
Kenneth Callis Lanoue

Louisiana State University and Agricultural & Mechanical College

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AN ALLIANCE SHAKEN: BRAZIL AND THE UNITED STATES, 1945-1950

A Dissertation

Submitted to the Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College in partial fulfillment of the requirements for the degree of Doctor of Philosophy

in

The Department of Latin American Studies

by

Kenneth Callis Lanoue
B.S., University of Hartford, 1964
M.A., Louisiana State University, 1972
August, 1978
ACKNOWLEDGMENTS

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I would also like to thank the faculty of the Latin American Studies Institute for its financial aid, friendship and intellectual stimulation during the years of my graduate studies. To Mrs. Miriam DeHart, I can only say thank you for the innumerable favors done in my behalf.

Finally, I wish to thank my wife, Susan, whose sacrifice over the past four years has been far greater than my own.
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ABSTRACT

The period from 1945 to 1950 marks a transition period in United States relations with Brazil. The period began with the apogee of friendship between these two nations. They had just cooperated as completely as possible in the allied cause against fascist tyranny. Brazil, alone out of the twenty Latin American republics, sent a division into combat in Europe. In return for its wartime sacrifice Rio de Janeiro received large amounts of military and economic aid. The Brazilian Foreign Office also perceived that a "special relationship" had been achieved with Washington, a perception that gave the Brazilians expectations for a continued high level of cooperation on Washington's part in helping Brazil to solve its postwar problems.

The United States came out of the war as the most powerful nation in the world. It expected to play a leading role in preserving peace and in the new world economic order that was then being fashioned. It did not expect the breakdown in the wartime alliance with the Soviet Union and the economic collapse in Europe that forced Washington to play such a massive role in preventing Europe and Asia from falling into economic depression and under Communist domination.
With the severity of other world problems commanding Washington's attention, Brazil found that its perceived special relationship with the United States did not bring the degree of aid and cooperation that was anticipated from the Truman administration. Rio's first national interest was security. In its long-standing rivalry with Argentina, Brazil gained a degree of military superiority during the war that it expected to maintain with transfers of American arms in the postwar period. These arms were not forthcoming when Washington put its Latin American arms program on a multilateral basis. Congressional fears of arming dictators or assisting in military takeovers of Latin governments caused the planned arms shipments to be severely restricted. The Dutra government's strong interest in economic development also failed to receive the expected degree of aid and cooperation on Washington's part. Compared to the billions of dollars that went to Europe and Asia, the Brazilians sensed that they had just received token loans. When Argentina removed itself as Brazil's traditional supplier of wheat the Rio government had difficulty in understanding why the United States could not make up this deficit from its own vast grain surplus.

Only in the area of international conferences such as those at Rio de Janeiro in 1947 and Bogota in 1948 did the two nations achieve harmonious relations over their respective levels of cooperation. Washington also made diplomatic efforts to see that Brazil gained
every opportunity for enhanced prestige in world councils.

By 1950 the Brazilians perceived that they had been let down and that the special relationship no longer existed. Washington did not get the expected degree of cooperation from Rio when Secretary of State Acheson requested Latin American aid in Korea. American foreign policy toward Brazil in the immediate postwar period failed to maintain the total cooperation and friendship of a staunch ally.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ARA</td>
<td>Office of American Republic Affairs</td>
</tr>
<tr>
<td>CFB</td>
<td>Combined Food Board</td>
</tr>
<tr>
<td>CNP</td>
<td><strong>Conselho Nacional Petróleo</strong> (National Petroleum Council)</td>
</tr>
<tr>
<td>CPEDP</td>
<td><strong>Centro Paulista de Estudos e Defesa do Petróleo</strong> (Center for the Study and Defense of Petroleum)</td>
</tr>
<tr>
<td>CRC</td>
<td>Combined Rubber Committee</td>
</tr>
<tr>
<td>ERP</td>
<td>European Recovery Program</td>
</tr>
<tr>
<td>HR6326</td>
<td>Inter-American Military Cooperation Bill</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IEFC</td>
<td>Internal Emergency Food Council</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>JBUSMC</td>
<td>Joint Brazil-United States Military Commission</td>
</tr>
<tr>
<td>JBUSTC</td>
<td>Joint Brazil-United States Technical Commission</td>
</tr>
<tr>
<td>PCB</td>
<td><strong>Partido Comunista do Brasil</strong> (Communist Party of Brazil)</td>
</tr>
<tr>
<td>RDC</td>
<td>Rubber Development Commission</td>
</tr>
<tr>
<td>SWNCC4/10</td>
<td>State-War-Navy Coordinating Committee Paper 4/10</td>
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INTRODUCTION

Since the turn of the century, a tradition of friendly relations has existed between the United States and Brazil. Diplomatic ties established following the proclamation of the republic of Brazil in 1889 grew especially strong during the years 1902-1912 when the Baron of Rio-Branco served as Minister of Foreign Relations. At a time when the United States had begun to recognize itself as a world power and to appreciate the economic potential of Latin America, Rio-Branco encouraged and took advantage of a growing friendship between the two nations in order to gain American support for Brazilian interests in South America. Rio-Branco was able to shift Brazil's diplomatic axis from London to Washington, as he and Secretary of State Elihu Root effected what one historian has called an "unwritten alliance." By promoting Brazil's goal of preeminence in South America, the United States gained Brazilian support for American aims in the Caribbean.¹

¹The standard work on Brazilian-United States diplomacy during the nineteenth century is Lawrence F. Hill, Diplomatic Relations Between the United States and Brazil (Durham, 1932). The story of the Rio-Branco ministry can be found in E. Bradford Burns, The Unwritten Alliance. Rio-Branco and Brazilian-American Relations (New York, 1966).
Throughout this period Brazil was linked economically to Great Britain, a direct result of the close commercial ties between Britain and Portugal that dated back to the early eighteenth century. When Brazil gained its independence from Portugal in 1822, Britain succeeded in retaining its economic hold on the former Portuguese colony.² The rapid expansion of coffee cultivation and the growing taste for it in the United States enabled Washington to challenge British economic hegemony in Brazil in the second half of the nineteenth century. Imperial Germany also became a formidable rival of the British interests in Brazil late in that century. During the First World War, however, German trade was cut off by the British blockade, resulting in an advantage for the United States. Following the war the intense competition between the three nations for Brazilian trade resumed. By 1938, the last full year before open conflict had begun in Europe, the United States supplied 24 percent of Brazil's imports while Germany and Britain supplied 25 percent and 10 percent respectively.³

²Brazil's ties with Britain are documented in Alan K. Manchester, British Pre-eminence in Brazil (Chapel Hill, 1933), and Richard Graham, Britain and the Onset of Modernization in Brazil (New York, 1972).

³The rivalry for Brazilian trade during the pre-war years is detailed in Stanley E. Hilton, Brazil and the Great Powers, 1930-1939. The Politics of Trade Rivalry (Austin, 1975).
World War II represented the high water mark of relations between Washington and Rio de Janeiro. The wartime alliance grew out of self-interest on the part of both nations. Brazil, again deprived of German trade by the British Navy, looked to the United States for the matériel that it normally acquired from Germany. At the same time, the war effort took most of Britain's production and left little surplus for the export trade. The Americans provided the Brazilians with the goods they formerly obtained from Europe. Fearing the thrust of Nazi propaganda and the possibility that the Western Hemisphere would be drawn into the war, the administration of President Franklin D. Roosevelt increasingly pursued Brazilian cooperation. The United States obtained a guarantee from President Getúlio Vargas that his nation would provide the Allies with strategic resources. Washington persuaded the Brazilians to eliminate Axis influence, both political and economic, with Brazil; the American military secured air and naval bases along the Brazilian coastline that later provided strategic help to the Allies during the war. In exchange, the Vargas government gained valuable economic assistance and military aid in the form of arms and training from the United States. Their combined efforts against the common enemy of fascism resulted in a close political approximation during the war years.  

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By the end of the war, Brazil assumed that its alliance with the United States was firmly established and Rio de Janeiro looked forward to reaping the rewards commensurate with its perceived wartime sacrifices. Indeed, throughout the conflict the Brazilians had calculated that their offering of manpower and resources, both on and off the battlefield, would result in postwar advantages. They believed that Brazil's slow economic progress during the long years of war would end when the war ended; and that American aid, coupled with the exchange reserves built up during the war, would finally enable Brazil to join the "great" nations of the world.

As the war was drawing to a close American policy-makers possessed a positive view of the nation's situation vis-à-vis the rest of the world along a number of fronts, military, political, and economic. Militarily, the United States found itself the greatest power in the world. It had come through the war stronger than it had been in peacetime. The wartime alliance with Britain and the Soviet Union had crushed the Fascist threat in Europe and Asia. Assuming that the alliance among the three powers would maintain world peace after the war, military planners looked forward to tuning America's military stance in relation to Latin America. The conference at Chapultepec (Mexico City) in February and March 1945 gave the promise of future hemispheric military cooperation when it called for joint defense of
all the states in case of aggression against any one of them. This principle was to be reaffirmed and enlarged at a special conference scheduled for Rio de Janeiro in October 1945. As virtually the only foreign supplier of arms to the hemisphere during the war, Washington defense planners hoped to promote the use of American arms, equipment and techniques to the exclusion of those of other nations. The wartime situation and the huge amounts of surplus matériel that would be available after the war ensured that the United States would face the Latin American military establishments with a definite advantage in its bargaining position over other possible suppliers.

With the defeat of the nations that had challenged the peacekeeping efforts of the League of Nations during the 1930s hope for world peace lay in the United Nations. It was expected that the major Allied powers would act in concert under the aegis of the new world organization. Possessing the largest navy and air force in the world and undisputed command of the atomic bomb, Americans saw little chance of any nation invading the United States in the near future and they were unaware of any threat from internal subversion. The optimism of the American people was evidenced in a Gallup poll that found a clear majority did not expect another war for at least twenty-five years. 5

In the realm of world economics, Washington policy-makers saw excellent prospects for America's future prosperity. They perceived that the war had presented them with an opportunity to remake the world economic scene. The war had destroyed any possible competition that Germany or Japan could offer in the near future. Great Britain was an exhausted nation with a rundown industrial capacity. The Soviet economy was in no condition to become an effective competitor with the United States on the international scene. The world market lay open to American industry, which had come through the war unscathed. The burgeoning coffers of wartime exchange accumulated by the third world nations served to whet the appetities of American economic leaders who foresaw billions of dollars in foreign contracts for their products. Moreover, Washington was making a supreme effort to change the game rules of international trade. This effort sought to eliminate most of the hindrances on free trade that had tended to hamper the entrance of American products into previously restricted markets. Plans for promoting free trade were formulated and were well on their way toward completion before Germany and Japan succumbed to the allied military onslaught.

Within the framework of its global foreign policy goals the United States had its own specific objectives in relation to Latin America. Militarily, Washington wanted to build up the hemisphere so that it could be in a position to defend itself with a minimum of
American aid. During the war, the United States had been compelled to aid in the defense of Latin America with arms and manpower that could have been put to better use on the battlefields in Europe and in the Pacific. Military policy-makers hoped to avoid a repetition of this situation in any future conflict.

A second military goal of American policy-makers was the standardization of the various hemispheric military establishments. During the war, American military personnel designated to coordinate hemispheric defense efforts found themselves faced with a hodgepodge of arms and equipment, tactics, and command systems that hindered their efforts at melding the local militaries into an efficient defense force. The American military quickly realized that standardization was a goal that had to be pursued, and extensive plans were drawn up before the close of the war to achieve that end.

Politically, the United States wanted to create an inter-American system that could respond quickly, as a unit, to threats to the security of the hemisphere. During the war against the Axis, Washington had been unable to get unanimous support against the Nazi menace until the closing weeks of the war when allied armies were within forty miles of Berlin. As with military preparedness, Washington hoped that the hemisphere could be politically ready to take advantage of the area's common need to repel any opposing forces that threatened its security.
Among Latin America's export markets and suppliers of imports the United States had achieved unquestioned supremacy during the first half of the 1940s. American businessmen's hopes for keeping their preeminent position in the hemispheric economy after the war were supported by Washington's drive to eliminate restrictions that tended to keep American goods out of other markets. Washington's aims were: (1) to open Latin economies to private North American investment, (2) to downplay economic nationalism in the hemisphere in favor of economic liberalism, and (3) to promote economic development because a developed Latin America would provide a better market for American exports and an atmosphere more receptive to foreign investment. The coordination of economic philosophies in a developed hemisphere, Washington thought, would better achieve the military and political cooperation needed in the postwar era.

The intimate relations between Brazil and the United States continued into the immediate postwar period. Both nations were acting in their own self-interest as they maintained their wartime ties. Washington needed Brazil's friendship and cooperation to pursue its goals in the hemisphere. Rio needed America if it was going to preserve and extend the economic and political gains that had been made during the war.

The study of Brazilian-United States relations in the
Immediate postwar period provides some valuable insights into Washington's policy-making apparatus. Foreign policy-making had never been a monopoly of the State Department, especially as America's economic and political relations with the rest of the world had become increasingly complex. Every decision taken with respect to Brazil usually involved consultations with other governmental agencies, and frequently, with international organizations. The Brazilian-American negotiations over wheat, for example, provide an excellent example of the intricacies of inter-departmental discussions regarding Brazil and, despite overwhelming opposition within the State Department on political and economic grounds to the Truman arms bill in 1947, military considerations won out.

Decision-making within the State Department itself was never a routine matter. Repeated personnel changes at key positions made it difficult to establish consistent patterns of action vis-à-vis Latin American interests. At the end of the war the State Department was still adjusting to the rapid growth it had been subjected to when its personnel requirements had increased 74 percent during the previous six years. It became so involved in Europe and Asia during the second half of the 1940s that recommendations made in behalf of Latin

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America were frequently tabled in deference to America's larger world interests. Brazilians increasingly perceived this to be the case in their relations with Washington.

The purpose of this study is to examine the diplomatic relations between the United States and Brazil within the context of Washington's policy toward the rest of the world in the years 1945-1950. The Brazilians perceived that their country and its interests were being ignored in favor of the Truman administration's wide interests in Europe and Asia. During the administration of President Eurico Gaspar Dutra, Rio de Janeiro exhibited marked frustration over Washington's seeming neglect after a period of intense close relations during World War II. The recent availability of the State Department's diplomatic archives through 1949 makes feasible a detailed study of the immediate postwar era. The period covered in this paper includes the last year of President Getúlio Vargas' Estado Novo through the years of the Dutra presidency. Much of the foreign policy of the Dutra government had its genesis during the year preceding his inauguration as president.

Research for this study was carried out primarily in the National Archives in Washington, D.C. during the summers of 1975, 1976 and fall, 1977. The major focus of investigation involved the files of the State Department, particularly decimal files in Record Group 59 for the period 1945-1949. This group of records contains
the diplomatic correspondence between the State Department and the American Embassy in Rio de Janeiro, copies of any correspondence that would have been of interest to the American Ambassador in Rio, field reports from American consulates in Brazil and thousands of clippings from Brazilian newspapers that were of interest to the Department. The clippings provide today's researcher with an excellent view of public opinion, if such a thing existed in Brazil in the 1940s, as expressed through the editorials of the nation's major newspapers. 7 Most important of the files in this group of records were the interdepartmental memos and letters between the various levels and personalities of the Latin American branch of the Department along with the correspondence of other departments and agencies of the United States government that affected the formulation of American policy toward Brazil. The importance of intradepartmental cooperation is evidenced in Chapters IV and V in the discussions on loans and wheat for Brazil. It is hoped that this study will provide some insights on American foreign policy formulation for those interested in this subject.

Despite the fact that researchers in the National Archives are afforded every consideration in terms of access, problems still exist.

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7 Frequent reference is made to these clippings in the text and footnotes of this dissertation, but they are not listed in the bibliography since this author did not examine the actual newspapers involved.
Some documents are misfiled while many are missing. This researcher frequently ran across notations of documents that were "temporarily" pulled as long as thirty years ago that had not found their way back into the files. Many valuable documents, such as FBI reports, are routinely screened out of the files. Attempts made by this author to view some of these FBI documents through the Freedom of Information Act resulted, for the most part, in denials from Director Clarence Kelly's office that the desired documents existed. Relevant documentation from the Department of Agriculture and Treasury Department is not housed in the National Archives but are available to the diligent researcher who can afford the expensive and extensive search of those records through the Freedom of Information Act. This author did not pursue these avenues because the material was judged to be of marginal value to this study.

Another problem existed in the State Department's delay in making the records available to scholars. In the past, the National Archives has made State Department papers available in two-year segments biennially. The 1948-1949 papers were opened up for researchers in 1975. However, because of a recent change in policy, the Archives, in 1979, will be opening up a group of papers covering the four years, 1950-1953.

Despite the abovementioned difficulties, Record Group 59 furnishes the most complete record of the events that transpired

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between Brazil and the United States within the scope of this study. This source provided the bulk of the information presented in this dissertation.

Research was also conducted in the Truman Library in Independence, Missouri, where the papers of President Harry S. Truman and many of the figures in his administration are housed. The papers of President Truman, Clark Clifford, Secretary of Agriculture Clinton Anderson, Secretary of the Treasury John Snyder and Ambassador Herschel Johnson all proved to open some valuable views on the subject of American policy toward Brazil. The staff of this library went beyond the mere fulfillment of its occupational duties to scour their files for information of interest to this researcher. The papers of Joseph C. Grew who served briefly as Undersecretary of State in 1945 were also examined at the Houghton Library, Harvard University in Cambridge, Massachusetts.

The author relied heavily on the published memoirs of the participants in the policy-making apparatus of the State Department during the Truman administration. While few references are made to Brazil or Latin America in those volumes, they are valuable for assessing America's foreign policy toward the world as well as providing some insight into the personal conflicts and attitudes among these participants in foreign policy-making.

The most valuable published source for this study was the
State Department's *Foreign Relations of the United States* series.

These volumes include the most important documents from the State Department files and form the starting point of any serious study of American foreign policy. This author was forced to rely heavily on the 1950 volume which contains documentation that scholars cannot, as yet, view in the National Archives.
Chapter I

RIO DE JANEIRO AND WASHINGTON: 1945

"A greater Brazil emerging after the war will be called on to aid world reconstruction politically and economically." With these words in his 1945 New Year's Day message to the Brazilian people, President Getúlio Dornelles Vargas expressed what Brazilians envisioned as their just role in world affairs at that time.¹ Brazilians had always assumed that their country would be a great nation as soon as they could harness its natural resources. At the close of World War II they sensed that this "greatness" was about to arrive. The accomplishments of their recent history had reinforced Brazilian confidence in the future.

There were a number of factors that contributed to this high level of national self-esteem. First among these was the obvious fact of Brazil's physical size. With 3,286,170 square miles of territory it made up one-third of the land area of all Latin America and was the fourth largest country in the world after the Soviet Union, Canada and China. With its rapidly growing population, estimated at 45 million

in 1945, it included one-third of the population of Latin America.

Brazilians were proud of the enormous economic progress that the country had made in recent years as can be seen in Tables I-1 and I-2. Despite its many unsolved problems, Brazil indeed had made great strides toward economic diversification. Two world wars and a depression demonstrated to Brazil the hazards of dependence upon the outside world. Each of these world crises disrupted the flow of manufactured goods to Brazil and pushed that country nearer to achieving a more independent economic base. Industrial production grew at an annual rate of 8.4 percent during the 1930s and 11.1

2

<table>
<thead>
<tr>
<th>Date</th>
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<tr>
<td>1907</td>
<td>2,988</td>
<td>136,420</td>
</tr>
<tr>
<td>1920</td>
<td>13,420</td>
<td>275,512</td>
</tr>
<tr>
<td>1938</td>
<td>70,026</td>
<td>1,412,432</td>
</tr>
<tr>
<td>1945</td>
<td>76,000</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>


percent for the years 1933-1939. Despite wartime shipping difficulties

TABLE I-2

INDICES OF THE VOLUME OF BRAZILIAN PRODUCTION, 1920-1945
Base: 1939=100

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Physical Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>57.8</td>
<td>34.7</td>
<td>47.4</td>
</tr>
<tr>
<td>1925</td>
<td>61.5</td>
<td>39.9</td>
<td>51.7</td>
</tr>
<tr>
<td>1930</td>
<td>82.9</td>
<td>42.4</td>
<td>66.4</td>
</tr>
<tr>
<td>1935</td>
<td>91.3</td>
<td>68.0</td>
<td>81.4</td>
</tr>
<tr>
<td>1940</td>
<td>101.1</td>
<td>105.0</td>
<td>102.8</td>
</tr>
<tr>
<td>1945</td>
<td>110.2</td>
<td>136.0</td>
<td>120.7</td>
</tr>
</tbody>
</table>


and shortages of machinery and primary materials from abroad,

Brazilian industrial production increased at an annual rate of 5.4 percent during the years 1939-1945. Real output of the industrial sector increased 37 percent between the years 1939 and 1945. The most spectacular development was in the textile industry as evidenced in Tables I-3 and I-4. A major reason for this was the demand from textile-starved foreign markets in other Latin American countries and South Africa. By 1944 Brazil had become one of the world's leading

textile exporters. The nation's new productive capacity was reflected

### TABLE I-3

**COTTON CLOTH PRODUCTION OF BRAZIL, 1938-1945**

<table>
<thead>
<tr>
<th>Year</th>
<th>1000 Meters</th>
<th>Index (1911=100)</th>
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<tbody>
<tr>
<td>1938</td>
<td>909,972</td>
<td>240</td>
</tr>
<tr>
<td>1939</td>
<td>893,904</td>
<td>236</td>
</tr>
<tr>
<td>1940</td>
<td>840,168</td>
<td>222</td>
</tr>
<tr>
<td>1941</td>
<td>989,669</td>
<td>261</td>
</tr>
<tr>
<td>1942</td>
<td>1,068,612</td>
<td>283</td>
</tr>
<tr>
<td>1943</td>
<td>1,414,336</td>
<td>373</td>
</tr>
<tr>
<td>1944</td>
<td>1,382,700</td>
<td>365</td>
</tr>
<tr>
<td>1945</td>
<td>1,085,429</td>
<td>287</td>
</tr>
</tbody>
</table>


### TABLE I-4

**COTTON CLOTH EXPORTS FROM BRAZIL, 1938-1945 (Kilos)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>247,239</td>
</tr>
<tr>
<td>1939</td>
<td>1,981,734</td>
</tr>
<tr>
<td>1940</td>
<td>3,958,871</td>
</tr>
<tr>
<td>1941</td>
<td>9,237,932</td>
</tr>
<tr>
<td>1942</td>
<td>25,168,682</td>
</tr>
<tr>
<td>1943</td>
<td>26,045,818</td>
</tr>
<tr>
<td>1944</td>
<td>20,699,808</td>
</tr>
<tr>
<td>1945</td>
<td>24,246,510</td>
</tr>
</tbody>
</table>

in its pledge of $33,165,000 in cotton textiles and other products to
the United Nations Relief and Rehabilitation Administration (UNRRA)
in 1944. The nation was also assigned an export quota of 90 million
yards of cotton goods by UNRRA that same year. In a later contract
Brazil agreed to furnish the French Colonial Supply Mission with
another 60 million yards. 4

Industrial expansion during the 1930s and early 1940s greatly
reinforced national optimism. As one official put it, "No one questions
the possibility of creating in this hemisphere a new and strong in-
dustrial center, side by side with the United States and Canada." He
further noted that the prime requisite of an industrial nation, an
internal market, already existed in Brazil. Perhaps the most visible
showcase of Brazil's potential was Volta Redonda. For years Vargas
had wanted a modern integrated steelworks for Brazil. Throughout
the 1930s he labored with national leaders and foreign concerns to
bring this project to realization. A solution was finally worked out in
1940 when the Export-Import Bank pledged a loan of $20 million to aid
in financing the project along with Brazilian funding. Construction was
begun during the war but because of wartime shortages the project was

4 Howard J. Trueblood, "New Directions for Postwar Trade,"
Inter-American, III (October 1944), p. 11; Inter-American, III (Decem-
ber 1944), p. 43; Stein, Brazilian Cotton Manufacture, p. 169. The
commitments to supply these amounts of textiles were never fulfilled.
On Brazilian exports of textiles to Latin America, see Hilton, "Vargas
and Brazilian Economic Development," pp. 775-776, and especially
the expanded Portuguese Version of that article in Hilton, O brasil e
not completed until after the war. In spite of this delay, Volta
Redonda served as a shining monument to Brazilian-United States
cooperation and symbolized Brazil's industrial future. 5

To Gilberto Freyre, the noted Brazilian sociologist, the
textile trade was opening "a mutual discovery phase" in Latin America.
He described the Brazilian economy as ceasing to "be passive or semi-
colonial." Another Brazilian called for an "industrial alignment,
supplementing the political one" between the United States and Brazil.
An industrial Latin America, and particularly Brazil, he said, would
occupy the prewar positions of Germany and Japan "rather than act
as a competitor for exporters" in the United States. Prominent
foreign analysts shared the optimism of Brazilian observers. The
British Chamber of Commerce in São Paulo expected Brazil to retain
a large part of the market for its manufactured goods that it had gained
during the war. This prediction assumed that the exchange reserves
built up during the war would be used after the war to purchase mod-
ern machinery so that Brazilian industry could become more efficient
and therefore maintain its competitive position among the

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5José Jobim, Brazil In the Making (New York, 1943), pp. 4-6; Werner Baer, The Development of the Brazilian Steel Industry (Nash-
ville, 1969), pp. 68-79. Further details on Volta Redonda can be ob-
tained in John Wirth, The Politics of Brazilian Development, 1930-
1954 (Palo Alto, 1969), Chapters 4-6. For a revisionist critique of
Wirth, see Stanley E. Hilton, "Military Influence on Brazilian
Economic Policy, 1930-1945: A Different View," Hispanic American
Historical Review, LIII (February 1973), pp. 71-94.
industrialized nations. The Chamber also expected a postwar influx of trained European workers to operate the new machinery.  

As the war was drawing to a close, Brazilian authorities, secure in their American alliance, began to plan for the postwar period. One of their major fears was the sudden termination of American wartime purchases of the strategic materials that had been bringing unprecedented dollars into the country. As early as March 1944, Valentim Bouças, an economic advisor to President Vargas, had gone to the United States to discuss the matter with Washington officials. Bouças wanted a gradual withdrawal of the purchases so as to diminish the shock of conversion to peacetime. Brazil was especially hopeful of retaining part of the American purchases of tropical products that the United States had, in the prewar years, acquired from the Far East.  

With all of its economic assets Brazil still lacked three necessities for industrial greatness: capital, technology and fuels. Brazilians reasoned that the first two could be imported from the United States. The third, they were convinced, would be found within their borders as soon as they embarked upon a concentrated effort at exploration. In the meantime, the country's vast hydro-electric potential could be developed. Many responsible leaders saw imported

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capital as the prime requisite for development. Recognizing this need, the Brazilian Congress of Industry met in São Paulo early in January 1945 and suggested a new liberal policy for foreign investments in Brazil.  

That same month João Daudt d'Oliveira, President of the Commercial Association of Rio de Janeiro, called for stronger cooperation with United States capital and promoted Brazil's natural resources as the key to planning Rio's economic future. In a later speech Daudt d'Oliveira said, "We sincerely pray that in the shortest time collaboration with the United States, with all the reciprocal advantages, will be strengthened and developed in an increasing growth." An editorial headed "Commerce With the Yankees" in a Rio daily strongly supported a special place for the United States in the postwar economic relations of Brazil. Denouncing any obstacles to economic cooperation, it called for "the greatest possible expansion of business between the two countries." Another editorial attacked xenophobic nationalism, scorning "the superstitious terror of the foreigner who, so they say, desires only to take possession of our imaginary treasures," and urged readers to recognize the need for

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8 Charge d'Affairs Walter J. Donnelly (Rio) to Secretary of State Edward Stettinius, January 8, 1945, 832.6363/1-845, Records of the Department of State [Henceforth DS], National Archives.

9 Donnelly to Stettinius, January 16, 1945, 811.503132/1-1645, DS; Commercial Attaché DuWayne C. Clark (Rio) to Stettinius, June 13, 1945, 711.32/6-1345, DS.
The two countries had established intimate economic cooperation during the war but some friction had begun to develop in the final year of that conflict. Among the sources of irritation was the failure of the United States to follow through with the recommendations of the Cooke Mission which had made an extensive study of Brazil's economic needs in 1942, promoting suspicion that the Mission had been merely a wartime propaganda project. The economic dislocations caused by the war also provided a reason for resentment among Brazilians toward their neighbor to the north. Like civilians everywhere they disliked the shortages, rationing and inflation that came with the war. Overlooking the complex reasons for these conditions, some Brazilians found it simpler to blame the Americans for their economic woes. In the United States export prices were maintained by the Office of Price Administration at levels comparable to domestic prices. The Brazilian government did little to prevent profiteering once the goods had entered Brazil. It was easy for importers and middlemen in Brazil to increase the prices of American goods and let the population blame the high prices on Yankee profiteers. In one case, tinplate imported from the United States at about $11 per box was sold and resold within Brazil until the final buyer had to pay $54.  

