças da União em 1956 é da ordem de 30 bilhões de cruzeiros. A política estabelecida para enfrentar esse sério problema, no plano fiscal, abrange três aspectos básicos: a) redução dos gastos em 1956, seja fazendo cortes definitivos, seja postergando despesas para exercícios futuros; b) aumento das receitas públicas, pela elevação das bases de cobranças de tributos, tarifas e semelhantes; c) financiamento do deficit residual por processos não inflacionários.

Deixamos de mencionar a melhoria dos processos de arrecadação tributária, como elemento de cobertura do deficit público assinalado, devido ao fato de que, havendo sido sobrestimada a Receita, pelo Congresso, a melhoria de arrecadação será absorvida no esforço de atingir a cifra utilizada pelo Legislativo.

#### Redução e Disciplinamento dos Gastos Públicos

No que tange à política de redução de gastos públicos, no ano em curso, temos dois aspectos básicos: a) Plano geral de economias; b) medidas diversas tendentes a evitar novos gastos, desperdícios, ou a disciplinar a execução das despesas autorizadas, impedindo utilizações maciças das mesmas.

Relativamente ao Plano de Economias, foi elaborado pelos órgãos técnicos competentes, um esquema dos cortes e adiamentos que possam ser feitos nas verbas das diversas dependências da Administração Federal, esquema que é apresentado em resumo, em anexo (nº 1). O citado plano prevê redução de gastos num montante de cerca de 10 bilhões de cruzeiros, e foi aprovado pelo Presidente da República que determinou, todavia, não devesse ser o mesmo ostensivamente divulgado, por achar que isso, ao invés de facilitar, dificultaria a execução do plano. Em circular reservada (Anexo nº 2), baixada em 25 de abril corrente, por proposta do Ministro da Fazenda, o Presidente da República estabeleceu normas definidas para a execução do Plano de Economia. Algumas rubricas do plano ainda são passíveis de discussão, porém não serão utilizadas enquanto não se decidir o assunto e, devido à possibilidade

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de transferência dos cortes para certas rubricas outras, estas últimas também estão com sua utilização sustada.

As medidas concernentes à execução do Plano de Economias abrangem a não permissão, no corrente exercício, de utilização de créditos especiais, a não ser aquêles destinados ao pagamento de vencimentos de funcionários públicos e os que devem ser atendidos com recursos específicos. Ficou estabelecido, também, pela referida circular, que a execução dos gastos autorizados se fará em parcelas mensais, com o objetivo de condicioná-los, o mais possível, ao fluxo da receita pública.

Além da Circular Reservada, atrás mencionada, foram baixadas pela Presidência da República, na mesma data, duas Circulares (Anexos nos. ) outras, uma determinando o controle das sobras dos suprimentos em "Caixas" nas pagadoras, outra tornando obrigatório para as despesas públicas inferiores a Cr\$ 50.000,00 o pagamento mediante cheque nominativo, e para aquelas superiores a Cr\$100.000,00, pagamento mediante cheque nominativo cruzado. O objetivo dessas duas circulares foi, de um lado, evitar o inconveniente observado no passado, de permanecerem vultosos recursos públicos não utilizados, à disposição de determinados setores da administração e por outro lado aumentar o controle burocrático dos gastos públicos.

Desejamos observar que, anteriormente à adoção das medidas atrás referidas, já havia o atual Governo decidido seguir à risca as excelentes normas de controle dos gastos públicos postas em vigor mediante a Portaria nº 1, da Presidência da República, baixada em 14 de janeiro p. findo (anexo nº ), e que abrange dois itens importantes:

I) - Restrição severa dos Auxílios, Subvenções e outras contribuições a serem pagas pelo Governo Federal;

II) - Proibição do início de obras de qualquer natureza que envolvam recursos da União, sem prévia autorização do Presidente da República e aprovação dos respectivos projetos, orçamentos e especificações;

III) - Controle pela Presidência da República, de diversos outros projetos de gastos públicos não referentes a pagamentos de vencimentos de funcionários.

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Muitas das medidas assinaladas são fruto da atual emergência, e representam um acréscimo de trabalho apreciável para o Tesouro Nacional e para a Presidência da República; tais providências, todavia, são consideradas essenciais ao contrôlo efetivo dos gastos públicos.

Merece especial referência o contrôlo que está sendo exercido sobre os gastos administrativos das autarquias industriais, especialmente aquêles relativos a aumento de vencimentos de funcionários. Sucessivos despachos do Presidente da República têm impedido a criação de novas funções. Procede-se, no momento, ao exame sistemático dos quadros de pessoal dessas entidades, a fim de verificar a observância de dispositivos legais disciplinadores.

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Aumento da Receita Pública

O acréscimo da receita pode provir: a) da melhoria da arrecadação e b) da elevação das bases de cobrança dos tributos, preços industriais ou emolumentos. Já nos referimos ao problema da melhoria da arrecadação em 1956.

Quanto ao problema da elevação das bases de cobrança de tributos, preços industriais ou emolumentos temos a considerar: a) medidas que independem de autorização do Congresso e b) medidas que dependem de autorização legislativa. Na primeira categoria incluem-se exclusivamente certos preços industriais e emolumentos. Nesse sentido, o Governo já tomou duas medidas importantes: a) elevação das tarifas das estradas de ferro, feita mediante uniformização geral pelos níveis mais altos; em alguns casos a elevação atingiu a 70% (Portaria nº .....); b) aumento das tarifas dos preços, prêmios e comissões cobradas nos serviços postais e de telecomunicação executados pelo Departamento dos Correios e Telégrafos; tais tarifas, das mais baixas do mundo, eram inteiramente obsoletas e, por isso, em alguns itens houve majoração da ordem de 400% (Portaria nº 223, de 14.4.56, do Ministério da Viação e Obras Públicas).

A receita oriunda da elevação das tarifas mencionadas poderá superar dois bilhões de cruzeiros, nos restantes oito meses de 1956. Outros aumentos de tarifas estão sendo planejados.

Relativamente à solicitação ao Congresso de autorização para modificar as bases de cobrança de tributos, nenhuma ajuda poderá tal providência propiciar ao problema de reduzir o déficit público de 1956, de vez que, de acordo com a Constituição, só poderão ser cobrados depois de inscritos na Lei Orçamentária anual.

As tarifas aduaneiras, contudo, poderão ser cobradas independentemente de inscrição orçamentária. Existe, já, em estudo no Congresso, um projeto de lei destinado a modernizar a pauta aduaneira

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brasileira, que está inteiramente obsoleta, por ter mais de vinte anos de existência e basear-se no sistema de cobrança por peso da mercadoria, em vez de "ad valorem", como se projeta agora. A nova pauta aduaneira poderá incrementar a receita pública de seis a sete bilhões de cruzeiros, no segundo semestre do ano em curso.

Em verdade é que o efeito imediato sobre a Caixa do Banco do Brasil será pequeno, de vez a receita líquida dos ágios cambiais, provavelmente, se reduzirá em proporção semelhante. Há vantagens sensíveis, todavia, em tal modificação; a existência de forte saldo de ágios cambiais incentiva: (a) reclamação por parte dos exportadores, que recebem por suas cambiais menos do que pagam os importadores, (b) solicitações no sentido da expansão dos créditos às atividades rurais as quais, segundo a lei, podem ser financiadas com parte do produto dos ágios. Inegavelmente, grande parcela do saldo líquido dos ágios cambiais decorre simplesmente da insuficiência das bases de cobrança de direitos de importação.

De qualquer maneira, as Autoridades Monetárias brasileiras estão contemplando a possibilidade de aumentar os ágios fixos preferenciais concedidos a certos tipos de importações preferenciais; o que poderá propiciar apreciável incremento dos recursos à disposição do Banco do Brasil.

Foi determinada a devolução à conta do Tesouro no Banco do Brasil de sobras do extinto plano SALTE de desenvolvimento econômico, e que se achavam à disposição de entidades diversas e, em alguns casos, depositados fora do Banco do Brasil. Como regra geral, restabeleceu-se a exclusividade do Banco do Brasil para o recebimento em depósito de quaisquer fundos públicos federais, inclusive aqueles pertencentes a autarquias.

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FINANCIAMENTO DO DEFICIT PÚBLICO RESIDUAL

Tôdas as medidas atrás apontadas, objetivam a uma redução apreciável do deficit público em 1956. Não nos parece possível, todavia, possa o mesmo ser eliminado integralmente. Assim sendo, está o Governo tomando providências no sentido de financiar, de maneira não inflacionária, o deficit residual admissível.

As medidas de redução do deficit de 30 bilhões de cruzeiros previsto para 1956, atingirão, aproximadamente, os totais a seguir indicados:

|   | <u>Bilhões de Cr\$</u> |
|---|------------------------|
| Plano de economia e medidas complementares .....  | 10,0                   |
| Padronização geral de tarifas ferroviárias e aumento de tarifas postais já efetuado ..... | 2,0                    |
| Reajustamento de outras tarifas de serviços de transportes, em estudo .....               | 1,0                    |
| Reajustamento de taxas e emolumentos diversos .....                                       | 1,0                    |
|   | <hr/>                  |
| Subtotal .....  | 14,0                   |
| Tarifa aduaneira .....  | 6,0                    |
|   | <hr/>                  |
| Total .....   | 20,0                   |

Se a nova tarifa aduaneira não fôr aprovada pelo Congresso dentro dos próximos dois meses, então o Banco do Brasil terá de utilizar o saldo líquido dos ágios para financiar, temporariamente, o Tesouro Nacional.

