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Anglo-Brazilian economic relations and the consolidation of American pre-eminence in Brazil: 1930-1945

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TEXTO PARA DISCUSSÃO

Nº 30

Anglo-Brazilian Economic Relations
and the Consolidation of
American Pre-Eminence in Brazil:
1930-1945¹
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¹ First draft, not to be quoted without the author's permission. A paper to be published in 1932 in C. Abel and C. Lewis (eds.), *Economic Imperialism in Latin America*, a book in the monograph series of the Institute of Latin America Studies, University of London.

This paper deals with the links between the consolidation of the United States privileged position in Brazil – which eventually crystalized only during World War II – and the development of Anglo-Brazilian economic relations in the 1930s and early 1940s. One of the striking features of Brazil's International relations since World War I was the relative resilience which Britain demonstrated in her role as an economic power which counted in Brazil. It will be seen that one of the important consequences of the Great Depression was to weaken Britain's position and, consequently, to remove one of the main obstacles to the consolidation of the United States' hegemony in Brazil. Further delay in the consolidation of the foundations of Pax Americana was due to German rather than British complications².

The paper is divided into four sections. The first section is an introduction which considers, in a general and sketchy way, the sustained British hegemony in Brazil during the 19th century and its decline since the 1900s. The second section deals with the impact of the Great Depression on Anglo-Brazilian economic relations and discusses American strategical aims in this context. The third section examines the consequences of the war on the relations between Britain and Brazil and the full consolidation of America's economic and political supremacy in Brazil which would last for at least thirty years. Finally, the concluding section discusses the meaningfulness of a comparison between the 1930s and the 1980s as "unsettled" decades, that is, decades without a hegemonic power in the world economy.

1. Introduction

Britain's pre-eminence in Brazil, as is well known, was overwhelming in the first half of the 19th century and very pronounced at least until the end of the century. Transition to independence and early independent rule were marked first by the concession of preferential import duties to British goods, then by the maintenance of a very low import duty extended to all countries until 1844³. Britain had the *de facto* monopoly of Brazilian loans until the last decade of the century and lost only slowly her position as the main supplier of goods to Brazil. In one important aspect, however, Britain's position was not so important since the 1850s: given the lack of complementarity between the British Empire and Brazil, Brazil's exports – tended to be absorbed by other countries, especially coffee in

² Many of the points discussed in this paper have been discussed in more detail in Marcelo de Paiva Abreu, *Brazil and the World Economy, 1930-1945: Aspects of Foreign Economic Policies and International Economic Relations under Vargas* (unpublished Ph.D. thesis, University of Cambridge, 1977).

³ The classic treatment of pre-1930 Anglo-Brazilian economic relations is, of course, A. K. Manchester, *British Pre-eminence in Brazil. Its Rise and Decline: A Study in European Expansion* (Chapel Hill, 1933). For pre-1808 Anglo-Portuguese relations, see S. Sideri, *Trade and Power: Informal Colonialism in Anglo-Portuguese Relations*. (Rotterdam, 1970).

the United States⁴. In this sense, the Brazilian economy constituted very early a violation of the norm, as its absorption by the world economy in the scope of the so-called Pax Britannica did not depend directly on Britain's demand for its exports, as was the case, for instance, of Argentina.

From the early 1870s to the early 1900s Britain's share of the Brazilian import trade fell from around 50% to slightly under 30% of total imports, much of the loss taking place before the late 1880s. As far as Brazilian exports are concerned it would seem that by the late 1850s the United States was well established as the main customer. The importance of the British market for Brazilian trade had contracted very sharply by the end of the century but recovered slightly in the 1900s. Immediately before the war Britain's share of the Brazilian export market was in the region of 13%, slightly similar than Germany's in geographically much more diversified market than in the past.

Between the late 1880s and the beginning of World War I a substantial amount of European – especially French – capital was invested in Brazil. This trend broke in a rather marginal way Britain's monopoly of the emission of Brazilian loans – as it involved basically loans to lower grade borrowers – but seemed to be more relevant in the case of direct investments. The British were still able, in spite of keen competition from other financial markets, to maintain their hold on the borrowers which did matter, in particular the Federal Government. British nervousness about the entry in the financial field of other lenders was, however, palpable. It was to be the Americans' role in the 1920s to undermine this last pillar of British pre-eminence in Brazil.

In spite of the evident erosion of her dominant economic position in Brazil, Britain in 1913 still held at the very least 60% of total foreign investment, either in the form of direct investments or in the form of sterling bonds; about 25% of Brazil's imports were of British origin – slowly losing ground, it is true, to fierce German and American competition but still holding quite comfortably the place of main Brazilian supplier – and Britain absorbed 15-20% of Brazilian exports. While the United States were the main market for Brazil, buying 40% of Brazil's exports, they held only 12-15% of the Brazilian market and their investments were practically negligible.