10 O Jornal, January 18, 1945, February 17, 1945.

Following the surrender of Germany the Brazilians hoped to improve their economic position with the United States and eliminate some of the wartime irritants that bothered them. In June 1945, Vargas admonished Ambassador Carlos Martins Pereira e Sousa, a pro-American career diplomat who had been in Washington since 1939, about the necessity of obtaining "more favorable" treatment from the United States in economic relations, particularly with regard to increased shipments of coal and petroleum products and assistance in completing certain industrial projects. Martins complained to the State Department that Brazilians were having difficulty understanding why they were still experiencing economic problems when they had been told throughout the war that conditions would improve when the war had ended in Europe. Brazilians, he said, were angry because the War Production Board had made available to Argentina 500,000 tons of petroleum while Brazil was still chafing under restrictive rationing. Explanations about shipping problems did little to mollify Rio's disappointment. 12

Despite all their misgivings and problems Brazilian policymakers still believed that their best hopes for the future lay in friendship with the United States. Throughout the year 1945 there was almost continuous talk of economic liberalism in order to allow foreign capital to take part in aiding Brazilian development. The election of General Eurico Gaspar Dutra as President encouraged those who looked to economic liberalism as the best means of gaining greater assistance for Brazil. "Economic liberty will perhaps be [the] principal point in my governmental program.... I make no distinction between foreign and national enterprises once they both are working for the economic progress of my country," said Dutra. "We should receive with all satisfaction and on an equal basis with national capital, all foreign capital desiring to collaborate with us." In the weeks between his election and inauguration, Dutra took many opportunities to profess his faith in United States-Brazilian friendship. His publicly stated view that United States capital should be allowed to aid in Brazilian development encouraged American industrial and financial interests.\textsuperscript{13}

Politically, Brazil had effected an "alliance" with the United States that had brought valuable benefits. In 1945 Brazil had the best equipped and strongest armed forces in Latin America as a result of Lend-Lease aid. Alone among the Latin American republics it had

\textsuperscript{13}Diário de Notícias (Lisbon), December 13, 1945; New York Times, January 27, 1946.
sent an expeditionary force of over 25,000 men to the Italian front. Returning from the Casablanca Conference in January 1943, Roosevelt had met with Vargas and wisely appealed to Brazilian self-esteem by agreeing to a joint communique that depicted Brazil and the United States as equals in the Battle of the Atlantic. Brazilians desired a larger role in world affairs and they viewed the war as an opportunity for enhancing their prestige and power in world councils. In a speech delivered in July 1944 Vargas promised his people that Brazil would be consulted at the end of the war in the Conference of the United Nations. Of this, a Rio daily said: "Brazil, by what it has already done and can still do in the upcoming events, will conquer a predominant place at the side of the United Nations." Three months later the same daily, equating Brazil with nations such as China and France, said: "Brazil deserves," in fact, "a place between the great powers, in making the future peace...."14

To obtain a greater voice in world affairs, the Rio government recognized that it would have to arrive at an accommodation with the Soviet Union, with which it had not maintained relations since

1918. When the State Department reminded Vargas in 1945 that it would be politically advantageous for Brazil to resume diplomatic ties with Moscow in order to improve Brazil's chances for securing representation on the future United Nations Security Council, Vargas reacted quickly and relations were resumed shortly before the San Francisco Conference. This move did not deter the Kremlin from opposing the idea of a permanent Security Council seat for Brazil, but the latter did receive the first non-permanent seat in that body and other important posts in the United Nations which greatly added to national prestige. 15

A traditional foreign policy goal pursued by Brazil had been supremacy within South America. The major perceived barrier to Brazil's continental paramountcy was the nation's long-standing rivalry with Argentina. Since independence the two nations had been antagonists in the La Plata region. By the twentieth century both were making strong bids for the position of leadership in South America. In the 1930s and early 1940s Argentine military preparations and machinations in Paraguay and Bolivia alarmed the Vargas government. Brazilian authorities did not want open conflict with Argentina since they feared that country militarily and also had a growing stake in trade with Buenos Aires. Brazil needed Argentina as a source of wheat and as a market for its tropical products and its burgeoning textile exports. Brazilians also hoped to retain a good share of the postwar Argentine market that they had taken from Britain during the war. When the United States sought to enlist Brazilian diplomatic support against Argentina during the war, the Rio government found it difficult to openly oppose Buenos Aires. 16

It became obvious to Brazil, however, that in plotting foreign policy, its best course after the war lay in cooperation with the United States. The wartime alliance with that country had brought valuable benefits. It was assumed that postwar collaboration would continue to bring advantages. Partnership with Washington was a

16 Hilton, Brazil and the Great Powers, p. 8; McCann, Brazilian-American Alliance, p. 331.
common theme of many Brazilian commentators at the close of the war. With the exception of the British dominions, noted one analyst, Brazil and the United States were the only non-European countries whose troops had fought in Europe "since the Moors were chased out of Spain." Influential Brazilian publicists and political leaders had long sensed a special affinity with the United States because the two nations were the only two large non-Spanish nations in the Americas. At the same time they complemented each other economically.

According to Freyre, both the "similarities and differences" between the two countries linked them "in a special way" and made them "particularly complementary to each other." In 1945 Freyre saw Brazil as the leader of the Portuguese-speaking world. He also visualized Brazil as occupying a place in a Pan American federation as well as in an Atlantic federation. 17

Those who saw alliance with the United States as the most favorable means of attaining Brazil's foreign policy goals found a powerful ally in President Eurico Gaspar Dutra. Elected to the presidency at the age of sixty, Dutra's career had been marked by a plodding but steady rise through the Army ranks. He became a hero of sorts when he was slightly wounded as he rushed to rescue Vargas from a fascist putsch in 1938. Serving as Vargas' Minister of War from 1936 to 1945, he had been cautious about taking sides against

17J. A. Camacho, Brazil—An Interim Assessment (London, 1952), pp. 75-76; Freyre, Brazil, An Introduction, pp. 144, 146, 143.
Germany until Brazil joined the Allied cause in 1942. During the war he worked closely with American officers in building up the Brazilian armed forces and planning for the Brazilian Expeditionary Force. A dedicated anti-Communist, he had become very friendly toward the United States, particularly after his special mission to that country in 1943. Following his election to the presidency in 1946, he declared, "I am a firm believer in the continuation of the policy of strict collaboration with the United States of America in favor of peace and continental harmony within the democratic regime." Dutra also saw "in Pan-Americanism the only form of efficient defense and real progress for the American continent." Oswaldo Aranha, former Ambassador to the United States and wartime Foreign Minister, told an American correspondent he was confident that Dutra's election would not alter United States and Brazilian cooperation in any way. All in all, the Brazilians had little doubt that the close wartime unity with the United States would continue into the postwar period. 18

The United States, on the other hand, had only recently reappraised its relation with the rest of the world and had, in the course of World War II, moved from a position of isolationism to a far more international approach to foreign policy. Publisher Henry Luce spoke of the "American Century" and said it was time for the United States "to accept wholeheartedly our duty and our opporunity

as the most powerful and vital nation in the world." Former Republican presidential candidate Wendell L. Willkie, in his book entitled One World, argued that the world was one interdependent whole and no nations could avoid playing a role in that world. 19

While concentrating on winning the war, President Franklin D. Roosevelt allowed the State Department to begin efforts at postwar planning as early as 1942. During the first year of the war he personally moved cautiously in his speeches and activities toward an internationalist position for the United States. When polls in 1943 showed that United States public opinion favored America's inclusion in a postwar world organization of nations, Roosevelt began to move publicly toward a firm commitment in support of the United Nations Organization. The way had been cleared for united American support for postwar internationalism when the powerful Republican Senator Arthur Vandenberg of Michigan, formerly a leading isolationist, was converted to internationalism. In the most memorable speech of his long political career Vandenberg declared that he advocated "maximum American cooperation, consistent with legitimate American self-interest" in the settlement of postwar issues. Measured by any yardstick the United States in mid-1945 was the most powerful nation in the world. With its size, economic resources and atomic bomb, the country could not avoid its new responsibilities. As one State

19 Life, X (February 17, 1941), pp. 61-65; Wendell L. Willkie, One World (New York, 1943), pp. 202-203.
Department official put it, "Mere preachments...will be no substitute for participation and decision." The hopes of Woodrow Wilson in 1919 were fulfilled in 1944-1945, as the United States took the lead in creating the United Nations and the American people placed their confidence in collective security as a means of preventing future war.

In addition to collective security on a worldwide basis, actions in Latin America during the war had demonstrated to State Department policy-makers the need for greater unity in the Western Hemisphere. As clear as the Fascist menace had been to the United States, it had not elicited the unanimously strong response from the other American republics that Washington desired. It was not until one month before Germany's surrender that Argentina had joined the Allies. The efforts of some of the other Latin nations had also been less than wholehearted. The State Department thought that what was needed in the Americas was a complete sense of unity that would allow the hemisphere to react quickly to any perceived threat. This

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would mean political and military defensive arrangements that could be quickly activated.

Besides political and military cooperation, a third element in American policy toward Latin America was the promotion of economic liberalism. Washington wanted to open opportunities for investment in Latin America but nationalistic restrictions in many countries made this difficult. American businessmen, working through the State Department, hoped to show the Latin Americans the "benefits" that would be derived by allowing foreign capital to take part in the development of their economies. By encouraging economic development and, consequently, raising the standard of living, Washington sought to promote the political stability crucial to effecting its political and military policy goals.

With specific reference to Brazil, American policy-makers had envisioned a larger role for that country in world affairs after the war. In exchange for Latin America's cooperation during the war the United States rewarded the area with a great deal of economic and military aid. Brazil contributed the most to the war effort and received the major share of American assistance. Of the approximately $450 million in Lend-Lease aid extended to the hemisphere, Brazil received almost three-fourth of the total. At one time during the war Roosevelt thought that Great Britain and Brazil could police Africa after the war while the rest of the world would be guarded by interested parties. The fact that Roosevelt and wartime Secretary of
State Cordell Hull actively supported Brazil's bid for a permanent seat on the United Nations Security Council evidenced the stronger role that was desired for Brazil. Geographically, the northeastern "bulge" served as a stepping-stone to Europe and vice-versa. At a time when submarine warfare was important, Brazilian bases could play a vital role against enemy U-boats. In any future war with its new technology, Brazil's manganese, chrome, quartz, mercury, mica, nickel, tungsten and thorium would be of crucial importance. Joint staff discussions between the War and Navy Departments and the Brazilian military in the spring of 1945 clearly showed that a larger function was being outlined for that country's armed forces.21

In the private sector American economic leaders had viewed the wartime years as a golden opportunity to move into Latin America with their capital and resources. European businessmen were too preoccupied with the war to offer effective resistance. As early as May 1941 Cordell Hull had publicly enunciated some principles of American foreign economic policy that combined his ideas on reciprocal trade with the freedom of movement for international capital. Throughout the war American businessmen had talked about

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the need to extend commercial relations with Latin America. Early in 1943 Eric Johnson, President of the United States Chamber of Commerce, had claimed that United States businessmen were displaying "greater hemispheric consciousness." The President of the National Small Business Men's Association explained why: "Latin America," he said, "offers the largest and most fertile investment field in all the world."22

Like their government counterparts most American businessmen tended to recognize that developed nations, with their higher standards of living, provided a better market for American goods than did underdeveloped nations. As Assistant Secretary of State Spruille Braden reminded the National Foreign Trade Council in 1945, Canada, with its far smaller population, took more of the United States' exports than did all of Latin America. Moreover, according to businessmen, a fully developed and industrialized Latin America would augment the power of the United States in protecting the hemisphere both militarily and economically.23

Accepting at face value military estimates that the war with


Japan would last, at least, well into 1946, economic planners had not fully formulated a program for reconversion by the surrender in August 1945. As shown in public opinion polls of the time, many Americans were deeply concerned about the possibility of a postwar depression when the war industries were shut down. Unemployment was widely anticipated, with government economists forecasting eight million jobless workers. A Statement by a prominent economist that the government could maintain domestic employment without expanding foreign trade alarmed Assistant Secretary of State for Economic Affairs William L. Clayton, formerly a cotton exporter and co-founder of Anderson and Clayton, a firm with widening business interests in Brazil. The possibility of a postwar economic decline worried the administration of President Harry S. Truman. Commerce Secretary Henry A. Wallace noted in his diary that a May 18, 1945 cabinet meeting anxiously discussed a prediction that total output of goods and services for 1947 were to be $40 billion less than for 1944. That would have meant an unemployment level of around seven million.²⁴

designed to promote exports over imports. He objected strongly to this infringement on free trade that tended to reduce American exports to the region. American businessmen voiced similar complaints. At its annual convention in December 1945 the National Foreign Trade Council took a strong stand against restrictions on foreign capital, import controls, protective tariffs, exchange controls and profit remittances. 25

Washington came out of the war with new economic burdens. One of these was the almost total responsibility for economic leadership in the Americas that went along with its strong political guidance. By this time, the United States had captured a large part of the total Latin American trade, and the devastated conditions in Europe at the end of the war guaranteed that the Americans would continue to keep their share of Latin American trade for the near future. Many Americans became convinced that free trade in Latin America was one sure means of exporting surplus production and thereby maintaining a healthy level of employment.

At the end of the war the Latin American treasuries had between $4 and $5 billion in foreign exchange. American businessmen looked forward to selling to the Latins the goods they had been unable to get during the war. Most important would be machinery and other

capital goods to aid in the area's plans for economic development.

A report prepared for the Senate Military Affairs Committee by the Office of the Coordinator of Inter-American Affairs predicted that in the first ten years following the war Latin America would purchase some $5.78 billion worth of new and used United States machinery to replace old equipment and to supply new industrial enterprises. Brazil was depicted as a likely purchaser of over $2 billion worth of this equipment. 26

As the war drew to a close the public attitude of Brazilian economic policy-makers seemed to coincide with American economic plans for their country. At a conference of North and South American business representatives held in Rye, New York, in November 1944, Brazilian officials stated that United States capital was welcome to participate in Brazilian development as partners with Brazilian shareholders, and assurances were given that there was no reason to fear any restrictions on foreign capital. In addition to endorsing a low tariff policy, they assured United States businessmen that the government would not confiscate foreign enterprises. These businessmen were further encouraged when the delegates to the Inter-American Conference on Problems of War and Peace, held in Mexico City in February and March 1945, approved the slightly amended Economic Charter that had been proposed by the United States. Among

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^ Inter-American, III (December, 1944), p. 45.
its provisions were equality of access to the trade and raw materials of the world, elimination of excess economic nationalism, just and equal treatment for foreign enterprises and capital, prevention of cartel practices, promotion of private enterprise, and reduction of trade barriers. 27

Despite the public statements made at Rye and Mexico City, Brazilian industrialists had ideas of their own. Roberto Simonsen, the noted economist and spokesman for São Paulo industrialists, drew up a plan for postwar industrialization that called for restrictions on imports and an American long-term loan to cover the cost of his plan. During an undefined "constructive period," declared Simonsen, the internal market should not be "disturbed" by foreign competition. During the war Brazil's exports of textiles to other Latin American countries had increased dramatically, and manufacturers understandably wanted to preserve this sudden wartime gain in industrial export capacity. Vargas supported their efforts in 1944 and 1945 when he sought to conserve for essential imports Brazil's newly acquired exchange reserves that would otherwise have been used for consumer goods. With the fall of Vargas in October 1945 the industrialists lost one of their strongest advocates. 28

At the close of the war against Japan in August 1945, Brazilian and United States policy-makers and businessmen were looking forward to an era of cooperation. To most of them, a solid foundation for this cooperation had been laid during the war. With peace, each side planned to reap the fruits of the victory. Brazilians were looking for economic development with the aid of the United States capital. American businessmen were looking forward to the investment possibilities that 45 million consumers could provide. In general terms, the foreign policy goals of the two nations seemed complementary.

The inauguration of President Dutra in January 1946 gave Americans little cause for concern. Fiorello LaGuardia, who attended the inauguration as President Truman's personal representative, reported that the Brazilian government "went out of its way on every occasion to indicate its friendship for the United States." Minister of Foreign Affairs João Neves da Fontoura, a longtime supporter of Vargas who had persuaded him to come out publicly for Dutra in November 1945, privately told LaGuardia: "Brazil will follow the foreign policy of the United States. That is what I aim to do, that is what the government wants to do, and that, I am sure, is what the people of Brazil want to do."29

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29 Fiorello LaGuardia to Truman, February 13, 1946, President's Secretary's File [Henceforth PSF], Box 171, Truman Papers, Truman Library.
Chapter II

BRAZIL AND THE UNITED STATES AT RIO AND BOGOTÁ

With the breakdown in the wartime alliance between the Soviet Union and the West clearly evident by 1946, American policymakers gradually turned to a strategy that later came to be called "containment." The system of alliances designed to preserve the world against Communism was the essence of this policy and it was extended to Latin America during the latter half of the 1940s. The goal of the Truman administration was to set up a regional organization that would react quickly, and as a unit, against any threat to the Western Hemisphere. Plans toward this end were formulated at the Chapultepec Conference in Mexico City in March 1945. At that meeting the Act of Chapultepec, providing for a military alliance, was drawn up. This Act was to be put into permanent treaty form at the Rio Conference, originally planned for October 1945, while a political alliance was to be framed at the Ninth International Conference of American States scheduled for December 1946.

The formulation of the inter-American alliance involved months of planning and a series of diplomatic negotiations. Following the Chapultepec Conference, the United States and the twenty Latin American nations labored at San Francisco to make certain that the
Charter of the United Nations permitted regional defense pacts. This was accomplished in Article 51 of the Charter and the American republics were free to go ahead. At San Francisco the chiefs of the American delegations agreed on a meeting to implement, in convention form, the Act of Chapultepec. Rio de Janeiro was chosen as the site of the meeting and, as host nation, Brazil was entrusted with the responsibility of inviting the other governments.¹

Prior to the Rio Conference, the State Department, wanting to coordinate pre-conference planning, asked Brazilian Foreign Minister Pedro Leão Velloso to request that Ambassador Carlos Martins "head up such discussions." Washington's close relationship with the Brazilian Ambassador would help ensure that the conference would take a shape that the Americans desired. One concern in Washington was that the Latin American nations might try to include economic issues on the conference agenda. America's agreement at Chapultepec to a postwar extension of the wartime commodity arrangements in order to avert some of the sudden dislocations that were expected at the end of the war was viewed by the Latin American governments as only a temporary measure. They were bothered by

the fact that the prices they paid for American goods were rising while the United States was paying steady prices for Latin American commodities. The Latins could foresee a substantial jump in the prices they would have to pay in the immediate postwar period when wartime controls would be lifted. Instead, they wanted to negotiate a plan that would assure them of equitable prices for the commodities in the future. Washington wanted to avoid the inclusion of economic questions on the Rio Conference agenda because they would detract from the main purpose of the meeting, which was to formalize a defense treaty. In an effort to head off economic discussions at Rio, Undersecretary of State Joseph C. Grew expressed the opinion that the other countries had an ample opportunity at Chapultepec and San Francisco to discuss "matters of common interest in a wide variety of fields," namely, economic questions. A few weeks later, Dean Acheson, who had replaced Grew, told Ambassador Adolf A. Berle, Jr. in Rio that Brazilian views on the conference agenda conformed with those of the State Department and that these two countries agreed that economic matters should not be placed on the agenda.

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2 A liberal New York lawyer who had been an early supporter of Roosevelt and had served as an Assistant Secretary of State from 1938 to 1944 before being assigned to Rio after losing an internal dispute with Acheson.

A matter of graver concern to the Americans was the Argentine situation. Despite Argentina's obstinacy in following an independent foreign policy during the war, it had been welcomed back into the inter-American fold when it agreed to adhere to the Act of Chapultepec. Against his better judgement, Truman had gone along with Latin American pressure at San Francisco to include Argentina in the United Nations Organization in order to "promote Western Hemisphere solidarity." Having been readmitted into the inter-American system and allowed to enter the United Nations, Argentina, during the summer of 1945, appeared to be reneging on its Chapultepec commitments. There was no visible effort on the Argentine government's part to curb Nazi influences and prosecute Nazi war criminals. State Department planners were having second thoughts on the feasibility of accepting Argentina as an equal partner in negotiating an inter-American security pact at the Rio Conference. After lengthy discussions with Cordell Hull, Truman and the Brazilian government, the Department made the decision to request a postponement of the meeting that was scheduled for October 1945.4

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4Truman, Memoirs by Harry S. Truman, I, pp. 281-282; Rockefeller to Grew, Memorandum, August 1, 1945, 710 Consultation 4/8-145; Acheson, Memorandum, September 29, 1945, 710 Consultation 4/9-2945, DS; Acheson, Memorandum, October 1, 1945, FR-1945, IX, pp. 160-161; United States Department of State, Department of State Bulletin, XIII (October 7, 1945), p. 552; Acheson to Diplomatic Representatives in the American Republics, October 3, 1945, FR-1945, IX, p. 163.
The delay, which most Latins expected to last for a short time, continued for almost two years. An impasse was reached when the United States refused to sign a defense treaty with Argentina, despite the fact that the latter had been invited to a conference to negotiate such a pact. During the period of delay the Americans continued to insist on Argentine compliance with the Chapultepec agreements. As the months wore on, most Latin American governments grew increasingly less supportive of the American position. Brazil, as the host nation for the projected conference, remained in close diplomatic consultation with Washington throughout the long postponement. While favoring the inclusion of Buenos Aires at the conference, the Brazilian Foreign Office agreed to wait until the State Department was satisfied with the Argentine attitude.  

In June 1947, after a meeting in which the Argentine Ambassador reviewed with President Truman and Secretary of State George C. Marshall, the wartime Chief of Staff, the steps that his government had taken and was continuing to take toward compliance with its commitments at Chapultepec, the Truman administration announced its willingness to proceed with the Rio Conference. The Brazilians quickly pressed the State Department to set a date for the meeting and agreement was reached on opening the conference on August 15, 1947.

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Pre-conference consultations through the Governing Board of the Pan-American Union were held to attempt to reach as wide an area of agreement as possible. The Brazilians reiterated their opinion that the agenda be limited to the preparation of a security treaty, an attitude in which the Americans concurred. At the next meeting of the Governing Board the American representative explained the American desire for a crystallization of views on the principles that the proposed treaty should contain. He noted that the basic framework for the treaty already existed in the Act of Chapultepec and the Charter of the United Nations and that the task of the conference would be the comparatively simple one of converting the wartime and temporary Act of Chapultepec into a permanent treaty consistent with the United Nations Charter. 6

The State Department was particularly concerned about four issues: the status of non-American observers, the question of Nicaraguan participation, the possibility of including economic

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6 Marshall to Messersmith, June 3, 1947, 710 Consultation 4/6-347; Marshall to Pawley, June 17, 1947, 710 Consultation 4/6-1747; Briggs, Memorandum, June 18, 1947, 710 Consultation 4/6-1847; Chief of the Division of Special Inter-American Affairs (Dreier), Memorandum, June 18, 1947, 710 Consultation 4/6-1847; Briggs, Memorandum, June 18, 1947, 710 Consultation 4/6-1847; Pawley to Marshall, June 18, 1947, 710 Consultation 4/6-1847; Briggs to Lovett, June 18, 1947, 710 Consultation 4/6-1847; Marshall to Pawley, June 18, 1947, 710 Consultation 4/6-1847; Marshall to Pawley, June 20, 1947, 710 Consultation 4/6-2047, DS; Dawson, Memorandum, June 20, 1947, FR-1947, VIII, pp. 4-5; Pawley to Marshall, June 25, 1947, 710 Consultation 4/6-2547, DS.
matters on the agenda, and the possible disruptive effect of Argentina.

The first of these problems arose late in June 1947 when Brazil indicated to Washington its desire to invite observers from Great Britain, France and the Netherlands because those three countries had territory in the Americas. When the State Department opposed this idea, declaring that the "suggestion is fraught with danger," the Governing Board decided to invite only Canada and the Secretary-General of the United Nations to send observers. 7

A question arose over the extension of an invitation to Nicaragua, a country governed by a group that had failed to gain de facto recognition from the other American republics. In order to avoid involvement in the controversy, Washington said that it would go along with the majority vote on the issue. At a meeting of the Governing Board on July 28, a thirteen to five margin opposed the extension of an invitation so none was extended. Both Brazil and the United States voted with the majority. 8

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7 Dawson, Memorandum, June 26, 1947, 710 Consultation 4/6-2647, DS; Statement by William Dawson, United States Representative at the Meeting of the Governing Board of the Pan American Union, June 27, 1947, FR-1947, VIII, pp. 6-7; Dawson to Special Assistant to Assistant Secretary of State Braden (Wright), June 11, 1947, 710 Consultation 4/6-1147, DS; Assistant Chief of the Division of Special Inter-American Affairs (Halle) to Briggs, July 14, 1947, FR-1947, VIII, pp. 19-20; Marshall to American Embassy (Rio), July 18, 1947, 710 Consultation 4/7-1847, DS.

8 Marshall to Pawley, July 3, 1947; Charge Brooks (Rio) to Marshall, July 5, 1947, FR-1947, VIII, pp. 10-12; Dawson, Memorandum, July 25, 1947, 710 Consultation 4/7-2547, DS; Marshall to
Consistently, and with Brazil's full cooperation, the United States wanted the conference agenda limited to a mutual security treaty. As the conference date approached, discussions within the State Department sought to forestall any attempts to inject economic discussions into the agenda. An inter-Department memorandum suggested that the Latin Americans be given some assurance that the United States was willing to sit down with them at some time and consider the economic problems with which they were becoming increasingly preoccupied. Some officials in the Department believed that there might have been plans on the part of some Latin leaders to embarrass the United States and make the attainment of its political objectives more difficult. Many in the State Department believed that the Argentines would disrupt the conference by introducing economic issues.9

Despite American efforts to the contrary an economic matter was injected into hemispheric discussions. At the July 28 meeting of the Governing Board the Cuban Ambassador presented a motion to include the Sugar Act of 1948 as a threat within the meaning of the Rio Treaty. The Cubans did not like Section 202 (e) of the Sugar Bill, which would have given the United States Secretary of Agriculture


9Halle, Memorandum, July 25, 1947, 710 Consultation 4/7-2547, DS.
retributive rights against any country whose sugar policies did not provide fair and equitable treatment to United States nationals. The Cuban motion was voted down at the Governing Board meeting, but the various governments had listened to Cuba. Marshall had to cable all the diplomatic representatives in the Americas instructions on how to discuss the issue if it was brought up. The Brazilian Foreign Office gave Ambassador William Pawley\textsuperscript{10} assurances that Brazil would support the United States if the controversy came up at the conference.\textsuperscript{11} Washington's close monitoring of Cuban intentions and Rio's cooperation helped to keep the matter from becoming a major issue during the conference.

Soliciting intelligence from every possible source, Washington sought to ascertain Argentina's attitude before the Rio Conference. In general, it did not appear that Buenos Aires would go to the meeting in order to play a disruptive role. Argentine leaders seemed to believe that a military security pact was needed in Latin America and that the overwhelming military power of the United

\textsuperscript{10}An early pioneer in aviation who formed the famed Flying Tigers in China during the war. A heavy contributor to the Democratic Party, he had previously served as Ambassador to Peru.

States would lead the treaty. The Argentines were also of the opinion that only they had the means to provide a strong supportive role for the United States in its defense of the Western Hemisphere. President Juan Domingo Peron of Argentina reportedly was convinced that there would be a war between the United States and the Soviet Union. According to a State Department dispatch, Argentina expected to be the unifying force in South America, with Washington's tacit consent, and to receive material and technical assistance from that country. In this way the Argentines could relieve the United States of responsibility for maintaining South America both militarily and politically. To interested observers, this was completely contradictory to what the Brazilians wanted. Within the State Department the Director of the Office of American Republic Affairs outlined a "prudent" policy of "watching and waiting" toward Argentina. He also suggested that the United States "assist small states subject to Argentine pressure" and always support and maintain the principles of the inter-American system.

12 United States Ambassador (Lima) to Marshall, July 2, 1947, 710 Consultation 4/7-247; United States Ambassador (Santiago) to Marshall, July 17, 1947, 710 Consultation 4/7-1747; Division of Rio Plata Affairs (Oakley) to Marshall, July 25, 1947, 710 Consultation 4/7-2547; Special Assistant to Assistant Secretary of State (Smith) to Ambassador in Buenos Aires (Bruce), July 25, 1947, 710 Consultation 4/7-2547; Chargé in Buenos Aires (Ray) to Marshall, July 26, 1947, 710 Consultation 4/7-2647; Ray to Marshall, July 28, 1947, 710 Consultation 4/7-2847; Ray to Marshall, July 29, 1947, 710 Consultation 4/7-2947, DS.

13 Briggs, Memorandum, July 7, 1947, 710 Consultation, 4/7-747, DS.

On August 20 Secretary Marshall presented a major address to the delegates in which he explained the importance of the New World to the Old World. In a move to prevent talk of extending the Marshall Plan to the Americas, he discussed the destruction and suffering in Europe and urged the Americas to help that part of the world. He also called for "good faith and fair dealing, honesty and friendly cooperation, [and] mutual respect and freedom and intercourse" between the nations of the Americas. In conclusion, he outlined the task before them: "Today, at Rio de Janeiro, our concern is with mutual defense and security, tomorrow, at Bogotá, we shall go on to reorganize and strengthen our inter-American system and to make it a more effective agency of cooperation in the pursuit of our common interests."