O mais importante, todavia, é que não haverá, praticamente, aumento de recursos para o Banco do Brasil na transformação da receita de ágios em receita de tarifas aduaneiras. Assim, conforme o grau de sucesso obtido nas medidas de redução do deficit financeiro federal, os financiamentos do Banco do Brasil ao Tesouro Nacional poderão absorver a quase totalidade dos 11

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bilhões de cruzeiros de expansão de recursos previstos no plano de crédito, abordado mais adiante.

O Tesouro solicitará adiantamentos ao Banco do Brasil somente até o montante que possa ser atendido por êsse estabelecimento sem agravamento das pressões inflacionárias, vale dizer, sem provocar exageradas emissões de papel-moeda, mediante o processo bastante conhecido.

Mister é, pois, que se procure obter fora do Banco do Brasil parcela substancial, dos financiamentos necessitados pelo Tesouro.

Como é notório, a situação do mercado de títulos do Governo é a mais pobre possível, o que se deve a erros de ortografia cometidos no passado e à inflação, que desestimula a tomada de títulos representativos de dívidas a longo prazo (a Dívida Pública Consolidada brasileira é eterna).

Assim sendo, confiamos essencialmente, na atual conjuntura, na colocação de títulos a curto prazo, as Letras do Tesouro, de vencimento certo e que não apresentam aos tomadores, de forma tão aguda, o problema da desvalorização monetária e o da revenda em Bolsa, em caso de necessidade de realização do valor do título.

Já autorizamos o Banco do Brasil a colocar Letras do Tesouro, até um montante de 5 bilhões de cruzeiros, a prazos de 90 dias e 180 dias. A fim de tornar mais atrativas tais Letras, e encarando de maneira realista a situação vigente no mercado de dinheiro brasileiro, determinamos que, além do rendimento fixo e juros de 6% a.a., as referidas letras sejam vendidas abaixo do par. As letras de 90 dias de prazo serão vendidas a tipo 99,25, o que dará ao tomador um rendimento efetivo de 9,07% ao ano, e as letras de 180 dias serão vendidas ao tipo de 98, o que propiciará ao tomador um rendimento efetivo de 10,2%.

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Tal nível de remuneração é, evidentemente, oneroso para o Erário Público, e só o admitimos em caráter de emergências e por nos parecer que tal ônus será compensado pelos benefícios gerais, para o País, que decorrerão da redução do ritmo das emissões de papel-moeda. Tão logo comecem a fazer sentir-se os primeiros sintomas de estabilização monetária, fazemos a revisão da orientação do pagamento de juros altos para as Letras do Tesouro.

Ainda com referência às Letras do Tesouro, providenciará o Executivo no sentido de obter autorização legislativa para emissão de tais títulos, com resgate previsto para exercício financeiro diferente do da emissão. De acordo com a legislação vigente, o Governo tem de resgatar suas letras dentro do do mesmo exercício.

No plano de emergência de financiamento dos gastos públicos sem receita correspondente, em 1956, incluímos a absorção, voluntária ou compulsória, de certa parcela dos aumentos de recursos que certos tipos importantes de instituições financeiras venham a registrar no ano em curso.

Contamos com a absorção de apreciável soma de Letras do Tesouro por parte dos bancos comerciais. As Letras, tal como serão emitidas, constituem boa aplicação para os bancos, sendo de notar-se que não demandam despesas administrativas como as decorrentes da concessão e controle de empréstimos. Ademais os bancos enfrentam em certas fases do ano problemas de excesso de caixa que serão resolvidos de forma mais satisfatória com a tomada de Letras do Tesouro do que mediante o processo, menos flexível, do aumento do nível de empréstimos. O interesse que os banqueiros mostrarem pelas novas Letras do Tesouro, talvez possa obviar a imposição, pelo Conselho da SUMOC, de Instrução determinando o aumento dos depósitos bancários à ordem da SUMOC, 50% dos quais podem ser efetuados em títulos da dívida pública Federal.

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Relativamente às Caixas Econômicas Federais, o Ministro da Fazenda enviou Aviso ao Presidente do Conselho Superior das Caixas Econômicas Federais, determinando que as Caixas que registrarem, 1956, aumento de depósitos superior a 5 milhões de cruzeiros, deverão recolher ao Banco do Brasil, 50% do valor desse aumento; os recursos assim recolhidos ao Banco do Brasil não poderão ser movimentados pelas Caixas, exceto para a aquisição de Letras do Tesouro.

Acreditamos que outras instituições detentoras de vultosas economias populares, tais como as Companhias de Seguro e de Capitalização, poderão absorver apreciável soma em Letras do Tesouro, sem redução do índice de rentabilidade de seus negócios.

Passaremos a seguir à análise da política de controle das operações de crédito bancário.

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B. Contrôlo do crédito.1. Limitação global da Expansão

Será inconveniente permitir um crescimento dos meios de pagamento superior a 8%, no corrente ano, taxa que superará a do crescimento da renda nacional mas que se aceita tendo em vista a conveniência de não se iniciar o programa anti-inflacionário com uma ação excessivamente drástica, que, de resto, seria de difícil consecução, em face das dificuldades financeiras e políticas que o Governo terá de enfrentar em 1956.

A expansão das operações bancárias admitidas para 1956 será da ordem de 22 bilhões de cruzeiros, financiada por expansão de 14 bilhões nos meios de pagamento e 8 bilhões do aumento provável nos recursos não monetários. (capital e reservas, depósitos a prazo, ágios cambiais, etc) do sistema bancário. A expansão deverá distribuir-se em parcelas equivalentes (11 bilhões de cruzeiros) entre os dois setores (a) Autoridades monetárias e (b) bancos comerciais; todavia, como já indicamos, as Autoridades Monetárias orientarão para o financiamento do Tesouro Federal certa parcela (três bilhões, aproximadamente) da expansão registrada nos recursos dos bancos comerciais.

Inicialmente, desejamos observar que, no Brasil, o banco oficial do Governo Federal fornece diretamente mais de 50% do valor dos empréstimos bancários e mais de 35% do valor dos empréstimos bancários ao público (excluídas as Caixas Econômicas e Cooperativas de Crédito). Ademais, no Brasil os bancos comerciais dependem muito mais do recurso oficial do que os bancos de países onde é fácil resolver problemas momentâneos de caixas mediante a venda de títulos públicos no mercado financeiro. Estão, portanto, as Autoridades Monetárias brasileiras em muito boa posição para exercer um controle efetivo ao crédito privado.

2. Bancos Comerciais

O controle da assistência financeira direta aos bancos comerciais e a contenção das operações do Banco do Brasil será suficiente

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para limitar quantitativamente a expansão do crédito dos referidos bancos. Ademais, está sendo efetuado um controle seletivo das operações destes últimos, através do redesconto. Já tivemos oportunidade de mencionar o fato de que o Governo contempla a possibilidade de aumentar as bases de recolhimentos dos depósitos bancários obrigatórios, com o objetivo de obrigar os bancos comerciais a financiar o Governo, na presente emergência.

No que tange aos redescontos a bancos comerciais, não será ultrapassado em 1956 o nível máximo total registrado em fins de 1955. Relativamente aos empréstimos, de caráter especial, da Caixa de Mobilização Bancária, serão concedidos somente aqueles legitimamente necessários, e por períodos curtos, de 30 dias, conforme, aliás, prevê a legislação bancária sobre a matéria.

### 3. Banco do Brasil

Relativamente ao Banco do Brasil, um controle mais direto está sendo exercido. O Presidente do Banco do Brasil se mantém em contacto diário com o Ministro da Fazenda, dando-lhe contas da posição de caixa daquele estabelecimento e combinando as medidas necessárias no sentido de serem evitadas emissões de papel-moeda.

Regras de controle e seleção de empréstimos que foram postas em vigor na época da administração do Sr. Eugênio Gudin como Ministro da Fazenda estão sendo rigorosamente obedecidas; entre essas medidas, incluem-se aquelas relativas à redução do crédito concedido a antigos clientes que mostram atualmente elevada capacidade financeira e que, se continuarem a se beneficiar de empréstimos oficiais, poderão desviar para aplicações menos essenciais seus recursos próprios (Vide Cartas-Circulares ns. 4.032, de 5 de março de 1955 e 4.192, de 31 de janeiro de 1956, anexas como anexos n.ºs 6 e 7).

De ordem do Presidente da República, o Ministro da Fazenda determinou ao Presidente do Banco do Brasil que, além das medidas já em vigor, determinasse tetos globais para as operações das Carteiras daquele estabelecimento de crédito, sistema de controle que possui a-

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preciosas vantagens administrativas. O Governo já tem em mãos, sobre a matéria, estudo feito por órgãos técnicos especializados. É de constatar-se que a Carteira de Crédito Agrícola e Industrial já vem paulatim suas operações de crédito segundo um orçamento de crédito agrícola, que tem por limites máximos, até segunda ordem, os saldos totais máximos registrados em fins de 1955, exceção feita de certos tipos de financiamento especializado (pequeno produtor e atividades ligadas ao trigo), que gozam de maior flexibilidade mas não representam parcela apreciável do total da referida Carteira.

