

DIARY

Book 208

Brazilian Negotiations - Part II

February 16 - August 28, 1939

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 16, 1939

TO Secretary Morgenthau
FROM Mr. White

Meeting February 16, 1939, 10 o'clock A.M., Treasury.
Present: Mr. Dantas and Mr. Penteado of Brazil, Mr. Knoke,
Mr. Harrison, Mr. Williams, Federal Reserve Bank of New
York, Mr. Collado, State Department, Mr. White and
Mr. Schmidt.

The discussion opened with a statement by Mr. Harrison giving his views that this year was probably not an opportune time for the Government of Brazil to attempt to establish a central bank. He stated he thought the general idea of a central bank was a highly desirable one but in his opinion it might be preferable to wait until Brazil's exchange situation had been cleared up and until they had had a year's experience with a balanced budget. It would be better, he believed, to launch the bank when the situation was improving rather than at this time when the future is uncertain.

Mr. Williams expressed his concurrence with this view, but added that his view related to the general idea of a central bank and not to any of the specific provisions, inasmuch as we had not examined any of the details of the proposed law.

Mr. Dantas smilingly reminded us of Dr. Aranha's statement, and that he, Mr. Dantas, as an official of the Bank of Brazil, could hardly be objective in his views on the central bank. Nevertheless he felt constrained to say that his own views with respect to the desirability of creating a central bank at this time were quite in accord with the view expressed by Mr. Harrison and Mr. Williams.

Mr. Dantas then went on to explain in some detail Brazil's need for an equalization fund and stated that the Brazilian Government had hoped to be able to get a loan from the United States of \$50 million to be used as a stabilization fund. It

had been their thought that such a loan might well be tied up with the creation of a central bank but he personally felt that the question of the \$50 million stabilization fund loan might well be raised independently of the issue of the central bank.

I did not comment on the wisdom of creating a central bank at this time. To make certain that Mr. Dantas correctly understood the views expressed by Mr. Harrison and Mr. Williams and the views of the Treasury and could correctly convey those views to Dr. Aranha I made the following three points as a summation:

1. I stated that the question of a \$50 million loan by the United States Government to Brazil for the purpose of creating a stabilization fund was a new proposal which had not to my knowledge been presented to the Secretary of the Treasury by Dr. Aranha and that consequently we could not discuss the proposal at that conference.

2. That the expression of views with regard to the desirability of postponing establishment of the central bank as expressed by Mr. Harrison and Mr. Williams presupposed that all the necessary functions of a central bank except those possibly of restricting the issue of paper currency, could be successfully performed by the present Bank of Brazil. I stated that Dr. Aranha had indicated in his conference with the Secretary that the present Bank of Brazil could not operate efficiently but that Mr. Harrison and Mr. Williams agreed that they were not sufficiently familiar with the current banking and economic situation in Brazil to properly evaluate the importance of the obstacles to a proper functioning of the bank mentioned by Dr. Aranha.

3. Mr. Harrison's and Mr. Williams' statement that the creation of a central bank for Brazil was sound and desirable referred to the general proposal and not to any of the aspects of the proposal submitted. There had been no discussion of numerous important aspects of the proposed draft and that therefore no commitment was involved with respect to any particular aspect of the proposal.

Those present all agreed that was the sense of the meeting.

Mr. Dantas again expressed the view that in his opinion the important thing was the \$50 million loan for an equalization fund and that he would report the discussion of the morning to Dr. Aranha.

February 16, 1939

Hansen told me just before I left to go up on the Hill that after thinking it over, with my approval he is going to recommend to the Brazilians that until they have the gold and until they have settled some other of their more difficult problems they should postpone the organization of their Central Bank. I said I would go along.

February 17, 1939

Present:

Mr. Aranha
Mr. Caffery
Dr. Feis
Mr. Lochhead
Dr. White
Mr. Foley
Mrs. Klotz

HM, Jr: That was an awfully good speech you made at the Press Club.

Mr. Aranha: The Nazis will not like it much.

HM, Jr: And they had their people there. I guess they know where you stand.

Have you talked to your people who were here yesterday? Do you agree with the conclusion that they reached?

Mr. Aranha: They tell me that your people have nothing to object to the idea of a Central Bank, but at the same time they were worrying about the results of the Central Bank just now when we have other things to do. That it would be more wise to wait a little. I confess to you that, in my opinion, we have to do that and the reason I tell you that, we are crowded with all this work.

The important thing is not because of the Central Bank itself, but because the Bank of Brazil is the only bank that is capable to take care of the North of Brazil and it has seven-eighths of its business in Rio de Janeiro and Santa Paula. Our problem is to separate these two activities of the Bank because we need to put the Bank of Brazil in its work -- that means commercial, industrial, agricultural departments working all around Brazil. At the same time we have to create or separate the other things, rediscount and fiscal agency; now the currency.

I think we will give the currency to a Central

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Bank that will reduce the arbitrary action of the Government or the Treasury. In Central Bank we have ideas and principles to maintain and in the Government we have positions to defend. That is a very big difference.

I am in favor of creation of this Bank. I was sorry not to come yesterday to hear Dr. Harrison. Souza Santos was a little convinced that you are right. He has a very well balanced mind. He came home telling me that his impression was favorable to your objections, but I am thinking in a more broad way. I can also say that we have the same bank acting in two different ways, but the problem for us is the same problem from your side.

What interest was in the Central Bank is just to know if we will need some cooperation to help us maintain the milreis stable. If we can have that through the same or under the same idea of the equalization fund or something like that, that is something I would like to discuss and that they told Souza Santos was your partial matter to decide. That is our problem, to know if we will create the Central Bank if we could have this margin in determining our positions. That is what we need to know.

I am sorry I was not at the meeting because I got a report of the meeting and as far as I know the report was unanimous. It would be wise to postpone the Central Bank until some of the other matters have been worked out. It does not have to be done immediately. We want to see free exchange operate. You must know that all we will give to the Central Bank exists now and that is why I am in favor of a Central Bank now. That exists in the Bank of Brazil and in the Treasury. We will not create any new activity or new function in the Bank. All we have to do is to put the two together under one head with a clear finality. That will be for the betterment of what was done before. These activities have to be put together.

First thing we would do would be to change our money, because now we have the milreis. In doing that we will recall all this money back and give new one which we will order here. Some of it is made in England and Italy. We will win 5% because you know for a long time we did not change our money and in 5,000,000 contos we will have 250,000 contos which will not come back or is destroyed or is in collection. We will make money

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like yours. I think I am not in the Treasury, but I am just here for my colleagues, that the tendency is just to mix things but I feel we should clear things. I wanted to tell that to Governor Harrison. Dantas returned to me a new Christian. From your side I agree with you, but you must see how we work in Brazil. You must know that the Bank of Brazil is working seven-eighths of all operations there. I will be in favor of the creation of the Central Bank and I think that will help tremendously. Also exchange matter.

Mr. Lockhead: (Called Mr. Aranha's attention to the fact that all the discussions held up to now with the mission dealt in very general terms regarding the establishment of a Central Bank. It would seem desirable for the Brazilians to develop more concrete details of the manner in which their new Central Bank would work and be of benefit to Brazil.)

Mr. Aranha: When the Bank of Brazil loses in exchange, the Treasury pays. The Government only owns part of the Bank of Brazil. Foreigners also own part. The Bank of Brazil is gradually being mixed up with the Treasury.

Dr. White: None of the things that you touch on were discussed at the meeting.

Mr. Aranha: I agree that at the beginning it will not be a Central Bank. Now the Bank of Brazil has a President, a director. (At this point, Mr. Aranha went into the history of the Bank of Brazil.) Seven-eighths of all the operations are in Santa Paula and Rio de Janeiro. You can't get credit in the North and South of Brazil.

HM, Jr.: May I make this suggestion. Just to give you my own opinion after listening, I can appreciate the handicap that your Government is working under through having a commercial bank control all of your monetary affairs. When Mr. Roosevelt first came here the Central Bank had a great deal more power and he was more or less in the same position and they more or less controlled things more than they do now. The Tripartite operations are between Treasury and Treasury, and not between Central Bank and Central Bank, just so that,

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right or wrong, the Government can carry out its policy. The Bank of International Settlements at Basle thought that they were going to be dictator for Europe on financial matters and they are not. I am sympathetic to your problem. If I might make a suggestion, I think that that problem is not as pressing as possibly some of the other ones. You have immediate things that you want to take care of, and this Government would like to assist you. Have some of these things done first and the Central Bank left for the last, if that is agreeable to you. I want you to know that personally I appreciate very much what you are talking about and how you are handicapped.

I do not know whether the State Department has told you, but if they have not I want to tell you myself. It was decided it was considered more advantageous, more feasible, more practicable, that this credit for foreign exchange should be made through the Export-Import Bank and not through the Stabilization Fund. Therefore, as the Export-Import Bank is controlled by Mr. Jones, it is his responsibility and I think that the State Department should and will arrange for you to see him because he has to decide.

Mr. Aranha: How can that work through the Export-Import Bank?

HM, Jr.: I will let Dr. Feis explain that.

Dr. Feis: It is difficult for me to speak precisely in the absence of knowing how Mr. Jones' mind is running. But it could run, I believe, along very much the same lines that were discussed in the preliminary meeting on the subject.

Mr. Aranha: How can Export-Import buy our milreis?

(At this point, Mr. Lochhead wanted to explain, but the Secretary interrupted him, as follows.)

HM, Jr.: I think it is up to Dr. Feis to explain this.

