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Brazil: A study of the economic policy of the Vargas government

Alfred Duncan Whitten

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BRAZIL: A STUDY OF THE ECONOMIC POLICY
OF THE VARGAS GOVERNMENT

by

ALFRED D. WHITTEN

B. A., MONTANA STATE UNIVERSITY, 1953

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of the requirements for the degree of
Master of Arts

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1953

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Aug 18, 1953

Date
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INTRODUCTION

The successive administrations of Brazil followed a policy of economic liberalism up to 1930 at which time it was brought to an abrupt end. The policy was ended by the introduction of a positive and comprehensive economic policy as a result of revolution. The successful revolutionaries, led by Getulio Vargas, on gaining power in 1930, entered actively into the control and direction of the economic affairs of the country and continued to do so until the retirement of Vargas in 1945.

It is the purpose of this study, first, to determine (1) the factors giving rise to the economic policy of the Vargas government, and (2) the objectives and methods of implementing the policy; secondly, to determine the development of Brazil after the introduction of the policy as a quantitative evaluation of the policy; and thirdly, to evaluate the policy of Vargas in the terms of its socio-economic justification as an adjunct or extension of the quantitative evaluation.

There are two severe limitations to this study. The first, and most important, is the scope of the subject itself. The subject involves almost all the factors in the evolutionary development of Brazil; the development of the government, the economy, the social and cultural development, and the development of a national consciousness and a sense of democracy. The awareness of many of these factors come easily to
the writer but do not lend themselves to an orderly presentation for analysis. In limiting the study to what can be treated in this paper only the pattern of development, as it concerns the economic policy of Vargas, can be indicated.

The second limitation of this study is that imposed by the lack of statistical data as well as the sources of data themselves. The extreme degree of economic liberalism before 1930 is reflected by the lack of even rudimentary data in many fields in that period. After 1930, when aggregative data became a requisite for economic control, there was some improvement but, at least until 1945, it did not extend to a point where a meaningful income analysis on a comparative basis could be made. The sources of information themselves are largely biased and/or impressionistic. The Brazilian sources that were current to the Vargas regime often reflect the government's propaganda efforts. The available United States government documents are invariably very general or offer specific information for exporters. Publications by English and American writers are largely travelogues although some are serious attempts at an analysis of the Brazilian scene. The latter are mostly written from the writers own particular viewpoint, yet they have been relied upon, after offsetting one extreme against another, to provide a framework for this study.

The first chapter of this study is in the way of a statement of the problem; the setting for the consideration of the economic policy of the Vargas government. It is concerned with providing a point of departure for considering the causal factors in the revolution that produced the Vargas government and the positive economic policy.

The second chapter deals with the development of Brazil
before 1930 and the political and economic revolution in that year. The development of Brazil before 1930 is treated at considerable length for the economic policy of Vargas was a result of the multiple factors that arose in the course of the history of Brazil. Unless consideration is given to the particular effect economic liberalism produced in Brazil before 1930, no conception can be had of the economic policy of the Vargas government. Likewise, no understanding of the revolution itself, in 1930, can be had without considering the influence of Dom Pedro II on the development of the government. This chapter is a point of departure for the consideration of the economic policy and the methods of the Vargas government.

Chapter three is an outline of the economic policy and includes the objectives of the policy and the administrative devices and methods for achieving these objectives. No attempt is made to connect cause and effect between methods and objectives as the chapter demonstrates that it is impossible. In addition, Chapter Five shows that it is irrelevant.

Chapter Four is the sequel to Chapter Two: the organization and development of Brazil after 1930—under the Vargas government. While this chapter is in the way of a comparison between the development and conditions before 1930 with those from 1930-1945, it is not claimed that the economic policy of Vargas was responsible for these developments. At the same time, however, it is not denied that it was not.

Chapter Five is an evaluation of the economic policy of Vargas in terms of its socio-economic justifications and is an adjunct or extension of the more or less dialectical evaluation made in Chapter Four.
CHAPTER I

THE CONTEXT FOR CONSIDERING THE ECONOMIC POLICY

The Origin of the Policy. Getulio Vargas led the revolution in Brazil that in 1930 overthrew the legal government. On November 3, 1930 he and his supporters arrived in the capital city of Rio de Janeiro and on the same day Vargas announced, among other things, the beginning of his economic policy for Brazil:

Concessions of amnesty, moral and physical health, rooting out or rendering harmless the agents of corruption by all available means, a systematic campaign of social welfare and health education, intensive diffusion of public education, maintenance of vigorous economy in agriculture and the adoption of a policy of international economic cooperation, the creation of a ministry of labor charged with the supervision of social questions and the care of urban workers, the promotion without violence of the progressive extinction of large landholdings by transferring the land directly to the agricultural workers, the construction of improved housing under private ownership, the organization of a general plan for the development of railroads and highways for the whole country to be accomplished gradually according to public needs, not according to political expediency,¹

This beginning statement of policy was followed by economic

controls of a wide diversity, and in the ensuing months it became increasingly clear that this first statement was only a hint as to the scope and magnitude the policy would assume or no more than a seed from which a comprehensive economic policy was to grow with an attendant body of economic controls.2

The Scope of the Policy. Prior to 1930, the government of the United States of Brazil, except for a more or less protective tariff after 1900 and minor excursions into the economic sphere after 1906, followed a passive or negative economic policy. The initiation of economic processes and the direction of economic affairs, were left to private business and until 1930, the individualistic economy was progressively strengthened rather than weakened. This nineteenth century liberalism, extolling free trade, competition and division of labor, plus certain cultural and geographic factors, cast Brazil into a more or less permanent quasi-colonial trade pattern.3

The vigorous extension of the economic theories commonly accepted in the nineteenth century was particularly complemented by the cultural environment of Brazil. A landed aristocracy gained an early foothold in the country as a colony. As the nation developed the great landowners dominated the cultural and social life of the nation.4 Some attempt was made in the 1860's and 1870's to develop

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2 For a review of the early economic controls of the Vargas government see Brasil 1940-41, (Ministry of Foreign Affairs, Rio de Janeiro.)


4 Ibid., p. 266.
industry in Brazil but the results were so infinitesimal that the economy remained exclusively agricultural. Later efforts, including those up to 1930, remained largely ineffective because of geographical factors. These were, principally, the lack of coal both in quantity and quality, and any other fuel besides charcoal; the difficulty of building railroads over the largely mountainous terrain that borders the coast in a wide band; the lack of hydropower sites readily accessible; and the largely debilitating climate that not only was the source of tropical diseases but sapped the strength and spirit of labor. Thus the nation's economy became a vast plantation system which, because of the economic views, was export-import oriented to a remarkable degree.

By 1930, the landowning aristocracy had long since merged economic power with the power of government. The Marxian thesis that the "mode of production" is the determinant of the social and political structure could hardly have been more accurate in the case of Brazil. Lord Acton once said that:

The men who pay wages ought not to be the political masters of those who earn them, for laws should be adapted to those who have the heaviest stake in the country, for when misgovernment means not mortified pride or stunted luxury, but want and pain and degradation, and risk to their own lives and to their children's souls.

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5 Ibid., p. 246.
8 Spiegel, Frontispiece.
Vargas may or may not have known of the philosophy of Lord Acton but he fought the election of 1930 in which he was defeated, from a reformist platform:

... he came to sweep out corruption and to break the hold of the old-time politicians; it was his intention to free the country from the domination of the old land-owning oligarchy.9

Thus as the positive economic policy of the Vargas regime developed, and became implemented by effective control measures, and as power was consolidated and assured of response, it became more inclusive. It became an integral part of, or corollary to, all the reforms proposed by the Vargas government. As a result the positive economic policy became a policy of building as well as destroying: politically as well as economically.10

The Context For Considering the Economic Policy. The revolution that gave rise to the economic policy of the Vargas government must be considered as both political and economic in origin. One observer has written that:

The revolution of 1930 was to a large extent, the result of the economic depression of the late twenties which elsewhere in South America as well as in Europe was responsible for the overturning of not a few democratic governments. Brazil as mainly a one crop country dependent on foreign markets, was particularly hard hit by the decline in purchasing power all over the world: by that time the exports of coffee, rubber, cotton and meat had equally suffered. Economic despair translated itself into a political revolution.11

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10 Spiegel, pp. 10-11.
Another observer has written that the revolution was primarily political:

Throughout the forty years of the republic until 1930 there was no real improvement in the electoral system nor could there be much genuine enlargement . . . for the increase in population . . . was not accompanied by an equivalent raising of the educational level. The pattern of government was still the oligarchy . . . .

More and more, in civil as well as financial affairs, the executive came to rule by decree instead of in harmony with the legislature. The effect in Brazil of world-wide depression only aggravated the situation, and Brazilians as a whole, whether they enjoyed the suffrage or not, were restless and discontented with their government. 12

As a consequence, the economic policy of Vargas was a product of a political and economic revolution and must be considered as such. Unlike the United States, where some degree of success might be had by attempting to treat the economic, governmental, and political aspects of the nation as separate disciplines, the only approach that can offer any understanding in regard to Brazil, is to consider it within the context of the nation’s development before the policy was instituted.

12 Smith and Marchant, p. 365.
CHAPTER II

THE DEVELOPMENT OF BRAZIL BEFORE 1930

Government Under the Empire. Like the United States, Brasil
as a nation was formed under the auspices of a mother country with
exploitation as the objective. Discovered in 1500, it was organized
for economic and political development into captaincies and these con-
solidated under a governor general in 1549.1 Modern Brasil’s political
life began in 1808, when the royal family of Portugal, driven from
Lisbon by Napoleon’s Junot, fled to Rio de Janeiro. After Napoleon
was vanquished in 1814, the royal family returned to Portugal and left
Don Pedro I as Prince Regent for the colony. In 1827, Don João VI,
the King of Portugal, attempted to recall Don Pedro, ostensibly to
“complete his education”. Under the influence of one of the Andrade
brothers, the grand master of Brazilian Freemasonry, who saw the recall
of the Prince Regent as an attempt to subjugate Brazil once again to
rigid colonial status, Don Pedro remained and demanded political equal-
ity for Brasil with Portugal.2

1 Joao Pandia Calogeras, A History of Brasil, (The University
of North Carolina Press, Chapel, 1939), Chapter I.
2 T. Lynn Smith and Alexander Marchant, Editors, Brasil,
When the Portuguese assembly rejected his demands and decreed the return of Brasil to colonial status, Dom Pedro proclaimed the independence of Brasil. Soon after, he appointed a committee of ten to draw up a constitution which was duly promulgated. The constitution declared "the Empire of Brasil is a political association of all Brasilian citizens". The constitution was a remarkably liberal and modern charter considering that it came from a prince who was the product of a most absolutist and haphazard education. The principal weakness was that it provided an indirect and highly centralized form of government upon a country with wide regional differences. Dom Pedro I was succeeded by his son Dom Pedro II in 1831 when the latter was five years of age. After a period of regency rule, Dom Pedro became Emperor in 1840.

Dom Pedro reigned as Emperor of Brasil for forty-nine years—until 1889. "The country was extremely fortunate" in that "Dom Pedro II was one of the most enlightened and cultured heads of any government in the world during that part of the nineteenth century". The abdication of Dom Pedro I was in itself a resounding victory for the forces of

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3 Ibid., pp. 357-58.
4 Loc. cit.
liberalism and the ascension of Dom Pedro II was to be another. Dom Pedro II is characterized by two qualities that are always associated with him: he was democratic and magnanimous. He believed in the abstract principle of the equality and fraternity of men. His belief was sincere and strong in the necessity for public morality and the responsibility of public men for their action while in office. He looked upon himself as the principal public servant of Brazil and the standard he set for himself he imposed on the men who served him and the nation.

In the period of Dom Pedro's long reign, he introduced the parliamentary form of government and gradually fostered a two-party system. He taught the political parties how to succeed each other peaceably in office and developed what might be called a liberal monarchical form of government in which he held moderate power. It is hardly too much to say that in his reign no other nation has been privileged to absorb the spirit of democracy under a greater teacher of its principles and processes.

However, on the other hand, it is hardly too much to say

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7 The term is used here in the meaning of that period.


10 Humicutt, p. 360.

11 Williams, pp. 128 ff.
that throughout his reign, the degree of democracy, both political and economic, was limited to the wishes of the "Fazendiero" class, the oligarchy holding the economic power and, in the last analysis, the political power. 12

Underlying Dom Pedro's liberal, well-tempered point of view concerning the improvement of his Brazil and his Brazilians, for whom his feeling was real and constant, his genuine dislike of slavery and all the evils of a slave regime, was the realization that his throne and the social structure of the country were dependent upon the slaveholding class. 13

The emperor was forced to approve this state of things, for the loyalty of the "Fazendiero" class meant not only his continued reign but order and peace in the nation. 14

The abdication of Dom Pedro II in 1889 and the formation of the Republic of Brazil may be summarized as a result of three factors. Firstly, there was the development of the slave question. Dom Pedro acquiesced in the prohibition of slave imports in 1850, in the passage of the "free birth law" providing for the freedom of all children thereafter born of slaves, and finally, in the freeing of all slaves in 1888. In doing so, he hopelessly alienated the support of the slave owners from the monarchy. Secondly, Dom Pedro lost the support of the Catholic church by siding with the Masonic order in a dispute between those lodges and the church. The dispute involved the question of the competency of the state to sit in judgment on ecclesiastical matters and

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12 Smith and Marchant, p. 361.

13 Ibid., p. 360.

14 Ibid., p. 361.
subjecting the church to the state. Since Brazil was overwhelmingly Catholic and the church in a very powerful position, the withdrawal of church support seriously weakened his position. Thirdly, a republican party arose to join the "liberal" and "conservative" parties Dom Pedro had fostered. As a small but militant group in the 1870's, it developed and attracted the "conservative" party members as they were alienated by the slave question. This combined group, joined by disaffected liberals, joined forces with the army which, over the years, had come to feel neglected by the "civilismo" character of Dom Pedro's monarchy. Soon after the slaves were freed, Dom Pedro was forced to abdicate.15

**The Republican Government.** After Dom Pedro's abdication, a clique under the leadership of the military set up a provisional government under which the republican form of government could be organized. A constitution was formed, patterned after the United States Constitution, and promulgated in 1891. It formed a federal republic and the former provinces, without undergoing territorial regroupment, were renamed states.16 Whereas the constitution of 1824 was an attempt to form a strong central government in a nation of wide regional differences, the republican constitution decentralized the government without taking into account the organization of the states on a non-regional basis. "Thereafter the nation appeared to be "engulfed" by all the evils of

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15 Calogeras, Chapter XI.
16 Loewenstein, p. 9.
separatism and factionalism.\textsuperscript{17}

In many respects the constitution of 1891 and the form of government outlined in it were ideal. The men who framed it were unselfishly motivated and the people of Brasil accepted it as an instrument to provide a greater degree of democracy. The framers, however, in addition to ignoring the regional differences, ignored the fact that about eighty per cent of the population was illiterate and could not vote, and that there were only two classes of any consequence in the country—the very poor and the fazendeiro class—the great landowners. In this respect the constitution providing democracy by the ballot was too idealistic or rhetorical.\textsuperscript{18}

By the decade of 1910, Brazil was divided into states of the "first" and "second" class,\textsuperscript{19} and two states were consciously alternating in selecting the president of the federal government. Between them they controlled the union and arranged amicably the partition of the spoils.\textsuperscript{19} Unfortunately men began to appear in public life who were more interested in feathering their own nest or advancing the interest of their region than in striving for the public real.\textsuperscript{20} The country was almost continually in revolt in one part or the other. The larger states were not responsible to the federal government and defied its authority. Neither the empire nor the republic possessed

\textsuperscript{17} Galogeras, Chapter XIII, and Smith and Marchant, pp. 369-65.