No Anexo nº ao presente documento poderão ser apreciadas cifras constantes do primeiro esboço de orçamento de crédito para as Autoridades Monetárias (Banco do Brasil) elaborado, em caráter provisório, em confronto com as cifras relativas aos saldos das operações efetivas. Observa-se, pelo quadro apresentado, que, até fim de março, as operações das autoridades monetárias se mantiveram rigorosamente de acordo com as projeções, calculadas com base numa expansão máxima de 8% nos meios de pagamento em 1956 e levando em conta as variações mensais de ordem estacional.

Não são disponíveis dados completos para o mês de abril. Entretanto, tudo indica que a execução se terá mantido próximo à projeção: a emissão de papel-moeda no mês em curso atingiu apenas a 1,2 bilhão de cruzeiros, não obstante as pressões exercidas pelo Tesouro junto ao Banco do Brasil.

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ANEXO Nº 1

GOVERNO FEDERAL

PLANO DE ECONOMIA

| <u>Subanexo do</u><br><u>Orçamento</u>                      | <u>Economia</u> | <u>Dotação a</u><br><u>transferir</u><br><u>para 1957</u> | <u>Total</u>  |
|---|-----------------|---|---------------|
| 4.01 - Presidência da República.....                        | 64.134.000      | -   | 64.134.000    |
| 4.06 - Comissão do Vale do São Francisco.                   | -               | 50.875.552  | 50.875.552    |
| 4.08 - Conselho Nacional do Petróleo.....                   | 8.000.000       | -   | 8.000.000     |
| 4.10 - Superintendência do Plano de Valorização da Amazônia | -               | 701.492.710   | 701.492.710   |
| 4.11 - M. da Aeronáutica.                                   | 204.755.359     | -   | 204.755.359   |
| 4.12 - M. da Agricultura.                                   | 852.319.623     | 20.000.000  | 872.319.623   |
| 4.13 - M. da Educação e Cultura.....                        | 142.000.000     | 230.000.000   | 372.000.000   |
| 4.14 - M. da Fazenda ...                                    | -               | 2.626.942.000   | 2.626.942.000 |
| 4.15 - M. da Guerra ....                                    | 205.000.000     | 30.000.000  | 235.000.000   |
| 4.16 - M. da Justiça e Negócios Interiores                  | 43.000.000      | 40.000.000  | 83.000.000    |
| 4.17 - M. da Marinha....                                    | 160.000.000     | 220.000.000   | 380.000.000   |
| 4.19 - M. da Saúde.....                                     | 458.500.000     | -   | 458.500.000   |
| 4.20 - M. do Trabalho Indústria e Comércio                  | -               | 1.110.000.000   | 1.110.000.000 |
| 4.21 - M. da Viação e Obras Públicas....                    | 2.300.000.000   | 360.000.000   | 2.660.000.000 |
| T o t a l .....   | 4.437.708.973   | 5.379.310.262   | 9.817.019.235 |

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ANEXO Nº 2  
PRESIDÊNCIA DA REPÚBLICA  
CIRCULAR Nº \_\_\_\_\_ - RESERVADA

Comunico a Vossa Excelência que o Excelentíssimo Senhor Presidente da República, considerando a necessidade imperiosa de reduzir-se o deficit orçamentário do corrente exercício, estimado em 26 bilhões de cruzeiros, recomenda a adoção das seguintes providências:

- I - Os Ministérios e órgãos subordinados à Presidência da República, contemplados com dotações orçamentárias, promoverão medidas que permitam a economia mínima estabelecida nos planos organizados pela Divisão de Orçamento e Organização do Departamento Administrativo do Serviço Público e já aprovados por Sua Excelência.
- II - Os órgãos subordinados à Presidência da República encaminharão à Contadoria Geral da República, e os Ministérios às respectivas Contadorias Seccionais, em duas vias, até 30 de abril do corrente ano, cópia do plano que vier a ser elaborado definitivamente, em entendimento com a referida Divisão de Orçamento e o Ministério da Fazenda, com observância dos limites mínimos já aprovados por Sua Excelência.
- III - As Divisões de Orçamento ou os órgãos correspondentes dos Ministérios transmitirão às repartições subordinadas, nos Estados, até 15 de maio, as instruções necessárias no sentido de que se mantenham sem aplicação os créditos orçamentários distribuídos, que venham a ser alcançados pela economia.
- IV - Igualmente e no mesmo prazo, providenciará a Contadoria Geral da República a anotação, em seus registros, das reduções programadas, transmitindo à Diretoria da Despesa Pública uma das vias do plano a que se refere o item II desta Circular.
- V - As despesas empenhadas à conta de créditos orçamentários atingidos pela economia serão relacionadas pela Contadoria Geral da República, a fim de que se compensem com novas reduções nos créditos disponíveis.
- VI - Não será permitida, no corrente exercício, a utilização de créditos especiais, exceto os destinados ao pagamento de vencimen

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vencimentos de servidores civis e militares e os que devam ser atendidos com recursos de receita específicos.

- VII - Com exceção dos saldos dos créditos que, nos termos da programação feita, deverão ser inscritos como "restos a pagar", não poderão ser empenhados, no decurso do exercício, os que se relacionem com a economia de que trata esta Circular.
- VIII - O Ministério da Fazenda, em entendimento com os demais Ministérios e órgãos, organizará, até 15 de maio próximo, o programa de aplicação, em duodécimos, das dotações orçamentárias disponíveis, visando a que a despesa se mantenha, na medida do possível, nos limites da receita mensal arrecadada. Serão levados em conta, na organização desse programa, os compromissos decorrentes de fundos especiais acumulados em exercícios anteriores, relacionados com o desenvolvimento econômico, para atendimento condicionado às possibilidades do Tesouro Nacional.
- IX - Somente poderão ser abertos, no exercício de 1956, créditos especiais destinados à regularização de despesas já efetuadas ou que se refiram a vencimentos de servidores civis e militares. Será, no entanto, permitida a abertura dos que venham a ser compensados com nova economia nas dotações orçamentárias.
- X - A autorização de despesas excedentes dos créditos ou sem crédito importará na revisão do plano de economia do órgão interessado, visando à manutenção do nível neste estabelecido.

Rio de Janeiro, em 25 de abril de 1956.

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ANEXO Nº 3PRESIDÊNCIA DA REPÚBLICACIRCULAR Nº

O Excelentíssimo Senhor Presidente da República, considerando as ponderações formuladas pelo Excelentíssimo Senhor Ministro da Fazenda, resolveu recomendar a todas as repartições civis e militares a observância das seguintes normas:

I - As sobras dos suprimentos, a que se refere o artigo 13 do Decreto-lei nº 9.813, de 9 de setembro de 1946, deverão ser diariamente recolhidas ao Banco do Brasil S.A. pelas repartições de que trata o artigo 2 do mesmo Decreto-lei, desde que tais obras ultrapassem o limite de R\$ ... 500.000,00 (quinhentos mil cruzeiros).

II - Os recolhimentos serão feitos nas contas especiais das mesmas repartições.

III - As Contadorias e Subcontadorias Seccionais, por intermédio da Contadoria Geral da República, representarão ao Ministro da Fazenda, nos termos do artigo 919 do Regulamento Geral de Contabilidade Pública, sobre a infringência das presentes normas.

Rio de Janeiro, 25 de abril de 1956.

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ANEXO Nº 4

PRESIDÊNCIA DA REPÚBLICA

CIRCULAR Nº

O Excelentíssimo Senhor Presidente da República, considerando as ponderações formuladas pelo Excelentíssimo Senhor Ministro da Fazenda, resolveu recomendar aos Ministérios e órgãos subordinados à Presidência da República, inclusive autarquias, a observância das seguintes normas:

I - Os pagamentos de despesas públicas, orçamentárias ou extraorçamentárias, superiores a Cr\$ 50.000,00 (cinquenta mil cruzeiros), só poderão ser efetuados por cheques emitidos contra as contas especiais abertas no Banco do Brasil S.A.

II - Quando superior a Cr\$ 100.000,00 (cem mil cruzeiros), o cheque será nominativo e cruzado.

III - As comprovações de adiantamentos ou de despesas sujeitas a registro a posteriori deverão indicar, nos documentos de despesas superiores a Cr\$ 50.000,00 (cinquenta mil cruzeiros), os números dos cheques com que foram pagas.

IV - As Contadorias e Subcontadorias Seccionais verificarão a observância do disposto nesta Circular, mediante confronto com o extrato das contas especiais que deverá ser anexado à comprovação, representando por intermédio da Contadoria Geral da República, sobre quaisquer irregularidades.

Rio de Janeiro, em 25 de abril de 1956.

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ANEXO Nº 5.

(CIRCULAR Nº 1, de 14.1.56 da  
PRESIDÊNCIA DA REPÚBLICA)

Circular nº 1, de 14 de janeiro de 1956, da Secretaria da Presidência da República.

Circular nº 1-56, em 14 de janeiro de 1956.