Dr. Feis: Except that my explanations must be

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conjectural, because I have not talked with Mr. Jones, but the Bank could buy the notes of the Brazilian Government, for one thing. It could, I think, go ahead and buy the milreis, simply holding those to be paid off, or it could work out some more direct arrangement by which the dollar funds provided by the Bank were paid out to the people whom you wanted to pay off exchange indebtedness. I believe the Bank could handle it in any of those three ways.

Mr. Aranha: I confess I cannot see how. The only way that they can do is just the same way they did before, but I confess we will not do that. That was to give notes to be discounted by the Export-Import. But we will not do that another time. We preferred to stop and allow that to clear by itself. I will be very glad if you will tell that to Mr. Jones. The same thing we will not do any more. That cost us a great deal of money and we will not do it again. We will try to do that by ourselves. It is the only solution we have.

Dr. Feis: If I understand ...

Mr. Aranha: You have \$6,000,000 there. You have in the Bank of Brazil this amount, to be paid in 30 days, for which we have no cover. Our idea was to pay that \$6,000,000 and clear all the overdrafts we gave to your people. That is just to start free exchange without having payments to make and just receiving the free exchange to favor in the beginning all the drafts. The desire to help the exchange position was a reasonable thing to work, but if we do that and at the same time free exchange that will not work. I will not advise my Government to do that.

Dr. Feis: I do not understand.

Mr. Aranha: In having equalization fund or something like that, we have a margin. All my effort here is just to establish a corporation and association, if possible, to help us in Brazil to work more and more with the United States and the only way is to establish a margin to our commerce. What Mr. Caffery called was an overdraft margin, which we do not have in Germany because we are com-

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pensated and we do not have with the United States. We want to create that to regulate this position which is in arrears up to \$16,000,000. If this position we have \$6,000,000 to pay that means we gave for \$10,000,000 the drafts and these drafts we gave also in our favor to be paid in two or three months. The moment we will create this margin we will pay everything, but we will have this \$10,000,000 coming to us just to avoid the milreis going down. We would have \$10,000,000 which would be free to use for all notes or balance in milreis, avoiding things that will hurt us.

Dr. Feia: There are three notes. You have in mind, if things were favorable, first to pay off at once a certain group of exchange indebtedness that you say is about \$6,000,000.

Mr. Aranha: That is correct. People who are waiting 30 days.

Dr. Feia: Then there are certain others with deferred indebtedness. You want to get that out of the way, but you want to get it out on a schedule. You do not want to handle that rigidly.

Mr. Aranha: We gave the drafts to these. They have contract of exchange. We gave to them a contract or a draft and we are giving to them at the same time we are selling our drafts sending it to the Bank, just these which covered by these overdrafts we have to receive. When we receive one a man who sold coffee to the United States and sold to the Bank of Brazil a draft of 4 months or 9 months we take all we have here at the same time. To be paid there are \$10,000,000. If we will pay here in America against the credit to be furnished by you all these people, we will have this \$10,000,000. We will receive and just operate with them. This will help us to balance in the first month these milreis.

Previously I made an agreement with your National Trade Association and it was just that. Bank of Brazil gave notes to the exporters who had blocked money in Brazil and they went to Export-Import Bank and discounted there and we are paying every day. That will be worse

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for our exporters than we have now. I cannot see how Export-Import Bank can do anything useful in this matter.

Dr. Feis: You want another \$10,000,000. That would serve to keep you in funds so as to pay off these maturing exchange contracts. That would be the second thing. The third thing you have in mind is more clearing of a regular overdraft nature. I do not know whether you want that as a permanent arrangement, extendable or not. The only margin that would be left to you to protect your exchange rates or exchange liabilities would be \$4,000,000. That is all that would be left under any arrangement.

Mr. Aranha: We will use what we discussed here to pay Americans. We just had margin of \$20,000,000 but we will use \$14,000,000 or \$16,000,000 and then stop. We would just use in paying what we gave to them.

Dr. Feis: Then I would say you have no overdraft privilege.

Mr. Aranha: That will create -- my English is bad. Give me paper. I want to write figures. From this \$16,000,000, \$6,000,000 we have no money to cover that. If we had, we would give them \$6,000,000. But for \$10,000,000 we gave, when we gave to them we had forward cover in the United States.

If we will just have money and pay \$16,000,000 what will happen? Just we will have only to pay \$6,000,000 and the \$10,000,000 we will receive on the same date this draft that we pay. And we could use \$10,000,000 for balances. If not, we can use that money to send here and the equalization will transfer to that and build up this account to operate and help balance things. With Export-Import Bank, I do not know how.

Dr. Feis: The analysis is exactly the same. You will have while you are paying up \$16,000,000 you will have accrued \$10,000,000. Those are yours to use, to use as you choose. If you want to use \$10,000,000 as a start of a continuation fund, you can do so.

Mr. Aranha: But we will not use under Bank that

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has operated. That is why we want to create Central Bank. Until we have that, that will be in many banks. I do not think that the credit will help Brazil. That will be a new handicap. Better to leave these blockades there and forget them until we will be able to do something.

Dr. Feis: Under the arrangement with us ...

Mr. Aranha: We cannot free exchange under Export-Import Bank. If you decide on that and it is impossible to do it another way, the question is ended. Your time is valuable and I do not want to take up too much of it. We want to free exchange. That is the constructive thing to do in Brazil. I fought for that for a long time. Just to free people who have arrears now, that is not a matter that would justify.

(At about this point, Ambassador Caffery finished reading his newspaper and left to keep an appointment with a Senator.)

Dr. Feis: You had some conception in your mind, some relationship and plan for the execution of which you were going to secure \$20,000,000.

Mr. Aranha: We do not want \$20,000,000. We want to free exchange. That is what we have in mind. That will help our relations and will help Brazil.

Dr. Feis: I honestly do think that we understand the purpose you have in mind. You had a plan in mind. If you can work out that plan as you had it in mind and establish relationships for you, I assume that it is a matter of indifference to you as far as this transaction goes as long as funds are provided by the Export-Import Bank or the Stabilization Fund. That is all that is the question.

Mr. Aranha: I know the Export-Import Bank. I know its laws. And I know that you cannot do anything against these laws.

Dr. Feis: Your plan has in mind some exchange relationship between the Brazilian Treasury or the Bank of Brazil or a new Central Bank and the American Treasury. Any such monetary relationships the Secretary of the Treasury is ready to discuss in connection

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with the Central Bank. The only point that is being raised is the source of the fund that might be provided. No one is trying to suggest that you should give us the essentials of the plan you have in mind. I think you are prejudging the nature of any arrangement with the Export-Import Bank.

Mr. Aranha: If you have a bill changing the Export-Import Bank law, that is different. I remember when we discussed this before, we had a problem to convince Mr. Jones.

HM, Jr.: Mr. Minister, I want to be sure that you understood the change that had taken place, and I think that the sooner the State Department arranges for you to see Mr. Jones, the better.

Mr. Aranha: Why should I see Mr. Jones just to start a new conversation. I confess I prefer not to consider. Just forget that, because I do not know how that will build something.

Dr. Feis: I would not urge you to see Mr. Jones or not. That will be your own decision. I still do not think you understand our minds. When I talk about arrangements with the Export-Import Bank on this thing, I am talking of what would be merely one element in all the arrangements that might be worked out with you. Not that I am precluding the idea that other monetary arrangements of the type you say you are desirous of building up could be discussed continuously with the Treasury. My remarks are not intended to apply to the whole range of potentialities discussed between ourselves and the American Government about monetary arrangements. These arrangements having to do with monetary and exchange affairs could continue just as you contemplated. The only point in question would be that this particular little item in the transaction might come from the Bank.

Mr. Aranha: The possibility of buying here through the Export-Import Bank, I cannot understand.

Dr. Feis: If it is agreeable to you, we ought to discuss between the Secretary of the Treasury ...

HM, Jr.: I think we ought to discuss it before

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the Secretary of State. He should sit in on this discussion. I think he ought to be brought up to date. Mr. Hull ought to be brought into this picture. I think it is very important.

Mr. Aranha: What I want to make clear is that we will be very glad to establish a corporation also an association which we could do something to clear these positions and problems. I am not saying that the Export-Import Bank will do something wrong, but I do not know how they can work the way we want. We do not want to make a loan. I have not that in mind. We want to establish a corporation if that is possible. If the Export-Import Bank can tell us that if we bought in the United States some special merchandise if they will give us delay of payment. If that is impossible then it is all right. We do not want to trouble you. I did not come here just to create problems, but to study the problems we have.

Dr. Feis: There is no one more desirous that the Brazilian Government should establish fruitful and permanent monetary relations with the United States than I. No one is more fully convinced that it can be done. The only question that has arisen at all is whether one particular element in the general relationship of what every dollar might be used for to pay off deferred indebtedness should be provided by the Export-Import Bank or some other agency. There is no other question that ...

Mr. Aranha: That is not the question. Just to create something to operate commerce. I am sure we will have in 3 or 4 months \$18,000,000 here. These other kinds of ways of liquidating will further destroy what we want to build.

Dr. Feis: I can agree and since the question of the State Department's position has presented itself, feel confident in saying that the State Department will throw all its weight behind such a relationship.

HM, Jr: Do you think that the Export-Import Bank can do that?

Dr. Feis: No, it cannot, nor should it undertake

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it. It should be done by some branch of the Treasury.

HM,Jr: I cannot follow you. You say that the Export-Import Bank cannot undertake it.

Dr. Feig: The Export-Import Bank cannot undertake a permanent relationship.

HM,Jr: Is there any other agency that has the power?

Dr. Feig: If any agency it is the Treasury.

HM,Jr: I am asking you, is there any other agency?