However, as the consequences of the war would show, the foundations of Britain's pre-eminence in Brazil were not sound. During the 1920s British exports to Brazil lost heavily as Brazil's import bill moved away from traditional goods – whose domestic production was increasing – to modern consumer durable goods in whose production Britain did not excel. Britain's share of Brazil's exports was drastically reduced in comparison with the pre-war period, falling to 5-10%. But, more important than trends concerning trade, the decisive new development which affected the British

⁴ Brazilian pre-1900 statistics are notoriously unreliable, a fact pointed out as early as 1896 by J. P. Wileman, *Brazilian Exchange: The Study of an Inconvertible Currency* (Buenos Aires, 1896). It is unfortunate that his plea for a "through and trustworthy compilation of ... statistics, that, embracing a long period, will afford a safe basis on which to found deductions, without which all conclusions are little better than speculations" remains unfulfilled by specialists. The general argument is not, however, affected by the poor quality of these statistics.

position was the much increased financial involvement of the United States in Brazil. Brazilian loans placed in London between 1915 and 1930 amounted to £ 54.3 million while those placed in New York added to £ 86.5 million. This was, of course, the result of both British retractions from foreign lending, especially after 1925, and of the market euphoria which characterized the New York market in the second half of the decade. Britain's however, still retained an important position in Brazil as in stock terms her financial stake did not decrease much even relatively – since other stakes like the French shrunk precipitously – and the London market still remained an alternative to be taken into consideration, specially so in the case of loans placed by the coffee valorisation authorities which were banned from New York by the Sherman Act.

The maintenance of an alternative economic power was, of course, much welcome by Brazilian authorities which consistently searched for a “reinsurance” policy which would make less intimate Brazil's relations with the United States. In this sense, it can be said that the existence of Britain as an alternative source of financial resources was an important reason to explain the relatively tame character of America's exercise of her potentially overwhelming dominant position in Brazil before 1930.

2. The 1930s

The interruption of the flows of foreign capital in the wake of the Wall Street boom and crash and its European repercussions coupled with the fast fall in international coffee prices resulted in a very serious balance of payments crisis in Brazil which led first to the exhaustion of reserves then to devaluation and exchange control. The new policies imposed by the changed conditions in the international economy created a very marked incentive to import substitution through the use of industrial idle capacity installed in the 1920s. Coffee sector income, on the other hand, suffered quite considerably as devaluation did not entirely compensate the fall in international prices.

This interruption of the flows of foreign capital resulted in a very considerable weakening of the already eroded British bargaining power in Brazil. Somewhat paradoxically, however, in the very few years after 1930 when the Brazilian authorities still thought that the closure of the leading financial markets, specially London's, could be a temporary trend and not a structural change, Britain's leverage in Brazil in fact increased. A policy of rapprochement in relation to Britain was indeed highly favoured by those interests more intimately connected with coffee production, financing and commercialization. That this could be entertained was due to the unaccommodating stand adopted by American banks in relation to Brazilian banks operating in New York, which had their credit facilities sharply curtailed in 1930, and to the State Departments's blunder in assessing the likelihood of success of Vargas's bid to power in October of the same year.

While it is open to question whether a less orthodox man than Sir Otto Niemeyer, as leader of the financial mission which visited Brazil in the first half of 1931 would be more efficient in terms of safeguarding Britain's flagging economic influence, there is little doubt that the temporary eclipse of the United States made possible the visit of a British mission to a country which was rapidly becoming an undisputed American area of influence. In spite of the fact that practically all recommendations included in the mission's report were not followed by the Brazilian authorities as they were extremely orthodox, the mission was extremely important to prepare the ground for the negotiation of a temporary settlement of the defaulted Brazilian public foreign debt in late 1931 which tended to treat more favourably Brazil's sterling loans⁵.

It was only after Imperial Preference had clearly shown Britain's emphasis on closer commercial relations with the Empire and the failure of the World Economic Conference of 1933 in reaching agreement about a concerted move away from bilateralism and trade control that "the stage was well set for the entry of Uncle Sam in a benign role, as the flow of time has wiped out of Brazilian memory his unfortunate mistakes of the 1930 revolutionary period"⁶. While it is rather unlikely that the Ottawa Agreements affected very substantially Brazilian exports to Great Britain — British share of Brazilian exports indeed increased from around 4% in 1923 to about 10% in the late 1930s as her cotton purchases shifted away from the United States — it was an important indication that the emphasis of British economic policy would not be on trade with countries whose exports competed with Empire products⁷.