De ordem do Senhor Presidente da República, solicito as necessárias determinações de Vossa Excelência, no sentido da fiel e rigorosa observância das seguintes normas relativas à execução do orçamento no exercício de 1956:

I - Auxílios, subvenções e outras contribuições da União:

- 1 - No pagamento de auxílios e subvenções e na prestação, a qual - quer título, da cooperação financeira da União observa-se - ão , rigorosamente, os dispositivos da Lei nº 1.493, de 13 de dezembro de 1951, modificada pela Lei nº 2.266, de 12 de julho de 1954.
- 2 - Fica vedado o pagamento:
  - a) de auxílios que não correspondam, rigorosamente, a ônus ou encargos assumidos pela União, em virtude de lei, decreto, tratado ou convênio;
  - b) de auxílios, subvenções ou qualquer contribuição financeira , à conta de dotações orçamentárias globais que não tenham expressamente essa finalidade;
  - c) de auxílios, subvenções ou qualquer contribuição financeira , em favor de entidade pública ou privada, a cuja prestação de contas haja sido negada aprovação ou que deixe de cumprir exigências formuladas pela Administração, com referência à prestação de contas.
- 3 - O pagamento de auxílios, subvenções ou contribuições de qualquer natureza, à conta de dotações globais, com essa finalidade, ficará condicionado à prévia aprovação, pelo Presidente da República, de um plano pormenorizado de aplicação.
- 4 - A cooperação financeira da União a entidades de classe, de qualquer natureza, ficará condicionada à verificação de que as me-

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mesmas se encontram em efetivo e regular funcionamento e realizam atividades de relevante interesse público.

- 5 - Somente serão pagos auxílios subvenções ou quaisquer outras contribuições financeiras aos estabelecimentos de ensino superior que, por força da Lei número 1.254, de 4 de dezembro de 1950, ou de lei especial, tenham sido incluídos na categoria de estabelecimentos subvencionados pelo Governo Federal.
- 6 - Nenhum pagamento, a qualquer título, será feito a estabelecimento de ensino, público ou privado, de qualquer natureza, sem que o mesmo seja reputado como idôneo e em condições de funcionamento satisfatórias.
- 7 - Nenhum auxílio ou subvenção será pago a empresa particular de navegação marítima ou fluvial sem a prévia verificação, pela Comissão de Marinha Mercante, de que as condições financeiras, econômicas e técnicas da empresa, consideradas as linhas a seu cargo justificam o recebimento do auxílio ou subvenção.
- 8 - O pagamento de subvenções ordinárias e extraordinárias somente será efetuado a partir do segundo trimestre do exercício.
- 9 - O pagamento de auxílios, subvenções e de outras modalidades de cooperação financeira da União, ressalvados os compromissos assumidos pelo Brasil com entidades internacionais, será efetuado parceladamente, salvo se a importância não exceder \$ 200.000,00 (duzentos mil cruzeiros), caso em que o pagamento poderá ser feito de uma só vez.

## II - Obras:

- 1 - O início de obras de qualquer natureza, pelo Governo da União ou com a sua cooperação financeira, seja qual for a dotação orçamentária que atenda à despesa, dependerá de prévia e expressa autorização e de aprovação dos respectivos projetos, orçamentos e especificações pelo Presidente da República. Este dispositivo não se aplicará entretanto, às obras custeadas pelos recursos classificados na subconsignação 4 - 1 - 04 - Reparos, adaptações, conservação e despesas de emergência com bens imóveis.
- 2 - Dependerá de expressa autorização do Presidente da República o prosseguimento de obras de qualquer natureza, pelo Governo da União ou com a sua cooperação financeira, desde que a dotação orça -

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- orçamentária que atenda à respectiva despesa não corresponde às subconsignações destinadas especificamente para obras.
- 3 - A execução de obras públicas observará rigorosamente a classificação orçamentária da dotação correspondente, ficando vedado o início de construções à conta de recursos destinados a prosseguimento de obras.
  - 4 - Somente será aplicada dotação orçamentária destinada à construção de aeroporto ou campo de pouco após a dotação à União do terreno que for escolhido pelo Ministério da Aeronáutica e desde que a dotação seja suficiente para a execução integral ou de parte substancial do respectivo projeto.
  - 5 - Caberá à Divisão de Obras, dos Ministérios que disponham de repartições desse tipo, o controle do planejamento e da execução de todas as obras empreendidas por órgãos do Ministério, à conta de quaisquer recursos, inclusive os provenientes de fundos especiais, não podendo nenhuma obra ser iniciada ou prosseguida sem o seu conhecimento, devendo cada Ministério organizar seu programa de obras até o mês de março vindouro estabelecendo-se uma escala de prioridade para execução das mesmas, determinando, desde logo, as que não se realizarão.
- III - Normas Gerais:
- 1 - Após os Senhores Ministros de Estado e dirigentes de órgãos subordinados à Presidência da República haverem procedido à estimativa das economias que poderão ser feitas na execução orçamentária do exercício de 1956, deverão ser especificadas em tabelas as dotações que não serão total ou parcialmente utilizadas.
  - 2 - Uma vez aprovadas essas tabelas pelo Senhor Presidente da República, serão elas encaminhadas ao Ministério da Fazenda, a fim de serem devidamente anotadas pela Contadoria Geral da República. Nenhuma dotação constante das referidas tabelas poderá ser levada a "Restos a Pagar", com exceção apenas dos casos em que a lei disponha de maneira diferente ou que decorram de ato expresso do Senhor Presidente da República.
  - 3 - Nenhuma dotação orçamentária será aplicada ou entregue, em regime de cooperação, para instalação ou ampliação, de serviços de esgotos, energia elétrica ou de abastecimento d'água, sem que os

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projetos e orçamentos respectivos tenham sido examinados por órgão técnico-especializado do Governo Federal e aprovado pelo Presidente.

- 4 - Ficará condicionada à prévia autorização do Presidente da República a distribuição de créditos orçamentários ou adicionais à Delegacia do Tesouro Brasileiro Exterior, para atender a despesas de qualquer natureza, salvo aquelas estritamente necessárias ao pagamento do pessoal e ao custeio das repartições diplomáticas e dos demais órgãos do serviço público funcionando no exterior, e ao pagamento da dívida externa e demais compromissos de ordem internacional ou de bolsas ou prêmios concedidos pelo Governo Federal.
- 5 - Os salários pagos à conta de dotações globais não expressas e especificamente destinadas a pessoal durante o exercício de 1956, não poderão ser majoradas em relação aos níveis pagos em 1955, excetuados os casos que não contrariarem o art. 17 da Lei nº 1.765, de 18 de dezembro de 1952, observado o art. 17 da Lei nº 2.412, de 1 de fevereiro de 1955.
- 6 - Excluído, o salário, o pagamento de quaisquer outras vantagens a servidores públicos, por conta de dotações a que se refere o item anterior, fica restrito aos casos expressamente autorizados por leis ou regulamentos, sendo obrigatória a publicação, no Diário Oficial do nome do beneficiado, da quantia paga e sua natureza. O documento da despesa indicará a data da publicação no Diário Oficial, sob pena de ser glosado da respectiva comprovação.
- 7 - No caso de dotações orçamentárias que devam ser colocadas no Banco do Brasil, à disposição de órgãos da administração, o Ministério da Fazenda fará depósitos parcelados, de acordo com as possibilidades financeiras do Tesouro.
- 8 - Ficará condicionada, sempre, à prévia aprovação, pelo Presidente da República, de programa de sua aplicação, a liberação das dotações globais superiores a \$ 5.000.000,00 classificadas nas subconsignações 1. 6. 05 - Reprodutores e material para revenda: 1. 6. 11 - Seleção, aperfeiçoamento e especialização de pes

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pessoal; 1. 6. 13 - Serviços educativos e culturais; 1. 6. 17 - Serviços de assistência social; 3. 1. 01 - Saúde e higiene; 3. 1. 02 - Defesa sanitária animal e vegetal; 3. 1. 03 - Desenvolvimento de produção; 3. 1. 04 - Proteção de florestas e reflorestamento; 3. 1. 05 - Sondagem e estudo de jazidas minerais; 3. 1. 06 - Irrigação e energia hidráulica. As disposições do presente item não se aplicam aos ministérios que possuam orçamentos analíticos, em virtude de regime contábil especial, de acôrdo com a legislação vigente.

- 9 - Sômente serão empenhadas e aplicadas dotações orçamentárias destinadas à instalação de Postos Agropecuários. Agências Postais Telegráficas e postos de saúde, depois de efetuada a aquisição de terreno necessário, de acôrdo com as exigências técnicas estabelecidas pelo Ministério respectivo e uma vez verificado, à vista dos projetos e orçamentos correspondentes, que a dotação orçamentária disponível é suficiente para a instalação completa e satisfatória do estabelecimento.
- 10 - As insuficiências das dotações classificadas, em cada repartição, nas subconsignações 1. 1. 01 - Vencimentos ou 1. 1. 04 - Salários de mensalistas, serão supridas mediante destaque da dotação global constante para esse fim, no quadro discriminativo dos "Encargos Gerais" do órgão centralizador de pessoal, à mesma subconsignação, em cada Ministério. Ditos destaques serão autorizados pelo diretor do aludido órgão.- Paulo Lyra. Secretário da Presidência da República. - Expedida aos Ministérios e Órgãos diretamente subordinados à Presidência da República.

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ANEXO Nº 6

BANCO DO BRASIL S.A.  
Direção Geral

Rio de Janeiro, 5 de março de 1955.

CARTA-CIRCULAR Nº 4.032

BANCO DO BRASIL S.A.

Conveniência de os mutuários investirem em suas atividades os lucros obtidos.

Sr. Gerente:

CARTEIRA DE CRÉDITO AGRÍCOLA E INDUSTRIAL - Vem a CREAÍ há mais de três lustros financiando ininterruptamente tôdas as atividades produtoras do País.

