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Argentina and Brazil during the 1930s: The Impact of British and American International Economic Policies*

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The accumulation of recent work on the impact of the 1929-33 depression on specific Latin American economies provides an adequate basis for serious comparative studies trying to detect cross-country reactions in terms of shifts in economic policy and their results as well as to define homogeneous groups of countries in terms of economic performance[1].

There are, however, important pitfalls, which should be made clear when such generalizations are produced as apparently homogeneous behaviour of certain variables frequently conceals important differences concerning other variables. This seems to be the case when links of particular countries with the world economy are concerned. Indeed, following the trend established by ECLA early writings, it is possible to detect a definite stream in the literature tending to stress the shift from exogenous to endogenous inducements to economic growth, particularly in the case of large economies such as those of Argentina, Brazil, and Mexico. This is generally related to the very simple fact that the relative importance of foreign trade and payments in the 1930s was much diminished in comparison with the pre-1929 period in the wake of a sharp fall in export prices, the imposition of Controls of a diversified nature and the reduction of financial flows associated with the closure of capital markets and defaults. However, even superficial acquaintance with the economic policy formulation process in many Latin American countries in the 1930s will confirm that, in spite of the reduced importance of foreign trade and capital flows, the generation of foreign exchange and its distribution was the central problem which had to be faced by policy-makers throughout the 1930s, leaving few degrees of freedom for the definition of other aspects of economic policy.

Overenthusiastic extensions of the useful transition model from *desarollo hacia afuera* to *desarollo hacia dentro* are at the root of at least two important misconceptions or exaggerations concerning Latin American economies in the 1930s: on the one hand the allegedly increased elbow-room for Latin American countries which resulted from increased ‘interimperialist rivalries’ and, on the other, the autonomous nature of development given the diversified characteristics of the industrial sector as a result of import substitution in the capital goods and intermediate goods sectors. In this paper, concern will center on questions related to the ‘increased-elbow-room’ interpretation rather than on the *endogenista* issue[2].

This paper consequently is very much against the current as it stresses the importance of taking into account developments in the world economy, in particular different International economic policies adopted by the United States, the leading European countries, and their unequal impact on different Latin American countries. Had the foreign economic policies of Britain and the United States been similar in the 1930s there would be no room for what follows.

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[1] A good example of such work is Diaz-Alejandro (1980).

[2] It may be said, however, that while there was substantial diversification of the industrial structure in the 1930s, the reduced importance of non-traditional industrial sectors at -least in Brazil seems to indicate that excessive stress has been placed on the endogenous model.

Argentina and Brazil have been selected for this comparative exercise because they illustrate quite clearly two radically distinct situations in terms of the relative bargaining powers of Britain and the United States and the resulting constraints to domestic and foreign economic policies in these two Latin American countries. It must be stressed, however, that the paper is written very much from a Brazilian point of view, a result both of the author's limitations and of the lack of Argentinian materials in Brazil.

This paper is divided into four sections. The first section deals with the structural characteristics of the commercial and financial links of both Argentina and Brazil with Britain and the United States before the depression, emphasizing their different nature. The second section is mainly concerned with the impact of American foreign economic policy during the 1930s on Brazilian economic policy – especially concerning trade and payments – and on Brazilian economic growth. The third section is similar in scope to the second, dealing with the impact of British foreign economic policy on Argentinian economic policy and growth. Finally, the fourth section includes the main comparative conclusions and attempts to draw lessons, which could be possibly useful in the 1980s.

1. Argentinian and Brazilian trade and payments before the depression

The triangular nature of Argentina's commercial and financial links with Britain and the United States before the 1930s is now well known[3]. While the British market typically absorbed about 30% of Argentina's total exports, not more than 20% of total imports were of British origin. In contrast with pre-war years the clear trend was towards a structural trade imbalance favouring Argentina as the British share of total exports remained stable and British goods were displaced from the Argentinian market by sterling's overvaluation as well as by changes in the composition of imports in favour of 'modern' goods such as consumer durables and machinery in whose production Britain was unable to face competition specially from the United States. The importance of the British market for Argentinian products, however, was not evenly distributed. In the case of meat, which corresponded to about 15% of Argentinian exports, Britain absorbed more than three-fourths of Argentinian exports. The importance of the British market was even more pronounced for chilled beef exports, which were rapidly gaining ground over other types of meat as a proportion of meat exports[4].