Indeed, after 1933-34 Britain's position in Brazil was considerably eroded in comparison with the earlier Vargas period. Britain's policy was to concentrate her efforts on the protection of financial interests and establish a clearly lower priority for questions related to trade. This scale of priorities still paid off when the new temporary public foreign debt settlement was discussed — even if the terms partially redressed the American position if compared with the 1931 agreement — but became increasingly inefficient as it became clear to the Brazilian authorities that the maintenance of the country's financial standing was not of overwhelming importance if the financial markets remained closed. Brazil, in fact, took an increasingly realist stand on the relative priorities in the distribution of foreign exchange, beginning the decade with public foreign debt service requirements very high in

⁵ For an analysis of Niemeyer's recommendations see Marcelo de Paiva Abreu, a *Missão Niemeyer*, *Revista de Administração de Empresas*, July 1974; for public foreign debt questions see Abreu, thesis, ch. 3.

⁶ United States. Department of State. *Foreign Relations of the United States 1933* (Washington, 1951), pp. 30-38 and memo., 16.12.32, Federal Reserve Bank of New York, n° 260, Correspondence Files, Foreign Exchange, January 1931-May 1933. For results of the Ottawa Conference, see H. V. Hodson, *Slump and Recovery 1929-1937. A Survey of World Economic Affairs* (1938), ch. V (e).

⁷ Increased British imports from Brazil, however, were not sufficient to turn the balance of trade in favour of Brazil: British bargaining power remained weak. It is possible that the restriction applied to British was a latecomer in this market. The considerable increase of meat exports to Britain during World War II tends to substantiate this, but for the fact that price considerations were very much in the background during the War.

the list of priorities and eventually defaulting Service payments in the late 1930s⁸.

British foreign economic policy in the 1930s was, of course, realist in a much more comprehensive way. As it was based on the use of all effective bargaining power which Britain disposed in each country it is very difficult to define a coherent policy as in the case of the American post-1934 multilateralist policy. Britain's policy wavered from "comprar a quien nos compra" or "buy British" in Argentina or Denmark, to "buy from whom sells you the best" in Brazil: Britain was multilateralist where her bargaining power was weak, bilateralist where it was strong. While in Argentina the Roca-Runciman agreement of 1933 – giving in practice first priority to British foreign exchange cover requirements – was the basis of Anglo-Argentinian economic relations, the most favoured nation clause was thought to be acceptable in countries like Brazil⁹. This policy made the British position extremely vulnerable as the Germans started to adopt their New Plan for foreign trade in 1934 which was based on the thorough use of trade bilateralization and caused damage to British trade in Brazil.

With the *de facto* removal of Britain as an important contender in Brazil it would seem that the road was open to the consolidation of American pre-eminence, based on the Strong bargaining power associated with their balance of payments deficit with Brazil. But this had to wait as the adoption by Germany of Schacht's New Plan for foreign trade made possible a fast expansion of trade between Brazil and Germany in the second half of the 1930s.

This is not the place to detail the workings of compensation trade as this has been examined elsewhere¹⁰. It is enough to say that any form of trade which was based in the use of unconvertible currency *and* opened up a substantial supply of imports through the expansion of Brazilian exports was bound to gain an important share of the Brazilian foreign trade. In fact, while the expansion of the German share was not as great as suggested by the Brazilian official statistics – as imports from Germany were consistently overvalued with values in compensation marks being taken as values in Reichsmarks – it is still true than the share of German imports increased from 11-12% in 1934 to 19-20% in 1936-38¹¹.

⁸ Britain's weak bargaining power in Brazil is also made explicit by the much less restrictive terms of the payments agreement signed with Brazil if compared with countries where there was effective bargaining power on the basis of bilateral trade as in the case of Argentina, as pointed out by Henry J. Tasca, *World Trading Systems. A Study of American and British Commercial Policies* (Paris, 1939), p. 83. Tasca also stresses the "disposition on the part of the United Kingdom to place financial interests in a position of priority as compared with current export trade", p. 85.

⁹ The ambiguity of British policy was recognized by Foreign Office officials: "this country remains with one foot on the realm of quotas and tariffs and the other still in the real of most-favoured-nation agreements", Mason's memo., 1.9.33, A 6417/48/2, PRO: FO 371. This was, of course, strongly criticized, especially in Argentina, see *Buenos Aires Herald*, 1.5.34, and 4.5.35.