15 Marshall to Lovett, August 19, 1947, 710 Consultation 4/8-1947, DS.
With the cooperation of the Brazilian delegation, Washington was able to attain the results that it desired at the Rio Conference. Most importantly, the Brazilians supported American efforts to keep economic issues off the conference agenda. Raul Fernandes, the highly respected pro-American jurist-diplomat who had replaced Fontoura as Foreign Minister, consulted with Marshall before proposing that all problems of an economic nature be handled at a special conference to be called no later than the second half of 1948. Brazilian Senator and former Minister of War Goé's Monteiro told Marshall that if the present conference were to handle all the problems that beset the American republics it would last two years. 16

The crowning achievement for Washington at the Conference was the Inter-American Treaty of Reciprocal Assistance, commonly called the Rio Treaty. Signed on September 2, 1947, the Treaty stated that an armed attack by any state against an American state would be considered an attack against all and each state would undertake measures in meeting the attack. Consultation within the inter-American system would determine the nature of the assistance taken in resisting the attack. The measures that could be taken included the recall of chiefs of diplomatic missions, breaking of diplomatic relations, economic sanctions and armed force. What one

commentator has called "one of the most advanced and significant features" of the treaty was the provision for voting. A two-thirds majority of the states that ratified the pact would be binding on all the signatory states with the exception that no state would be required to use armed force against its will. 17

The highlight of the Rio Conference, for Brazilian-United States relations at the personal level, was President Truman's presence at the conclusion of the conference. Dutra's invitation had been extended to Truman long before, but the American president wanted to attend the conclusion of only a successful conference. Previous consultations with Marshall led to the decision to attend the signing ceremony if the conference results were positive. If the conference did not appear to be successful, then Truman was to have gone down to Rio on September 7, Brazilian Independence Day. When Marshall gave Truman the signal he was looking for, the President hastily flew down to Rio for the signing ceremony. The Brazilians wanted him to attend both the conclusion of the conference and the Independence Day celebration. At the last minute Truman accepted the Brazilian request and scheduled his visit to include both functions. Accompanied by his wife, Bess, and daughter, Margaret, Truman received an enthusiastic popular reception. For six days he attended receptions, gave two speeches and, in general,

had a good time in Rio. On September 2 he attended the signing ceremonies and spoke before the assembled delegations at the conference. On September 5 he addressed a joint session of the Brazilian Congress. Truman's visit proved to be a propaganda boon for Brazilian-American friendship. Fernandes saw the visit as "one more link" in the chain of friendship between the two countries. Minister of War Canrobert Pereira da Costa told Truman that the Brazilian Army "feels itself overcome" with the words of praise that he sent it on Brazilian Independence Day. Dutra told him of the "expression and feeling which your name holds in the thoughts of our people," and presented the President with a handsomely bound set of books. 18

The next step, said Marshall, had to be the strengthening of the inter-American system. As part of a continuing series of inter-American conferences, the Ninth International Conference of American States had been scheduled in Bogotá for 1943, but because of the war it had been postponed and later rescheduled for December 1946. The Colombian government twice requested further postponements until it was finally set for March 1948. The ten years since

the eighth conference, held in Lima, Peru, in 1938, had been marked by a great deal of planning in anticipation of this meeting. The main objective of the Bogotá Conference was the reorganization and strengthening of the inter-American system. This was to be the follow-up of a resolution adopted at the Chapultepec Conference.

As with the Rio Conference, Washington was concerned that extraneous matters might be proposed at Bogotá. Five months before convocation of the meeting, Undersecretary of State Robert Lovett instructed all of the Department's diplomatic officers in the American republics to obtain "discreetly" any information on proposals that the other governments were planning to make at the conference. The Americans hoped, through pre-conference meetings of the Governing Board of the Pan American Union, to check any initiatives that would deter the meeting from its stated purpose of reorganizing the inter-American system.19

One problem came up when it was learned in Washington that a number of Latin American nations were scheming to make an issue of the European colonies in the Americas. Guatemala proposed that the matter be included on the agenda for the Bogotá Conference. Guatemala was not alone in strongly considering it a matter of importance. The United States Ambassador in Asunción learned from

19 Lovett to American Diplomatic Officers in the other Latin American Republics, October 9, 1947, 710. J/10-947, DS.
his Brazilian counterpart in that capital that the Paraguayans had raised the question of the Guianas with him and asked if his country would be interested in French Guiana. The American envoy suggested that Buenos Aires was behind the move among the nations of the southern cone because of Argentina's desire to take sovereignty of the Falkland Islands from the British. Washington opposed the Guatemalan proposal on the principle that peaceful means for settling such disputes already existed in international law and in the Charter of the United Nations. Any attempt to advance the claims of any party in those disputes, said Secretary Marshall, "would prejudice the opportunity for their equitable and peaceful solution in accordance with international law." The Brazilians were completely behind the American view on the Guatemalan proposal and worked through their various embassies to bring Argentina and other nations opposed to European colonial claims into agreement before the opening of the conference. Itamarati's support of the American position was backed by the Brazilian press.

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20 United States Ambassador in Asunción (Warren) to Marshall, March 3, 1948, 710 J/3-348; Marshall to the Diplomatic Representatives in the American Republics Except Nicaragua, March 5, 1948, 710 J/3-548, DS.

Washington was concerned about the attitude that the other nations would take on economic matters at Bogotá. The State Department was aware of the growing belief in Latin America that the region was not getting what it deserved. While the Marshall Plan was beginning to pump billions of dollars into revitalizing Europe's devastated economy, Latin American nations were struggling to industrialize with limited amounts of capital, capital goods and technology. There was a growing call for a Marshall Plan for Latin America. American economic leaders did their best to mobilize arguments to counter such talk. One American business leader spoke for his peers when he told President Truman of Latin America's hope for "definite economic assistance" from the Bogotá Conference. Failure to provide something, he told Truman, "might destroy to a large extent the results obtained so far in the big picture." Instead of a Marshall Plan for the area, he suggested a treaty "giving certain guarantees to private North American capital." If the American government could also offer such capital some tax incentives, said the industrialist, it would go a long way toward relieving a substantial part of America's burden in the area and provide the development the southern republics desired. While Washington did not go along with American businessmen in all their specific suggestions, it did generally agree with the business community on general economic policy toward the hemisphere. Arguing against a Marshall Plan for the area, Will Clayton said that the Plan
was "Not at all applicable" to Latin America because it was designed "to enable Western Europe to continue to eat and work until they [sic] can get back into production." Provision had already been made for Latin America through the lending capacity of the Export-Import Bank and, more importantly, the International Bank, so Washington, he argued, should make it perfectly clear that the Marshall Plan could not be extended to that area. 22

In general, American economic and business leaders opposed the consideration of any type of multilateral economic pact at Bogotá with the possible exception of a simple economic code that did not commit any nation on specific points. Ambassador Walter J. Donnelly warned from his post in Caracas that there should be no multilateral decisions made at Bogota because they would restrict Washington's "freedom to negotiate bilaterally" and "unsettle rather than stabilize" the relatively satisfactory position occupied by the oil companies in Venezuela. 23

A few weeks before the conference was to open, the State Department was ready with its response to the calls for more


23Crosby, Division of Public Liaison to Carter, Division of Public Liaison, March 10, 1948, 710.J/3-1048; Ambassador Donnelly (Caracas) to Marshall, January 14, 1948, 710.J/1-1548, DS.
economic aid. A cautious six-point program was outlined that could be summed up as more-of-the-same in regard to the aid that the United States had already been extending to the hemisphere over the past few years. The only economic agreement that the Americans wanted to conclude in treaty form would deal with assurances and incentives to private foreign investment from the United States to Latin America.  

Prior to the opening of the conference, Brazilian newspapers, with the exception of the Communist press, generally supported the Bogotá Conference but called for economic cooperation in the hemisphere. "Without ample cooperation in the economic sphere," stated one Rio daily, "the line of defense of the Continent will present a point of least resistance." Another affirmed that "no plan of defense of the American Continent can be disassociated from a plan of economic development."  

On the third day of the conference, Secretary of State Marshall spoke to the gathered delegations. His address was not what the Latins were hoping to hear. After discussing the importance of an economically revitalized Europe and the extent of America's

\[\text{\footnotesize\cite{Marshall1948}}\]

\[\text{\footnotesize\cite{Brasil1948, Noite1948, Chargé1948}}\]
burden in bringing about that effort, he appealed to the American republics to share in the effort to aid Western Europe. While making a general offer of increased aid for Latin America, he strongly emphasized the role that private capital would have to play. The biggest disappointment for the Latins was what the Secretary did not say. He did not offer a Marshall Plan for the Americas.\textsuperscript{26}

Initial press comment in Brazil was generally positive toward the speech. The Rio dailies spoke of Marshall's promise to aid economic development in the Americas. They played up Latin America's role in the plan for European economic recuperation. O Globo congratulated the Secretary for speaking with the frankness of a great statesman and soldier. Editorial comment followed the same trend of thought expressed in the initial news reports. A Noite supported Marshall's contention that the "struggle against Russian imperialism... is a problem for all." Marshall's frankness was noted by another Rio daily: "In America sincerity, even when blunt, finds a better reception than lies disguised in hypocritical attitudes." The Rio Embassy reported that President Dutra "had been deeply impressed" by the speech and that, within Brazil, it had met with a "uniformly favorable reception."\textsuperscript{27} Marshall's huge reputation and

\textsuperscript{26}Vital Speeches, XIV (April 15, 1948), pp. 386-389.

\textsuperscript{27}O Globo, April 2, 1948; A Noite, April 3, 1948; Gazeta de Notícias, April 3, 1948; Key to Marshall, April 6, 1948, 710.J/4-648, DS.
Brazilian acceptance of American initiative still carried weight in Rio.

The day after the speech Marshall met with Ambassador João Neves da Fontoura, Chief of the Brazilian delegation at the conference. João Neves told the Secretary of State that by order of President Dutra, instructions from Foreign Minister Fernandes, and "by his own feelings," his delegation would "follow closely" the American delegation and that "every effort would be made to have the points of view of both delegations coincide." The Ambassador assured Marshall that he "understood thoroughly" the part dealing with the provision of a satisfactory climate for private capital in the hemisphere and that Brazil backed the United States on a number of important proposals, often in opposition to Argentina. Brazil favored the strengthening of the association of American states and opposed the Argentine suggestion of an independent military council. The United States and Brazilian delegations resisted the Argentine and Guatemalan move to get the conference to sustain the colonial claims of the American states. Article 21 regarding the prompt, adequate and effective compensation for expropriation of property was supported by the United States and Brazil. 28

During his private meeting with Marshall, João Neves said that his government was prepared to back any resolution "favored

by the United States" on the subject of Communism. Brazil's experience with Communism after the legalization of the Partido Comunista do Brasil (PCB) in 1945 had confirmed Dutra's earlier suspicions of its alien ideology. The PCB increasingly had followed the Moscow line and had become an obstructionist force in the nation's political system. Dutra found the party's strident anti-Americanism to be an embarrassment to his relations with Washington. His administration had become alarmed at the party's increasing strength in the elections of January 1947. Invoking a clause in the Constitution that prohibited "anti-democratic" parties from open participation in politics, government prosecutors had banned the PCB the following May. Relations with the Soviet Union had never been cordial. After an alleged insult to President Dutra appeared in the Soviet press, Rio broke off relations with the Russians in October 1947 and removed all Communist officeholders from their positions in January 1948.29

With the closing of the PCB, Brazilian Communists were forced to go underground. One tactic the clandestine party then employed was to run Communists under the labels of other political parties. Another was to support contrived front groups such as the

National Executive Committee for the Defense of Petroleum, which sought the nationalization of the petroleum industry. The PCB continued to promote anti-American activity in other parts of Latin America and it continued to look to the Soviet Union for inspiration. President Dutra was deeply disturbed by Communist tactics throughout the hemisphere and wanted some action taken at the Bogotá Conference that would minimize the Communist threat. It was for this reason that the Brazilian delegation at that meeting forcefully supported American efforts favoring an anti-Communist resolution at Bogotá. 30

One product of these efforts was Resolution 32 of the Final Act of Bogotá that called on the American republics to arrange for the exchange of information on subversive activities. The State Department was prepared to implement this resolution as quickly as possible. It decided that a person should be designated in each United States Embassy to be that country's liaison with someone in the government of the host country. The Office of American Republic Affairs suggested that the Central Intelligence Agency would have competent personnel who could handle this job and expressed the hope

that plans could be set up as soon as possible. While it was expected that a cooperative arrangement would be worked out between the CIA, FBI, Army, Navy and Air Force, the State Department wanted to be in charge of the general supervision of this program because of the "obvious political implications" and the fact that it involved the execution of an international agreement. After consultations between the CIA, FBI and State Department a formula was worked out for the implementation of the Bogotá resolution. The exchange of information was to take place in the field and the CIA representative in most of the American missions would fulfill the function of liaison. In those countries where the liaison was to be at the foreign office level rather than the police level, another embassy official would be designated. This was the procedure followed in Brazil where the Counselor of Embassy was to act as the United States' liaison officer with the Chief of the Political Section of Itamaratí. 31

Throughout the period 1945-1948 the Brazilians cooperated fully with the Americans in achieving Washington's hemispheric political aims. Inasmuch as maintaining its wartime alliance with the Americans was of supreme importance in advancing its postwar ambitions, Brazil was only too happy to demonstrate a record of

partnership with Washington. The two nations planned every step with almost total agreement, working closely in both public forums and secret deliberations. In addition, both countries perceived the threat that Communism posed to the peace and unity of the hemisphere and took active measures, both within their respective countries and through multilateral agreements, to protect the Americas from that menace.
Chapter III

THE MILITARY DIMENSION

Under Vargas the Brazilian military received important advantages in exchange for its support for his regime. These were partially the result of the close cooperation with the United States during World War II that brought Brazil millions of dollars worth of arms and equipment through Lend-Lease. Valuable benefits were also gained in the form of bases and installations built by the United States in Brazil and turned over to that country after the war. In 1945 the Brazilian Expeditionary Force returned from the battlefront in Italy with combat experience, arms and equipment, and glory, of which all Brazilians were proud. Now that the war was over the close wartime collaboration was expected to continue during the peace. The Brazilians were convinced that they had earned Washington's respect and trust by the sacrifices they had made. This esteem would pay dividends in the postwar period, they thought, in the form of additional transfers of military arms, equipment and training.

Brazil's improved military position vis-à-vis Argentina, its traditional rival in South America, was something that Rio de Janeiro sought jealously to protect. Buenos Aires' independent policy toward
the Axis brought it diplomatic isolation from the United States and none of the benefits that accrued to Washington's friends during the war. Argentina did not obtain any of the Lend-Lease largess, while Brazil received the major share of the total allocated to Latin America. While not promoting the diplomatic isolation of Argentina, the Brazilians certainly profited from that country's estrangement from the United States. In 1945 Brazil had the largest and best-equipped army in South America. With peace, Washington was expected to have a great deal of surplus arms and equipment. The Brazilians armed forces looked forward to spending a share of the country's $600 million in foreign exchange reserves on the expected surplus of American arms and equipment from the war.

The Americans also had postwar military plans in the hemisphere. An important goal of the American military was an improved defense capability in Latin America. When fascism threatened hemispheric peace in the last war Washington had to spend hundreds of millions of dollars and station 100,000 men in Latin America to ensure the security of its southern flank. In peacetime, with increased training, arms and equipment, the Latin armed forces could relieve the United States of much of the burden that it had to bear during World War II. Joint bilateral discussions were held between American military officials and the military leaders of the various republics in the spring of 1945 with a view toward achieving the self-sufficiency desired in the area.
Another important desire of the Americans was to standardize arms and munitions among the hemispheric republics along United States standards. This was one of the aims of the Lend-Lease program for Latin America. By supplying arms and training to these countries Washington hoped that this initial commitment would lead to further use of American supplies in the future. The State Department in mid-1945 instructed its diplomatic representatives in the hemisphere to be alert for any indications that Latin American governments were planning to purchase non-American matériel. If this were to occur, the missions were to explain that Lend-Lease materials should first be paid for. With specific reference to standardization, American policy-makers found a strong ally in Brazil. According to a State Department memorandum the Brazilian Air Force, late in 1944, turned down the proposed sale of British Spitfire fighter planes because "it would disrupt the standardization program now underway and would create a difficult maintenance problem." Subsequent offers of arms from European manufacturers throughout the 1940s brought the same response from Rio as Washington's attempt to achieve standardization carried a great deal of influence in Brazil for some years.

=Grew to Diplomatic Representatives in the American Republics except Argentina, July 17, 1945, FR-1945, IX, pp. 244-245; Chalmers to Exton, December 29, 1944, Box 28, American Republics Affairs files, DS.
United States wartime military policy had a number of aims in Brazil. According to a memorandum from the State Department's Brazilian desk prepared for Nelson Rockefeller's use before a Congressional committee early in 1945, American wartime policy toward Brazil had the three-fold purpose of building up Brazil's armed forces, sustaining the nation's war economy and assisting in Brazil's industrialization. One commentator on the subject of military policy toward Brazil took a less altruistic look at the situation and saw the three aspects of American policy in 1945 as the insurance of Brazilian military superiority over Argentina, the maintenance of United States air bases in Brazil and the prevention of European military influence.\(^2\) There can be little doubt that all of these aims were present in Washington's military policy toward Brazil despite the limited statement prepared for Rockefeller.

To promote America's arms policy in the hemisphere joint staff discussions between American and Latin military representatives in the spring of 1945 called for the transfer of United States arms and equipment to most of the hemispheric countries. Brazil was a key country in these bilateral conversations because it was assumed that the example set by that nation during the war would show the other Latin governments the value of close cooperation with Washington.

\(^2\)Chalmers, Memorandum, February 6, 1945, American Republics Affairs files, DS; McCann, Brazilian-American Alliance, p. 457.
The reason for these negotiations was the War Department's desire to build up the Brazilian military so that it could defend itself militarily and "play a strong and cooperative role in the maintenance of hemispherical defense as a component of post-war world order." Plans called for massive transfers of matériel to the Brazilians.

The naval talks envisaged the transfer of two battleships, two light aircraft carriers, four cruisers, fifteen destroyers, nine submarines, and a variety of auxiliary craft. Six naval bases and an arsenal were also to be set up. The army discussions revealed plans for the sale of enough equipment for a peacetime army of 180,000 and a reserve force of an additional twenty-six divisions. A transportation network had to be developed in order to make the army more mobile. Air force conversations projected a tripling in the number of planes from the 1945 level of 188 planes to over 600 in 1949. Ground facilities were to be expanded and improved along with the communications network. 3

After he had an opportunity to review the plans proposed in the joint reports, Ambassador Berle expressed his reservations on a number of important points. He first objected to the program because it was beyond Brazil's financial capacity. The cost of the naval acquisitions alone was estimated at $50 million, exclusive of ships. The air expansion would cost $9 million in 1945 and rise to

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3 Berle to Byrnes, July 26, 27, 1945, FR-1945, IX, pp. 600-620.
$23 million in 1948, with an additional $1.2 million annually for training purposes. Berle knew that these increases would make Brazil the largest military power in South America and did not object to this, since Brazil was the largest country on the continent with half the territory and half the population, but he did think that the planned expansion would be in excess of Brazil's capabilities. In 1945 Brazil did not have the trained personnel, transportation facilities, supply capacity and industrial base to operate such a military force. In light of the rapidity with which armaments and warfare were changing in the twentieth century, explained the Ambassador, any plan formulated in 1945 would soon be obsolete. To commit the Brazilian government to such an expensive program would be counterproductive since the military establishment would soon be out of date.  

While discussions were taking place in the various Latin American countries on the course of the postwar armaments program and while Berle was making his objections to the Brazilian armament program known, concurrent discussions were going on in Washington between the State, War and Navy Departments regarding a postwar program for military aid to Latin America. The results of the latter debate were embodied in a "Statement of Policy Governing the Provision by the United States of Indoctrination, Training and Equipment

\[\text{\textsuperscript{4} Ibid.}\]
for the Armed Forces of the Other American Republics, " generally referred to as SWNCC 4/10. This joint statement was drawn up on July 7, 1945 and approved by President Truman some three weeks later. Taking into account the call for close military collaboration for the defense of the hemisphere in the Act of Chapultepec, the SWNCC 4/10 assumed as a matter of course that the hemisphere would be militarily organized along "United States military doctrine, United States military methods and procedures, and United States standards of military equipment." Most importantly, SWNCC 4/10 considered the political and economic ramifications of American military policy toward Latin America. Certain principles were to guide the Department of State, War and Navy in "all matters of military cooperation." Among these was the fact that American cooperation would not be extended to any republic "so as to provide it with a military establishment that is beyond its economic means to support." Training and equipment were not to be made available "where there is good reason to believe that they may be used for aggression," and "shall not be used in order to deprive the peoples of the other American republics of their democratic rights and liberties." The first of these principles militated against the sale of

5Grew to Stettinius, June 23, 1945, Clayton-Thorp Papers, Copies of Correspondence for Clayton's Signature folder, Box 2, Clayton-Thorp Papers, Truman Library. A copy of this policy paper can be found in FR-1945, IX, pp. 251-254.
the armaments that the Brazilian military eagerly wanted.

Slackening American interest in arming Latin America after the defeat of the Axis powers did not go unnoticed in Rio. Late in 1945 Colonel Bina Machado, Chef de Gabinete of the War Ministry, talked to an American embassy official about the status of the joint staff discussions that had taken place nine months earlier. Washington's official silence perturbed the Ministry of War. The Brazilians also questioned whether the United States was following a "whole-hearted policy of cooperation with Brazil." In December 1945, without Rio's prior approval, Washington assigned two generals to the Joint Brazil-United States Military Commission (JBUSMC) in Rio de Janeiro. Soon after they had been approved by the Brazilian government the War Department reassigned one general to another post. This seemingly curt attitude on the part of the American policy-makers on a subject of supreme importance to the Brazilians was not well received by the military officials of that country. 6

Although the State Department instructed the Rio Embassy to tell Colonel Bina that United States policy toward his government remained "in every particular unchanged," the Embassy was warned privately to refrain from any more discussion on the matter until it could be completely examined in Washington after the first of the year.

6Daniels to Byrnes, December 28, 1945; Byrnes to Daniels, December 31, 1945, FR-1945, IX, pp. 622-623, 249-254.
The State Department, in fact, was taking an increasingly long-range view of military policy toward Latin America. Citing the situation in most of the other American republics as one of "great political instability," Acheson saw it as imperative that Washington "proceed conservatives" and with great care in shipping arms to those countries. The suppression of opposition by dictatorial governments bothered the Undersecretary as much as the possibility of aggressive warfare in the hemisphere. In a telegram to Ambassador Averell Harriman, Acheson stated: "It remains our policy to restrict arms shipments to Latin America and avoid any armaments race." What worried Acheson was the War Department's plan to transfer tactical aircraft to the other American republics. He warned that the allocation of bombers to those countries could cause "great potential destructiveness" if they were used improperly. He did note that "special conditions" prevailed in regard to Brazil and Mexico because those countries were the only ones that had taken an active part in the war. Acheson's views were supported by Assistant Secretary of State for American Republic Affairs Spruille Braden. It was under the authority granted in SWNCC 4/10 that Acheson questioned the War Department's plans to allocate planes to Latin America. A compromise

7Acheson to Patterson, December 19, 1945; Acheson to Harriman, December 21, 1945, FR-1945, IX, pp. 261-263; Acheson to Acting Secretary of War Royall, January 4, 1946; Braden to Royall, January 9, 1946, FR-1946, XI, pp. 86-89; Braden to Berle, January 4, 1946, 832.24/1-446, DS.
was arranged between the two departments which struck seven countries off the list of those that would receive planes, and made the furnishing of the planes subject to the concurrence of the American Ambassador in each of the recipient countries. Brazil was allotted 169 aircraft of various types in January 1946 from surplus American stocks. 8

As far as the State Department was concerned there had to be some distinction between long-range and short-range plans in regard to supplying of arms to Latin America. Discussions with the War and Navy Departments concluded that the short-range proposal had already been agreed upon through the staff discussions in the spring of 1945. The principal question was whether the long-range scheme should be carried out through the Surplus Property program. The Army was interested in this proposition as a means of promoting close collaboration with the military forces of the other American republics. The Navy agreed with the Army in general but did not want heavy weapons such as battleships, cruisers, aircraft carriers, submarines, and long-range bombers to be given to these countries because of the danger of their misuse. Assistant Navy Secretary John L. Sullivan expressed the view that the danger of misuse was

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8 Royall to Acheson, January 6, 1946; Braden to Royall, January 9, 1946; Berle concurred with the allocation of the aircraft under this interim program. See Briggs to General Hertford of the War Department, February 20, 1946, FR-1946, XI, pp. 87-89, 92.
greater than the value of heavy weapons in the defense of the hemisphere. Acheson questioned the strategic value of this program in light of the development of the atomic bomb. To him this plan was no longer worth the cost, especially when one considered the likelihood that the Latin American military would divert the use of these arms from their defense purpose to the overthrow of governments.

Speaking for the State Department, Acheson said that there had been a "moral commitment" in the staff discussions already held and they could best be carried out through the Surplus Property program. Acheson's suggestion that the long-range goals be reexamined was accepted by the Departments of War and Navy.9

Under the short-range plan, equipment and armaments were transferred to Brazil during the first half of 1946. Secretary of States James Byrnes went along with the proposal in order to "standardize," as far as possible, the military equipment needed for hemispheric defense. In March the Navy Department transferred twenty-three minor combat, auxiliary, and miscellaneous crafts to the Brazilian Navy. These vessels were in excess of the American Navy's needs. Later, with the concurrence of the State Department, the United States Navy transferred to Brazil one year's training allocation of

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9See Public Law 457, October 3, 1944, an act to aid the reconversion from a war to a peace economy through the distribution of government surplus property and to establish a Surplus Property Board to effect the same. Chief of the Division of American Republics Analysis and Liaison (Dreier), Memorandum, January 22, 1946, FR-1946, XI, pp. 90-91.
ammunition for the American weaponry that that country possessed. A steady supply of equipment needed for the repair and maintenance of American arms followed the transfers. The War Department supplied Brazil with enough ground equipment for one division of infantry. All of this equipment was delivered to the Brazilians through the Surplus Property Administration. 10

Despite the fact that European arms manufacturers, late in 1945, were soliciting orders from Latin American governments, Brazil supported the Pentagon's aim to standardize Latin American military establishments. The small but steady stream of arms and equipment transferred through the Surplus Property Administration obviously played a role in cultivating the favor of the Brazilian military planners. When a representative of British Vickers Armstrong toured Latin American capitals with offers of a considerable number of combatant vessels, Admiral Jorge Martins Dodsworth, of the Brazilian Navy, told the United States Embassy in Rio that the Brazilians had been offered such vessels with equipment at what could be considered scrap value. The British representative told Dodsworth that he was leaving his offer for him to consider while he went on to Buenos Aires, Santiago and Lima, and that he would return for Rio's

10Braden to Berle, January 4, 1946, 832.24/1-446, DS; Brynes to Certain Diplomatic Representatives, March 21, 1946; Acheson to Forrestal, April 9, 1946; Byrnes to Daniels, April 12, 1946; Acheson to Forrestal, July 1, 1946, FR-1946, XI, pp. 96-97, 442-443, 97-98.
Dodsworth warned Ambassador Berle that the Vickers offer could be the opening shot of a possible arms race in Latin America fostered by European munitions manufacturers. Berle reported to the Secretary of State that the Admiral was a "life long protagonist of inter-American and Brazilian-U.S. cooperation and much concerned by this situation." Moreover, said Berle, Dodsworth was for "orderly development of inter-American defense in cooperation with [the] U.S. on [a] planned basis without European interference." The Admiral was particularly concerned that the Argentine would be able to make an arrangement with the British that would "force" Brazil's hand.  