Dr. Feig: Yes. The Treasury. I am being fair to everybody. The only question I raise, as far as this scheme of arrangements we are trying to work out, involves an advance that should be made by the Export-Import Bank.

Mr. Aranha: I think I will wait suggestion that the State Department will give me and I thank you (Secretary Morgenthau) very much, but we have nothing more to do now and I will free you.

HM,Jr: I am very sorry. All I am trying to do -- I think everybody in the Administration wants to be helpful.

Mr. Aranha: They have been and are now in clearing just now.

HM,Jr: But the important fact I wanted to bring to your attention myself -- I don't know whether anybody else had mentioned it -- was that there had been a change and the Administration seemed to think that this foreign exchange situation should be handled by the Export-Import Bank rather than through the Stabilization Fund and I wanted you to know that.

Mr. Aranha: Yes.

HM,Jr: Now, everybody wants to help, but I think always the easiest way to help is to keep each other informed as to progress.

Mr. Aranha: Yes.

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HM, Jr.: And I didn't want to be negligent in keeping

Mr. Aranha: I thank you very much for that. I will be very glad if something we can do through Export-Import Bank, but just because I know that and I agree with Mr. Feis we have no way to do that in the way we think would be helpful and I realize now that the Treasury Department also cannot do, I will just wait for what the State Department can tell me.

Dr. Feis: Mr. Ambassador, you should understand that this subject has never been discussed with Mr. Hull in any particular; that the only discussion that has taken place has involved me as an individual technician in a judgment that one particular item of this whole program of financial cooperation was more naturally done through the Export-Import Bank than through any other available way. That was the only point discussed. That the disposition to find a complete way of working out any exchange and monetary relationships that you want could not be clearer or stronger than it is at the present time. That there was no possible thought of weakening or lessening or departing from the ideas that had been discussed with you. Merely a minor practical detail of how one particular item in the transaction should be managed. That was the whole of the discussion. It involved solely myself. It in no way involved Mr. Hull and in that sense was in no way a State Department position. That's all I can say, but please understand that that is all there is to it.

Mr. Aranha: I thank you very much. I am very satisfied with what I talk here, because now I can just realize that the possibilities of doing through the Treasury do not exist. And through the Export-Import Bank, until I know something new about the Export-Import Bank, the possibilities have to be like we had before. But I would be very glad that what I have in mind, and I think is sound, is possible. I will hear from

Dr. Feis: I do not know, Mr. Minister, what the Treasury can or cannot do. The Secretary of the Treasury is here and if he chooses to give you some

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indication of that

HM, Jr.: I beg your pardon, Mr. Feis! I have tried for four days. I have given the Ambassador every indication of what we can do, so there is no indication of choosing. I have done it. I have told the Ambassador what we can or cannot do, so it isn't a question of my telling him.

Dr. Feis: On this one particular question of Export-Import Bank, I shall be very glad in so far as I can, which is not very great, to arrange for discussion with you.

Mr. Aranha: Thank you.

Dr. Feis: But I want to say again, finally, that I solely am involved. The State Department is not involved. Mr. Hull knows nothing of this course of discussion whatsoever. He has been ill and I would not want you, for an instant, to think that this is any indication of our general policy vis-a-vis your country and that I would regret completely.

Mr. Aranha: Good-bye.

HM, Jr.: I will see you again.

(At this point, all left the Secretary's office with the exception of the Treasury group, who remained for the following general discussion.)

Dr. White: It's time we had a break.

Mrs. Klotz: I never heard such a performance in my life! Marvelous showing for the State Department!

HM, Jr.: About time Mr. Hull did know!

Mr. Foley: Some amazing statements he made.

HM, Jr.: I saw the President with Welles Wednesday and at that meeting the President said "That's what I want -- Export Import". Aranha knows this. That's

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Wednesday and here it is Friday morning and nobody from the State Department has told the Minister.

And Caffery is so busy reading his paper. And he has to go out in the middle of the conference; he walks out on me. He has an appointment with Senator Overton. What's he here for?

Mr. Hull is so busy he can't attend to any details. Mr. Welles is so busy, he can't. Mr. Caffery has to read his newspaper and Mr. Feis does this. And this happens on Wednesday and from Wednesday to Friday they don't tell this fellow.

Mrs. Klotz: It's very obvious they don't want to do anything.

HM, Jr.: What I wanted -- I wanted Mr. Aranha to know that I was his friend; that I was trying to do everything I could and I had reached an impasse.

Mr. Foley: He understands that. He wants to stay here. He doesn't want to go over to Jesse Jones and Warren Pierson.

HM, Jr.: And if Mr. Feis thinks he's going to get fresh around here! I have stood his impertinence long enough.

Mr. Foley: He got what he was asking for.

HM, Jr.: He got it and get plenty. And I am sick and tired of being insulted by these State Department people. I am sick and tired.

Mr. Foley: Caffery did not walk out on you. he walked out on Feis.

HM, Jr.: In the middle of the conference, Caffery walked out. I am not going to call Welles. Let him call me. If I call him it looks as if I were at fault. It never pays to lie. Welles was present. I am convinced as anything that Welles telephoned the President before I came because the President couldn't have information just like this (makes motion of snapping fingers). He never read my statement. Unhesitatingly he said,

-15-

"Do this thing Export-Import bank." These people, they want to do it their way. O. K. They have got it. And I turned to Caffery and I said, "I want you to listen to this thing. I want you to know why this Aranha conference is going to be a failure," and with that he walks out in the middle of it; without saying a word he walks out on me. I would like to see somebody go into Mr. Hull's office and do it -- read a newspaper.

Dr. White: I feel good after this conference.

Mr. Foley: Caffery is woefully inadequate.

Mrs. Klotz: I am ashamed we have to wash our linen in front of another country.

HM, Jr: Mrs. Klotz, we have to do it in fairness to this man. Are you going to keep this man another two weeks. The Secretary of State is not sick. He can see this man. He wasn't sick when he got here. He takes no interest in this thing. Who is Mr. Hull anyway that he can't interest himself. Most outrageous statement that Mr. Feis made, that Mr. Hull knows nothing about it.

Mr. Foley: And that it was his personal matter.

Dr. White: Whether for good or ill, they have practically forced in their hands a Stabilization loan.

HM, Jr: I won't make a Stabilization loan.

Dr. White: They put themselves in that position.

HM, Jr: After my experience on the Hill, I wouldn't make a Stabilization loan.

Dr. White: Then they have ruined this mission. Not only that, they have got them so sore

HM, Jr: This fellow must have been in Welles' office yesterday. Why don't they tell them that the thing is changed? All he had to do was tell them. Welles has known since Wednesday afternoon. The President told Welles Wednesday to call up Jesse and get him

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busy. I asked Welles had he called up Jesse and he had not. And I tell you I can take insult just so long to the office of the Secretary of the Treasury and I have been double-crossed and sold down the river and I am not going to take it and I am not going to let Mr. Arana think that I am the fellow who stopped it.

Mr. Foley: He knew all the way through. He's pretty cute.

Mrs. Klotz: He sensed it immediately.

Dr. White: I think to keep the Treasury slate clean I think I would reopen the Central Bank discussion.

HM, Jr: This phone is going to ring in a minute -- Sumner Welles -- and I am going to say "If you want to talk to me about this, come over and see me. I am not going to discuss it on the phone." And, believe me, I am in no frame of mind to be monkeyed with today. I have sat here for four days and been insulted and I am fed up on it. Incidentally, you three people have orders not to be in here Saturday. And I am sorry to call down Mr. Feis, but when Feis tried to throw it back in my lap

Mr. Foley: Don't apologize. It's the best thing I have seen happen yet.

HM, Jr: Feis has sat here -- he has done everything he could to insult me.

Mr. Foley: I am for a New Deal in the State Department.

HM, Jr: Let the great Mr. Hull, the great South American Good Neighbor thing, let him go to work!

Dr. White: That's his job. I was tickled to death when you said "Let Mr. Feis explain it."

Mr. Lochhead: This whole picture, when it went through the State Department to invite them up, why didn't they say they did not want the Treasury to speak to them? You invited him through the State Department. There was the whole point.

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HM, Jr.: Did we, in our memorandum, say anything about the Stabilization Fund; that this loan would be made through Stabilization? In the preliminary? Before Aranha came up, was anything said to the State Department?

Mr. Lochhead: Not before he came up. He was to come up on general discussion.

HM, Jr.: I can be insulted just so long and I have stood the impertinence of these people and I wasn't going to let Aranha go back to South America and say Mr. Morgenthau did it and don't forget he's hand in glove with Mr. Pierson and let him do a little talking. Great friends of his. Had lunch with him on Sunday and they ran this great story about Aranha. I am not going to be the goat any longer. I am through. I am sick and tired of being the goat around this town for other people's mistakes. I am just sick and tired of it. I am not going to do it any more.

oOo-oOo

February 18, 1939.

Dear Mr. Feis:

This will acknowledge your letter speaking of the discussion as to the development of Brazilian resources and enclosing a memorandum of the conversation which brought out certain facts about the Itabira Iron Ore Company.

Sincerely,

✓
H. S. Klotz,
Private Secretary.

Mr. Herbert Feis,
Adviser on International
Economic Affairs,
Department of State.

GEF:lmf

By hand

*ask
and refer to H. White*

22



DEPARTMENT OF STATE
WASHINGTON

in reply refer to

My dear Mr. Secretary:

Apropos of the tentative discussion held yesterday with Foreign Minister Aranha of Brazil in regard to possible American assistance or participation in a plan for the development of Brazilian resources—particularly iron ore resources—I am sure you will be interested in the attached memorandum of conversation between an officer of this Department and representatives of the company controlling the Itabira Iron Ore Company, the development of whose projects seems to be the very center of the Brazilian Government's plans.