¹⁰ See Abreu, thesis, Section IV.4, specifically for the German compensation trade in Brazil. For a traditional account of German trading practices in the 1930s see H.S. Ellis, *Exchange Control in Central Europe* (Cambridge, Mass., 1941), especially pp. 216-21. For a recent criticism of traditional interpretations – which underlined the economic losses in clearing agreements, see L. Neal, 'The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934' – 8, *Economic History Review*, 2nd ser. XXXII (1979).

¹¹ The competitive weakness of the British "new industries" in this period has been underlined by Alfred E. Kahn, *Great*

In spite of American outcry concerning unfair competition, frequently endorsed at face value, it would seem that *taking aggregate shares* the increase of imports from Germany dislocated not American but British exports the British share of the Brazilian market fell, indeed, from about 20% in 1934 to 11-13% in 1936-38. The traditional British exports suffered most: textiles due to increased domestic output; coal, tinplate, wire, rails, tubes, electric equipment through competition of German goods. While American exports of consumer durable goods were obviously affected by German competition the United States were able to recoup these gains by increasing their share in the supply of other imported goods. British industry was, on the other hand unable to compete in the supply of more sophisticated goods, specially consumer durable¹².

The importance of the German market as an outlet for Brazilian exports also increased very considerably in the second half of the 1930s: Germany's share of total Brazilian exports increased from 8-9% in the early 1930s to a maximum of 19% in 1938. This was closely associated with the increase in cotton exports at the expense of American cotton both in the German and the British markets. It may be however noted that even in the late 1930s the importance of the German market was not greater than it had been just before World War I.

As Great Britain in 1930s broke with a long established tradition in her foreign economic policy, abandoning practically all basic tenets of free trade and payments, the United States became the main voice to defend a return to multilateralism. This policy, which was, of course, also a rather sharp reversal specially in relation to traditional American trade policy, became more defined after 1934 with the victory of the State Department's liberals over the bilateralists led by George Peek which proposed that the United States should adopt a policy similar to Britain's, exploiting to the end their local bargaining power with no particular qualms about the lack of a coherent general policy¹³.

Given the American commitment to multilateralism and the defensive position adopted by Britain, it is not surprising that the second half of the 1930s was marked by a continuous friction involving the American, Brazilian and German governments, concerning the expansion of the German compensation trade. The Americans exerted continuous pressure on Brazil to discontinue this trade which started to expand very fast in 1934-35 and was held to be discriminatory as it diverted trade which could generate scarce exchange cover to pay for Brazilian imposes from convertible

Britain and the World Economy (New York, 1946), ch. 6.

¹² American policy, as opposed to Britain's "free trade and equal treatment", had been in past one of "subjecting foreigners to the equal but bad treatment of a steadily increasing tariff", Carl Kreider, *The Anglo-American Trade Agreement. A Study of British and American Commercial Policies, 1934-1939* (Princeton, 1943), p.18. There were important exceptions, however, to American equality of treatment, especially in Latin American. In the case of Brazil some American imports enjoyed a discriminatory tariff for twenty years before 1923.

¹³ Care must be taken not to exaggerate military influence in favour of compensation trade. It was the accumulation of unused blocked marks in Berlin that prompted the *German* suggestion that such credits should be used to purchase military equipment and not the reverse as suggested by Stanley E. Hilton, *Brazil and the Great Powers 1930-1939. The Politics of Trade Rivalry* (Austin, 1975), pp. 97, 109, 100, 130-J. See telegram 39, Berlin to Rio, 18-4-36, Arquivo Histórico do Itamaraty/Missões Diplomáticas.

currency countries, German imports were promptly paid and enjoyed competitive price advantages as the compensation mark was cheaper than the Reichsmark and Germany offered generous export subsidies.

While the Brazilian authorities – keenly aware of the strength of the American bargaining power – were willing to accommodate American pressure concerning other issues, as in the case of the 1935 Trade Agreement which was pressed on them, the curtailment or interruption of compensation trade raised more important questions. Indeed, there was no clear alternative outlet to the German market of the same importance for Brazilian exports. This was specially the case of cotton whose production was increasing very rapidly in Brazil under the umbrella of American cotton price policy. It is difficult to detect which sector of the Brazilian society did not benefit from the expansion of this trade – having in mind that in no moment a feasible alternative was proposed. It favoured exporters, importers, consumers and, perhaps more important, provided much required political elbowroom for the Federal Government as exports to Germany were of importance for the economies of Rio Grande do Sul and of the Northeast and made possible the acquisition of military equipment for the Army¹⁴.