\textsuperscript{18} Galogeras, Chapter XIV, and T. Lynn Smith, Brasil: people and Institutions, (Louisiana State University Press, Baton Rouge, 1946), p. 635.

\textsuperscript{19} Loewenstein, p. 13.

\textsuperscript{20} Galogeras, p. 310.
the courage to remedy this essentially vicious situation.\textsuperscript{21} In regard to the impotence of the republican government, \textquoteleft\textquoteleft this was not surprising when we recall that these men had in their control the electoral machinery of their respective states\textquoteright\textquoteright.\textsuperscript{22}

By the decade of the 1920\textquotesingle s, the national political parties had disappeared and there existed only the \textquoteleft\textquoteleft boss\textquoteright\textquoteright system. During this period one president was declared elected before the votes were counted, another was elected without \textquoteleft\textquoteleft lifting a finger\textquoteright\textquoteright and was not aware that he was a candidate until he was notified of his election—not to candidacy but as the President.\textsuperscript{23} The state \textquoteleft\textquoteleft bosses\textquoteright\textquoteright built up their party machinery and developed local militias into private armies in competition with the armed forces of the national government.\textsuperscript{24} The national economy was almost paralyzed by interstate taxes and controls; the states were making foreign loans, maintaining de facto relations with foreign countries, and the ruling states dominated the whole country for their own economic and political interest.\textsuperscript{25} It was in this situation that the government of Brazil found itself in the depression and revolution of 1930.

\textbf{Development of Agriculture.} In accordance with the mercantilist

\begin{itemize}
\item \textsuperscript{21} \textit{Ibid.}, p. 321.
\item \textsuperscript{22} \textit{Loc. cit.}
\item \textsuperscript{23} \textit{Ibid.}, p. 323, Lowenstein, p. 14.
\item \textsuperscript{24} Calogeras, p. 13. Lowenstein, p. 338.
\item \textsuperscript{25} \textit{Loc. cit.}
\end{itemize}
thought of the early colonial period, Portugal prohibited the development of anything in the colony of Brazil which was believed to be against her own immediate interest. This included all industries and cattle raising and even the manufacture, by the individual, of his own household furniture. In the dawn of the nineteenth century, when the economic structures of the principal European countries were already becoming transformed, Brazil went on with a purely agricultural structure based on slave labor.

The coming of the royal family to Brazil from Portugal contributed little to the balanced economic development of the country. It is significant that Great Britain was acting as the paternalistic protector of the Portuguese and when the royal family sailed from Lisbon to Brazil, a British squadron escorted the thirty-six ships. Soon after landing, King Joao VI signed a decree that opened Brazil's ports to foreign trade. The very opening of the ports in 1808 represented a privilege to England because she was the sole European power able to maintain and protect a powerful merchant marine. When a revenue tariff developed, soon after, the British were given a preferential rate.

The political independence of Brazil in 1822 did not lessen

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26 Smith and Marchant, p. 244.
28 Smith and Marchant, p. 245.
29 Lawrence F. Hill, Editor, _Brazil_ (University of California Press, Berkeley and Los Angeles, 1947), pp. 15-16.
30 Smith and Marchant, p. 245.
the economic dependence of the country, the general pattern was set at an early date and seemed to be indelibly stamped upon it.\textsuperscript{31} Unlike the United States which adopted a protective tariff as early as 1815, Brazil went in the opposite direction largely in "partnership" with the British. The economy of Brazil existed through 1897 with the tariff adjusted for revenue.\textsuperscript{32} The protective tariff after 1897 did not materially change the quasi-colonial status and thus it existed into the year 1930.\textsuperscript{33}

By accepting the current theories of trade and due to certain cultural and geographic factors already noticed, the historic position of Brazil in its trade in the world economy can be best described in the words of Friedrich List:

\begin{quote}
A nation which pursues merely agriculture is akin to an individual who is hampered by the loss of an arm. A nation which exchanges agricultural products for commodities of foreign manufacture may be compared to an individual with one arm who depends upon the assistance lent by the arm of a stranger. This support is of service to the nation but is not so advantageous as would be the possession of two arms of its own, if for no other reason than because its activity is dependent upon the caprice of another.\textsuperscript{34}
\end{quote}

Commodity-wise, the "caprice of another" has caused the history of Brazil's economy to be best characterized by considering it in terms of six cycles each of which followed a similar pattern. Each cycle concerned one particular commodity in which, at the height of the cycle, Brazil occupied the leading position in world production. The first of these cycles may be dated from 1500 to 1550 during which the cutting

\textsuperscript{31} Ibid., p. 265.
\textsuperscript{32} Ibid., p. 265-66.
\textsuperscript{33} Ibid., p. 265.
\textsuperscript{34} Loc. Cit.
and exportation of dyewood constituted the entire base of the economy of the colony. This was followed by the sugar cane cycle from 1600 to 1700 which gave way to that of gold, upon the discovery of that metal in 1690. Brazil was the leading supplier of cotton to the European Market from the middle of the eighteenth century until about 1800 when it was displaced by the United States.35

The rubber cycle may be dated from 1860 to 1910, a period in which Brazil held a virtual monopoly. It came to an abrupt end in the first decade of the twentieth century when the plantation rubber of the East Indies entered the market in that year. The most important and last cycle around which the Brazilian economy has prospered and famished has been that of coffee. This cycle began about 1830, and just prior to World War I, accounted for approximately seventy per cent of the world's coffee exports. There has been a continual decline in Brazil's share of the total world export since that time.36 That the economy of Brazil in 1920 was one of the world's least self-sustaining37 and export-import oriented to a remarkable degree38 is demonstrated in Tables I and II.39 The significance of most of the commodities in the group shown in Table I underwent considerable change conforming to the cycles enumerated above;

36 Ibid., pp. 227, 228.
37 Cooke, p. 155.
39 In lieu of data showing the relative importance of foreign exchange to total income, Tables I and II indicate the magnitude; Table II, in showing the percentage of the population engaged in primary production, and Table I, in showing the relative importance of the principal primary products in foreign trade.
### TABLE I

THE VALUE OF EIGHT PRINCIPAL EXPORTS AS A PERCENTAGE OF TOTAL EXPORTS, BRAZIL, 1821-1930

<table>
<thead>
<tr>
<th>Year</th>
<th>All</th>
<th>Eight</th>
<th>Coffee</th>
<th>Sugar</th>
<th>Cocoa</th>
<th>Mate</th>
<th>Tobacco</th>
<th>Cotton</th>
<th>Rubber</th>
<th>Hides and Skins</th>
</tr>
</thead>
<tbody>
<tr>
<td>1821-30</td>
<td>85.8</td>
<td>18.4</td>
<td>30.1</td>
<td>0.5</td>
<td>n.a.</td>
<td>2.5</td>
<td>20.6</td>
<td>0.1</td>
<td>13.6</td>
<td></td>
</tr>
<tr>
<td>1831-40</td>
<td>89.9</td>
<td>43.8</td>
<td>24.0</td>
<td>0.6</td>
<td>0.5</td>
<td>1.9</td>
<td>10.8</td>
<td>0.3</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>1841-50</td>
<td>88.2</td>
<td>41.4</td>
<td>26.7</td>
<td>1.0</td>
<td>0.9</td>
<td>1.8</td>
<td>7.5</td>
<td>0.4</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td>1851-60</td>
<td>90.9</td>
<td>48.8</td>
<td>21.2</td>
<td>1.0</td>
<td>1.6</td>
<td>2.6</td>
<td>6.2</td>
<td>2.3</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>1861-70</td>
<td>90.3</td>
<td>45.5</td>
<td>12.3</td>
<td>0.9</td>
<td>1.2</td>
<td>2.0</td>
<td>18.3</td>
<td>3.1</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>1871-80</td>
<td>95.1</td>
<td>56.6</td>
<td>11.8</td>
<td>1.2</td>
<td>1.5</td>
<td>3.4</td>
<td>9.5</td>
<td>5.5</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>1881-90</td>
<td>92.3</td>
<td>61.5</td>
<td>9.9</td>
<td>1.6</td>
<td>0.2</td>
<td>2.7</td>
<td>4.2</td>
<td>6.0</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>1891-00</td>
<td>95.0</td>
<td>64.5</td>
<td>6.0</td>
<td>1.5</td>
<td>1.3</td>
<td>2.2</td>
<td>2.7</td>
<td>15.0</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>1901-10</td>
<td>95.2</td>
<td>51.3</td>
<td>1.2</td>
<td>2.8</td>
<td>2.9</td>
<td>2.4</td>
<td>2.1</td>
<td>28.2</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td>1911-20</td>
<td>85.5</td>
<td>53.0</td>
<td>3.0</td>
<td>3.6</td>
<td>3.0</td>
<td>2.6</td>
<td>2.0</td>
<td>12.1</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>1921-30</td>
<td>88.6</td>
<td>69.6</td>
<td>1.4</td>
<td>3.2</td>
<td>2.7</td>
<td>2.1</td>
<td>2.4</td>
<td>2.6</td>
<td>4.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Spiegel, p. 123.
however, the per cent of the eight agricultural exports gained slightly
from 1821-30 to 1921-30. The remaining exports, based on 1930 data,
were made up largely of meat and meat products, timber and lumber, man-
ganese ore, precious and semi-precious stones, Brazil nuts, livestock
feed, and various oil-seeds. 40

Up to the period of the first world war Brazil depended on
foreign sources for most (manufactured) consumer goods. 41 In 1913,
for example, sixty per cent of the wool textiles were imported, eighty-
five per cent of the cotton textiles, thirty-five per cent of ceramics,
glassware and china, thirty-five per cent of the jerked beef. Imports
of iron, steel, coal and cement almost equaled the total amount used. 42
By 1929 twelve major commodities comprised about seventy per cent of
total imports with the remaining thirty per cent made up of a wide vari-
ety of sundry items. The principal imports were wheat and wheat flour,
iron, steel, and semi-manufactured items of steel, petroleum products,
vehicles and accessories, electrical apparatus, cement, codfish, coal,
and beverages. Total imports amounted to 416,626,000 dollars. 43

The domestic organization for agricultural production is best
characterized as a structural feudal plantation in so far as the products
entered into the monetary economy of the nation and the export trade. The
balance was made up largely of subsistence farming. 44 Agriculture had

40 Pan American Union, The Foreign Trade of Latin America
41 Hill, p. 256.
42 Loc. cit.
43 Pan American Union, pp. 69-71.
44 Smith, Chapter XIV, "Land Tenure".
its beginning in Brazil in large estates, and the diffusion of the plantation system proceeded rapidly. By the nineteenth century there had developed one of the most complete plantation systems organized on a feudal basis which existed in that period. Whether the land was used or not, it was divided, owned and monopolized by the aristocratic land-owning class. 45

This ownership pattern, if anything, gained strength in the nineteenth century. The official Brazilian census of 1920 indicated that eighty-five per cent of the land cultivation was being operated as a fazendiero or plantation and out of a total farm population of 6,312,323, the land owners of the fazendiero class numbered less than 200,000. 46

In regard to the entire economy Table II shows the occupational distribution of the population for 1920. This table demonstrates that some seventy per cent of those gainfully employed were in agriculture, stock-raising, or hunting and fishing in 1920. The comparable percentage for the United States in 1920 was 30.7 per cent, and Argentina 24.1 per cent. Something less than fifteen per cent in Brazil were employed in transforming and using raw materials. To find an occupational structure resembling that of Brazil in 1920, one would have to look at that of the United States before 1850. 47 On the basis of 1920 figures, there were eighty dependents for every one hundred producers, while in the United States there were only fifty-three. Thus, the burden placed upon

45 Ibid., Chapter XVI, "The Size of Holdings."
46 Loc.cit.
47 Spiegel, p. 94.
### TABLE II

**OCCUPATIONAL DISTRIBUTION OF THE BRAZILIAN POPULATION, 1920**

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per Cent</td>
<td>Number</td>
</tr>
<tr>
<td>All occupations</td>
<td>9,153,638</td>
<td>100.0</td>
<td>8,850,932</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5,550,437</td>
<td>60.5</td>
<td>597,314</td>
</tr>
<tr>
<td>Cattle raising</td>
<td>164,967</td>
<td>1.8</td>
<td>9,605</td>
</tr>
<tr>
<td>Hunting and fishing</td>
<td>63,695</td>
<td>0.7</td>
<td>862</td>
</tr>
<tr>
<td>Extraction of minerals</td>
<td>74,566</td>
<td>0.8</td>
<td>84</td>
</tr>
<tr>
<td>Transformation</td>
<td>759,757</td>
<td>8.3</td>
<td>429,600</td>
</tr>
<tr>
<td>and use of raw materials</td>
<td>219,879</td>
<td>2.7</td>
<td>3,708</td>
</tr>
<tr>
<td>Transportation</td>
<td>474,707</td>
<td>5.2</td>
<td>22,841</td>
</tr>
<tr>
<td>Commerce</td>
<td>220,153</td>
<td>2.4</td>
<td>6,089</td>
</tr>
<tr>
<td>Public services and administration</td>
<td>113,693</td>
<td>1.2</td>
<td>54,418</td>
</tr>
<tr>
<td>Liberal Professions</td>
<td>70,335</td>
<td>0.8</td>
<td>293,544</td>
</tr>
<tr>
<td>Other</td>
<td>397,205</td>
<td>4.4</td>
<td>60,063</td>
</tr>
<tr>
<td>No occupation, or undeclared</td>
<td>1,024,154</td>
<td>11.2</td>
<td>7,372,266</td>
</tr>
</tbody>
</table>

*12,631,575 children of less than 15 years of age without declared occupations are omitted.*

Source: Smith, p. 221.
the individual producer was almost twice as great.\textsuperscript{48}

It is significant that the abolition of slavery in 1888 and the adoption of the republican form of government served only to strengthen the structurally feudal agricultural economy. The institution of slavery was replaced by a law passed in 1890, ostensibly to "give a general cleansing to labor; one that would eradicate for all time the odor of slavery". This law rendered the economy of Brazil completely individualistic and converted the freed slaves as well as all labor into merchandise.\textsuperscript{49}

As shown in Tables I and II, Brazil, almost totally dependent upon agriculture, and the products of that agriculture almost totally dependent upon the export trade, moved into the decade of the 1920's.

\textbf{Industrial Development and Foreign Investments.} The industrial plant of Brazil in 1920, after the impetus given it by World War I can best be judged by the fact that in 1920 there were only 275,512 persons employed in industry. Of these, twenty-two per cent were employed in the textile industry which operated behind an almost prohibitive tariff. Industrial activity declined considerably in the return to "normalcy" before 1930.\textsuperscript{50} As for mining, it was still to be characterized as in the "exploratory state" two decades after the 1920-30 period, in spite of Brazil's being considered as one of the world's richest nations in

\textsuperscript{48} Smith, p. 360.

\textsuperscript{49} Smith and Marchant, pp. 227, 228.

\textsuperscript{50} Ministry of Foreign Affairs, Brazil 1940-41. (Rio de Janeiro, 1941), p. 283.
The public debt of Brazil until 1930 represented the largest of foreign investments. Table III shows the continual increase, except for one year, up to 1930 at which time further loans were unavailable. The loans were made to maintain currency stability, to promote the valorization of coffee or to introduce public improvement. Borrowing to support the price of coffee was begun in 1906 and was continued intermittently until 1930.\textsuperscript{52} The foreign loans to the Brazilian government were never below a contractual rate of interest of four per cent and on occasion as high as eight per cent. The effective rate was much higher and in the majority of cases the price of issue was well below par. During the century of expansion up to 1930 dollar bonds were discounted roughly eleven per cent, sterling bonds ten per cent, and gold franc bonds fifteen per cent. In other words the contracted rate of interest was to be paid on the total issue which, after brokers fees, commissions and the like, reduced the proceeds to about eighty per cent of the total borrowed.\textsuperscript{53}

It is significant that the debt service accounted for roughly one-half of the proceeds from new foreign loans and export balances during 1860-1930, a sum totalling 927 million pounds. The remainder went into "invisible items" and, to a small extent was used for the repatriation of Brazilian bonds.\textsuperscript{54} The persistent increase in the export surplus are


\textsuperscript{52} Ministry of Foreign Affairs, \textit{Brazil 1910-11}, p. 360.

