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Anglo-American Rivalry in Brazil: the Case of the  
1920s

By

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### **Abstract**

In the interwar period of the twentieth century, a long-term transition of power occurred in world politics from Britain to the United States, with a lasting impact on Brazil's international relations. This paper focuses on the 1920s with a view to casting new light on aspects of British and US policies towards Brazil following World War I. It is suggested that, in a context of intense foreign economic competition, the challenger (the United States) was generally welcomed by Brazilian leaders in order to counterbalance particular features of Brazil's dependence on the status quo power (Britain). A select bibliography is provided for further reading.

## **A rivalidade anglo-americana no Brasil: Os anos 20**

### **Resumo**

Este texto analisa o declínio da Grã Bretanha no Brasil, e a ascensão dos Estados Unidos entre o fim da Grande Guerra e 1929. Na sua primeira parte, o autor descreve as posições económicas e financeiras britânica e norte-americana no início do período, bem como a intensa concorrência entre ambos para conquistar novos mercados depois da Grande Guerra. No Brasil, esta concorrência culminou em ganhos para os EUA, tanto que já em 1916 os norte-americanos eram os principais provedores de importações brasileiras. Os Estados Unidos também conquistaram um lugar como provedor de crédito, roubando parcialmente à Grã Bretanha o seu papel tradicional de 'banqueiro'. O interesse britânico nos setores tradicionais brasileiros, a sua agenda conservadora (que contrastava com a agenda mais inovadora e agressiva dos Estados Unidos), bem como o declínio associado à guerra, contribuiu para a ascensão norte-americana.

A segunda parte do texto analisa duas instâncias de ascensão norte-americana, a missão naval de 1922, e a conclusão de um acordo tarifário entre o Brasil e os Estados Unidos. A crescente importância dos Estados Unidos verifica-se com a decisão brasileira de convidar os norte-americanos a chefiar uma missão para reformar e modernizar a marinha brasileira, apesar do manifesto interesse britânico. A ascensão norte-americana e o declínio britânico manifestam-se igualmente na capacidade dos Estados Unidos de negociar um acordo tarifário mais favorável com o Brasil, e a falta de êxito britânico de conquistar preferências comparáveis.

Na terceira parte, o autor afirma os limites que existiam sobre o poder britânico e norte-americano. O Brasil mantinha uma autonomia e uma margem de manobra significativas, tal como demonstra a falhada missão Montagu de 1924, a derrota da campanha anti-valorização do café de Hoover (o Brasil recorreu a bancos britânicos não havendo condições políticas nos Estados Unidos), e a tentativa falhada da Grã Bretanha, em 1926, de condicionar politicamente um empréstimo (o Brasil limitou-se a procurar financiamento nos Estados Unidos). Estes exemplos mostram os limites da influência dos dois poderes, e o papel que desempenhou a concorrência entre um e outro em limitar esse poder.

A rivalidade anglo-americana continuou durante a presidência de Hoover, que promoveu a política latino-americana do 'bom vizinho', à qual os britânicos responderam com a missão D'Abernon, que visava promover o comércio e a cooperação com os países latino-americanos. A missão teve magros resultados no Brasil. Em 1930 o comércio anglo-brasileiro já tinha diminuído substancialmente, e o governo britânico decidiu concentrar-se no fomento de relações comerciais e financeiras mais profundas com a Argentina e com as dependências ultramarinas britânicas. Para o autor, e ao contrário das

interpretações 'fáceis' baseadas numa visão ahistórica dos acontecimentos, o declínio britânico no Brasil (ou a ascendência norteamericana) não eram um dado adquirido na época. Embora a Grã Bretanha fosse o parceiro dominante em termos económicos, nunca foi, ao contrário dos Estados Unidos, alvo central da política diplomática brasileira. Uma vez unidos o interesse económico e político nas relações com os Estados Unidos, assegurava-se a ascendência norteamericana, embora ninguém o podesse prever claramente na altura.

# **ANGLO-AMERICAN RIVALRY IN BRAZIL: THE CASE OF THE 1920s**

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## **Introduction**

The transition of power in world politics from Britain to the United States was an outstanding event of the interwar period in the twentieth century. Following World War I, a global struggle for supremacy dominated Anglo-American relations and the all-encompassing challenge of the United States to Britain's pre-eminence had worldwide repercussions, including in South America. In Brazil, also, the situation was no different.

When Brazil became an independent nation in 1822, Britain enjoyed a truly strong position in the country, thanks to the Portuguese legacy. By 1900, Britain was still the leading foreign power in the Brazilian economy, as the biggest supplier of Brazilian imports, the principal source of financial capital for Brazil, and by far the largest foreign investor in the country. In the following years, the British position in Brazil would be challenged mostly by the growing influence of Germany and only slightly by the United States, whose economic expansion had not yet reached South America. During World War I, Britain and the United States joined forces against Germany and both succeeded in ousting German interests from Brazil. As the interwar period progressed, the relentless recovery of Germany, especially under the Nazi regime, renewed the earlier challenge and, in World War II, British and US interests were once again united against the Germans. By 1945, however, the United States was the undisputed hegemonic power in Brazil and Britain had completely lost its former predominant position in the country. A historical shift had indeed occurred, with far-reaching consequences.

Understandably, the German challenge has awakened much academic interest. Historians have taken great pains to explain how events in the 1930s shaped the future of Brazil, and the US-Nazi dispute has been a favourite subject. There are already a number of scholarly historical works covering that period. Nevertheless, if it is assumed that the

transition of power from Britain to the United States was probably one of the most important changes affecting Brazil's international relations in the twentieth century, it seems that this particular issue deserves better consideration.

The literature on Anglo-American rivalry in general is quite extensive, yet when South America is considered the account seems far less favourable.<sup>1</sup> According to Cain and Hopkins, there is a gap in the historiography of British foreign relations: 'With the outbreak of World War I, South America sinks beneath the horizon of imperial history. Its disappearance, having won silent support with the passage of time, is now scarcely noticed'. Within their overall argument of Britain's resolve not to simply abandon positions in the wider world, in Chapter seven of their book, covering the years 1914-39, Cain and Hopkins tried to make the case for reintegrating South America into the study of British imperialism after 1914. Taking the cases of Argentina and Brazil, they suggested that Britain's priority in the interwar years was to maintain its position as 'banker to the world' in a period characterised by intense imperialist rivalries and a 'fierce struggle for financial control of the South America republics and for the markets that would fall to the successful power'. Although Argentina could be seen as the major British concern in the region, particularly in the 1930s, they concluded that Britain's performance in Brazil was 'much more impressive than is usually assumed, once attention is shifted from commodity trade to finance'.<sup>2</sup>

In Miller's book on Britain and Latin America in the nineteenth and twentieth centuries, British relations with Argentina and Brazil both in the 1920s and the 1930s were also discussed. Miller argued that the British initially did not regard their position as 'totally irretrievable', since they did not see the extension of US hegemony towards the Southern Cone as 'inevitable'. London had lost its exclusiveness as the world's main financial centre, but returns on investments were still relatively high at the end of the 1920s and there was some confidence in a future recovery among British officials. Only during the 1930s could it be said that Britain's deteriorating influence started to show beyond all doubt the long-term difficulties concerning its economic interests in Brazil.<sup>3</sup>

The importance of the 1920s was highlighted by Alan Manchester in his classic work on the rise and decline of British pre-eminence in Brazil. As the largest buyer of Brazilian exports since the late 1860s, the United States had, as it were, a say in Brazil's foreign trade. Britain notwithstanding was more interested in securing the Brazilian market for its own manufactured goods, seeing that it could easily purchase commodities and raw materials from suppliers other than Brazil. Manchester continued: 'Thus despite the occasional warning voiced by

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<sup>1</sup> The most up-to-date contribution to the study of the global transition of power from Britain to the United States is McKercher, 1999.

<sup>2</sup> Cain and Hopkins, 1993. pp.146, 170.

<sup>3</sup> Miller, 1993. pp.202, 221-2.

British consuls, the United States figured as a minor competitor of England until the World War, when it supplanted Great Britain as the principal supplier of the South American republic. The failure of England to maintain its traditional position during the years following 1914 was merely the natural result of war conditions and, to the Britisher, a temporary eclipse which would be rectified at the proper moment. Consequently, the real struggle for supremacy came after 1918'.<sup>4</sup>

It seems that the notion of a complete, ineluctable British economic decline in Brazil for the whole period between the wars must not be taken for granted, as it sometimes still is. This is even more true as regards the 1920s, when most contemporaries did not realize that a global transition of power could be in progress. Rippy showed that British capital in Latin America reached its maximum near the end of 1928: Argentina ranked first, with £420 million, followed by Brazil (£285 million) and Mexico (£199 million). The Wall Street crash of 1929, the world economic depression and another major war, accompanied by 'growing prosperity and rising nationalism' in the region, all contributed to seriously undermine Britain's position and, twenty years later, the amount of British capital in Latin America had been reduced to 'relative insignificance'.<sup>5</sup> If we therefore look at the 1920s to understand the impact of Anglo-American rivalry on Brazil's international relations, perhaps some useful conclusions may be reached without the post-1929 disruptive effects of the 1930s.

Unfortunately, there appears to be a sort of 'interpretation malaise' when attempts are made to study the increasing US presence in the Brazilian economy after 1914. The issue has sometimes been analysed with a dated, excessively ideological Cold War bias, i.e. the United States being regarded as a hegemon between the wars, when in fact it was neither hegemonic at that time nor was it necessarily seen by contemporaries as a threat to Brazil's independence and autonomy. In finance, for example, the United States was perceived by many Brazilians as a handy resort against the heavy dependence of the country on British loans, as we shall see. In the same vein, Britain's position in Brazil by 1914 was far from being 'hegemonic'. The transition of power must be seen rather as a *longue durée* historical change, and the interwar period as the culmination of a century-long process.

This paper covers the years from the end of World War I to just before the crash of 1929, a period in which Anglo-American rivalry found a fertile environment in Brazil, setting the stage for future US ascendancy over the Brazilian economy. Part I is devoted to an overview of both US and British positions vis-à-vis Brazil in the period under examination. Part II analyses two cases of US success to the detriment of Britain: the Naval Mission for the instruction of the Brazilian Navy in 1922, and the conclusion in 1923 of a commercial *modus vivendi* with Brazil, agreeing on

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<sup>4</sup> Manchester, 1972. p.334.

<sup>5</sup> Rippy, 1959. pp.75-6.

mutual preferential tariffs. Part III shows that in the transition of power under way the two contending powers faced certain limits to the exercise of actual economic and political influence over Brazil, as is made clear in the cases of the British financial mission of 1924 (Montagu Mission), the American campaign against coffee valorisation, and the British opposition to the federal loan of 1926. Finally, Part IV briefly addresses the visit of US President-elect Herbert Hoover to Brazil in 1928, and the British trade mission of 1929 (D'Abernon Mission).

## **I - TRANSITION OF POWER IN BRAZIL**

### **United States: enter the challenger**

World War I inaugurated a new chapter in the competition amongst the world's great powers for markets and natural resources from developing countries. Even before 1914, the imperialist expansion had approached its saturation point due to the lack of untapped territories to conquer. Major powers held captive their colonial empires, areas of exclusive exploitation. Latin America, though, a region of politically independent nations, presented itself as an overt field to foreign economic penetration. Brazil, with a population of 30.635.605 and one of the biggest GDPs of the continent, stood out from the Latin American context as a highly promising market and a natural target for fresh business opportunities. In the increasingly fierce competition taking place in the country, the most diverse tools would be used: economic and trade missions, visits of distinguished personalities and former heads of state, propaganda activities, symbolic gestures of friendship and, last but not least, tantalizing offers in exchange for the client's goodwill.

In Brazil, the export-oriented model of growth was the economic foundation of the Old Republic, which lasted from 1889 to 1930. In the 1920s, for all the changes in the world economy and the acceleration of the industrialisation process in many countries, the Brazilian economy remained 'essentially agricultural'. The best performance in Brazilian commodity exports occurred precisely after the post-war crisis (1920-23) and before the Great Depression. Thus, from 1924 to 1928 the value of exports reached unprecedented levels for the 1889-1939 period, except for the year 1919. As to imports, in 1928 their value reached the maximum level for the 1889-1939 period. Villela and Suzigan argued that the 1920s witnessed the heyday of the agro-export economy, which expanded at a much higher annual rate (9%) than the other sectors of agricultural production (4,5%). In the 1919-23 period, coffee stood for 58,8% of Brazil's exports and, between 1924-29, that percentage was even bigger (72,5%). At the beginning of the 1920s, Brazil accounted for almost 70% of the world's coffee supply. Besides coffee, other Brazilian exports were sugar, cocoa, tobacco, cotton, rubber, tea-mate, hides and furs, and other

products. As regards imports, the most important products were consumption goods, fuels and lubricants, raw materials and capital goods.<sup>6</sup>

The United States was by far the main beneficiary of the economic transformations brought about by the conflagration of 1914-18. Prior to the war, some US companies were already established in Brazil, such as: Singer Sewing Machines (1905); Brazilian Diamond Mining Co. (1907); United States Steel Products Co. (1911); Goodyear Tire and Rubber Co. of South America (1912); Otis Elevator Co. of Maine (1913), among others.<sup>7</sup> Yet it was during that major conflict that the establishment of new undertakings gained impetus. A typical example was the frozen-meat industry, with the opening of additional plants or the take-over of others in Brazil by companies such as Continental, Wilson, Armour and Swift, which aimed at processing raw materials for export. As said by João Frederico Normano in his book *The struggle for South America*, first published in 1931: 'The War was an economic earthquake for this continent, which was not in the least prepared for the sudden simultaneous stoppage of maritime traffic, investment, commerce, immigration, and credit advancement. The routine of life was broken. The providers had disappeared. The agents of the German firms no longer went in quest of orders; the French luxuries so much in demand were no longer to be had; the English houses had no more stocks; South America was thrown over by her old friends. Even trade with the neutral countries was checked. The usual exports ceased. And in South America foreign trade is the breath of life. At this juncture the United States leapt into the breach. It was a triumphal entry'.<sup>8</sup>

In the post-war years, the trend was reinforced and the number of new companies and US direct investments in Brazil grew accordingly. In February 1919, the São Paulo American Chamber of Commerce was founded by William T. Wright, a prestigious member of the American community. One of the first newsletters released by the Chamber informed that Brazil was importing more than half its needs of goods and luxury merchandise from the United States, as well as exporting to the American market 'almost half its production'. In 1920, the Chamber had already registered 320 US firms established in the city of São Paulo.<sup>9</sup>

In this process, investments from the United States in Latin America in general, and in Brazil in particular, experienced a remarkable growth in the 1920s. On the occasion of the visit of President-elect Herbert Hoover to Latin American countries, at the end of 1928, the *New York Times* stated that the United States had 5 dollars invested in Latin America and islands of the Caribbean for every 4 dollars invested in Europe. In Venezuela alone, US investments were as great as US holdings in the entire continent

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<sup>6</sup> Villela and Suzigan, 1975. pp.50-2, 133-4, 141-2.

<sup>7</sup> Freitas Jr., 1994. pp.146-7.

<sup>8</sup> Normano, 1931. p.23.

<sup>9</sup> Freitas Jr., op.cit. pp.146-7.



of South America 16 years previously. Prior to the war, United States investments in Latin America amounted to approximately US\$ 1,242,000,000, but the largest share (82% of the total) was distributed only in Mexico and Cuba. At the beginning of 1929, the same amount had almost quintuplicated, reaching the rather impressive figure of US\$ 5,587,494,100. It is worth mentioning that 41% of this total was directed to South America, where the major destinations were Argentina and Brazil. In 1913, the United States had merely US\$ 50 million invested in Brazil. In 1929, US investments in the country had risen to US\$ 476 million.<sup>10</sup>

In Brazil, great strides were made by the United States in sectors related to automobiles, oil, machines and implements, durable consumer goods, pharmaceutical products, insurance companies and others that indirectly reproduced the American way of life, e.g. communications agencies, newspapers, cinema, and the entertainment industry. According to Rosenberg, 95% of all movies shown in 1926 in Brazil came from the United States. In the case of telegraph communications, after having broken in 1917 the British monopoly exercised in Brazil by the Western Telegraph Company, the United States rapidly expanded its participation in the total of submarine cables installed in Brazilian waters. In 1920, the Central and South American Telegraph Company, subsidiary of the All America Cables Inc., was established in Brazil. News agencies, such as the United Press International (1918) and the Associated Press (1919), started to provide services to Brazilian newspapers, which used to rely almost exclusively on international news released by the French agency Havas. Better diffusion of information concerning the United States helped to publicise the American point of view and promote warmer local receptiveness to US business.<sup>11</sup>

The internationalisation of US companies in this period reflected somehow a new pattern in the economic relationship between the United States and Latin American countries, especially with those from the Southern region of the continent. As to foreign trade, US exports to the region developed to a higher standard: they were now based on more solid and comprehensive entrepreneurial strategies rather than the sheer export of the surplus prevailing before the war. In 1913, the United States exported US\$ 146 million to South America and imported US\$ 198 million. In 1920, a particularly favourable year, before the European trade recovery was complete, the United States had managed to export US\$ 623 million and import US\$ 760 million.<sup>12</sup> In Brazil, the United States had surpassed Britain for the very first time, in 1916, as the biggest supplier of Brazilian imports. Ever since, except for two years after the war (1922 and 1923), when Britain again occupied by a narrow margin the first place among the

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<sup>10</sup> Winkler, 1929. pp.1-7, 275-78.