These gentlemen left a formidable volume describing in detail the Itabira enterprise. This detailed study is in the hands of Mr. Veatch of this Department, who will be glad to make it available if you care to see it.

These

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

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These gentlemen are at present staying at the Wardman Park Hotel in Washington and would no doubt be glad of the opportunity of talking with you if you so desire.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Memorandum of
conversation.



DEPARTMENT OF STATE

Memorandum of Conversation

DATE: February 14, 1939

SUBJECT: Developmental project of the Itabira Iron Ore Company
in Brazil.PARTICIPANTS: Mr. A. Malozemoff
Mr. George Farquhar
Mr. Vetch

ADDRESSES TO:

*** 1-1402

Mr. Malozemoff is the consulting engineer for Mr. Percival Farquhar, who organized and controls the Itabira Company. He is in Washington representing Mr. Farquhar and is accompanied by Mr. Farquhar's eldest son, Mr. George Farquhar.

The Itabira Iron Ore Company is the largest and most important enterprise holding iron ore deposits in Brazil. This Company has invested from \$5,000,000 to \$6,000,000 in the development of its holdings and in securing control of the one railroad tapping this district, namely, the Victoria a Minas Railway. The Company secured concessions

from

-3-

from the Brazilian Government in 1938 for the exploitation of these reserves and had arranged for financing of its project with Dillon and Read of New York. Difficulties were encountered, however, the principal one being the fact that the existing railroad proved to be unsuitable for the transportation of large tonnages of ore, at least at a reasonable cost. It was decided therefore that it would be necessary to construct an entirely new railroad at a cost of \$40,000,000 to \$50,000,000. By this time the world depression had arrived and the Company's plans had to be postponed. No ore has as yet been shipped out of the mines on a commercial basis.

When the present Brazilian regime came into power in 1937 it reexamined the concession which had been granted to the Itabira Company and requested Mr. Farquhar to enter into negotiations for amendment of that concession. Although the Company was well satisfied with the earlier concession it was considered necessary to accede to the Government's request, and after considerable negotiation agreement was reached upon a number of amendments. The Brazilian Government was particularly anxious to provide for the development of an iron and steel industry in Brazil and Mr. Farquhar agreed that as a part of the project the Company would
erect

erect an iron and steel plant in Santa Cruz (which will be the shipping point for the ore) capable of supplying Brazil's requirements, including steel for armament purposes. The amended concession provides that construction of this plant must be begun within a year and a half of the date of ratification.

The amended concession has been studied by various agencies of the Brazilian Government and approved by them. Mr. Malozemoff states that President Vargas had promised publicly that the concession would be ratified as soon as these studies had been completed, but that he has procrastinated and the entire matter remains undetermined.

Mr. Malozemoff states that in the meantime Mr. Farguhar's Group has received a "firm offer" from German interests to finance the entire enterprise, this offer providing for delivery of 4,000,000 tons of ore to Germany each year and shipment from Germany to Brazil of the necessary materials for construction of the steel plant and the new railroad. An offer has also been made by an English Group, which would provide at least part of the necessary capital and which would have no objection to cooperation with the Germans. Mr. Malozemoff has the impression that knowledge of the German offer has been an important factor influencing President

-4-

President Vargas to delay ratification of the amended concession. Mr. Maloschoff hesitated to make the statement in so many words but it was apparent that Mr. Farquhar has been given the impression that ratification is likely to be delayed until definite arrangements are made for the necessary capital for the development.

Mr. Maloschoff said that his only purpose in coming to Washington at this time was an entirely patriotic one, that he felt that it was his duty to inform this Government that there is strong German pressure to gain control of the immensely valuable Brazilian iron ore deposits and that Sr. Vargas is impressed by the German offer. He went on to say that this Government should realize that the attitude which it shows with respect to exploitation of the Brazilian iron ore deposits, in the present conversations with Minister Aranha, will exercise a great influence on President Vargas in relation to his decision on ratification of the Company's concession. He went on to express strongly the fear that if the Company is not able to finance its enterprise immediately, and preferably from the United States, the Brazilian Government will find some excuse to cancel the old concession so that it might then be in a position to deal directly with the German Government.

Mr. Maloschoff

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Mr. Malossemoff said that Mr. Farquhar is a patriotic American and believes that the Brazilian iron ore deposits should be under American control. He prefers to finance the project in the United States, but Mr. Malossemoff inferred that in order to protect the Company's concession Mr. Farquhar might be forced to accept the German offer or joint German and English financing.

Mr. Malossemoff stated a number of times that he had nothing to ask of this Government and that his visit to Washington was merely a patriotic duty. Mr. Veach made an attempt to lead the conversation into a practical discussion of the Company's capital requirements and found Mr. George Farquhar quite ready to encourage discussion on that basis. Mr. Malossemoff then readily admitted that he was interested in securing information as to the attitude of this Government toward the Company's program, and he said that he was authorized to "go very far" in a discussion of possible means of securing American capital for the enterprise. Mr. Veach inquired whether Mr. Malossemoff merely wished to make a general survey of possibilities of Government interest with the idea that Mr. Farquhar might come to Washington later for discussion of definite plans (if any such discussion seemed feasible) or whether Mr. Malossemoff might
speak

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speak for Mr. Farquhar with respect to specific possibilities of assistance by this Government. In response to this inquiry Mr. Malozemoff turned to Mr. George Farquhar, who said, "He is my father for this purpose".

Mr. Malozemoff stated that he and Mr. Farquhar have made a thorough survey of the attitude of interested bankers in this country and find the unanimous opinion that large issues for foreign enterprises could not be floated with the American public at the present time. He is of the opinion, therefore, that there will be no appreciable American participation in the Itabira enterprise unless some Government agency is prepared to advance at least the bulk of the necessary capital, or unless some Government guarantee can be given to a private issue which would make it attractive to the investing public.

The Company will require \$75,000,000 for its entire project. This will include \$49,500,000 for construction of the new railroad and the maritime terminal at Santa Cruz, \$6,500,000 for equipment and development of the mines, \$8,000,000 to secure complete control of property rights of the mines and the existing railroad, \$3,000,000 working capital, and \$10,500,000 as 50 percent of the required \$21,000,000 for construction of the steel plant at Santa Cruz.

The

-7-

The Brazilian Government itself has recently expressed a desire to participate in the construction of the steel plant, providing one half of the necessary capital.

Mr. Malossemoff is strongly of the opinion that the entire amount of \$75,000,000 could be amortized in twenty years. He estimates that the Company will produce some 5,000,000 tons of iron ore a year at the outset, yielding an annual operating profit of over \$9,000,000, and that in addition the steel plant should yield annually a \$5,000,000 operating profit.

Mr. Malossemoff is of the opinion that 75 to 80 percent of the capital required will be used for the purchase of capital goods (railway equipment, building materials for the steel plant, etc.) and that all of this equipment might be furnished by the United States if the capital can be raised here. Furthermore, he believes that 1,000,000 tons of special high-grade Brazilian iron ore can be marketed here annually and that the ships transporting this ore to the United States would carry back to Brazil a considerable tonnage of American coal and coke for the steel plant at Santa Cruz.

Mr. Malossemoff and Mr. Farquhar said that the capital structure of the Itabira Company and of the Victoria a Minas Railway Company is very complicated. They said, however,

that

-3-

that Mr. Percival Farquhar has been able to secure complete control of both enterprises. He himself owns large blocks of first-preference stock and he controls, for himself and for his American associates, a majority of the voting shares in each instance. Furthermore, his group has secured an option on the rest of the stock of the Itabira Company and on the Railway bonds held by French investors, which provides that these stocks and bonds can be wholly secured or amalgamated in an organized company at any time, determined by Mr. Farquhar.

Mr. Maloschewoff said that he had letters of introduction to Minister Aranha and asked for advice as to whether he should seek to see him at this time. Mr. Vetch said that he saw no reason for counseling delay if Mr. Maloschewoff felt that he should at least make a social call on the Minister. He suggested, however, that if Mr. Maloschewoff wished to discuss this case with Mr. Aranha he might wish first to explore the matter a little further with the Department or other agencies of the Government and might then raise the question as to whether it would be helpful for him to approach Mr. Aranha directly.

Mr. Maloschewoff left for the information of the Department a copy of his memorandum on the Itabira Enterprise,

dated

-2-

dated February 1, 1939 (to be filed with the original of this memorandum). He said that he and Mr. Farquhar are staying at the Wardman Park Hotel and would appreciate some indication as soon as possible as to whether additional conferences would be desired in the Department of State or with other agencies of the Government. His intention now is to be in Washington through February 17.

KA:VEATCH:MEG

Confidential

BRAZILIAN EMBASSY

33

Washington, February 18, 1939.

My dear Dr. Feis:

I acknowledge with thanks your letter of the 17th enclosing copy of a memorandum of the conversation which Mr. Eurico Penteado and myself had with you and Mr. Collado on that date concerning the way in which articles 8 and 9 of the Brazilian exchange memorandum would operate.

We have gone over this memorandum carefully and believe that the points discussed are faithfully reproduced therein. We submitted it to Minister Oswaldo Aranha, who manifested his approval and asked me to express to you his appreciation of your clear understanding of our ideas on the matter.

Sincerely yours

MARCOS DE SOUZA DANTAS

Dr. Herbert Feis
Adviser on International Economic Affairs
Department of State
Washington.

Sunday
6.30. P.M.