\textsuperscript{53} Spiegel, p. 138.

\textsuperscript{54} \textit{Avid.}, p. 140.
TABLE III

FOREIGN DEBT OF THE FEDERAL GOVERNMENT, STATES AND MUNICIPALITIES,

BRAZIL, IN MILLION POUNDS STERLING, 1890-1930

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal Value of Total Debt Incurred</th>
<th>Accumulated Reduction</th>
<th>Total Debt Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890</td>
<td>69</td>
<td>38</td>
<td>31</td>
</tr>
<tr>
<td>1895</td>
<td>80</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>1900</td>
<td>92</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>1905</td>
<td>127</td>
<td>48</td>
<td>79</td>
</tr>
<tr>
<td>1910</td>
<td>189</td>
<td>60</td>
<td>129</td>
</tr>
<tr>
<td>1915</td>
<td>245</td>
<td>82</td>
<td>163</td>
</tr>
<tr>
<td>1920</td>
<td>249</td>
<td>98</td>
<td>151</td>
</tr>
<tr>
<td>1925</td>
<td>290</td>
<td>106</td>
<td>184</td>
</tr>
<tr>
<td>1930</td>
<td>394</td>
<td>127</td>
<td>267</td>
</tr>
</tbody>
</table>

Source: Spiegel, p. 138.
symptoms of, in the light of the above, the burden placed upon the export balance of the nation.\textsuperscript{55} During the five of the eight decades from 1861-70 to 1931 the federal debt alone absorbed over sixty per cent of the favorable export balance.\textsuperscript{56} Such statistical data that exists on municipal and state foreign loans indicate that they were large and chronically unbalanced.\textsuperscript{57}

In the private sector of the Brazilian economy foreign loans and investments played a prominent part. While largely made by British and American interests, those of France, Canada, Holland, and Germany were very active before 1930. It has been estimated that in 1912 total foreign investments amounted to 320 million pounds principally in railways, public utilities, banks, meat packing plants, iron and steel industries, insurance companies and grain milling enterprises. In each of these, foreign control was very prominent or dominated the domestic industry. It has been estimated that in 1929 British investments in the private sector amounted to 117 million pounds sterling and that of American at 194 million dollars.\textsuperscript{58} This is confirmed by the Ministry of Foreign Affairs in the (1940-41) report for 1936. There was no change of consequence in investments from 1929 to 1936.\textsuperscript{59}

\textsuperscript{55} Ibid., pp. 140-141.
\textsuperscript{56} Ibid., p. 141.
\textsuperscript{57} Hill, p. 289.
\textsuperscript{58} Spiegel, p. 136.
\textsuperscript{59} The Ministry of Foreign Affairs, Brazil 1940-41, p. 361.
Social and Cultural Development Before 1930: There is testimonial evidence almost without end that could be cited to establish that the average Brazilian is:

... to the highest degree, dedicated to work, hospitality, of moderate habits, orderly in social conduct, intelligent, honest, thrifty, humble, courageous, sincerely religious, possessed of the most lively sentiments of chivalry and patriotism, without trace of pernicious regionalism, well equilibrated between progressivism and conservatism, and an impassioned champion of liberty.  

Furthermore, the Brazilian nation has:

... in spite of an often unsettled political outlook, in spite of an uneven and erratic political development, in one respect provided an example to the world. In international relations, Brazil has in the main revealed a sanity, restraint, and measure of good will hardly to be equalled by any other of the World's larger powers. 

As a nation, the people of Brazil have looked for no aggrandisment, they have looked for no quarrel and nowhere have they threatened the peace of the world.

The Brazilians' love for democracy and democratic processes is legend as is their efforts to cooperate in World affairs.

But in spite of all these favorable qualities,

... such are the historical contingencies of its distribution (population) over the land, such are the hostilities of the physical environment that it has to face, such are the accumulated errors of administration, that as yet the population has not been able to erect ... political and social structure destined by its innate aptitude. 

This above quotation, written in the decade of the 1920's, was

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60 Smith, p. 9.
61 Camacho, p. 3.
62 Smith, p. 9.
followed by a summation of some of the most serious shortcomings in
Brazilian society. In part they were given as follows:

1. Excessive dispersion of the population, which
determines that a large part of the people live
in complete isolation, which is often accompanied
by extreme physical and moral degradation.
2. Extreme misery among a part of the agricultural
proletariat subjecting this stratum of the
population to the most precarious conditions
of diet, dress, and shelter.
3. Lack of technical and administrative organization
in the great majority of agricultural undertaking.
4. Irrationality in the administrative divisions of
the country.
5. Deficient selection, discipline, stimulus and
remuneration for the general body of public
servants.  

Among the other shortcomings listed were extreme incidence of disease,
the lavish use of labor, particularly for transport, and the wide-spread
illiteracy. In the absence of more meaningful data the status of
education may best serve to give an indication of the social structure.

Education in Brazil did not escape the influence of the develop-
ment of the economy and government. Under Dom Pedro, education made
relatively rapid strides although in 1871 out of a total population of
ten million, there were less than 250,000 in school. Progress continued
to be made until the end of the empire and when the republican government
was founded it declared education to be free, compulsory, and under the
jurisdiction of the federal government. The federal government, however,
abandoned responsibility after the turn of the century, and turned over
the program to the states. It in turn was abandoned by all the states

63 Ibid., p. 10.
64 Ibid., p. 10, 391, and Chapter II.
65 Ibid., p. 658.
except one by 1911.\textsuperscript{66} In 1920 the percentage of illiteracy was estimated at eighty per cent over the nation.\textsuperscript{67}

The fact that the level of living, station in life, and amount of education were low, and that no more than 200,000 votes had ever been cast in a national election (prior to 1930 in which year the population 35,000,000) did not prevent the people as a whole from influencing the government.\textsuperscript{68}

. . . the workers, increasing in number, lacking the protection, and trampled underfoot, heard the distant cry to unite and clamored in the streets for the secret ballot and the right to free elections. . . . the torrent was swelling and nothing could check it. Only revolution remained. And this came.\textsuperscript{69}

**Breakdown of the Economy and the Government: The Revolution.**

The first break in the economic sector concerned coffee and was perhaps the most important single factor in the economic crisis.\textsuperscript{70} In the decade of the 1920's Brazil furnished from one-third to one-half the world's production. As early as 1906 the government had commenced to subsidize coffee largely through foreign loans and by 1930 over-production was the result. By November, 1930, for example, the amount available in Sao Paulo for export was estimated at 26,000,000 bags of 132 pounds each. This was 1,000,000 bags more than the entire world consumed in 1929.\textsuperscript{71}

\begin{itemize}
\item \textsuperscript{66} Smith and Marchant, pp. 315, 316.
\item \textsuperscript{67} Hill, p. 111.
\item \textsuperscript{68} Ibid., p. 106.
\item \textsuperscript{69} Smith and Marchant, pp. 304, 385. Hill, pp. 105-8.
\item \textsuperscript{70} Galogaras, pp. 339, 340.
\item \textsuperscript{71} Loc. cit.
\end{itemize}
"The world depression brought a complete collapse in the price of coffee and an almost complete suspension in the trade." While coffee represented seventy per cent of the exports, the remaining exportables, which were agricultural, also fell both in price and demand.  

As has been seen, the financial structure of the nation and the coffee industry had been in a large measure dependent upon foreign loans. Further loans became unobtainable in 1929. In 1929 service on the foreign debt together with the return on foreign capital investments was estimated to be between 175,000,000 and 200,000,000 dollars yet the export balance for that year amounted only to 40,000,000 dollars. This situation was aggravated by an internal debt of at least a quarter of a billion dollars.  

The coffee crisis as well as the financial crisis came on the heals of the regularly scheduled presidential election of March 1, 1930. It had become customary for the states of Sao Paulo and Minas Gerais to alternate in selecting the candidate to be elected. Dr. Washington Luis, a Paulista, had been elected in 1926 and the next president was supposed to be a Minero. President Luis defied tradition and selected a fellow Paulista to succeed him. Since the selection of a candidate by the president, due to the perverted and corrupt electoral system, was tantamount to election, he alienated the vested interest in the state of Minas Gerais. This split the ranks of the controlling clique and the solid front this group had been accustomed to present was broken.  

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73 Galogeras, pp. 339-40.  
74 Loc. cit.
The chosen candidate, Dr. Julio Prestes, was a conservative and governor of the state of São Paulo. His candidacy received a "cool reception" from the moment he was chosen by the incumbent president.\(^75\) He campaigned on a platform to

"... guarantee the continuation of the policies which during the four year administration have contributed to the greatness and glory of our institutions."\(^76\)

Prestes was opposed in the election set for March 1, 1930 by Dr. Getúlio Vargas from the southern state of Rio Grande do Sul. At the time of his candidacy Vargas was the governor of his state and had once served with distinction as Federal Minister of Finance. He had a reputation of being "on the left"\(^77\) and campaigned as the leader of a group called the Liberal Alliance on a platform of reform.\(^78\)

The Brazilian campaign in 1930 and that of the United States in 1932 were similar in many ways; principally in that, in both, a reform movement was opposing the continuation of the attitudes and policies of previous decades. The most striking dissimilarity, however, is that while the reform movement prevailed in the United States, it could not in Brazil. The incumbent traditionalist held the power of election and it was used to declare Prestes the President.\(^79\)

When Prestes was declared elected, Vargas refused to accept the decision and resorted to force. In October, 1930, while the "Lame

\(^{75}\) Ibid., p. 339.

\(^{76}\) Loc. cit.

\(^{77}\) Loewenstein, p. 17.

\(^{78}\) Ibid., p. 16.

\(^{79}\) Ibid., p. 17.
duck Luis was still president, Vargas, supported by large sections of Sao Paulo and Minas Gerais, seized the government and presidency and forced President Luis to resign.\footnote{Camacho, p. 341.}

President Vargas took office on October 30, 1930 and was faced with a galaxy of problems of such scope and comprehensiveness as to defy the imagination.\footnote{Hill, p. 109.} Economically and governmentally the nation was in chaos.

The country was without money, without exchange, actually and legally in a moratorium with pressing promises to be met abroad, due or to become due in a few days; a floating debt, federal, state and local which had never been calculated: Coffee in three crises—price, over production, and large stocks in warehouses; Brazilian economy, industry, labor in ruin; and an unemployment crisis.\footnote{Calogeras, p. 341.}

It was evident at once, however, that a strong hand was at the helm of the ship of state.\footnote{Lee, Cit.}

Eleven days after gaining the presidency, by executive decree, Dr. Vargas assumed absolute power for himself; constitutional guarantees were suspended, a special tribunal to try political crimes instituted, and all the state governors were replaced by "interventors" appointed by Dr. Vargas himself. Vargas centralized all power in his hands. Elective and representative institutions were soon eliminated and their place taken by administrative ministries, departments, councils, bureaus and
boards—all deriving their authority from him.\textsuperscript{84}

Vargas lost no time in instituting reform measures. One of the first things he did was to accept the British offer of technical aid, and Sir Otto Neimeyer of the Bank of England made a study of the Brazilian economy. In July 1931 he recommended that Brazil end its dependence on foreign capital, diversify its economy, revise its budgetary system, make greater use of income and inheritance taxes, and emit paper money through one central bank of issue.\textsuperscript{85}

The advice of Sir Otto Neimeyer was taken, as events will show, but it was clear, at least to Vargas, that any economic policy would have to include more than provisions for building and revitalizing the economy. It would have to include destroying and reshaping in new directions before anything dependable could be constructed. In so far as the old economic order had contributed to disunity, the maintenance of a structurally feudal society, the external dependence of the nation and a corrupt government, the economic policy was to be the weapon of its destruction as well as the creator of a balanced economy.

\textsuperscript{84} \textit{Tbid.}, p. 341.

\textsuperscript{85} \textit{Hill}, p. 293.
CHAPTER III

THE ECONOMIC POLICY OF THE VARGAS GOVERNMENT AND THE
ECONOMIC ORGANIZATION IMPLEMENTING THE POLICY

Introduction to the Policy and Organization. Vargas held
sufficient power from 1930 to 1945 to give to his administration's
economic policy a high degree of continuity. He took office October
30, 1930 and exercised dictatorial power until the summer of 1934. At
that time he sponsored a new constitution providing a return to parlia-
mentary government and, as president under it, his power was somewhat
reduced. On November 10, 1934 Vargas suspended the 1934 constitution
and again assumed absolute power which he retained until his retirement
in October, 1945.¹

As has been seen, when Vargas came to power the economy was
in ruin. Brazil went into the depression almost totally dependent upon
international trade in agricultural products and the resulting collapse
was complete. Such industry as existed was largely dependent upon pro-
ducer goods industries of other countries. The government, itself, was
dependent upon foreign loans and revenue from international trade. These

¹ José Pandia Calegares, A History of Brazil, (The University
budget sources all but vanished. With the collapse of agriculture many of the plantation workers migrated to the cities for the plantations held the advantages of a feudal structure but none of the disadvantages in regard to paternalistic responsibility.²

Confronted with this situation, in the face of widespread poverty and economic dislocation, the old order seemed intent on maintaining its traditional methods and position. In regard to labor, a spokesman for the government said in 1929, that "the social question was a matter for the police".³ It was in this atmosphere of economic ruin and political despotism that Vargas announced the beginning of his policy as already described.

Economic Policy and Organization 1930-1934. The thorough-going changes in government already noted were duplicated in the economic sector. The first aim of the Vargas government was to alleviate the crisis. Foreign trade and exchange controls were instituted and while these controls were used to bring about some order, the agricultural and industrial groups were organized under governmental or quasi-governmental control agencies.⁴

A ministry of labor was one of the first organizations created. It was charged with the promotion of trade unions throughout the country.

² T. Lynn Smith, Brazil, People and Institutions (The Louisiana State University Press, Baton Rouge, 1947), Chapter XI. This Chapter gives a complete resume of the internal migrations caused by the specialization of production on the plantations.


and the supervision of a labor code in the process of formulation. A system of labor courts was created at the same time and it was provided that they should adjudicate labor disputes free of charge to workers.⁵

Agriculture, under a re-constituted ministry, was organized under official and semi-official "depesa" institutes in accordance with the type or kind of product produced. The institutes were generally charged with the "rationalization" of the product by stabilizing price, finding new uses and markets, improving methods of production and standardizing the product. Such institutes were established for coffee in 1930, cocoa in 1931, sugar and alcohol in 1931 and subsequently for cattle, mate and many others.⁶

Industry came under the regulation of the government through the inauguration of foreign trade, exchange, and tariff controls. The collapse of foreign trade proved beneficial to most industries, except for the scarcity of such imported goods as were essential to them, and the efforts of the government were largely concerned with furthering their advantage. The foreign trade, exchange and tariff controls were supervised by a Tariff Council and General Trade Council under the general direction of the president. Through the manipulation of the controls named as well as taxes, subsidies and other administrative devices, industry was aided, encouraged and directed.⁷

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By 1934, in spite of the emergency nature of many control measures and the unsettled state of economic affairs, the Brazilian economy was organized into groups representing agriculture, industry and commerce generally. Over these the government exercised central control.\footnote{8}

Also, by 1934 the government control of the economy was being used to promote economic ends conceived by the administration. These ends or objectives may be summarized as follows: (1) the promotion of industrialization with emphasis on the producer goods industries, (2) the diversification and promotion of agriculture, (3) the development of idle resources, (4) the subjugation of foreign enterprises to the interest of the domestic economy,\footnote{9} (5) the promotion of health and welfare through government agencies and social legislation, and (6) the promotion of foreign trade in the interest of the state. These objectives were, by 1934, being pursued in a manner that was intended to produce a balanced economy and such continued to be the objectives of the Vargas government until his retirement in 1945.\footnote{10}

\textbf{The Economic Policy and Organization 1934-1937.} The outstanding development in the 1934-1937 period was an attempt to institutionalize the economic organization as it existed in 1934. Under political pressure


\footnote{9} An outline of the control of foreign enterprises is reserved for a later section of this chapter, p. 42.