As soon as he heard of the Vickers offer, Berle called on British Ambassador Donald Gainer in Rio and reminded him that the general spirit of the Chapultepec agreements on mutual defense was "to prevent an armaments race in the Americas and replace it by planned arrangements for hemispheric defense." Gainer replied that the Vickers agent acted in his own capacity and had not requested help from the Embassy but had relied on his own personal contacts in the Brazilian Navy. Prior to the war the British had undertaken to build six destroyers for Brazil, three of which had survived the war. The

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11 Berle to Byrnes, December 4, 1945, 810.24/12-445, DS.
12 Ibid.
agent had merely offered the ships, said Gainer, in fulfillment of
the prewar contract along with some other smaller crafts. The
British Ambassador told Berle that his country had been an historic
supplier of ships for Brazil and, in light of Britain's balance of pay-
ments problem, naturally wanted to keep the market. Berle replied
that his government was in sympathy with London's exchange problems
but hoped that some other means could be found to solve the issue and
that discussions on the matter would presumably be carried on in
Washington.13

American efforts at currying favor with Brazilian military
leaders continued to bear fruit in the winter of 1945-1946. The
powerful General Gêes Monteiro, Minister of War, told a press
interviewer that his country needed to "standardize its war equipment
with that of the United States, which is our natural supplier." He also
proposed a reorganization of Brazil's forces along American standards
and techniques. With postwar tensions increasing between the West
and Soviet Russia, the Brazilian press took up the call for an "armed
and vigilant" hemisphere. The Jornal do Brasil reminded its readers
that the Brazilian Expeditionary Force's "absolute synchronization
with the American Forces" brought "truly astonishing results" in Italy
in the last war. A week later the same newspaper editorialized that
Brazil's forces were organizationally obsolete and needed to have a

13 Berle to Byrnes, December 6, 1945, 810.24/12-645, DS.
"closely-knit organization" along Góes' plans. *O Jornal* called for a "state of permanent alert" because Brazil could no longer consider the Atlantic as a "shield" against "attacks by panther-nations."\(^\text{14}\)

The Surplus Property program was only intended to remain in force for a short period of time in order to aid reconversion to a peacetime economy. Because of the need for congressional authorization and legislation for a long-range plan of supplying arms to Latin America, President Truman, on May 6, 1946, submitted to Congress a proposal known as the Inter-American Military Cooperation Bill (HR6326). Truman sought to calm the fears of those who thought such a program would lead to an arms race in the Americas when he promised that the United States would neither approve nor take part in "the indiscriminate or unrestricted distribution of armaments." Under the Act of Chapultepec, according to the President, the American nations were to cooperate in the maintenance of inter-American peace and security. HR6326, said Truman, was intended to aid these countries in carrying out their Chapultepec obligations.\(^\text{15}\)

The bill received general approval in the American press. The *New York Times* called it a logical development which followed the close wartime cooperation. With the exception of the Communist

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\(^{15}\) Department of State, *United States Department of State Bulletin*, XIV (May 19, 1946), pp. 859-860.
papers, press opinion in Brazil was also generally favorable. Another exception was a Rio daily that complained of the "zig-zag" foreign policy of the Truman administration in connection with Argentina, and wondered if the Americans perhaps wanted to make the Rio Conference "useless" by preempting what was to be done at that meeting. Official opinion in Brazil was favorable. Foreign Minister Neves da Fontoura declared that Truman's proposal had been received by the Dutra administration with a "great deal of favor." War Minister Góes Monteiro said that the bill, by arming the United States with hemispheric cooperation, would form a "powerful offensive and defensive bloc." If the bill were accepted by the United States Congress, Goes continued, Pan-Americanism would emerge into "a positive period." Privately, many high-ranking officials in the Brazilian government told an American military attache of their fears in regard to the "rearming of Argentina." 16

The House Committee on Foreign Affairs held its hearing on the bill late in May 1946. During these hearings some House members expressed their concern about the possibility of any American republic becoming aggressive against its neighbors after it had

become armed. Admiral Chester Nimitz fielded questions of this nature by stating that the plan was not to build up the armaments of each country, but to replace their presently obsolete equipment with standard new American equipment. No country, stated Nimitz, would achieve "greater relative strength" than they had before enactment of the bill. Secretary of State Byrnes told the House Committee that any transfer of equipment to Latin America would be matched by the transfer of a similar amount from that country to the United States. The net result would not be an increase of armament but a standardization. This would save the United States military a great deal of trouble in any future war. In the past war it was faced with a hodgepodge of arms and equipment in the Americas that was difficult to coordinate for hemispheric defense.17

Strong protests over the bill came from Communist sources outside the hemisphere. The Soviet Union took the view that the United States was attempting to grab control of Latin American armaments under the guise of friendly collaboration. Quoting the famous American singer and Communist sympathizer, Paul Robeson, Pravda claimed that the plan would contribute to the oppression of Latin America. This paper went on to say that the Truman bill proposed a military bloc on the Americas when "no threat whatsoever"

to the hemisphere existed. *Izvestia* declared the United States was aiming to establish "monopolistic domination" on the American continents and that the Truman scheme was an attempt to delay the "independent economic development" of the Latin America. *Red Star* disclaimed any intention on the part of the Soviet Union to "annex" countries in the Western Hemisphere. That Communist paper further stated that the Americans were trying to hide their intentions behind a screen of the "foggy phraseology" of hemispheric friendship and the "pseudo-Communist danger." The Communist press in Brazil lost no time in picking up the theme of Soviet propaganda.¹⁸

Wild rumors about American military plans for the hemisphere abounded while the bill was under consideration in Washington. General Dwight Eisenhower's visit to Brazil in August 1946 did little to dispel this speculation. American spokesmen frequently had to explain away many of these rumors. The War Department publicly scoffed at stories that there were proposals to equip twenty divisions each in Brazil and Argentina. It pointed out that the United States did not even have twenty divisions. The Department explained that twenty divisions would have meant a force of about 300,000 men and another 300,000 to support them in service and auxiliary units. This would have been far beyond either country's economic capacity to maintain.

At that time the Argentine military numbered approximately 90,000. The War Department further noted that Brazil had been able to muster only one division for actual combat in the last war.\textsuperscript{19}

Some thoughtful Latin Americans themselves began to question the benefits of the Truman plan. If one American republic chose to attack another, they asked, would United States public opinion support the entry of its forces into the conflict at the crucial moment? This question went unanswered. Agreeing that Latin American armies promoted "stability," some civilian elements noted that they were among the most reactionary forces in most Latin countries. This would put the Truman plan and therefore, the United States, in the position of defending reaction. An article in the \textit{New York Times} suggested that the American military would use the plan as a "dumping ground" for officers who would be otherwise superfluous to the United States' military needs. One interested observer asked why there were three United States generals stationed in Rio during peacetime when only one was necessary during the war. In a partial answer to these charges, the plan's defenders continued to state that no large-scale militarization of the hemisphere was planned. The plan would merely replace the obsolete arms already present in the hemisphere and result in no increase in the number of arms. Objections to the Truman plan mounted, however. In November 1946, the

\textsuperscript{19}\textit{Ibid.}, October 23, 1946.
Chilean President-elect spoke out in opposition to armaments for his country. Claiming that the arms race was one of the "bad factors" in Latin America, he remarked that Chile was "too poor to bear the load." He wanted technical and financial aid for his country, not military weapons.  

Opposition to the Latin American arms program had grown within the State Department to such an extent that before the end of 1946, Spruille Braden told Byrnes that conditions had changed sufficiently for the Department to reconsider the support it had given to HR6326 the previous spring. Braden cited a number of reasons for this change in conditions: the fact that even the "so-called interim program" could be executed only if credit were extended to the recipient countries in Latin America, the stocks of military equipment were no longer adequate, responsible opposition in both Latin America and the United States was increasing, and the United States had been taking a leading role in seeking the adoption of a disarmament program by the United Nations. Braden summed up his argument by declaring, "to proceed with this program would be disastrous to our inter-American relations."  

HR6326 passed the House of Representatives but died in a Senate Committee at the end of the second session of the Seventy-ninth

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20Ibid., August 9, November 3, 10, 1946.

Congress. Shortly before leaving his position as Secretary of State, James Byrnes publicly mentioned that the Department was reviewing the bill with the Army and Navy to see if it should be resubmitted to Congress again "in light of changed conditions." During the spring of 1947 debate over the bill continued among the policy-makers of the Truman administration. War and Navy wanted to go ahead with the armaments bill while some in the State Department, headed by Braden, were against the proposal. The Navy Department pushed to have the bill reintroduced in Congress as soon as possible in order to allow enough time for Congress to act. Navy Secretary James Forrestal said that the Navy had a number of excess combat ships, including four light cruisers and thirty-three destroyer escorts that had been prepared for eventual transfer to certain American countries as soon as enabling legislation had been passed. He warned that if the Latin Americans could not get these ships soon they would get ships from other sources. In February 1947 the Inter-American Defense Board took the wraps off its secret plans for standardization of land, sea and air forces in the Americas. The Board's plan followed President Truman's proposal which had been submitted to Congress the previous year. 22

During the winter of 1946-1947 Brazilian leaders still

publicly supported the Truman arms bill. Oswaldo Aranha told a reporter of his fears that Latin American nations would turn to European sources and precipitate an arms race in the hemisphere. The bill, said Aranha, "would make it possible for all the countries of America to reduce their military budgets which now constitute a tremendous burden" on their economies. In the same vein, Brazilian representative João Carlos Muniz read a statement for Aranha at a United Nations talk on disarmament in which he expressed his country's hope that a "continental plan of armaments" could be organized that would "reduce existing armaments to merely defensive equipment" throughout the hemisphere. The Brazilians were obviously interested in preserving the advantage they held over Argentina as a result of the war. If arms sales on the continent were limited to the replacement levels of the Truman bill, the Perón regime in Argentina would be unable to catch up with or surpass the military power of Brazil and would not be a threat to Rio's security interests. If, on the other hand, an arms race were to break out in Latin America, in the absence of American military supervision Buenos Aires' exchange reserves and ready market for its exports might enable that country to purchase enough arms to surpass the Brazilians within a relatively few years. An earlier statement by an

American military attaché in Rio that "Brazil sincerely wants to be the only strong military power in South American together with special consideration which such a position would entitle her in hemisphere affairs" certainly held true in 1947. 24

Discussions within the State Department showed that most of the Latin American countries could not afford the program outlined by the War and Navy Departments. Only five countries could afford the program while three countries, including Brazil, "could afford it only with difficulty." Undersecretary of State Acheson took this argument to the War and Navy Departments. He claimed that to carry out the program would face the United States with "two wholly undesirable consequences." First, it would encourage expenditures for armaments and thereby weaken the Latin republics' economies and endanger their political stability. A second result would be that the poorer countries would be forced to call upon the United States to subsidize the program at great cost. Acheson expressed the opinion that the United States could not afford the serious risk to its "most important interests and objectives" in the hemisphere. Secretary of War Robert Patterson disagreed with Acheson's assessment. The War Department feared the introduction of large amounts of non-American arms into Latin America. To Patterson, the question was not whether the area should have arms but rather whose arms should they have,

24 Daniels to Braddock, June 4, 1946, 711.32/6-446, DS.
United States or foreign? He brought up an analogy with the situation in Greece and Turkey where, said Patterson, the United States was in the process of "locking the stable door while the horse is almost in the process of being stolen." In Latin America, he continued, "we must lock the stable door before the danger ever arises." Like Forrestal, the Secretary of War urged that the bill be introduced into the Eightieth Congress as soon as possible.  

Forrestal also told Acheson that he was concerned about the "attractive offers" that Latin American countries had already received from European countries. He claimed that more modern equipment for the Latin navies would actually save money because it would produce year-to-year savings through more economical operation. He also argued that the other American republics were expecting the United States to furnish modern arms and equipment, and failure to do so then would cause Washington to suffer not only "considerable loss of confidence" in the eyes of the Latin Americans, but also the loss of the close military collaboration that had been gained at a considerable expenditure of money in the past war.  

The British delivered an aide-memoire to the State Department in April 1947 informing it that London intended to resume freedom


of action regarding arms sales to Argentina. The British had signed
an agreement to deliver one hundred jet fighters to Buenos Aires and
intended to proceed with agreements covering other arms to Perón
including thirty long range bombers. 27 During the period that the
arms bill was being discussed in Washington Brazil continued to
obtain small amounts of arms, munitions, equipment and spare parts
from the United States under the interim program. At the same time
Rio tried to secure military equipment through regular commercial
channels. They also attempted to obtain ships captured during the
war from Germany and Italy to replace some of the ships that Axis
submarines had sunk off the cost of Brazil. In August 1946 Neves da
Fontoura called on Secretary of State Byrnes in Paris in order to
solicit his aid in seeing that Brazil received a share of the allocation
of German reparations. 28

Discussion over the bill within the State Department was con-
cluded when the new Secretary of State, George Marshall, former
Chief of Staff of the Army, sided with the Secretaries of War and Navy
and came out strongly for the bill. Fear of large-scale purchases of

27 Unsigned memorandum, SWNCC 091 Latin America Files,
May 28, 1947, DS.

28 Electric Boat Company to Byrnes, December 30, 1946,
832.34/12-3046, DS; United States Delegation Record, Council of
Foreign Ministers, Second Session, First Informed Meeting, Paris,
May 2, 1946, FR-1946, II, p. 220; Director of the Office of European
Affairs, H. Freeman Matthews, Memorandum, Paris, August 1, 1946,
FR-1946, III, pp. 66-68.
non-American arms and military advice played a major role in the decision to go ahead with the arms bill. Resubmitting the measure to Congress on May 26, 1947 President Truman again promised that a "useless and burdensome armaments race" would not take place. He claimed that arms would not be placed in the hands of those who would oppose the "peaceful and democratic principles" to which the United States and other American nations subscribed. The program was to be constantly monitored so as to make sure that it did not handicap the economic development of any nation that took part in it. The New York Times again strongly supported the measure and expressed the hope that it would be passed by Congress before Marshall went to the Rio Conference that August. The Washington Post took a different attitude when it reported that it was "frankly disquieted" by the President's plan. The Post found the guarantees against the indiscriminate distribution of arms to be "vague." This daily was also against the idea of having the United States put in the position of supplying arms to Argentina if a rapprochement with that nation were effected. In calling for careful scrutiny of the bill on Congress' part, the Post declared that impartiality on the part of the United States "would require the wisdom of Solomon." Military and diplomatic sources in Brazil came out strongly in favor of the bill while the recently-outlawed Communist Party called the proposal
"imperialistic."^29

The bill met a generally friendly reception in the House Foreign Affairs Committee but the Senate Foreign Affairs Committee was dubious about enacting such a piece of major legislation so late in the session. The bill was opposed by the powerful Senator Robert Taft of Ohio who, in the first Republican-controlled Congress in sixteen years, carried a great deal of influence. Hearings in the House committee lasted for four days during which the proposal was supported by Secretaries Marshall, Patterson, and Forrestal, General Eisenhower, Admiral Nimitz and others. Many spoke in opposition to the bill. During the hearings Representative Mike Mansfield of Montana closely questioned Marshall on the exchange of letters between Acheson and Patterson that had been leaked to the public. Portions of Acheson's arguments were read into the record. Mansfield was concerned about the apparent squelching of arguments in the State Department. HR6326 was approved by the House committee in July but the wording of the bill reflected some of the fears of its opponents. The measure was limited to five years instead of the original ten and expenditures were to be limited to a maximum of $50 million. The bill went no further than passage by the House committee.

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and it died in the House. The conditions outlined by Spruille Braden the previous year gradually overtook the bill and by mid-1947 the American armed forces had very little in the way of arms available for their Latin counterparts. 30

In the face of Congressional inaction on the arms program, the Arms Policy Committee of the State Department suggested a policy regarding arms for Latin America that the Department could follow. It recognized that unilateral efforts on the part of the United States to limit arms acquisitions by these republics would jeopardize the objective of standardization. The cooperation of the hemispheric nations was essential, said the Committee, in preventing the acquisition of arms from non-American sources and that this could be cultivated in a number of ways. It recommended that emphasis be placed on the importance of holding down military expenditures when Department officials held economic discussions with Latin leaders. Another tactic would be for the military missions to increase their effectiveness so as to maximize the military potential of Latin nations within the economic capacity of the host countries. An inter-American agency should be set up, suggested the Committee, that could monitor and publicize all aspects of the arms traffic in Latin

America. Until a definite program could be effectively developed, all individual requests for export licenses of arms through commercial channels were to be judged on their merits and granted only if the amounts involved were considered "reasonable and necessary."\(^{31}\)

The Department's Policy Committee on Arms and Armaments announced in April 1948 that it would approve commercial transfers or sales of arms, ammunition and implements of war to all other American republics only if they were deemed reasonable and necessary and provided that they did not imperil standardization within the American republics. Government sales were not to be promoted, initiated, or approved except for special circumstances. This policy was to be reviewed if and when the pending Inter-American Military Cooperation Bill was approved by Congress.\(^{32}\)

Without Congressional authorization for the transfer of arms and equipment from United States government stocks, American military leaders were stymied in their efforts to build up the Brazilian armed forces. American officers in the JBUSMC and military attachés were severely limited in their dealings with their Brazilian counterparts. Some matériel was transferred under the Surplus Property Act and Public Resolution 83 which provided the American


\(^{32}\)Memorandum by the Policy Committee on Arms and Armaments, April 27, 1948, FR-1948, IX, pp. 212-213.
military with limited authority to assist the governments of the American republics in increasing their military establishments. From V-J Day to September 1949 Brazil received less than $28 million worth of aircraft, artillery, naval ordnance, spare parts, small arms, and ammunition under these authorizations. This was about nineteen percent of the total military transfers to Latin America during this period. Military cooperation was often limited to allowing a few Latin officers attend American military schools, the translation of American military training films and other feeble efforts. When a Counsel for the House Foreign Affairs Committee met with American military attachés in Rio he was told that the JBUSMC was "handicapped by the obsolete equipment now in the hands of the Brazilians and because of the relatively small amount of even that equipment."33

A Department suggestion that Washington approach the Dutra administration about purchasing a number of destroyer escorts that Rio had held under Lend-Lease since the war almost resulted in a diplomatic "flap." Ambassador Pawley told the Department that to "take up [the] question [was] almost certain to create ill-feeling" and would have had "wide repercussions" in Rio. Pawley correctly sensed

33Department of State, United States Department of State Bulletin, XXI (September 26, 1949), pp. 480-481; Report of Third Latin American Intelligence Conference, January 21-29, 1949, Records of Interdepartmental and Intradepartmental Committees, Box 127, Record Group 353; Johnson to Marshall, December 23, 1948, 033.1100/12-2348, DS.
that the Brazilians were becoming disillusioned with the extremely slow pace of arms movements to their country. The State Department did provide some diplomatic assistance in securing two former German naval vessels as a token recognition of Brazil's interest in reparations.

With the return of Argentina to the inter-American fold in the summer of 1947 Brazilian concerns for their security were again raised. General Willis D. Crittenberger toured a number of South American capitals in November 1947 in order to make courtesy calls. His stay in Buenos Aires was a relatively long one, during which discussions were carried on with the Argentine military. In the spring of 1948 some quantities of American arms were made available to the Perón government as surplus property through Resolution 83 and the Foreign Liquidation Commission. Concurrently, Argentina was importing arms from European sources. These moves alarmed Uruguayans, Chileans, and the Brazilians. All were extremely suspicious of Argentine intentions with the Rio daily, Diário da Noite, headlining a front page article, "War-Like Preparation of Argentina." The State Department was obliged to inform Argentina's neighbors that recent arms sales to that country were actually less than what would have been received if Buenos Aires had

34Pawley to Marshall, August 8, 1947, 832.34/8-847; Marshall to Pawley, August 8, 1947, 832.34/8-845; Pawley to Marshall, September 12, 1947, 832.34/9-1247, DS.
had been included in the "interim program" on the same basis as other Latin American countries. The Perón government, said Marshall, was receiving the same treatment as any other Latin American government. 35

Brazil's perception of its special relationship with Washington had not yet been destroyed when that country complained to American Embassy officials of the threat posed by United States arms sales to Perón and the conclusion of an agreement to send a military mission to his country. Undersecretary of State Robert Lovett, in a cable to Ambassador Herschel V. Johnson, termed the Brazilian General Staff as "somewhat alarmist" in its views of Argentine influence on its smaller neighbors and said Washington's hemisphere policy "obviously cannot permit discrimination among Latin American states." Lovett discounted Brazil's claim of having been an active ally and belligerent in the war as justifying "any expectation on [the] part [of the] Braz General Staff that this Govt will guarantee to Braz vis-à-vis Arg any margin [of] military

35Lovett to Pawley, November 18, 1947, 811.2310/11-1847; Kidder to Marshall, December 3, 1947, 811.2310/12-347, DS; Chief of the Latin American Branch, General Staff, United States Army (Freeman) to the Director of Plans and Operations, General Staff, United States Army (Wedemeyer), June 4, 1948; Secretary of the Army (Royall) to the Argentine Minister of War (Sosa Molina), June 4, 1948; Bowers to Marshall, June 10, 1948; Briggs to Marshall, August 4, 1948; Key to Marshall, July 2, 1948, FR-1948, IX, pp. 321-323, 742-745, 323-324; Diário da Noite, June 29, 1948; Marshall to the Diplomatic Representatives in the American Republics, August 10, 1948, FR-1948, IX, pp. 326-327.
superiority" that may have existed at the end of the war. Later that year American military attachés in Rio, according to Johnson, were told by Brazilian military leaders that the arms and equipment that Rio had were not considered adequate and they "particularly felt so in view of recent U.S. military overtures to Argentina." Johnson went on to say that "many Brazilian officers" were "disappointed" in the appearance of a policy of "courting Argentina and taking for granted the friendship and loyalty of Brazil." 36

When the Eightieth Congress adjourned in 1948 without passing an arms bill for Latin America the State Department informed the other republics that no arms would be forthcoming from United States stocks. They were told that some matériel was available from commercial sources but that blanket authorization would not be given for export licenses of these transactions. Discussions within the Department over the possibility of pushing for an Inter-American Military Cooperation Bill in the Eighty-first Congress came to the conclusion that it would be more feasible to propose broad legislation for military equipment and training for all foreign countries. Latin American nations could then be included under the provisions of such a measure. Under these later acts, the Mutual Defense Assistance Act of 1949 and the Mutual Security Act of 1951, limited amounts of

36Lovett to Johnson, October 22, 1948, Foreign-Brazil folder, Box 171, President's Secretary's File, Truman Papers, Truman Library; Johnson to Marshall, December 23, 1948, 033.1100/12-2348, DS.
arms began to flow south from Washington during the 1950s. It was not until President Dutra was out of office in 1951 that the first of these arms began to reach Brazil. 37

Argentine actions had historically been subject to close scrutiny on the part of Brazilian military planners. When the military came to power in Buenos Aires in June 1943 its nationalist officers had adopted measures characteristic of a war economy. They directed the economy and strongly promoted industrialization, especially in the area of defense-related industries. Government expenditures were increased greatly. The percentage of the budget devoted to the military more than doubled between 1941 and 1946. The Argentines made concerted efforts to strengthen their economic and political ties with the smaller nations surrounding them. This was done, in part, to counter Washington's increased influence in South America. Without doubt, the traditional rivalry with Brazil was a dominant motive for Argentine moves. Paraguay and Bolivia had been leaning toward Rio during the war and Buenos Aires wanted to reverse the trend back to the Argentine. The actions of Argentine military attachés in those countries did little to dampen Brazilian suspicions of Argentine intentions. Perón recognized that the

wartime alliance between Rio and Washington had greatly strengthened Brazil militarily. In his first meeting with Ambassador Spruille Braden, the Argentine strongman forcefully requested all the arms and equipment that would be needed to bring his country’s military establishment up to strength vis-à-vis Brazil. 38

By the end of the war the Rio government was relatively secure in regard to Argentina because it placed great hope in its future safety through the United Nations. If a strong international peacekeeping force did not materialize the nation had the strongest military force in South America to protect it. News that the Argentine budget of 1945 included appropriations for constructing new military roads caused little concern or alarm in Rio. 39

Publicly, President Dutra followed a friendly policy toward Buenos Aires. He had no intention of antagonizing a nation that was an economically important partner for his country. Brazil desperately needed Argentine wheat and the Platine nation was a crucial market for Brazilian exports. Despite public criticism of the appointment, Dutra selected as Ambassador to Argentina a man that was a


strong Vargas supporter and a personal friend of Perón's; then he sent high-caliber delegation to Perón's inauguration in June 1946 in an effort to promote harmonious relations with the new Argentine president. In May 1947, Dutra made a great public display of his nation's friendship with the Argentine President when they met to open a bridge between their two countries over the Uruguay River. Throughout the two-year postponement of the Rio Conference Itamarati generally opposed the exclusion of the Argentines from the conference. The Brazilians were of the opinion that an inter-American defense pact without Argentina was inconceivable.  

While Argentine arms purchases in 1948 deeply worried the Brazilians, Peron's machinations in Uruguay and Paraguay also bothered them. The Brazilian Foreign Office thought that those actions might be intended to set up pro-Argentine governments in the two countries. Then they would be pawns that would join the Platine confederation that Rio assumed was Argentina's ultimate ambition. Such a situation would be dangerous for Brazil. President Dutra sent his Acting Foreign Minister to the American Embassy to inquire as to "where Brazil stands with the United States." Ambassador Johnson assured the Brazilian official that there had been no change in

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America's "long and loyal friendship" with Brazil. He also suggested that the State Department do something "to quiet the sincere, even if exaggerated, apprehensions of Brazil" before the increase of armaments in Argentina led to an arms race between the two countries. The State Department sent the assurances suggested by Johnson to the Brazilian government in November 1948.

By the time of Dutra's visit to the United States in May 1949 the Brazilian fear of a rapprochement between Washington and Buenos Aires that would signify a decline in Brazilian influence in South America was still keen. Foreign Minister Raul Fernandes met twice with high State Department officials in Washington during Dutra's visit and told them that Perón constituted a serious threat to the tranquility of the southern part of the continent. He explained that a "balance" had once existed between Argentina and his country but that Buenos Aires had been gaining strength in recent years and that this was to Brazil's disadvantage. In another attempt to use the idea of Brazil's special relationship with Washington Fernandes cited Brazil's wartime sacrifice as a reason why his country should receive favorable American support, even to the point of being discriminatory. The Rio government again viewed arms sales to Perón as another indication that it had been losing the special relationship that was

carefully built-up during the recent war. Again, the Americans were compelled to reassure the Brazilians that they were still very interested in Brazil. 42

Reports presented during a meeting of American military attaches earlier that year bore out some of the fears of Brazilian leaders and other neighbors of Argentina. The naval attaché in Montevideo said that "fear of Argentine aggression" had prompted the Uruguayan government to make plans for increasing the size of its armed forces and to make them more modern, principally with U.S. equipment, when and if it were made available to them. Argentina was then expanding and modernizing its armed forces but had not yet "surpassed the gains made by Brazil during the war." Fortunately, for the Brazilians, Argentine military expansion was being handicapped by that nation's failing economic situation and the lack of dollars. Still, it was reported that the "swiftly-moving Argentine air expansion program . . . will very likely gain air primacy in Latin America within the next two years." 43

Discussion within the State Department in 1949 recognized the "unsatisfactory results" of the interim program of arms for Latin


43 Report of Third Latin American Intelligence Conference, January 21-29, 1949, Records of Interdepartmental and Intradepartmental Committees, Box 127, Record Group 353.
America. Only about eight percent of the equipment envisaged in earlier talks had actually been transferred to hemispheric republics. The Director of American Republic Affairs, Paul C. Daniels, said that the United States had reached a "crossroads" in its Latin American arms policy. The interim program had satisfied no one. Most countries complained that they had not received enough equipment or that their neighbors had received more than they should have. Daniels opposed the preparation of a new program because it would "simply add more fuel to this fire." Large amounts of money would have been needed to ensure an effective program and Daniels did not think that the return in terms of "national security or inter-American good will" was worth the expenditure. His views were supported by John C. Dreier, Chief of the Division of Special Inter-American Affairs and Robert F. Woodward, Deputy Director of the Office of American Republic Affairs (ARA). Instead of supporting an Army plan for a $200 million arms program for the hemisphere over the next two or three years, the ARA suggested a "contingency fund" of $90 million with $40 million earmarked for Brazil. Woodward strongly emphasized that "the aspiration would be to spend none of this amount."  

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44Ibid; Daniels to Dreier, December 31, 1948, 810.24/1-349; Dreier to Daniels, January 3, 1949, 810.24/1-349; Dreier to Daniels, January 7, 1949, 810.24/1-749; Daniels to Cummings, January 14, 1949, 810.24/1-1449; Woodward to Dreier, January 28, 1949, 810.24/1-2849; Daniels to Undersecretary of State, March 2, 1949, 820.24/3-249, DS.
George Kennan's Policy Planning Staff, organized in 1947 to stimulate and devise State Department policy in selected problem areas, was given the task of examining American policy concerning military collaboration under the Inter-American Treaty of Reciprocal Assistance. Kennan's top secret conclusions, that were submitted to the National Security Council, paralleled State Department thinking when he suggested that the interim program demonstrated the impossibility of avoiding "costly and disturbing national rivalries in furnishing arms to the Latin American nations." He also supported the idea that the hemispheric republics could not economically or technologically afford military establishments that provide combat strength in the event of a major war. Any threat to the hemisphere, said the report of the Policy Planning Staff, lay in infiltration and subversion and could best be countered by the United States in the "political, economic, and social fields." The report favored standardization, but concluded that "complete standardization does not seem possible in the foreseeable future."\(^{45}\)

While the National Security Council worked on a definitive American policy toward inter-American collaboration, the State Department sought to limit the Latin American contribution toward

any defense effort, thereby preventing "a series of highly inflated military roles and programs" for those nations. The program promoted by the American military, said Dreier, would create new problems "conflicting with our political and economic policies" in the hemisphere. He especially did not want Congress to authorize funds to subsidize such a program. Existing legislation permitting the transfer of small amounts of matériel on a cash basis was sufficient, in Dreier's opinion. The Office of Regional American Affairs did support the sale of some excess naval vessels at discount prices because they were "showy pieces of armament which would cater to . . . national pride" and "it would be difficult for military governments to use them in suppressing their people." In the event of war they could be useful for patrolling supply lines to the United States. Public Law 621, passed by the Eighty-first Congress and approved by President Truman on July 26, 1950, led to an offer of eleven such ships to Brazil that was accepted in January 1951. 46

The report of the National Security Council that was presented to President Truman sought to put the inter-American defense program on a multilateral basis. 47 For the Brazilians, this put an

46Dreier to Assistant Secretary of State for Inter-American Affairs, Edward G. Miller, February 7, 1950, FR-1950, I, pp. 622-623; See also fn. 5 on p. 623; Johnson to Acheson, September 12, 1950; Acheson to Marshall, October 19, 1950, FR-1950, I, pp. 651-653, 667-668; See also fn. 3 on p. 668.

end to any illusion of a "special relationship" with regard to American military policy. For the Pentagon, Latin America was to be treated as a defensive unit with little or no consideration given to international rivalries within the area. This strategic decision, coupled with SWNCC4/10, which limited arms to the hemisphere for economic and political reasons, denied Brazil the arms believed to have been promised in 1945, along with the special consideration vis-à-vis Argentina thought to be deserved for joining the United States as an active ally in World War II. Congress visualized no special position for Brazil or any other Latin American country when it failed to act on the Truman arms bill out of concern over the possible economic and political repercussions inherent in shipping arms to the area. By 1950 Brazilian leaders had little inclination to offer the American military effort in Korea anything more than their diplomatic support.
Chapter IV

ECONOMIC RELATIONS

During World War II the Brazilian economy became intimately wedded to the fortunes of the United States. With the dislocations of war, Rio's normal pattern of foreign trade shifted. As can be seen in Table IV-1 the percentage of the nation's imports from the United States more than doubled as American exporters quickly replaced European sources for the manufactured goods that the Brazilian people desired. Brazilian exports to the United States

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports from U.S. (%)</th>
<th>Exports to U.S. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>24.21</td>
<td>34.33</td>
</tr>
<tr>
<td>1939</td>
<td>33.55</td>
<td>36.17</td>
</tr>
<tr>
<td>1940</td>
<td>51.87</td>
<td>42.26</td>
</tr>
<tr>
<td>1941</td>
<td>60.30</td>
<td>56.97</td>
</tr>
<tr>
<td>1942</td>
<td>54.12</td>
<td>45.62</td>
</tr>
<tr>
<td>1943</td>
<td>53.73</td>
<td>50.63</td>
</tr>
<tr>
<td>1944</td>
<td>61.20</td>
<td>53.08</td>
</tr>
<tr>
<td>1945</td>
<td>55.11</td>
<td>49.35</td>
</tr>
</tbody>
</table>

also made substantial gains during the war. By 1945 the Americans were Brazil's largest suppliers of industrial machinery, scientific equipment, automobiles and accessories, charcoal, aniline dyes, flour, iron and iron products, tinplate, refined oils, lubricants, and railroad equipment. The United States also ranked as the second or third most important source of paper, copper, fruit, gasoline and caustic soda. In that same year this country was also Brazil's most important market for coffee, rubber, carnuba wax, leather, castor oil, cacao and diamonds.¹

American financial interests had a heavy stake in the Brazilian economy. United States investments in Brazil totaled $332 million in 1943. Of this amount, $236 consisted of holdings in controlled enterprises as can be seen in Table IV-2. The other $96 million

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**TABLE IV-2**

**UNITED STATES INTERESTS IN CONTROLLED ENTERPRISE IN BRAZIL**

(Millions of U.S. Dollars)

<table>
<thead>
<tr>
<th>Public Utilities and Transportation</th>
<th>$88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>$66</td>
</tr>
<tr>
<td>Petroleum</td>
<td>$30</td>
</tr>
<tr>
<td>Trade</td>
<td>$29</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$10</td>
</tr>
<tr>
<td>Finance</td>
<td>$4</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>$4</td>
</tr>
<tr>
<td>Mining and Smelting</td>
<td>$3</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$236</strong></td>
</tr>
</tbody>
</table>

Source: "Brazil Reference Book," p. 89, Brazil Trip folder, Box 29, Clark M. Clifford Papers.