Jesse Jones called. Said
he had couple hours with
Aranha. Read me parts
of Wolcott's (Michigan
Congressman) statement
for Monday's newspapers.
Asked me who had
been opposed to Stahl.
fund making advance
to Brazil. Told him it
was Feis. He said that
was ~~he~~ what he thought.
Told him I would not
have done it thru fund
unless Congress had

passed resolution
directing me to do so.
I implied to Jesse that
the Pres. must have
known something about
discussion when Welles
and I called on him
as he unhesitatingly
said do it thru Export-
Import Bank.

Jones asked what I
thought of his telling
committee in bill about
ban to Brazil. I said
by all means do so
but I would check
with Hull. He said
he would.

34
Sunday
Feb; 19, 1939

He then asked me if
the Chinese had promised
not to use any of the
25. million war materials
and I said they had
promised. I said I
doubted if they had
used any of the 25. million
and ~~that~~ Jones said
they had not as yet
used any.

February 23, 1939.
9:00 a.m.

35

HMJr: Hello.

Operator: Mrs. Klotz just came in.

HMJr: Thank you.

O: I have Mr. Jones.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Jesse
Jones: Hello, Henry.

HMJr: How are you?

J: Pretty good. How are you?

HMJr: I feel very good.

J: Where are you?

HMJr: I'm at my office.

J: That's good.

HMJr: Where are you?

J: I'm just leaving my home -- leaving home.

HMJr: Jesse, how are things coming along with my friend
Aranha?

J: Pretty well. I'd like to come by this morning and
talk with you.

HMJr: Good! What time?

J: Well, as soon as I could.

HMJr: Well, I tell you, we have staff from nine-thirty to
ten, so either before or after. Which would you like?

J: I think it -- well, it starts at nine --

HMJr: Nine-thirty.

J: Nine-thirty to ten. Well, I tell you, I'm going to see you. I've got to see Senator Wagner before I leave the hotel.

HMJr: Yeah.

J: I'm going up to his room now.

HMJr: Yeah.

J: And I'd better make it ten.

HMJr: Ten o'clock.

J: All right.

HMJr: Fine.

February 23, 1939

11:10 a. m.

Present:

Mr. Lochhead
Mr. Foley
Dr. White
Mr. Bernstein
Mrs. Klotz

HM, Jr: This has nothing to do with the matter you are here for (Vandenberg letter) but I wanted you to know.

Jesse Jones called on me this morning and we went over the question of Brazil. He said he has had a number of conferences with Mr. Aranha and they find that it will be very difficult for the Export-Import Bank to buy milreis. He said they have been trying to work out some system about drafts and that Mr. Pierson has a classmate who is in the Foreign Department of the Federal Reserve and he's talking it over with him.

Jones said that he got the distinct impression from Aranha that he would much rather have done this business through the Stabilization Fund. He said, 'Why don't you treat me as well as you do England and France and let me eat at the first table? Why do you insist I eat at the second table, which is Export-Import?'

Jones said he told Mr. Hull in great detail the way Aranha felt and that Aranha felt he was not being treated as well and that the chances of doing it through Export-Import Bank were slight; that he, Jones, did not feel that the Export-Import Bank should be buying milreis.

I then said to Jones that I was very anxious that we do something for Brazil and couldn't he work out a way whereby private banks would make this accommodation to Brazil with guarantee from the R. F. C. in the form of underwriting, and Jones said that was exactly the plan that Warren Pierson and he are working on. He said that that is the most practical way.

-2-

While we were talking, Mr. Hull called up and said that he had been ill for two weeks; that Sumner Welles was ill, and would I bring him up to date on Brazil. And I said that Jones was sitting here and that we would be very glad to come over and see him. He said he could not see us today. He said, 'Were we doing anything further in regard to helping Brazil with the idea of their Central Bank?' and I said that we were ready to be helpful, but that I must see Hull before I talked to Brazil any further. Hull said he would try to arrange for it tomorrow.

In parting, Jones said, "You haven't asked my advice, but I would like to give it to you." He said, "Unless there is some good reason to keep the Stabilization Fund secret," he said, "I would make it public." I said, "There is no good reason other than the law which says that I should report only to the President, but if Congress wants to change the law and have me report to Congress, I will be delighted."

Mr. Foley: It does not say "only". It says you shall report to the President.

HM, Jr.: The President has definitely interpreted that to me in the last month -- that I should only report to him.

oOo-oOo

February 24, 1939.
10:35 a.m.

39

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Jesse
Jones: Hello.

HMJr: How are you, Jesse?

J: All right, Henry. How are you?

HMJr: Fine.

J: Well, I see you hit the bull's eye.

HMJr: That's what I was -- thought for once.

J: That's a peach.

HMJr: What?

J: That's a -- that's good. That was a peach.

HMJr: The boys seemed to like it. I just kind of did it --

J: Oh, yes.

HMJr: I mean, I had no prepared notes or anything.

J: You had -- well, I thought it was excellent. Have a good effect.

HMJr: I -- well, we -- Jesse, we've just got to get these fellows to thinking about making some money instead about thinking that everything is wrong.

J: Yeah, and you've got to get them thinking that somebody is not going to jab them in the ribs every time they turn around.

HMJr: You're right.

J: See what I mean?

HMJr: You're right.

J: That's the thing that --

HMJr: You're right.

J: God, the world conditions are bad enough.

HMJr: That's right.

J: We ought to at least be getting along pretty well at home.

HMJr: Well, I --

J: I we were thinking --

HMJr: Well, I meant every word I said.

J: I think it's excellent.

HMJr: I appreciate -- coming particularly from you.

J: Hello? Huh?

HMJr: I say, I appreciate it coming particularly from you.

J: I know it's -- I know it's good. Well, I'm glad it was done today.-- I mean yesterday.

HMJr: (Laughter) Oh, Jesse, Jesse.

J: Huh?

HMJr: Oh, Jesse, Jesse.

J: Well --

HMJr: You think the timing was good, eh?

J: I think the timing was good.

HMJr: Well.

J: Now --

HMJr: Go ahead.

J: Hull called me a while ago.

HMJr: Oh, did he?

J: And he didn't see any particular purpose in our meeting.

HMJr: I see.

J: That he was still at home and not awfully well. He'd be glad to -- he didn't feel like he was well enough to go to your office or mine, and I guess he's so polite he didn't want to ask us to come to see him. He said he was naturally in accord with anything we could work out, and I told him all right, that I would talk with you, and if when -- when our minds met then we would clear with him. Isn't that the best way to do it?

HMJr: That's all right with me, but I don't see -- you see --

J: What's that?

HMJr: When we first started --

J: Yeah.

HMJr: Sumner Welles and I asked to see the President, see?

J: Yeah.

HMJr: I don't think I told you this.

J: Yeah.

HMJr: And the President said anything that Welles and I agreed on would be all right.

J: Yeah.

HMJr: Well, then we went along for four or five days, and then this question came up.

J: Yeah.

HMJr: Now, you and I didn't invite these people here.

J: No.

HMJr: And I don't -- unless Hull is really sick, I'd like to sit down and find out what he's got in mind.

J: Well, now let's do this, Henry.

HMJr: Go ahead.

J: As a matter -- as a matter of procedure. I had in mind that we'd see him.

HMJr: Right.

J: But that when we had a -- a sort of a plan formulated.

HMJr: All right then, have you got something in mind?

J: Well, I'm trying to work out one.

HMJr: All right.

J: And I had a talk last night with Aranha. I met him at a dinner.

HMJr: Yeah.

J: And cornered him and we had -- oh, a half hour or so of discussions and I think we can -- what I'm trying to do is to formulate something that nobody could pick at much.

HMJr: I see.

J: And I'm working on it this morning, and if I may I'll call you as soon as I've got the suggestion worked out.

HMJr: Any time you're ready --

J: All right, I'll call you.

HMJr: You give me a little notice.

J: All right, I'll give you.

HMJr: Thank you.

J: Good bye.

February 27, 1939

43

Jesse Jones called me up at one o'clock last Saturday and asked me whether I thought it was important and O.K. for him to advance 15 or 16 million dollars to Brazil for foreign exchange purposes. I told him that I thought it was important and I recommend that he do it.

He then asked me whether I had any objection to his getting in touch with George Harrison and asking him to come down to see Aranha and try to unsell Aranha on the idea of forming a Central Bank in Brazil. I said I had no objections.

February 27, 1939.
12:19 p.m.

44

HMJr: Hello.

Operator: Mr. Pearson. Go ahead.

HMJr: Hello.

Warren

Pierson: Good morning, Mr. Secretary.

HMJr: How are you?

P: Fine, thank you. I just wanted to tell you that I'm at your service in connection with any of this Brazilian stuff. Now that Mr. Jones is gone I -- we've been working on a letter involving the acceptance credits --

HMJr: Uh-huh.

P: And if you are interested -- or the Treasury is interested -- I'd be glad to come over and talk about it.

HMJr: Well, we're very much interested and I told Mr. Jones that if you would keep Mr. Archie Lochhead --

P: Oh, yes.

HMJr: Up-to-date.

P: He mentioned that to me.

HMJr: I would appreciate it.

P: I -- the other thing I wanted to ask you, Mr. Secretary, particularly is whether he would take Wayne's place on the board.

HMJr: I think so. I mean, I want to wait until the President comes back, but that was my thought.

P: Oh, yes. Well, in the meantime if I deal with him, it's as good as with you.

HMJr: Yes, exactly.

P: I see.

HMJr: Yes, I mean, he has access to me all the time, and if you would work with him, why I'd appreciate it.

P: That's fine, and if I can do any lick work let me know.