\footnote{10} United States Tariff Commission, \textit{Economic Controls and Commercial Policy in Brazil}, 1945. Those objectives have been abstracted from the entire pamphlet.
to legalize his regime, Vargas sponsored a new constitution under which the country was returned to parliamentary government. The constitution included an "innovation which had no parallel elsewhere" and produced many of the features of a corporate state. It provided that the lower house of the legislature, composed of three hundred and fifty members, have fifty of those members elected from the organizations representing industry, agriculture, commerce, communications, the liberal professions and labor.\textsuperscript{11}

In contrast to the constitution of 1891 which was strictly liberal, the 1934 constitution, besides providing for the organization of the economy, also took note of economic policy.\textsuperscript{12} It specified that:

The economic order should be organized, in conformance with the principles of justice and the necessities of national life, in a manner that makes possible to all a dignified existence.\textsuperscript{13}

It emphasized the people as a whole and the common man; but, as an "economic constitution" attempting to spell out economic relationships as they had developed up to that time, it was incomplete and an experiment. It did not please Vargas and for other reasons, to be noted later, it soon failed.\textsuperscript{14}

Vargas dominated the legislative branch of the government created under the 1934 constitution \textsuperscript{14}and it worked hard at his program

\begin{itemize}
\item\textsuperscript{11} Loewenstein, p. 22.
\item\textsuperscript{12} \textit{Ibid.}, p. 23.
\item\textsuperscript{13} T. Lynn Smith and Alexander Marchant, Brazil, Portrait of Half a Continent, (The Dryden Press, New York, 1951), p. 389.
\item\textsuperscript{14} \textit{Ibid.}, p. 369. Loewenstein, pp. 27-28.
\end{itemize}
of reform. However, it was not long before it became apparent that
the constitution, while embracing the new, had retained too much of the
old. In many ways it placed the Vargas regime in the same position
as the "New Deal" found itself, in the United States, in the same period.
It may be recalled that dissenters from the "New Deal" policy in the
United States Congress and in the Supreme Court placed the policy and
methods of organizing the economy in almost constant jeopardy as late
as 1938. In the case of Brazil, Vargas was impatient with such im-
pediments and declared that he would revise the constitution at the first
opportunity. As a result of the inter-governmental struggle, economic
control, especially exchange control, was considerably liberalized but
the organizational framework with the same objectives was continued.

The Economic Policy and Organization 1937-1945. Vargas sus-
pended the 1934 constitution in November 1937 and promulgated a new one
on the same day. The new constitution was an elaborate one of one hundred
and eighty-seven articles, many of them dealing with the economy. However,
of the last two articles, one of them declared a "state of emergency" and
the other provided that until the president declared the emergency to be
over, the constitution would not be submitted to a plebiscite or a

15 Loewenstein, p. 27.
16 Smith and Marchant, p. 369.
17 Vernon A. Lund, Government and Business, (Harper Brothers,
New York, 1950), pp. 15-20. Lawrence F. Hill, Editor, Brazil, (University
18 Hill, p. 112.
19 United States Tariff Commission, Economic Controls and
Commercial Policy in Brazil, 1948, p. 19.
legislature formed as the constitution provided. Thus, dictatorial power was assumed by Vargas and the constitution became no more than his blueprint for governing.  

As a blueprint for economic organization the constitution was another attempt to institutionalize the economic organization and policy as it had developed up to that time. It provided that a National Economic Council would share legislative power with which the congress proposed and that the multiple boards, commissions and agencies for economic control would continue to coordinate the economy of the nation. As proposed in the constitution, the control agencies would exercise largely advisory powers and only to a small extent would be regulatory.

The 1937 constitution provided that within the Brazilian social structure and the right to private property and individual initiative, the state reserved the right to interfere in economic affairs for stimulating and coordinating production and for eliminating intemperate competition. It also provided a program for utilizing natural wealth, especially mineral resources, for the general welfare. In the field of labor the constitution declared work a social duty, and promised a progressive labor policy with recognition of collective bargaining, annual holidays with pay, minimum wages, an eight-hour day, restrictions on night work and child labor, extended social security and medical care for

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21 Ibid., p. 53, 336.
22 Ibid., p. 57.
expectant mothers and children.\textsuperscript{23}

Between 1937 and 1945 the constitution was amended to protect the security of economic life by declaring the following to be crimes against the social order and the state: (1) the exploitation of the economically weak by the strong; dishonesty in daily transactions of business in which the common man, the consumer, would be economically jeopardized; (2) the destruction of or rendering unsaleable for the purpose of raising price, and with the intention of profit, goods necessary for popular consumption; (3) the obstruction of or rendering more difficult the competition in producer goods, goods of transport and commerce, if the act is committed by capitalistic competition with the intent to increase profits arbitrarily; (4) the accumulation of goods to control the market, and (5) usury in any form. It was further provided that if these amendments were violated by a person of manifestly superior socio-economic status to that of the victim it would be an aggravating circumstance.\textsuperscript{24}

As early as 1939 the Vargas government began to organize the economy for war, as it was in that year that Vargas declared "in all matters of hemisphere solidarity Brazil would stand solidly with the United States".\textsuperscript{25} Between 1939 and 1945 the Brazilian economy became

\begin{itemize}
  \item \textsuperscript{23} Ibid., pp. 151-154.
  \item \textsuperscript{24} Ibid., p. 153.
  \item \textsuperscript{25} John Gunther, \textit{Inside Latin America}, (Harper Brothers, New York, 1941), p. 368.
\end{itemize}
became subject to perhaps more intensive control than that of any other nation in the Western Hemisphere.\textsuperscript{26} Indications are that, within the limits imposed by the war itself, Vargas utilized the high degree of control over the economy to accelerate development toward a balanced economy.\textsuperscript{27}

\textbf{The Economic Policy and Foreign Enterprises.} The liberal constitution of 1891 knew of no discrimination between foreigner and national except that citizens only could exercise political rights.\textsuperscript{28} As a result of this and other factors, in 1930, approximately 40 per cent of all industry was foreign-owned\textsuperscript{29} and such fields as public utilities, insurance, railways, meat packing, petroleum distribution, and others were dominated by foreign investors and enterprises.\textsuperscript{30} As a consequence, very soon after Vargas took over in 1930, the government began a series of actions to bring this segment of the economy under government control and render it amenable to the government's program.

One of the first measures required that all foreign enterprises have at least two-thirds of their personnel native Brazilians and that none of these were to be paid a wage less than their counterpart of

\begin{itemize}
\item \textsuperscript{26} United States Tariff Commission, \textit{Economic Controls and Commercial Policy in Brazil}, 1945, p. 36.
\item \textsuperscript{27} Ibid., pp. 41-45.
\item \textsuperscript{28} Lernerstein, p. 205.
\item \textsuperscript{29} J. A. Camacho, \textit{Brasil, An Interim Assessment}, (Oxford University Press, New York, 1952) p. 55.
\end{itemize}
another nationality. The exchange and import-export controls were used from the beginning to restrict the remittance of profits, force the manufacture of goods theretofore imported, and otherwise force foreign industry to conform to the government's program of development and self-sufficiency. Many restrictions of foreign enterprises were embodied in the constitutions of 1934 and 1937. Foreigners were not to establish corporations without specific authority from the government; exploit mines or water power either individually or through corporations; establish a public utility enterprise unless a majority of the officials were Brazilians and all the executive authority in Brazilian hands; establish deposit banks or insurance companies; or be owners, shareholders, directors, or editors of enterprises that publish newspapers or magazines. Other measures restricted about one hundred and fifty of the liberal professions to native Brazilians.

In some instances, notably in banking, insurance, mining and hydroelectric developments, the government made provisions for the progressive elimination of foreign control by requiring that a percentage

31 Loewenstein, p. 206.
33 Hill, pp. 303-304.
34 Loc. cit.
35 Loewenstein, p. 209.
of stock be sold to Brazilian citizens within a specified period of
time. As a rule, however, the government emphasized those measures.
restricting the establishment of new foreign enterprises to those
fields acceptable to the government and other than subjecting the
existing foreign investments to various controls, did not seek their
elimination.36

The Economic Policy and Foreign Affairs. In regard to
foreign affairs the economic policy of the Vargas government was to
promote foreign trade by whatever means possible provided it was in
the interest of the economic program and in keeping with respected
practices.37 In the early years of the regime bi-lateral trade agree-
ments were utilized to move the heavy surpluses of agricultural products,
although in 1931 the Minister of Foreign Affairs was directed to invite
all foreign countries to negotiate reciprocal, unconditional most-
favored-nation agreements. By the end of 1935 Brazil had such agree-
ments with thirty-eight countries.38

Commercial agreements were closely supervised by the President
and such organisations as the Superior Tariff Council, Federal Foreign
Trade Council, Similar Products Committee, and others holding staff

36 Ibid., pp. 205-210. George Wythe, Royce A. Wight, Harold
H. Midkiff, Brazil: An Expanding Economy, (The Twentieth Century Fund,

37 United States Tariff Commission, Economic Controls and

38 United States Tariff Commission, Economic Controls and
The General Characteristics of the Economic Policy. In the period 1930-1945 the Vargas government showed few trends toward state capitalism or collectivism. Some of the British investments in utilities and industry were bought by the government as a result of the British desire to establish a credit balance to buy war material. Other investments were taken over from Axis nationals for shipping losses. The Brazilian government in 1940-1945 period, established several industries under government Development Corporations. The most notable of these were steel, petroleums, motors, and farm machinery. The interest of the government, however, was directed toward maintaining a climate of economic liberalism within the framework of controls.

The land reform Vargas proclaimed in 1930 took the form of promoting the settlement of public lands and the underpopulated interior. Under the Ministry of Agriculture a comprehensive system of colonization was promoted with such devices as long term loans to purchase land, loans for machinery and equipment, experimental farms and other direct and indirect aid.

39 Ibid., pp. 8-12.
40 Loewenstein, p. 336.
42 Loewenstein, p. 338.
44 Ministry of Foreign Affairs, Brazil 1938, pp. 94-97.
In regard to capital and labor, the economic policy attempted to satisfy both. The laboring class which theretofore had been:

... completely ignored by the ruling classes, half trained workmen confronted with modern technical advances were looking for ways to become a valuable and productive, if not intellectual, force. To these Vargas gave enough of a social program, built enough housing developments, encouraged enough of a literary and vocational training campaign to make them his supporters, and they were flattered that, for the first time in the history of the working class, someone... had concerned himself with them. 45

On the other hand, Vargas tried not to antagonize the employers and the business class. "To capital he made equivalent outward concessions." 46

During the first years Vargas was inclined to steer a more anticapitalist course; but soon the wise policy was adopted of leaving business alone... provided the policies (of business) did not run counter to that other prominent trend of the regime, solicitude for the laboring masses. 47

The general characteristics of the economic policy may be summed up as a concerted effort to promote through central governmental control a balanced economy based on social and economic justice in a framework of economic liberalism and private property.

The Context for Evaluation of the Economic Organization and Controls. As has been seen, a hierarchy of control and coordinating

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45 Smith and Marchant, p. 366.
46 loc. cit.
47 Lowenstein, p. 335.
agencies with broad powers promoted a multiplicity of objectives envisioned by a comprehensive economic policy. The methods, within the framework of economic freedom, were the manipulations of the tariff, multiple-rate exchange controls, import and export controls, federal and state taxes, consumption taxes, subsidies, special privilege, laws requiring the use of domestic products, guaranteed price and almost any other form of ban or encouragement as the policy required, that could be named.\footnote{United States Tariff Commission, \\textit{Economic Controls and Commercial Policy in Brazil, 1948}. Evidence of the multiplicity of methods are to be found throughout this book.} Because Vargas held dictatorial power, at least as far as group pressure was concerned, the laws needed to implement his government's policy were almost always on hand. These laws and controls were used with different emphasis as occasion demanded.\footnote{Loc. cit.}

As a consequence it is impossible, in this paper, to attempt to ascertain, even probably the results of control measure or group of measures on the basis of cause and effect outside of the over-all effect.\footnote{See Richard Schlesinger, \\textit{Multiple Exchange Rates and Economic Development}, (Princeton University Press, 1952), and United States Tariff Commission, \\textit{Economic Controls and Commercial Policy in Brazil, 1948}, pp. 18-22.} One example will serve to illustrate this point. Exchange controls were employed by the Vargas government from early in 1931 to 1945. A multiple rate system was inaugurated shortly thereafter.

Through manipulating the rate structure the government, at one time or
another, used the system to (1) stabilize both domestic and foreign

currency for the purpose of exchange as well as the domestic currency,

(2) influence the terms of trade, (3) control capital movements, (4)
promote industrialization by providing a cheaper exchange market for

the exchange so received (5) restrict the import of luxury goods, (6)

provide a system of rationing exchange and imported goods, (7) tax both

foreign and domestic producers, and (8) control foreign investments and

industries domiciled in the country. 51

As a result it may be granted that the context for evaluating

the effect of the economic controls and organization is within the

development of Brazil after 1930.

It is not a question of a high tariff or low tariff, or ex-

change controls or not, but a question of whether or not the organization

and controls promoted the economy as a whole, the interest of the

Brazilian people as a whole, and at the same time the interest of other

nations and their populations.

51 United States Tariff Commission, Economic Controls and

Commercial Policy in Brazil, 1948, pp. 18-22.
CHAPTER IV

DEVELOPMENTS IN BRAZIL AFTER 1930

In Industry. To consider the broad developments in the Brazilian economy from 1930 to 1945 it is necessary, first, to note that the population of the country increased 25 per cent from 1929 through 1945: from 36,884,375 to 46,200,000.¹

Previous to 1930, the large volume of exports gave Brazil enough exchange to pay for imports and at the same time hold down the demand for imports. Once the depression broke up this essentially vicious circle, industrial production developed at an exceedingly rapid rate. Only one country between 1929 and 1939 developed industrially faster than Brazil. If the production for 1929 is taken as a 100, Russia in 1939 reached an index of 470, Brazil 330, Japan 173, Chile 136, Germany 126, and England 115. The industrial index of the United States, France and Belgium as examples, decreased from 1929 to 1939.²

¹ Ministry of Foreign Affairs, Brazil 1938, and Brazil 1946, (Rio de Janeiro), pp. 19 respectively, 40, 51.

² José Jobim, Brazil in the Making, (The Macmillan Company, New York, 1943), p. 89. It may be interesting to note that this author was the editor of Brazil for the Ministry of Foreign Affairs, the official publication of the Brazilian Government, used frequently herein, for a number of years.
In 1920 there were 13,336 industrial establishments in Brazil with total employment of 276,000. By 1940 there were 70,026 establishments with employment totalling 1,412,000. The value of industrial production in 1940 was eight times that of 1920 and capital investments were six times greater.3 By 1935 Brazil was practically self-sufficient in the consumer goods theretofore imported.