<sup>11</sup> Cf. Rosenberg, 1978. pp.146-8; Tulchin, 1971. pp.208-33; Klein, 1924. p.243; and 'American press service in Brazil', United States Consulate in Rio de Janeiro, 9 May 1919, National Archives at College Park (hereinafter NA), State Department, Record Group 59, 832.911/3.

<sup>12</sup> Normano, op.cit. p.26.

suppliers of imports to the country, the United States became Brazil's main trade partner.<sup>13</sup>

Along with the rise in trade, the increasing presence of American ships in Brazilian ports marked the entry of the United States into a sector formerly dominated by European rivals. In 1920, the United States surpassed by 400,000 tons the totals reached by German and Austrian ships in 1913. The average annual participation of British ships in Brazilian ports, between 1909 and 1913, was more than half the total (51,5%) against only 0,1% of ships from the United States. In 1920, the US share had grown to 22% and the British participation had fallen to 39,9%. An office of the United States Shipping Board in Rio de Janeiro provided American ships with administrative support, coordinated the extension of US merchant marine activities in Brazilian waters, and suggested the opening of additional lines of steamships linking the South American continent to North America. British ships still held the leadership in terms of maritime transportation of the Brazilian foreign trade, but continuous US advances in this area were a matter of concern to British officials.<sup>14</sup>

The wave of United States' direct investments in South America, during and after the war, was illustrative of a global approach to business, as it would become the rule for multinational corporations in the subsequent decades. In the energy sector, for instance, the strategy of US investments was basically to occupy less explored niches in Brazil. In 1923, the US company Electric Bond & Share Corporation created the American and Foreign Power (Amforp), whose chief objective was to expand the company business abroad by means of take-overs of plants outside the United States. After some years operating in Central America and the Caribbean, Amforp started its activities in Brazil in 1927, with the constitution of a subsidiary company, the Empresas Elétricas Brasileiras. In Rio de Janeiro and São Paulo, the electric sector was then under the control of the Light group, subordinated to Brazilian Traction, Light and Power Company, based in Canada. The approach adopted by Amforp was to acquire existing companies in other cities of the South, Southeast and Northeast regions of Brazil. In just three years, Amforp took over subsidiaries in Porto Alegre, Curitiba, Belo Horizonte, Vitória, Salvador and Recife, among others. In the countryside of the state of São Paulo, some major companies were incorporated by Amforp, e.g. the Companhia Paulista de Força e Luz, the Armando Salles group, and the Prado family group. In 1930, Amforp had already become the largest electric energy company operating outside the Rio-São Paulo axis.<sup>15</sup>

The case of the automobile industry is possibly one of the best examples available to illustrate the encroachment of the United States upon the Brazilian economy in the 1920s. In 1913, cars motoring in Brazil

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<sup>13</sup> Cf. data in Valla, 1978. p.145.

<sup>14</sup> Tilley to Curzon, tel., Rio, 4 April 1921, Public Record Office (PRO) at Kew, Records of the Foreign Office (hereinafter FO), General Correspondence, FO 371/5540.

<sup>15</sup> Leite, 1997. pp.59, 395-7.

were mainly French, German, and British, accounting for about 75% of the car imports in the country. With the sudden fall in trade with Europe provoked by the war, Brazil started to import in great numbers motor vehicles from the United States. A keen reception to cars made in the US by Brazilian consumers stimulated US companies to invest heavily in the country. The Ford Motor Company took the initiative and drafted plans to open a plant in Brazil in order to produce cars with parts and components from the United States. In 1921, Ford launched its first assembly line in Solon Street, Bom Retiro, São Paulo.<sup>16</sup> Four years later, the plant was producing almost 25,000 units a year.

At the same time, the General Motors Export Corporation also became interested in the Brazilian market. In 1922, Vice-Chairman James Mooney visited Brazil with a view to studying the local conditions for the expansion of his company activities. It was the first time that a General Motors CEO had decided to be personally involved in a business trip overseas. Excited with the prospects, Mooney foresaw that Brazil would become in the future 'one of the greatest automobile countries in the world'.<sup>17</sup> The company was registered before the Brazilian law as General Motors of Brazil S.A. and started to assemble cars in 1925 at the premises of Ipiranga, São Paulo. In 1928, General Motors inaugurated its new plant in São Caetano do Sul, on the outskirts of São Paulo, aiming at production on a larger scale.<sup>18</sup>

In the 1920s, the motor market boomed in Brazil, spurred on to a great extent by the existence of the Ford and General Motors plants. According to data collected by Downes, in the state of São Paulo the number of vehicles had risen from 2,661 in 1917, to 59,213 in 1928.<sup>19</sup> Taking advantage of the dynamism shown by the automotive sector, other US companies came to Brazil to explore the growing demand for auto parts, accessories, fuel, tyres, and services. Subsidiaries of US oil companies included the Atlantic Refining Company of Brazil, the Standard Oil Company of Brazil and the Texas Company of South America. A powerful lobby backing *automobilismo* was quickly put into action, with official support from Washington. A Pan American programme called 'Good Roads', envisaged by the US Department of Commerce, advocated the construction of roads in Latin America with the technical assistance of American engineers.<sup>20</sup> The enthusiasm was shared by many Brazilians, organised in associations such as the Automóvel Club and the Associação de Estradas de Rodagem. Interestingly enough, President Washington Luís himself had coined the motto 'to govern is to construct roads', and the completion of the Rio-São Paulo highway was celebrated in May 1928 as one of the major achievements of his administration. Since then, the road

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<sup>16</sup> Ford of Brazil homepage on the Internet: <<http://www.ford.com.br>>.

<sup>17</sup> Downes, 1986. p.427.

<sup>18</sup> General Motors of Brazil homepage on the Internet: <<http://www.gmb.com.br>>.

<sup>19</sup> Cf. Downes, op.cit. pp.429, 447-8.

<sup>20</sup> Seidel, 1973. pp.266-8.

system prevailed as the dominant model for twentieth century transport in Brazil.

In a nutshell, the advent of the automobile as an offspring of mass production meant the triumph of road over rail, as cogently argued by Downes. By 1920, the rail system in Brazil, designed mainly in the interest of the agro-export economy, had not reached a satisfactory level of development commensurate with the needs of national integration in the country. Facing the competition of road construction programmes, rail-line construction tended to stagnate. Since the nineteenth century, Britain had invested in railroads in Brazil and supported the sector as a priority for the allocation of government resources and investments in transport. In 1924, the Montagu Mission included in its recommendations, without success, some suggestions for the improvement of the rail network, which from the British viewpoint should receive public incentives. The overwhelming rise of the road system in the 1920s, led by the United States, symbolised in a sense a long-term process of transition in a decisive area for Brazil's infrastructure.<sup>21</sup>

In terms of finance, the 1920s was also a period of transition in Brazil from Britain to the United States. If the case of loans is considered, British pre-eminence in the realm of capital supply to Brazil dated back to the period of Brazil's Independence. That situation has only been changed by the negative impact of World War I on Britain's lending power, and by the simultaneous rise of the United States as a net exporter of capital and biggest creditor country in the world.

The expansion of the United States in Latin American finance had come into being from the first months of the war. With the interruption to European capital flows, the United States summoned to Washington the 1<sup>st</sup> Pan American Financial Conference, in May 1915, attended by Latin American ministers of finance, representatives of private and official institutions, as well as bankers and members of the American financial community. Officially, issues to be discussed included the current monetary situation and the financing of public undertakings, but the actual agenda was far more ambitious. The event was a watershed in the sense that it signalled a historical change in the relations between the United States and Latin America with reference to the advance of the former on the financial life of the latter. US opportunism in the organisation of the Conference was so visible, taking advantage of the war in Europe, that President Woodrow Wilson felt it necessary to declare in his opening speech that there was no 'intention of exploitation' from any person present at the event. 'We are not trying, therefore, to use one another', stated Wilson, rather to be 'useful to one another'.<sup>22</sup>

As a result of the know-how developed with the 'dollar diplomacy' in the Caribbean area, the banking system in the United States expanded

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<sup>21</sup> A detailed analysis of the subject 'autos over rails' can be found in Downes, 1992.

<sup>22</sup> Valla, *op.cit.* pp.87-8.

vigorously to other countries in Latin America during World War I. The National City Bank of New York, under the aggressive leadership of Frank A. Vanderlip, established several branches in Latin American capitals, beginning with Buenos Aires at the end of 1914. In Brazil, the National City Bank started its operations in 1915, in Rio de Janeiro, as the first US bank in the country. Other banks would soon follow suit, e.g. the First National Bank of Boston, the Mercantile Bank of the Americas, and the American and Foreign Banking Corporation. By 1920, there were 99 branches of US banking institutions in Latin America, which would be instrumental in supporting future loans and investments.<sup>23</sup>

Following the initial boom, the first post-war years were relatively difficult for US banks in Latin America and many newly-opened branches had to be shut down. In January 1920, the 2<sup>nd</sup> Pan American Financial Conference was held, again in Washington, under the auspices of the US Treasury Department. The idea was to renew the spirit of Pan American 'cooperation' in finance, in the light of the coming European economic recovery, including the return of British banking houses to the Latin American market. The 1920-21 economic crisis made the situation even worse. Genuine enthusiasm and widespread optimism had to be set aside: the post-war context required the redefinition of inter-American financial relations on a more realistic basis, and this time the initiative had few practical consequences.<sup>24</sup>

Until the mid-1920s, while the demand for capital was high for reconstruction in Europe and monetary reform was being simultaneously negotiated, US loans to Latin America remained at a controlled pace. From 1924, however, without the immediate post-war systemic constraints, the volume of these loans underwent a substantial increase. From 1925 to 1930, US\$ 1,1 billion in bonds from Latin American governments were issued in New York, almost three times the value reached between 1920 and 1924 (around US\$ 400 million). Stallings showed that Latin America's weighted average share of total loans in the United States rose from 16,6% in the first half of the decade to 48,8% in the 1926-30 period.<sup>25</sup>

The upsurge in loans had its origin to a certain extent in the typical euphoria of the 'golden years' of Wall Street, before the Great Depression, when the United States experienced a moment of great prosperity, fostered by the illusion of unlimited growth. In search of easy profits, excessively confident New York private lenders offered huge amounts of credit to Latin American countries, which also seemed eager to borrow in order to finance import expenses and stabilise domestic deficits, insofar as the fragility of their agro-export economies generated recurrent needs of foreign capital. Amongst these countries in Latin America, the largest borrower in the 1920s was precisely Brazil.<sup>26</sup>

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<sup>23</sup> Mayer, 1973. pp.61-3; Stallings, 1987. pp.66-7.

<sup>24</sup> Marichal, 1988. p.212; Seidel, op.cit. pp.120-6.

<sup>25</sup> Stallings, op.cit. pp.72, 206.

<sup>26</sup> Marichal, op.cit. p.214.

In the Brazilian foreign debt history, the first dollar loan was contracted in 1916 by the municipality of São Paulo in the New York financial market (US\$ 5,5 million). As to the federal foreign debt, the first loan obtained by the Brazilian government in the United States was only raised after the war, in 1921 (US\$ 50 million).<sup>27</sup> In 1920, the share of Brazilian debt contracted in US soil was virtually nil, whereas in 1929 the United States accounted for almost one third of the total foreign debt of Brazil.<sup>28</sup> In comparison with Britain, between 1915 and 1930, according to Abreu, London loans to the federal government or to coffee valorisation amounted to £32,5 million, while those placed in New York reached US\$ 211,5 million, equivalent to £43,5 million. The relative deterioration of the British position in that period is even more evident in the case of loans to states and municipalities: £21,8 million in British loans against US\$ 208,7 million in US loans, equivalent to 43 million in pound sterling.<sup>29</sup> The 1920s were characterised in Brazil by the primacy of the financial pendulum between the City and Wall Street, which influenced relevant Brazilian decisions on foreign loans, as will be seen in Part III of this paper.

### **Britain: the status quo power**

In the 1920s, with German interests disrupted by the war, Britain was the leading US competitor in South America, still enjoying a significant position of influence and solid traditions in Brazil. Some British direct investments had existed in the country since the First Empire, such as the St. John d'el Rey Mining Company, in Minas Gerais, established in 1830 to explore the gold mine of Morro Velho. This mining company proved to be a concrete example of the success and longevity of British enterprise in Brazil. During the boom of foreign investments in Brazil in the second half of the nineteenth century, more exactly between 1860 and 1902, capital entering the country, led by Britain, and firmly connected to the agro-export economy, concentrated on railways, ports, navigation companies, banks, insurance, import-export houses and loans to the government.<sup>30</sup> British participation in capital, technical skills and equipment helped to make feasible the construction of several railways in the centre-South of Brazil, among them the profitable São Paulo Railway Company Ltd., which linked Jundiaí to Santos, a vital route to carry the coffee production from the countryside to the port of export. In the Northeast, the major investment was the Great Western of Brazil Railway Company. Also remarkable was Britain's involvement in telegraph communications (submarine cables) and foreign trade, including maritime transportation, carried out mainly by ships with British flags. British banks were soon established in the country to give appropriate financial

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<sup>27</sup> According to data in Abreu, 1985. pp.185-9.

<sup>28</sup> Winkler, op. cit. p.87.

<sup>29</sup> Abreu, 1973. p.15.

<sup>30</sup> Castro, 1979. p.29.

support to further undertakings, e.g. the London and Brazilian Bank (1862) and the English Bank of Rio de Janeiro (1863), providing companies with a convenient link with the London capital market. As the almost exclusive supplier of loans to Brazil since 1822, the City of London dominated lending operations and the N. M. Rothschild & Sons house was the international banking institution with the most extensive interests in the country.<sup>31</sup>

The process of urbanisation in Brazilian cities gained momentum at the turn of the twentieth century and received substantial British contribution in areas such as architecture and engineering, public light and gas supply, sewage treatment, communications and transport (electric cable). Urban reforms and public utilities companies changed the landscape of the cities, which absorbed European designs. Imports of British products created brand new consumption habits, rapidly incorporated into the local life-style. The food industry, for example, was stimulated by the increase in demand for wheat products, and the Rio de Janeiro Flour Mills and Granaries Ltd. (founded in 1886) became the largest British establishment in Brazil, popularly known as *Moinho Inglês*. Although not as numerous as other European colonies, the British community was somewhat influential and enjoyed social prestige.<sup>32</sup>

In Brazil, coffee exports were in the hands of a number of trade houses in Santos and Rio de Janeiro, the major ports dealing with international markets. Foreign export firms controlled the coffee trade, sometimes leaving no room for Brazilians. Traditional British houses, such as E. Johnston & Co. and Naumann Gepp, had occupied a conspicuous position since the nineteenth century. Other British houses active at the turn of the century were Quayle Davidson, Norton Megaw, Nicholsons, Edward Ashworth, and Moore & Co.<sup>33</sup> The Brazilian Warrant Company, established in 1909, was a holding with capital invested in many activities related to coffee in Brazil: plantations, warehouses, transportation, export, and so forth. Yet the British held only a fraction of this trade. There was actually no domestic market in tea-drinking Britain large enough to sustain a high profile for those British firms. A more prominent role was reserved for long-term interests in the biggest consumer market, i.e. the United States. Many US export firms had begun to operate in the coffee trade by the 1880s, e.g. Hard Rand and Arbuckles, joined later by J. W. Doane & Co. and Levering. They established themselves in Brazil with a view to acting as middlemen between the planters and the US market. Their agents remained closely attached to the complex structure of import and distribution existing in the United States. Incidentally, it cannot be forgotten that other European firms also had an interest in that market, as in the case of the successful German house Theodor Wille & Co.