In the second half of the 1930s, consequently, Brazilian policy was to formally commit Brazil to multi-lateralism, yielding to American pressure, and, at the same time, not to hinder the thriving compensation trade. This has been credited to Brazilian astuteness in exploiting the advantages provided by German – American rivalry. While it is quite true that Brazil did benefit from the advantages offered by the German alternative it is difficult to accept that the success of the ambiguous Brazilian policy can be credited to Brazilian increased bargaining power. Indeed, in many instances in the 1930s the United States tended to adopt a moderate stand abstaining from full use of their Strong bargaining power in Brazil. This was true in the case of the public foreign debt, of commercial arrears, of the compensation trade and even of the 1935 Trade Agreement. In almost every case American strategic aims prevailed over short-term considerations, in sharp contrast with British policy. In fact, American policy towards Brazil in the 1930s – not unduly pressing Brazil on the compensation trade and considering Vargas's regime as "a dictatorship more acceptable than others" – was a policy of enlightened Self-interest having as one main target the containment of Argentina, a country over which the United States had not much leverage. This policy would become even more distinct in the early war years¹⁵.

¹⁴ Memo by Spiegel and da Beers, undated, p. 3, Economic and Financial Reports, BRA/0/60, United States Department of the Treasury. It may be noted, as an illustration of American long-term priorities, that the US government consistently underlined the higher priority of commercial and direct investment questions in relation to those related to the public foreign debt. As the Treasury position became stronger in the late 1930s the emphasis on long-term considerations became even more pronounced: Morgenthau's and White's sympathies did not lay with the widows and orphans.

¹⁵ Stanley Hilton, Op. Cit., and, more recently with emphasis on political aspects, Roberto Gambini, *O duplo jogo de Getúlio Vargas: influências americana e alemã no Estado Novo* (São Paulo, 1977), and Gerson Moura, *Autonomia na dependência; A política externa brasileira de 1935 a 1942* (Rio de Janeiro, 1980).

The relative success of Brazilian foreign economic policy in the 1930s was indeed much more a corollary of the Latin American policy of the United States than the result of Brazilian talent in creating degrees of freedom which would not otherwise exist. In this sense it is rather difficult to speak in terms of the formulation and implementation of a Brazilian strategy concerning international economic questions. If a Brazilian coherent line of action emerges it is defined residually in relation to American strategy. To speak of a Brazilian strategy is to allow too much room for hindsight.

Recent work has contributed to qualify earlier assessments of the 1930s as a decade during which only the Brazilian – American connection counted¹⁶. The German “complication” was extremely important especially between 1935 and 1938. These new interpretations, however, tend to exaggerate either Brazil’s bargaining power and negotiating abilities or the actual economic and political weight of Germany. Had not the United States been committed to multilateralism as a comprehensive solution for the problems faced by the International economy, or had Argentina’s trade and payments structure made their country more vulnerable to American pressure it is unlikely that Brazil could have played for so long an ambiguous policy. In this context, it is misleading to use terms such as “pragmatic equidistance”¹⁷ to define Brazil’s policy during the late 1930s. The United States economic weight in Brazil was incomparably greater than Germany’s which had only her trade as bargaining weapon: Brazilian International economic policy was pragmatic – as any efficient policy should be – and tried to exploit in the national interest the contradictions between the United States and Germany, but was very far from equidistant, the alternative between wholly free and wholly compensation trade never being considered.

Brazilian policy in connection with compensation trade has been termed by Hilton¹⁸ as an “opportunistic response” to economic rivalry in the 1930s maintaining American political support and increasing its German trade. Such a concept is hardly operational since it is quite difficult to think of a country which would consider ethical arguments as of special importance to define National policy. Multilateralism was defended by the United States, not because it was thought to be ethically more acceptable than bilateralism but because it was thought to suit best the American national interest, possibly in the short run and certainly in the long run. Brazil’s policy was similarly defined in the light of the interest of different sectors of Brazilian society. Indeed if moral judgement provided a sound basis to assess international economic policies followed by specific countries, what to say of American lenience allowing Brazil to play her ambiguous game in the name of long run objectives? Still worse, how could the United States put pressure on Brazil to interrupt compensation trade with Germany when "German – American commercial relations were... conducted on practically the same

¹⁶ Moura, *Op. Cit.*, ch. 2.

¹⁷ Hilton, *Op. Cit.*, p. 66.

¹⁸ Tasca, *Op. Cit.*, p. 40.

basis as that which the American Government was requesting Brazil to suppress”¹⁹.

With the growing deterioration of the international situation in 1938, the continuation of the German compensation trade was discouraged by the Brazilian authorities which feared the accumulation of unusable blocked marks in Berlin. The road to closer collaboration with the United States was thereby open without the interference of any European power. This new trend was made clear enough by the visit of the Brazilian Foreign Minister to the United States in early 1939 when, besides reaching agreement on the payment of financial arrears which had accumulated in the aftermath of a balance of payments crisis associated with the American 1937 recession, it was agreed that Brazil would considerably liberalize her foreign exchange policy and consider the resumption of public foreign debt payments²⁰.