¹IBEG, Anuário Estatístico do Brasil 1946, Ano VII, pp. 304-308.
were tied up on securities, real property, claims in estates and trusts, and miscellaneous accounts. While recognizing that the Brazilians would be returning to some, if not most, of their prewar sources after the war, American businessmen hoped that the strong thrust that they had made into the Brazilian economy during the war would portend a continued high level of business with that country after the cessation of hostilities.

For the Brazilians, the economic aspects of their relations with Washington would prove to be the most crucial after the war. Brazilian economic planners were painfully aware of their nation's underdevelopment despite the gains that had been made since 1930. Annual per capita income averaged around sixty dollars in 1945. Important segments of the economy were woefully inadequate for a country with ambitions for attaining national economic power. Capital was scarce. The transportation network was backwards. Of the 259,000 miles of roads only four percent were paved. With only 21,241 miles of railroads in 1939, much of which were in poor condition, the nation could not hope to achieve an integrated national economy without drastic improvement. Only seven percent of the nation's exports in 1946 consisted of manufactures. Energy was in short supply. Petroleum had been discovered but production and proven reserves were extremely low when balanced against Brazil's

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2"Brazil Reference Book," pp. 88-89, Brazil Trip folder, Box 29, Clark M. Clifford Papers, Truman Library.
requirements. Only low-grade coal was available. Water power resources had a potential output of 20-50 million horsepower while only about one million had actually been tapped by 1945.  

"Despite these difficulties," said a report prepared by the Brazilian Committee of the National Foreign Trade Council, "Brazil faces the future with practically unlimited possibilities of economic progress and development." The nation's potential appeared to be unlimited if means could be found to tap that promise. With its vast mineral resources, hydroelectric potential, and its already large and growing population that would provide the labor force and internal market, the nation looked forward to a future with unbridled confidence and optimism. The "alliance" with the Americans, thought Brazilians, would provide the two things that the nation needed for development: capital and technology.  

The Brazilians were faced with the contradiction of the nationalistic desire to protect the nation against foreign economic incursions and the necessity of importing capital and technology to develop their country. While wishing to preserve the special relationship that they had with the United States during the war, they also wanted to protect the economic gains that had recently been made.

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3 Ibid., passim; National Foreign Trade Council, Inc., "Brazilian Economic Relations," Correspondence folder 1932-1953, "T" folder #1, Box 11, Herschel V. Johnson Papers, Truman Library, passim.

Specifically, they wanted the Americans to maintain the wartime level of imports from Brazil and some assurances that they would get aid for economic development. Brazilian leftists pushed for an end to dependence on Washington in favor of economic nationalism. Economic independence was a goal that virtually every government and political party south of the Rio Grande voiced. Many countries had already adopted measures to this effect and were determined to carry them through. Brazil was no exception. "Nationalism is a big factor in Brazil," stated the Chief of the Division of Brazilian Affairs in 1945. Before the end of the war prominent American economic leaders were voicing concern about nationalistic legislation that threatened their interests.  

One year before Germany's surrender Brazil had introduced exchange controls on imports. The ostensible reason for this move was Brazil's desire to control the exchange balances that had been built up during the war. The American Embassy in Rio was of the opinion that the real reason for the new regulation was to prevent the "dumping of foreign merchandise" in Brazil by using the controls to prevent the importation of nonessential products and "to protect local manufactures." Washington's apprehension was not soothed

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5Campbell, United States in World Affairs 1945-1947, p. 246; Green, Containment of Latin America, p. 170; Chalmers to Butler, November 7, 1945, American Republic Affairs, Inter-Office Memo [Henceforth ARA], Box 28, DS.
when a responsible Brazilian official referred to the measure as "a means of protecting her \textit{[Brazil's]} wartime economy."\footnote{Brackets appear in the original Embassy dispatch.} Since American policy at that time was to remove all wartime controls as soon as they were no longer necessary, the State Department strongly opposed the exchange controls because they tended to inhibit imports. In January 1945 the Vargas government imposed a new import control law. Washington protested this move because of its tendency to restrict purchases from the United States and the fact that it was in violation of the reciprocal trade agreement that Brazil had signed with the United States in 1935. After a great deal of negotiation the Brazilians agreed to identify this latest law as a war measure and it was suspended on December 29, 1945.\footnote{Acheson to Caffery, June 19, 1944; Donnelly to Hull, June 13, 1944; Donnelly to Hull, August 1, 1944; Stettinius to Donnelly, October 26, 1944; Donnelly to Stettinius, December 8, 1944; United States Embassy (Rio) to Brazilian Ministry for Foreign Affairs, December 19, 1944; Donnelly to Stettinius, December 23, 1944; Donnelly to Stettinius, December 29, 1944, \textit{FR-1944}, VII, pp. 657-671; Donnelly to Stettinius, January 2, 1945; Stettinius to Donnelly, January 8, 1945; Berle to Stettinius, January 29, 1945; Berle to Stettinius, May 15, 1945, Acheson to Diplomatic Representatives in the American Republics, September 24, 1945; Daniels to Byrnes, December 29, 1945, \textit{FR-1945}, IX, pp. 715-725.}

Before the import controls controversy had been removed, another potential restriction on international trade heightened American opposition to nationalistic trends in Latin America. This came in the form of a new Brazilian sales tax law that had the effect of placing
a higher tax on imported articles than on comparable local products. American complaints that this law also violated the reciprocal trade agreement of 1935, had little effect on the Brazilian attitude. It was obvious to the State Department that the Brazilians wanted to protect the wartime gains that they had made.

With Dutra's accession to the presidency in January 1946, those in favor of closer economic cooperation between Brazil and the United States looked forward to a positive period in the relations between the two nations. In a personal exchange of letters between Dutra and Truman shortly after the former's inauguration as president, the two leaders traded warm expressions of friendship between their two countries. In his letter Dutra told Truman of Brazil's need to continue an intensive program of industrialization and development with the "admirable technical and scientific organization" of the United States. Truman replied that a sound economic structure was needed in Brazil in order to ensure the economic and political stability of the hemisphere. He assured Dutra that the American government would give "most careful and sympathetic consideration" to Brazil's development plans. Truman's words gave Brazilian leaders great hope for American cooperation in their

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8Clark to Berle, May 14, 1945; Clayton to Berle, September 4, 1945, FR-1945, IX, pp. 719, 723-725; Chalmbers to Dreier and Lockwood, February 9, 1945, ARA, Box 28, DS.
development program.  

Brazil relied heavily on American loans to finance the nation's postwar program of economic development. At the same time, the Americans were trying to move away from providing direct loans for development in favor of indirect loans through international lending agencies such as the Export-Import Bank and the International Bank for Reconstruction and Development (IBRD). In March 1946 Brazil gave the American Embassy a general outline of a development program then in preparation and requested that the Department of State consider the possibility of providing financial and technical assistance. Washington's response was important because it outlined American policy toward all Brazilian requests for aid during the immediate postwar period:

The character and degree of assistance must, of course, take into account not only the specific needs and resources of Brazil and the equipment and technical skills in the United States that would be available for the purpose, but also the possibility of private financing, of financing through the International Bank, and to the extent that assistance from these two primary sources was insufficient, the amount of capital that could reasonably be employed for this program by the Export-Import Bank in view of the requirements of certain European countries for rehabilitation and the needs of the other American republics for development.

The American response caused a Brazilian Embassy spokesman to tell the State Department that his government had detected a

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10Department of State to Brazilian Embassy (Washington), March 27, 1946, FR-1946, XI, p. 487.
slight cooling in United States relations with his country in recent weeks and attributed this to a somewhat friendlier attitude on Washington's part toward Argentina. He was quickly assured that the United States "felt as close to Brazil as ever." The Chief of the Division of Brazilian Affairs, Daniel Braddock, said that his government "expected to cooperate with Brazil ... more rather than less than in the past." He went on to say that the American reply was merely an attempt to be "cooperative and sympathetic" and yet, "realistic." Despite American reassurances the Brazilians were disappointed when Washington told Rio that it should look for financial help, in the first instance, to the IBRD. **

Further conversations between Brazilian and American leaders brought little in the way of positive achievements. The Brazilian Minister of Transportation, Edmundo Macedo Soares e Silva, was sent to Washington in the spring of 1946 to secure results on the loan request. Undersecretary of State for Economic Affairs Will Clayton suggested to the Minister that the Brazilians secure a credit from the Export-Import Bank to finance its purchases in the United States up to the end of 1946 and thereafter seek a loan from the IBRD. Macedo Soares replied that his government feared that any credit that it could secure from the Export-Import Bank might not be sufficient to carry out Brazil's plans up to the time that further financing from

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11Braddock to Braden, April 8, 1946, ARA, Box 28, DS.
the IBRD would become available. He was also pessimistic about the possibility of getting any loans from the IBRD for development purposes since indications were that countries seeking reconstruction loans would get preferential treatment. Also, Brazil's plans to spend most of the loan in the United States caused the Brazilians to have little hope of support for the loan from the bank directors representing other countries.  

Brazil's past record on another Export-Import Bank loan greatly disturbed American policy makers. During the war the Companhia Vale do Rio Doce had been organized to handle the reconstruction of the Victoria-Minas Railway and to develop the Itabira Iron Mines. The Export-Import Bank had extended the company $14 million in credits, which were to be repaid when the company began to export the iron ore. The Brazilians failed to carry out the terms of the Rio Doce project since work had stopped in 1946. This failure was considered by the Americans as an article of bad faith. If the project were not completed, as contracted, then the Bank's funds would have been wasted. The Rio Embassy suggested that Macedo Soares be pressed on this issue when he was in Washington for talks on his country's loan request.  

While in the United States Macedo Soares met with the working group in the State Department concerned with the Brazilian loan

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12 Braddock to Clayton, April 22, 1946, ARA, Box 28, DS.

13 Daniels to Byrnes, April 22, 1946, 832.51/4-2246, DS.
request. Accompanied by Brazilian Embassy officials, the Minister pointed out that his government was led to believe that when the war was over it would be a propitious time for his country to begin a development program. He said that official discussions with American authorities indicated that his country had been mistaken in this impression. Stating that Brazil had no objections to the "new" lending policy of the United States, he noted that he would have to make this new policy clear to his government so that it could re-orient its own economic foreign policy. It would be impossible for his country to carry out its plans with American capital and equipment under the "new" policy. The veiled threat to go elsewhere for economic aid was not a new tactic for Macedo Soares or the Brazilians. The Minister was one of the Army officers who had helped negotiate an Export-Import Bank loan for the Volta Redonda steel works in 1940. At that time the Brazilians had used the threat of going to Nazi Germany for aid if it could not be secured from Washington. The steel works loan was a major result of that strategy. In 1946 Brazilian authorities seemed to think that the same tactics might still be effective, with the Soviet Union being used by Rio as the bogey for Washington's fears.

14Braddock, Memorandum, May 1, 1946, FR-1946, IX, pp. 492-495.

State Department spokesmen at the meeting quickly objected to Macedo Soares' description of the United States lending policy as "new" and explained that the role of the IBRD had been becoming a consistently important factor for the American government's loan policy over the past two years. They assured the Minister that his government should not assume that Washington had no desire to help the Brazilians. They asked Macedo Soares why the Brazilians could not use their large holdings in gold and foreign exchange to finance the development program. The Minister patiently explained that almost all of the approximately $700 million was unavailable. With $300 million in gold earmarked to guarantee the nation's trade balance, $225 million in blocked sterling in Great Britain, $10 million blocked in Argentina, $30 million supplied to the United Nations Relief and Rehabilitation Administration, $35 million due for Lend-Lease payments, $30 million allocated for the International Monetary Fund (IMF), and $40 million set aside for equipment certificates, little was left to initiate the development program. 16

As a bargaining maneuver the Brazilians sought to appeal to the special relationship they perceived that they had with Washington. Macedo Soares said he was not speaking to the State Department group as a borrower to a lending agency but as a representative of the Brazilian government to the United States government. He strongly

16 Braddock, Memorandum, May 1, 1946, FR-1946, IX, pp. 492-495; Pawley to Byrnes, July 31, 1946, 832. 51/7-3146, DS.
emphasized that his country was interpreting the United States response in political terms because of the close ties that united the two countries and to the avowed intention of the United States to assist in the development and industrialization of Latin America. 17

The Brazilians persisted in promoting the loan with State Department officials. Early in June 1946 Ambassador Martins suggested to the Department that, instead of a $100 to $115 million which he thought there was a good chance that the Export-Import Bank would approve to carry out the first year of Brazil's economic plan, perhaps the Bank would lend $150 million to finance the first two years of the plan. This idea, Martins explained, would have some distinct advantages. He said that the loan would be more favorably received in Brazil. In light of the large loans that had been granted to Britain and France, the Brazilians would have difficulty in understanding a small loan for themselves. If the suggested loan were granted, then the Brazilians would not have to follow up a one-year loan with another with the IBRD. Another point expressed by the Ambassador was that much of the equipment that his government would be ordering could not be delivered until the second year of the development program. 18


18 Braddock, Memorandum, June 4, 1946, 611.325/6-446, DS. In December 1945 Great Britain received a $3.75 billion loan while the French received one for $550 million, see Gabriel and Joyce Kolko, The Limits of Power: The World and United States Foreign Policy, 1945-1954 (New York, 1972), pp. 163, 154.
The Brazil desk and economic sections of the State Department opposed Martins' move. They considered the claims of several war-devastated European countries more important than Brazil's less urgent needs. Rio's assertion that its gold and foreign exchange holdings were not available for development capital was unsatisfactory to the State Department. The fact that the Export-Import Bank only had about $200 million in funds at that time precluded any large amount for Brazil. 19

When Macedo Soares returned to Brazil in the summer of 1946 he told the press that the results of his visit had been "satisfactory." He claimed that the had gotten credits of approximately $100 million. Half of this, he stated, would be available as soon as the legal steps had been concluded in Washington. He noted that an additional $50 million in credits would be obtained through supplying firms for the purchase of equipment. 20

The Minister's optimism was not shared by everyone in Washington at the decision-making level. Both the Federal Reserve and the Treasury Department opposed the scaled-down Brazilian request for $50 million. Their opposition centered on the fact that the Export-Import Bank's lending capacity was limited and should be reserved for "urgent reconstruction loans" during 1946-1947.

19 Braddock to Braden, June 5, 1946, ARA, Box 28, DS; Braddock to Braden, June 5, 1946, FR-1946, XI, p. 496.

20 Pawley to Byrnes, July 31, 1946, 832.51/7-3146, DS.
Brazil's needs, they said, were not urgent and could await action from the IBRD or the nation could draw on its large gold and dollar reserves. Delay of Brazil's purchases was also urged because it would "minimize inflationary pressures in the United States." The Departments of State and Commerce, along with the Export-Import Bank, favored the Brazilian loan application. One hurdle was cleared when the National Advisory Council on International Monetary and Financial Problems met on August 13, 1946 and approved the proposed loan by a vote of three to one. The Federal Reserve opposed the loan while the Treasury Department abstained. 21

One troubling question was still the poor performance on the as yet uncompleted Rio Doce project. Late in August President Dutra authorized an expenditure of $25 million in order that the project be completed by late 1948. Some Washington officials wanted to tie the new loan to a guarantee of completion of the Rio Doce project. The State Department was not satisfied with the Brazilian move and requested written confirmation that the $25 million would be available immediately and that more funds would be made available to complete the project in 1948. In a meeting between Ambassador Martins and an Export-Import Bank executive a heated exchange ensued when the Bank representative asked that the Rio Doce controversy be settled to ensure that no question could arise over fulfillment of obligations

when the new loan contract was presented to the Bank's Board of Directors. Martins retorted that the American government did not always fulfill its own obligations and cited what the American called a "preposterous" example concerning wartime shipping. When a Brazilian Embassy official hinted that the Brazilians were being blackmailed by the Bank into furnishing written assurances on the Rio Doce project he was told that business matters were not handled in such a manner but, said the Bank spokesman, there would be no action on the loan request until the Rio Doce controversy had been settled.22

In October Itamaratí informed the Rio Embassy that funds had been authorized to complete the project and the request for the appropriation had been sent to the Brazilian Congress. The Export-Import Bank replied that the assurances were not satisfactory since they guaranteed nothing. Ambassador Pawley told Acting Foreign Minister Samuel de Souza-Leão Gracie that the assurances probably would not be acceptable and asked if they were the very best that could be obtained. The Ambassador knew that President Dutra had no fund on which he could draw the money required for the project. Gracie, however, saw no fundamental distinction between having the money set aside for the project and requesting Congress to set it

22Clayton to Pawley, June 26, 1946; Pawley to Byrnes, August 29, 1946, FR-1946, XI, pp. 497-499; Braddock, Memorandum, September 3, 1946, 832.51/9-346, DS.
aside. Pawley attributed this to the Brazilian government's lack of experience with democratic institutions and the ways of a congress. He suggested to Gracie that the assurances might be acceptable to the Bank if the references to submission to Congress were left out and the assurances given unconditionally.²³

Braddock and Pawley urged the State Department and the Export-Import Bank to accept the assurances as meeting the Bank's condition for granting the $50 million loan. Braddock saw the assurances as "pretty good" and the "best that we can get at this time." He also expected "general disillusionment" in Brazil concerning the friendship and intentions of the United States if the loan failed to be granted.²⁴

As the Export-Import Bank was taking the preliminary steps toward approval of the loan along with a $7.5 million loan to help complete the Rio Doce project, Washington learned unofficially that the Brazilians no longer wanted the $50 million loan. In December 1946 the Brazilian Finance Minister announced that the loan was not needed since the Brazilian development program was being scrapped for lack of money.²⁵

²³ Daniels to Byrnes, October 16, 1946; Braddock, Memorandum, October 18, 1946, FR-1946, IX, pp. 502-503; Braddock, Memorandum, October 21, 1946, 832.51/10-2146, DS.

²⁴ Braddock, Memorandum, October 24, 1946, FR-1946, IX, p. 503.

²⁵ Byrnes to U.S. Embassy (Rio), October 16, 1946, 832.51/10-1646; Pawley to Byrnes, December 20, 1946, 832.51/12-2046, DS.
Once the preliminary work by the Bank had been done, the Division of Brazilian Affairs voiced its disapproval of the Rio Doce loan on the grounds that the production figure planned for the project of 1.5 million tons of ore annually was insufficient to make it a profitable operation. New estimates gathered by the Rio Embassy showed that an output of five million tons was needed to put the project on a paying basis and that would require an additional investment of $100 million. Bethlehem Steel was then putting $40 million in a similar iron ore project on the Orinoco River in Venezuela that would produce iron ore of the same quality as that found at Itabira and only half the distance from the company's Sparrows Point plant at Baltimore. Despite the strenuous objections of the Office of American Republic Affairs, the loan was approved in February 1947. After the loan had been approved, the Brazilian Affairs desk found that unpaid interest on the first $14 million loan for the project amounted to $1,162,000 and that another $500,000 would accrue by May 1947. This discovery reassured the Office of American Republic Affairs that its objections to the additional loan were well taken.

Brazil then placed a request for a loan in order to purchase an oil refinery. One day before the State Department learned of this latest loan request, Itamarati told Martins that the Department was

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opposed to the loan application. Martins thereupon complained to the State Department that after the generosity with which Greek, Turkish and Mexican requests for financial assistance were being met, an unfavorable reaction would be created in Brazil if the oil refinery loan were not granted. The Department spokesman patiently stressed the difference between the Greco-Turkish aid program and Export-Import loans. Martins was also reminded that the Export-Import Bank had taken favorable action on applications from Brazil for some $24 million in the first five months of 1947. The Department also reminded Martins that loans were not ordinarily made where financing from private sources was available.27

Martins later met with William McChesney Martin, President of the Export-Import Bank, and intimated that "Brazilian financial projects were not getting the attention they deserved." Martin reminded the Ambassador of the difficulties encountered with the Rio Doce project. The fact that a great deal of valuable equipment was lying around, said Martin, was not satisfactory to the Bank's interests. The Ambassador, according to a State Department memorandum on the meeting, then went into a "tantrum," alleging that the American government was "pulling away from the good neighbor policy," and demanding to know whether Brazil would be getting any more financial

assistance before the Rio Doce question was settled. Martin replied that he "considered that to be a fair statement of the situation." The Brazilian then brought up the lack of action on the refinery loan application and sarcastically commented that the reason for the lack of decision was "because the Bank had not yet gotten Standard Oil Company's approval." 28

By mid-1947 Brazil's economic situation had changed considerably. An economic policy of laissez-faire liberalism on the part of the Dutra administration did nothing to control the wartime exchange reserves that had been built up. With the cruzeiro being kept at its prewar value, an unrealistic exchange rate stimulated the demand for imports. While Brazil maintained a favorable trade balance with the United States that averaged $65 million annually for the period 1941-1946, in 1947 the trade balance went against Brazil by $310 million. The seemingly vast exchange and gold reserves of the past few years had melted away in the postwar buying splurge, much of which contributed little or nothing to the rebuilding of the nation's economy. By the end of the first quarter of 1947 only $92 million remained in liquid foreign assets. In June 1947 the government was forced to introduce exchange controls that set up a drastically restrictive system of import licensing designed to reduce the importation of non-essential goods and therefore conserve foreign exchange.

The Rio government also pulled in its belt in other ways such as withdrawing from, or delaying its participation in, some international organizations, raising taxes on higher incomes, freezing excess profits, and suspending public works wherever possible.\textsuperscript{29}

The continuation of the exchange problem in 1948 and 1949 led to periodic steps at fine-tuning the exchange control mechanism. The inadequacy of the earlier efforts was disclosed when it was learned that the dollar value of Brazilian purchases of wines and liquors from the United States in 1947 was nearly triple the sum paid for tractors, harvesters and other critically needed farm equipment. In 1948 the Brazilian import licensing program provided that 75 percent of the available exchange would go to "absolute essential" imports that did not require licenses. Among the items not requiring licenses were cement, pharmaceuticals, essential foods, samples, and any government purchases. Another 20 percent of the exchange was to go for "relatively essential" imports, and 5 percent was reserved for those goods of "eventual advisability." In 1949 the Brazilian Congress voted to continue import controls for at least two more years.\textsuperscript{30}


In November 1947 the Brazilians approached the State Department to see about the possibility of doing something to alleviate Brazil's difficult exchange position. Artur Souza Costa, former Finance Minister (1934-1945), delegate to the United Nations General Assembly and Chairman of the Finance Committee of the Chamber of Deputies, told American officials that the European Recovery Program (ERP) had high political as well as economic importance and he expected Brazil to help with it. However, Brazil's problems stemmed from the fact that half of its exports were paid for in soft currencies and only half in dollars, whereas practically all of its imports required dollar disbursements. He asked if something could be done about receiving dollars; "otherwise the inflationary effect would be tremendous." Any curtailment of exports, he said, would lower production of the very goods that would be needed from Brazil to help with the ERP. During a subsequent conversation, Costa suggested a credit of $100 million to ease the exchange difficulties. 31

In ensuing weeks, while Brazilian agents lobbied vigorously for the loan, the Export-Import Bank remained adamantly opposed to extending any new loans until the Rio Doce matter had been clarified. The State Department took strong exception to the Bank's "embargo," arguing that applications for exporter credits and any other applications of benefit to the Brazilian economy "should be considered on their merits." The Department expressed the view that the Rio Doce

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project was a wartime emergency project, and that the Bank "should consider it fortunate that it has not received a request for a moratorium or for the cancellation of the credit." The Office of American Republic Affairs went further and said that the ban on Brazilian credits "unduly penalizes United States exporters" and any other organization that had nothing to do with the difficulties over the Rio Doce financing.

In the spring of 1948 the Brazilian Congress authorized an increase in the capital of the Companhia Vale do Rio Doce to be contributed by the Brazilian government, and guaranteed the new Export-Import Bank loan to the company. Now that the controversy had been resolved, the way was open for more favorable responses on the part of the Export-Import Bank toward Brazilian loan requests. Four months later the Bank advanced the company a credit for $7.5 million. The Bank's more favorable attitude was reflected in the amount of credits that were extended to Brazil. In the period 1947-1950 the Bank provided the Rio government with $126.6 million in credits. In January 1951 it was reported that Export-Import loans of over $200 million had gone to Brazil. Repayments on principal amounted to approximately $72 million and were up to date at that time.

Because of the ever-tightening exchange situation the Brazilian Ministry of Finance, in March 1948, formally requested a one-year extension to July 15, 1949 of the due date for the repayment of the $80 million that the United States Treasury had advanced to Brazil from its Stabilization Fund. This loan was backed by $80 million in gold that Brazil had on deposit in the United States. American Treasury officials were opposed to the extension of this deadline because recent loans to European countries had depleted the Stabilization Fund. The IMF was available for such loans but Brazil had not, as yet, joined the organization. The Treasury was also opposed to competing with private capital which was also available. Treasury officials proposed that the Brazilians sell the earmarked gold and redeem the loan. Brazilian officials were opposed to this suggestion because it would have had a negative psychological effect in their country. They also pointed out that the gold was desired as reserves for the intended establishment of a central bank in their country. When it was recommended that the Brazilians go to the Federal Reserve for a loan they objected to the interest charge and the fact that the Federal

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Reserve normally made short-term advances of credits.  

Both the Treasury and the Federal Reserve strongly opposed the deadline extension because of Brazil's refusal, thus far, to join the IMF. According to a State Department memorandum, Brazil was, in effect, "using the Treasury to play off against the Bank and Fund." Brazil had entered into conversations with the IMF but had yet to declare its par rate and make its contribution. There appeared to be little chance of approval by the Treasury unless the State Department had been prepared to support the extension on strong political grounds. The Division of Brazilian Affairs proposed that a compromise be effected by tying the credit extension to full Brazilian participation in the IMF. The Division was concerned about Rio's sensitivity to seeming American indifference to Brazil's financial needs. "The Brazilians," said Allan Dawson, "are completely aware of the fact that the Treasury had made stabilization advances to others without collateral and can be counted on to be most unhappy over our unwillingness to give them a helping hand when we have full security."  

Before a final decision had been made on the credit extension Ambassador Pawley went to the White House and talked with the President about the matter. Following the meeting Truman asked Secretary of the Treasury John Snyder if the loan could not be


35 Ibid.
extended "since there were no fund expenditures involved." The Treasury then got the Federal Reserve Bank in New York to take over the $80 million credit. Half of the amount was to be repaid in nine months with the rest payable at the end of the annual period.  

Looking at his country's economic relations with the United States at the mid-point of his tenure, Dutra had some cause for optimism. With the clearing of the air over the Rio Doce financing, his country could look forward to a more favorable lending policy from Washington. Despite the fact that the highly respected Brazilian industrialist-economist Roberto Cochrane Simonsen spoke out against the ERP at the Inter-American Council of Commer and Production in October 1947 and was applauded by many Brazilians, his country's official attitude toward the Marshall Plan was one of acceptance. For them, the ERP held out the promise of greater sales of Brazilian exports to Europe. Of greater psychological importance was the Joint Brazil-United States Technical Commission (JBUSTC) that was organized in 1948. During a visit to Brazil in July 1947 Treasury Secretary Snyder held talks with President Dutra on the need for greater joint economic planning between their two countries. The Treasury and State Departments worked on a proposal for a number of months that was approved by President Truman in December of that year.

year. In a memorandum on the proposed technical mission, Undersecretary of State Lovett was careful to note "that the proposed terms of reference avoid any commitment with respect to financial assistance to Brazil." 37

The American technical mission was selected and sent to Brazil during the latter half of 1948 in order to undertake a thorough analysis of the Brazilian economy in conjunction with a team of Brazilian experts. They were to "make broad recommendations relative to measures which might facilitate economic development in Brazil." This joint committee, composed of American and Brazilian economists and Brazilian industrial and agricultural leaders was headed by John Abbink, an American economist and president of the board of directors of McGraw Hill Corporation. Popularly called the Abbink mission, this group spent six months in its extensive survey. The report of the JBUSTC, published in February 1949, was favorably received in both countries. Because of the report, Brazilian observers and editorial writers tended to view 1949 as an important year for Brazil and as "a crossroads in U. S. -Brazilian economic ties." 38

Prior to the issuance of the JBUSTC report Abbink wrote a

37 Time, L (November 10, 1947), pp. 42, 45; Jornal do Commercio, October 25, 1947, October 30, 1947; Pawley, Memorandum, April 1947, 832. 50/12/1847, DS.