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<sup>31</sup> Rippy, op.cit. pp.150-8; Graham, 1968. passim.

<sup>32</sup> De Fiore and De Fiore, 1987. passim.

<sup>33</sup> Greenhill, 1977. p.200.

On the other side of the trade chain there were import merchants and coffee roasters, especially in New York and New Orleans, who bought coffee grains to be processed and distributed in retail markets in consumer countries. Organised and influential, their interests were defended by institutions in the United States such as the National Coffee Roasters Association and the Green Coffee Importers Association. Transactions in the international coffee market were negotiated at the exchanges of New York, Le Havre, Hamburg and London, which set prices and classified coffee according to its quality, flavour and distinctive features. As a matter of fact, the coffee trade was dominated by New York, which alone handled 50% of world production and 60% of Brazil's coffee production.<sup>34</sup> The knowledge of the rules governing the market gave a comparative advantage to US agents with business in Brazil, like the well-known importer Henry Sielcken, enabling them to influence prices and enter into profitable speculative operations.

In the two decades that preceded World War I, there was a dramatic increase in international competition and inter-imperialist rivalries, illustrated not only by the mounting challenge of Germany, but also by the greater extroversion of French and US capitals, with impact on Britain's overall economic presence in Latin America. However, British pre-eminence in Brazil, even though relative in 1914 and already in decline, was still noticeable in many aspects. Britain's role was paramount as the major supplier of Brazilian imports, selling mineral coal, wool and cotton textiles, rails, locomotives and manufactured articles on the whole. Rather than surplus, common to its commercial exchange with the majority of the great powers, Brazil registered a continuing deficit in the Anglo-Brazilian trade balance. British banks were Brazil's biggest creditors and the principal source of foreign financing to the country, as negotiations for the 1914 funding loan demonstrated. Remittance of profits and the service of the foreign debt turned negative the balance of payments to Brazil. Britain was also the foreign power with the greatest volume of investments in Brazil, estimated at over £220 million. Brazil was the second destination of British capital in Latin America, only behind Argentina, which was considered, owing to its very special position, as a sort of 'fifth Dominion' integrated into the 'informal empire' centred in London.<sup>35</sup>

As has been already referred to in the preceding section of this paper, World War I left this state of affairs in complete disarray. At the same time, Anglo-American rivalry in Brazil during the conflict accelerated the process of power transition between the two countries.<sup>36</sup> British belligerence had faced an unexpected negative reaction in Brazil because of the enforcement of the statutory list against German firms and the prohibition of coffee imports. Being aware of this, Britain launched a

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<sup>34</sup> Ibid. p.209.

<sup>35</sup> Bethell, 1989. pp.12-21; Cain and Hopkins, op.cit. pp.161-7; Miller, 1996. p.125; and Platt, 1972. passim.

<sup>36</sup> Cf. Rosenberg, 1973. pp.76-110. See also Graham, op.cit. pp.298-318.



couple of initiatives in order to remedy the situation. The British Chamber of Commerce in Brazil (with the head office in Rio de Janeiro) and the British Chamber of Commerce of São Paulo were both founded in 1917, aiming at boosting bilateral trade and defending British trade interests. In May 1918, a trade mission was sent to Brazil, headed by Sir Maurice de Bunsen, a high official from the Foreign Office, whose main objective was essentially conciliatory, i.e. to assure British goodwill towards a sound Anglo-Brazilian economic partnership. Apart from the announcement of the upgrade of the British diplomatic mission in Rio to the level of Embassy, few results were achieved. Rather, the mission somehow implicitly acknowledged that Brazil no longer depended exclusively on Britain to obtain new loans or to import industrial products.<sup>37</sup>

Latent anti-British feelings, although seldom expressed with radical overtones or made explicit as such, continued after the war. As mentioned above, Britain's economic presence in Brazil was chiefly attached to traditional sectors. In the beginning of the 1920s, there were over a hundred British companies based in Rio de Janeiro alone: the Western Telegraph Company, the Leopoldina Railway Company, the Royal Mail Steam Packet Company, the Rio de Janeiro Lighterage Company Ltd., Marconi's Wireless Telegraph Company, Mappin and Webb, Sloper Brothers, Crashley and Co., Lamport and Holt Line, Imprensa Inglesa, the Pacific Steam Navigation Company, Companhia Cantareira, Edward Ashworth and Co., the Brazilian Warrant Company, E. Johnston & Co., Gepp and Co., Gueret's Anglo-Brazilian Coaling Company, Machine Cottons, among many others.<sup>38</sup> Three important British banks operated regularly in Brazil: the London & Brazilian Bank, the British Bank of South America, and the London & River Plate Bank. As a result of its historical role in the supply of capital, British influence over Brazil was more commonly exerted on the financial area, with some eventual spillover in bilateral political relations. Finance could thus be a privileged area at Britain's disposal to devise and implement a strategy of selective resistance to the powerful economic expansion of the United States in Brazil.

Yet Britain's extensive and long-established economic interests paradoxically acted against British prestige. As a status quo power, keen to maintain its existing position in the country, Britain had a conservative, negative agenda in Brazil, to a great extent entirely dedicated to the protection of British subjects and companies. The annual reports of the British Embassy always contained plenty of cases related to legal disputes, commercial arbitrations, debt collections, compensations, and numerous claims against the federal government, states, municipalities and private companies. The British Ambassador in Rio, John Tilley, recognised in 1921 that the 'enormous capital' invested in Brazil by Britain 'so far from telling

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<sup>37</sup> Leuchars, 1983. p.134.

<sup>38</sup> Brazil, Annual Report 1921, p.11, FO 371/7190; Rio de Janeiro, Report on Consulate-General by Mr. Wellesley, 1923, pp.101-2, FO 371/8432.

in her favour is rather more apt to tell against her'. British assets in railways and public utilities, for instance, were a 'constant reminder' that Brazil was allowing foreigners to 'manage what ought to be her private concerns'. As to railway operations, there was frequently open criticism by Brazilians. Many believed that more attention was paid to the needs of their shareholders than to those of the public. Consequently, any problem in the service was imputed indirectly to the British.<sup>39</sup> In rather strong language, H. G. Chilton, British chargé d'affaires, could not hide his frustration: 'The Brazilians are past-masters in the art of procrastination and prevarication, and no amount of verbal representations or notes and "reminders" appear to stir them from their lackadaisical and shifty manner of carrying on business. Their present state of insolvency also renders it difficult to exact any payments due to us. The only thing which might possibly bring them to their senses would be a British fleet in the Bay with its guns trained on the town'. Chilton laid stress on the fact that the work of the US Ambassador in Rio was 'easier', since he had not 'the many tiresome claims to deal with which fall to the lot of His Majesty's representative'.<sup>40</sup>

In this connection, Britain's response to the US challenge was also basically conservative. Trying to assess the British overall decline in Latin America, Miller noted that the private sector and government officials in Britain 'remained intellectually locked into the structures and institutions established in the "golden years" immediately before 1914'. He enumerated four 'possible sets of interpretations' for the collapse of Britain's commercial position in Latin America in the first half of the twentieth century: a) Platt's argument of diminishing interest of British exporters in the region; b) accumulation of factors outside Britain's control, such as the wars, the Depression, the expansion of the United States and the economic policies of the Latin American countries; c) British failure to compete with more aggressive rivals; and d) the pre-1914 structures of British business in Latin America, unsuitable for post-World War I conditions.<sup>41</sup>

Furthermore, it is important to remember that the general economic conditions in Britain in the interwar period and its loss of international competitiveness in many areas made even more difficult any attempt to adapt to the changing patterns of the Brazilian economy. The agro-export model, to which British capital remained tied, collapsed after the world economic depression of 1929-33. The process of industrialisation in Brazil was accelerating, from import substitution in traditional sectors (textiles) to direct investments of foreign capital in non-traditional areas (cars), in both cases to the detriment of British business interests. As exemplified by the above-mentioned rise of the automobile industry in Brazil, Britain was unable (or unwilling) to cope with a new economic reality. Having studied

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<sup>39</sup> Tilley to Curzon, tel., Rio, 3 March 1921, FO 371/5540.

<sup>40</sup> Brazil, Annual Report 1920, pp.2-3, FO 371/5539.

<sup>41</sup> Miller, 1996. pp.141-3.

Anglo-American economic rivalry in Brazil during World War I, Rosenberg stressed that as British investments were traditionally linked to the export-led economy, the transformation in the Brazilian economic infrastructure acted in favour of US industrial investments: autos, oil-refining companies, machines, electrical equipment, and durable consumer goods.<sup>42</sup> By the end of the 1920s, British investments in Brazil, in absolute numbers, were higher than those of the United States, but US investment rates grew much faster. The inevitable surpassing was only a matter of time. The United States had something to offer that fitted well with what the Brazilians needed or wanted. This convergence of interests would, in the long run, help to ensure the triumph of the challenger and pave the way for US dominance in the Brazilian economy for years to come.

## **II - AMERICAN ACHIEVEMENTS**

### **A naval mission to Brazil**

From a military point of view, World War I altered in a radical way traditional conceptions of warfare. The world conflict inaugurated the era of 'total war' and subverted old codes of battle. The preparation for war was no longer a matter solely for the regular armed forces to cope with. It should now encompass the entire nation. As a result, the 'domestic front' and the logistical dimension gained a strategic importance never seen before. State-of-the-art weapons, procedures, techniques and military materials appeared during the hostilities or were used for the first time in the battlefields, such as the tank developed by the Allies or the infamous chemical weapons (chlorine and mustard gas).<sup>43</sup> Novelties in the technological realm were also accompanied by modern tactics and deployment doctrines based either on practical observation or direct experience of combatants.

During the war, Brazil dispatched a small squadron to Europe, the Divisão Naval em Operações de Guerra (DNOG), offered by the Brazilian government to collaborate with the allied anti-submarine campaign. The DNOG faced many difficulties in reaching the war zone in the Mediterranean and did not arrive there in time to take part in war operations.<sup>44</sup> This bitter experience served to show the deplorable state of the ships, the poor technical skill of both officers and seamen, and the sheer unpreparedness of the Brazilian navy concerning modern maritime war. Following the war, the common assessment in Brazilian naval circles underlined the inferiority of Brazil in relation to the forces of its main South American competitors, Argentina and Chile. The tonnage of the

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<sup>42</sup> Rosenberg, 1978. p.151.

<sup>43</sup> Hartcup, 1988. passim.

<sup>44</sup> Vinhosa, 1990. pp.168-75; Gabaglia, 1953. pp.126-9; Report of the Brazilian Ministry of Foreign Relations (hereinafter MRE Report), Rio de Janeiro, 1919. p.14.

Brazilian war fleet totalled 59.193 tons (17 ships), whereas Argentina had 108.375 tons (29 ships) and Chile 79.528 tons (30 ships). The 1906 naval programme had not been completed and the newest Brazilian ship dated from 1910.<sup>45</sup>

The good results that were supposedly being obtained by the Brazilian Army with the hiring of the French Military Mission, in 1919, convinced the Navy to do the same, seeking abroad the expertise of a foreign power for the instruction, modernisation and reorganisation of the Brazilian naval force. The idea was not wholly unprecedented, but the occasion to put it into practice did not arrive until World War I. The so-called Fleet of 1910, resulting from the 1906 naval programme, had already left patent the lesson that the mere possession of modern ships was useless without commensurate human resources and a proper structure for maintenance. In addition, the above remarks on military novelties introduced by the conflict were also valid for the war at sea, including new ships, equipment, strategy and tactics. When surveys were conducted by the Navy General Staff and debates took place within the Admiralty as to the possibility of hiring a naval mission to Brazil, two countries were considered as strong candidates: Britain and the United States.

Britain's credentials were quite solid. British naval influence in Brazil dated back to Independence times and was interwoven with the very foundation of the Brazilian navy. During the fights against forces loyal to Portugal, the infant Brazilian armada counted on the support of hired British commanders: Lord Thomas Cochrane, John Pascal Grenfell, John Taylor and other officers and seamen. Throughout the nineteenth century, just like the marines from all over the world, the Brazilian navy tried to mirror the undisputed British power at sea and the forcefulness of the Royal Navy. Ships, doctrines, practices and traditions almost all came from Britain. In the first decades of the twentieth century, therefore, Anglophile feelings still permeated Brazilian officialdom.

American influence was more recent, albeit not less substantial. In early 1894, the dispatch of Admiral Andrew Benham's fleet to Guanabara Bay during the Revolt of the Armada had been an important precedent to unfold US naval projection towards South America. At the same time, the collaboration of the United States in the organisation of the Floriano Peixoto government's legal fleet, assembled by Charles Flint, prepared the ground for further US presence in the Brazilian navy. The United States gradually increased its naval influence, which became visible during the World War I years. By then, Brazilian officers were being sent to the United States to attend courses and receive training with the US Navy. In 1917, a squadron commanded by Admiral William Caperton arrived at the Rio de Janeiro harbour for operations in the South Atlantic. Allied against the Central Empires, Brazil cooperated with the United States in patrol actions

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<sup>45</sup> Burlamaqui, 1922. pp.IV, 53.

designed to hamper German submarine activities in that area. There was also a 'small naval mission' in Brazil, formed by US officers working at the Naval War School (nowadays EGN), in Rio de Janeiro. Founded in February 1914, under the model of the US Naval War College, the School aimed at promoting courses and higher studies for officers in command and general staff ranks. The first American instructor to be hired was Captain Phillip Williams, replaced in 1918 by Rear Admiral Carl Theodore Vogelgesang and five more officers.<sup>46</sup>

The United States was then suitably poised to compete with Britain as a possible provider for the envisaged naval mission to Brazil. In November 1917, the US Ambassador in Rio, Edwin V. Morgan, warned the State Department that the US government ought to be prepared to counteract any attempt by Britain to expand its influence over the Brazilian navy or to establish a mission that could jeopardise the 'continental interests' of the United States. Precautions should be taken against any British monopoly in this sector and one of the ways to achieve this was to continue the policy of sending US instructors to Brazilian naval schools. By following the negotiations for the hiring of a military mission in France, Morgan concluded that, as the chief outcome of that mission, the Brazilian government would probably favour purchases of French military supplies inasmuch as the political role of France in Brazil was minimal. Likewise, in terms of trade, a British naval mission would certainly secure the construction of modern ships for Brazil at naval yards in Britain, ousting US companies (e.g. the Bethlehem Steel Company) from contracts for arsenals, dockyards and coastal defence services.<sup>47</sup>

In the meantime, the hard conditions prevailing in the Brazilian navy led to the most pessimistic assessments on Brazil's actual naval capacity. The precariousness of the fleet and the lack of leadership were signs of a steady decline of the Brazilian naval power. Among the ships risking rapid deterioration were the two dreadnoughts of the Brazilian armada, the *São Paulo* and the *Minas Gerais*, which were launched at sea in 1910. Both battleships, built in Britain, needed urgent repairs and the work of modernisation was to be conducted outside Brazil. Despite efforts made by the British Embassy, the dreadnoughts were not sent to Britain as expected, but to the United States instead. The US offer of cheap coal for the Brazilian navy influenced strongly this decision. Between 1919 and 1920, at the Brooklyn yards in New York, the battleships were overhauled and underwent several modifications, including a new fire-control gear, modern guns and artillery improvements. The works were accompanied by Brazilian officers, who had the opportunity to become acquainted with the top US naval industry.<sup>48</sup>

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<sup>46</sup> Martins, 1985. p.216; Healy, 1976. pp.297-8; Smith, 1991. pp.119-20.

<sup>47</sup> Morgan to Lansing, tel., Rio, 9 November 1917, NA 832.20/13; Morgan to Lansing, dispatches, Rio, 5 and 13 November 1917, NA 832.20/15 and 16.

<sup>48</sup> Vidigal, 1985. pp.65, 75; Healy, op.cit. p.316; Martins, op.cit. pp.208-13.