This trade imbalance during the late 1920s was at least mitigated by compensatory financial flows resulting from interest, profit and dividend remittances and the net inflow of foreign capital. As the United States superseded Britain as the main capital exporters and the amount of British capital

[3] See Fodor and O'Connell (1973).
[4] See Diaz-Alejandro (1970, pp, 19-21) and Salera (1941, pp. 26 and 42).

invested in Argentina was very considerable, in the case of the Britain-Argentina and the Argentina-United States sides of the triangle, financial flows tended to compensate trade imbalances[5].

The triangular nature of Argentina's commercial and financial links with the United States and Europe and particularly the importance of the British market for Argentinian meat were to have crucial significance for Argentina's foreign economic policy in the 1930s, especially in relation to the criteria governing the distribution of foreign exchange earnings between competitive uses.

The nature of Brazil's links with the world economy in the late 1920s were also quite peculiar. The United States market absorbed about 45% of total Brazilian exports, while less than 30% of Brazilian imports came from the United States. This imbalance had been more important in the past as typically the United States import share had remained below 15% before 1914. Britain, on the other hand, which had lost her position as Brazil's main market around 1870, absorbed only about 5% Brazil's total exports. The British share of the Brazilian market declined for roughly the same reasons as in Argentina: By the late 1920s, Britain held 20% of the Brazilian market contrasted with around 30% before the First World War. Besides being by very far Brazil's main export market, the United States in the case of coffee – which corresponded to 70% of total Brazilian exports – absorbed around 50% of Brazil's exports[6]. Brazil not only depended even more on her main export market than Argentina but also depended much more on coffee exports than Argentina on meat exports. That consumption of Brazilian coffee was more evenly distributed than that of Argentinian meat – especially chilled beef – was in consequence a rather limited consolation.

The pattern of Brazilian trade was such as to characterize an 'inverted' triangle if compared with Argentina: the balance of trade with the United States was structurally favourable to Brazil, while the balance of Anglo-Brazilian trade was favourable to Britain.

In the case of Brazil, in contrast with Argentina, financial flows – related to both interest, profit and dividend remittances and net inflow of foreign capital – underlined rather than mitigated the trade imbalances. Indeed, financial flows, bilaterally defined, tended to be favourable in the case of the new lender and unfavourable in the case of the old one.

This pattern of Brazilian trade and payments was to have important consequences in the 1930s – more for what did not happen than for what in fact happened – since, in spite of American leverage in Brazil being at least as powerful as Britain's in Argentina, Brazil was never under real pressure to adapt her foreign economic policy to the advantage of the United States. In fact, the United States

[5] Fodor and O'Connell (1973, pp. 5-7). Unbalanced trade resulted in unbalanced trade volumes since a large proportion of Argentina's exports were rather bulky in comparison with typical imports, a fact reflected in the disparity between import and export average values per ton. This resulted in highly differentiated rates for inward and outward freights and was only partly compensated by Brazilian freights. Brazilian exports in fact had a higher value per ton than Brazilian imports. Aggregate Argentinian and Brazilian imports where roughly equivalent in weight to aggregate Argentinian and Brazilian exports. See Fodor and O'Connell (1973, p. 6).

[6] See Instituto Brasileiro de Geografia e Estatística (n.d., pp. 1366-74).

record concerning the extraction of special privileges when their bargaining power was sufficiently strong was not beyond repair until the early 1920s, when the Fordney-McCumber tariff made the most favoured nation clause a basis for American commercial policy During the 1930s, however, the United States, in contrast with Britain, consistently adopted policies based on such clauses[7].

2. Economic relations between Brazil and the United States in the 1930s and their impact on Brazilian economic growth

The impact of the great depression on the Brazilian economy has been extensively discussed in the literature[8]. From the end of 1928, the Wall Street boom had as a main consequence to drain funds from the periphery either directly or diverting 'normal' capital flows: the inflow of foreign capital which had been above £25 million per year in 1926-8 was reduced to practically nihil in 1929. This strain on the balance of payments was considerably aggravated by the almost complete breakdown of traditional capital markets after 1929 and the contemporary very heavy fall in coffee prices. While the quantum exported fell below the 1928 level only in 1932 (by about 16%) and had expanded 70% above this level by the end of the decade, export prices fell quite rapidly (by almost 40%) until 1930 and only recovered its 1928 level in 1941, remaining about 2 5% below this level for most of the decade. Terms of trade deteriorated quite sharply by almost 45% until 1931 and then further after the 1937 recession until it reached less than 40% of its 1928 level. Capacity to import remained as a rule about 30% below pre-depression levels. Brazil then faced a massive balance of payments crisis originating both from the fall in export earnings and the interruption in the flow of both portfolio and direct foreign capital. Equilibrium was restored during the 1930s by successive appeal first to gold and foreign exchange exports and then to a combination of exchange rate devaluation, exchange Controls, foreign debt default and the accumulation of commercial arrears[9].