3. The War

The first impact of the war on the Brazilian economy was, of course, the loss of important Central European markets in countries which came under the rule of Germany and whose trade was consequently affected by the British economic blockade. This position was considerably aggravated in the Summer of 1940 when other traditional markets in Western Europe were lost. The importance of the American market was thus considerably enhanced in spite of the fact that Britain increased very considerably her purchases, specially of meat and cotton. In the supply side the impact of the war was even more pronounced as the Anglo-Brazilian Payments Agreement of 1940 made possible for Britain to reduce her exports to very low levels and, especially after 1941, Brazilian demand for imports of American origin had to compete with the United States war effort.

Immediately after the outbreak of the war there was a temporary deterioration of Brazilian relations with Britain in the wake of British unwillingness to allow military equipment purchased in Germany to go through their blockage. Many difficulties were also faced in the implementation of the Anglo-Brazilian Payments Agreement as it backfired from the British point of view since the bilateral balance of payments was favourable to Brazil and Britain was reluctant to increase her Brazilian purchases in the short run. With the resumption of public foreign debt Service in 1940 through a new temporary settlement and the acceleration of British purchases the relations improved. The British market had, of course, acquired renewed importance for Brazil as so many of her traditional export markets were blocked. On the other hand an important source of finance for the British war effort was the operation of payments agreements as this assured the supply of vital imports

¹⁹ Abreu, thesis, section VII.1.

²⁰ The aim of the payments agreements policy was to make signatory countries “as long as possible in sterling so that in the post-war period [they] come to us to use it up”. For a comprehensive treatment of payments problems see R. S. Sayers, *Financial Policy, 1939-1945* (1956).

as well as the flow of financial payments without entailing any obligation to supply these markets and making it possible to conduct export policy only with the war effort in mind²¹.

From 1942, however, in spite of continuous bilateral interest in the expansion of British purchases in Brazil and of the improved atmosphere created by the resumption of debt payments, Britain played quite a secondary role in Brazil, a fact recognized by official British policy in Brazil: its aims being defined as “if possible to intensify our existing good political, economic and cultural relations subject to the overriding necessities of the successful prosecution of the war and of the maintenance of the fullest unity and understanding with the United States”²².

Indeed, American policy in the early war years was to deal with economic problems in Latin America in the light of political considerations. This was patently the case of the Inter American Coffee Agreement of 1940 and of the purchasing agreements of 1941 and 1942, when prices were established considerably above those ruling in the market in sharp contrast with British procurement and pre-emption policy which consistently struggled for the best possible prices ruling in the market.

An important American concession to Brazil in the early war period was the extension of official finance and supply priority for the construction of Volta Redonda, the first large scale Brazilian integrated Steel mill. In line with the over-valuation of Brazil's leverage in connection with the German compensation trade recent interpretations²³ have tended to stress that this was, once again, the result of Brazil's skilful exploitation of American – German rivalry in Brazil as the Germans showed willingness to cooperate when American firms declined to get involved with the project. It is difficult to accept uncritically such an interpretation – as it was rather unlikely that either Germany was prepared to consider diversion of productive capacity in detriment of her war effort or the Royal Navy would, let this shipment go through the British quite efficient blockade. The episode must be counted as another of Vargas's negotiating ruses. What counted was not the existence of a credible German alternative but the American policy to take into account, Brazil's strategic role in Latin America as had been the case with the German compensation trade²⁴.

²¹ V. Perowne's printed memo on The United States and Great Britain in Latin America, 26.2.43, A 2230/348/51, PRO: FO 371.

²² Perhaps the most explicit is Luciano Martins, *Politique et développement économique. Structures de pouvoir et Système de décisions au Brésil (1930-1964)* (thèse de Doctorat d'Etat, Université de Paris, 1973), pp. 295-300. A shortened version of this dissertation has appeared in book form as *Pouvoir et développement économique: formation et évolution des structures politiques au Brésil* (Paris, 1976).

²³ The lack of a credible German alternative was, in fact, well known in the State Department, see Walmsey's memo. 6.3.40, 832.6511/77, National Archives: Record Group 59. Vargas started to hint the Germans were “interested” in Volta Redonda in early 1940, showing that his attempt to exploit German-American rivalry had little to do with an evaluation of the result of the then European War, minute, 18.1.40, Fundação Getúlio Vargas: Vargas Archives. American views on the convenience of financing Volta Redonda were, of course, conflicting. For James Forrestal, for instance, it made as sense to produce steel in Brazil as to grow cotton in Montreal, quoted by David Green, *The Containment of Latin America: A History of the Myths and Realities of the Good Neighbour Policy* (Chicago, 1971), p. 44. Brazil received US\$ 332 million worth of military equipment under Lend-Lease, another instance of American policy to strengthen Brazil in order to contain Argentina's influence in the continent.