These American achievements were looked upon with growing uneasiness by the British government. The British Admiralty confidentially favoured the sending of a naval mission to Brazil so as to offset the growth of US influence. Ambassador Tilley was personally involved in trying to obtain the goodwill of the Brazilian government, which seemed sympathetic towards Britain but was, in reality, more inclined to a rapprochement between the US and Brazilian marines. The threatening possibility of losing the naval mission to the United States also caused apprehension to British arms manufacturers and shipbuilders. In November 1921, the directors of the Armstrong-Vickers group, for instance, had drawn Foreign Office attention to the danger looming against British interests, particularly with reference to contracts that would presumably be placed in the country chosen to send the mission. The group directors urged 'strong influence' by the British government over the Brazilian authorities to prevent this from happening.<sup>49</sup>

Nevertheless, Britain was in a very awkward economic situation because of the drainage of resources provoked by the war. The overstretched extension of British international commitments led to budget cuts and to a redefinition of priorities. In this context, South America occupied only a marginal place in Britain's global concerns. One of the consequences arising out of these post-war restrictions was the withdrawal of the British South American squadron from South Atlantic waters, a decision prompted by the need to relocate overseas' naval units. The Association of British Chambers of Commerce complained to the British government about the harmful impact of such a measure on Britain's commercial interests in the region. The policy of 'showing the flag' had become through long custom a recognised means of maintaining an official interchange of courtesies, in South America in particular, where outward manifestations of an international nature were considered essential. The Association thought that the absence of British ships from South American ports would have a 'highly detrimental effect on the British export trade'.<sup>50</sup>

In March 1922, the Brazilian government publicly announced that a foreign naval mission would soon be hired. It seems that, although the nationality of the mission had not been officially publicised, preferences had already been given. Carl Vogelgesang had become known amongst Brazilian officers by reason of his earlier stay in Rio de Janeiro as an instructor and, even more important, he had been the commander of U.S.S. *Idaho*, the US dreadnought that in 1919 brought to Brazil President-elect Epitácio Pessoa after a visit to the United States. During that trip, Vogelgesang was introduced to Pessoa and left a good

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<sup>49</sup> Secretary of the Admiralty to Curzon (Foreign Office), confidential letter, London, 11 November 1921, FO 371/5542; Armstrong-Vickers to Curzon, letter, London, 4 November 1921, FO 371/5542.

<sup>50</sup> Letter from the Association of British Chambers of Commerce to Stanley Baldwin, chairman of the Board of Trade, London, 20 June 1922, FO 371/7138.

impression. The Brazilian President later informed the US Embassy that he desired to have the naval mission under Vogelgesang's direction.<sup>51</sup>

From that moment onwards, negotiations speeded up. With the green light from the State Department, the US embassy in Rio sent a note to the Ministry of Foreign Relations, on 18 April 1922, stating that if the Brazilian government needed help from a foreign naval mission the government of the United States would be pleased to designate navy officers for that purpose. The note was immediately handed in by Foreign Minister Azevedo Marques to President Pessoa. Ambassador Tilley was thwarted in his pro-Britain manoeuvres. On 21 July 1922, duly informed by the Ministry of Navy, Itamaraty instructed the Brazilian Embassy in Washington to officially communicate to the US government that Brazil had decided to hire a naval mission in the United States for a period of four years. Vogelgesang, as head of the mission, should come to Brazil in September 1922, accompanying the Secretary of State in his visit to Rio for the Independence Centennial celebrations, and then discuss details with the Brazilian authorities about the mission and its future members.<sup>52</sup>

The definitive contract for the Naval Mission was signed in Washington, on 6 November 1922, by the Brazilian Ambassador, Augusto Cochrane de Alencar, and the US Secretary of State, Charles Evans Hughes. The head of the mission should be attached to the Navy General Staff as a technical adviser. The mission would be composed of 16 officers from the US War Navy and 19 petty officers. Among the officers would be experts with 'recognised professional competence' in communications, signals and regulations, the teaching of war strategy and tactics, artillery, machines and electricity, naval construction, and services related to ships, destroyers, torpedoes, submarines, sea mines and naval aviation.<sup>53</sup> The contract clauses followed the model used by the French Military Mission, and the text was kept secret according to the wishes of the Brazilian government.

The British colony in Brazil received the news of the US success with astonishment, soon followed by desolation. An article in the London *Times* commented on the diminution of British prestige in the country.<sup>54</sup> In a report on the military forces of Brazil, dated 8 December 1922, the British military attaché in Washington, Keppel Bethell, noted that the whole episode was an indication that the Brazilian government considered that the Royal Navy no longer held first place amongst the navies of the world and that British power was no longer what it had been. From the point of view of Britain, it was an undeniable fact that the United States was trying to control the Brazilian navy and by doing so expel British traditions. The sending of instructors to Brazilian naval schools, the training of Brazilian officers in the United States, the modernisation of the two dreadnoughts in

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<sup>51</sup> Morgan to Hughes, tel., Rio, 4 March 1922, NA 832.30/47.

<sup>52</sup> MRE Report, 1923. p.65 and Annex A, p.203.

<sup>53</sup> Ibid. p.66 and Annex A, pp.204-7.

<sup>54</sup> Morgan to Hughes, dispatch, Rio, 6 December 1922, NA 832.30/91.

New York, and the procurement of the contract for the Naval Mission were all evidence of this. The final objective, according to the British attaché, would be to form a 'league of navies of the American continent', under United States hegemony, which would occupy a position similar to that of Prussia in the German Confederation. This 'American dream' might be still far away, he wrote, but the first step had been taken by seeking to dominate and attract the Brazilian navy to the US orbit.<sup>55</sup>

The Naval Mission began its activities in Rio in the last week of 1922, yet only with the passing of the years would the strategic conception behind the mission from the American viewpoint be revealed. The US government judged that the Brazilian navy, besides its specific weight in strict naval terms, was also an important political force in republican Brazil. Having secured the contract for the Naval Mission, the United States was thereby in a position to initiate the 'Americanisation' of the Brazilian navy, a gradual process that could bring strategic and political gains in the future in the light of Washington's long-term interests in the continent.<sup>56</sup> In short, two essential goals were envisaged: a) to eliminate foreign competition and keep away any influence from extra-continental powers; and b) to monitor the direction and the development of the Brazilian naval force according to the needs of the United States, and not those of Brazil. The first goal had been accomplished by preventing Britain from obtaining the mission. The second goal should evolve over time, to be constantly tested and/or adapted in accordance with each particular conjuncture. Already in 1918, Secretary of State Robert Lansing confirmed Ambassador Morgan's understanding that a 'basic principle' of the US policy towards South America was that 'all American navies as much as possible shall be brought under the influence of the navy of the United States'.<sup>57</sup>

The contract for the US Naval Mission, renewed in 1926, expired by the end of 1930, when the Provisional Government dismissed the mission due primarily to the pro-Washington Luís position of the United States during the 1930 Revolution. Some US instructors would anyway be sent back to Brazil in 1932, following an invitation by the Brazilian Ministry of Navy, which for that reason admitted some degree of dependence of the Naval War School after years of the continuous presence of American officers. From 1935, by means of a new contract, the US mission (considerably reduced) would still maintain its activities in Brazil until World War II, another period of further rapprochement in the naval relations between the two countries. By that time, it would have definitely consolidated the transition from the traditional influence exerted by Britain to the preponderance of the United States in the organisation, equipment, strategy and thinking of the Brazilian navy.

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<sup>55</sup> 'Report on the military forces of Brazil', Washington, 8 December 1922, Keppel Bethell, Military Attaché, British Embassy, FO 371/7185.

<sup>56</sup> See Krenn, 1990. pp.130-6.

<sup>57</sup> Smith, 1981. pp.78, 86-7.



## Trade and preferential tariffs

From the second half of the nineteenth century, trade between Brazil and the United States followed a historical pattern characterised by a trade surplus in favour of Brazil. Starting from the 1890s, and taking advantage of the strong pro-American feeling of the newly-proclaimed Republic in Brazil, the United States tried many times to change this pattern by asking the Brazilian government for reciprocity. It should be remembered that since the 1870s Brazilian coffee had entered the United States without paying customs tariffs: in 1872 the US Congress had eliminated duties from a series of products largely imported by the country, including coffee, regardless of their origin.<sup>58</sup> The aim of this measure consisted in facilitating US access to sources of raw materials and was not intended to single out any specific country. By threatening to impose duties on coffee, by far the chief export commodity of the Brazilian economy, the United States hoped to persuade Brazil to sign a new trade agreement so that 'equality of treatment' could prevail under the principle of reciprocity. The American authorities argued that the imbalance in trade between the two countries, believed to be motivated by the exemption of duties on Brazilian products, made for an 'unequal and unfair' situation.

During the Rodrigues Alves government, a decree was issued on 16 April 1904 reducing by 20% import duties on wheaten flour from the United States (afterwards increased to 30%) and other US articles: condensed milk, watches and clocks, dyes and colours, and varnishes. Political considerations possibly played a significant role in this decision, since Brazil was then engaged in a process of rapprochement with the United States, favoured by the Baron of Rio Branco, head of Itamaraty. Later, other products were added to the preferential list: typewriters, refrigerators, pianos, weighing machines, windmills, cement, corsets, dried fruits, school furniture and desks.<sup>59</sup> The decree, valid for one year, was ever after annually renewed, upon request of the US Embassy, and this expedient secured the practice of preferences instead of reciprocity.

Notwithstanding, in spite of the preferential tariffs, the United States did not manage to reverse the trade deficit with Brazil. The main reason for this failure was structural and had no relation to the preferential treatment granted by Brazil. Without technical personnel specialised in trade promotion in South America, without knowing the language spoken in buyer countries, without an active merchant marine in the region, and without financial services and banking support, the United States was not properly equipped to compete on an equal footing with European rivals for the Brazilian market in the early years of the twentieth century. The

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<sup>58</sup> Id. 1991, p.6.

<sup>59</sup> Memorandum from C. S. Nicoll, 'Brazilian preference for certain United States goods', 10 March 1919, FO 371/3655.

United States then exported basically the surplus of its production, without a global strategy for the conquest of South American markets. With much more experience in Brazil, old clients and local contacts, Britain and Germany dominated the maritime lines of transport and possessed business structures based on efficient trade networks, banking credits, insurance and financing. The US industrial production was almost entirely absorbed by the domestic market, and neither had it reached a level of development competitive enough to defy British and German manufactures in low costs, high quality and reasonable prices.<sup>60</sup>

Britain regarded preferential tariffs granted to the United States as a discrimination against British export products. Since 1904, the British government had been approaching Brazil to ask for similar treatment under the principle of reciprocity. The Brazilian government refused to compromise and requested as a trade-off the reduction of duties on Brazilian exports to Britain, including coffee. Consequently, no agreement was reached and the matter was always adjourned sine die. After World War I, with the headway made by the United States in trade with Brazil, the issue returned to the bilateral agenda. On 15 December 1919, the British Chamber of Commerce in Brazil sent a memorandum to President Epitácio Pessoa, signed by F. W. Perkins, summing up the tariff question and explaining the interests at stake. British merchants believed that people had 'the right to buy where they like what is cheapest and best'. Preferences entailed the sacrifice of customs revenue without making the favoured article any cheaper in the market. 'On the contrary', stated Perkins, the lack of competition tended to 'high prices and inferior quality'. It was not true that Brazilian coffee received any customs' privilege in the United States, where all coffee from whatever source was admitted free. The memorandum suggested finally the extension of most-favoured-nation treatment to Britain, assuring equality in commerce on the same footing 'as the other great English-speaking nation of the North, our friends and honoured competitors'.<sup>61</sup>

Renewing past official démarches, Ralph Paget, then British Ambassador in Rio, met on 27 January 1920 the Foreign Minister Azevedo Marques, who was said to be under instruction from President Pessoa to search for a formula that could satisfy the British plea, so long as tariff concessions were also granted to Brazil. Paget replied to the Brazilian proposal with another old British counterargument: that the United States received special treatment without specifically favouring Brazil, and that there was no reason why Britain should grant favours to enjoy the same position of that country. Marques admitted that this was quite correct, but on account of public opinion the Brazilian government would find it difficult to give to Britain the same preference as the United States

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<sup>60</sup> Cf. Mello, 1933. p.130; and Valla, op.cit. p.34.

<sup>61</sup> Memorandum presented by the British Chamber of Commerce in Brazil to President Epitácio Pessoa, Rio de Janeiro, 15 December 1919, FO 371/3332.

received without obtaining something in return. Rightly or wrongly, an impression existed that Brazil was indebted to the United States for admitting Brazilian coffee free of duty and this impression had to be reckoned with.<sup>62</sup>

Anglo-Brazilian talks on the matter continued throughout the year, pending a satisfactory solution. So when on 3 September 1920, Brazil accorded a 20% reduction in import duties for certain products from Belgium, this decision outraged the British government.<sup>63</sup> Britain was one of the countries that most vehemently complained about the measure brought in by the Brazilian government. A Foreign Office high official considered as 'disgraceful' the granting of preferential tariff to Belgium because Brazil had been putting off British demands for many years 'with all sorts of ridiculous excuses'. The British government had a prior claim and had suffered a rebuff. It was Britain who had made Brazil what it was by investing more capital there than any other nation and, despite this contribution, there had been 'very little return', regretted the British diplomat.<sup>64</sup>

In a report on the economic and financial conditions in Brazil, the Commercial Secretary to the British Embassy in Rio, Ernest Hambloch, in his general notes on foreign trade, interpreted the extension of preferential customs dues to Belgium as a 'serious innovation'. The Brazilian argument in favour of concessions to US products, stated Hambloch, was based on the fact that the United States was the best customer of Brazilian coffee exports, which were admitted there free of duty. A preferential rate to the United States, therefore, was regarded as 'reciprocal treatment'. In the case of Belgium, however, no such claim had been brought forward and the concession seemed to be 'explainable only on the grounds of sentiment', as a direct result of the visit of the King of the Belgians to Brazil in 1920. Hambloch noted that British trade circles felt disappointed at the exclusion of Britain from the tariff advantages thus conceded to trade rivals. 'No other nation has up to the present taken any share comparable to that taken by the United Kingdom in the development of Brazil's natural resources', he added. British investments in federal, state and municipal loans amounted to nearly £250 million. British capital, moreover, was engaged all over Brazil in railways, ports and other public utility services. In view of this, the British claim to equality of treatment in the matter of tariffs was, according to Hambloch, 'reasonable and just'.<sup>65</sup>

British government officials speculated that Germany could be behind Brazil's attitude towards Belgium. Britain suspected that German goods were entering Brazil through Belgium with lower tariffs, and contemplated asking the Brazilian government to issue a certificate of

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<sup>62</sup> Paget to Curzon, Rio, tel., 29 January 1920, FO 371/3332.

<sup>63</sup> Campos, 1929. Vol. II, Part VII, p.310.

<sup>64</sup> Notes on a telegram from Grahame to Curzon, Brussels, 27 October 1920, FO 371/3332.

<sup>65</sup> 'Report on Economic and Financial Conditions in Brazil', October 1921, by Ernest Hambloch, Commercial Secretary to H.M. Embassy, Rio de Janeiro, p.27, NA 832.50/10.

origin at the port of embarkation.<sup>66</sup> British traders in São Paulo proposed that Britain should grant tariff exemption to Brazilian coffee so that Southampton could become the main gateway to Brazilian products in North Europe, replacing the port of Hamburg. They believed that imports from Brazil would grow in a way beneficial to British trade networks without causing a remarkable increase in coffee consumption in Britain.<sup>67</sup>

Meanwhile, an important change in the commercial policy of the United States would have repercussions for relations with Brazil. During World War I, many US firms and companies had indeed prospered. Following the end of the conflict, though, the European economic recovery represented a severe blow to some sectors of the US economy, which demanded governmental measures of protection against foreign competition. In September 1922, under pressure from Republican congressmen, the Warren Harding administration adopted the Fordney-McCumber Tariff, which raised existing customs duties by approximately 25%.<sup>68</sup> On 16 December 1922, the US Embassy in Rio received instructions not to ask for the renewal of preferences for the next year as usual. Later, Secretary of State Hughes explained the reasons for this: with the approval of the new tariff legislation, the US government was now committed to the general principle of most-favoured-nation treatment and wanted to propose to Brazil the negotiation of a commercial treaty in order to place bilateral trade relations upon these terms.<sup>69</sup>

Following contacts with Itamaraty, Ambassador Morgan hinted to the State Department that the Brazilian government was opposed to the commercial treaty and preferred to conclude a less formal agreement 'on the basis of mutual concessions'. Brazil desired the securing of maximum reduction in US duty on manganese, mica, and Brazilian nuts, and 'would also be glad to obtain reduction for Brazilian sugar'. As negotiations progressed, it was becoming clear that the Brazilian government was attached to the practice of according preferences, in which Brazil, Morgan assumed, had been 'educated by the United States through our annual insistence upon the reissue of our preferential list'. The US Ambassador stated that Brazil was not inclined to formally state that the United States should receive unconditional most-favoured-nation treatment because this would surely force Rio de Janeiro to change its international tariff policy. The Brazilian government found its preferential policy 'convenient' and desired to extend it to other nations.<sup>70</sup>

On 23 May 1923, the Embassy of Brazil in Washington sent a memorandum to the State Department with the Brazilian standpoint on the subject. Brazil was 'ready to accept' in its commercial relations with

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<sup>66</sup> Chilton to Curzon, Rio, tel., 14 December 1920, FO 371/3332.