A general view of the increase in production may be seen in Table IV. In 1920 two groups, foodstuffs and textiles (including clothing), accounted for nearly seventy-five per cent of the total Brazilian factory production. Chemicals and pharmaceuticals occupied third place (six per cent), and metallurgical products, (three per cent). Production of machinery and equipment was not important enough to be separately classified.4

By 1936 the importance of the individual industry groups had undergone material change. Foodstuffs and textiles still predominated although their share in the total output had declined to two-thirds. The metallurgical, chemical, and machinery groups had become more important, their combined output having increased from nine per cent of the total in 1920 to fifteen per cent in 1936. Machinery accounted for two per cent of the total production in the latter year.5

After 1939 the Brazilian manufacturing industry continued to expand rapidly. Between 1938 and 1940, the production of the foodstuffs

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4 Ibid., p. 15.
5 Loc. cit.
TABLE IV

BRAZIL: INDUSTRIAL PRODUCTION BY INDUSTRIES,
1920 AND 1938

<table>
<thead>
<tr>
<th>Industry</th>
<th>1920</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production</td>
<td>Per Cent of Total</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>1,304</td>
<td>40.7</td>
</tr>
<tr>
<td>Textiles</td>
<td>807</td>
<td>25.2</td>
</tr>
<tr>
<td>Clothing and table linen</td>
<td>261</td>
<td>8.2</td>
</tr>
<tr>
<td>Chemicals and pharmaceuticals</td>
<td>192</td>
<td>6.0</td>
</tr>
<tr>
<td>Iron, steel, and metalurgy</td>
<td>107</td>
<td>3.3</td>
</tr>
<tr>
<td>Wooden products and furniture</td>
<td>165</td>
<td>5.2</td>
</tr>
<tr>
<td>Mining and refining</td>
<td>6/</td>
<td>6/</td>
</tr>
<tr>
<td>Ceramics, glass, and building materials</td>
<td>82</td>
<td>2.6</td>
</tr>
<tr>
<td>Paper and graphic arts</td>
<td>37</td>
<td>1.2</td>
</tr>
<tr>
<td>Machinery, apparatus and instruments</td>
<td>6/</td>
<td>6/</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>107</td>
<td>3.3</td>
</tr>
<tr>
<td>Leather, excluding footwear</td>
<td>74</td>
<td>2.3</td>
</tr>
<tr>
<td>Rolling stock and vehicles</td>
<td>39</td>
<td>1.2</td>
</tr>
<tr>
<td>Toys, games and musical instruments</td>
<td>1</td>
<td>5/</td>
</tr>
<tr>
<td>Mattresses, mats and brushes</td>
<td>5</td>
<td>.1</td>
</tr>
<tr>
<td>Rubber manufactures</td>
<td>3</td>
<td>.1</td>
</tr>
<tr>
<td>All Other</td>
<td>16</td>
<td>.5</td>
</tr>
<tr>
<td>Total</td>
<td>3,200</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(Notes to Table on following page)
Notes for Table IV:

1/ - 1 cento = 1,000 milreis or cruzeiros
2/ - Includes footwear
3/ - Includes perfumes
4/ - Unimportant in 1920 and not separately classified
5/ - Less than one-tenth of one per cent


and textile groups increased twenty-three per cent; that of chemical and related products twenty-four per cent; wood and furniture twenty-seven per cent; iron and steel thirty-nine per cent; ceramics, glass, etc., forty-one per cent; paper products of the graphic arts forty-nine per cent; and rubber products one hundred fifty-one per cent. A part of this increase was represented by price raises. 6

The iron and steel industry, the base of Brazil's industrial drive after 1930, made very rapid gains and by 1940 symbolized the economic freedom the country had achieved. The average annual production of iron and steel products for the years 1926-1930 amounted to only 40,000 tons. The Tables V and VI show the increase in production and relative value from 1936 to 1945, as does Table VII. From a combined total of iron and steel production of 42,000 tons in 1930 the production of pig iron increased to 78,419 tons in 1936 and to 260,636 tons in 1945; the production of steel ingots increased to 73,667 tons in 1936 to 204,119 tons in 1945; and the production of rolled iron and steel to 62,942 tons in 1936 and 161,784 tons in 1945.

6 Log. cit. Price level data is not given in this source and in others it is largely deficient and concerned with long term trends. Price increase between 1930-1940 of which this paragraph is concerned was probably about five per cent. See Spiegel, pp. 97-98.
### TABLE V

**BRAZILIAN PRODUCTION OF PIG IRON, 1936-1945**

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in CR$ 1,000</th>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in CR$ 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>78,419</td>
<td>23,564</td>
<td>1941</td>
<td>208,795</td>
<td>89,372</td>
</tr>
<tr>
<td>1937</td>
<td>92,101</td>
<td>33,452</td>
<td>1942</td>
<td>213,519</td>
<td>114,458</td>
</tr>
<tr>
<td>1938</td>
<td>122,352</td>
<td>48,000</td>
<td>1943</td>
<td>248,376</td>
<td>174,833</td>
</tr>
<tr>
<td>1939</td>
<td>160,016</td>
<td>59,431</td>
<td>1944</td>
<td>291,211</td>
<td>217,544</td>
</tr>
<tr>
<td>1940</td>
<td>183,570</td>
<td>69,004</td>
<td>1945</td>
<td>260,638</td>
<td>206,068</td>
</tr>
</tbody>
</table>


### TABLE VI

**BRAZILIAN PRODUCTION OF STEEL INGOTS, 1936-1945**

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in CR$ 1,000</th>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in CR$ 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>73,667</td>
<td>45,311</td>
<td>1941</td>
<td>155,057</td>
<td>134,001</td>
</tr>
<tr>
<td>1937</td>
<td>76,430</td>
<td>55,663</td>
<td>1942</td>
<td>159,614</td>
<td>177,444</td>
</tr>
<tr>
<td>1938</td>
<td>92,420</td>
<td>72,136</td>
<td>1943</td>
<td>186,325</td>
<td>288,518</td>
</tr>
<tr>
<td>1939</td>
<td>141,095</td>
<td>95,169</td>
<td>1944</td>
<td>219,304</td>
<td>376,923</td>
</tr>
<tr>
<td>1940</td>
<td>141,076</td>
<td>113,174</td>
<td>1945</td>
<td>204,119</td>
<td>354,593</td>
</tr>
</tbody>
</table>

Source: *Ministry of Foreign Affairs, Brazil 1946*, p. 182.
TABLE VII

BRAZILIAN PRODUCTION OF ROLLED IRON AND STEEL

1935-1945

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in CR$ 1,000</th>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in CR$ 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>62,942</td>
<td>61,367</td>
<td>1941</td>
<td>140,928</td>
<td>189,131</td>
</tr>
<tr>
<td>1937</td>
<td>71,419</td>
<td>76,218</td>
<td>1942</td>
<td>153,154</td>
<td>257,102</td>
</tr>
<tr>
<td>1938</td>
<td>85,666</td>
<td>100,422</td>
<td>1943</td>
<td>155,056</td>
<td>360,413</td>
</tr>
<tr>
<td>1939</td>
<td>100,966</td>
<td>113,755</td>
<td>1944</td>
<td>164,656</td>
<td>433,347</td>
</tr>
<tr>
<td>1940</td>
<td>135,293</td>
<td>157,942</td>
<td>1945</td>
<td>161,784</td>
<td>406,860</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, Brazil 1946, p. 182.

In addition to this production, in 1945, seven new privately owned furnaces were being built that would increase production by forty-five per cent. Also, a plant owned by the Brazilian government was nearing completion with a capacity of 300,000 tons per year.

It has been noted elsewhere that in 1913, eighty-five per cent of Brazil's textile needs were imported. In 1926 the annual value produced had risen to 30,612,000 dollars but by 1942 the output increased to the value of 209,182,000 dollars. The reversal of Brazil's position

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7 Ministry of Foreign Affairs, Brazil 1946, p. 182.
9 See Chapter II, p. 20.
TABLE VIII

BRAZILIAN IMPORTS OF COTTON CLOTH, 1925-1945

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in Cruzeiros</th>
<th>Years</th>
<th>Quantity in Metric Tons</th>
<th>Value in Cruzeiros</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>8,941</td>
<td>206,747,015</td>
<td>1942</td>
<td>143</td>
<td>9,817,000</td>
</tr>
<tr>
<td>1930</td>
<td>1,844</td>
<td>43,603,178</td>
<td>1943</td>
<td>689</td>
<td>19,003</td>
</tr>
<tr>
<td>1935</td>
<td>762</td>
<td>23,624,537</td>
<td>1944</td>
<td>212</td>
<td>19,035</td>
</tr>
<tr>
<td>1941</td>
<td>856</td>
<td>26,960,118</td>
<td>1945</td>
<td>193</td>
<td>22,661</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, Brazil 1946, p. 184.

TABLE IX

PRODUCTION, EXPORT, AND CONSUMPTION OF COTTON FABRICS IN BRAZIL, 1930-1945

<table>
<thead>
<tr>
<th>Years</th>
<th>Production In Metres</th>
<th>Export*</th>
<th>Consumption In Metres</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>476,000,000</td>
<td>91,000</td>
<td>475,909,000</td>
</tr>
<tr>
<td>1932</td>
<td>630,000,000</td>
<td>520,000</td>
<td>620,480,000</td>
</tr>
<tr>
<td>1934</td>
<td>715,000,000</td>
<td>3,440,000</td>
<td>711,560,000</td>
</tr>
<tr>
<td>1936</td>
<td>914,000,000</td>
<td>2,610,000</td>
<td>910,350,000</td>
</tr>
<tr>
<td>1938</td>
<td>845,000,000</td>
<td>2,000,000</td>
<td>843,000,000</td>
</tr>
<tr>
<td>1940</td>
<td>822,000,000</td>
<td>33,000,000</td>
<td>789,000,000</td>
</tr>
<tr>
<td>1941</td>
<td>1,269,000,000</td>
<td>77,000,000</td>
<td>1,192,000,000</td>
</tr>
<tr>
<td>1942</td>
<td>1,500,000,000</td>
<td>212,000,000</td>
<td>1,290,000,000</td>
</tr>
<tr>
<td>1943</td>
<td>energy</td>
<td>220,000,000</td>
<td>energy</td>
</tr>
<tr>
<td>1944</td>
<td>energy</td>
<td>167,250,000</td>
<td>energy</td>
</tr>
<tr>
<td>1945</td>
<td>1,200,000,000</td>
<td>100,000,000</td>
<td>1,100,000,000</td>
</tr>
</tbody>
</table>

* Metreage calculated on the basis of 120 grams per metre of length.

Source: Ministry of Foreign Affairs, Brazil 1946, p. 186.
in textiles may be noted from Tables VIII and IX. In the course of the
ten-year period from 1933 to 1943, 4,997 metric tons of weaving machinery
were purchased, imports being highest in 1938 when they reached 1,612
metric tons. Looms began to be manufactured in Brazil in the late
1930's and in 1942 imports were reduced to 119 tons. By 1945, cotton
fabric production had reached 1,200,000,000 metres.\(^{11}\)

The production of cement in Brazil did not begin until 1926
when an output of 13,382 metric tons was produced. Imports for 1926
were 396,300 metric tons. Table X shows the growth of the industry and
imports from 1931 to 1941. By 1946 production had increased to 826,000
tons and imports to 351,000 tons.\(^{12}\)

Another step toward self-sufficiency was taken in the sugar
and anhydrous alcohol industry. In 1933 a distillery began producing
12,000 liters of alcohol per day for motor fuel.\(^{13}\) Table XI shows the
development of the industry between 1935 and 1943 and the use to which
the production was put.

Before 1930 Brazil depended almost entirely on imported coal,
domestic production in that year being only 285,148 tons. In 1931 a
law was passed requiring that all imported coal have ten per cent domestic
coal added to it. This was subsequently raised to twenty per cent. Thus
from 285,148 tons in 1930 domestic production increased to 1,408,048
tons in 1941. Imports in 1930 amounted to 1,745,000 tons and in 1941

\(^{11}\) Ministry of Foreign Affairs, Brazil, 1946, p. 186.

\(^{12}\) Wythes, Wight, Hidkiff, p. 171.

\(^{13}\) Ministry of Foreign Affairs, Brazil, 1938, p. 150.
TABLE X

CEMENT

PRODUCTION, IMPORTS AND CONSUMPTION, 1931—1941
(Tons)

<table>
<thead>
<tr>
<th>Years</th>
<th>Made in Brazil</th>
<th></th>
<th>Foreign</th>
<th>Domestic</th>
<th>Index Nos. on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production</td>
<td>Exports</td>
<td>Imported</td>
<td>Consumption</td>
<td>Consumption</td>
</tr>
<tr>
<td>1931</td>
<td>167,215</td>
<td>——</td>
<td>114,332</td>
<td>261,447</td>
<td>100</td>
</tr>
<tr>
<td>1932</td>
<td>149,453</td>
<td>——</td>
<td>160,534</td>
<td>309,927</td>
<td>110</td>
</tr>
<tr>
<td>1933</td>
<td>225,680</td>
<td>——</td>
<td>113,870</td>
<td>339,550</td>
<td>121</td>
</tr>
<tr>
<td>1934</td>
<td>323,909</td>
<td>——</td>
<td>125,702</td>
<td>449,611</td>
<td>160</td>
</tr>
<tr>
<td>1935</td>
<td>366,261</td>
<td>——</td>
<td>114,154</td>
<td>480,415</td>
<td>171</td>
</tr>
<tr>
<td>1936</td>
<td>485,064</td>
<td>——</td>
<td>73,198</td>
<td>563,262</td>
<td>200</td>
</tr>
<tr>
<td>1937</td>
<td>571,452</td>
<td>——</td>
<td>74,831</td>
<td>646,283</td>
<td>230</td>
</tr>
<tr>
<td>1938</td>
<td>617,396</td>
<td>6</td>
<td>49,600</td>
<td>667,490</td>
<td>237</td>
</tr>
<tr>
<td>1939</td>
<td>697,793</td>
<td>15</td>
<td>34,834</td>
<td>732,612</td>
<td>260</td>
</tr>
<tr>
<td>1940</td>
<td>743,625</td>
<td>402</td>
<td>14,896</td>
<td>758,529</td>
<td>259</td>
</tr>
<tr>
<td>1941</td>
<td>767,506</td>
<td>603</td>
<td>9,543</td>
<td>776,846</td>
<td>275</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, Brazil 1943.
### TABLE XI

**SAVINGS IN PETROL (GASOLINE) BY THE USE OF ALCOHOL**

(1 Litre = 0.264 U. S. Gallons)

<table>
<thead>
<tr>
<th>Years</th>
<th>Production of Power Alcohol (In Litres)</th>
<th>Total Alcohol In Fuel Mixture (In Litres)</th>
<th>Value of the Petrol Saved (In Cruzeiros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td>47,526.47</td>
<td>16,744.245</td>
<td>5,976,423.00</td>
</tr>
<tr>
<td>1936</td>
<td>139,612.595</td>
<td>24,340.393</td>
<td>8,519,137.50</td>
</tr>
<tr>
<td>1937</td>
<td>112,342.593</td>
<td>18,446.446</td>
<td>6,991,278.80</td>
</tr>
<tr>
<td>1938</td>
<td>213,477,743</td>
<td>32,698,879</td>
<td>11,408,767.70</td>
</tr>
<tr>
<td>1939</td>
<td>312,683,596</td>
<td>49,065,472</td>
<td>21,539,698.30</td>
</tr>
<tr>
<td>1940</td>
<td>299,216,620</td>
<td>44,934,930</td>
<td>17,664,607.80</td>
</tr>
<tr>
<td>1941</td>
<td>462,509,137</td>
<td>102,789,512</td>
<td>45,741,332.80</td>
</tr>
<tr>
<td>1942</td>
<td>289,375,449</td>
<td>104,692,135</td>
<td>46,586,000.10</td>
</tr>
<tr>
<td>1943</td>
<td>144,472,374</td>
<td>87,934,676</td>
<td>55,836,519.30</td>
</tr>
<tr>
<td>Total</td>
<td>2,021,413,561</td>
<td>481,534,588</td>
<td>220,167,765.30</td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs, Brazil 1946, p. 190.*
to 1,057,946 tons.\textsuperscript{14}

Up to 1930 Brazil relied upon the importation of salt to a large extent to meet domestic needs. With emphasis placed on limiting non-essential imports and encouraging national industry, the production of salt was accordingly emphasized. Production increased from 327,434 metric tons in 1930 to 694,121 tons in 1940 and 1,958,909 tons in 1945.\textsuperscript{15}

Other examples of the development of industry and food processing may be seen in the Tables XII, XIII, and XIV concerning various products. It was in the production of the more or less common consumption goods formerly imported, if consumed, in which production increased phenomenally. The rate of increase shown in Tables XII, XIII, and XIV are fairly typical.