Brazilian GDP, however, remained practically stable even during the worst depression years[10] while industrial output contracted not more than about 10% in relation to 1928 (in the worst year which was 1930) and was 5% above 1928 output in 1933. It is now accepted that recovery was at least partly related to economic policy concerning both public expenditure *and* the generation of

[7] For twenty years before 1923 certain imports of American origin enjoyed discriminatory rebates of 20-30% in Brazil.
[8] The classical interpretation is by Furtado (1963). This has been challenged by revisionists, but Fishlow (1972) provides a well-balanced evaluation of such revisions, confirming, in spite of several important qualifications, the main lines of the classical interpretation.
[9] For foreign trade indices and a comprehensive treatment of Brazil's foreign economic policies in the 1930s see Abreu (1977, p. 34, and chapters 1 to 6). It would seem that the first balanced general treatment of the standard reaction of primary goods exporters to foreign exchange problems in the 1930s was provided by J. H. Williams' 1934 report on 'Foreign Exchange Problems in Brazil, Argentina and Chile', Department of State (1954, pp. 393-422). Williams also stressed the limited usefulness of devaluation in Latin America as it could involve reduction in export proceeds as agricultural products faced inelastic demand and many countries controlled a sizeable share of the world market.
[10] It is of course true that real income was more substantially affected as terms of trade turned against Brazil.

sizeable trade balances through import Controls. Between 1932 and 1939 both industrial output and GDP increased rapidly – at yearly rates of 7.9% and 5.7%, respectively – in spite of difficulties in 1938-9 in the wake of the American recession.

Political and economic relations between Brazil and the United States in the early years of the Vargas regime were rather strained due both to the Americans having backed the wrong side in 1930 and to New York's lack of 'cooperation' with the Brazilian banks, by withdrawing their short-term lines of credit, a behaviour which contrasted- with London's more accommodating mood. However, as the structural characteristics of trade between Brazil and the United States which have been mentioned in section one, persisted after the recession, it was inevitable that these difficulties would not subsist for long, specially so as the British after 1932 concentrated their efforts in Brazil mainly on financial (i.e. public foreign debt) questions and seemed resigned to a fast further decline of their export trade[11].

American share of the Brazilian market during the 1930s remained roughly stable around 25% (after due allowance is made for the overvaluation of imports from Germany) while exports of Brazilian goods to the American market slowly fell from 45% to 35% of total exports as the importance of coffee exports was much reduced, coffee prices fell more than the prices of non-coffee exports and Germany increased very considerably her purchases in Brazil in 1934-8. Consequently, there was stillroom for the exertion of American bargaining power if the United States had chosen to do so. The American business community especially in the early 1930s was strongly in favour of full exploitation of the United States leverage to obtain preferred treatment in the transfer of foreign exchange: the proposed stick was often the threat to impose a duty of coffee imports. American official circles, however, strongly opposed such course of action, as it would make American exports to other markets, where the bargaining power of the US was weaker, vulnerable to similar treatment. The issue was not decided in fact until 1934 when George Peek's proposed trade policy based on bilateralism was turned down in favour of Cordell Hull's unshakeable faith in multilateralism. In sharp contrast with Argentina, as will be seen in the next section, Brazilian foreign exchange regimes throughout the 1930s did not discriminate between countries with which Brazil had a favourable balance of trade and those in the reversed position.

While in some specific episodes, the Americans eventually made use of their stick – the main occasion being the negotiation of a new Brazil-US Trade Agreement extracting some minor advantages from Brazil in 1935 – important Brazilian decisions concerning foreign economic policy, in some instances patently unfavourable to the United States, were not influenced by American pressure. At the same time that American commercial and financial arrears accumulated due to the

[11] That this line, which was clear in the case of Brazil as shown by Abreu (1977), passim, corresponded to a general priority of British foreign economic policy is confirmed by Tasca (1939, p. 85).

lack of foreign exchange, between 1932 and 1937 Brazil paid £6-8 million yearly (around 20% of the import bill) of public debt service mainly to British holders[12]. Debt settlements in the early 1930s in fact not only stressed the priority of debt service over commercial needs, but also were consistently unfavourable to dollar loans which were on the whole less well secured than sterling loans.