<sup>67</sup> Paget to Curzon, Rio, tel., 29 January 1920, FO 371/3332.

<sup>68</sup> Olson, 1988. p.133.

<sup>69</sup> Hughes to Morgan, tels., Washington, 16 December 1922 and 6 January 1923, *Papers relating to the Foreign Relations of the United States* (FRUS), 1923. Vol. I, pp.453-4.

<sup>70</sup> Morgan to Hughes, tels., Rio, 15 January and 26 April 1923, FRUS, 1923. Vol. I, pp.455-6.

the United States the policy of reciprocal most-favoured-nation treatment proposed by the US government. Brazil would accept the new customs policy 'for the purpose of demonstrating its goodwill towards a friendly country and sister Republic, and of affirming, in a practical way, its disposition to meet all its wishes for the most intimate commercial bonds'. According to the memorandum, Brazil firmly believed that the best way to sell a greater quantity of its products to the United States was to favour, 'more and more', the buying of US goods in its territory. Holding this opinion, the Brazilian government 'would like to be able to agree with the government of Washington on some understanding that would not interrupt the customs favours' which were then granted to the United States.<sup>71</sup> Brazil actually did not want to change its customary practice, in force since 1904, considering that this new treaty, in the end, would not modify the free regime for the entry of Brazilian products into the United States, a situation not affected by the Fordney-McCumber Tariff. Additionally, the Brazilian government feared that the US proposal would only encourage further demands for tariff concessions from other countries in a crescendo of international pressure.<sup>72</sup>

The United States, eager to carry out the global design for its new commercial policy, focused above all on trade with European countries, insisted on an understanding with Brazil. On 2 June 1923, the State Department sent to the Brazilian Embassy a memorandum of reply, in which the US government reaffirmed that the policy of the United States was 'to offer to all countries and to seek from them unconditional most-favoured-nation treatment'. This policy was expressed by specific provisions in recent tariff legislation approved by the US Congress and it was 'best calculated to be of the maximum of advantage in furthering relations of amity and commerce'. It was suggested that 'the most acceptable procedure for making clear the purpose of the two governments' would be an exchange of notes, as a substitute for a treaty, by the terms of which they would accord to each other that form of treatment.<sup>73</sup> It appeared that the United States deemed it sufficient to mention the primacy of US legislation as a deterrent to Brazil's reluctance in relation to the signing of a trade agreement. No direct threat was made, but a provision from the 1922 Tariff did confer extraordinary powers to the Executive to impose punitive taxes on goods from countries that discriminated against US products.

While Brazil and the United States negotiated, Britain also proposed officially to the Brazilian government, on 22 June 1923, the conclusion of a commercial agreement between the two countries with the most-favoured-nation clause. Just like the United States, a memorandum from the British Embassy in Rio, handed in to the Minister of Foreign Relations,

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<sup>71</sup> FRUS, 1923. Vol. I, p.458.

<sup>72</sup> Cf. Smith, 1991. p.155.

<sup>73</sup> FRUS, 1923. Vol. I, p.460.

Félix Pacheco, suggested a previous agreement by exchange of notes, given the impossibility of having enough time for the complete negotiation of a definitive treaty. If the agreement were accepted, London would be prepared to guarantee freedom from customs duty to Brazilian products, viz.: Brazil nuts, raw cotton, hides, raw rubber, and cotton-seed oil. These articles accounted in 1921 for more than 30% of the total British imports from Brazil. In offering this assurance, the British were affording a 'striking pledge of their earnest desire to strengthen and develop the commercial relations between the two countries'. The British memorandum presented to Itamaraty underlined that it was 'only after considerable hesitation that His Majesty's Government [had] decided to tie their own hands and those of their successors by offering such a far-reaching assurance to Brazil'.<sup>74</sup>

In effect, Britain's decision to offer tariff reductions to Brazil was made after internal consultations about their impact on the imports from Dominions and colonies of the British Empire. The question of preferences was fairly sensitive and one of the main topics on the agenda of the forthcoming Imperial Economic Conference. Trade interests within the Empire prevented further concessions to Brazil, whose exports competed with many imperial products. Even inside the Foreign Office, the subject was controversial and some officials saw no advantage in signing such an agreement with Brazil. Aware of the US offensive, the British government had decided to resist the increasing encroachment of the United States upon Brazil's import trade by making an earnest attempt at ending the 'discrimination' against British products created by the pro-American tariff policy of Brazil. The moment was considered appropriate 'for the inauguration of an era of still closer and more cordial commercial relations between Great Britain and Brazil', as put in the British memorandum. In this state of affairs, the Brazilian government would have to respond to requests from the United States and Britain, both countries asking Brazil for more or less the same thing at the same time.

Whither Brazil? In September 1923, the Brazilian government informed the British Embassy that it wished to reserve the right to give preference to the United States, if necessary, things remaining for the present in status quo as regards Britain. The United States, as the largest buyer of Brazilian coffee, stood in a 'very special position' vis-à-vis Brazil. That country bought 65% of all Brazilian exports, a non-negligible percentage in terms of volume of exchange. The Foreign Minister Félix Pacheco tried to explain to Ambassador Tilley the delicacy of the Brazilian position.<sup>75</sup> The Brazilian government did not contemplate the hypothesis of imposition of duties on coffee by the United States, yet other factors were in any case taken into consideration, such as the vital interests of coffee planters and other agro-export sectors of the Brazilian economy, extremely

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<sup>74</sup> Stewart to Curzon, tel., Rio, 26 June 1923, FO 371/8425.

<sup>75</sup> Tilley to Curzon, tel., Rio, 26 September 1923, FO 371/8425.

sensitive to all matters pertaining to relations with its great consumer market.

In this way, on 18 October 1923, a commercial *modus vivendi* was concluded in Washington between Brazil and the United States by means of an exchange of notes between the Secretary of State Hughes and Ambassador Alencar. It was agreed upon that in respect to customs and other duties and charges affecting imports of products and manufactures of the United States into Brazil and of Brazil into the United States, each country would accord to the other 'unconditional most-favoured-nation treatment', with the exception, however, of the special treatment which the United States accorded to Cuba, and of the commerce between the United States, its dependencies and the Panama Canal Zone. 'The true meaning and effect of this engagement', said the text, was that the natural, agricultural and manufactured products of the United States and Brazil would pay 'the lowest rates of duty collectible at the time of such importation on articles of the same kind when imported from any other country'. Every decrease of duty to be accorded by the United States or Brazil, 'by law, proclamation, decree, or commercial treaty or agreement to the products of any third power' would become immediately applicable without request and without compensation to US and Brazilian products. The provisions of the *modus vivendi* should not restrict the right of both countries to impose 'prohibitions or restrictions of a sanitary character designed to protect human, animal, or plant life, or regulations for the enforcement of police or revenue laws'.<sup>76</sup>

The agreement produced immediate effects on bilateral trade. In 1924, Brazilian imports of US goods grew to about US\$ 20 million in comparison with the total of 1923.<sup>77</sup> It may be recalled that Brazilian imports from the United States constituted cars, auto parts and accessories, wheat, petrol and kerosene, locomotives, barbed wire, leather, coal, cement, tin plate, iron and steel rails, calculators, resin and dyed cotton. On the other hand, Brazilian exports to the United States included basically commodities such as coffee, rubber, cocoa, sugar, manganese, tobacco, hides and furs. The share of US manufactures and semi-manufactures would increase in the following years and, in 1928, these products accounted for almost two thirds of the Brazilian purchases from the United States.<sup>78</sup> The United States had not succeeded in obtaining from Brazil the bilateral treaty initially sought, but through the *modus vivendi* a satisfactory understanding had been reached to meet its short and medium-term interests.

In contrast, the British government had once again deferred its claim for preferential treatment similar to that enjoyed by the United States. The prolonged and unsuccessful pursuit of this goal indicated the seriousness

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<sup>76</sup> Cf. MRE Report, 1923. Annex A, pp.203-5.

<sup>77</sup> Downes, 1986. p.374.

<sup>78</sup> Valla, *op.cit.* p.127.

of Britain's difficulties in its trade relations with Brazil. Later, in 1925, when there were few doubts that the Brazilian government would not comply with British demands, the possibility was even considered, as a way of exerting pressure, of linking the flotation of new loans for Brazil with the conclusion of a trade agreement.<sup>79</sup> The Foreign Office nonetheless gauged that any effort in this sense would be in vain and the idea was soon discarded. With no alternative, Britain would progressively abandon the hopeless enterprise of asking the Brazilian government for preferential tariffs or most-favoured-nation treatment in the 1920s.

### III - THE LIMITS OF INFLUENCE

#### **The Montagu Mission of 1924**

In the Old Republic, interests attached to the coffee trade influenced the Brazilian economy in many ways. One interesting feature of this influence was intervention in coffee markets with a view to securing minimal prices for coffee in stock by means of the buying of the production surplus, which should be removed from the market. This policy of price support came to be known simply as 'coffee valorisation'. For the Brazilian government, maintaining free access to international financial markets was a recurrent concern, considering that even the valorisation policy itself depended on the resort to external sources of financing. In May 1922, for instance, the federal government contracted a £9 million loan to support coffee transactions, which was meant to liquidate foreign debts and cover domestic expenses. The credit was obtained in London from N. M. Rothschild & Sons, Baring Brothers & Co. and J. Henry Schroeder & Co., along with a New York firm. Even though facing difficulties with American competition in trade, Britain still held a position of some influence over Brazilian financial affairs, as the Montagu Mission would demonstrate.

On the economic front, the Artur Bernardes government inherited a vulnerable balance of payments and a chronic fiscal crisis. Measures of economic policy put forward by the federal government sought essentially to reduce the public deficit and carry out a monetary reform to turn the Banco do Brasil into a central bank, as well as stabilise export revenues, including the institutionalisation of a permanent scheme for coffee defence. By mid-1923, as devaluation of the Brazilian currency (the mil-réis) reached worrying levels, the Brazilian government feared that an exchange-rate crisis could put at risk the attainment of these objectives.<sup>80</sup>

Against this background, the Brazilian authorities once more approached the Rothschilds for a £25 million long-term loan aimed at consolidating the floating debt of the federal government, estimated at

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<sup>79</sup> Tilley to Chamberlain, tel., Rio, 27 February 1925, FO 371/10608.

<sup>80</sup> Fritsch, 1990. pp.51-3.



almost one million contos. Brazil's traditional creditors, the British bankers, worried about the soaring Brazilian foreign debt and the low rates of Brazilian bonds in international markets, made the loan conditional upon an *in loco* assessment of the economic and financial situation of the country by a mission of British experts to be designated exclusively for that purpose. The basic task of the mission would be to analyse Brazil's capacity for payment, a fundamental requirement to certify the bankers that the debt service would continue to be honoured in the future after additional capital were released. Under the circumstances, the Brazilian government had few options but to accept the bankers' conditions.

Yet there was visible uneasiness and some embarrassment about the fact that a foreign mission was to enquire from a position of force into policies that were supposed to be solely within the competence of the Brazilian government. The Ministry of Foreign Relations, through the *Jornal do Commercio*, owned by Félix Pacheco himself, tried to diminish the impact of the mission by stating that its members were 'mere visitors' who had come to study a vast economic field.<sup>81</sup> Moreover, preparations for the mission and its actual purposes were kept in total secrecy until November 1923, when it became impossible to conceal its existence.

The mission would be headed by Edwin Samuel Montagu, a former Member of Parliament and Secretary of State for India. The mission would also be composed of four other members: Sir Charles Addis, one of the directors of the Bank of England and chairman of the Hong-Kong and Shanghai Bank; Lord Simon Frazer Lovat, a businessman interested in real estate and cotton plantations overseas; Sir William McLintock, a leading chartered accountant; and Hartley Withers, financial journalist and former editor of *The Economist*. Sir Henry Lynch, Rothschilds' representative in Rio de Janeiro, would act as interpreter and serve as a liaison between the mission and the Brazilian government.<sup>82</sup> The members were not experts in Brazilian affairs, rather were they highly influential personalities from the City of London. John Maynard Keynes, for example, had been approached by Montagu to join the team, but turned down the invitation.<sup>83</sup> The mission, holding instructions from the Rothschilds, arrived in Rio on 30 December 1923, and negotiations were scheduled to start shortly after the holiday season.

The chief points that the Montagu Mission would raise for the consideration of the Brazilian government were the following: a) the reforming of federal budget techniques in order to achieve a more restrictive fiscal policy; b) the finding of a formula to avoid excessive foreign borrowing by states and municipalities; c) the abolishing of governmental intervention in schemes for coffee valorisation, which should be left solely to planters; d) the examining of the possibility of signing an

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<sup>81</sup> *Manchester Guardian*, 4 January 1924, FO 371/9508.

<sup>82</sup> The best analysis on the Montagu Mission was written by Fritsch, 1988. pp.85-99.

<sup>83</sup> *Ibid.* p.234, note 58.

Anglo-Brazilian commercial treaty with the most-favoured-nation clause; e) the minimising of the total sum of the proposed London bond issue; f) the supporting of claims from British railway companies in Brazil against rates control by the local government; g) the persuading of the Brazilian President to give up plans for steel development in the country; and h) the possible securing of some form of foreign control over the Brazilian financial policy.<sup>84</sup>

From the outset, the British Embassy in Rio de Janeiro refrained from becoming ostensibly involved and did not host banquets in honour of the visitors lest it emphasize the 'British character of the mission', a strategy entirely supported by Montagu. Ambassador Tilley seemed confident that Artur Bernardes, described as 'undoubtedly extremely nationalistic', would be led to agree with the bulk of the mission proposals. In a telegram to Curzon of Kedleston, Foreign Office Secretary, the British diplomat sardonically argued that, 'if he [Bernardes] is forced to beg for money he may have to swallow the pill of foreign advice'.<sup>85</sup>

On 17 January 1924, formal negotiations began between the mission and the Minister of Finance, Sampaio Vidal. The prevailing atmosphere at the meetings was not the warm one expected from a special mission 'invited' to help in good faith the Brazilian authorities with their financial problems. Rather than productive and enlightened discussions, the usual scene was the British side presenting claims and demands, whereas the Brazilian side, on the defensive, moved from recalcitrance to compliance. In February, other meetings took place and the same pattern repeated itself. On the steel sector, for instance, dismissing Montagu objections, Vidal argued that President Bernardes found it necessary to have a steel industry in Brazil for reasons of defence. On the question of coffee valorisation, it seemed clear that the Brazilian government did not wish to surrender its prerogative of supporting the prices of that commodity against market oscillations. Concerning the sale of governmental transport companies, Vidal agreed in the case of the Lloyd Brasileiro, provided that coastal navigation remained under the Brazilian flag. As to the railway Central do Brasil, however, he observed that its sale was 'politically impossible'.<sup>86</sup>

One of the most important issues for Montagu was the possible sale of 52% in shares of the Banco do Brasil owned by the Brazilian government. If City bankers bought these shares, believed Montagu, a certain degree of foreign (British) control over Brazilian finance would become a feasible reality. The proposal was so scandalous that, surprisingly, it was not endorsed by the Rothschilds themselves. Contacted by Montagu on the subject, they ruled out the idea of buying shares from Banco do Brasil because 'it would be most unpopular in Brazil

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<sup>84</sup> *Ibid.* pp.87-9.

<sup>85</sup> Tilley to Curzon, tel., Rio, 10 December 1923, FO 371/9508; Tilley to Curzon, tel., Rio, 3 January 1924, FO 371/9508.