38 Lovett to Truman, December 18, 1947, 832. 50/12-1847, DS; Hispanic American Report, II (April 1949), p. 25; Kidder to State Department, March 2, 1949, 832. 40JTC/3-249, DS.
frank letter to Secretary of State Marshall in which he strongly criticized the "absence of vision and inspirational leadership" on Washington's part in its relations with Latin America in the postwar period. He was convinced that the State Department had placed too much emphasis on the hemisphere's political affairs and paid too little attention to economic matters. He concluded his letter by urging that concrete action be taken to provide the needed sympathetic follow-up to the work done by the technical mission. His words fell on deaf ears in Washington. State Department policy-makers were concerned about the amount and type of aid that the United States would be expected to provide. They feared that the report's recommendations would generate unrealistic expectations on the part of the Brazilians. Just before release of the Abbink findings, the recently sworn in Secretary of State, Dean Acheson, and Treasury Secretary Snyder informed Abbink that the report should state that it represented the views only of the JBUSTC and did not represent any commitment on the part of either government. Within the Office of American Republic Affairs discussion centered on how the State Department could respond to any suggestions made by the Abbink report. DuWayne Clark, the new Chief of the Division of Brazilian Affairs, noted that calls for technical assistance could be provided through "well-established channels" while financial assistance was to be pushed

through private capital markets as much as possible. He suggested that the Department wait and see what recommendations "we can encourage and which we must discourage . . . due to heavy commitments in other parts of the world." When Brazilian Ambassador Mauricio Nabuco, who replaced Martins in 1948, called on the State Department and inquired as to whether it had considered the report and was ready for discussions, he was told that it was up to the Brazilian government to make any move toward its implementation.

The Joint Technical Commission report was never intended to be an economic plan for Brazil but specific recommendations were made toward that end. The Brazilian members of the Commission formally asked that the Joint Commission idea be made permanent. Under instructions from Washington, Abbink was told to "soft-pedal" the suggestion but negotiations carried on in 1950 resulted in the formation of a Joint Economic Development Commission. Frank Truslow was selected to head the Commission but later died from a heart attack following months of frustration in attempting to reconcile the Commission's authority vis-a-vis the World Bank. At that time, Eugene Black, President of the IBRD, was attempting to establish the World Bank as the primary source of foreign loan capital for development purposes, exclusive of that obtained directly from

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40 Acheson to Abbink, January 28, 1949, 832. 50/1-2849; Clark to Woodward, January 28, 1949, 832. 40JTC/1-2849; Clark, Memorandum, April 15, 1949, 832. 50JTC/4-1549, DS.
private investors. Black was strongly opposed to having a bilateral U.S.-Brazilian commission come between his bank and the Brazilian government in any loan negotiations. Under Ambassador Herschel Johnson's urging a replacement for Truslow was quickly appointed. Merwin Bohan served in the position for a short time and was replaced by a designee of Black's who in turn, was replaced by Bohan a year later. The Commission failed to achieve much in the way of positive results before it was disbanded. This was due to a number of factors including Black's attitude and difficulties in getting needed legislation through the Brazilian Congress. 41

An economic plan of sorts was created in Brazil during the Dutra administration known as the SALTE plan. 42 Prepared in 1946 and 1947, it was submitted to Congress by President Dutra in May 1948 to cover the period 1949-1953. It originally called for an expenditure of 17.6 billion cruzeiros ($929 million) or an average of 3.5 billion per year. Despite the fact that the Economic Council of the National Federation of Industry called the plan unworkable because it called for a greater expenditure of funds than was available,

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42 The acronym refers to the four areas of the plan, Saude (health), Alimentacao (food supplies), Transportes (transportation), and Energia (electric power).
Congress appropriated 1.9 billion cruzieros to initiate implementation of the plan but, incredibly, failed to authorize the plan itself. By the time the plan had officially been sanctioned by Congress in 1950 only 37.5 million cruzieros remained of the original funds. The newly approved plan was to cover the years 1950-1954. The whole project was then bogged down in bureaucratic wrangling when two administrative groups claimed control over it. Basically, the SALTE plan was not really a plan for economic development but merely a list of targeted expenditures in important sectors of the economy. The experience with the SALTE plan left some doubt as to Brazil's ability to develop coordinated economic planning without foreign technical assistance. The value of the Abbink mission, SALTE plan, and the Cooke Mission of 1943 was to provide a basis for economic planning in the Kubitschek administration and the military government in the post-1964 period. 43

Balanced against the initial optimism generated by American loans, increased exports for the ERP, and the Abbink mission, was a host of economic irritants. Much of this irritation stemmed from Brazil's poor exchange position which grew worse throughout 1948

and reached crisis proportions in 1949. The lack of exchange had a severely restrictive effect on even the essential imports that the nation needed. Raul Fernandes met with State Department officials in May 1949 and poured out a long list of complaints about American disinterest in Brazilian problems. Among the topics he brought up was the fact that Marshall Plan money was being used by Europe to develop tropical products in their African colonies that were competitive with Brazilian exports. The Foreign Minister charged that Washington's efforts to help Brazil were merely piecemeal while billions of dollars were being given away in other parts of the world. He summed up much of Brazil's problem by saying that the poor exchange situation made it difficult for the country to get any substantial amounts of capital. Fernandes concluded his remarks by telling the Americans that Brazil, in view of its past record, deserved favorable treatment even to the extent of being discriminatory. 44

At the same time that Fernandes was registering his dissatisfaction with the State Department, President Dutra was making a visit to the United States. While officially a goodwill visit, Ambassador Johnson cautioned the Department that Dutra's failure to secure some economic advantages would be "bad on public opinion in Brazil." The amity that had prevailed between the two nations, warned Johnson, was in "some degree of jeopardy." Some discussions were carried on in

the State Department about preparing a loan arrangement of $120 million to clear Brazil's short-term dollar debt that could be offered to President Dutra upon his arrival but it was not finalized before the President's trip had taken place. The Brazilian press and radio played up the trip and speculated at great length on the possible aid that Dutra would be getting from the Americans. The generally-worded economic agreement that resulted from the Truman-Dutra talks in Washington was not the type of aid that the Brazilians were expecting. Following his return to Rio Dutra was the butt of political criticism in Brazilian political circles for his failure to gain concrete financial assistance. The Brazilian desk of the State Department predicted that "there will undoubtedly be a definite cooling off of the present very warm Brazilian-American relationship."45

While the Brazilian government severely restricted import licenses and talked of rationing gasoline and reducing the importation of wheat flour, the American-Brazilian Trade Council petitioned the American government to take appropriate steps toward liquidating Brazil's dollar indebtedness as soon as possible. The Council suggested a loan by the Export-Import Bank would be the most feasible method of eliminating the $150 million backlog. Past-due obligations

45 Johnson to Acheson, May 1, 1949, FR-1949, II, p. 565; Brazilian Business, XXIV (February 1949), p. 9; Thorp to Under-secretary Webb, April 13, 1949, 732.001/4-649; Clark to Daniels, April 18, 1949, 832.001/4-649; O'Toole to Daniels, June 17, 1949, 832.00/6-1749, DS.
were seven to eight months behind in July 1949. The Export-Import Bank declined to help bail out the Brazilians when they sought discussions on a possible $135 million in loans to eliminate the past-due dollar exchange accumulation. The Americans preferred to defer consideration until the results of Brazil's new austerity program and import controls were clearer. 46

Brazilian restrictions on imports and the careful control of its dollars began to get results in the summer of 1949. The improving situation received further impetus when the export price for coffee began to rise in August. In three months Santos type-four coffee rose eighty-five percent in price, an increase that went a long way toward erasing the dollar backlog (eventually reduced to only $10 million by June 1950). 47

The main reason for the elimination of Brazil's exchange problem proved to be a double-edged sword in Brazilian-American relations. The sudden rise in coffee prices led to the creation of a United States Senate agricultural subcommittee chaired by Senator Guy


Gillette of Iowa. Gillette initially charged that coffee-growers in Brazil were deliberately withholding supplies and understating the forthcoming 1950 crop in order to create the impression of shortage. Irate Brazilian growers and exporters bitterly complained to American authorities about the Senator's charges which they said were untrue and unjust. A special inter-American commission on coffee sought to prove that supply and demand were the main factors in the price rise. In support of its argument the commission submitted a table of figures, as seen in Table IV-3, showing the annual world production and consumption of coffee from 1945 through 1950. In each year it found that the deficit was met by surplus Brazilian stocks that were exhausted in 1950. In May Assistant Secretary of State Edward Miller, Jr. requested the Gillette Committee to modify its report because it appeared to be an attack on the economies and governments

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (millions of sacks)</th>
<th>Consumption</th>
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<tr>
<td>1945</td>
<td>24.9</td>
<td>25.5</td>
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<tr>
<td>1946</td>
<td>24.9</td>
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<td>1950</td>
<td>28.25</td>
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involved in coffee production. Brazilians were especially incensed at the Committee's recommendation that the United States sponsor increased coffee production in other countries. While the Committee's final report did not indict the Brazilian farmer, it did blame middlemen and speculators of all countries for much of the rise in coffee prices. The Committee's economic recommendations designed to offset the high prices brought almost universal condemnation from Brazil. The extremely emotional response of the Brazilians to the Gillette Committee placed a great strain on Brazilian-American relations in the final year of Dutra's tenure.

One solution advanced by the State Department to ease the two countries over potential trouble spots in their economic relations was a new treaty of friendship, commerce and navigation. As early as November 1943 the Department had proposed that confidential exploratory discussions take place to find a basis for such an agreement to replace the 1935 trade pact. This was part of an American plan for setting up a new world economic order in the postwar era. The Brazilians, at that time, agreed to the proposal and a draft of the treaty was prepared in Washington in 1945. The fact that certain Brazilian trade practices were in violation of the 1935 treaty gave

\[48\text{U.S. Consul (Santos) to State Department, December 8, 1949, 832.61333/12-2749, DS; Hispanic American Report, III (January 1950), pp. 31-32; (April 1950), p. 32; (May 1950), p. 35; (June 1950), pp. 34-35; (July 1950), pp. 35-36; (August 1950), p. 36; Department of State, United States Department of State Bulletin, XVII (July 24, 1950), p. 140.}\]
urgency to American action on the new proposal. 49

Before the draft treaty was submitted to the Brazilians it was circulated within the Department for comments and suggestions. The Rio Embassy was not satisfied with the proposed draft because it treated the two nations as equals when, in fact, they were far from equal in their ability to take advantage of the treaty's provisions. 50

In time a final draft was prepared and presented to the Brazilian Foreign Minister on August 23, 1946 and to the Foreign Office six days later. Negotiations then dragged on for one year. When it was known that President Truman was to be in Brazil in September 1947 the Americans pushed the Brazilians in order to have the treaty ready for signing at that time. President Dutra agreed with this idea but his suggestion that an additional chapter on economic development and investment be included could not be completed in time for the Truman visit. 51

While the Brazilians delayed negotiations over the 1946 treaty draft, Washington negotiated a similar treaty with Italy early in 1948. A clearer and more succinct draft was developed from that treaty and


50 Daniels to Chalmers, June 12, 1945, 832.50JTC/6-1245, DS.

was presented to several nations, including Colombia. The Colombian version, suggested the State Department, could be adapted for Brazil when Washington pushed for reopening the negotiations with Rio. John Abbink saw the time as ripe for the talks because the work of the technical mission in 1948 "may have created a favorable atmosphere." He reported that prominent Brazilian officials, including the Foreign Minister, expressed interest in the early conclusion of the treaty. The Brazilians suggested that if a full treaty could not be concluded then, at least, a "short form" dealing with the treatment of private investment could be worked out. Ambassador Johnson was instructed to press for reopening the negotiations and to inform the Brazilians that such studies as the Rio government may have made of the draft submitted in 1946 were still entirely germane because the new draft was essentially the same. He was also instructed, if the subject came up, to inform the Brazilians that the United States would be willing to accept a treaty on the investment provisions alone.  

Despite this new tack pursued by the Americans little was done on the treaty negotiations. Dutra's planned visit to the United States in May 1949 brought renewed hope to American officials who looked for a positive breakthrough in the talks. When the two presidents met in Washington they issued a joint statement that covered a number of economic matters. Among them was an agreement to "begin immediately" negotiation of a treaty to stimulate the flow of

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52 Lovett to Johnson, October 11, 1948, 711.322/10-1148, DS.
foreign capital investment to Brazil. The *New York Times* hailed
the accomplishments of Dutra's visit as "a tribute, not only to our
guest but to the whole spirit of Brazilian-United States relations." Subsequent negotiations did not live up to the *Times'* published opinion.

The Division of Brazilian Affairs held out little hope for successful treaty negotiations over the new draft. Clark found the new draft a mere substitution for the 1946 version and guessed that the document would "be carefully put away in someone's desk drawer and ignored." He was of the opinion that the Brazilians were not interested in negotiating a treaty of friendship, commerce and navigation at that time. He suggested that the Department fall back on the May 21 joint statement and begin talks on an investment treaty. Ambassador Nabuco expressed the view that the omnibus treaty would take some time to work out while the investment treaty could be taken care of quickly.  

Further discussions on the Treaty of Friendship, Commerce, and Economic Development brought no results during the Dutra

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54 Clark to O'Toole, June 9, 1949, 832.50JTC/6-949; Clark, Memorandum, September 8, 1949, 711.329/9-849; Clark to Deputy Assistant Secretary of State for American Republic Affairs (Barber), September 21, 1949, 832.50JTC/9-2149; Clark to Barber, September 29, 1949, 832.50JTC/9-2949; Clark to Barber, October 4, 1949, 832.50JTC/10-449; Brazilian Ambassador Nabuco to Snyder, July 7, 1950; Snyder to Nabuco, July 19, 1950, Brazil-General, 1947-50 folder, Snyder Papers, Truman Library.
administration. The submission of a draft by the Department to the Brazilian government brought counterproposals on the chapters pertaining to finance and investment conditions. The Brazilians were holding back on discussions in the hope of a treaty on double taxation and another providing for a Joint Guarantee Fund for capital investment in Brazil. The Foreign Minister objected to the standard clause in the treaty regarding expropriation because Fernandex thought the matter was sufficiently covered in the Brazilian Constitution.

By 1950 Brazil's usual complaints about Washington's neglect were bolstered by the news that large loans were being made to certain nations for economic development projects. Australia was to receive $100 million, Mexico $150 million, and most galling to Rio, $125 million was to go to Argentina. Washington, ever sensitive to Brazilian complaints, expected a reaction from the Dutra administration and sought to temper Rio's response. President Truman, in a conversation with Acheson on Argentine developments, asked the Secretary of State what effect America's strengthening economic relations with Buenos Aires would have on Brazil. Acheson, whose knowledge of and interest in Latin America was somewhat limited, deferred answering the President until he had an opportunity to talk with Assistant Secretary Miller. Acheson later delivered a

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memorandum to Truman that stated that there would be some criticism on the part of some Brazilian authorities, "including the Foreign Minister," and from an "important segment of the press." Acheson did warn that American aid to Argentina could play a role in Brazil's domestic politics with Vargas possibly taking advantage of the situation in the 1950 presidential elections. 56

Miller cabled Ambassador Johnson about the forthcoming Australian, Mexican and Argentine loans and warned that the Brazilians would probably be "scurrying back to the wailing wall" from which a recent $25 million loan for Volta Redonda had temporarily removed them. Miller sought to explain the background of the loans and to have Johnson remind Rio that it had received $130 million in productive development loans from the IBRD in the past two years with "excellent possibilities" for another $41 million in the next couple of months. The problem with Brazil, said Miller, was that its loans had been delivered in several small quantities with no dramatic figures such as those for the other loans. More would have been done for the Brazilians, suggested the Assistant Secretary, if the jurisdictional dispute between the International Bank and the Export-Import Bank had not existed. 57


In October, Ambassador Nabuco met with President Truman and Secretary Acheson. An extensive memorandum was drawn up covering all aspects of Brazilian-American relations in preparation for the meeting. It was recommended that the President tell the Ambassador that the United States has a "special interest" in its relations with Brazil and that the nation "will always occupy a unique position in our foreign policy." The most constructive approach on economic matters, said the memorandum, "would be to let bygones be bygones and concentrate on working out a positive future program of cooperation." In the meeting Nabuco patiently explained his nation's inability to open a line of credit that would enable his nation to prepare adequate development plans. Acheson agreed that the bank dispute in Washington had caused Brazilian negotiations to be "both baffling and exasperating" from Rio's point of view. Truman told the Ambassador that he would take a personal interest in Brazilian problems and for his government to resubmit their requests. For the Brazilians, these were familiar words.

Chapter V

BRAZILIAN WHEAT SUPPLY

The securing of an ample supply of wheat for the Brazilian people provided Itamaratí with an immediate challenge at the close of the war. With imports of this vital commodity making up over four-fifths of the nation's consumption, the Foreign Office was forced to exert its total efforts at preventing hunger at home. Brazil had traditionally purchased most of its wheat from Argentina. During the war it imported approximately 100,000 tons per month from that source which was added to its 200,000 to 300,000 tons annual domestic production. With the critical food shortage that appeared at the end of the war Brazil found it increasingly difficult to obtain its normal imports from Argentina, who began to use its wheat as a means of gaining economic and political goals. To acquire wheat, Brazil offered its rubber, so desperately needed by Buenos Aires' industry. The La Plata nation, with other markets for its wheat, operated from a position of strength and was able to take advantage of the situation. When Rio found it was unable to squeeze wheat from Argentina, it turned to Washington for grain shipments to make up its deficit supplies. The United States, with its commitments to help feed starving Europe, was only able to provide Brazil with limited aid. The
diplomatic relations between Rio and Washington over the Brazilian wheat supply provide a perfect example of the gap between Brazil's expectations of aid and America's ability to fulfill those expectations. In the face of enormous economic and political problems in Europe, Brazil could not hope to compete for more than a minor share of America's concern for world problems.

Brazil had not been self-sufficient in wheat since the grain was decimated by a rust epidemic in 1811. Despite the nation's vast land area, its climate was not conducive to wheat cultivation. Following a trade agreement with Argentina in 1940 when the Rio government gained certain advantages in the sale of textiles in the Argentine market in exchange for greater wheat sales to Brazil, the nation discontinued government efforts to spur wheat production. Other serious problems that retarded the development of wheat included transport difficulties, lack of storage facilities, shortage of capital and lack of experience in cultivating the crop. Without a wheat policy during the war years, Brazil only managed to produce less than one-sixth of its normal consumption in 1945 and 1946. It still needed to import about 100,000 tons per month, or 37 million bushels annually, in order to meet the demands of its hungry people.¹

¹The survey of wheat cultivation in Brazil is from H. Meijer, Rural Brazil at the Cross-Roads (Wageningen, Netherlands, 1951), pp. 103-105 and Benjamin H. Hunnicutt, Brazil: World Frontier (New York, 1949), pp. 144-145; Inter-American, IV (November 1945), pp. 41-42.
The postwar grain shortage came as somewhat of a surprise to those in Washington who should have had more foresight. The carryover on July 1, 1944, the start of the 1944-1945 season, was far above normal and a "fairly good crop" was expected that season. Experts said that, "The holding is regarded as more than sufficient to take care of any possible European demand at the end of the war." The Department of Agriculture was actually worried about overproduction. Under the Price Stabilization Act, the government was committed to keep the price of agricultural products around parity for two years after the first January 1 after the close of the war. If there was an expansion in wheat production, which was expected when more labor was available after the war, the cost of the government commitment could be very expensive.²

The severity of the food situation in Europe did not hit American leaders until shortly before Germany's surrender in May 1945. On his first full day as president, Truman learned from Secretary of State Edward R. Stettinius of the need for action in providing supplies for Europe in order to prevent "chaos and collapse" that would result from "starvation, unemployment and inflation." A few days later Truman studied a report prepared for him by the State Department dealing with the world's critical food situation. The report

said that "the end of hostilities would aggravate an already critical situation. The success of any plan agreed upon at San Francisco can be seriously jeopardized, if not defeated, by internal chaos in the liberated countries." Stettinius recommended that the military authorities revise their food and material requirements. The head of the United Kingdom Treasury Delegation told Clayton and Wallace that "the European countries would go communist" if the United States did not send them more food. Civilian needs in the United States would also have to endure a "tightening of the belt."³

As late as August 1945 experts claimed that there was sufficient wheat in the United States to provide for domestic and export requirements provided there was a cut in the feed grains program. There was more concern over the availability of transport than over the amount of grain available. By the Fall of 1945, exports of North American wheat were averaging around 50 million bushels per month, the maximum that could be exported under existing transportation and financial conditions. The Department of Agriculture was pleased with the level of exports because the government would not have to purchase wheat under the crop support program.⁴

Before discussing Brazil's wheat supply problem that


manifested itself in 1945 one must examine the relationship that country had with the United States and Argentina over the supply of rubber and rubber products because Rio's wheat supply became intimately involved with its rubber policy in that year. Argentina's reluctance to cooperate with the Allies during the war had led to its diplomatic isolation within the inter-American system. When Buenos Aires gave its verbal adherence to the Act of Chapultepec and was welcomed back into the hemispheric fold, Brazil almost immediately told Washington that it wanted to discuss the establishment of a token quota of Brazilian tire casings for Argentina. Under a wartime agreement signed in 1942 between Brazil and the United States, Rio was to supply the Rubber Development Commission (RDC) in Washington with all of its excess rubber at a price well above the world market level. Additional agreements signed in 1944 reestablished this high price with the purchases to continue until mid-1947. Brazil was also given the right to fill the tire and tube quotas for the other South American countries. Argentina's opposition to the Allied cause during the war had excluded it from the quota system. Brazil viewed Argentina as having rejoined the inter-American system and therefore entitled to a quota.5

Despite the Brazilian-American embargo the Argentine

rubber industry was able to operate with Bolivian rubber, both legally imported and smuggled, and an undetermined amount smuggled in from Brazil. The RDC and Ambassador Berle suggested that Washington ship synthetic rubber to Buenos Aires. This would have the two-fold effect of breaking the black market price of natural rubber and thereby reducing smuggling, and increasing the supply of natural rubber available in Brazil. Francis A. Truslow, President of the RDC, went to Rio to discuss with Brazilian authorities the procedures for integrating Argentina into the rubber and rubber products quota and supply system for the American republics. In these discussions Truslow and the Brazilian spokesmen came to an agreement on the arrangement that would be proposed to Argentina. Buenos Aires was to get no additional supplies of natural rubber, only synthetic rubber from the United States. There would be an interim shipment of tires from Rio to the Argentine during a four-month period that Buenos Aires would need to change over its tire-making capacity. No permanent agreement was to be made with Argentina until all problems between that country and the United States were settled. Above all, it was firmly understood in Brazil that all conversations with Argentina were subject to approval by both Washington and Rio. Truslow then went to Buenos Aires to discuss the matter with responsible Argentine authorities. 6

6Stettinius to Berle, April 19, 1945; Berle to Stettinius, April 24, 1945, FR-1945, IX, pp. 703-704, 706-707.
An agreement between the three countries was signed on May 2, 1945. In exchange for a quota Argentina agreed to take "appropriate measures" to ensure the conservation of rubber. Brazil and the United States were to provide Argentina with an interim allocation of tires, tubes and synthetic rubber. 7

In the last year of the war the United States had made a number of rubber agreements with Brazil that were to run until mid-1947. With the surrender of Japan in August 1945 Washington attempted to gain Brazilian cooperation in the cancellation of these accords, since the United States preferred the cheaper Far Eastern rubber that had become available. The State Department's offer was of little interest to the Brazilians because the Americans were bound by the pact guaranteeing high rubber prices for another two years. Brazil was only interested in cancelling the tire and tube agreement. Ambassador Berle warned the Department that the voiding of the tire and tube pact would result in shortages in Latin America. Argentina was prepared to purchase all that Brazil could provide, which would leave none for the rest of Latin America. These shortages would have to be made up with shipments from the United States, Canada or other countries. Ordinary tires were selling for $150 and up on the Bolivian and Argentine borders of Brazil. Rio authorities wanted to cash in on this situation when they proposed to Washington the

7United States Department of State, Treaties and Other International Acts Series, No. 1542 (Washington, 1947).
cancellation of the tire and tube accord. The Brazilians hoped to sell 60,000 tires to Argentina at the rate of 5,000 per month. By this time relations between Washington and Buenos Aires had soured again. The State Department declined the Brazilian initiative, probably in order to maintain an economic sanction against the Argentines. The desire for cancellation of all the rubber agreements may also have been a factor since Washington wanted Far Eastern rubber over the more expensive Brazilian supply.

For Brazilian policy-makers, the rubber situation took on added significance in October 1945 when Argentina informed them that it might suspend wheat exports to that country unless it received an immediate shipment of tires and coal. With its dependence upon Argentine grain, Rio could hardly afford to ignore the Argentine threat. Buenos Aires complained that Washington was preventing Brazil from shipping tires to Argentina. In self-defense, the State Department informed the Argentine government that it had offered to cancel the tire agreement with Brazil but that country had chosen not to do so at that time. Argentina then charged that it was not getting tires of the size that it needed. The RDC termed this accusation unfounded. It made available to those who shipped tires to Buenos Aires the entire inventories in RDC stock. The exporters were then

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8 Byrnes to Berle, August 14, 1945; Berle to Byrnes, August 15, 1945; Berle to Byrnes, August 23, 1945; Berle to Byrnes, September 22, 1945, FR-1945, IX, pp. 707-708, 709-711.
able to select the sizes they wished to ship. The Argentines were not forced to take any unwanted sizes. Ideal sizes were not always available in every case so the exporters had to voluntarily compromise on the best available tires. Since the May 2 agreement, increased domestic consumption in Brazil had been taking the more popular sized tires. The Brazilians complained that they were being hampered from carrying out the tripartite agreement and sought to create the impression that Washington was to blame for Argentina's inability to get the tires it wanted. Berle suggested that the circumstances be explained very thoroughly among all three signatories of the agreement so as to "dispel the impression that we have not lived up to our obligations."  

The tire and tube agreement with Brazil was terminated in November 1945. Brazil was then free to ship any number of tires and tubes to Argentina, and during the winter of 1945-1946 large quantities of tires were sent to Buenos Aires from Rio. These shipments, however, had little effect upon the low level of wheat supplies that went from the La Plata to Rio.  

The State Department by early November 1945 agreed fully with the British Foreign Office that everything possible should be done  

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9 Berle to Byrnes, October 2, 1945; Berle to Byrnes, October 4, 1945, FR-1945, IX, pp. 711-712; Berle to State Department, October 16, 1945, 835.24/10-1645, DS.  

10 Berle to Byrnes, November 16, 1945, FR-1945, IX, pp. 712-713.
to ensure the maximum flow of wheat and other grains from Buenos Aires to deficit areas. Steps had been taken to expedite petroleum exports from the United States and the Caribbean in order to decrease the necessity for burning grain for fuel in Argentina. Washington explored the possibility of sending additional tires, without which, Argentina claimed, its wheat stocks "literally cannot be moved." In December Washington began sending tires to Buenos Aires. 11

Following the American shipment of tires to Argentina a Brazilian Embassy spokesman in Washington asked the State Department whether, in exchange for the tires, the United States had requested a quid pro quo in regards to the amount of wheat that Argentina would ship to Brazil. When informed that the United States had requested no such commitment, the Embassy spokesman expressed his government's irritation over the American initiative. The United States, he said, had failed to consult with Brazil concerning this transaction as it should have been under the Tripartite Agreement of May 2, 1945. His government believed that Washington's decision threatened to upset Brazil's separate wheat negotiations with Argentina. Daniel Bradock, Acting Chief of the Division of Brazilian Affairs, warned the Department that the tire-wheat deal with Argentina "still rankles with the Brazilians." He cautioned: "We should be careful

11 Byrnes to American Embassy (Buenos Aires), November 1, 1945, 835.24/11-145, DS; Byrnes to Berle, December 5, 1945, FR-1945, IX, pp. 713-714; Department of State to American Embassy (Rio), Memorandum, January 25, 1945, FR-1946, XI, pp. 111-112.
not to fall into the same error again of violating or evading any agreement we have with Brazil. 12

When Brazil's normal source of wheat began to dry up in 1945 the nation naturally hoped its wartime partner, the world's largest producer of this strategic grain would help provide the needed wheat. Brazilian wheat imports had declined 60 percent in the last quarter of that year. Imports from Argentina declined 85 percent in December from its normal 100,000 tons per month. The following January saw only a small amount from that country and none in February. Crisis was only averted by small emergency shipments from the United States. Warnings were received from the American Embassy in Rio that wheat imports from Washington were insufficient to offset the shortages that were reaching critical stages in Brazil. Chargé Paul Daniels, a career officer in the Foreign Service whose nineteen years had been totally served in Latin America or Washington, cautioned the State Department in January that "considerable disturbances" would occur over flour shortages. Fernando Lobo, the Brazilian Chargé in Washington, told Department officials that "a growing unrest is occurring in the cities, whose population is heavily dependent on bread." He noted that "the scarcity of bread which now can be had only three times a week in the capitals, and is practically unavailable in the interior, constitutes one of the major factors in the

current wave of labor unrest in Brazil.\textsuperscript{13}

In order to help the Brazilians the State Department approached the Argentine Embassy in Washington to see if something could be done about getting more wheat to Brazil. The Argentine representative informed the Department that he had urgently recommended to his government that the wheat be sent to that country. Talks between Buenos Aires and Rio over this grain broke down in March. Washington then countered with a proposal for a joint Brazil-United States agreement with Argentina for an exchange of rubber for wheat. Negotiations were held in the Argentine capital and a barter arrangement was made that involved sending tires to Buenos Aires in exchange for wheat to Brazil.\textsuperscript{14}

As much as the United States wanted to help Brazil meet that country's crisis in wheat supplies, Washington saw Europe's needs as being more critical. In Europe, actual starvation on a large scale was a real possibility. The probable political consequences for the West also weighed heavily on the minds of Washington policymakers. By contrast, the situation in Brazil, where there was a greater abundance of substitutes that could provide a high total caloric

\textsuperscript{13}Daniels to Byrnes, January 10, 1946, 832.24/1-1046; Brazilian Charge Fern\'ando Lobo (Washington) to Byrnes, February 27, 1946, 832.24/2-2746, DS.