In no other instance, American sacrifice to long term objectives and to multilateralism is more evident than in relation to the expansion Brazilian of bilateral trade, particularly with Germany from 1934. Following the adoption of Schacht's new foreign trade policy Germany expanded quite substantially her share in Brazil's total imports and exports by means of compensation arrangements which involved both direct export subsidies to German industries and flexible foreign exchange rates considerably undervalued in relation to the Reichsmark theoretical parity. The relative stability of bilateral trade was assured by the increase of Brazilian exports to Germany, especially of cotton whose exports before the depression were negligible and – ironically – whose production had increased in Brazil under the umbrella of the US cotton price support program.

Given the lack of complementarity between the American and Brazilian economies in respect to cotton and the American incapacity to absorb further quantities of goods which accounted for much of the expansion of Brazilian exports in the second half of the 1930s, it is difficult to think how the output of such goods could have expanded at the rate it did in the decade in the absence of German bilateral trade based on compensation as there were no alternative markets where they could be sold[13]. Furthermore, from a balance of payments point of view, exports to Germany corresponded in those foreign-exchange-starved years to about 20% of total exports, generating unconvertible foreign exchange to pay for much valued imports.

Data on Brazilian imports in the 1930s indicate that it was the British rather than the American exports, which were displaced by the expansion of German compensation trade: both the Americans and the aggregate German-British shares of the Brazilian market remained fairly stable during the 1930s. Damage caused by German competition to American exports were eventually recouped by American inroads in the market shares of other Brazilian trade partners (including Britain). The contraction of British trade exports to Brazil resulted both from the well-known competitive difficulties which were faced by British goods and from structural changes in the Brazilian import bill resulting from balance of payments problems which affected relatively more British staple exports, specially textiles, as they were displaced by domestic production.

In spite of the fact that Brazilian-American bilateral trade in the 1930s generated between £10

[12] These payments were equivalent to about a third of normal payments.

[13] Cotton output in Brazil increased from around 100,000 metric tons in the late 1920s to more than 400,000 tons in 1937-9. Much of this expanded output was absorbed by foreign markets total exports increased from less than 12,000 tons in 1926-8 to more than 270,000 tons in 1937-9. British share of Brazilian cotton exports fell from 80% in the late 1920s to about 20% in the late 30s in spite of quite a substantial increase in the absolute value of British imports. Germany in 1937-8 absorbed about 30% (60% in 1935) and Japan about 20% of Brazilian cotton exports.

million and (more typically) £15 million yearly of convertible foreign exchange in excess of the requirement of US imports[14], the American government – both because of its attachment to multilateralism and for considerations related to its strategic aim to enhance Brazil's influence in Latin American to counter. Argentina's more independent leadership – turned a blind eye to Brazilian adoption of policies, which ran clearly against American interests. American bondholders – or, more precisely, holders of Brazilian dollar bonds – 'lost' between £7 and £5 million yearly in the 1930s due to Brazilian partial or total defaults[15] and compensation trade 'diverted' £8 million of Brazilian imports to Germany.

The net effect of a hypothetical American policy in Brazil mirrored in the British policy in a country such as Argentina, i.e., based on the full exertion of the available bargaining power, would probably have been to reduce quite drastically Brazilian imports and, to a lesser extent, Brazilian exports.

Relative scarcity of foreign exchange was, of course, of paramount importance to explain the fast expansion of Brazilian output, especially in industry after 1932. Domestic industry was protected from foreign competition by the imposition of import Controls and the substantial changes in relative prices of domestically produced and imported goods as from 1930-1. However, a fastly expanding economy depends on the availability of foreign exchange to pay for intermediate goods, raw materials, capital goods and non-competitive consumer goods. While in the early 1930s increased output did not depend on increased capacity as idle capacity was very substantial, by the end of the decade Brazil was importing only 15% less industrial capital goods – in quantum – than in the late 1920s[16].