<sup>86</sup> Fritsch, 1988. p.92.

for the national bank to be owned by foreigners'. As a way of avoiding 'grave difficulties' with the government in the near future, the bankers said, the Brazilian government should rather be advised to dispose of its shares to its own nationals.<sup>87</sup>

The mission recommendations were compiled in a report, handed in to Sampaio Vidal and Artur Bernardes some days before the last meeting with the Brazilian President, which occurred on 2 March 1924. During this tense meeting, narrated in detail by Fritsch, whilst minor points were being reviewed or approved, Bernardes stated in vague terms that he agreed 'in principle' with the sale of the Banco do Brasil, but he was not sure whether this was the right moment to do it. Montagu pressed for a conclusive statement, airing the threat that 'the bankers would not be happy with an agreement in principle'. Following a private conversation with Vidal, Bernardes agreed to sell only half of the government shares to keep at least some control over the direction of the institution. Taking advantage of his strong position, Montagu also demanded a clear answer to the question as to whether the Brazilian government really intended to carry out the mission recommendations or not. After another long consultation with Vidal, the Brazilian President declared that the mission could tell the bankers, 'and accept his assurance', that he would do his best to persuade Congress to pass the necessary legislation to implement the report.<sup>88</sup>

After more than two months in Brazil, the Montagu Mission left on 4 March 1924. A 'Report to the Bankers' was prepared afterwards by the Mission to the Rothschilds, to which the Brazilian government had no access. Most of the report was filled with comments on the geography of Brazil, its institutions and administrative practices. The final section dealt with the crucial issue, the *raison d'être* of the Mission, i.e. whether the loan request made by Brazil should be favoured, given the assurances obtained in Rio. The Mission concluded that it had felt satisfied with the 'good intentions' shown by the Brazilian government and 'strongly recommended' to the bankers that a loan should be floated without delay.<sup>89</sup>

In the meantime, the Brazilian government discussed with Montagu the convenience of publicising a palatable version of the original report to the President. The rationale was that the report could influence Congress to pass constitutional reforms already submitted by the Executive. The text of the report was finally released on 29 June 1924, published by the *Diário Oficial* on that day. In the first paragraph of its introduction, the Montagu report indicated that the objective of the Mission had been to show 'the fruits of our study of the measures required to restore the financial position of the federal government, and to enhance the growing

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<sup>87</sup> Ibid. p.91.

<sup>88</sup> According to the notes on the private diary of Edwin Montagu, quoted by Fritsch. Ibid. p.97.

<sup>89</sup> Ibid. p.98.

prosperity of your country'. The recommendations of the Mission were organised in sections related to government expenditure and debts, banking and currency, development of the country, and government and industry. First of all, the federal budget should be balanced to restore Brazil's credit. For the development of direct taxation, two alternatives were suggested: Brazilian officials to visit London and study revenue questions, or a delegation of British tax experts to be invited to Rio de Janeiro. As to foreign debt, indiscriminate attempts to borrow were to be avoided and an assent of the federal government should be announced to loans raised by states and municipalities. As regards banking and currency, the government's shares in Banco do Brasil were to be sold to banks operating in Brazil and further issue of notes should be based only on gold, dollars or sterling. In the section 'development of the country', the report recommended the growth of exports at a faster rate than that of imports. Foreign capital should be encouraged and Brazilian participation in foreign investments would be welcomed. The vigorous development of transport facilities was needed, with special emphasis on railways. Federal and state governments should abandon the policy of constructing and operating railways and sell them to the private sector. The same solution was applicable to maritime transportation (sale of Lloyd Brasileiro). The federal government should also avoid the policy of assisting industry by subventions and postpone its steel scheme.<sup>90</sup>

The situation for the Brazilian government was one of great vulnerability and its bargaining power seemed very weak. A serious constraint was indeed the risk of shaking the confidence of City bankers with reference to the flotation of new loans to Brazil. Reflecting the dominant feeling in British financial circles, the *Times* warned that the success of the reform programme depended on the support for the government by the people of Brazil and their elected representatives. Should the reforms prevail, it was necessary to tell the people that if the measures suggested were not carried out, advised the London newspaper, the credit of Brazil could not be restored and its progress, necessarily, would be hampered by lack of capital.<sup>91</sup>

Taking this context into account, reactions against the report in the Brazilian newspapers were more or less foreseeable. The opposition press strove to point out the interests of British capitalism behind the recommendations released to the public. The *Correio da Manhã* denounced the 'imminence of foreign absorption' and the economic alienation of the country to the dominance of foreign capital: Brazil was heading 'at a good pace for a situation of economic colony of England'.<sup>92</sup> Considerable political obstacles and resistance outside the government to the mission proposals were in any case already expected in London. A Foreign Office

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<sup>90</sup> Report submitted to His Excellency the President of the United States of Brazil by Rt. Hon. Edwin S. Montagu et al., 23 February 1924, FO 371/9508.

<sup>91</sup> *The Times*, London, 1st July 1924, FO 371/9508.

<sup>92</sup> *Correio da Manhã*, Rio de Janeiro, 1st and 2 July 1924, Biblioteca Nacional (BN), Microfilms.

high official, writing on a telegram received from Rio de Janeiro, did not seem surprised at the outcry in the local press, especially about the accusations that Brazil would become a sort of British colony. According to this diplomat, the idea was not altogether incorrect: 'they would, behind the scenes at least, forfeit some of their sovereignty'.<sup>93</sup>

Be that as it may, the fact that during the negotiations with Montagu President Bernardes had agreed with the sale of Lloyd Brasileiro and some railways, among other British proposals, did not put an end to the matter. The problem was the mission itself and its political implications. Ambassador Morgan noted that the British mission had not received any kind of cooperation from the Ministry of Foreign Relations. Percival Farquhar, the American entrepreneur with many years of business experience in Brazil, seemed reasonably well-informed when he suggested that the British mission was unwelcome to the São Paulo interests, above all the Paulista elements in the economic ranks of the federal government, like the Minister of Finance himself and the President of Banco do Brasil, Cincinato Braga. It would be hard to speculate whether the Brazilian government would actually follow the mission recommendations, since the Brazilians, if allowed to choose, would rather take no advice at all. As understood by Farquhar, there was a danger of the Brazilian government making all the necessary promises and then not carrying them out.<sup>94</sup> In reality, if some of the technical recommendations were later effectively put into effect by the federal government, such an attitude would be the outgrowth of a simple convergence of positions rather than a forceful result arising from the report's persuasive power or credible British pressure.<sup>95</sup> As a matter of fact, the most controversial recommendations, which had given rise to stronger criticism, were almost all deferred and forgotten over time. Time, therefore, acted as a beneficial factor in solving Brazil's predicament vis-à-vis Britain.

Ironically, all these negotiations for a federal loan in London came to a halt by mid-1924: driven by domestic factors with no connection with the case of Brazil, the British government decided to impose an embargo on all foreign government loans in order to strengthen the sterling and prepare the return to the gold-standard at pre-war parity. This decision, entirely beyond Brazilian control, frustrated at that moment the economic strategy of the Brazilian government, which rested on the expectation of fresh capital entering the country.

Perhaps a perceivable influence of the Montagu Mission was felt in the decision, later confirmed by the Bernardes government, allowing the transfer to the state of São Paulo of the responsibility for the permanent supporting of coffee prices. Traditionally, the Rothschilds were not sympathetic to governmental intervention in schemes for valorisation

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<sup>93</sup> Notes on a telegram from Tilley to MacDonald, Rio, 7 July 1924, FO 371/9508.

<sup>94</sup> Memorandum from Ernest Hambloch attached to the telegram from Tilley to Curzon, Rio, 10 December 1923, FO 371/9508.

<sup>95</sup> Cf. Buescu, *op.cit.* p.186; Monteiro, 1984. p.40.

owing to its possible impact on the payment of debt services. As shown by Fritsch, besides differences in terms of monetary and fiscal policy between the Paulistas and Artur Bernardes, a Mineiro President, the end of federal support to coffee defence could be interpreted as an attempt to clear areas of friction with the City and hence keep open the access to London capital markets, a key for the success of Brazil's financial stabilisation programme.<sup>96</sup> In any case, it must be mentioned that the original position put forward by the British was the abolition of coffee valorisation by the government and not the transfer of the whole scheme to the states. Still concurring to lead to that decision, the pressure exerted by the US Department of Commerce against valorisation cannot be underestimated, as it will be seen in the next section.

### **Hoover and coffee valorisation**

In 1925, dissatisfaction with coffee valorisation operations in Brazil loomed large in the United States. The matter was part of a campaign launched against alleged 'foreign monopolies', hitting several countries supposed to control supplies and raw materials of large US consumption. In the relationship between Brazil and the United States, coffee problems were not completely unfamiliar to the bilateral agenda for, in the years 1912-13, when the practical consequences of the Taubaté Convention were already being noticed, a similar dissension almost spoiled Brazilian-US relations.<sup>97</sup> The revival of the controversy would now be led by the Secretary of Commerce himself, Herbert Hoover, a personality with strong influence in the Republican administration of Calvin Coolidge, considered sometimes a virtual 'economic president' of the United States. In his statements against valorisation, Hoover's criticism was mostly directed towards 'São Paulo coffee speculators', accused of promoting a deliberate policy of rising prices and causing losses to American consumers estimated at over US\$ 80 million each year.<sup>98</sup>

The US State Department, in coordination with the Department of Commerce, refused to give its consent to any release of funds to São Paulo, even from private sources, if there were any suspicions that money lent could be directly or indirectly used in valorisation operations, maintaining an artificially high price for coffee. In August 1925, the Paulista Institute for Permanent Coffee Defence had contacted J. & W. Seligman Co., from New York, seeking for a loan of approximately US\$ 15 million, which should be used to: a) provide capital for a bank of agricultural financing to coffee growers; b) compile statistics on coffee production; c) fight coffee plagues; and d) regularise the price of coffee. The representative of the New York firm, Earle Bailie, tried to obtain the approval of the US government

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<sup>96</sup> Fritsch, 1988. pp.100, 110.

<sup>97</sup> Cf. Smith, 1991. pp.80-94.

<sup>98</sup> *Ibid.* p.161 et seq.; Seidel, *op.cit.* pp.418-99.

for the loan, on the grounds that some conditions could eventually be laid down to receive from the Institute guarantees about the allocation of those resources. The State Department replied that, in the light of the information provided, it could not view this financing with favour.<sup>99</sup>

As the British embargo on foreign loans was still in force in the London market, in November 1925 the Paulista Institute approached the firm Speyer & Co., also from New York, asking now for a credit of US\$ 25 or 35 million. Mindful that political restrictions could be a hurdle, this time the Institute took some precautions. Giving his support to the operation, the governor of the state of São Paulo asserted that the reasons for the loan were as follows: first, the total amount would be deposited with Paulista banks to finance agricultural and commercial interests; second, the purpose of the loan was not for coffee valorisation; and third, the Institute's policy was to stop speculation. Following another consultation, the State Department reply was once again negative.<sup>100</sup> Consequently, negotiations with Speyer's representatives were broken off.

During a press conference, Herbert Hoover declared that the US administration did not believe that New York bankers wished to make loans which could be diverted to 'sustain coffee speculations' under way since the previous year. The consequence of such a financial support, the Secretary of Commerce added, was simply the rise of 'extravagant prices' to American consumers.<sup>101</sup> In this context, prospects for São Paulo coffee planters were critical. Once blocked the two main foreign sources of financing, namely the City of London and Wall Street, the very survival of the policy of coffee defence was in jeopardy.

The situation only changed when, by the end of 1925, Britain lifted its self-imposed embargo on foreign loans. After months of fruitless attempts by the Paulista Institute at raising credit in New York, London financial markets were again open to business. In this way, shortly after the announcement of the end of the embargo, the Institute contracted, on 6 January 1926, a £10 million loan with London bankers Lazard Brothers Co. Ltd., joined by Dutch and Swiss capital. The operation, under the assurance of the Paulista state government, marked a timely convergence between the two sides. São Paulo was in desperate need of money for preventing its economy from collapsing. London sought to recover its once dominant position as the world's financial centre before 1914 and, not less important, British interest in coffee prices was not as relevant as for the United States. Incidentally, two months later, the Institute changed its denomination to State of São Paulo Coffee Institute.<sup>102</sup> The change was intended to keep away from the eyes of prospective lenders any connection between loans raised overseas and their use in coffee valorisation.

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<sup>99</sup> FRUS, 1925. Vol. I, pp.533-4.

<sup>100</sup> Ibid. pp.534-5.

<sup>101</sup> Amaral to Pacheco, tel., Washington, 14 November 1925, Itamaraty's Historical Archives (hereinafter AHI) in Rio de Janeiro, 235/3/16.

<sup>102</sup> Peláez, 1971. p.72.

Reaction to the London loan was one of exultation in Brazil. The Carioca newspaper *O Paiz* ascribed the success of the loan to the common interest between Britain, criticised by the United States on the question of rubber monopoly, and Brazil, accused of being responsible for 'the mother of all valorisations'. The combined action of both Britain and Brazil was then a sort of retaliation against Hoover.<sup>103</sup> Assis Chateaubriand, writing for *O Jornal*, noted that never before had a financial operation been made in the country on such a massive scale to a Brazilian private institution. The Institute had found in London, sooner than could be expected, the money required 'for the defence of our chief commodity'.<sup>104</sup>

The episode was appraised as a Latin American *revanche* and a severe setback to Hoover. Interestingly enough, some weeks before the Paulista loan, a major credit release to the Chilean nitrate industry, denied in New York, was obtained in a few hours and without difficulty in Berlin and Amsterdam.<sup>105</sup> Many criticisms were levelled in the United States against Hoover's anti-loans policy, the sole concrete result of which, it was said, had been transferring to London profitable credit operations to the detriment of US banking institutions without improving the situation for the American consumer.<sup>106</sup> Interest rates charged by the bankers, for instance, varied from 6,5% up to 8% in some cases. In the last analysis, allowing loan opportunities to go to Britain could contribute to lessen the financial presence of the United States in Latin America and harm US commercial interests in that continent. James Speyer, who had lost a loan to São Paulo less than two months before, complained to the State Department about the misleading policy of the 'financial boycott' on Latin American borrowing, which might have in the long run 'disagreeable political consequences'. The 'paternalistic attitude' of the US government, warned Speyer, could possibly lead those countries to give preference in the future for doing business with other nations and not with the United States, a danger that could also reflect on US exports and imports.<sup>107</sup>

Some New York roasters and traders noticed with concern that the Brazilian Warrant Company had been instrumental in supporting the Paulista Institute loan in London with the plain purpose of strengthening British coffee business in Brazil.<sup>108</sup> Bearing in mind European competition, they pointed out the potential damage to the prosperity of trade relations with Brazil, one of the major Latin American customers of the United States. Seen in global terms, Brazilian-US relations were double-edged: if hypothetically the United States went too far in the battle against 'coffee monopoly', one conceivable aftermath would be the state of São Paulo going bankrupt, leading to the affecting of the entire Brazilian economy,

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<sup>103</sup> *O Paiz*, Rio de Janeiro, 9 January 1926, BN Microfilms.

<sup>104</sup> 'O empréstimo do café', *O Jornal*, Rio de Janeiro, 7 January 1926, BN Microfilms.

<sup>105</sup> *The Literary Digest*, 6 March 1926, AHI 234/4/6.

<sup>106</sup> *Brooklyn Daily Eagle*, New York, 17 March 1926, AHI 234/4/6.

<sup>107</sup> James Speyer to Harrison, letter, New York, 25 November 1925, NA 832.51 SA6/48.

<sup>108</sup> Seidel, op.cit. p.473.



which would no longer be able to afford US exports in large quantities, as had become usual.

In view of the signs of domestic disapproval, Hoover's anti-monopoly campaign started to lose appeal. In an interview with a representative of the newspaper *O Estado de São Paulo*, on 10 April 1926, the Secretary of Commerce changed his discourse to include in a gesture of reconciliation some praise to the 'great sister republic of the South'. Hoover denied the possibility of antagonism between Brazilian producers and American consumers, anticipated an encouraging future for the coffee market, with increase in consumption in the United States, and made some suggestions for improvements in the productivity of coffee crops through the use of machines and fertilisers. He also put forward the hypothesis of US capital, alone or in association with Brazilian capital, being employed in the organisation of agricultural credit designed to reduce production costs. Several newspapers in Brazil welcomed Hoover's words as a possible blueprint for a definitive solution to the coffee question via cooperation between the two countries.<sup>109</sup>

From May 1926, the coffee valorisation issue slowly disappeared from the bilateral agenda. Hoover had lost the internal support needed to boost his crusade and he had not managed to unite US buyers, roasters, dealers and retailers in a concerted action in the case of coffee. Decentralisation on the domestic front caused the campaign to die away. Still, growing criticism in Brazil also threatened to arouse dormant anti-American resentment and, what is more, foreign competition in loans turned out to be a compelling factor pressing for the revision of the US policy, in particular the hard line backed by the Department of Commerce. Depending upon external sources of financing, Brazil sought capital where it was available. It did not matter if money came from the City of London or Wall Street. With both alternatives in hand, the Brazilian authorities were in a position to elude pressure from whatever provenance. This ability would be tested again very soon.

### **Chamberlain and the federal loan of 1926**

Financing coffee valorisation was a suitable niche found by the London financial market in the dispute with New York over loans to Brazil. From 1926 onwards, all the capital raised abroad for that purpose came from British sources. Between 1927 and 1928, the Banco do Estado de São Paulo, responsible for carrying out the financial programme of the Coffee Institute, contracted three supplementary loans with the London house Lazard Brothers, to the exasperation of both official and financial circles in the United States. The vicissitudes of rivalry between the two contending financial centres in the 1920s may be better exemplified in the case of the 1926 loan to Brazil's federal government.