HMJr: Well, he'll meet you half way. What is the status of that --

P: Well, it's -- nothing has happened. The -- the suggestion was made that so far as the two things Mr. Aranha has in mind - the exchange and the long term credit - that he would write us a letter asking for the -- for that and that the bank would reply and approve the acceptance credits and agree to -- to go along on the other as particular, specific applications are presented. That's where it is now.

HMJr: Supposing I have Lochhead call you? You might bring him up-to-date.

P: I'd be glad to.

HMJr: How's that?

P: Fine.

HMJr: And it so happens that Knoke is in town also; that he could tell him what's going on.

P: Oh, yes, from the Federal Reserve.

HMJr: Yes.

P: Yeah. All right, sir.

HMJr: I'll tell Lochhead to get in touch with you.

P: Good enough.

HMJr: Thank you.

P: Thanks.

February 27, 1939

Mr. Welles called me at five minutes of one o'clock and said that he had been sick and wanted to bring himself up to date on Brazil; what was going on, particularly in regard to the Central Bank, and what was this about Harrison coming down to see Aranha.

So I told him about Jones' conversation with me Saturday and my conversation with Sproul today and that I emphasized to Sproul that while I understood Harrison was to come down to unsell Aranha on the Central Bank idea, I wanted them to remember that my hands were untied. Welles then said, "Well I thought you were for the Central Bank; thought it was a good idea," so I said, "Well, before I did anything more in regard to Brazil I wanted to see Mr. Hull and Mr. Welles as I had never been treated the way I had been by the State Department since I had been Secretary of the Treasury Department."

February 27, 1939.
2:24 p.m.

47

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

Sumner
Welles: Hello.

HMJr: Yes, Sumner.

W: Hello, Henry. After our talk I spoke to Mr. Hull and he said he'd be happy, if you could arrange it conveniently, if we could meet at three fifteen tomorrow afternoon.

HMJr: Well, now here's -- I've got my calendar and I've got some people from the American Legion coming over and I postponed them Tuesday morning on account of I had to go on the Hill.

W: Yeah.

HMJr: To --about Pershing Hall in Paris to three o'clock.

W: I see.

HMJr: Now, do you suppose Mr. Hull could make it three forty-five or four o'clock.

W: Make it three forty-five if you can, Henry.

HMJr: I can make it three forty-five.

W: Oh, all right. Then make it for three forty-five tomorrow afternoon.

HMJr: Three forty-five at Mr. Hull's office.

W: Right.

HMJr: You'll be there.

W: Yes, indeed.

HMJr: I'd like very much to have you there.

W: All right, Henry.

HMJr: And -- thank you.

W: Anything else?

HMLJr: No.

W: All right. Good bye.

HMLJr: Good bye.

Brazil-U.S. Relationships

Special Report
February, 1939

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BRAZIL - UNITED STATES RELATIONSHIPSPersonalities in Brazil's Political
Life; Their Importance

A fact in Brazilian and Latin American civilization which the Anglo Saxon observer or diplomat fails to understand, and which is of paramount importance in all endeavors to understand the political situation at a given moment and to prognosticate future trends, is the institution of personalism. In a nation of possibly 42 million inhabitants, but where only 25 or 30 percent are literate (and as happens in other nations) wealth and power center in the hands of a few of the literate population. This means, in effect, because Brazil is still an agrarian civilization, that an absolutely small number of individuals tower above the masses and pull the strings which make the machinery go round. Furthermore, whatever be the explanations, the Brazilian as yet is largely an emotionally-motored individual who puts person, family, and personal relationships above party, principle, or abstract considerations. The only effective approach, therefore, whether it be in business, in diplomacy, finance, or commerce, is to throw overboard our conceptions that "business is business" and that "principle is higher than person", or that "party considerations must loom larger than personal interests", and to adapt ourselves to the Brazilian's personalist civilization. He even puts personal loyalty or loyalty to persons above truth.

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We stress this because a large percentage of the failures of American diplomatic and other enterprise in Latin America, in this case specifically in Brazil, has been due to the fact that this reality in Brazilian life has not been appreciated. Sergio Buarque de Hollanda, a well-known Brazilian sociologist, makes the outright assertion that personalism is perhaps the only vital reality in the social life of Brazil. It is for this reason, therefore, that, as we come to a discussion of certain aspects of Brazilian life, we will deal primarily with individuals rather than with groups or parties. Incidentally, by the Constitution of 1937, such parties as existed, were theoretically thrown out of existence, and even though they are still functioning as cultural societies, their leaders are far more important than the parties themselves or their programs.

Brazilian political life, does of course, move in directions similar to those of other countries when economic considerations are taken into account, though of course in days of planned or semi-planned economies, the normal expectations do not materialize. However, in this connection, it must be stated that there is a definite relationship between the world economic and political situation, and the influence of ideological pressures and propagandas on the Brazilian. But still, personalities count for perhaps more than is realized.

In view of the rapid shifts in Brazil's political life, it is extremely important to have a slight indication of the individuals or groups with whom the United States might have to deal in the event of the overthrow of President Vargas or of some other change in the Brazilian political scene.

President Getulio Vargas

The outstanding political personality in Brazil today is, of course, the President, who occupies a unique position in the life and in the history of Brazil. He is the first man to head a successful revolution against an elected head of the Brazilian nation and the first to remain in power for more than a constitutional term. A son of Rio Grande do Sul, he is one of the first chief executives from a non-coffee state, and this has had an important bearing on his attitude towards internal political affairs. Many elements in his own State, however, have turned against him and he has been "forced" to send into exile some of his own former henchmen. One of these was General Flores da Cunha, now in exile and declared guilty of the misappropriation of funds by a recent trial inspired by Vargas.

Vargas is a legendary figure about whom a whole folklore has grown up. Though a dictator, he is not the Hitler or Mussolini type. He uses publicity to create good will towards himself but as any man with a keen advertising sense would do it. There are no fantastic stories of his kindness, ability or genius. He is not

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worshipped nor hated. People are for or against him but not violently the one nor the other. This is due, in part, to the fact that Vargas claims to be all things to all people, that he is courteous to all who see him, appears to agree with all, and to the fact that he is the world's politician number 1, who can guillotine his friends and somehow do it without losing their friendship. Vargas has the uncanniest ability to kill off, metaphorically, all his opponents and one by one he has dropped them by the wayside. There are those who believe that he may take advantage of Sr. Aranha's visit to the United States for precisely this purpose, as Aranha is one of his main rivals.

It is very difficult to assess the accomplishments of President Vargas. No one knows what his own ideals and program are, so that no fair measuring rod exists. He has kept himself in power and prevented several revolutions, though some of these -- gossip has it -- were possibly inspired by the President himself. He blamed the Federal and State legislatures for his failures to put Brazil on its feet prior to 1937, but since 1937 his record of accomplishments is not much more impressive than it was before, and even some of his friends are beginning to question his ability or his program, or both. There is no question that he had done the country some good but in many respects the nation slipped back from where it was when he became President in 1930. It is true he had to defeat the 1932 Paulista revolution and then wait while the

nation formulated the new constitution of 1934, and then sit by idly while the legislature wasted time in discussing much needed legislation. But neither before the legislature met, nor after it was abolished, have his accomplishments been very impressive.

No one yet has accused President Vargas of being personally dishonest and until recently it was alleged that he would not forgive dishonesty on the part of his cabinet and other high administrative officers.

President Vargas, in spite of his reliance upon the wealth created by coffee, and in spite of the help given him by many Paulistas in the 1930 revolution, has followed a policy inimical, so the Paulistas claim, to the coffee industry and to the coffee planters who dominated national politics from 1891 to 1930, almost without interruption, though at the present time he has allied himself with precisely one wing of that very group. In any event, he permitted the situation of coffee to become worse and worse, and only when it became apparent that his government would run out of funds for necessary operating expenses, (due to the competition of the coffee nations who began producing after Brazil embarked on a price-fixing scheme) did he act, and even so the Paulistas believe he did this most grudgingly as one of his pet aims is to have no group in Brazil strong enough to oppose him. He believed that cotton, cacao and other products might free him from coffee but that day is a long way off. For many

decades, coffee will continue to be the main money-making crop of Brazil.

Towards the United States, President Vargas has an attitude which is almost as unique as his place in Brazilian history. He is one of the first Brazilian presidents who varies from cool to cold on Brazil-United States relationships. Barely, if ever, does he mention the United States, Mr. Roosevelt, the Good Neighbor Policy, and though he states that the foreign policy of Brazil is "Pan American", he generally gives the impression that he is referring to the near neighbors of Brazil rather than to the United States. Some allege that his peeve goes back to the time when the State Department backed his opponent in the revolution of 1930, just three days before Vargas won. In any event, unless we are much mistaken, this is the first time in Brazil-United States relationships that American diplomatic agents do not have easy and free access to the President of Brazil. Any dictator is, of course, somewhat drawn to the Fascist-Nazi dictatorships, whose language, at least, is not embarrassing, as they do not harp on Democracy. But there are those who believe that President Vargas, knowingly or unwittingly has fallen for the propaganda or persuasion of the totalitarians, and that if the United States weren't Brazil's best coffee buyer, he would swing right into the fascistic column.

President Vargas, when he is strong, is the main arbiter of the internal policy and also almost of the foreign policy of Brazil.

When he is weak, his position is extremely precarious, and the possibility of a political, or revolutionary, upset is the factor which must be taken into account. The United States must formulate its policy toward Brasil with a possible change of government in mind, and must play, therefore, an extremely subtle but intelligent game of trying to be on the good side of all groups, whether in or out of power.