2. Seria de acreditar, portanto, que apreciável número de indústrias, pecuaristas e agricultores já tivessem deixado de recorrer ao numerário da Carteira, mercê dos lucros obtidos, que lhes teria possibilitado a necessária independência financeira.

3. Ao revés disso, o que se vem observando é que tem sido cada vez maior o apêlo ao crédito, notadamente da parte de antigos clientes.

4. Como essas atividades não são evidentemente antieconômicas, revelando-se até algumas delas excepcionalmente rendosas, a conclusão lógica é que os lucros auferidos vêm sendo desviados para fins estranhos a essas mesmas atividades.

5. Estaria a Carteira, assim, propiciando o enriquecimento fácil de um relativamente pequeno número de clientes através do fornecimento de crédito a juros baixos, em detrimento da grande maioria de produtores, cujo desenvolvimento está condicionado em grande parte ao auxílio proporcionado pelo crédito especializado.

6. Para se alcançar, pois, o objetivo de fomentar a riqueza nacional, aliás o fim visado pela Carteira, torna-se imprescindível melhor e mais racional distribuição dos recursos da CREAÍ.

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Carta-Circular nº 4.032, de 5-3-55

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7. Vale lembrar, por oportuno, que, além do seu custo elevado, não são êsses absolutamente ilimitados, bastando referir que a maior parcela das aplicações da Carteira provém do encaixe do próprio Banco e de operações com a Carteira de Redescontos.

8. Incumbirá, portanto, aos gerentes das Agências mostrar aos mutuários a conveniência de inverterem os lucros obtidos nas próprias atividades financeiras, fazendo-lhes sentir desde logo o propósito da CREAÍ de ir reduzindo paulatinamente o auxílio aos antigos clientes, notadamente aos industriais, investistas e criadores.

9. Terão outrossim em vista os Srs. Gerentes não ser a boa aplicação de capitais o objetivo único desta Carteira, competindo-lhes, conseqüentemente, selecionar as propostas apresentadas, detendo-se particularmente no exame dos balanços, ou mesmo de elementos extracontábeis nos casos de agricultores que não tenham escrita organizada, para apuração dos resultados auferidos e do destino que aos mesmos tenha sido dado, de modo a evidenciar logo a parcela que poderá ser custeada com recursos próprios.

10. Dessa maneira, com os recursos assim liberados, irão sendo atendidos novos candidatos, que até agora não tiveram oportunidade de se beneficiar do crédito especializado

CREAÍ  
SECRE/D-134  
CAL.

Saudações

Pelo BANCO DO BRASIL S.A.

Ass. Adolpho de Oliveira Franco

Joviano Jardim

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ANEXO Nº 7

BANCO DO BRASIL S.A.  
Direção Geral

Rio de Janeiro, 31 de janeiro de 1956.

CARTA-CIRCULAR Nº 4.192

BANCO DO BRASIL S.A.

Sr. Gerente:

CARTEIRA DE CRÉDITO AGRÍCOLA E INDUSTRIAL - Segundo temos verificado, não estão sendo bem interpretados os termos da Carta-Circular nº 4.032, de 5-3-55. Algumas agências não vêm cumprindo o que ali se preconiza, enquanto outras, pecando por extremo, chegam ao ponto de denegar, inopinadamente, empréstimos de rotina, ou cortar parcelas orçamentárias imprescindíveis, sob fundamento de haverem os interessados aplicado em negócios estranhos os lucros auferidos em anos anteriores.

2. Diante disso, vimos reiterar as recomendações do citado documento de serviço e aduzir, para mais perfeita compreensão, os esclarecimentos a seguir.

3. A fiel observância das determinações da Carta-Circular nº 4.032 pressupõe duas fases.

4. A primeira é simplesmente doutrinária. Nela cumprirá aos Srs. Administradores advertir os mutuários de que a Carteira, pela carência de recursos com que luta e ante a cada vez mais crescente solicitação de créditos por novos clientes, poderá limitar ou, mesmo, retraindo o volume dos financiamentos nos anos vindouros, - persuadindo-os a reservar os respectivos lucros a fim de suprir a eventual deficiência do crédito ou a inverter tais lucros no interesse da própria atividade, não os desviando para fins estranhos; deverão, ainda, alertar os clientes sobre os perigos da assunção de compromissos para com terceiros contando com os financiamentos da Carteira, que poderão vir a ser reduzidos ou negados.

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Carta-Circular nº 4.192, de 31-1-56

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5. A segunda fase é dinâmica ou executiva. Verificada, mercê das providências aconselhadas no item 9 da Carta-Circular nº 4.032, a superveniência de resultados compensadores, no último exercício, deverão os pretendentes a empréstimos ser induzidos a reinverte-los na respectiva exploração - o que se conseguirá glosando dos orçamentos verbas que poderão ser custeadas com tais resultados.

6. Atende-se, porém, que os recursos de cuja reinversão se cogita são os representados pela parcela restante do lucro líquido, após deduzidas as despesas prováveis de manutenção dos mutuários, de acordo com o padrão de vida e a representação social de cada um. Dessa parcela deve, ainda, ser descontado o valor de obrigações comprovadas para com terceiros, resultantes de compromissos - mesmo fora da exploração - assumidos anteriormente ao regime ora vigente.

7. Habilidade, discernimento, bom senso e uma profunda compreensão dos objetivos em mira deverão presidir toda a ação dos Srs. Administradores, a fim de - não obstante o rigor desejável no cumprimento das recomendações em lição - serem evitadas situações de angústia financeira para os produtores, com repercussões nocivas à estabilidade econômica do País.

CREAI/GERAI

SECRE/D-51

SS.

Saudações

BANCO DO BRASIL S.A.

Ass. Arthur Santos

Joviano Jardim

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ANEXO Nº 8

PORTARIA Nº 76 de 13 de março de 1956

O MINISTRO DE ESTADO DOS NEGÓCIOS DA FAZENDA, de acôrdo com disposto no artigo 1º do Regimento do Conselho Superior das Caixas Econômicas Federais e tendo em vista o parecer emitido pela Procuradoria Geral da Fazenda Nacional no processo nº S.C. 11.685/56, declara:

- a) que o item IV da Portaria nº 132 se aplica estritamente às operações hipotecárias, com observância dos limites estabelecidos na letra a da Portaria nº 798, de 5 de setembro de 1953;
- b) que as Caixas Econômicas Federais somente deverão conceder empréstimos hipotecários que se conformem com o disposto na letra precedente;
- c) que submetem previamente ao Ministério da Fazenda quaisquer propostas de operações hipotecárias superiores aos limites a que alude a Portaria nº 798, citada, e que do mesmo modo procedam em relação às solicitações ou pedidos de empréstimos a que se referem as alíneas a, b, g e i do artigo 57 e seu parágrafo único do Decreto nº 24.427, de 19 de junho de 1934, sempre que, em tais casos, excedentes aos limites fixados no artigo 9º do Regimento do Conselho Superior das Caixas Econômicas Federais;
- d) que a remessa de quaisquer processos ao Conselho Superior ou às Caixas Econômicas Federais para protocolamento, andamento, estudo ou apreciação não implica em autorização para concessão do empréstimo, devendo retornar a êste Gabinete, desde que os empréstimos ultrapassem os níveis estabelecidos acima; e
- e) que continua em vigor a norma consubstanciada no item III da Portaria nº 132, de 23 de agosto de 1955, relativamente à proibição de criação de novos cargos, funções gratificadas ou reajustamento de vencimentos, sem prévia autorização do Ministro da Fazenda.

(a) José Maria Alkmin

## Document 1

**A U T O R I D A D E S M O N E T Á R I A S**  
**EXECUÇÃO DO ORÇAMENTO DE CRÉDITO DE 1956**  
**Saldos em fim de mês (Cr\$ 1.000.000) e variações**

| Total Geral dos Empréstimos |                       |                                  |       | Tesouro Nacional     |                       |                                  |       | Governos Estaduais e Municipais |                       |                                  |       |
|-----------------------------|-----------------------|----------------------------------|-------|----------------------|-----------------------|----------------------------------|-------|---------------------------------|-----------------------|----------------------------------|-------|
| Saldos Previstos (a)        | Saldos Observados (b) | Variação de (b) em relação a (a) |       | Saldos Previstos (a) | Saldos Observados (b) | Variação de (b) em relação a (a) |       | Saldos Previstos (a)            | Saldos Observados (b) | Variação de (b) em relação a (a) |       |
|                             |                       | Absoluta                         | %     |                      |                       | Absoluta                         | %     |                                 |                       | Absoluta                         | %     |
| 124.471                     | 124.387               | - 84                             | - 0,1 | 42.135               | 42.259                | + 124                            | + 0,3 | 14.482                          | 14.297                | - 185                            | - 1,3 |
| 123.781                     | 122.371               | - 1.410                          | - 1,1 | 42.455               | 42.023                | - 432                            | - 1,0 | 14.579                          | 14.353                | - 226                            | - 1,5 |
| 125.060                     | 124.549               | - 511                            | - 0,4 | 43.627               | 43.733                | + 106                            | + 0,2 | 14.677                          | 14.345                | - 332                            | - 2,3 |
| 126.302                     |                       |                                  |       | 43.086               |                       |                                  |       | 14.775                          |                       |                                  |       |
| 127.393                     |                       |                                  |       | 43.844               |                       |                                  |       | 14.874                          |                       |                                  |       |
| 129.101                     |                       |                                  |       | 44.177               |                       |                                  |       | 14.974                          |                       |                                  |       |
| 128.115                     |                       |                                  |       | 44.513               |                       |                                  |       | 15.074                          |                       |                                  |       |
| 129.104                     |                       |                                  |       | 43.516               |                       |                                  |       | 15.175                          |                       |                                  |       |
| 129.576                     |                       |                                  |       | 43.847               |                       |                                  |       | 15.277                          |                       |                                  |       |
| 131.357                     |                       |                                  |       | 43.742               |                       |                                  |       | 15.379                          |                       |                                  |       |
| 133.309                     |                       |                                  |       | 46.698               |                       |                                  |       | 15.482                          |                       |                                  |       |
| 136.220                     |                       |                                  |       | 45.818               |                       |                                  |       | 15.586                          |                       |                                  |       |