The production of industrial machinery increased from practically nothing in the early 1930\textquotesingle{}s to considerable importance in the 1940-1945 period. Some of the machines produced in the latter period are as follows:\textsuperscript{16}

\begin{itemize}
  \item Industrial shears and presses
  \item Drills
  \item Jacks
  \item Cutting and saving machines
  \item Scales, all sizes
  \item Screw-cutting machinery
  \item Concrete mixers
  \item Elevators
  \item Cotton gins and presses
  \item Industrial boilers
  \item Pulverizing machines
  \item Wood-working machinery
  \item Ventilators

Machinery for the following operations:

\begin{itemize}
  \item Retreading automobile tires
  \item Polishing building stone
  \item Insect control
  \item Processing rice and coffee
  \item Grading and polishing fruit
  \item Bottling beverages
\end{itemize}

\textsuperscript{14} Jose Jobim, p. 71.

\textsuperscript{15} Ministry of Foreign Affairs, Brazil 1943, (Rio de Janeiro), p. 126, and Brazil 1946, p. 83.

\textsuperscript{16} United States Tariff Commission, Mining and Manufacturing in Brazil, 1949, pp. 61-62.
### TABLE XII

**THE INCREASE IN PRODUCTION OF FOUR FOOD PRODUCTS**

**1926-1940**

<table>
<thead>
<tr>
<th>Years</th>
<th>Vinegar (Hectolitres)</th>
<th>Olive Oil (Hectolitres)</th>
<th>Roasted and Ground Coffee (Tons)</th>
<th>Tea (Tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926</td>
<td>163,378</td>
<td>---</td>
<td>36,188</td>
<td>1</td>
</tr>
<tr>
<td>1928</td>
<td>170,729</td>
<td>---</td>
<td>39,735</td>
<td>9</td>
</tr>
<tr>
<td>1930</td>
<td>168,913</td>
<td>---</td>
<td>43,822</td>
<td>9</td>
</tr>
<tr>
<td>1932</td>
<td>162,181</td>
<td>---</td>
<td>42,507</td>
<td>13</td>
</tr>
<tr>
<td>1934</td>
<td>182,328</td>
<td>68,116</td>
<td>48,663</td>
<td>29</td>
</tr>
<tr>
<td>1936</td>
<td>250,945</td>
<td>222,507</td>
<td>52,907</td>
<td>32</td>
</tr>
<tr>
<td>1938</td>
<td>266,945</td>
<td>295,627</td>
<td>72,324</td>
<td>127</td>
</tr>
<tr>
<td>1940</td>
<td>352,918</td>
<td>356,580</td>
<td>71,681</td>
<td>748</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years</th>
<th>Ink</th>
<th>Oil and Water Paints</th>
<th>Varnishes and Enamels</th>
<th>Dyestuffs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926</td>
<td>675</td>
<td>670</td>
<td>255</td>
<td>40</td>
<td>1,640</td>
</tr>
<tr>
<td>1928</td>
<td>784</td>
<td>1,405</td>
<td>32</td>
<td>30</td>
<td>2,251</td>
</tr>
<tr>
<td>1930</td>
<td>847</td>
<td>1,473</td>
<td>75</td>
<td>18</td>
<td>2,413</td>
</tr>
<tr>
<td>1932</td>
<td>1,210</td>
<td>1,769</td>
<td>174</td>
<td>94</td>
<td>3,247</td>
</tr>
<tr>
<td>1934</td>
<td>679</td>
<td>2,876</td>
<td>611</td>
<td>126</td>
<td>4,292</td>
</tr>
<tr>
<td>1936</td>
<td>1,479</td>
<td>5,839</td>
<td>583</td>
<td>385</td>
<td>8,286</td>
</tr>
<tr>
<td>1938</td>
<td>4,280</td>
<td>5,503</td>
<td>1,423</td>
<td>—</td>
<td>11,206</td>
</tr>
<tr>
<td>1940</td>
<td>2,671</td>
<td>7,305</td>
<td>16,869</td>
<td>24,277</td>
<td>51,122</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, Brazil 1943, p. 463.
TABLE XIV

THE INCREASE IN PRODUCTION OF RUBBER AND LEATHER PRODUCTS

1926-1940
(Units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rubber Manufactures</th>
<th>Leather</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Inner Tubes for Cars</td>
<td>Tires for Cars</td>
</tr>
<tr>
<td></td>
<td>And Bikes</td>
<td>And Bikes</td>
</tr>
<tr>
<td>1926</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1928</td>
<td>51</td>
<td>159</td>
</tr>
<tr>
<td>1930</td>
<td>2,130</td>
<td>1,076</td>
</tr>
<tr>
<td>1932</td>
<td>40,722</td>
<td>8,599</td>
</tr>
<tr>
<td>1934</td>
<td>51,965</td>
<td>23,558</td>
</tr>
<tr>
<td>1936</td>
<td>82,236</td>
<td>42,362</td>
</tr>
<tr>
<td>1938</td>
<td>58,002</td>
<td>68,733</td>
</tr>
<tr>
<td>1940</td>
<td>139,854</td>
<td>282,733</td>
</tr>
</tbody>
</table>

* This is the method of designating value per ton in Cruzeiros

Source: Ministry of Foreign Affairs, Brazil 1943, p. 464.
Machines to manufacture the following articles:

<table>
<thead>
<tr>
<th>Charged water</th>
<th>Rubber products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanned leather</td>
<td>Sugar</td>
</tr>
<tr>
<td>Hats</td>
<td>Lumber</td>
</tr>
<tr>
<td>Metal articles</td>
<td>Glass</td>
</tr>
<tr>
<td>Spaghetti</td>
<td>Textiles</td>
</tr>
<tr>
<td>Macaroni</td>
<td>Bricks</td>
</tr>
<tr>
<td>Chemical products</td>
<td>Roofing materials</td>
</tr>
<tr>
<td>Shoes</td>
<td>Vegetable oils</td>
</tr>
<tr>
<td>Ice</td>
<td>Furniture</td>
</tr>
<tr>
<td>Pottery</td>
<td>Brushes</td>
</tr>
<tr>
<td>Paper and cardboard</td>
<td>Toys</td>
</tr>
</tbody>
</table>

The production of industrial machinery in the period in question remained of the type suitable only for the more simple industrial operations. The requirements for heavy road machinery, locomotives, the larger portion of heavy agricultural machinery such as tractors and combines, hydro-electric equipment, etc., continued to be met from foreign sources, principally from the United States. The following section on foreign trade indicates the increase in imports of producer goods made possible by the decrease in imports of manufactured consumer goods and the light machinery.

Development in Agriculture. Before 1930 the Brazilian economy was:

nearly always a monoculture, and if at any time this culture was not plainly to be seen it was usually because the period was one of transition, with production collapsing and large migrations of people occurring. The latter phenomenon explains a large part of the concentration of effort on a single product . . . and the lack of interest in diversification of agriculture. Some authorities have estimated that Brazil is able to support from two

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17 Loc. cit.
18 Jobim, p. 44.
to four hundred million people.\textsuperscript{19} In 1930 the country was supporting only about thirty-six million, the great majority in an abject state of poverty, health and ignorance. The extent of specialization was such that a large part of the common fruits consumed in Brazil were imported in spite of a suitable climate for their production.\textsuperscript{20} Even fresh vegetables were largely transported to the interior plantations and vegetables were largely transported to the interior plantations and stores to a "monocultural economy" ignored the cultivation of "cabbage, tomatoes, cauliflower, beets, and etc."\textsuperscript{21}

Statistics are not available to show the extent of diversification between 1930 and 1945 but, since it is fairly certain that little diversification took place before 1930, the 1920-1940 census figures may be used to show the diversification between 1930-1940. Between 1920 and 1940, while the population was increasing from $30,535,605$ to $41,565,063$\textsuperscript{22} the number of individually owned farms tripled from $648,000$ to $1,896,000$.\textsuperscript{23} The acreage in cultivation, in the same period, increased from $16,000,000$ to

\begin{footnotes}
\footnotetext[19]{\textit{Loc. cit.}}
\footnotetext[21]{Jobim, p. 51.}
\footnotetext[22]{T. Lynn Smith, \textit{Brazil: People and Institutions}, (Louisiana State University Press, Baton Rouge, 1946), p. 136.}
\footnotetext[23]{Spiegel, p. 161.}
\end{footnotes}
to 36,000,000.24 Yet in the same period the value of the eight agricultural products that in the 1920-1930 decade made 88.6 per cent of the value of all exports, fell to 57.2 per cent in 1941.25 The rate of decline as a percentage of total exports continued to decline as is shown in Table IV.

The most important change in regard to diversification was the changed status of coffee in both exports and domestic production. The value of coffee as a percentage of total exports declined from 69.9 in 1930 to 35.5 in 1945. In the same period, the number of coffee trees declined from 2,588 million to 2,091 million.26

The fall in agricultural production for export was offset by the production of the principal food crops of Brazil. The traditional food crops were rice, beans, corn, mandioc, wheat and potatoes.27 Of these products, production increased between 1920 and 1944 as follows: (in thousands of tons) rice from 831 to 2,109; beans from 725 to 10,039; mandioc from 2,899 to 10,142; wheat from 87 to 1,176; and potatoes from 146 to 454. The production of corn remained approximately the same.28

Beyond the developments in the agricultural products ordinarily

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24 Ibid., p. 185.
25 Ibid., p. 123.
28 Spiegel, p. 189.
TABLE XV

THE VALUE OF EIGHT PRINCIPAL EXPORTS AS A PERCENTAGE OF TOTAL EXPORTS, BRAZIL, 1921-1945

<table>
<thead>
<tr>
<th>Year</th>
<th>All</th>
<th>Eight</th>
<th>Coffee</th>
<th>Sugar</th>
<th>Cocoa</th>
<th>Mate</th>
<th>Tobacco</th>
<th>Cotton</th>
<th>Rubber</th>
<th>Hides and Skins</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921-30</td>
<td>68.6</td>
<td>69.6</td>
<td>1.4</td>
<td>3.2</td>
<td>2.7</td>
<td>2.1</td>
<td>2.4</td>
<td>2.6</td>
<td>4.6</td>
<td></td>
</tr>
<tr>
<td>1931-40</td>
<td>77.5</td>
<td>50.0</td>
<td>0.5</td>
<td>4.2</td>
<td>1.6</td>
<td>1.5</td>
<td>14.2</td>
<td>1.1</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td>1941</td>
<td>57.2</td>
<td>30.0</td>
<td>0.1</td>
<td>4.7</td>
<td>0.9</td>
<td>0.6</td>
<td>15.0</td>
<td>1.4</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>1942</td>
<td>47.3</td>
<td>26.2</td>
<td>0.6</td>
<td>2.9</td>
<td>1.0</td>
<td>0.7</td>
<td>6.6</td>
<td>2.0</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>1943</td>
<td>48.2</td>
<td>32.1</td>
<td>0.2</td>
<td>3.9</td>
<td>0.8</td>
<td>0.8</td>
<td>4.7</td>
<td>2.2</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>1944</td>
<td>54.9</td>
<td>36.2</td>
<td>1.1</td>
<td>2.9</td>
<td>0.8</td>
<td>1.5</td>
<td>6.2</td>
<td>3.4</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>1945</td>
<td>54.9</td>
<td>35.5</td>
<td>0.4</td>
<td>1.9</td>
<td>0.9</td>
<td>2.1</td>
<td>8.7</td>
<td>2.9</td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Spiegel, p. 123.
exported and the basic food products, little information on agriculture in the period being considered is available. The farms not dealing in exportables before 1930 were largely outside the monetary economy, and by 1940, a census year, there was still not enough integration of family farms in the domestic monetary economy to form a base for statistical analysis.29

Perhaps the greatest benefit bestowed upon the rural population, although not subject to quantitative analysis, was in the form of alternative opportunities. Through the extension of credit to purchase land and equipment, it became possible for a rural worker to buy and operate his farm rather than being bound to the large estate. There was also the opportunity to find work in industry and the rural worker, as a result, had bargaining power for farm wages. Through the system of rural education and the increasing use of farm machinery, a higher level of living could be had although the cash crops played little part in the small farm's operation.

**Development in Foreign Trade.** There were very powerful forces affecting the foreign trade of Brazil between 1930-1945. On the basis of 100 in 1918, trade with the United States fell from 208 in 1928 to 72 in 1937.30 Trade with Germany rose rapidly in the early 1930's and (1919 = 100) reached 1,037 in 1937 only to fall to zero in 1942.31 In

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promoting self-sufficiency and a balanced economy, the Vargas government was led to promote exports more than ever as well as imports in the form of raw materials and producer goods. During World War II the lack of shipping greatly influenced foreign trade and, due to war-given prosperity, the impetus to import was greatly increased. Table XVI shows the pattern of imports and exports in quantity and comparative value between 1930 and 1945.

The broad pattern of change in the composition of imports and exports are indicated in Tables XVII and XVIII. One of the more significant items in Table XVII is the increase in raw material imports from 1,631,346 tons in 1930 to 2,506,324 tons in 1945. In Table XVIII the increase in mineral exports and the decrease in exports of animal and vegetable products reflects the influence of the war.