²⁴ Brazilian sterling balances increased from £2 million by the end of 1941 to £15 million in 1942, £35 million in 1943

From 1943 American policy became rather less generous as their initial targets concerning pre-emption, procurement and political support were achieved. The American resisted very strongly any attempt to increase Brazilian export prices specially in the case of coffee, denounced Brazilian unilateral import Controls as a breach of the 1935 Trade Agreement, resisted Brazilian attempts to develop import substituting industries and Were unable to fulfil their promises concerning the supply of scarce materials to Brazil.

British policy, in the other hand, tended to center on questions related to the accumulation of Brazilian sterling balances in London. British policy-makers, in fact, lived through a permanent dilemma as, while the accumulation of sterling balances was a sound objective of British policy from the point of view of war finance, the fast increase of inconvertible balances tended to undermine sterling's credibility as a viable alternative key currency in peacetime²⁵. The more sterling accumulated unused in London, the less "sterling minded" Brazil was likely to stay: British policy, consequently, emphasized the need to find outlets to Brazilian sterling. The main outlets proved to be the transfer of British owned assets in Brazil to the Brazilian government and the redemption of sterling loans as provided by the permanent 1943 public foreign debt settlement.

British direct foreign investments had been reduced by something like 20% in nominal terms during the 1930s until they reached about £100 million in 1940; in 1945 they amounted to £85 million. This reduction, which continued after the war, was at least partly associated with the sale of British assets in Brazil. While British capital was concentrated in public Utilities, bound to suffer from widespread price and exchange Controls in the 1930s, American investments tended to be increasingly more important in the case of manufacturing²⁶.

This turned out to be an additional wedge making American and British policies quite distinct as some of the British grievances were not as strongly felt by American interests.

Brazilian public foreign debt was renegotiated on 1943, agreement being reached on a permanent settlement. The terms of the agreement underlined Britain's weak bargaining position as many of the features which favoured sterling loans and had been included under Niemeyer's influence in the early 1930s were dropped in favour of "equal treatment" for the benefit of the American high-

and about £50 million by mid-1945, see Abreu, thesis, ch. VII.4.

²⁵ Purchase of British owned railways amounted to £22 million in the period 1945-52. This, while being in much smaller scale than in Argentina, was not negligible if compared with Brazilian sterling balances. In 1946 total American direct investment (book value) seemed to be roughly equivalent to British direct investment (nominal value): in the region of £80 million. Investments had expanded quite substantially between 1936 and 1940 and after 1943, see Abreu, thesis, pp.172-175 and 213-214.

²⁶ Charles to Scott, 5.2.42, A 2764/2764/6, PRO: FO 371. There are many other instances of American Plan talking about their bargaining position in Brazil, especially in the late years of the War. By mid-1944, Pierson, Eximbank's President, was suggesting that his bank and the Export Guarantee Credit Department should cartelize their activities: Latin America and especially Brazil, would be American, while Turkey and the Middle East would be British sphere of influence. This the British considered to be only a slight variation of the American preferred slogan: "Brazil is mine". Magowan's minute, 6.6.44 and Mather-Jackson's minute, 26.6.44, AS 3215/720/6, PRO: FO 371.

interest speculative loans floated in the 1920s.

By 1943 in fact the United States had consolidated beyond any doubt their position of pre-eminence in Brazil. According to the State Department, the American Ambassador to Brazil should be regarded “in the same light” as H.M.’s Ambassador to Egypt²⁷. Brazilian authorities were becoming increasingly uncomfortable with the excessive intimacy of Brazilian relations with the United States: in the words of the British Ambassador “the moment was ripe for Dr. Aranha to bring Great Britain out of the bag”²⁸ and try to revert to the time-honoured traditional pre-Vargas policy of using Britain as a counterweight to the United States. But this was, of course, a wild overestimation of the real options available to Brazilian policy-makers as Britain had much less leverage in Brazil than in the 1920s providing no credible Strong alternative to the United States such as to make “reinsurance” a feasible policy.