| Autarquias           |                       |                                  |        | Carteira de Crédito Geral - ao Público |                       |                                  |       | Carteira de Crédito Agrícola e Industrial |                       |                                  |       |
|----------------------|-----------------------|----------------------------------|--------|--|-----------------------|----------------------------------|-------|---|-----------------------|----------------------------------|-------|
| Saldos Previstos (a) | Saldos Observados (b) | Variação de (b) em relação a (a) |        | Saldos Previstos (a)                   | Saldos Observados (b) | Variação de (b) em relação a (a) |       | Saldos Previstos (a)                      | Saldos Observados (b) | Variação de (b) em relação a (a) |       |
|                      |                       | Absoluta                         | %      |  |                       | Absoluta                         | %     |   |                       | Absoluta                         | %     |
| 3.402                | 3.677                 | + 275                            | + 8,1  | 41.569                                 | 42.097                | + 528                            | + 1,3 | 22.883                                    | 22.057                | - 826                            | - 3,6 |
| 3.461                | 2.807                 | - 654                            | - 18,9 | 40.987                                 | 41.245                | + 258                            | + 0,6 | 22.299                                    | 21.943                | - 356                            | - 1,6 |
| 3.451                | 2.851                 | - 600                            | - 17,4 | 40.823                                 | 41.475                | + 652                            | + 1,6 | 22.482                                    | 22.145                | - 337                            | - 1,5 |
| 3.441                |                       |                                  |        | 41.884                                 |                       |                                  |       | 23.116                                    |                       |                                  |       |
| 3.466                |                       |                                  |        | 42.135                                 |                       |                                  |       | 23.074                                    |                       |                                  |       |
| 3.456                |                       |                                  |        | 43.231                                 |                       |                                  |       | 23.263                                    |                       |                                  |       |
| 3.412                |                       |                                  |        | 43.058                                 |                       |                                  |       | 22.058                                    |                       |                                  |       |
| 3.334                |                       |                                  |        | 44.178                                 |                       |                                  |       | 22.901                                    |                       |                                  |       |
| 3.591                |                       |                                  |        | 44.001                                 |                       |                                  |       | 22.860                                    |                       |                                  |       |
| 3.832                |                       |                                  |        | 45.585                                 |                       |                                  |       | 22.819                                    |                       |                                  |       |
| 3.860                |                       |                                  |        | 44.035                                 |                       |                                  |       | 23.234                                    |                       |                                  |       |
| 4.204                |                       |                                  |        | 45.711                                 |                       |                                  |       | 24.871                                    |                       |                                  |       |



**Document 2:** Letter, Jorge Del Canto to Per Jacobsson and Merle Cochran, "Brazil – Tentative Views on Use of the Fund's Resources", Mar. 7, 1958, IMF, Central Files, Country Files, Brazil, Box 10, Folder C/Brazil/810 Mission Costanzo and Staff March 1958.

Confidential

Mr. Per Jacobsson, Managing Director  
 Mr. H. Merle Cochran, Deputy Managing Director

March 7, 1958

Jorge Del Canto, WDR *JDC*

Brazil--Tentative Views on Use of the Fund's Resources

The briefing paper submitted to you yesterday summarizes financial developments in 1957 and the immediate outlook for 1958. It also provides, as a basis for discussions, some tentative staff views as to the course of action that the Brazilian authorities might consider to deal with their problems. It is our hope that these ideas might prove realistic. In informal discussions with Dr. Paranagua, he has agreed with most of them, and in general--although not in every detail--it runs parallel to the known thinking of some of the key technicians in Brazil, like Roberto Campos, Casimiro Ribeiro, etc. It is also to be hoped that the seriousness of the present balance of payments crisis might contribute to develop sufficient political courage for the policy makers, so that a stabilization program can crystallize with the technical cooperation of the IMF.

The briefing does not deal--except by implication--with the form in which the use of the Fund's resources could be considered at the present time by Brazil. In analyzing this Brazilian problem, it is important first to determine whether the current payments difficulties are: (a) temporary (for seasonal or other reasons), or (b) structural, due to a change in the long run position of coffee and to the maintenance of overvalued import rates, on the face of a situation of continuing inflation arising primarily from budgetary deficits and loose credit policies. If the payment difficulties are not strictly temporary--and this is my personal view--the use of the Fund's resources could only be justified as financial support for a major stabilization effort.

The fact that the Brazilian authorities have been thinking of a drawing for the third credit tranche (\$37.5 million), however, might make it necessary for our mission to clarify, for the benefit of the Brazilian authorities, our understanding of the nature of their payment difficulties.

It might not be easily discernible to the Brazilian authorities to see that they are not facing temporary payments difficulties, but the difficulties go deeper. The authorities that are operating the exchange system at the Bank of Brazil are, of course, well aware of the fact that they are going through a tight dollar position, due to the fact that after a few months of record coffee sales since the last Fund drawing (October), coffee exports dropped in January and February to around one half what they were a year ago in the same period. Their dollar cash position is negative and they have drawn by more than one half their lines of credit in New York, estimated at \$90 million. While this slackening of demand for coffee is partly due to buyer's resistance,

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in view of the long run outlook for coffee (growing surpluses)<sup>1/</sup> the basic reasons for the drop in coffee sales is a direct consequence of the present coffee export rate and the domestic minimum price that have priced Brazilian coffee out of the market. Brazil is inhibited to make a drastic change in its coffee policy (exchange rate and minimum price) in view of its commitments under the Mexico Coffee Agreement.<sup>2/</sup>

The Brazilian authorities might think that it is proper for the Fund to assist them financially, on a temporary basis, while they gain time to take corrective measures that would allow coffee to flow again normally, without wrecking the Mexico Agreement. The situation is becoming so critical that the Brazilian authorities could even consider a \$37.5 million drawing, with a commitment for a six-month voluntary repurchase. It is my view that such operation--if accepted by the Fund--would not solve anything, in view of the fact that with present financial policies Brazil will not be in a position to discharge such repurchase within six months. Brazil already has a repurchase scheduled for \$17.25 million in July 1958 and \$20.25 million in December 1958; the drawing of \$37.5 million last October 1957 will be due in October 1960.

In rejecting the idea of a drawing for seasonal reasons, however, it is my view that we should be careful in not implying that we are taking a stand against the Mexico Agreement. This is political dynamite for most Latin countries, and while I personally have some doubts about its workability over the long run, in a period of growing surplus, I think we must limit ourselves--as we have done so far--in cautioning our member countries of the domestic inflationary repercussions of this scheme.

I think our staff mission should emphasize the fact that the immediate payment difficulties arising from coffee, however, are only a symptom of a far more serious imbalance in the Brazilian economy. This imbalance is the direct consequence of domestic inflation associated with budgetary deficits and loose credit policies. Furthermore, there are certain structural weaknesses in the Brazilian balance of payments. There is a heavy dependence on certain basic imports (petroleum, wheat and other essentials) and a heavy

1/ World coffee production for the 1957/58 season is expected to increase to 41.5 million bags from 35.6 million bags for the previous season and expected to increase further to 43 million bags over the next 3 years, while consumption has stabilized--at present prices--at around 39 billion bags. In order to maintain prices, under the Mexico Agreement the Latin countries agreed to withhold from export certain proportions of their coffee production (for Brazil 20% of exports made in the period October 1, 1957 to September 30, 1958, or around 3.1 million bags).

2/ Brazil's obligations under the Mexico Agreement have become firmer and firmer as the other countries fulfill their obligations. On March 3 Colombia set minimum export prices and pegged the buying rate for certificates at 6.10 pesos per dollar, in an attempt to develop a spread of 2 cts./lb. between Colombian milds and Santos 4; up to then Brazil had been worried about Colombia undercutting Brazilian coffee in the U.S. markets since higher quality Colombian coffee was below the cheaper grade Brazilian coffees.

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schedule of amortization for foreign debts (including large debts involving refunding of commercial arrears). Even assuming that the present coffee situation would not change (prices at around 50-55 cts./lb.)--a very optimistic assumption indeed--the servicing of external debts would represent a heavy burden over the next few years (over \$300 million, or 20% of all foreign exchange receipts in the next three years). From this point of view it is alarming that Brazil should be facing payment difficulties at a time when the adjustment for Brazilian coffee prices in the world market has just begun (a drop of only 5% in the price of Santos 4 since a year ago, as compared with a 20% drop for mild coffees (Colombia and Central America) and an even greater drop in the price of non-ferrous metals). One can visualize the gravity of the situation when the drop of coffee prices gets well under way.