Data on the import structure during the 1930s are notoriously fragile. There is no doubt, however, that even modest import cuts would not only result in the interruption of the flow of some residual consumer goods which were being imported partly because of political arguments – such as motor cars, radio sets and refrigerators – but also badly affect imports of inputs and raw materials which were essential for current industrial production. One of the reasons related to the reversal in the late 1930s of Brazilian policy in relation to the priority accorded to public debt payments was the need to accommodate the increasing demand for capital goods by Brazilian industry as fast expansion based on the use of idle capacity was losing momentum.

Brazil's adoption of a constrained foreign economic policy similar, as will be seen in the next section, to Argentina's, would thus very probably result in a slowing down of the rate of expansion of GDP explained by the scarcity of imported inputs and – later in the decade – capital goods imports

[14] Information concerning profit remittances by the US firms in the period is rather scant, but data on capital stock suggest that total remittances were very reduced in comparison with the typical trade imbalance.
[15] Part of it not permanently. See Abreu (1978).
[16] 1927-9 compared to 1936-8.

for industrial use, the deterioration of Services such as transportation which depended on imports and the reduction in the output of agricultural goods which could only find markets under bilateralist arrangements.

3. Anglo-Argentinian economic relations in the 1930s and their impact on Argentinian economic growth

The impact of the depression on Argentinian terms of trade was substantial but rather more limited than in the case of Brazil: not only the minimum level – reached in 1931-3 – was around 35% below its 1928 peak[17] (as opposed to almost 45% in Brazil) but in 1936-8 it practically reached this peak level in the wake of a fast recovery of export prices related to the American drought, Capacity to import in the 1930s somewhat puzzlingly was not notably below its level in the 1920s: perhaps not more than 10% if contrasted with a typical 30% in Brazil.

GDP in Argentina fell during the depression worst years rather more than in Brazil. By 1932, it had fallen about 15% in relation to its 1929 peak level. Recovery as a result of moderately expansionary policies was also rather slower than in Brazil; the pre-depression peak level was not reached until 1935. In fact, while between 1928 and 1939 Brazilian GDP increased at 3.7% a year. Argentinian GDP increased at 1.8% a year in spite of its less stringent foreign exchange constraints, both in the early 1930s and later in the decade. Argentinian industrial output increased between 1928 and 1933 at the yearly rate of 3.2% while the more 'mature' Brazilian industry increased its output during the same years at the rate of 5%[18].

Argentinian foreign economic policy during the 1930s as it is well known was very much a corollary of British foreign economic policy. It is, in fact, difficult to speak of a coherent British foreign economic policy in the 1930s as it was basically defined in the light of the evaluation of British bargaining power in each particular country. A comparison between British policy in Brazil and in Argentina is., in this context, particularly instructive. While in Brazil, British policy was strictly defined on a multilateral basis – due to the lack of leverage – in Argentina there was room for the extraction of advantages given the structural deficit of Anglo-Argentinian trade, the political pre-eminence of cattle interests and the importance of the British meat market[19]. The British preferred slogan in Argentina – 'comprar a quien nos compra' – had to be drastically changed in Brazil to 'buy

[17] It must be mentioned that in 1928 terms of trade improved very considerably if compared with earlier years in the 1920s: Average terms for 1921-7 were not more than 76% of the 1928 level. See United Nations (1951, p. 98).

[18] For data on GDP and industrial production in Argentina, see Diaz-Alejandro (1970), Statistical Appendix. For Brazil see Fishlow (1972), Appendix I. Population increased at the rate of 2% a year during the same period in both countries.

[19] See, for instance, Tasca (1939, p. 156): 'the rigidities in the British economic structure have inspired the British government to seek to retrieve and maintain its competitive position in export markets through the full utilization of Britain's bargaining weapons'.

from whom sells you the best', to the increased embarrassment of British officials who had to answer queries about the ambiguity of British policy on trade and payments[20].

British bilateral devices, of course, did make sense from the point of view of maximizing *British exports*. In this context, it is relevant to mention Keynes' sharp criticism of American religious belief in the advantages of free trade for all countries:

> 'We desire meat and will pay £110 for it; Argentine desires a motor car price £110 in U. K. and £100 in D. S. A.; U. S. A. does not desire the meat, has a tariff against it and will not pay more than £50 for it, if that; the Argentine has the meat and will gladly accept £100 for it rather not sell it but cannot take less than £100; we, having no dollars, can only afford to buy meat if we sell the car. Under *laissez faire* the trade cannot take place; for if we pay for the meat in money, whether at £100 or £110, the Argentine will spend the money in buying the car in U. S. A., and we became insolvent. Some system by which our buying the meat is made contingent on the Argentine buying our car is the only way by which trade can take place. Otherwise, the Argentine's meat producers and our motorcar producers are both thrown out of work.
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> He went on: 'this possibility is excluded in [some American economists] philosophy because of latent assumptions, assumed in [their] classical theory and not realised in practice, that, if you buy the Argentine meat for cash and the Argentines buy the American car for cash, it necessarily follows that America will buy from us some export worth £100. In other words, [their] fundamental philosophy has assumed the non- existence of the very problem we are out to solve'[21].