The composition of Brazil's exports and imports changed considerably in the 1940-1945 period. From 1942 through 1945 cotton piece goods followed coffee as the largest export item. By 1946 the largest group of imports consisted of machinery, motor vehicles and parts, railway cars and locomotives, and ships. This group comprised 33.5 per cent of the total value of imports in that year. The next largest groups were basic iron and steel products (10.2 per cent), fuels and lubricants (9.1 per cent), industrial chemicals (4.1 per cent), and nonferrous metals (2.9 per cent). The foodstuffs and beverage group as a whole accounted for 19.1 per cent of the 1946 total. Imports of consumer goods other than foodstuffs, beverages, and motor vehicles accounted for 5.4 per cent of the total. In other words, by far the greater bulk of imports was made up of capital goods and basic raw materials.32

32 Wythe, Hight, Midiff, pp. 315-316.
### TABLE XVI

**BRAZILIAN FOREIGN TRADE: EXPORTS AND IMPORTS COMPARED**

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantity (Tons)</th>
<th>Yearly Value (CR$ 1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Imports</td>
</tr>
<tr>
<td>1930</td>
<td>2,273,688</td>
<td>4,733,915</td>
</tr>
<tr>
<td>1931</td>
<td>2,236,062</td>
<td>3,476,414</td>
</tr>
<tr>
<td>1932</td>
<td>1,632,265</td>
<td>3,254,393</td>
</tr>
<tr>
<td>1933</td>
<td>1,910,722</td>
<td>3,637,526</td>
</tr>
<tr>
<td>1934</td>
<td>2,184,768</td>
<td>3,645,713</td>
</tr>
<tr>
<td>1935</td>
<td>2,761,517</td>
<td>4,229,305</td>
</tr>
<tr>
<td>1937</td>
<td>3,296,345</td>
<td>5,099,880</td>
</tr>
<tr>
<td>1938</td>
<td>3,933,370</td>
<td>4,913,170</td>
</tr>
<tr>
<td>1939</td>
<td>4,183,042</td>
<td>4,788,646</td>
</tr>
<tr>
<td>1940</td>
<td>3,236,916</td>
<td>4,336,133</td>
</tr>
<tr>
<td>1941</td>
<td>3,535,557</td>
<td>4,049,338</td>
</tr>
<tr>
<td>1942</td>
<td>2,671,405</td>
<td>3,482,607</td>
</tr>
<tr>
<td>1943</td>
<td>3,027,221</td>
<td>4,291,096</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, Brazil 1943, p. 473, and Brazil 1946, pp. 212, 216.
### TABLE XVII

**BRAZILIAN IMPORTS ACCORDING TO CLASS OF MERCHANDISE**

**1920-1941**

*(Quantity Tons)*

<table>
<thead>
<tr>
<th>Years</th>
<th>Livestock</th>
<th>Raw Materials</th>
<th>Manufactured Goods</th>
<th>Foodstuffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>15,727</td>
<td>1,631,346</td>
<td>825,059</td>
<td>592,198</td>
</tr>
<tr>
<td>1925</td>
<td>1,699</td>
<td>2,540,293</td>
<td>1,250,305</td>
<td>1,015,026</td>
</tr>
<tr>
<td>1930</td>
<td>730</td>
<td>2,569,515</td>
<td>1,184,105</td>
<td>979,160</td>
</tr>
<tr>
<td>1935</td>
<td>10,637</td>
<td>2,732,265</td>
<td>423,105</td>
<td>1,003,318</td>
</tr>
<tr>
<td>1940</td>
<td>45,935</td>
<td>2,808,726</td>
<td>523,225</td>
<td>958,247</td>
</tr>
<tr>
<td>1941</td>
<td>43,545</td>
<td>2,506,224</td>
<td>506,667</td>
<td>992,902</td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs, *Brazil 1943*, p. 474.*

### TABLE XVIII

**BRAZILIAN EXPORTS ACCORDING TO CLASS OF MERCHANDISE**

**1920-1941**

*(Quantity Tons)*

<table>
<thead>
<tr>
<th>Years</th>
<th>Animals and By-products</th>
<th>Minerals and By-products</th>
<th>Vegetables and By-products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>149,473</td>
<td>457,455</td>
<td>1,498,452</td>
</tr>
<tr>
<td>1925</td>
<td>142,682</td>
<td>319,364</td>
<td>1,462,154</td>
</tr>
<tr>
<td>1930</td>
<td>216,603</td>
<td>215,503</td>
<td>1,811,582</td>
</tr>
<tr>
<td>1935</td>
<td>192,780</td>
<td>114,856</td>
<td>2,353,881</td>
</tr>
<tr>
<td>1940</td>
<td>69,305</td>
<td>531,620</td>
<td>611,117</td>
</tr>
<tr>
<td>1941</td>
<td>75,737</td>
<td>1,025,955</td>
<td>771,853</td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs, *Brazil 1943*, p. 474.*
The Developments in Foreign Investments. In Chapter II it was seen that there had been a large inflow of capital into Brazil throughout the history of the country up to 1930. In 1930 total foreign investments in Brazil have been estimated at 2,626 million dollars of which the British held slightly over half and the United States one-fifth.\(^{33}\) As seen in Table XIX the total debt of governmental entities

<table>
<thead>
<tr>
<th></th>
<th>Pounds</th>
<th>Francs</th>
<th>Dollars</th>
<th>Florins</th>
<th>Total in Pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>99.8</td>
<td>1,262.7</td>
<td>147.4</td>
<td>—</td>
<td>141.2</td>
</tr>
<tr>
<td>States</td>
<td>50.6</td>
<td>227.5</td>
<td>157.5</td>
<td>10.7</td>
<td>66.6</td>
</tr>
<tr>
<td>Municipalities</td>
<td>10.7</td>
<td>50.0</td>
<td>68.3</td>
<td>—</td>
<td>25.5</td>
</tr>
<tr>
<td>Total in currency of issue</td>
<td>161.1</td>
<td>1,560.2</td>
<td>373.5</td>
<td>10.7</td>
<td>253.3</td>
</tr>
<tr>
<td>Total in Dollars</td>
<td>805.6</td>
<td>61.6</td>
<td>373.5</td>
<td>4.3</td>
<td>1,266.5</td>
</tr>
</tbody>
</table>

Source: Wythe, Wight, Midkiff, p. 295.\(^{33}\)

was 1,266.5 million dollars, leaving a balance for the private sector of 1,363.5 million dollars in utilities, business enterprises and other commercial operations. In 1930 the service on the external debt of the government bodies alone was approximately 100 million dollars and with the return on private investments it was approximately 200 million dollars in 1929.\(^{34}\) In 1929 the export balance amounted only to 40 million

\(^{33}\) Ibid., p. 295.\(^{34}\) See Chapter II above.
dollars. Although the debt was never defaulted, it was largely maintained by refunding.

Soon after Vargas took office, states and municipalities were forbidden to make further foreign loans and such debts as they had outstanding were taken over by the federal government. A committee for the study of state and municipal finances and economics was created, and under it negotiations were opened with the foreign creditors to create a consolidated debt structure that could be serviced.35

Through renegotiation, and payments, the total consolidated public debt was reduced from 2,628 million dollars in 1930 to 1,650 million dollars in 1947, plus 128.6 million dollars due to official United States government agencies. The service on the consolidated government debt in 1947 amounted to approximately 32 million dollars annually.36

It was noted above that in 1930 approximately 1,363.5 million dollars was invested in the private sector of the Brazilian economy in 1930. By 1947, in spite of the restrictions on foreigners and foreign enterprises, these investments totaled 1,500 million dollars. The British, in the latter year had 550 or 600 million of the total, the Americans 450-500 million, the Canadians 200 million, and various other countries lesser amounts.37

The total foreign debt (public debt plus foreign investments in Brazil) decreased from 3,991.5 million dollars in 1930 to 3,150 million dollars in 1947. Most significant of all, whereas the federal budget

35 Ministry of Foreign Affairs, Brazil 1943, pp. 622-623.
36 Wythe, Wight, Midkiff, p. 296.
37 Ibid., p. 294.
alone, before 1930, ordinarily took from forty to eighty per cent of the export balance, by 1946 only nine per cent was required.38

**Social and Cultural Development.** The social and cultural development in Brazil between 1930 and 1945 reflects the progress made in unionization, industrialization, the establishment and re-establishment of farm families and the numerous laws concerning minimum wages, health and social welfare. In the absence of meaningful level-of-living data, the developments must be noted largely in terms of education.39

Prior to 1930 Brazil followed what may be termed an aristocratic concept of education, providing education for the elite but failing to teach the mass of people how to read and write.40 Up to 1930 indications are that illiteracy was increasing.41

The Ministry of Education and Health was created in 1930 under Vargas and the federal government assumed "the right to determine the basis and general lines of national education". Laws were passed requiring that not less than ten per cent of all federal taxes and not less than twenty per cent of all state and municipal taxes be devoted to the national system of education. In 1931 secondary and higher education was reorganized and a system of federal, state and municipal cooperation in education established.42

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38 Camacho, p. 53.

39 *Ibid.*, p. 15. After analysis, Camacho concludes that the level of living data on Brazil is worthless. This writer agrees.

40 Wythe, Wight, Midkiff, p. 256.

41 Smith, pp. 661-665.

42 Wythe, Wight, Midkiff, p. 256.
Between 1930 and 1946 the number of elementary schools increased from 27,000 to more than 47,000; high schools from 300 to 860; vocational schools from 100 to nearly 2,000. In 1932, in a population of 39,000,000, the total enrollment in Brazilian schools was about 2,200,000. In 1942, in a population of 42,000,000, school enrollment had risen to 4,000,000. In 1932 secondary schools numbered about 200 and their students 56,000. By 1947, secondary schools had increased to over 1,000 and students to 302,000. The most striking increase was in vocational education, the number of students of which increased from 120,000 in 1930 to 600,000 in 1947. In the early thirties there were no more than 30,000 pupils in commercial, industrial, and home economics courses. By 1946 there were more than 500,000.43

Other social and cultural developments in the 1930-1945 period included the inauguration of a national cooperative health plan under the Ministry of Health and Education. This effort was aided by the United States after 1942. Efforts were largely directed toward the control of contagious diseases and the establishment of health clinics throughout the country.44

Up to 1930, interest rates ran as high as eighteen per cent on home construction; by 1946 these rates had been reduced to six per cent and resulted in the development of multiple low-cost housing projects. In summary, it may be concluded that the social and cultural development of Brazil in the 1930-1945 period was revolutionary in scope and effect.45

43 Hill, pp. 144-148.
44 Wythe, Night, Midkiff, p. 253.
The Developments in Government. It may be recalled that after the formation of the republican government in 1889 the national political parties deteriorated into a particularly pronounced "boss system" representing purely regional interest. The states of Sao Paulo and Minas Gerais dominated the federal government, elections were completely controlled, the states maintained armies with which to dominate the federal government, de facto relations were maintained with foreign governments, and trade barriers restricted inter-state commerce. In addition, the old land-owning oligarchy had merged governmental and economic power and, through the control of state governmental machinery, controlled the political and economic life of the country.

Vargas rapidly and firmly replaced the state governors by interventores—who were ordered to replace the corrupt, elected officials by appointed ones. The purge of the old aristocratic elements was ruthless and complete. Vargas knew that it was from its public position that this class drew its strength, and was determined to eliminate it from public life.\(^4^6\)

The interventor system may best be summarized by the following excerpt:

... by a sort of cogwheel arrangement the office of the interventor, the administrative department (of the state) and the (federal) Ministry of Justice cooperate in the administration of the states, under the over-all control of the president of the republic. In this hierarchical system—the Interventor and Administrative department of the state are subject to the ultimate decision of the Ministry of Justice and ultimately to the president of the republic himself.\(^4^7\)

In many ways the system resembled the city manager arrangements familiar to the United States.\(^4^8\)

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\(^{46}\) Hill, p. 109.

\(^{47}\) Karl Loewenstein, Brazil Under Vargas, (The Macmillan Company, New York, 1942), pp. 64, 65.

\(^{48}\) Ibid., p. 66.
When the 1934 constitution was written under the auspices of Vargas, he retained the right to replace any governor of a state who did not have a mandate from the federal government. This was continued in the 1937 constitution and remained in effect until Vargas retired in 1945.

The unity of the states was drummed into the people of the states. In 1937 it was forbidden to the states to use state flags, state political symbols, or uniforms for the state militias similar to those of the army. In 1937 the state flags were burned in a public ceremony.

The reaction to the interventor system and the loss of state autonomy appeared soon after Vargas took office. The leaders of the state of Sao Paulo, as soon as an interventor replaced their governor, saw the administration as a threat to their long held authority and the autonomy of the state. They, therefore, commenced to form a revolutionary or counter-revolutionary party called the "united front" to force a return to constitutional government. When their demands were not met the state leaders, with the state army as a nucleus, organised an army approaching 75,000 men and marched on the national capital. The revolution began on July 9, 1932 and lasted eighty-three days. After being decimated by political intrigue on the part of Vargas, the revolutionists were surrounded and forced to surrender. Thereafter, state autonomy ceased to be an issue and Sao Paulo was forced to be merely one of the states in the union and not its leader.

\[49\] Ibid., p. 22.
\[50\] Ibid., pp. 71-72.
It is significant that in the 1930-34 period the army attempted to get Vargas to rule as a military dictator, but, as a result of the consolidation of power after the Sao Paulo revolt, and in view of the strong demand for constitutional government, Vargas called an election for constitutional assembly instead. The assembly was elected and wrote a constitution which was promulgated in 1934. The assembly constituted itself as the first legislature and elected Vargas president. The constitution in addition to returning the country to parliamentary government contained the economic features already noted. Under it the freedom of political parties was guaranteed and, except for the reenforced position of Vargas and his influence over the legislature, the government showed few of the qualities of a dictatorship.

The "liberal alliance" party that supported Vargas in the revolution was a spontaneous group that arose, effected its purpose, and ceased to exist. The most significant factor in the entire period of Vargas's rule is that he did not attempt to keep it alive or foster a political party to replace it. Vargas ruled Brazil for fifteen years without the support of any political party whatever. This lack of ideology and freedom of political parties after 1934 afforded an opportunity for two radical groups, one of the extreme left and the other of

52 Hill, p. 110.
53 Ibid., p. 111.
55 Loewenstein, pp. 141-145. Spiegel, p. 5.
the extreme right, which the Vargas government inherited from the economic
chaos and political despotism before 1930. 56

While President Bernardes (in 1924) was using and
abusing the legislative, judicial, and executive powers
of the government and inflicting imprisonment, banish-
ment, and censorship in attempts to control the opposi-
tion—a new element entered the Brazilian arena, . . .
the wretchedly poor, abysmally illiterate, physically
sickened peasant workers on the fazendas and the day
laborers starving in the towns and cities. The doctrine
which Brazilian radicals were trying to impart was a
confused compound of (communism). Although the spoken
word was virtually the only means of communication . . .
Brazil was a fertile soil for planting the seeds of
socio-economic revolutionary doctrine. 57

The Communists, led by Moscow-trained Luiz Prestes and some army officers,
revolted against the government in 1924. The revolt was put down, but
the leaders organized an "army" out of their followers and marched
through and about Brazil in a manner that was "comparable to that of the
Red Army in China in the 1930's". The march of the Red Column lasted
three years and it fought fifty-six battles before being dispersed by
federal troops. In those three years it set up "shadow states" and after
it was driven underground it continued to grow. 58

Freed by the constitution of 1934, the communists organized a
political party as a branch of the third international and staged a
revolt against the government in 1935. The red flag was raised and fight-
ing began in many cities. Open fighting lasted only a few days, however,
before the movement was put down. 59

56 Loewenstern, pp. 30-32.
58 John Gunther, Inside Latin America, (Harper Brothers, New
59 Loewenstern, p. 31.
The opposite extreme, the Brazilian version of Facism, arose in 1930. Like the communist, it fed on the economic grievances and political disorders of long standing in the country. Calling themselves the Integralists, the movement "followed closely and without much originality" European patterns in propaganda and organization then current in Europe. They gave the Facist salute, wore green shirts, and had a form of the swastika as a party symbol. Advertising itself under the motto "Order and Progress", it could not fail to attract a wide following.60

The Integralist movement grew rapidly under the liberal constitution of 1934 and by 1936 the "Fuehrer" of the party was able to offer Vargas "one hundred thousand well-trained and highly disciplined Greenshirts" to "fight against the communists".61 The Integralists offered themselves to Vargas as the appropriate single government party to turn Brazil into a full-fledged Facist state.62 The movement continued to gather force, strongly backed by the German elements in Brazil and by the German Embassy, through 1937, and toward the date set in the 1934 constitution for a national and presidential election.