Though the scene is one of extremely rapid and numerous shifts, a few weeks ago, President Vargas was maintaining himself in power, so it is alleged, because of a split of opinion in the ranks of the armed forces, apparently there being one group which leans in the direction of stronger ties to the United States, and to a more democratic form of government, and another which leans towards the present set-up and regime, the so-called New State, or which might even lean more in the direction of outright Fascism. President Vargas is generally aware of what is taking place in the Army and Navy, and very often is able to neutralize or stalemate subversive action. Nevertheless, as was shown by the movement of May 10, 1938, when he nearly lost his life due to a raid on the presidential palace, not even he is entirely safe or omniscient.

Foreign Minister Oswaldo Aranha

Whether President Vargas is weak or strong, Foreign Minister Oswaldo Aranha is a strong rival who has a game of his own, and whose coming to the United States may have unexpected reverberations.

If President Vargas has the full backing of the army, and feels very strong and more drawn to the Fascist states than ever, Aranha may find himself on a sawed-off limb. If President Vargas is weak, Aranha's hand may be strengthened, and he may feel inclined to overthrow the President. In this eventuality, three possibilities must be considered. One is that Aranha may bring Brazil back into the democratic fold and even closer to the United States than she has been in the past. Another is that he, too, may move into a neutral position, or one where he seems to lean in the direction of the Fascists, unless he, too, may find a revolution on his own hands, because there are many powerful regions of Brazil which have less regard for Aranha than they have for the President himself, or he might become a dictator too.

Dr. Aranha is the stormy petrel of the moment without the storm because the open and above-board political activity of all persons and parties is definitely curtailed by the Constitution, by the President and by the censorship. Dr. Aranha's place in Brazil's political life -- unless very recent changes have occurred -- is best revealed by the fact that the national censor sometimes puts his name on the index and refuses to permit (Brazilian) newspapers even to mention him and sometimes removes the lid, and allows Aranha to cultivate a favorable press of his own. The National censor is Vargas in the last analysis.

When Dr. Aranha left Washington and returned to Brasil, several explanations were given to explain his recall. We relay the gossip because even if untrue, it reveals what some Brazilians have said and have believed about the man with whom the United States is about to negotiate. One of the first reasons given for his recall was a story of a huge expense account handed in to the Foreign Office and which, so it is alleged, related to the entertainment of a Russian princess. And it was said that Vargas never forgives derelictions of this sort -- financial, not amatory. Another was that Aranha had sold out to foreign interests -- notably a large American oil company -- and was now espousing too freely and even unpatriotically the cause of the American banks, "widows and orphans", in the matter of the international debts. Still another explanation was that Aranha sent Vargas a blistering cablegram telling the President what kind of a fool he was when he adopted a corporative state and form of government. It will be recalled that Aranha, just two or three days before, had made an enthusiastic speech about Democracy, in Cleveland.

Since the above was written I have heard (most confidentially) from the secretary who took his dictation that Aranha himself went back to Brasil expecting to go into retirement on his farm in Rio Grands do Sul. But he was even doubtful whether he would be permitted to stay in Brasil. There are many possible explanations of this fact, but it does away with the theory that he was being called

to serve Vargas and the cause of Democracy and inter-American friendship. The funeral idea seems to be correct.

The last guess was that Aranha voluntarily left Washington in order to swing Brazil away from the Fascists into the democratic column again. Shortly after he arrived, he went on the censorial index and the gossip was that he was to be given a beautiful funeral. Ever too powerful for the usual type of Vargas guillotine Aranha was to be all dressed up and then dropped in great glory. He was to be Foreign Minister and then interred! The fact that Aranha has lasted so long is one of the mysteries in the situation. There are several plausible explanations. Many Brazilians believe that Aranha has the full confidence of the American State Department and that the United States has used him to brake the New State in Brazil, a fact which has irritated Vargas, Campos and all those sold on the New State idea. Others think he may be being groomed by North American interests for a greater role in Brazilian life. Another is that Aranha built up a backing of his own and became so powerful that Vargas did not dare oust him or subject him to the axe. Aranha has a following in certain sectors of Brazil though he does not stand high in Sao Paulo and in other regions.

Aranha has been known to be in contact with Plinio Salgado, the head of the Integralistas. It is claimed that when his brother was involved in the Integralista "putsch" of May 10, 1938, Aranha

insisted, after resigning, which resignation he withdrew because all the others, including the President "resigned" too -- that his brother be brought to trial and not let off as the powers desired. Aranha, so it is said, felt he could boost his own stock and lower that of Vargas by this means because he believed that the trial would bring out facts detrimental to the New State and beneficial to his own personal cause. At times it was believed that Aranha had reached the place where he alone could win against Vargas.

When Aranha returned to Brazil, he was heralded as the champion of democracy, and of a close rapprochement with the United States. Actually or in appearance he has cooled off perceptibly with respect to both of these ideas. His public utterances have been less and less "democratic" and the behavior of Brazil at Lima was decidedly at variance from that followed by Aranha himself at Buenos Aires in 1936. Aranha has had, assuming a modicum of honesty and sincerity on his part -- which most thinking Brazilians do not assume -- a hard row to hoe if he were actually pro-United States and pro-Democracy as Foreign Minister in a quasi-Fascistic and quasi pro-Italian state. And though there are those who doubt even his sincere Brazilianism, he is the Foreign Minister of Brazil and Aranha has complained of the policy of the United States with respect to Brazil and Argentina. Practically every time Washington has now bowed to Buenos Aires

there has been an instantaneous reaction in Brasil sometimes definitely in the direction of the totalitarian States.

Gossip about Aranha and the United States goes as follows. Americans who knew him in Washington say he has treated them somewhat coolly even though he was a warm friend before. Others claim that he has grown irritated with "his shadow", an allusion to alleged United States hounding. Others have said that Aranha himself has complained of Washington's Brazilian policy which has assumed that the friendship between the two countries was so firm as not to need cultivation. In any event, either Dr. Aranha has cooled in his pro-American and pro-Democratic ardors or he seems to have cooled for reasons of his own.

On the other hand, once having got into office, the realities of the situation may have led him to adopt a much more circumspect and diplomatic demeanor and attitude than was his wont, known as he is to be a bluff and frankly spoken Brazilian. But he is the exception if that is actually the case. There are no Brazilians of that sort. One must be shrewd and cunning as a serpent to play the Brazilian political game successfully. But if Dr. Aranha has retained his sincere interest in Democracy he has now shown it in one way which would have been revelatory. In all the talk of his activity, no word has come up of his having approached the Sao Paulo crowd which really stands for a certain type of democracy.

And there is much gossip as to the financial needs of Aranha and that he is susceptible to persuasion of that sort. If the other evidence stands the test of time and probing, there are governments which are willing to use "extra-curricular" approaches to the foreign ministers in general and to Aranha in particular.

Dr. Francisco Campos, Minister of the Interior and Justice.

Next to President Vargas and possibly on the same plane as the Foreign Minister, Dr. Oswaldo Aranha, stands Dr. Francisco Campos, Minister of Justice and Interior, the main author of the Constitution of November 10, 1937. Dr. Campos, according to gossip in Brazil, is an outright Fascist with regard to his own personal beliefs and who would, it is said, be willing to have Brazil definitely join the totalitarian States. His predilections run toward the Italian form of Fascism, though there are two opinions as to his own personal contacts with the Italian Government and with Italian institutions. The one believes that he is essentially a 100 percent Brazilian though enamored of a fascistic form of Government, while others believe that he may have been consciously, or unconsciously, sucked into the Italian fold by Italian propaganda or persuasion.

Since the establishment of the New State in November 1937, Dr. Campos has been extremely active in the issuing of pro-New State propaganda and apparently has kept himself extremely accessible to the German and Italian Ambassadors. At least the

newspapers frequently have reported visits of these diplomats to his office. Dr. Campos seems to be either indifferent or antagonistic towards the United States, or may simply, with respect to this problem, reflect the opinion and attitude of his chief, President Vargas. There are no particular evidences of open hostility, but nevertheless any coolness in official circles with respect to the United States is something new in Brazil-United States relationships. It was assumed shortly after the first shock produced by the proclamation of a corporative State in Brazil and after alleged pressure from the United States had been applied, that Dr. Campos would be either removed or transferred or sent to "wider fields of usefulness". Contrary to all expectations, however, Dr. Campos has remained in power and seems to be just as firmly entrenched as ever. Just recently, when the Minister of War was discussing very privately with certain of the Paulista crowd, possibilities of a movement against the President (or for the establishment of a more democratic form of government which is the same thing), the leaders of the Paulistic crowd were exiled and it was alleged that the order for exile came from the Minister of Justice and Interior and was opposed, of course, by the Minister of War, who nevertheless, had to give in to the Minister of Justice, at that moment apparently the more powerful of the two. This difference of opinion amongst the members of the President's cabinet is symptomatic of the situation as a whole

and suggests how dangerous it is to rely or place confidence in one individual alone.

General Gaspar Dutra, Minister of War.