As indicated before, the payments difficulties of Brazil are the direct result of (a) a long run trend--which has become a "slogan" in official and academic circles in Brazil--that growth can only be achieved at the price of certain minimum rate of inflation; and (b) a continuous tendency--in postwar years--to mortgage Brazil's creditworthiness through a heavy short and medium-term borrowing, for development as well as current consumption, and (c) more recently--in 1956 and 1957--a policy of appreciating the auction import rates while domestic inflation continued.

In these postwar years Brazil has been fortunate in receiving a continuous inflow of foreign capital, and substantial loans have also been made available from the IERD and the Eximbank. A large accumulation of supplier debts has also developed. This has allowed the Brazilian economy to reach a greater degree of diversification. From this point of view the Brazilian economy is in a much stronger position than that of Argentina, for example. On the other hand, this financial assistance has delayed the authorities from facing the facts and adopting suitable policies to correct the situation. A short-lived attempt to follow stabilization policies was made by Dr. Guin in late 1954 and early 1955, but the national psychology seems to be against drastic stabilization policies.

It is our hope that the time might have come when the authorities will awaken to the seriousness of their financial difficulties and agree to work out a major stabilization program with our staff mission. If such a program evolves in the discussion of our team with the Brazilian authorities, the pooling of Fund resources with those coming from other sources to back up a stabilization effort would follow the pattern of other stabilization attempts being undertaken in Latin America and strengthen Fund policies in this direction.

If an attempt to evolve a stabilization program proves successful, it would appear that a stand-by, for either 25% or preferably a 50% of quota (\$37.5 million or \$75 million) might suit better Brazil's present needs. A stand-by would provide the following advantages for Brazil: (a) Raise a larger sum of money, by combining our resources with other sources, to support the stabilization effort; (b) flexibility of such financial assistance. Brazil would use under the stand-by strictly the minimum needed; (c) economy

1/ The average effective rate for the U.S. dollar in the Rio market declined from about Cr\$121 per dollar in Feb. 1956 to about Cr\$88 in Nov. 1956 and stayed at this level until Aug. 1957, when the new tariff was adopted and the number of auction rates was reduced from 5 to 2. Under the new system the quotation for the dollar in the General Category of Imports was Cr\$90 and stayed at around that level until the end of Jan. when the volume of dollar in the auction market was reduced by \$1 million for the General Category of Imports.



## Document 2

INTERNATIONAL MONETARY FUND

Brazil--Technical Assistance Mission--Briefing Paper

Prepared by the Western Hemisphere Department

March 7, 1958

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Brazilian economic situation

The economic position of Brazil seems to be extremely precarious. In 1957 the banking figures indicate that the credit expansion was more rapid than in earlier years. Money supply expanded by 34 per cent, an increase half as rapid again as the increase in 1956. (See Annex.) This expansion took place despite a substantial loss of foreign exchange reserves--in contrast with an addition to reserves in 1956.

The Federal Government budget has been responsible for a major part of the expansion in 1957. Private credit in absolute terms expanded more but the rate of expansion was much less. This slower rate of growth of private credit seems partly to be due only to a delayed reaction. Private banks have acquired very substantial excess reserves in December and the rate of private credit expansion is now quickening.

Formerly part of the inflationary pressures originating in credit expansion were offset by profits on exchange operations. In the last quarter of 1957, this contractionary effect was sharply reversed as the exchange profits account was drawn down to finance the stockpiling of coffee. Financing of coffee stockpiling is not included in the figures of bank credit to the private and public sectors.

For the early months in 1958 no over-all banking figures are yet available, although partial January figures indicate a continued deficit for the Government at a greater rate than a year earlier.

Fiscal data for the full year 1957 are not yet available. However, the Federal Government's use of bank credit in the last quarter of 1957 was more than double the rate of a year earlier. The only substantial factor which is known as likely to improve the position in 1958 is that the rise in prices may increase revenues while wage expenditures stay unchanged. In addition, there may be somewhat improved tariff collection as the new tariff law had only been in force six weeks before the fourth quarter began. On the other hand, tariffs later will tend to fall because import volume should fall significantly in the course of the year.

The net loss of foreign exchange assets in 1957 amounted to about \$100 million in addition to \$37 million from the IMF. This reversed operations in the previous year when reserves increased by \$100 million and \$28 million was repaid to the Fund. The reversal was due about equally to increase in imports and a reduction in exports--a reduction principally arising from a fall in the volume of coffee exports.

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The loss of reserves occurred in the first nine months. Net reserves (excluding addition due to the IMF drawing) improved \$40 million in the last three months of 1957. But early in 1958 this brief gain was rapidly lost, when in January a drawdown of \$58 million occurred. Reacting to this loss, the authorities have reduced the exchange supplied to the auction and the auction premium has sharply increased in February. On February 14 with the amount of exchange auctioned in Rio de Janeiro down only 20 per cent below the level in November 1957, the agio for the general category was 115 compared with an agio of 60 in November 1957.

The extraordinary pressure on reserves in January and February was related to sharp falls in coffee exports. Maintenance of the price for Brazilian coffee in face of a substantial decline in mild coffees, which has eliminated the normal premium of milds over Brazilian coffees, has led to speculation on the possibility of a fall in dollar prices of coffee. This has caused the trade to be abnormally low. To this extent, the problem is temporary. But coffee sales may continue low until the size of and policies in connection with the 1958-59 coffee crop are known. In other years these factors have kept trade low through May and last year to the end of September. Further, there is continuing concern about the level of coffee prices as present prices are still substantially above the long-run average level.

Terms of Reference

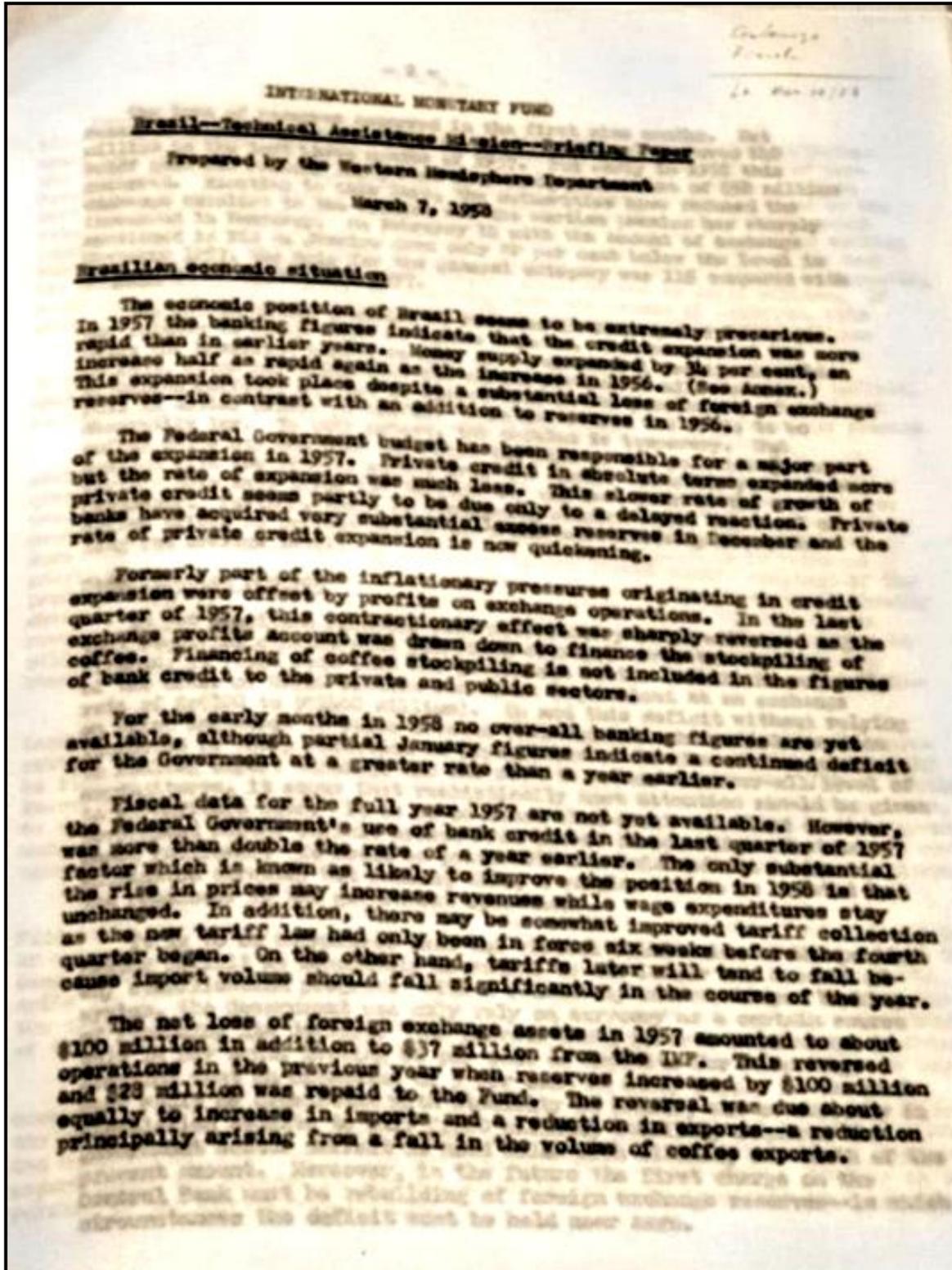
1. The principal task of the mission will be:
  - a. To ascertain the causes of inflation and the current external payments difficulties; and
  - b. In accordance with the Fund's policy with respect to drawings beyond the first two tranches, to ascertain Brazil's program for dealing with these problems.
2. In conformity with the paragraph above, the mission plans to proceed as follows:
  - a. Investigate the budgetary situation and inquire as to the Government's plans to eliminate or reduce the budgetary deficit;
  - b. Obtain the facts with respect to Brazil's external indebtedness and ascertain the Government's policy with respect to the incurring of further obligations in the future;
  - c. Ascertain the role of bank credit in the Brazilian inflation and measures which the Government proposes to take to avoid excessive bank credit expansion;

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- d. Without entering into the substance of the Government's policy on coffee, to examine the financing required to carry out the Government's stockpiling plans and how the Government proposes to finance this program without recourse to inflationary financing; and
- e. Ascertain the exchange policies which the Government plans to pursue in order to correct the current balance of payments disequilibrium.
- f. Ascertain whether the authorities consider that the time is propitious for a banking reform, involving primarily the establishment of a central bank.