The 'traditional' interpretation concerning Argentinian foreign economic policy in the 1930s would claim that this policy was defined not in the light of national interest but in the light of sectional [meat] interests, that the relative importance of the meat trade if compared with total exports was not such as to warrant the adoption of such a policy and that Britain had a concrete interest in the availability of Argentinian meat in the British market as diversion of meat purchases would prove to be rather costly for the British consumer. Underlying this interpretation is the view that Argentina had in fact more degrees of freedom than implied by its rather passive position in relation to Mr. Runciman's exertions[22].

Argentina's foreign exchange policy immediately after the recession was very much like Brazilian foreign exchange policy, i.e., a foreign exchange control was established which allocated exchange on the basis of the nature of foreign exchange operations without discrimination based on the nationality of recipients.

However, the well-known Roca-Runciman Convention and its Supplementary Convention, both signed in 1933 – extracted by Runciman on the basis of what Argentine had to offer to have the

[20] See Mason's memo, 1/9/39, Foreign Office 371: A6297/1082/6, Public Record Office, London, complaining that 'this country remains with one foot on the path of quotas and tariffs and the other still in the realm of most-favoured-nation agreements'.

[21] Keynes (1980, pp. 239-40), Keynes' notes (5/1/42) on Pasvolsky's memo 'Possibilities of Conflict of British and American Official Views on Post-War Economic Policy'.

[22] See, for instance, Fodor and O'Connell (1973).

status quo ante related to the entry of Argentinian meat in the British market maintained in terms of tariffs (but not of quantities) – assured discriminatory favourable treatment of Argentinian remittances to the United Kingdom as well as the reduction of import duties on manufactured goods mainly supplied by Britain and sympathetic treatment of British capital invested in Argentina. Moreover, the second stage of foreign exchange control adopted in late 1933 favoured British goods, which almost invariably could be imported at the more favourable official exchange rate[23].

This is not the place to examine in detail the rather controversial literature on the inevitability of Roca-Runciman and its damaging consequences for Argentina and on whether its main objective was to defend national or class interests. However, some recent attempts to revise the traditional interpretation that it was indeed an arrangement through which cattle interests, in exchange for rather limited advantages, were prepared to offer quite substantial concessions to Britain, seem so peculiarly objectionable – that they must be commented upon[24].

These interpretations suggest that the terms obtained in 1933 were the best Argentinian negotiators could have achieved, that the pact was designed to defend the national interest and not cattle interests and that it protected Argentina from the 'vicissitudes of the world economy'[25]. They are based on a rather one sided evaluation of what could have been Britain's reaction concerning the entry of Argentinian meat in the British market had not Roca-Runciman's terms been obtained: there was unquestionable British interest in the continuation of the meat trade based both on general grounds (availability of cheap good-quality meat)[26] and on particular grounds related to the protection of British capital invested in meat-related activities. On the other hand, the Roca-Runciman Convention cannot be evaluated exclusively in terms of its impact on Anglo-Argentinian trade as so many concessions concerning British capital were obtained in its wake and that of the 1936 renewal. Moreover, the fact that the 'actual pattern of trade between the two countries was not unfavourable to Argentina after 1933[27] is rather irrelevant to show the 'advantages' of Roca-Runciman as had not British goods enjoyed preferential treatment the British unfavourable trade balance with Argentina would have undoubtedly widened quite considerably. It is consequently strange to read that the British were 'willing to sacrifice the investment that Argentina held hostage behind the wall of exchange control, and even carne to support Argentine efforts to nationalize the railroads'[28]. It is