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<sup>109</sup> Morgan to Kellogg, tel., Rio de Janeiro, 28 April 1926, NA 832.61333/245.

Early in 1926, following the hindrance caused by Hoover's action in the United States, the end of the British embargo brought some relief to frequent borrowers in London, and the Bernardes government decided that the time had come for the loan planned to liquidate the federal floating debt and help the government to attain its goals in economic policy (the same loan which had motivated the Montagu Mission in 1924). In February 1926, preliminary contacts were maintained with some City banking houses for the negotiation of the proposed loan, which was expected to also count upon the contribution of Dillon, Read & Co. of New York.

The New York firm promptly consulted the State Department on the view of the US government concerning the transaction, and no objection was raised. The State Department only recalled an excerpt from a 1922 'Statement on Loans': 'The Department of States does not pass upon the merits of foreign loans as business propositions nor assume any responsibility in connection with such transactions, also that no reference to the attitude of this Government should be made in any prospectus or otherwise'.<sup>110</sup> Equally important, the Department of Commerce did not present any difficulty, possibly because the operation had clearly no connection with the coffee controversy.<sup>111</sup>

Meanwhile, in Geneva, the diplomatic crisis of March 1926, during the extraordinary Assembly meant to have endorsed Germany's admission into the League of Nations, placed Brazil and Britain on opposing sides.<sup>112</sup> The Brazilian opposition to the granting of a permanent seat to Germany alone on the League Council had posed an unexpected hurdle to the Locarno agreements and Brazil's obduracy profoundly annoyed the British government. City bankers knew well that the Foreign Office did not see with favour the flotation of a loan to Brazil at that moment. By the end of March 1926, therefore, the Rothschilds, without explaining the reason for the change of mind, formally communicated to the Brazilian government that the issue of a loan should be postponed until further notice. The same message was simultaneously conveyed to Dillon, Read & Co. with the request that the US firm had better suspend negotiations with Brazil.

Some weeks later, Alfred de Rothschild and Peacock, from Baring Brothers, approached the Foreign Office with the information that apparently the Americans had the intention of going ahead alone with the operation, with or without British participation. According to them, it would be most unfortunate for British interests if this happened: London had financed Brazil ever since Independence and to allow that country now to resort to the United States would mean a 'great loss'. Under the circumstances, Rothschild and Peacock wanted to know whether the Foreign Secretary, Austen Chamberlain, still sustained the same opinion

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<sup>110</sup> Harrison (Assistant Secretary) to Dillon, Read & Co., Washington, 11 February 1926, NA 832.51 D58/3.

<sup>111</sup> Stokes (Hoover's adviser) to Harrison, Washington, 10 February 1926, NA 832.51 D58/5.

<sup>112</sup> Cf. Garcia, *O Brasil e a Liga das Nações*, 2000. passim.

as regards the matter.<sup>113</sup> Chamberlain's opinion, communicated verbally to the Rothschilds, was based on the following comments written by the Foreign Secretary: 'I can only reply that it is only in very exceptional cases that the Foreign Office ever intervenes *proprio motu* in such questions and that I had not thought this to be a case which required my unsought intervention; but since they ask for my opinion, I am obliged to say that the action of Brazil at Geneva was not conducive to the furtherance of peace which I take it [sic] to be the first of British interests and especially the first interest of the City of London; that I have as yet no assurance that Brazil will modify her attitude in September [at the next Assembly]; that I conceive that the issue of a loan in London now should be considered as condonation or even approval of her attitude and that I can give no encouragement to it'.<sup>114</sup>

Alfred de Rothschild took note of Chamberlain's standpoint and promised to 'respect his wishes loyally'. In communicating his final decision to the Brazilian government, he still had the care of finding a formula that excluded any reference to the Foreign Office. Later, responding to a number of rumours about the aborted transaction, the Foreign Office was forced to publicly deny that there had been any interference in the negotiations between Brazil and the Rothschilds to block the loan, a statement which could barely hide what had really occurred.<sup>115</sup>

On 16 April 1926, aware of the restrictions placed by the British government, the Brazilian Ambassador in London, Régis de Oliveira, called on Chamberlain to enquire as a 'personal friend', and not as an Ambassador speaking to the Foreign Secretary, whether Chamberlain could give him any help in the affair. Chamberlain replied that the Foreign Office exercised no control over the London market, and if the City banks proceeded with the loan 'on an ordinary commercial basis', he would not seek to interfere with them. As an 'individual investor', nevertheless, Chamberlain said that he would not look at a Brazilian loan at this moment, 'for to us in London Brazil necessarily appeared as a power which by its action in Geneva had endangered European peace'. Chamberlain insisted that the policy of the Foreign Office was one of non-intervention in the business of the City of London and that these loan negotiations should remain a matter to be solely deliberated between the Brazilian government and the London issuing houses.<sup>116</sup>

Contrary to what had been said to Régis de Oliveira, the toughest opposition to the Brazilian loan came precisely from Chamberlain. In a private and personal letter to Beilby Alston, British Ambassador in Rio, Chamberlain described the meeting with the Brazilian Ambassador as 'sufficiently embarrassing'. Chamberlain hoped that the Brazilian Minister

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<sup>113</sup> Memorandum from Wellesley to Chamberlain, London, 19 April 1926, FO 371/11115.

<sup>114</sup> Ibid. This document was first quoted by Abreu, 1973, p.21.

<sup>115</sup> *Correio da Manhã*, Rio de Janeiro, 3 June 1926, BN Microfilms.

<sup>116</sup> Memorandum from Chamberlain, secret, London, 16 April 1926, FO 371/11115.

of Foreign Relations would not speak officially to Alston on the matter, but in case that happened, the British Ambassador should be 'in complete ignorance' of the Foreign Secretary's views and hint, on his own account, at the 'disturbing effect' which events at Geneva had upon London, as well as 'hesitate a personal doubt' as to whether that was the best moment for a loan. 'In other words', summed up Chamberlain, 'I do not wish to appear as preventing a loan, but I should be very sorry if Brazil gets anything out of the City of London at this moment'.<sup>117</sup>

Some opposition newspapers in Brazil took advantage of the loan debate to once again attack the federal government. In an article in *O Jornal*, Azevedo Amaral commented that European financial circles were apprehensive about the 'symptoms of lack of international responsibility' which Brazil had shown by vetoing the entry of Germany into the League of Nations. For this journalist, it was a contradiction to pursue an anti-British policy in Geneva while at the same time a loan was being negotiated in London. City bankers and financiers, 'surprised at the unconscious attitude of our chancery', were now regarding Brazilian business with reservations that could represent a serious obstacle to undertakings and operations in which Brazil might have direct interest.<sup>118</sup>

Chamberlain and Alston's insinuations, trying to convince the Brazilian government that the political moment was not convenient for a loan, reached Artur Bernardes, who reacted with irritation. Alston was then confidentially informed that, even though the loan in the United States no longer seemed so urgent, the Brazilian President insisted on it in order to show that Brazil was not dependent on Britain alone.<sup>119</sup> The tactics of persuasion used by the British government had the opposite effect and, in May 1926, a contract was finally signed in New York, between the Brazilian government and Dillon, Read & Co. for a US\$ 60 million loan, to be raised in two quotas of 25 and 35 million.<sup>120</sup>

To Félix Pacheco, Minister of Foreign Relations, the episode had been beneficial in bolstering Brazil's self-confidence towards Britain. When the London bankers had stopped to talk about the loan sought by Brazil, Pacheco wrote, the Brazilian government 'naturally' smiled at that 'hostility' and got what it wanted in New York. Visibly showing satisfaction in saying it, Pacheco added that Brazil did not need Britain, which maybe had more to lose in terms of unresolved interests in the country. He mentioned specifically the renewal of the contract for the São Paulo Railway and the revision of rates for the Estrada de Ferro Leopoldina, an old British claim.<sup>121</sup>

In the past, Britain had had the ability to exert, if necessary, some degree of financial power over Brazil without facing any constraints by

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<sup>117</sup> Chamberlain to Alston, letter, London, 16 April 1926, FO 371/11115.

<sup>118</sup> *O Jornal*, Rio de Janeiro, 16 and 23 May 1926, BN Microfilms.

<sup>119</sup> Alston to Chamberlain, tel., Rio de Janeiro, 4 June 1926, FO 371/11117.

<sup>120</sup> Hayward (Dillon, Read) to Kellogg, letter, New York, 23 June 1926, NA 832.51 D58/10.

<sup>121</sup> Pacheco to Melo Franco, tel., Rio, 21 May 1926, AHI 274/3/4.

third players. In the 1920s, Britain's influence in the financial arena was still by no means negligible in the case of Brazil. Nonetheless the British attempt at retaliating against the Brazilian challenge in Geneva did not succeed because the proposed loan could be easily obtained in the United States, neutralising the deterrent effect that Chamberlain tried to create by posing the threat of withholding credit. If the January 1926 loan in London from the Paulista Institute for Permanent Coffee Defence is considered, soon after the US government had blocked Wall Street credit operations in an effort to change the Brazilian coffee policy, the situation was now reversed: the British government vetoed financial activities of the City with the purpose of inducing a change of behaviour in Brazil's foreign policy, a move which proved fruitless due to the availability of New York as an alternative source of capital. The 'financial weapon', used twice against Brazil by two different powers in a short period of time (less than one year), did not work thanks to the foreign-competition factor, revealed in this case by the Anglo-American rivalry in international capital markets. Brazil was not engaged in any specific strategy to favour one or another financial centre and it seemed rather directed by opportunism, helped by the fact that on the two critical occasions external conditions were happily favourable.

The May 1926 loan in New York, notwithstanding, gained lasting political connotations. It symbolically represented the emergence of the new, in steady expansion, in contrast to the old, in relative decline. The supply of British capital to coffee valorisation proved to be a transitory factor in Brazil's financial history, whereas the entry of US capital into the country paved the way for long-standing consequences. The event also cast doubt upon the usefulness of Britain's attempts to impose preconditions on the release of extra credit by linking loans with better treatment for British interests in related areas, including trade and investments, or by seeking to interfere with the Brazilian financial policy (e.g. the Montagu Mission). Apart from some French loans, the City of London held a quasi-monopoly as capital supplier to Brazil until World War I, but the golden years of Britannia were now over. Rising American capitalism and the liberal propensity of Wall Street for unlimited lending before the crash of 1929 undermined the chances of success for long-established British lenders. To the contemporaries in the 1920s, therefore, for a country relying so deeply on foreign capital like Brazil, the United States were seen as redeemers and not as 'imperialists'. The financial rise of New York was welcomed by Brazilian leaders as the anxiously awaited alternative to at least counterbalance the country's historical dependence on British capital. Brazil then took advantage of the Anglo-American dispute so as to always have the best choice available in international capital markets. Also as applied to other fields, this understanding of events was recurrent at that time, and is why US economic penetration generally aroused more sympathy than opposition in Brazil before 1930. In any case, the situation would change in the future, particularly when the United States became a

hegemonic power during and after World War II, opening a completely different approach to Brazilian-US relations.

#### IV – ENDURING RIVALRY

##### **The good neighbour and the D'Abernon Mission of 1929**

On 6 November 1928, Secretary of Commerce Herbert Hoover was elected President of the United States with great popular support. In Brazil, the news gave rise to some concern caused by memories of the intense campaign waged by the Department of Commerce against coffee valorisation some years earlier. The anti-monopoly campaign had cooled down as Hoover adopted a public posture of tolerance on the policy of coffee defence. Even so, there was still lingering distrust in relation to Brazilian attempts to control the coffee market. In February 1928, for instance, the New York investment bond house E. H. Rollins & Sons consulted the State Department on the convenience of going ahead with a refunding operation in the US market for the 1926 loan contracted in London by the State of São Paulo Coffee Institute. The New York bankers were informed by the State Department of the following: 'After careful consideration, the conclusion has been reached that there is no change in the situation which would warrant modification at this time of the position taken by this Government prior to the flotation of the loan of 1926, namely, that the issue in the American market of a loan in connection with coffee valorisation would not be viewed with favour'.<sup>122</sup>

Soon after Hoover's election, the US government announced that the President-elect would pay a visit to several Latin American countries before taking office. Officially, Hoover stated that the purpose of his visit was to promote a good understanding, to strengthen cooperation, and to acquaint himself with the problems of Latin America common to the United States. Silvino Gurgel do Amaral, Brazilian Ambassador in Washington, recalled that the visit would be the first of an American President-elect to the region's major countries. Apart from the official version, two motives for the trip, he added, were to dissipate the bad disposition towards the United States in Hispanic America, and to insist on the adherence of the ABC countries to the Briand-Kellogg Pact for the Renunciation of War, signed in August 1928, to which Hoover attached 'exceptional interest'.<sup>123</sup> Hoover left the port of Los Angeles by the end of November 1928, heading for Honduras, the first leg of his long Latin American goodwill tour. Afterwards, the President-elect and his party visited El Salvador, Nicaragua, Costa Rica, Ecuador, Peru, Chile, and Argentina. In Buenos Aires, anti-American feelings were strong and the reception turned out to

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<sup>122</sup> FRUS, 1928. Vol. I, pp.1019-20.

<sup>123</sup> Amaral to Mangabeira, tel., Washington, 10 November 1928, AHI 235/3/18.

be cool, impaired by strict security arrangements which had been put in hand as a precaution against any offence.

After a stopover also in Uruguay, Hoover finally arrived in Brazil on 21 December 1928. Gurgel do Amaral informed Itamaraty that the press in the United States was full of news about Hoover's arrival in Rio de Janeiro on the dreadnought U.S.S. *Utah*. The *New York Times* argued that the Brazilian reception had been the most impressive of all the others. As to the number of people, the enthusiasm, the splendour of ornaments and popular cheering, none had equalled the great welcome given by the Brazilian metropolis. 'No language can interpret the overwhelming waves of sentiment they have extended to us', said the New York newspaper, based on dispatches by correspondents who had accompanied the President-elect. The programme for the visit in Rio included sightseeing by car, a special audience with the Brazilian President, a solemn session at Congress, a visit to the Supreme Court, a banquet followed by a reception, and horse races. At the Catete Palace, Hoover held a friendly conversation with President Washington Luís, during which the question of coffee valorisation was not even mentioned. Neither was the Briand-Kellogg Pact discussed. In reality, the motivation behind the visit was basically to present the United States as a reliable partner and faithful friend. In other words, a 'good neighbour' in the making. Controversial issues were hence deliberately avoided throughout the trip. On 23 December, Hoover left for North America convinced that sound Brazilian-United States relations were carved in stone.<sup>124</sup>

A key factor in the advancement of the US Good Neighbour policy was the volume of economic and commercial interests of the United States in Latin America, which had grown enormously since World War I. The idea of dissipating fears of 'Yankee imperialism' in the continent was designed to create, among other things, a favourable atmosphere for business, in line with the so-called 'Progressive Pan Americanism', i.e. the promotion of material progress in Latin America according to liberal principles and American values, a political and economic orientation always supported by Hoover.<sup>125</sup> The penetration of the United States into the Latin American economies, by means of exports, loans and direct investments, affected Britain insofar as the British position in the continent was indirectly threatened by US gains. The Latin American tour of Herbert Hoover, therefore, was closely monitored by British officials. According to a memorandum written by the British Commercial Secretary in Rio, Stanley G. Irving, the increase of 85% in the trade of the United States with Brazil since 1923, as against an increase in Brazilian imports from Britain of only 15%, could be certainly attributed in some degree to the fact that the US commercial attaché had a staff more than three times

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<sup>124</sup> Amaral to Mangabeira, tel., Washington, 22 December 1928, AHI 235/3/18; Smith, 1991. pp.186-8; MRE Report, 1928. pp.59-61.