\textsuperscript{14}Byrnes to Daniels, March 1, 1946, FR-1946, XI, pp. 117-117; see fn. in FR-1946, XI, p. 118; Byrnes to Daniels, March 19, 1946, FR-1946, XI, pp. 118-119; Charg\'e John Cabot (Buenos Aires) to Byrnes, March 21, 1946, 832.24/3-2146.
intake, was different. Brazilians were less dependent upon wheat since that grain made up a small part of their total food consumption. There was also the availability of other grains that could be used to adulterate wheat flour and therefore stretch the quantities that were available. Such alternatives were not readily available to the Europeans.

Within the State Department the Division of Brazilian Affairs expressed its deep concern over the bread shortage in Brazil. Braddock told Braden that the Brazilian need was "a must" and it should have been "emphasized on a par with the needs of Europe." Failure to supply the needed wheat, said Braddock, would put "our whole relations with Brazil, traditionally intimate and cooperative, in jeopardy." Pleading with Braden to try to find wheat for Rio, Braddock said that the "Communists are viciously exploiting this situation to do us harm." The upper levels of the State Department were concerned about the shortage in Brazil but found the European situation much worse. While the Department would help Brazil with whatever was available, that country would have to make arrangements with its traditional supplier.

Washington attempted to extricate itself from the position of having to turn down individual requests for wheat by allowing

international organizations to allocate the world supply of food. In this way a fair apportionment of the available wheat would be made on the basis of need rather than on international friendships and rivalries. The Combined Food Board's (CFB) allotment of wheat for Brazil for the first half of 1946 was to be provided by Argentina. The CFB allocation took into account the bilateral arrangement that had been previously made between the two nations. The Dutra government had two reservations about the CFB plan. Brazil's normal consumption of wheat bread on an annual basis was a minimum and dangerously close to the subsistence level. Charge Lobo complained to the State Department that the low per capita consumption of wheat in his country "imposes on Brazil a much larger proportionate sacrifice" than other countries had to endure. Rio was also disturbed about having to rely on its traditional source of wheat. Imports from Argentina had slowed to a trickle after November 1945 and negotiations between the two countries had been unable to bring about any significant increase in shipments of the vital grain in the ensuing months. Itamaratí pleaded with Washington for its support in the establishment and implementation of suitable quotas for Brazil. The Brazilian Foreign Office also asked that its monthly allocation be delivered from the United States since it was not able to obtain wheat from Argentina. 17

17Byrnes to Berle, February 4, 1946, FR-1946, XI, pp. 112-113; New York Times, December 31, 1945; Braddock,
Despite reports from American officials in Brazil of shortages and disturbances in that country during the spring and summer of 1946, Washington sent only small amounts of wheat and flour to that country to alleviate the shortages forced by Buenos Aires. Small amounts were also secured from Argentina but these were far below Brazil's normal imports. A State Department study showed that Brazilian imports of wheat declined by 72 percent during the first half of 1946 compared to the same period the previous year. In order to conserve badly needed shipping, the Americans planned to ship its supplies to ports in Northern Brazil on the assumption that Southern Brazil would be served by Argentine imports. This scheme was attacked by the Rio Embassy because of the inability to secure adequate supplies from Argentina. The Embassy wanted all quantities to be delivered to Rio de Janeiro where they could be put at the disposal of the Comissão Nacional do Trigo (National Wheat Commission) that would distribute it "according to the present and real situation in the country." The Midland Flour Milling Company supported the Embassy's request regarding the destination of flour sent from the United States. The company's contention was that "the factors which

Memorandum, February 12, 1946; Lobo to Byrnes, February 16, 1946, FR-1946, XI, pp. 113-116; Hunnicutt, Brazil: World Frontier, p. 145. Some comparative figures for per capita consumption of wheat can be seen in the following figures: Brazil, 26.5 kilograms; United States, 170 kilograms; Argentina, 243 kilograms. Lobo to Byrnes, February 27, 1946, 832.24/2-2746, DS.
should govern our actions will affect our future political and commercial relations" with the Brazilian people. The company concluded its argument by saying that too much harm had already been done to the goodwill created during the era of the Good Neighbor Policy and that "this situation should be corrected without delay."18

Washington was becoming increasingly irritated with Brazil during the spring of 1946 over the question of rubber for Argentina. The Combined Rubber Committee (CRC) had designated the United States as the source for Buenos Aires' quarterly allocation of rubber. Itamaratí had hoped that the Argentine quota could be delayed until some wheat had been extracted for Brazil. The quotas were delayed until well into the second quarter of that year but Washington refused to hold up the shipments indefinitely. As much as Washington disapproved of the Argentine government, it planned to keep its international agreements. What was particularly exasperating to the State Department was the continuation of the wartime purchase agreement under which the RDC was to take excess Brazilian rubber at a high price until June 30, 1947. With the availability of cheaper Far

18United States Embassy (Rio) to State Department, May 6, 1946, 832.00/5-646, DS; American Consul General (São Paulo) to Byrnes, April 26, 1946, FR-1946, XI, p. 135; New York Times, May 16, 1946; United States Embassy (Rio) to State Department, May 21, 1946, FR-1946, XI, p. 136; Midland Flour Milling Company to State Department, June 13, 1946, 832.6584/6-1346, DS; Pawley to Braddock, June 15, 1946, FR-1946, XI, pp. 139-140; Division of Brazilian Affairs, Memorandum, September 20, 1946, 832.61311/9-2046, DS.
Eastern rubber, this meant that the RDC was being forced to pay premium prices for Brazilian rubber and then sell it on the open market at a considerable loss. Far Eastern rubber was then selling for less than half the price of the Brazilian product. The Rio government wanted the United States to sell the RDC stocks to Argentina in exchange for wheat for Brazil. Washington's obvious move was to push for cancellation of the rubber purchase agreement. This it did but the Brazilians demurred. 19

Brazil was also trying to use the Tripartite Agreement as leverage in prying some wheat out of the Argentine. Unfortunately for Rio, it needed Argentine wheat much more than Buenos Aires needed Brazilian rubber. A profitable clandestine trade in rubber hindered Brazil's efforts at negotiating a trade for grain. At the same time Argentina was expecting the CRC quota from Washington. The Argentines were also aware of the fact that cheaper Far Eastern rubber was becoming available. On a value-for-value trading basis Rio could never hope to find enough rubber to barter for the wheat it needed. 20

Tripartite negotiations were held between Argentina, Brazil and the United States in the spring of 1946. An agreement was

19 Daniels to Byrnes, April 4, 1946; Byrnes to Daniels, April 5, 1946; Braddock to Daniels, April 8, 1946; Daniels to Byrnes, April 9, 1946; Cabot to Byrnes, April 9, 1946; Cabot to Byrnes, April 1, 1946, FR-1946, XI, pp. 123-129.

20 Braddock, Memorandum, March 26, 1946, 832.61311/3-2646, DS.
reached whereby Argentina was to supply Brazil with the balance of the current year's wheat needs in exchange for a first quarter allocation of rubber at the Brazilian price. The United States and Brazil promised their full support before the Rubber Committee for a large second quarter quota of rubber at the prevailing Far Eastern price. Argentina then delayed signing the agreement so wheat shipments to Brazil were not immediately forthcoming.  

Almost continuous negotiations between Brazil and Argentina over wheat led to a new arrangement in the summer whereby Brazil was to receive a quantity of wheat in exchange for an immediate shipment of rubber with more to follow later. Less than half the wheat reached Brazil when Argentina cut off all shipments to that country in September. The American Ambassador in Buenos Aires, George Messersmith, an able career diplomat, reported that Argentine wheat stocks were lower than the State Department had assumed. Nevertheless, he said, the Argentine government had "behaved very badly" in the whole wheat matter. He also noted that the Brazilians and Argentines had not been "playing altogether fairly with each other," a fact he attributed to "traditional" antagonism between the two countries. 

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21 Daniels to Byrnes, April 22, 1946; Byrnes to Daniels, April 25, 1946; Daniels to Byrnes, May 24, 1946, FR-1946, XI, pp. 134-135, 137.

22 New York Times, June 29, 1946, September 14, 1946; Ambassador to Argentina George Messersmith to Undersecretary of
The American solution of leaving Brazil to fend for itself with Argentina throughout most of 1946 provided the troubled Dutra government with small consolation. Continual negotiations with Buenos Aires brought little more than niggardly shipments of Argentine wheat into Brazilian ports. Following a bountiful American harvest in the fall of that year, Washington indicated its willingness to ship substantial amounts of grain to Brazil during the fourth quarter. Messersmith found that this news had a "salutary effect" on the negotiations between Buenos Aires and Rio. Perón reversed himself in October in a speech to the people of Brazil and Argentina in which he related the determination of the Argentine people to supply unspecified quantities of cereals to Brazil in an effort to alleviate the critical situation in that country. At the same time a public campaign for conservation of food opened with the appearance of posters in the Argentine capital. That same month an Argentine commercial group, meeting with Brazilian authorities in Rio, signed an agreement to ship 100,000 tons of wheat per month to Brazil, beginning in January 1947, at the prevailing world price.23

Perón soon reneged on the agreement when he demanded a price that was one-third above the world market price. Brazil

State for American Republic Affairs Spruille Braden, September 27, 1946, 832.61311/9-2746, DS.

refused to pay the price and arranged for some wheat from Canada instead. Rio did take an option on Argentine wheat after January 1, 1947 with a provision to buy elsewhere at that time if it could get a better price. Unable to secure suitable quantities of grain from other sources the Dutra government purchased the January quota from Argentina at a premium price. Less than three-fourths of the quota was actually delivered. The February and March quotas were purchased at higher prices amounting to 29 and 43 percent higher than January respectively. In an effort to avoid Argentine price-gouging, Brazil requested a minimum monthly shipment from the United States. The State Department replied that there was no surplus wheat available and it "deeply regretted that Brazil or any other country had to look to Argentina for wheat."24

Only through severe restrictions were the Brazilians able to get through their bread crisis. Total wheat consumption for the eleven-month period, July 1946-May 1947 was less than three-fourths of the nation's normal consumption, which was already low on a per capita basis. Figures compiled by the Division of Brazilian Affairs showed that imports of Argentine wheat were almost eighty percent below wartime levels. If it had not been for the emergency shipments from the United States and Canada, Brazilians would have had much

24Pawley to Marshall, January 22, 1947, FR-1947, VIII, pp. 467-468; Division of Brazilian Affairs (O'Toole) to Dawson, February 27, 1947, 832.6584/2-2747; O'Toole to Dawson, March 3, 1947, 832.6584/3-347, DS.
less bread to eat. Seeing these figures, one official of the Division suggested that a "kitty" of wheat to be set aside for emergency pleas from countries normally dependent on Argentine supplies. He further noted, "We would be able to comply with our political responsibilities to the countries concerned and be able to receive credit for aiding them before shortages caused unrest." Allan Dawson, Chief of the Division, hoped this could be done and said the suggestion was "strongly indicated if we are to keep our political fences in L.A. in good shape."  

During the Rio Conference American officials were approached on different occasions by Rubens de Mello, Chief of the Economic Division of the Foreign Office, Oswaldo Aranha, Senator Góes Monteiro, Foreign Minister Raul Fernandes, and finally, by President Dutra himself, all of whom broached the wheat problem. Argentina had not been fulfilling its quotas for Brazil. This was probably because the Perón government had been able to sell its wheat to Britain and Spain at a higher price than Brazil had agreed to pay. Ambassador Pawley warned that if Brazil's minimum requirements were not met the country would run out of bread. "Such a situation," he continued, "would play directly into the hands of the Communist

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25Division of Brazilian Affairs (Midkiff) to Office of Assistant Secretary of State for American Republic Affairs (Tewksbury), June 5, 1947, 832. 61311/6-547; Midkiff to Tewksbury, June 5, 1947, 832. 6584/6-547; Midkiff to Dawson, June 5, 1947, 832. 6584/6-547, DS.
Party in their efforts to embarrass and hamper the administration."

Secretary of State Marshall replied that the United States was working hard to see what could be done to alleviate the serious situation in Brazil. Little resulted from this hard-sell effort on the part of the Brazilian government.26

The Brazilian-American wheat negotiations ran afoul of inter-departmental complications when the Brazilian Army made a purchase of a considerable amount of flour, an arrangement that had been made outside normal diplomatic channels. The purchase was made from the Overseas Trading Corporation, a company that had no historic basis as a flour exporter. The issuance of export licenses was largely dependent upon a company's record as a supplier to foreign purchasers so no permit had been issued for this shipment. Most of this flour had reached a New Orleans warehouse where it had been building up storage charges, deteriorating and wasting needed warehouse space. The securing of an export license for this flour had important political connotations because the man who had handled the deal in the United States had recently been named Brazil's Acting Minister of Finance. Leading Brazilian generals had been responsible for the transaction and failure of the deal to go through or the erosion of a large part of the money spent by the Army would

26Pawley to Marshall, August 30, 1947, 832.61311/8-3047; Pawley to Marshall, September 13, 1947, 832.61311/9-1347; Dawson, Memorandum, September 11, 1947, 832.6584/9-1147, DS.
have been a serious loss of face for all concerned. The State Depart-
ment had become aware of the deceptive nature of this proceeding.
Allan Dawson suggested that the flour be used to help make up the
quota for the fourth quarter of 1947. In order to accomplish this the
cooperation of the Departments of Agriculture and Commerce would
have to be enlisted along with the Internal Emergency Food Council
(IEFC), the international organization that established the allocations
for international food shipments. 27

The Department of Agriculture was adamant in not permit-
ting the export of the Army flour from New Orleans. It reasoned
that the exporter was not a traditional exporter and, in light of world
shortages, export licenses had to be limited to traditional exporters.
Ambassador Pawley, said an inter-department memo, warned the
Department that President Dutra was "very much involved" in the
Brazilian Army flour case because he depended upon Army support
"under the present disturbed political conditions." Ambassador
Martins verified Pawley's observation when he called Dawson and
said that he had just received a cable from President Dutra that
criticized him severely for not obtaining any action on the Army flour.
According to a State Department memorandum, Martins became very
agitated and stated that after all the cooperation given to the United
States at the Rio Conference and the lavish entertainment provided

President Truman during his recent visit to Brazil, Dutra expected more support from the United States in the matter of wheat. Martins went on to say that Dutra was indignant and that "his own personal position would become impossible if favorable action was not forthcoming." Then Martins, according to Dawson, "warmed up to a tirade." He was very concerned that Pawley, who had returned to Washington, would get results and all the credit while Martins was being criticized in the Brazilian press. Later that day Martins apologized to Dawson for his violent outburst.

The final decision on the Army flour was not favorable to Brazil. Despite the support of the State Department, Commerce would not license the flour for export because it had not been purchased from a regular exporter. The only solution was to sell it. Having no choice, Martins became reconciled to the idea and the flour was sold. In spite of the failure of the Brazilian Army to secure the release of its flour order there is evidence of an attempt to make another purchase. General Harry Vaughan, Military Aide to the President and a Missouri crony of Truman, informed the State Department of an order that the Brazilian Ministry of War had placed with a Chicago exporter. Vaughan told the Department that he "became a bit suspicious" when the interested parties offered a friend of his

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28 Dawson to Armour, October 3, 1947, 832.61311/10-347; Dawson to Armour, October 3, 1947, 832.61311/10-347, DS.
$10,000 cash if he would expedite the purchase.  

In 1947 Brazil spent over $44 million in foreign exchange for wheat and flour imports. During the first seven months of 1948 it spent another $51 million. By the latter part of that year the nation began to receive some relief from its shortages, partly due to increased domestic production. During the Dutra years, production increased steadily, spurred by a combination of government encouragement and natural economic forces. By 1950 production was almost double the average of the wartime years. A second and more important reason for the alleviation of Brazil's supply problem, however, was the changing world situation regarding food shortages. Conditions began to improve dramatically after mid-1948. This made it difficult for Argentina to continue its price-gouging tactics and the price of its wheat dropped. By 1949 Brazil was getting an ample and steady supply from Argentina at a price only slightly higher than that charged by the United States. Table V-1 shows the shifting pattern of Argentine wheat supplies destined for Brazil. By 1949 Brazil was able to pay for Argentine wheat through barter arrangements and with Brazilian credits that had been long-frozen in Argentina. This greatly reduced the drain on foreign exchange that Brazil could hardly afford.

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29 Dawson to Office of Under Secretary of State for Economic Affairs (Stilwell), October 17, 1947, 832.61311/10-1747, DS; Lovett to Pawley, October 17, 1947, FR-1947, VIII, pp. 479-480; Office of the President, Harry Vaughan to Chief of Protocol of the Department of State, October 21, 1947, 832.6584/10-2147, DS.
to lose. By the late 1940s imports of Argentine wheat, along with wheat from the United States and Uruguay, had again reached wartime levels.  

TABLE V-1

WHEAT AND FLOUR IMPORTS FROM ARGENTINA

<table>
<thead>
<tr>
<th>Year</th>
<th>Flour tons</th>
<th>value (Cr1000)</th>
<th>Wheat tons</th>
<th>value (Cr1000)</th>
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<tr>
<td>1944</td>
<td>40,634</td>
<td>60,734</td>
<td>1,200,939</td>
<td>1,097,323</td>
</tr>
<tr>
<td>1945</td>
<td>66,317</td>
<td>102,573</td>
<td>1,088,598</td>
<td>1,222,392</td>
</tr>
<tr>
<td>1946</td>
<td>14,923</td>
<td>25,060</td>
<td>165,280</td>
<td>307,537</td>
</tr>
<tr>
<td>1947</td>
<td>17,268</td>
<td>43,349</td>
<td>365,857</td>
<td>1,022,252</td>
</tr>
<tr>
<td>1948</td>
<td>10,498</td>
<td>33,078</td>
<td>312,431</td>
<td>1,144,805</td>
</tr>
<tr>
<td>1949</td>
<td>----</td>
<td>----</td>
<td>737,129</td>
<td>1,812,918</td>
</tr>
<tr>
<td>1950</td>
<td>4,666</td>
<td>13,124</td>
<td>956,959</td>
<td>1,598,642</td>
</tr>
</tbody>
</table>


The course of Brazilian relations with the United States during the period 1945-1948 over the subject of wheat and flour provides a good example of a postwar Brazilian problem and the bilateral efforts taken to solve it. When Rio's source of wheat began to dry up late in 1945 it tried the simple expedient of bargaining its rubber for Argentine wheat. When that failed the Brazilians turned to the Americans for their surplus wheat and for diplomatic support against the

Argentines. Washington had the means for solving Brazil's problem but found a greater need for its efforts in other parts of the world. Since Brazil's claim was viewed as being less critical it received only secondary attention from the United States. Fortunately, Washington was able to allocate its limited resources carefully and thereby prevent starvation in Europe as well as in Latin America.

As with every aspect of Brazilian-American relations during the Dutra presidency Brazil's perception of the special relationship that existed between the two nations gave Rio more hope for American aid that it could reasonably assume. Because it was a wartime ally and a large supplier of wheat Washington was expected to bail the Brazilian government out of its food difficulties. Itamarati officials realized the gravity of the world situation in foodstuffs but they believed that a higher level of concern should have been forthcoming from the nation that had received Brazil's wholehearted cooperation during the recent war. While the Truman administration could sympathize with the Rio government's temporary disadvantage in its long-term rivalry with Argentina the State Department had little power to interfere in Brazil's behalf. It can also be argued that Washington had little inclination to take sides in a bilateral dispute against Argentina while at the same time trying to bring that nation into step with the rest of the hemisphere so that the planned Rio Conference could proceed.
Chapter VI

"THE OIL IS OURS"

While nationalism played a role in all aspects of Washington's economic relations with Brazil in no field was it more evident than in the area of petroleum. Those Brazilians who feared most for their nation's economic independence exhibited an almost pathological sense of possession on Brazilian oil. Long before any appreciable amounts of this vital mineral had been found in Brazil, nationalists overwhelmed responsible government leaders with their cry for reserving it for Brazilians. These proponents of xenophobic nationalism delayed the effective development of the Brazilian petroleum industry for many years while they poisoned the air between American businessmen and the Brazilian government during the Dutra administration.

Prior to World War II the United States did not concern itself with a national petroleum policy. Except for its vigorous actions in favor of just and adequate compensation when Mexico and Bolivia nationalized their oil resources, the State Department before the war rendered only normal diplomatic assistance to American oil interests. In reality, until 1945, the policy applied to oil was the
strategy adopted for all other industries or commercial operations abroad.¹

World War II brought a change in this attitude. Whereas America's commercial concern took cognizance of the strategic importance of oil, this awareness was tempered by the apparently unlimited oil resources within the United States. Washington, however, acknowledged the fact that its oil was not unlimited. At the end of the war the State Department outlined a world strategy that would be developed with respect to this crucial mineral. As with the nation's general commercial program, the United States was to continue to press for the same objectives of nondiscrimination, equality of opportunity, and fair treatment. It was expected that oil would find its place in the pattern of expanding and liberalized international trade that Washington was seeking to promote through intergovernmental consultation and collaboration. In an effort to ensure the availability of foreign supplies from Latin America two lines of action were outlined. The first was to promote the development of sources that were strategically and economically located. The second was to encourage and facilitate within reason the participation of American technology and capital in the development of these sources. This would help to guarantee the prompt and efficient development of

of this resource. The mechanisms by which these two lines of action were to be accomplished included the more general policies of promoting stable political and economic environments, encouraging sound conditions of basic law and contract, furthering the expansion of trade upon liberal principles and in stable convertible currencies, encouraging free and flexible competition in international petroleum trade, promoting fair and mutually beneficial contractual relations between American oil companies and foreign governments, and the elimination of political and commercial restrictions. This plan was intended to provide foreign oil to meet the domestic needs of the United States whenever the domestic industry was incapable of meeting those needs.²

With regard to Brazil, the application of Washington's oil program had to adjust itself to Brazil's policy. Like Washington, Rio had developed its own petroleum plan. This policy took a decidedly nationalistic stance in 1938 when Decree Law 395 went into effect. It excluded foreign participation in Brazil's oil industry except for the distribution phase, which was already capitalized and foreign-owned. One of the main proponents of this scheme was General Horta Barbosa, head of the National Petroleum Council (CNP) from 1934 to 1943. During his tenure every effort at allowing foreign interests into Brazilian petroleum was blocked. While unquestionably nationalistic, Decree

²Vital Speeches, XII (October 1, 1946), pp. 756-757.
Law 395 was more than a triumph of nationalism over economic liberalism. It was really a statement on the nature and degree of state regulation and control. Brazilian leaders recognized that the inclusion of foreign capital was the fastest and most efficient path to petroleum exploration and development, but those authorities strongly believed that allowing foreign capital in would diminish Brazilian sovereignty. There was also the fear that foreign companies would gather the profits at the expense of the Brazilian public.  

The Brazilian petroleum industry became aware of its importance during World War II. With virtually no national production the country was almost wholly dependent upon imports. Wartime shipping cut supplies to a bare minimum. Gasoline for private use was practically unobtainable. Supplies of all petroleum products were far below Brazil's requirements for a smooth-running economy. In 1943, the pro-American Colonel João Carlos Barreto replaced Horta Barbosa as head of the CNP. In the era of wartime collaboration it had become fashionable to question the excessively nationalistic oil laws and Barreto agreed to make some policy revisions. Looking at the lack of progress under Horta and the enormity of the task before him, Barreto came to the conclusion that a state monopoly was not justified. The oil companies had been arguing for years that the job

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3An account of the Brazilian oil policy under Horta Barbosa can be found in Wirth, The Politics of Brazilian Development, pp. 133-159.
was too big for the government or any one company to explore and
develop. In 1945 Brazilian petroleum production was twenty-five
barrels a day and proved reserves totaled less than one-year's con-
sumption. Even under the severely restricted import regulations in
effect during the war petroleum imports annually cost the country
$27 million in foreign exchange. It did not take much foresight to
see that foreign exchange requirements for this product would in-
crease tremendously when the world's petroleum trade returned to
the free market after the war. Facts bore this out as the cost of
petroleum imports rose to $29 million in 1945, $44 million in 1946,
and $79 million in 1947. 4

More important than the financial cost of importing oil,
Brazilian economic leaders recognized that the country needed to
develop the petroleum industry in order to sustain the rapid economic
development that had been taking place. This growth was expected to
continue at an accelerated pace in the postwar period, especially with
the planned increases in motor and air transportation that would
consume huge amounts of petroleum fuels. Brazilian fuel sources
were still in the pre-industrial stage of development as indicated by
Table VI-1.

4Ibid., pp. 161, 136; Inter-American, III (May 1944), p. 43;
Department of State, Report of the Joint Brazil-United States Technical
Commission, p. 113.
TABLE VI-1

COMPARISON OF ENERGY SOURCES
IN BRAZIL AND THE U.S.

<table>
<thead>
<tr>
<th>Fuel</th>
<th>BRAZIL</th>
<th>UNITED STATES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1946</td>
<td>1940</td>
</tr>
<tr>
<td>Coal</td>
<td>7.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Petroleum</td>
<td>6.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Hydroelectric</td>
<td>1.6</td>
<td>1.3</td>
</tr>
</tbody>
</table>
| Wood and charcoal | 84.9    | 84.0          | 1.8
|                   | 100.0   | 100.0         | 100.0

Source: Department of State, Report of the Joint Brazil-United States Technical Commission, p. 112.

Early in 1945 Barreto privately planned to lift restrictions on foreign investment in oil, stipulating only that Brazilian capital should have first preference in any future development plans. This would have opened development to foreign capital after the necessary statutory changes had been made. Word of Barreto's plans leaked and the availability of foreign exchange in 1945 encouraged domestic private interests to enter the field in order to stake out the best locations for refineries before the foreigners could move in with their huge amounts of available capital. The anticipation of high profits that would come with the expected heavy demand in fuel was also a motivating factor for the increased interest on the part of the Brazilian capitalists.

American oil interests were well attuned to what was being
contemplated in Brazil. Except for three minor Brazilian-owned refineries in the country, Brazilian refining and distribution were controlled by four companies, Shell-Mex, Standard, Atlantic and Texas. Barreto's plans called for the organization of two 10,000-barrel refineries in his country that would be Brazilian-owned and supplied by Gulf Oil. The four foreign firms opposed exclusive Brazilian ownership of the two refineries. Representatives of the firms went to the State Department in order to enlist its support in preventing the Brazilian plans for building national refineries in that country. The oil companies were afraid that they would be restricted to supplying crude oil to Brazilian refineries and to the marketing of the product. With time, they expected to be squeezed out of the marketing business altogether. Ambassador Berle was instructed to press for the elimination of restrictions against foreign interests in refining. The State Department feared that nationalistic legislation on Brazil's part would lead to the restriction of foreign capital and enterprise for Brazilian development. Since Brazil had much to gain from foreign capital, said Washington, the Brazilian government should be made aware of the effect that nationalistic oil restrictions would have on the country's ability to attract foreign capital. The Department also told Berle that he might make a veiled threat about his government's examining more closely its policy in regards to loans for Brazil.  

Berle disagreed with the Department's position regarding Brazilian refineries. To him it was a question of supporting the type of "international cartel monopoly" that Washington ostensibly opposed. He saw nothing wrong with Brazil breaking the "airtight monopoly" that the four companies had on refining and marketing in that country. Brazil was merely bringing in Gulf Oil which had agreed to supply the Brazilian refineries. To Berle, if there were to be any hope of gaining entrance into Brazilian oil by foreign companies, giving State Department support to an existing monopoly was not the way to approach the problem. He warned the Department that it was not getting the full story from the oil spokesmen in Washington.

In the face of Berle's strong opposition, the oil companies took a new position. They said they did not oppose the development of Brazilian refining but only asked that American capital be permitted to have at least a minority interest in such refineries.  

Another problem turned up when the CNP, in the final days of the Vargas administration, worked out a "snap" procedure by which certain Brazilian companies were given thirty days to bid for the privilege of operating Brazilian refineries. After this they would have virtual monopolies, preventing foreigners from entering the refining business. The law was rigged so that only two Brazilian concerns would be able to bid effectively within the thirty-day time limit.  