As the date set for the national elections approached, Vargas persuaded the legislature to declare a "state of grave internal commotion" which freed him from constitutional limitations. On November 10, 1937, Vargas had cavalry surround the seat of Congress and constitutional government was abolished. On the same day, Vargas promulgated a new

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60 Ibid., pp. 32-34.
61 Ibid., p. 36.
62 Ibid., p. 141.
constitution, the constitution of 1937, which provided a blue-print for
government but did not provide for a congress. It provided, in brief,
that Vargas was to be the dictator of Brazil until such time as he saw
fit to announce the emergency declared by the previous congress to be
over and submitted the constitution to a plebiscite or call a constitu-
tional assembly.63

At this turn of events the Integralists expected to become
the Vargas party. A few days after the "coup d'etat" they staged a mass
demonstration in the capital city of Rio; "fifty thousand marched by the
President's palace and gave the Facist salute". All evidence indicated
that they believed that their January 30 had arrived.64 They were poorly
prepared for the shock that came two days later when Vargas outlawed
their party as well as all others. All political party offices were
closed and the government declared it did not need "intermediaries be-
tween government and the nation".65

The Integralists attempted a "putsch" in May, 1938, but were
quickly crushed. This was the last overt act of any consequence against
the Vargas government. Brazil under Vargas was one of the "few author-
itarian states which has operated successfully without a government party".
The Vargas government maintained itself without the usual militant group
supporting it for the sake of the spoils throughout the 1930-1945 period.66

At the end of World War II, when dictatorship went out of fashion, pressure once again was exerted on Vargas to constitutionalize the government and return to the parliamentary system. In February, 1945, Vargas announced his intention of resigning before the end of the year. Two months later he fixed the second day of December as the date of election to choose his successor and to elect a constituent assembly. He also declared that he would not be a candidate and all restrictions on freedom of speech, press and political parties were lifted. 67

Vargas supported the candidacy of General Eurico Dutra for the presidency and the latter campaigned with the promise of continuing and improving the policy Vargas followed. For the first time since the last years of the empire and the first years of the republic a national campaign was waged for the presidency. Reflecting the fifteen years of emphasis on education, 7,500,000 persons qualified as voters. One writer affirms that the elections of December 2, 1945, were "more free and perfect" than any in the history of Brazil, and "the elections were supervised by an impartial government, debated in the press, animated by intense propaganda and competition at the polls, to a degree never before realized." For the first time the suffrage was extended to all literate men and women over eighteen years of age and voting carried out by secret ballot. 68

It is significant that Dutra won in "an expression of popular

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67 Hill, p. 121.
sentiment never before equalled in Brazil. 69

A Summary of the Developments 1930-1945. No one, not even
the enemies of the Vargas government, have denied that, at least in
mundane affairs, the Vargas government accomplished more in fifteen years
than its predecessors had done in a century. 70 Needless to say, however,
Brazil was not nearly cured of its many economical, cultural, educational
or political ills. At the end of the period conditions as a whole were
still bad compared to the more advanced democratic countries. "In many
places the well meaning officials in the far-away capital were utterly
unable to raise the standard of living." 71 Although the changes made
were revolutionary, they were merely improvements and much was left to be
done. For example, illiteracy was reduced from approximately eighty per
cent in 1930 to forty-five per cent in 1945. 72 But the improvement does
not lessen the fact that forty-five per cent was still inordinately high.
Another example is the labor situation. By 1945 Brazil had one of the
most advanced systems of labor legislation in the world but wages were
very low compared to profits. 73

Although the critics of the Vargas government plead "nolo
contendere" in any dialectical comparison of the developments in Brazil

69 Hill, p. 122. Vargas returned to national politics in
1948 on being elected senator. He again became president "as a result of
fairly conducted elections" in 1950. (Gamache, p. 77.)

70 Gunther, p. 366 and Loewenstein, p. 330.
71 Loewenstein, p. 355.
72 Runnicutt, p. 361. Loewenstein, p. 23.
73 Jobim, p. 87.
in the 1930-1945 period, there were complaints current to the regime. Most of the complaints were of an order of which the following is typical: "We have won order and tranquillity but we have lost liberty." These complaints were made regardless of the general agreement to the contrary.74

The Vargas regime rested upon a broad base of public acceptance. It is almost universally agreed that the source of the power of Vargas was in his widespread popularity and the confidence in which the people held the government; and, further, that the extent of his power was the people's mandate arising from their conviction that it was necessary if the many difficulties—political, economic, and social—besetting the country were to be dealt with satisfactorily.75

It is also generally agreed that Vargas was a very benevolent dictator and exercised a minimum of arbitrary power. The regime had a "strange and almost exhibitionist urge of publicly confessing every deviation by the state from the code of normal behavior regardless of how unfavorable it might appear."

Loewenstein concludes that such a manifestation was not due to an inordinate legal complex but that the regime "does not want to be arbitrary or act illegal."76

Gunther wrote in 1941 that Vargas "has worked above all to overcome political indifference, to abolish separatism and provincialism, to give the country a true national sense, to give it,—his supreme

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74 Loewenstein, p. 341.
75 Ibid., p. 357.
76 Ibid., p. 367.
ambition—development, unity and order". Cansort insisted in 1943 that "it was Vargas who ended the ruinous policy that resulted in a monocultural economy"; yet the year before Loewenstein wrote that "Brazil under Vargas is one of the few remaining lands on the globe where a genuinely liberal climate of economic life prevails".

The liberals of the old regime under Vargas, at the same time they complained of "lost liberty", knew that "Vargas, by anticipating a situation in which private capital would have to yield to increasing pressure from the masses, took the wind out of the sails of a radical revolution of both the extreme right or extreme left". The old style liberals also knew "well enough, that the regime could win by a vast majority" any fairly conducted election in the 1930-1945 period. Not only was the Vargas government in popular favor but there is ample evidence that there was democratic rapport between the regime and the people. "The undercurrent of public opinion" was "strong enough to impose itself on the regime".

In view of the above, the complaints of the disaffected liberals in regard to "liberty" may be regarded as little more than irrelevant formalism, for certainly liberty before 1930 was a legal fiction. As a consequence, the questions of ethereality involving the clichés of both the reactionary and the radical may be safely avoided in favor of an evaluation based on the fundamentals of the issue involved.

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77 Cansort, p. 367.
78 Hill, p. 233. Loewenstein, p. 236.
79 Loewenstein, pp. 339, 360.
80 Ibid., pp. 367-369.
81 Ibid., pp. 341, 367.
CHAPTER V

AN EVALUATION OF THE ECONOMIC POLICY
OF THE VARGAS GOVERNMENT

The Fundamental Issue. The developments in Brazil after 1930 could, conceivably, have taken place in the absence of the economic policy, organization, and controls of the Vargas government. As a quantitative evaluation or measurement, the developments related in the chapter above have little meaning in regard to an evaluation of the economic activities of the government unless the progress made is considered in connection with the obstacles to that progress. The basis for evaluating the economic policy, and the fundamental issue, therefore, is the question as to whether or not the degree of development and stability achieved could have taken place without the economic policy and the controls and organization to which it gave rise.

The National Interest and the Control and Organization of the Domestic Economy. The cyclical nature of the economic development of Brazil throughout the history of the country has already been noted. It remains, however, to determine the particular problem presented by the volatility of the international market in connection with agricultural specialization and the problem of secular stagnation due to that specialization.
The international market for Brazil’s products has always risen and fallen with “staggering frequency and range.” The slumps in the market always hit with devastating force but due to the fact that they were generated overseas, no compensatory action could be readily taken.\(^1\) In 1931, seven of the eight principal raw materials and foodstuffs representing seventy-two per cent of Brazil’s exports fell catastrophically. In 1928 a ton of the above mentioned products sold for an average price of seventy-six British pounds. The price in 1931 dropped to an average of thirty pounds and in 1934 to twenty-four pounds per ton.\(^2\) Coffee, which in 1929 comprised about seventy per cent of the value of all exports fell forty per cent in value. The price dropped twenty-six per cent in 1936. The price fell from 11.37 cents per pound in 1937 to 6.75 cents in 1940. In 1941 the price was back to 13.38 cents.\(^3\)

The undependability of Brazil’s markets is demonstrated by the fact that, at the height of the coffee surplus in the early thirties when tens of millions of bags were being destroyed for want of a market, the producers had to stand by ineffectively and watch preferential treatment extended to European colonies stimulate production in those areas. European colonial preference largely excluded, also, the further development of the production of fats and oils in Brazil.\(^4\) Moreover, the

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3 Hanson, p. 106.

4 Ibid., p. 110.
volatility of the international market as to price and the undepend-
ability of nationalistic measures were not the only source of dis-
satisfaction. By 1930, Brazil had also, apparently, reached the optimum
in its agricultural exports and a limited as well as volatile market
was confronted.  

The economic growth of Brazil up to 1930 was largely the
result of expanding needs in the principal foreign countries up to that
time. Large scale agricultural production began at a time when European
populations were expanding rapidly; when Germany was going through a
rapid industrialization with an increasing neglect of agriculture; when
English industrialism was expanding and its food imports were increasing;
when the United States was creating and expanding domestic market; and
when economic nationalism was much less evident than in the period after
World War I and the 1920's.  

In the 1930's, conditions were very different. The population
of Europe was not only approaching a stationary level but may have been
on the decline. German industry had been eliminated in the World War.
In rebuilding after 1930, self-sufficiency in addition to sharp and
discriminating practices in foreign trade was emphasized. By the 1930's
English industrialism was on the decline and self-sufficiency was pro-
moted under an "empire preference" system which greatly increased her
colonies' production of prinary products. The United States had glutted
its own markets and Russia had recovered her position in agricultural

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6 Loc. cit.
production.

By 1930 Brazil was confronted with an unstable export market, an economy apparently secularly stagnant, an inelastic demand for her exports, and a high degree of dependence upon foreign exchange. These factors, while clearly evident in 1930, were not altogether a product of the depression but had been manifest in the development of the country up to that time. Together, they produced a particularly vicious situation in the crisis of 1930.

It may be recalled that the constantly increasing demand for foreign exchange due to the remittances of foreign enterprises and the constantly increasing national debt resulted in an impasse in 1929. In that year the trade balance of Brazil was favorable only in the amount of 40,000,000 dollars and the return on foreign investments and payments on the national debt amounted to approximately 200,000,000 dollars. The entire foreign credit structure of the country, the minimum budget of the federal government as well as those of the states, and the required foreign imports, depended upon the maintenance and the constant increase of exports.

In the absence of government controls or private cartel arrangements there was no incentive on the part of individuals to cut production and adjust the surpluses in spite of the instability of the market and lack of demand. On the contrary, there was a tendency to

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7 loc. cit.
8 Hanson, p. 111.
9 Ibid., pp. 107, 111.
increase production. The factors of production could not be shifted or
the economy diversified for there was no alternative to the production
of primary products. Compensatory action on the part of government or
individuals could not be taken as diversification of production or the
economy could not be realised for the producer goods needed for that
purpose could not be had except through exchange arising from exports.\textsuperscript{10}

Foreign exchange before and in the early thirties could not
be accumulated for two principal reasons: firstly, the extreme fluctua-
tions in the market caused its periodic loss and secondly, the more
important reason was that for "over two generations preceding World War
II the quantum of manufactured goods obtainable for a given quantum of
primary commodities declined by more than forty per cent".\textsuperscript{11}

The position of Brazil in the early thirties was summed up by
the \textit{Manchester Guardian} as:

\begin{quote}
\ldots perhaps the outstanding example of the dangers
of unsystematic investment. It is due to the readiness
of the outer world to lend her resources and sell her
commodities for which she cannot pay except in the
goods which they do not require \ldots such an out-
standing anomaly cannot indefinitely continue; \ldots
\end{quote}

The evidence indicates however, that without the comprehensive economic
policy, organization and controls of the Vargas government; without the

\begin{flushright}
\textsuperscript{10} Javier Marquez, \textit{"Notes on Balance of Payment Problems in
Relation to Economic Development in Latin America"}, \textit{Inter-American
Economic Affairs}, Vol. VI, Number 2, (Institute of Inter-American Studies
\textsuperscript{11} Hanson, pp. 106-109, 111.
\textsuperscript{12} Lawrence F. Hill, \textit{Brazil}, (University of California Press,
\end{flushright}
active tariff policy to protect the development of industrialization, without the exchange controls to allocate foreign exchange to maintain foreign credit, provide encouragement and means for diversification and maintain the government's budget—or under an economic policy as followed by the administrations before Vargas, the "outstanding anomaly" could have, and perhaps would have, continued indefinitely.

The National Interest and Control of Foreign Enterprises.
The foreign-controlled enterprises in Brazil before 1930 were frequently charged with one or more of the following: the making of excessive profits at the expense of native workers, charging exorbitant prices and rates for domestic consumers, contributing too little to the national treasury, interfering unduly in internal politics and corrupting politicians and government officials, provoking international friction, failing to invest profit or manufacture product components in the country, and other business practices not in the best interest of the domestic economy. 13

While the above charges were either common to all big businesses or difficult to establish, they were relatively unimportant compared to the fact that the foreign enterprises, collectively, were, in a large measure, responsible for the perpetuation of the monocultural economy, the great and constantly increasing pressure on the balance of payments, and the high degree of export-import orientation. 14

14 Tannenbaum, pp. 65-63.
Before 1930, when private investments were purely a private matter, the most appropriate investments were those that promoted exports. The increase in foreign enterprises in so far as they resulted in an increase of profits arising in the Brazilian economy resulted in an increasing pressure for foreign exchange which in turn exerted pressure for an increase in exports. In so far as the foreign enterprises engaged in the extractive industries, the export represented more of a loss than a gain. In connection with these factors, a large proportion of the roads and railroads were built without regard to public service and the establishment of domestic industries.

In addition to the fundamental objections to foreign controlled enterprises as a group, the national interest of Brazil required the conformance of those enterprises to the over-all economic policy and controls in so far as the over-all policy and controls themselves were in the national interest. Clearly, they could not, because of their extent, remain independent of the comprehensive organization of the economy without disrupting it.

The National Interest and the Economic Policy. There has not been developed, as yet, a system or method for measuring well-being, or welfare, or even economic welfare. The ingredients for happiness are largely an unknown quantity. As a consequence, an evaluation of the economic policy of the Vargas government must take into account many factors that are immeasurable and as a result, the conclusions are always

16 Tannenbaum, pp. 72-90.
subject to dispute. Nevertheless, the following evaluation of the economic policy of the Vargas government is believed by the writer to be fairly made.

From 1890 to 1930 almost every aspect of Brazilian life from the collective standpoint deteriorated. The freed slaves and free labor became in most cases worse off than the slaves had been before they were freed. The significant degree of democracy existing in 1890 all but disappeared; the increase in wealth through an increase in exports proved to be a delusion and became not so much an indication of increasing wealth as an indication of the wealth being lost. Unemployment and under-employment became increasingly severe, the national debt constantly increased, the pressure on the balance of payments and for exports constantly increased, and economic instability constantly increased. Public education was all but abandoned and the sense of national unity, both political and economic was almost lost. The depression in 1929 was not so much a break in development or the growth of prosperity, as it was a new low in poverty.

Under the Vargas government from 1930 to 1945 and in the presence of the economic policy, organization and central of the economy by the government, almost every aspect of Brazilian life was improved. In fact, revolutionary improvement and development took place. The overwhelming compulsion for freedom from economic colonialism was realized by 1935; by 1939 industry had more than tripled, industrial employment increased by more than a million, and the value of industrial production was eight times that of 1920.

The extent of unemployment and under-employment before 1930,
and the increase thereafter may be seen in the fact that at the same time as more than a million workers entered industry, where their productivity averaged six to eight times those in agriculture, the acreage of agricultural production increased from about 16,000,000 to 34,000,000 acres. The total value of imports increased from 416,626,000 dollars in 1929 to 1,216,948,000 dollars in 1947.

The consolidated foreign debt of the governmental entities was reduced from 2,628 million dollars in 1930 to 1,778 million in 1947. The private foreign investments in the economy increased from approximately 1,363.5 million in 1930 to 1,580 million dollars in 1947. Whereas forty per cent of the federal budget was required to service the federal debt in 1930, only nine per cent was required in 1947.

The progress made in education and health paralleled the economic developments. Illiteracy was reduced from approximately eighty per cent in 1930 to forty per cent in 1945. The number of individually owned farms tripled from 648,000 in 1920 to 1,896,000 in 1940; and a modern system of labor legislation was established. The radical elements of both the "right" and the "left" largely gave way to the rise of middle-of-the-road political parties and the re-establishment of a workable republican form of government. By 1945 Brazil was unified both politically and economically and the destiny of the nation was in the hands of all Brazilians.

In view of the conditions before 1930 and the obstacles faced in every sector of national life in that year, and in view of the developments thereafter, it may be said that the economic policy, organization and control of the Brazilian economy by the Vargas government was in the national interest of the country. Moreover, it appears
that the national interest of Brazil coincided with the interest of other nations and their populations.
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