[23] See Salera (1941, Chapters 2, 3 and 4), as well as section 2 of Fodor and O'Connell (1973).
[24] See, for instance, Tulchin (1975). Attempts to reassess Roca-Runciman on the basis of its indirect effects seem in the light of events in other Latin American countries similarly fragile.
[25] Tulchin (1975, pp. 86-7).
[26] O'Connell (1982) shows that in the late 1920s the significance of Argentine meat for British consumption had led the British Government to take a very different line if compared with the United States based on the same scientific evidence concerning foot and mouth disease as meat imports from Argentine into Britain were allowed to continue unhindered while they were embargoed in the United States.
[27] Tulchin (1985, p. 97).
[28] Tulchin (1975, p. 100).

rather questionable if there was ever any question of a 'sacrifice': the future would in fact show that even General Perón made this eventual 'sacrifice' rather sweet – pricewise – for the British. The wall of exchange control, on the other hand, worked clearly in favour of British goods whose access to the Argentine market was guaranteed by thinly disguised bilateral devices. The conventional view of Roca-Runciman still seems to hold water in the light of the available evidence.

Renewal of the Roca-Runciman Pact in 1936 by Malbrán and Eden further reduced British 'concessions' to Argentina and aggravated previous pledges[29]. While the British trade deficit with Argentina did not appreciably decrease during the 1930s in comparison with pre-depression years, Britain was able to obtain throughout the decade preferential treatment of British capital invested in Argentina and of British trade. There is little doubt that had not British goods enjoyed preferential treatment from the point of view of foreign exchange allocation, government-purchasing policy and import duties, the British share of the Argentinian market would have shrank very considerably[30].

While in the case of Brazil it is relatively clear that economic performance in the 1930s would have suffered if the US had pressed for the payment of dollar bonds and for the interruption of bilateral trade, especially with Germany, the impact on the Argentinian economy of the adoption of a less sanguine bilateral policy by Britain is perhaps less clear-cut as the foreign exchange constraint seems to have been less stringent than in Brazil.

To the extent that Argentina's policies discriminated in favour of imports of British origin they fostered the purchase of less competitive goods, at the expense of the Argentinian consumers or of the efficiency of domestic industry, or even the purchase of consumer goods at the expense of capital goods as Britain was an important supplier of capital goods. Indeed, it is a striking feature of Argentina's import bill that capital goods imports remained even in the good years around 1937 at least 30% below (in quantum terms) its pre-depression levels[31]. This is at least partly related to the continued importance of consumer goods imports: textile imports (including inputs), for instance, remained in the second half of the decade roughly at the same quantum level of pre-depression years.

It is likely that had Argentinian foreign economic policy been less pliable in relation to British pressures it would have been possible, in spite of foreign exchange scarcity, to achieve a faster rate of capital accumulation in import substituting industries and, consequently, a faster rate of growth. Moreover, a less well-behaved policy concerning financial matters – involving, for instance, re-

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[29] See Di Telia and Zymelman (1973), for comments on the hard terms of the Malbrán-Eden agreement in the context of a fast recovery of Argentinian exports. See also Salera (1941, ch. 5).

[30] The United States, obviously hurt by British-sponsored Argentinian discriminatory policies were, of course, in a weak position to avoid damage to their interests especially in the first half of the decade. Secretary Hull's words of condemnation of British policy were thinly disguised: 'the establishment of an effective regime of, equality of treatment, however, requires not only that nations refuse to grant preferences in their own markets, but also that they refrain from seeking a preferred position in markets of other countries', United States Department of State, *Press Releases*, nº 347, 23/5/36, pp. 535-6 quoted in Kreider (1943, pp. 72-3).

[31] See United Nations (1951, pp. 115 and 144).

scheduling the foreign debt – would have freed resources for the adoption of expansionary domestic policies by the Federal Government and for further consolidation of the Argentine industry through the expansion of capital goods imports.

4. Conclusions

During the 1930s Britain's leverage in Argentina was decisive in view of the importance of the British market for Argentina's exports and the American bargaining power in Brazil was strong because of the important share of Brazilian exports – particularly of coffee – absorbed by the American market.

However, from the early 1930s Britain adopted a foreign economic policy, which placed emphasis on the extraction of privileged treatment in those countries where she had a strong bargaining power, as was the case in Argentina. The United States, in contrast, especially after 1934, adopted a policy, which had as its main tenet the substitution of multilateralist trade and payments practices for the bilateralist formal or informal arrangements, which were becoming common practice by European countries.

These developments in the International scene accounted for the very considerable differences in the international economic policies of Argentina and Brazil during the 1930s. While Argentina, because of British pressure and of the political importance of cattle raisers for the stability of *Concordancia*, adopted policies, which favoured British trade and capital, Brazil was able to follow a foreign economic policy defined on an *ad hoc* basis practically without American interference.