## Document 2



## Document 2

- 2 -

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The extraordinary pressure on reserves in January and February was related to sharp falls in coffee exports. Maintenance of the price for Brazilian coffee in face of a substantial decline in mild coffee, which has eliminated the normal premium of milds over Brazilian coffee, has led to speculation on the possibility of a fall in dollar prices of coffee. This has caused the trade to be abnormally low. To this extent, the problem is temporary. But coffee sales may continue low until the size of and policies in connection with the 1958-59 coffee crop are known. In other years these factors have kept trade low through May and last year to the end of September. Further, there is continuing concern about the level of coffee prices as present prices are still substantially above the long-run average level.

#### Stabilization program

To put Brazilian finances into satisfactory order will be a major task requiring considerable political courage. From the banking figures, it would seem that the government sector deficit is currently of the order of Cr\$40 billion per annum (equivalent at an exchange rate of Cr\$100 to US\$400 million). To end this deficit without relying on price increases to raise revenue will require substantial taxation increases or sharp reduction in expenditures. In view of the tendency to falling export earnings and the need to reduce the over-all level of expenditures, it seems that realistically most attention should be given to expenditure cuts. It is to be noted that about one third of the government sector deficit arises from losses in operation of state-owned railroads. It would be preferable for this deficit to be eliminated directly but failing this, a surplus has to be created in the remainder of the government operations.

It is to be emphasized that the virtual elimination of the public sector deficit is absolutely essential to the longer run success of any stabilization program. With a relatively underdeveloped banking system, the Government can only rely on currency as a certain source of financing its deficit. The private banks reserve requirement is only 14 per cent, leaving 86 per cent of deposits for relending. Assuming that an expansion of 5 per cent in money supply in the next year would be consistent with stability in prices, and as currency in circulation amounts to only Cr\$80 billion, stability requires the government sector deficit be held below Cr\$4 billion, one tenth of the present amount. Moreover, in the future the first charge on the Central Bank must be rebuilding of foreign exchange reserves--in which circumstances the deficit must be held near zero.

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For the short run, it is clearly unrealistic to expect the total elimination of the deficit. Further, it is to be expected that some balance of payments deficit will continue in view of the weakening coffee position. If in the next year the balance of payments deficit (including in this all use by the Government of foreign loans) should amount to \$100 million (the actual amount that the program should plan is discussed below) it would, at an average selling rate of Cr\$100, affect a deficit of Cr\$10 billion. Together with a 5 per cent expansion in money supply, Cr\$4 billion in currency and Cr\$10 billion in deposits, the total borrowing from the banking system could amount to Cr\$24 billion. If the private sector is limited to receiving back the growth of deposits, this would permit the deficit of the government sector to amount to Cr\$14 billion without causing price increases.

In the past exchange profits have offset part of the public sector deficit. In the future this source should not be available—the reform of the exchange system will either eliminate profits or losses on the exchange system or produce no more than is necessary for the financing of the coffee stockpiling.

To limit the expansion of private credit to the amount compatible with stability in prices will raise many problems. Cr\$10 billion is less than one quarter of the present rate of expansion. Further, due to the existence of excess reserves—and to the ability of the Bank of Brazil to use exchange profits and reserve deposits for credit expansion—the problem is rendered more difficult. It may well be necessary to set direct credit ceilings if the growth is to be limited adequately. For the private banks, it would be greatly preferable for the control to be by reserve requirements if the law can be changed—but this seems likely to be too difficult to negotiate. A change in policy, either in the form of greatly increased rediscount charges or of rediscount ceilings.

The financing of the coffee stockpiling policy will be of critical importance. In general, it is considered desirable for the Fund to keep completely outside advice on the stockpiling policy itself. The concern of the Fund should be limited to ensuring that any stockpiling be financed from Brazilian sources. However, it will be necessary to ascertain that the Government will take measures to obtain a continuous flow of coffee exports within the established export quotas under the Mexico Agreement. This will require some attention to the relationship between Brazilian and mild coffee prices.

The reform of the exchange system is, naturally, earnestly desirable if the Fund is to participate. The present emergency has increased the rate spread to an extreme degree. On the import side, rates now vary from Cr\$20 to Cr\$320. Some reduction in the spread is essential if the Fund is, in effect, to underwrite the system by providing resources for its sustenance. On the other hand, the spread between buying and selling rates is equally essential (in the absence of the legal authority to levy export taxes) if coffee financing is to be regularized.

In these circumstances, the Fund should insist on the transfer of all import commodities now receiving preferential treatment (about Cr\$52 per U.S. dollar) to the general category. However, there are known legal obstacles which may prevent the complete elimination of the preferential list immediately. Equally on the export side, the non-coffee exports might be accorded treatment more closely related to the new average selling

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rate. If the bulk of preferential imports can be transferred to the "general category" market, it might be possible to issue certificates for exports other than coffee which would be negotiable in the "general category" import market. Coffee, however, should be kept in proportion below that rate adequate to finance the expected coffee rate at a level corresponding to the effective average exchange rate presently received by coffee, including the bonus for quality paid by the Coffee Institute plus an additional amount which would permit Brazilian coffees, with the present minimum price in cruzeiros, to sell abroad at the normal discount in relation to Colombian-type coffees.

In addition to a reform of the exchange system, attention has to be given to the operation of the system. In particular, the amount of exchange provided to the auctions will have to be restricted to a level compatible with the planned deficit in the balance of payments. This will require a thorough review of payments prospects and possibly ceilings on the amount of exchange to be sold in the auction market. In the light of present knowledge, it would seem that a deficit is likely to be inevitable. It must, however, be limited to \$100 million and preferably in the plan be kept smaller. The use of \$100 million would seem to be a maximum compatible with retaining some reserve capacity to enter 1950 when coffee prospects may be equally uncertain.

The magnitude of the adjustments to be made by Brazil is such that it must be doubted that satisfactory decisions will be made in two weeks. It seems more reasonable to expect that the mission will be able to do no more than to acquaint the Brazilian authorities with the views of the Fund. While every effort must be made to work out a satisfactory arrangement for immediate participation, it would be wise, if the above doubts are proved justified, for the remaining Fund resources available to Brazil to be kept intact to back a later satisfactory plan. Participation on the basis of loose undertakings without basic reforms would fritter away the resources and render more difficult the eventual task of reform.

Measures should be taken to check the existing excess reserves of the commercial banking system.

4. Measures should be taken to check the existing excess reserves of the commercial banking system.

#### b. Exchange Policy Measures

1. The preferential list of imports (amounting to approximately \$400 million on an annual basis), which are presently imported at an effective rate of about 60% compared with about 40% for "general category" imports, should be abolished and all such commodities transferred to the "general category."

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Mission's Terms of Reference

The principal task of the mission will be:

1. To obtain the most recent information on the present status of the Brazilian economy and finances and the prospects for the remainder of the year; and
2. In accordance with the Fund's policy with respect to drawings beyond the first two tranches, to ascertain what measures the Brazilian Government is prepared to take to correct the balance of payments disequilibrium;
3. The measures which will be required to meet the Fund requirements with respect to Fund drawings beyond the first two tranches should be, as nearly as possible, the following:

a. Internal Stabilization Measures

1. Budgetary program which can be financed from proceeds of bond issue approved by Congress. Since the yield of this issue will probably not exceed Cr\$10 billion, the 1958 budgetary cash deficit should not exceed Cr\$10 billion. This will probably require a reduction in government expenditures in the 1958 budget of approximately Cr\$15 billion. To assure implementation of such a program, a commitment by the Government not to borrow from the Bank of Brazil in 1958 should be part of any Fund financial assistance to Brazil.
2. Ceilings should be established on the outstanding loans and advances of the two banking departments of the Bank of Brazil, the General Credit Department and the Agricultural and Industrial Credits Departments.
3. The exchange profits accruing in 1958 should be earmarked exclusively for the financing of the Government's coffee stockpiling policy and any remaining balance sterilized as needed to offset any unexpected inflationary pressures arising in 1958.
4. Measures should be taken to absorb the existing excess reserves of the commercial banking system.

b. Exchange Policy Measures

1. The preferential list of imports (amounting to approximately \$600 million on an annual basis), which are presently imported at an effective rate of about Cr\$52 compared with about Cr\$130 for "general category" imports, should be abolished and all such commodities transferred to the "general category."