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Berle wanted to ignore the situation. The proposed refinery contracts would still leave plenty of refining business for other companies. He was particularly opposed to using the threat of withdrawal of American economic cooperation if the desires of the American oil companies were not met. There was little the Americans could do to stop the development of a Brazilian refining business. The introduction of Brazilian refineries would, according to Berle, bring down the cost of petroleum products. One reason for the high prices, he said, was the "unduly high profits" that the oil companies received. The Department differed with Berle's assessment of the situation. Its main concern was for the "open-door principle" and Brazilian law was designed to exclude American nationals from ownership or even minority participation in Brazilian refining. The Department said that this policy "retarded" the development of the refining industry in Brazil. On the question of high prices for oil products in Brazil, Washington noted that mandatory minimum prices were set by the CNP in order to protect the three small Brazilian refineries. The Department feared that severely restrictive regulations in Brazil would be emulated in other Latin American countries and thereby threaten American oil interests in those countries. 8

Berle was ordered by the Department to admonish the Brazilian government to "postpone definitive action" in connection with the

8 Berle to Byrnes, November 17, 1945; Berle to Byrnes, November 17, 1945; Byrnes to Berle, November 19, 1945, FR-1945, XI, pp. 527-529.
granting of the refining concessions so that the situation could remain fluid until the new government was elected. Berle strongly opposed this action but said that he would obey the Department's directive. His intercession delayed the awarding of the refining contracts. At the same time the CNP indicated its desire to recommend to the new government an amendment to existing laws that would allow foreign capital to take part in refining and exploration activities. The Department expressed the hope that there would be no fixed percentages on the limits of participation, minority or otherwise. It feared that acceptance of such a principle would "inevitably encourage" other Latin American countries to introduce restrictive policies. 9

Washington wanted to place on record with Itamaratí the United States' desire that action not be taken on the granting of refinery concessions until new laws that were satisfactory to the Americans were passed by the Brazilian government. Berle continued to oppose this move. He believed that any American attempt to delay the granting of the refinery concessions would cause the Brazilian government to consider the refining industry in the public interest and and close all private capital movement into the field. This would

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9Petroleum Division, Memorandum, November 23, 1945; Byrnes to Berle, November 30, 1945, FR-1946, SI, pp. 533-535. Wirth makes it appear in his work that Berle's intercession was done in support of the inclusion of American oil interests in the Brazilian refineries while the Foreign Relations Papers do not bear this out. See Wirth, The Politics of Brazilian Development, p. 162.
destroy the initiatives that the CNP had then been making toward liberalization of the laws regarding foreign capital in the oil industry. Berle was so opposed to making the representation, which he considered a "very grave mistake," that, he said, he could not make it with the "sincerity which alone might make it successful." He said the Department could make it through Ambassador Martins in Wash-ington.

Berle flew to Washington in December 1945 and met with Department officials on this matter. There he explained the historical background to Brazil's oil policy and why he was of the opinion that any attempt by Washington to postpone the granting of refinery permits would only give ammunition to those who already accused the United States of meddling in Brazil's private affairs. A delay would also serve to support the alleged monopolistic aspirations of existing foreign oil interests in Brazil. An official of the Office of Petroleum Adviser of the State Department said that liberalization of Brazilian laws could be more rapidly effected if the changes preceded the granting of the refinery concessions rather than if they followed these grants. Still, he said he would bow to Berle's view that the granting of concessions should take place without official comment from Washington and steps be taken thereafter to urge the desired liberalization.  


With the election of the new government in December a Constituent Assembly was chosen to write a new constitution for Brazil. The Assembly met during 1946 and approved the new constitution in September of that year. Within this constitution would come the stipulations regarding the participation of foreign capital in Brazilian enterprises. In May 1946 Samuel de Souza-Lemão Gracie, Secretary General of the Brazilian Foreign Office, met with American Embassy officials in order to ascertain the official view of the State Department regarding the possibility of revising Brazilian legislative and constitutional provisions to permit participation of foreign capital in the petroleum industry, both in refining and production. The Embassy wished to avoid the political embarrassment of seeming to intervene in a Brazilian domestic matter by telling the Brazilian government what it wanted. Gracie suggested that he be given, personally and confidentially, a memorandum setting forth the Department's views on the subject. A memorandum was subsequently delivered to him that explained that self-sufficiency in petroleum was a desired goal for Brazil and that it could best be achieved with the aid of foreign capital that would become available with a liberalization of the nation's petroleum laws. Dutra expressed satisfaction with the memorandum and told Embassy officials that he expected no unsurmountable difficulty in obtaining the desired revisions that would permit foreign capital to participate in Brazil's petroleum industry.  

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12 Daniels to Byrnes, May 7, 1946; Acheson to Daniels, May 10, 1946; Daniels to Byrnes, May 14, 1946, FR-1946, XI, pp. 543-545.
Following this statement Dutra named Minister Rubens de Mello of the Foreign Office to a committee to study those sections of the new draft constitution having to do with the question of foreign capital investment in Brazil. De Mello went to the Embassy and said the policy of the Foreign Office was to encourage the entry of foreign capital into Brazil and he asked for a "personal" letter giving the Embassy's frank views on the constitutional clauses that were then under consideration on this matter. The Department granted Chargé Paul Daniels permission to give de Mello such a letter. This letter, following the policy outlined in the previous one given to Gracie, gave specific recommendations on the pertinent articles of the proposed constitution. 13

The Constituent Assembly chose to avoid the issue in the Constitution of 1946 by not specifically granting or excluding permission for the entrance of foreign capital in the petroleum industry. The issue was left to a later date when the federal government would enact a petroleum law. American oil interests interpreted Article 153 of the Constitution to mean that foreigners could participate in Brazilian mining and production from the subsoil if the corporation had been organized under Brazilian law. The oil companies were fairly well satisfied, according to the Rio Embassy, because they saw the door open to the enactment of a petroleum law that would allow them to take

part in the petroleum industry. Now Washington's hopes, and more specifically those of the oil industry, rested on the enactment of favorable legislation—which the State Department pressed the Brazilian government to enact. 14

The Embassy kept a close watch on the situation. Late in 1946 Barreto told Ambassador Pawley that he wanted to draft a law that would be acceptable to the American petroleum industry and he proposed that the Brazilians enter into discussions with either the American government or the oil companies in order to obtain a prompt and satisfactory solution. He preferred that the Dutra administration discuss the details of the proposed legislation with the State Department rather than the interested oil companies because Rio would find it easier and less embarrassing. Discussions were held in both Rio and Washington between American officials and representatives of the oil companies. The decision was made to suggest that the Brazilians employ a person or firm experienced in oil legislation to act as an adviser to the committee drafting the oil law. The Embassy did not want to be put in the position of having to run the gauntlet of anti-American sentiment that would charge it with interference in Brazil's domestic affairs. The Embassy was instructed to refrain from making official contacts as the course of the legislation progressed through

its formulation. 15

A petroleum plan was ready in March 1947. Under this plan the Brazilian government was to provide land rights while the industry provided the capital and technical knowledge. The companies would take the first 6 percent return that was to apply as interest on their investment while the second 6 percent would go to the Brazilian government. Any profits above 12 percent would be split between the government and the companies. Learning of this plan through informal sources, Pawley indicated that he did not think that the oil executives would accept it. He told the Foreign Minister that Brazil should look at the laws of other countries, such as Colombia and Venezuela, and then offer something slightly better in order to induce foreign investors to go into Brazilian petroleum. To Pawley, influential officials in Brazil were still trying to keep foreign oil interests out of their country. The Brazilian government rejected this new plan and a new petroleum committee was appointed by President Dutra to write a petroleum law. 16

The proposed law, drafted by the committee that Dutra set up, was available in June 1947. The American oil firm of Hoover and Curtice, advisers to the committee, examined the law and found many


undesirable provisions that were the result of the committee's ignorance of the petroleum industry. Hoover and Curtice suggested a number of changes. A CNP draft law was turned over to Hoover and Curtice in July. The advisers found this draft to be "completely hopeless." After analyzing the draft for one month the firm submitted a 100-page memorandum that contained many suggested changes. Arthur Curtice talked with State Department officials and suggested that nationalistic Army leaders would have to be convinced if satisfactory oil legislation were to be forthcoming. He suggested that someone at a high level such as Secretary Marshall or Secretary Forrestal step in because, said Curtice, Pawley could not do the job. 17

Late in 1947 Washington found a new means of putting pressure on the Brazilians for enactment of a petroleum law favorable to American interests. In that year the worldwide demand for petroleum products outstripped the availability of transport. In Brazil the demand for oil jumped 40 percent from 1946 to 1947 and was expected to increase another 48 to 60 percent in 1948. Rio requested an American guarantee to meet its minimum requirements for the first six months of 1948. Marshall told Itamaraty that supplies were short in the United States and that Washington could not offer the guarantee that Brazil desired. When the State Department suggested using the

Brazilian request as leverage in getting concessions from the Dutra government on its petroleum law the Rio Embassy opposed this move because "certain elements of the general staff and influential Brazilians" would recognize the supply difficulties as a form of pressure being exerted by foreign producers to induce the Brazilian government to enact a law favorable to their interests. 18

When adverse weather conditions in the United States during the winter of 1947-1948 depleted stocks of fuel oil Washington decided to reduce export allocations for petroleum. The Rio Embassy opposed any cut in the quota for Brazil because of the adverse reaction that that move would have had on the petroleum legislation that Brazil should follow. The State Department sent the Embassy a memorandum that intended to allay some of the "misapprehensions" that the Brazilian military had about the supply situation. In no uncertain terms it said that free enterprise was the best way to develop an oil industry and that it should be without nationalistic restrictions. The Embassy was told, at its own discretion, to bring the memorandum to the attention of those Brazilians, both official and unofficial, with whom it was friendly. 19


A draft petroleum law was ready in December 1947 but it was not until February 1948 that the Embassy was able to see a copy of the proposal. As it was written, the terms would not have made it attractive for foreign companies to take part in the Brazilian petroleum industry. The Embassy reported that certain amendments were expected to be added that would tend to make the law more liberal. Remarks made by Barreto in a São Paulo speech indicated that a liberal law would finally emerge. He emphasized the necessity of "working with the North Americans" in the development of Brazilian oil. Copies of a memorandum prepared by the Rio Embassy, with detailed suggestions for improving the proposed petroleum law, were handed to President Dutra and the Foreign Office. The main obstacle as far as Washington was concerned was the requirement that 60 percent of refineries and pipelines be owned by Brazilians. An American oil industry publication held out a strong hope that changes in the law would make the legislation more favorable later in the year.20

The introduction of the draft law into the Brazilian Congress provoked some immediate dissent. Eighty-year-old Artur Bernardes, former President of Brazil (1922-1926) and member of the Chamber of Deputies, spoke out against the law because, in his opinion, it did

not adequately protect the national interest. He believed that the
country's oil resources should be developed only by Brazilians. In
São Paulo, opposition to the law arose from the students of the Uni-
versity of São Paulo. General Horta Barbosa, then in retirement,
publicly opposed the measure. The Communists and other leftist and
nationalist groups lost little time in joining the growing chorus against
interests in Brazilian oil. "O petróleo é nosso" ("The oil is ours")
became their rallying cry. "Petroleum Week" was organized from
April 14-21 and was marked by large public rallies and street
demonstrations that were broken up by the police. More rational
elements within Brazil attempted to cool the discussion and by mid-
April press treatment and editorial comment became more favorable
after President Dutra had requested that editors handle the subject
more discreetly.21

Discussions held between the Petroleum Division of the State
Department and representatives of Standard Oil of New Jersey came
to the conclusion that the law, as it was proposed, would be "unwork-
able." Standard Oil decided to adopt a "wait-and-see" attitude until
the Brazilians had taken a "realistic" view. The more "realistic"
attitude hoped for by the oil companies did not materialize. Opposition

21Key to Marshall, April 9, 1948, 832.6363/4-948; Cross to
Marshall, April 15, 1948, 832.6363/4-1548; Cross to Marshall,
April 20, 1948, 832.6363/4-2048; Key to Marshall, April 26, 1948;
832.6363/4-2648; Key to Marshall, April 26, 1948, 832.6363/4-2648,
DS.
to foreign participation in Brazilian oil continued to grow. In June
the Centro Paulista de Estudos e Defesa do Petróleo (CPEDP) was
inaugurated. Its purpose was to defend Brazilian oil from foreign
encroachments. June was declared "Petroleum Month" during which
the activities of the CPEDP were expanded. Government action to
break up the antipetroleum law meeting diminished during the month.
President Dutra granted a concession to construct a petroleum pipe-
line to the Santos-Jundiaí Railroad. This move was interpreted as an
undercutting of the prestige and power of the CNP, and General
Barreto personally, because of the CNP had recommended another
concession. By August, the Petroleum Division knew that there was
"very little chance" of enactment of a petroleum law that would be
acceptable to foreign capital. It saw as the only solution, a negotiated
trade in which the United States would promise economic aid to Brazil
with an acceptable petroleum law as a quid pro quo. It was hoped that
the economic mission headed by John Abbink would be able to arrange
the basis for such a trade.22

As nationalist pressure built up on Brazilian congressmen
President Dutra attempted to take the wind out of the sails of the

22Division of Brazilian Affairs, Memorandum, May 7, 1948,
832.6363/5-748; U.S. Consulate (São Paulo) to Marshall, June 17,
1948, 832.6363/6-1748; U.S. Embassy (Rio) to State Department,
June 28, 1948, 832.6363/6-2848; Key to Marshall, June 29, 1948,
832.6363/6-2948, DS; Petroleum Division to Chief of Petroleum
nationalist campaign when he announced plans for the purchase of refineries from France, Czechoslovakia and the United States and the expansion of the CNP refinery in Bahia that was then under construction. A number of tankers were also to be purchased while six others were to be constructed in national shipyards. Most of the Rio press hailed the move as a "practical way" to answer the ultranationalist propaganda on the oil question. General Juarez Távora, a member of the committee that drafted the petroleum legislation, declared that the Dutra move was not inconsistent with the statute because it did provide for majority ownership of Brazilian refineries. The Petroleum Division saw the Brazilian military as the key to enactment of suitable legislation "since the armed forces represent the real power behind the Dutra Administration," and it suggested that the controversy be "thrashed out" between the representatives of the American and Brazilian armed forces, possibly through the JBUSMC.\textsuperscript{23}

Dutra's compromise solution was attacked from both sides. The nationalists would settle for nothing less than complete nationalization while critics on the right said the plan was only a partial solution. For instance, it did not provide for exploration. By 1950

\textsuperscript{23}Division of Brazilian Affairs (Midkiff), Memorandum, October 7, 1948, FR-1948, IX, p. 365; Division of Brazilian Affairs to Daniels, October 15, 1948, 832.00.10-1548, DS; Correio da Manhã, October 1, 1948; O Jornal, October 2, 1948; Jornal do Commercio, October 3, 1948; Petroleum Attaché in Lima to State Department, December 1, 1948, 832.6363/12-148; O'Toole, Memorandum, November 4, 1948, 832.6363/11-448, DS.
Brazil's proven reserves amounted to less than a two-year supply at the then current rate of consumption.\(^{24}\)

Discussion within the State Department in early 1949 revolved around the degree to which it should press for a petroleum law that would be acceptable to foreign oil interests. One position paper recommended that the Department continue to press the Brazilian government on the passage of the legislation and to cite the economic benefits that would accrue to that country if it allowed foreign capital to take part in an accelerated petroleum development scheme. It was decided to limit the American approach to following the established policy of not making government loans or investments in areas where sufficient private capital was available. Since this was true of the petroleum industry, no government loans would be forthcoming from the United States for this purpose. This was the attitude the Department planned to take if the subject of petroleum were brought up during Dutra's visit to Washington in May 1949.\(^{25}\)

Throughout the Dutra period the United States-based international oil companies worked tirelessly to promote the development of foreign oil sources by private enterprise. One initiative used by


\(^{25}\)O'Toole to Midkiff, April 14, 1949, 832.6363/4-1549; Midkiff to Petroleum Division, April 15, 1949, 832.6363/4-1549, DS; Acting Secretary of State (Webb) to Truman, May 18, 1949, FR-1948, II, p. 573.
the industry was to work through the American government. In the quest for its hemispheric objectives the oil companies had the support of the State Department and the American military leaders who backed the development of the hemisphere's petroleum on strategic grounds. 26

A second approach followed by the international oil companies was to report repeatedly on Brazil's inability to produce adequate petroleum supplies. The industry's trade journals constantly talked of the meager efforts that the CNP had undertaken to discover and develop the nation's oil. The lack of capital and technical expertise within the country were seen as elements of retardation. The willingness of foreign capital to go in and develop Brazil's oil was a recurrent theme. 27 The high cost of oil exploration—an estimated $300 million to explore Brazil's oil resources—was an item continually stressed. In January 1951 the American Petroleum Institute proudly announced that oil and gas companies spent more for capital investment worldwide in 1950 than any three South American countries combined had spent in their total budgets. 28

26 Lovett to Diplomatic Representatives in the American Republics, April 14, 1948; Lovett to Diplomatic Representatives in Certain American Republics, October 13, 1945, FR-1948, IX, pp. 244-248, 250-255.


frequently listed statistics that showed Brazil's annual oil production from 1946-1949 as having been equal to 0.004 percent of the nation's consumption. In 1950 Brazilian imports of petroleum products cost the country $125 million in foreign exchange. In a speech before the American Chamber of Commerce of Rio de Janeiro John R. Suman, Vice President and Director of the Standard Oil Company of New Jersey, said that gasoline cost thirty-seven cents in Brazil in 1950; a figure double that of any other South American oil producing country.

Another method of promoting the entrance of private capital into Latin American petroleum was to extol the benefits that had accrued to those hemispheric countries that had allowed free enterprise to participate in their oil development. Editorials under titles like "Canada's Example" and "Venezuela's Progress" played on this theme. Even the lack of success in finding economically productive sources in Ecuador after twenty-nine years of activity did not dismay the oil companies, said Petroleo Interamericano, because the nation had a "liberal and workable petroleum law" that was based on principles of equity and sound business practice. A series of pro-foreign investment articles in Brazilian Business, the house organ of the American Chamber of Commerce in Brazil, detailed the benefits that foreign investment brought to American railroads and industry.

in the nineteenth century, along with the Venezuelan and Canadian oil stories. 30

The last approach was a combination of strategic considerations and an appeal to hemispheric patriotism. The rapid development of the easily accessible Middle Eastern reserves led to a shift in oil development capital to that part of the world. In 1948 the Western Hemisphere began to import oil from that militarily vulnerable source. Appeals went out from the State Department, the American military and the oil companies to Latin America to promote renewed efforts to develop the undiscovered petroleum within the hemisphere and make the area self-sufficient in case of war. Prior to the Bogotá Conference, the State Department warned Latin America that American supplies were becoming short and that area could no longer look with assurance to the United States for petroleum supplies. In speaking specifically on the pending petroleum legislation in Brazil one industry journal said that the flow of oil capital to the Middle East would make more remote the possibility of large capital ventures in Brazil. An industry editorial lamented the possibility of the Western Hemisphere's losing its dominance in international oil along with the economic and social benefits that petroleum revenues produced. Another explained how the Latin American nations failed to grasp a

30 Petroleo Interamericano, VII (Agosto 1949), p. 33; VII (Febrero 1950), p. 23; (Noviembre 1950), p. 21; Brazilian Business, XXX (May 1950); (June 1950); (August 1950; (September 1950; (October 1950).
"golden opportunity to build economic and industrial strength" during the last war. While the Korean War was raging, noted *Petroleo Interamericano*, those countries had a new opportunity to attract the foreign oil capital that they needed.  

In effect, after years of wrangling between Rio, Washington, and the oil companies, nothing was done. Nationalist pressure in Brazil prevented the achievement of a petroleum policy that could have provided rapid development of Brazil's petroleum industry. While Dutra and the Foreign Office wanted to include foreign capital in this development they were not willing to go far enough to satisfy the foreign oil companies. They offered some minority participation to the foreign companies, but in so doing angered the nationalists. While the State Department continually expressed its desire to see the industry develop rapidly in Brazil for economic and strategic reasons, the foreign oil companies, in the end, were restricted to a passive role in the years of discussion.

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CONCLUSION

Looking back over the half decade of the Dutra presidency one cannot help but notice that certain themes persisted. First among these was the fact that American rhetoric as to the importance Washington placed in its relations with Rio was not matched by the Truman administration's action. The hope that Brazil held in 1945 for an economic boom with the aid of American loans and capital investment were slowly extinguished during the Dutra tenure. The importance that Brazil attached to its critical problems associated with Brazil's economic development did not elicit the expected degree of concern in Washington. Even in the seemingly simple task of providing the people of Brazil with adequate amounts of wheat from American surplus stocks, Rio authorities perceived that their interests were generally overlooked. With increasing frequency, Brazilian officials expressed their frustrations to responsible Americans during the latter years of the Dutra presidency. By 1950 the Brazilians had a long list of grievances, both real and imagined, against Washington. The major complaint was the relative lack of attention accorded Brazilian problems by the United States when compared to the lavish expenditure of effort and money on European and Asian affairs. Out of $33.6 billion in American credits and grants to foreign
nations between July 1, 1945 and December 31, 1949, ERP countries received seventy percent of the amount. Latin America's share was less than 1.4 percent with Brazil receiving less than .3 percent of the total allocated to the world. The Rio government perceived that promises made to them had not been fulfilled and that the nation's sacrifices during the war were not receiving the recognition on Washington's part that they deserved. Rio's perception of a special relationship was sacrificed to America's concern for other world problems and its desire to treat Latin America on a multilateral basis.  

A second persistent theme can be seen in Brazil's concern over its rivalry with Argentina. By 1945 the Rio government had gained a military edge over its neighbor to the south. The joint military discussions conducted in the spring of that year left implied promises for the transfer of large amounts of arms and equipment. With these the Brazilian armed forces could maintain the real advantage that they had over Argentine forces. When American military plans ran into the objections of the State Department an interim program was worked out that delivered only small amounts of the requested military matériel. The Truman arms bill again raised Brazilian hopes for the increased military aid that would prevent an arms race on the continent that only Perón, with his nation's financial

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resources, could win. Congress' decision to kill the arms bill proved to be a disappointment for the Dutra administration. By 1950 the Argentines had erased a considerable amount of the military lead held by Brazil five years earlier, along with an equivalent degree of Rio's sense of security.

Another theme is evidenced in the running discussion in Brazil during the 1940s over petroleum development. Here the need for expansion through foreign investment clashed with nationalist desires. This theme of nationalism versus foreign investment was to persist until 1964 when the military government put the country on the road to rapid development with a heavy emphasis on the role to be played by foreign loans and industrial investments.

Late in the Dutra presidency Brazil's disillusionment with the economic relations between the two countries became highly visible. One Brazilian economist noted that his country's economic problems had been "realistically recognized" during the war when Brazil geared itself up for America's wartime needs and "unrealistically ignored" after the war. Brazil, he said, had to reconver its economy to peacetime production largely alone. Early in 1950 he stated that the economic relations between the two nations were at a "crossroads." The President of the Brazilian National Confederation of Industry, Euvaldo Lodi, came to the same conclusion when he declared that the Marshall Plan was an attempt to reestablish the economic structure of the prewar world without taking into account the
wartime changes experienced in the countries that produced and exported raw materials. Lodi also saw his country and the United States at a "crossroads" and he said that Brazilian economists were mistaken in believing that liberal treatment of foreign capital would attract new investments from abroad. The complaints of Brazilian economic leaders were also echoed by Foreign Minister Fernandes in his talks with American diplomats.

Among many other complaints, the slap in the face administered by the Gillette Committee proved to be the most insulting. By June 1950 Foreign Minister Raul Fernandes had wavered in his public affirmation that cooperation with the United States was Brazil's best foreign policy course. In a speech delivered before a group of North Americans at an Itamarati luncheon, Fernandes alluded to his nation's conscious and resolute faith in friendship with the United States while he publicly questioned the value of that friendship in light of the burden that Brazil had had to face in recent years. The Foreign Minister's speech was a far cry from the unqualified avowals of friendship that were heard in official circles at the beginning of the Dutra presidency.

Only in the area of Brazil's global political prestige did reality approach Rio's version of its increased importance in the world.


Washington lent all its efforts to see that Brazil gained an important position in world councils. While unable to obtain a permanent seat on the Security Council of the United Nations Brazil did obtain one of the first temporary seats in that body in 1945 and another in 1950. With American support the Rio government held other positions of responsibility in the United Nations and took an active role in the Foreign Minister's conferences dealing with the Italian peace treaty, war reparations, and the settlement of other postwar problems. A policy statement on Brazil drawn up in the State Department late in 1950 read in part:

It is a policy of the United States to encourage and support all appropriate Brazilian efforts to improve that country's international position and prestige in the United Nations, ... and to maintain Brazil as the keystone of our over-all Latin American policy. 4

Looking at the other side of the coin, one can see that Washington was not totally at fault for any deterioration in relations with Brazil during this period. Much of the problem can be traced to the different visions that the two nations had of the postwar world. Brazil's desire to protect infant industries and some of the economic gains that it had achieved during the war ran up against America's wish for a more open world economic system that would permit a freer flow of goods and services between nations. This, coupled with the United States policy of putting its inter-American relations on a

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multilateral basis, helped to sour Brazilian policy-makers on the value of friendship with the American government based on an increasingly unrealistic "special relationship" idea. The basic problem was the seeming incompatibility of America's national interest conditioned by trade considerations as opposed to the economic development that Rio viewed as crucial to its national interest.

One can made an indictment of Washington's general lack of knowledge and concern for Latin America among top policy-makers during these years. Within the State Department itself there were no important figures to champion the causes that meant so much to the Latin nations. Gone were the days when there was a Sumner Welles or Nelson Rockefeller to lend stature to policy initiatives intended to benefit the hemisphere. President Truman and his three Secretaries of State, Byrnes, Marshall and Acheson, had little concern for the area. One can search the memoirs of these top policy-makers for their views on Latin America during their tenures and find little or nothing on the subject. President Truman's two-volume memoirs reveal nothing about his one-week trip to Rio de Janeiro in 1947. One chronicler of Acheson's term as Secretary of State said, "Acheson contributed nothing memorable to the history of U. S.-Latin American relations." In his own Present At the Creation, Acheson dismissed his one major speech on Latin America as 'ritualistic.' At best, the speech was paternalistic and condescending.  

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With the constantly changing figures at the various inter-American positions the Department certainly must have found it difficult to sustain interest in the affairs of the American republics. The post of Assistant Secretary of State for American Republic Affairs was held by four different men from 1945 to 1949. The Brazilian desk was also headed by four different men in the same period. After his seven-year (1937-1944) tenure as Ambassador to Brazil, career-diplomat Jefferson Caffery was replaced by two successive non-career men who each served in the Embassy for two years or less. Personnel at the lower levels of the State Department and Rio Embassy were also frequently moved from one position to another. This atmosphere of constant change gave the Latin American diplomats little cause to assume that they had friends in high places in Washington.

Personality differences within Washington's policy-making apparatus certainly worked against Latin American policy. The hemisphere's four leading champions, Sumner Wells, Nelson Rockefeller, Henry Wallace and Spruille Braden all left office after personal or ideological differences with their superiors. The frequent changes in policy toward Argentina left its toll of able men who were removed from office following the changes. These policy shifts did little to mollify Brazilian concerns over their true relationship with Washington vis-à-vis Argentina.

It must be noted that Truman had no experience with foreign
affairs before 1945 and that he assumed the presidency at a time when the United States was assuming the burdens of the world. His administration was faced with one foreign crisis after another from Poland to Korea. The efforts of the Truman government had to be focused upon the immediacy of the emergency at hand. Under these circumstances, little attention was paid to suggestions and policy initiatives that came up from the Brazilian desk.

Washington paid a price for its neglect of hemispheric affairs. When war broke out in Korea in June 1950 President Truman issued a call to the non-Communist world to aid the United Nations in resisting North Korea's aggression on that Asian peninsula. Only one Latin American country, Colombia, answered the American call to arms. When Acheson called for a meeting of the American republics' foreign ministers in March 1951 he was barely able to get meager results from his request of support for military cooperation in Korea. In speaking of the meeting Acheson said, "Little if anything concrete happened as a result of it."6

The fact that wartime Washington had fostered the idea of a special relationship with the hemispheric nations cannot be denied. Unfortunately, this idea encouraged demands for special treatment that the United States was not prepared to grant after the war. For a

balanced view on the question of whether the Americans had neglected Latin America after the war one must put himself in Washington's position during the first half decade after that conflict. The Truman administration found itself as the strongest bastion against economic depression and Communist expansion. The most economically depressed and ideologically and politically threatened parts of the world were in Europe and Asia. Compared to those two areas, Latin America was relatively secure for the time being. President Truman and his advisers were forced to attend to the most serious problems before those of secondary importance to American interests could be considered. Without Europe and Asia, the Western Hemisphere, in the long-run, would have been put in second place in relation to the strength of the Communist world. It was this long-run interest that caused Washington to turn its major attention away from the hemisphere after the war. The Dutra government recognized the urgency of the need to contain Communism in Europe and Asia while continuing to request a greater share of American aid. The Brazilians were of the opinion that their sacrifices in the war made them as deserving as Germany, Italy and Japan.

The spoken and implied promises made by wartime Washington were assumed when one set of conditions prevailed. American policy-makers could not foresee the breakdown of the wartime alliance against fascism. They also could not foresee the economic devastation following Germany's surrender. After May 1945 the Americans
were forced to take on added burdens as Great Britain gradually withdrew from its former spheres of influence. The perception by the United States that its southern flank was relatively secure in the 1940s placed that part of the world very low on the priority list for action.

The international situation that was present in the postwar years caused a deep sense of disappointment and frustration among the Brazilians. After patiently building up an "alliance" and sense of partnership with the Iinquís in the first half of the decade, they found themselves receiving few relative benefits during the second half. A quote from a biography of Nelson Rockefeller serves to point up Brazil's attitude toward the American partnership in the postwar period:

One day a Brazilian journalist, Alfonso Schmidt, came to see him at his office at 30 Rockefeller Plaza in New York, and talked about what had happened to Brazil during the war. The Brazilians, he said had had a tremendous rise of confidence and hope as a result of their close association with the United States. They felt they had arrived on the world scene. They looked to the future with enthusiasm. Then, the war ended and they found that the interest of the United States was also ending. Their confidence was shaken. They were uncertain about the future. As Schmidt talked, Rockefeller noticed that tears were sliding down his cheeks. He was talking about what he regarded as a disaster for his country.7

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