These differences between the foreign economic policies adopted by Argentina and Brazil had of course quite different implications for their balance of payments, as relatively more foreign exchange cover was available in Brazil – given the United States reluctance to adopt either bilateral trade and payments or restrictions to the entry of Brazilian goods in the American market. Had the American adopted strong hand methods to balance their payments in relation to Brazil in a manner similar to the British in Argentina it should be expected a very substantial reduction in the availability of foreign exchange.

Scarcity of foreign exchange was vital for the fast expansion of the output of import-substituting industries in Brazil during the 1930s. If, however, the reduction in the value of imports had been such as to interfere with the level of intermediate and – to a lesser degree – capital goods imports, this was bound to constrain the growth of industrial output. It is in fact claimed in this paper that the fast rate of industrial growth in Brazil during 1930s was possible, among other things, because of American 'strategic leniency' towards Brazil.

The output of other sectors of the economy 'also depended on the availability of foreign exchange as in the case of transport Services which relied on imported capital goods, components and fuel. Agricultural diversification, on the other hand, which was a striking feature of the economy during the decade, depended on the stability of new export markets supplied under the umbrella provided by American unwavering adoption of a global foreign economic policy based on multilateralism.

Argentina's foreign economic policy in the 1930s v/as defined under the heavy constraints placed by British bilateralism. Given the political basis of *Concordancia*, Argentinian concessions tended to assume a shape, which distinctly favoured cattle interests in detriment of national interest. This policy had costs both in the long run in terms of a slower rate of growth of the economy – and particularly of industry – than would have been the case had it been less concessive towards British interests.

It would seem, in the light of the cases of Argentina and Brazil, which comparative studies of Latin American economies in the 1930s must indeed take into account the diversified characteristics of the links of different countries with the international economy, which by their very nature may have imposed quite different constraints on economic policy and, consequently, on the economic performance of specific countries.

The experience of these two countries also makes clear the continued importance of links with the world economy to explain economic policy formulation and growth in the 1930s in spite of educed integration of the international economy (measured, for instance, by the value of trade and capital flows in relation to income).

It is not very easy to draw lessons for the 1980s for such countries as Brazil and Argentina based on their experience during the 1930. A marked feature of the international economy today is the absence of an emergent hegemonic country – such as was the case of the United States in the 1930s. It is unlikely, consequently, in a context of stiff international competition, which any country will be able to exploit for extended periods any structural advantages it may have as Brazil did in the 1930s. Multilateralism today, in spite of assertions to the contrary, is much qualified by strictly bilateral arguments and the expansion of LDCs exports frequently faces the competition of the more senile segments of industry in advanced countries. In this sense, the lesson to be drawn from the Brazilian experience in the 1930s seems to be rather limited[32].

In spite of its well-known economic and political difficulties, Argentina in the 1980s by virtue of its more diversified basis of natural resources – especially her self-reliance concerning energy – is likely to depend less crucially on the world economy than Brazil.

The generation of a sizable and permanent surplus in the Brazilian trade account is today of

[32] There is no need to deal with Argentinian experience in the 1930s as this hardly provides an example to be followed.

paramount importance to reassure lenders about the country's capacity to pay its foreign debt Service and to make possible further indebtedness. As the capacity of oil-exporting countries to absorb Brazilian exports is limited, trade surpluses have to be generated in other markets frequently facing the competition either of well-established suppliers as in the markets of Africa and Latin America or of heavily protected lame ducks in Western Europe and the United States.

It is in fact in the balances of payments of countries such as Brazil that are portrayed the incoherent claims of the financial and the less competitive industrial interests in advanced economies. At the present stage of its economic growth, Brazil needs to keep its indebtedness under control. To do this in a non-damaging way it needs to increase its trade surplus carving off markets from traditional suppliers. Outcry would be easy to understand if Brazil were not a rather marginal supplier of the world market: indeed Brazil's share of the world market in the early 1980s (less than 1%), in spite of increasing integration with the world economy since 1967, is still considerably below its 1928 level.

At it is, the Brazilian task in the 1980s of trying to align its commercial share of the world market with its importance as an outlet for international financial flows is going to be a particular hard one. Specially, so when a comfortable umbrella similar to that provided by the United States in the 1930s is wanting.

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