Indeed, the attractions of gaining politically in Latin America from American support were very strong as under the American umbrella Brazil could try to restore its role of political pre-eminence in the continent which had been lost to Argentina in the turn of the century. The approach of peace, however, resulted in a hardening of American policy not only concerning economic matters, as already noted, but also in relation to the political support of governments not elected by the popular vote. American concern with the lack of internal democracy in Brasil became increasingly pronounced as from 1943-44, a preference taking shape for a “liberal” solution which would not only remove the contradiction between Brazil’s authoritarian political regime and her anti-Axis foreign policy but also tend to assure the adoption of economic policies more in line with American interests.

Vargas’ fall in 1945 made possible the unchallenged continuation of American political and economic pre-eminence in Brazil which was to last until the early 1970s. The consolidation of the United States position seemed, indeed, to vindicate the emphasis placed by American policy in the 1930s and early 1940s on long-term objectives at the expense of short-term advantages.

²⁷ Charles to Eden, n° 180, 20.9.43, A 9032/2506/6, PRO: FO 371.

²⁸ British fears to provoke the Americans by “interfering” in Brazil, given the vulnerability of Britain to any American retaliation, demonstrated the unsuitability of a return to “reinsurance” by Brazil. British reluctance to implement Keynes’s advice to build up a British cotton reserve in Brazil for post-war use – since Southern Congressmen could behave badly in the Lend-Lease appropriation debates – is a good example of the vulnerability of Britain’s position. Mather-Jackson’s minutes, 10.11.42, 14.12.42 and 8.3.43, A 10485/25/51, A 11600/25/51 and A 2312/1/51; Tel. 6056, Washington to London, 12.12.42, A 11600/25/51, PRO: FO 371.

4. Conclusions

Contrary to what is frequently implied in the literature, the exacerbation of rivalry among the leading industrial nations in the 1930s did not necessarily result in an increase in the degrees of freedom of less developed or dependent countries. While Brazil may have fared well in this context, the reverse was true in countries where the relative bargaining positions benefited industrial nations whose international economic policies were moving away from free trade and payments, as illustrated by the case of Argentina.

Even in the case of Brazil, it is not easy to claim clear cut advantages as a result of greater rivalry between the main industrial nations in the 1930s. Some of Brazil's gains were direct consequence of speculative lending before 1930 in a context of much reduced export earnings by primary producer countries after the Great Depression. Even then it is not transparent if, taking the debt *as a whole*, Brazilian loans caused an *aggregate* loss to lenders as so many of the old loans carried large discounts in their initial floating.

The mere continued existence of the German compensation trade can be taken as a gain to Brazil. What is arguable is whether this gain was the result of friction between the United States and Germany or merely corollary of the overall American long-term Latin American policy. The second explanation is, on the basis of available evidence, much easier to accept. It would seem, consequently, that Brazil fared relatively well in her economic intercourse with the world economy in the 1930s mainly because her weak bargaining power was in relation to the United States, the only country prepared to forego short term advantages in face of their growing willingness to consolidate their hegemony in Latin America.

One of the main reasons for renewed interest in the 1930s among social scientists is related, as far as international economic relations are concerned, to the alleged similarities between that decade and the late 1970s and 1980s. While superficially at least, this view carries some appeal, many qualifications are required, some of a general nature, others especially relevant for the case of Brazil.

The unsatisfactory performance of many industrial nations, the increase in unemployment and the slackening rate of expansion of world non-oil trade cannot be compared with the impact of the Great Depression in terms of reduced level of activity, increased unemployment and dislocation and reduction of world trade, especially in the more advanced economies. Even those more aligned with fashionable anti-Keynesian scepticism would agree that something was learned on economic policy matters such as to make a recurrence of a similar crisis rather unlikely. The main sources of instability remain the International financial market, the lack of coordination of domestic policies which can result in sudden and competitive realignment of exchange rates and the adoption of protectionist policies which tend to restrict trade.

Perhaps more important, there is not a single nation which can be clearly seen as being able to provide International economic leadership in the 1980s. There is no country now in the position of the United States in the interwar period: “able but unwilling” to lead the world economy. The 1980s are likely to be years without a clear economic – or, for that matter, political – leadership among Western countries. This situation will probably require important overhauling of the present institutional arrangements which regulate international trade and payments.

Brazil is likely to find opportunities for “reinsurance” but will not benefit from the studied complacency of a rising world hegemonic power as in the 1930s. Life will be rougher in a much more complicated world economy, the increase in export earnings required by the soaring costs of servicing the debt involving in many cases tough competition and increasing political friction with the industrial nations as traditional suppliers of the world markets.

In this sense the 1980s are likely to be a less sheltered decade for Brazil than the 1930s, requiring an active foreign economic policy which should at the same time assure the expansion of export markets and the continuous collaboration of foreign capital without substantial sacrifices of national sovereignty.