<sup>125</sup> On the 'Progressive Pan Americanism' movement see Seidel, op.cit. pp.581-97.

as large as the staff of the British commercial secretariat. British manufacturers were probably less well informed about Brazil 'than about any other important market', Irving wrote. His suggestion was to develop the 'sustained, constructive effort needed to revive British trade in this market'.<sup>126</sup>

The importance of trade in the region was underlined by the *Times*, which considered the relations existing between Britain and the leading republics of South America as 'predominantly commercial'. Following the growth of commercial affairs in the Foreign Office, a real change was needed in the traditional ways of acting by British diplomats in those countries: their job should be governed by 'a new conception of their duties to British trade'.<sup>127</sup> By the way, the US consul in São Paulo, Charles R. Cameron, noted that Britain was losing out on South American trade and was making 'desperate efforts to turn the tide', one example of this being the recent visit of Lloyd George to Brazil in 1928. Britain was 'very anxious' in relation to trade and it was beginning to regard the United States very much as it had regarded Germany in 1912. For Cameron, this was not a desirable trend: economics ruled the modern world and Britain had 'too many splendid qualities to become our enemy'.<sup>128</sup>

In May 1929, as a response to Hoover's visit, the British government decided to send a special high-level mission to South America with a view to undoing the impression that the region had a low priority in Britain's foreign economic policy. The economic mission would be headed by Edgar Vincent, Lord D'Abernon, former Ambassador in Berlin, and composed of representatives from selected sectors of the British economy: Sir William Clare Lees, deputy-chairman of the Federation of British Industries and businessman involved in Manchester's textile industry; G. E. Rowland, chairman of the Association of Agricultural Engineers, linked to engineering industries and civil construction; Julian Piggott, representative from the steel industry; and, as secretary to the mission, H. W. Wiswold, from the Department of Overseas Trade.<sup>129</sup>

Before coming to Brazil, the D'Abernon Mission first visited Uruguay and Argentina, in August 1929. In Buenos Aires, the mission spent over two weeks in negotiations with the Hipolito Yrigoyen government about Anglo-Argentine trade relations, more intense than in the case of Brazil. D'Abernon arrived in Rio de Janeiro on 15 September and from the outset the Brazilian government offered its cooperation in facilitating his work. In a speech to the Carioca press, the British envoy said that the mission was 'purely economic'. He continued: 'We have nothing to do with politics. Our sole ambition is to learn, to enquire into conditions, to remove

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<sup>126</sup> Memorandum from Stanley G. Irving, Commercial Secretary at Rio de Janeiro, 1929, PRO, Department of Overseas Trade Correspondence and Papers, BT 61/38/3.

<sup>127</sup> *The Times*, London, 4 July 1929, BT 61/38/3.

<sup>128</sup> Cameron to White (Assistant Secretary of State), dispatch, São Paulo, 29 January 1928, NA 711.32/37.

<sup>129</sup> MRE Report, 1929. pp.146-8.



impediments and obstacles from the path of commercial progress'. During his stay in Rio, D'Abernon stated several times that he wanted to stimulate reciprocity in bilateral trade. There was a 'gigantic market' open in Britain to Brazilian exports, but Brazil was sending there only a small part of its produce. The fruit trade and the meat trade were growing, though 'they had not yet attained to the limits of possibility', he said. In the case of coffee, the decrease by 50% in the consumption of alcohol in Britain in the last 15 years had left a vacuum in the requirements of the population that could perhaps be filled with another drink. Speaking at the Jockey Club, during a banquet hosted by the Minister of Agriculture and Commerce, D'Abernon summed up the purposes of his mission: to establish trade on a reciprocal basis and to remove the existing barriers to the commercial exchange between the two countries. D'Abernon even flattered his hosts by praising the stabilisation policy of the Brazilian currency, which he described as 'a great national achievement' under the Washington Luís government.<sup>130</sup>

D'Abernon's call to cooperation served well to placate criticism from some Brazilian newspapers that the mission sought only to extract tariff concessions in favour of British manufactures. The behind-the-scenes agenda of the mission, theme of private conversations with President Washington Luís, was centred on four points: a) an agreement for the construction of ships for the Lloyd Brasileiro in British yards; the project, estimated at about £3 million, attracted the interest of British firms led by Armstrong-Vickers; b) the definitive approval of the new contract for the Rio de Janeiro City Improvements Company, pending ratification from Congress; c) a modification of the Brazilian bankruptcy law to prevent fraudulent claims from causing losses to creditor banks; and d) the removal of duty payable on bunker coal, a heavy cost to British navigation companies, since the coal was not exactly imported, but rather consumed almost entirely outside Brazilian territorial waters. Washington Luís agreed in principle with the demands presented by D'Abernon, but he hinted that details would have to be elaborated. The Brazilian President also raised the question of duties on coffee imported by Britain, implying a possible exchange of mutual concessions. It was agreed that nothing should be published regarding the topics discussed.<sup>131</sup>

After five days in Rio, D'Abernon went to São Paulo, where the mission stayed until 25 September 1929, their date of departure from Brazil. In his conclusions about the British economic presence in South America, D'Abernon tried to draw attention to marketing problems, including advertisement and sales distribution, as well as old methods and inadequate representation. He suggested that ambassadors, ministers and diplomats familiar with economic and commercial problems should be sent

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<sup>130</sup> Birch to Henderson, tel., Rio, 4 October 1929, BDFA, Part II, Series D, Vol. 6, pp.148-51.

<sup>131</sup> Brazil, Annual Report 1929, pp.7-9, FO 371/14207; Birch to Henderson, tel., Rio, 20 September 1929, FO 371/13469.

to the region. According to D'Abernon: 'The undeveloped countries are likely to provide opportunities for British economic enterprise such as are no longer open in the more advanced republics and opportunities, moreover, of which we can best hope to take advantage by working on the results and experience of British enterprise in the larger republics'. A specific section exclusively handling South America should also be created in either the Foreign Office or the Department of Overseas Trade, its direction being entrusted to a senior officer 'who could be regarded as an authority on South American affairs'. In another of his reports, D'Abernon stressed that conditions in Brazil were quite different from those in Argentina: the commerce and industry of the country were not centred in the capital. Although British trade with Brazil was 'considerably less' than with Argentina, and British investments there were not of 'the same magnitude', in many respects both encountered more difficulties in Brazil. In view of the increasing importance of São Paulo, 'the chief commercial centre of Brazil', D'Abernon recommended that the British consulate in the Paulista capital should be upgraded to consulate-general, which would look after all the commercial work, instead of sharing it with the consulate-general in Rio. The consular staff in São Paulo should also be augmented, following an increase in salaries too.<sup>132</sup>

The British Embassy in Rio assessed that the D'Abernon Mission had attained its goal of enhancing the prestige of Britain in the country and developing Anglo-Brazilian trade. Tangible results, however, were fairly meagre for the mission in Brazil. The renewal of the Lloyd Brasileiro fleet was put off owing to financial difficulties of the Brazilian government, which affected the contract for the City Improvements Company as well. Duties on either bunker coal or coffee remained unchanged. In August 1930, a small industrial mission from Sheffield visited Brazil to study the steel market, but apparently no business deal was closed. Hindered by the world economic crisis, bilateral trade decreased in 1930.<sup>133</sup>

The evolution of the British commercial policy itself seemed not to stimulate better conditions for boosting trade with Brazil. Since wartime, when demonstrations of support and solidarity from Dominions and colonies of the British Empire had made a good impression in London, some voices had begun to favour a policy of privileged entry into Britain of products from those territories. In post-war years, the principle of imperial preferences had already gained practical expression in 1919, when customs duties on tea, cocoa, coffee, chicory, sugar, tobacco, saccharin and other colonial products were reduced by 33,5%. Britain turned increasingly to trade within the Empire, whose share in British exports

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<sup>132</sup> Report of the British Economic Mission to South America (August to September 1929) on commercial diplomatic representation in Brazil, PRO, BT 61/38/3.

<sup>133</sup> Irving to D'Abernon, confidential letter, Rio, 28 March 1930, FO 371/14205; Brazil, Annual Report 1930, pp.2, 8, FO 371/15067; Birch to Henderson, tel., Rio, 27 January 1930, FO 371/14205.

reached 42% in 1927-29.<sup>134</sup> The sojourn of the D'Abernon Mission in Brazil did not help to reverse this trend. Later, in 1932, Britain would officially abandon free trade and the exception of the Imperial Preference became the rule, as approved by the Conference of Ottawa. It was the first step towards the ongoing concentration of Britain's commercial interests on the tripod of Europe, the United States and the Commonwealth. In Latin America, the most important basis for trade would be Argentina, and not Brazil, especially after the Roca-Runciman Pact of 1933. It may also be remembered that British capital invested in Argentina reached £420 million, against £285 million in Brazil. In the 1930s, therefore, Britain's top priority in South America would move towards the River Plate area, where the economic dispute with the United States was still far from indicating an obvious winner.<sup>135</sup>

In the realm of Anglo-American trade rivalry in Brazil, the United States had no reason for grievances. In 1926, for instance, the United States exported to Brazil US\$ 113,3 million, an auspicious performance if compared to the sum of US\$ 73,1 million in British sales. American imports from Brazil amounted to US\$ 218 million, while Britain bought only US\$ 15,9 million. These figures are even more revealing if the situation before the war is taken into consideration: in 1913, the United States had exported to Brazil US\$ 50,9 million and imported US\$ 101,8 million; Britain, on the other hand, had sold to Brazil US\$ 79,2 million and bought US\$ 41,5 million.<sup>136</sup> American products doubled their share in the Brazilian market, whilst British products stagnated in the purchases of Brazil. In the end, the commercial decline of Britain could not be reverted and the British share in the Brazilian import market decreased steadily, falling from 20% in the 1926-29 period to 12% in 1935-38.<sup>137</sup> Unable to recover the pre-1914 levels of trade which used to maintain with Brazil, when Britain was still the biggest supplier of Brazilian imports, the alternative for British economic interests in the following years was to concentrate efforts above all on Argentina, its largest trade partner in the region and main destination for British investments in Latin America. A historical transition in Brazilian foreign trade had then occurred, reinforced by the passing of the years: the United States had consolidated its position as Brazil's major trade partner.

## **Conclusion**

From the point of view of contemporaries, the transition of power from Britain to the United States was a possibility rather than a certainty.

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<sup>134</sup> Singer, 1975. pp.363, 370.

<sup>135</sup> Miller, 1993. p.217; Rippey, op.cit. pp.75-6. For a discussion on British trade decline in Latin America between 1914 and 1950 see Miller, 1996. pp.130-42.

<sup>136</sup> Winkler, op. cit. pp.82, 274, 279.

<sup>137</sup> Miller, 1996. p.129.

It is interesting to note that Alan Manchester's book on British pre-eminence in Brazil, originally published in 1933, was conceived by taking into account a historical moment experienced by the author himself in the previous decade. He finished his final chapter, entitled 'The challenge to Britain's economic supremacy', with some intriguing questions: 'Will the United States be able to maintain its paramount position as the successful rival of the British in the markets of Brazil, and perhaps even displace England in the investment field as well? Or will Great Britain be able to regain its traditional position of absolute economic pre-eminence in Brazil? These are questions to which only the future can reveal answers'.<sup>138</sup>

In effect, to those living at that time, the answers to these questions were not obvious ones. Despite the great strides made by the United States, in many aspects Britain was *still* the major foreign power in the Brazilian economy during and after World War I. Since Germany's full economic recovery would take several years to reach its pre-war levels in South America, the principal struggle in Brazil occurred then between the conservative interests of Britain and the rising challenge of the United States. This seems to be precisely the significance of the 1920s as a field of study for Anglo-American rivalry in Brazil. We now know, with hindsight, that the United States did succeed in consolidating its hegemony in the interwar period, first dislodging Britain (mostly in the 1920s) and then overcoming Germany (in the 1930s). The post-1945 Pax Americana was certainly very brief and should not be overestimated, but the fact remains that this overall transition profoundly affected Brazil's international relations in the twentieth century.

It is also worth noting that the transition of power in Brazil was only a change in economic fortunes. Politically, there was no such transition, insofar as Brazil's foreign policy was *not* directed towards Britain before 1914. Interestingly enough, one can identify a discontinuity between economic presence and political influence, since Rio de Janeiro did not look at London as one of the axes of the Brazilian diplomacy. The political supremacy of the British had vanished long ago in the 1840s. Even during most of Dom Pedro II's Empire, in the second half of the nineteenth century, Britain's political influence over Brazil was minimal compared to its pervasive economic interests. By contrast, after 1889, the new republican regime in Brazil sought a policy of rapprochement vis-à-vis the United States and the so-called 'Western Hemisphere idea' held great appeal among Brazilian politicians and diplomats, fervent supporters of Pan Americanism. It was believed that the countries in the Americas, by virtue of their geographical proximity and by sharing the same ideals, a common history and similar institutions, constituted a community of interests in itself, separate from the rest of the world. In the name of hemispheric unity, the American countries should stand together in mutual support against extra-continental threats, particularly European

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<sup>138</sup> Manchester, *op.cit.* p.336.

ones. Under this conceptual framework, Washington remained one of the central political tenets in the Brazilian foreign policy throughout the Old Republic and beyond.<sup>139</sup>

If politically Britain's influence over Brazil had long been supplanted by the United States, economically British interests were firmly established in the country and the shift was far more complex. In direct investments, as a status quo power, Britain's traditional stance and long-established business practices no longer suited Brazilian needs and could not be adapted to a changing economic environment. In spite of a good British performance in absolute terms, the trend towards US investments was clearly already in motion, even before 1929, in a way detrimental to the future of British capital in Brazil. In trade, British exports had already lost the lion's share in the Brazilian import market during World War I and, after some attempts at recovering it in the 1920s, they were considered hopeless by 1930. In finance, Britain's resilience in Brazil was substantial, but its own economic difficulties and inability to apply political pressure on related issues prevented the British government from exercising further influence, as demonstrated by the events of 1926.

As a challenger in expansion, the United States took advantage of every opportunity to consolidate its position in Brazil, from naval affairs to customs duties. But Brazil was not a passive observer of foreign economic competition. In the end, it was the Brazilian government which decided to hire the Naval Mission in the United States and sign a commercial *modus vivendi* with the most-favoured-nation clause only with that country. Besides, American investments were highly in demand and Brazilian-US political solidarity facilitated commerce and business. During his visit to the United States in 1919, for instance, President-elect Epitácio Pessoa openly expressed his desire to have US business and financial interests entering Brazil in preference to European interests. He declared himself against the 'monopolistic features' of certain contracts, such as with the British Western Telegraph Company, and promised to help a number of American businessmen have their share in the Brazilian market.<sup>140</sup> Pessoa's view echoed the prevailing mood among the Brazilian authorities in post-World War I affairs. Also in the financial area, with Wall Street confidently emerging as an alternative to Brazil's old connections with the London market, the US challenge was welcomed by many Brazilians eager to reduce the historical predominance of the City in terms of loans to Brazil.

Under the agro-export model of growth, the Brazilian oligarchical elites favoured an open economy and good economic relations with all the major commercial partners of Brazil, including the coming of international capital and investments, regardless of their origin. Great-power economic

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<sup>139</sup> The origins of the 'Western Hemisphere idea' may be traced back to the Monroe Doctrine and the revival of US-led Pan Americanism in the 1880s. See Whitaker, 1954, p.74.

<sup>140</sup> According to a memorandum prepared by Herbert Stabler and quoted in Lansing to Morgan, tel. confidential, Washington, 18 jul. 1919, NA 711.32/23a.

rivalry was seen with satisfaction because growing foreign competition was mainly to Brazil's benefit. In view of existing European interests, more US involvement in the Brazilian economy could positively add more options to the menu available. Thus, although just exploring the possibilities presented by Anglo-American rivalry, Brazil was in a sense seeking diversification in the 1920s, trying not to be locked into one single relationship of dependence. It was also a quest for autonomy, since Brazil was able to improve its own bargaining position by playing with both Britain and the United States, eluding pressure from both sides. In the 1930s, the game involved rather Germany and the United States, the logic behind it remaining exactly the same, even though different circumstances were at stake.

In asymmetric power relations in world politics, bargaining is a recurrent pattern of behaviour among lesser powers in their relations with more powerful states. As a tool for attaining tactical goals it may be used in many situations and contexts. The varying factor to be considered is the strategic purpose which should guide diplomatic action when bargaining tactics are employed. It may be suggested that, while securing immediate gains and diversification through foreign competition in the 1920s, Brazil was in a way endangering the long-term balance among international players in the Brazilian economy inasmuch as the moves towards the United States implied a potential risk for Brazil's own autonomy. Undoubtedly, it was a foreign policy paradox. Britain was more concerned with maintaining the status quo for the sake of running business as usual, without necessarily direct political involvement. The United States, on the contrary, had a historical, politically oriented hegemonic project for South America, which the economic expansion triggered by World War I helped to consolidate in the long run. As a result, any pro-United States policy would certainly have political as well as economic implications. Considering the international choices made by Brazil in the 1920s, within the scope of this paper, perhaps one can say that, from the privileged vantage point of today's historians, the tactics were good, but the strategy devised, if any, backfired in the future.

Oxford, 15 July 2000.

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