What has already been said in the preceding paragraph about General Dutra will give some indication of the situation within the Brazilian Army, as well as in the cabinet of Brazil's chief executive. President Vargas, in the last analysis, under the old regime, but far more so at the present time, relies — because there is no popular basis for his government — for support on the only disciplined national organization which, with the exception of the Roman Catholic Church, exists in Brazil, the Army. There are, at least, four classes of Generals in Brazil. The first group is composed of relatively uncultured men who attach themselves to whatever leader seems to promise them the most in return for their loyalty, men of little vision yet extremely important and powerful because of the manpower which they lead and can mobilise. The second group is composed of very sincere, highly patriotic, intelligent and well-educated men who definitely believe what they believe and these are subdivided into three classes: a small few who definitely prefer Brazilian solutions to Brazilian problems; another group which is frankly pro-democratic and pro-United States; and another which is pro-totalitarian and

pro-closer times with European countries. Then there always are the anti-Argentine Generals who constantly buzz about the Argentine peril. When the Army is divided, the President is fairly safe though his position is weak. When it is united against him he is generally not only weak but out. But when it is united back of him the President is in an impregnable position. There is available concrete evidence to show that certain high ranking officers in the Brazilian Army are definitely against President Vargas and also against the Minister of War, who incidentally, according to one version, has personal dictatorial ambitions, and would like to set himself up as the arbiter of Brazil's destiny.

Many thinking Brazilians, even amongst the pro-American and pro-democratic group, believe that the country must go through a period of military dictatorship before it can ever return to the democratic folds, though many of these doubt whether General Dutra is the one to play that role. In any event, if past trends in other Latin American countries and in Brazilian history itself are any indication of future possibilities or trends, it would be extremely unwise not to consider as one of the possibilities for the immediate or not distant future, a military coup d'etat which might set up General Dutra or some other high ranking officer as Provisional President. If that occurs, judging by parallels in other countries, one of two possibilities looms up. The provisional

dictatorship may become permanent or it may actually pave the way for a return to the Brazilian type of democracy. This gives the military missions to Brazil a significance hitherto unappreciated and suggests that the Generals deserve special handling.

The Paulistas

Even though the leaders of the Sao Paulo party, led by Dr. Armando de Salles Oliveira, are now in exile, both they, the party they represented, and all of those who constituted what was known before 1930 as the coffee barons of Brazil, must be taken into account in any discussion of Brazilian affairs. Sao Paulo is still the wealthiest and the most enlightened state in Brazil. The Paulistas are the most vigorous and hard working of all Brazilians. Sao Paulo's coffee still provides percent of the national revenues of the State and of the wealth of the nation. Sao Paulo still leads in financial, industrial, educational, artistic, cultural and other activities, and for over a hundred years it was the inhabitants of that State who guided or dominated the internal evolution and the foreign policy of Brazil. There is no question that for many years prior to their fall in 1930, they manipulated politics to suit themselves and the other coffee States, and looked upon the South and the Northeastern and Northwestern hinterlands as colonial territories which should be subservient to the will and needs of Sao Paulo. There is no doubt, too, that in the period of their undisputed sway corruption

cropped into their administration and politics and that the nation was ripe for reform. But the following fact is often overlooked. Siding with General Vargas in the revolution of 1930 were many Paulistas who were just as eager to see the nation adopt a new political, economic and social program. It was that group which cooperated with President Vargas after the revolution of 1932. Vargas chose as his personal interventor in Sao Paulo, Dr. Armando, who after 1934 became the Constitutional Governor of the State.

In January of 1937, Dr. Armando resigned the governorship of Sao Paulo in order to become a candidate for President in the political campaign which began in the middle of that year. When the November 10th coup d'etat took place, there were many who believed that without any doubt at all, Dr. Armando would have been elected. Brazil has probably no more than 3 million voters and the State of Sao Paulo alone promised about 700,000 of these. Objective analysts seemed to think that Dr. Armando had enough votes in the other States to assure him the majority which he needed. When the coup d'etat took place, one of the alleged reasons given for it was that one or another of the candidates was planning to seize power and that the nation had to be saved from civil war and anarchy. In any event the campaign came to an abrupt halt; Dr. Armando was sent into an interior town under heavy guard and his movements were constantly watched from then on. This group is determined to fight until they get rid of Vargas or

he gets rid of them.

They represent what we might call in this country, the old-fashioned conservative republicans who believe in a democratic constitutional regime, providing the democratic base is not too broad, and providing that what they call the "elite" is kept in power. In any event at this juncture, if United States foreign policy actually were in accordance with the publicity which is issued in Washington, the American Government and the people would be or should be most interested in the fate of this particular group. Though there is little probability of their coming into power, nevertheless, there is such a possibility and to antagonize them either by indifference or by the active support of another candidate would be foolish indeed. It was this group which was approached by very wealthy Germans who offered to finance its campaign in exchange for a southern State.

Communists and Integralistas

Very positively as constant undertones in the political picture of Brazil are the Communist and Integralista parties. With respect to the Communist group, there is this much definitely to be said. There are Brazilian Communists of the parlor as well as of the practicing type and some who belong to the intellectual elite of the nation. There are also Communist agitators from abroad, though their activity has been very much circumscribed since the so-called Communist uprising of November 1935. We say so-called because there are those who believe that one of the techniques of President Vargas (who it is said was once a Communist himself) is to make use of the Communists and Integralistas for his own purposes, going so far, again it is alleged, as actually to incite them to revolt. Even though President Vargas openly attacks the Communists, and never fails to mention them (a significant fact because he never attacks the Fascists or Nazis nor does he praise the United States or democracy) there is definitely, in the large cities, at least, and in certain scattered communities, a Communist group which has adopted what is apparently the world-wide tactics of Communists which is to ally themselves apparently with the democracies and to uphold the hand and the policy of Mr. Roosevelt as long as he makes his enemy number one the Fascist states. In any regime which is so arbitrary and which has no popular base, it is obvious that the dictator or quasi-dictator in order to justify

his use of force and to have constant arguments to present to the people explaining his type of rule, and to maintain the loyalty of the army at white heat, must have a rabbit which he can pull out of his sleeve at will. Communism and Fascism are Vargas' rabbits. There is, however, no economic or social soil in Brazil or Latin America in which Communism of the Russian type can thrive. Therefore, as long as the Soviet Republic is contented to stick to her knitting, the Communist peril is a minor one, both considered from an internal point of view as well as an external danger. Most of the known Communists are in jail or in political prisons or under surveillance, and except when their activity is needed, in order to bolster up the power of the President, they are constantly within the observations of the police officials and authorities. It is extremely dangerous in Brazil to admit that one is a Communist or be one. This is not true, however, of Integralism.

The Integralistas, or the Green Shirt Party of Brazil, the so-called Brazilian Fascists, have at least this to their credit, and it is a fact which has made them something of a menace and a danger to the regime of President Vargas. Having insignia, rituals, uniforms, a mysticism and a discipline, the Integralistas have something which no other political party has ever had in the history of Brazil, a well-organized nation-wide group of men united for a purpose and obeying the orders of a national leader. Though the Integralistas claim that they are a Brazilian group with a Brazilian

program for Brazilian needs, there is no question that the Italians and the Germans (and there seems to be some evidence of Japanese interest too) look upon the Integralistas as the group whose victory in any political struggle would be most favorable to the political and economic and possibly strategic interests of Rome and Berlin. There are many objective Brazilians who have absolutely no doubt that these foreign nations directly or indirectly have financed, or have offered to finance, or promised to finance the whole Integralista party or branches thereof on stated occasions. It is a known fact that after the Integralista putsch of May 1938, that certain of the leaders took refuge in the Italian Embassy and that shortly afterwards, the German Ambassador was declared to be *persona non grata*. Though only morally certain of the links between Green Shirts and foreign totalitarian states, it would be extremely difficult to prove any concrete connection between them.

Be it said in passing that such items as recently appeared in the American press about a Fascistic plot to capture the government of Sao Paulo may not appear in the Brazilian press at all and may be used for external consumption alone; it is doubtful whether the Paulistas, who were alleged to have started a movement on January 25, were aware of the movement at all.

The Integralistas, with their mottoes of God, Family and the State, have a program which is more closer akin to Italian Fascism than to anything else. They are definitely anti-Semitic, ardently

pro Roman Catholic Church, extremely anti-foreign capital, and possibly specifically anti-United States, precisely because the United States makes a lousy show of being democratically inclined and, of course, true democracy is the very antithesis of Integralism or Fascism.

Just at the moment, the Integralistas are extremely bitter against President Vargas. With his usual political shrewdness, so it is claimed, before the coup d'etat of November 10, 1937, he lured them out into the open, giving the appearance that he was going to share power with them, adopted many of their ideas as soon as the coup d'etat was successful turned his back on them, and as they put it "betrayed" them.

Liberal foreign observers have not been loth to link the failure of the May 1938 putsch with the putsch in Chile in September of the same year. They feel that the game of the Germans is so desperate a one that, having failed in their principal objective, they turned to their second in the hopes that what failed in Brazil might succeed in Chile.

Theoretically, the Integralistas have become merely a cultural club, most of whose branches are not permitted to operate legally because a decree-law requires that these cultural associations have swimming pools and libraries, and since the vast majority of the branches of the Integralista

party are too poor to support either a library or a swimming pool, it is to be presumed that they are not functioning. Actually, however, they, as well as the political parties have carried on as before, sometimes changing their names, sometimes not. Their activity, however, is not public, as in times past.

It is entirely within the realm of possibility because of the large number of Italians, Germans and Japanese who have come to Brazil or who are second, third or fourth generations of these, as well as because of the organization and the propaganda of the Integralistas and its catch phrases which are apparently so thoroughly Brazilian in purpose and ideal, and because of the real or alleged support of foreign government, as well as of certain army and navy officers who are staunch Integralistas, that this party may come into power and it would be extremely unwise to neglect it or to overlook its actual strength and potential possibilities.

Intellectuals

The outstanding intellectuals of Brazil insofar as it is possible to generalize about them, are very much concerned about the present situation and about the internal and external perils which face Brazil. The majority, perhaps, are democratically minded, fairly warm and strong in their friendship and admiration of the United States and becoming increasingly more "Americanist"

in their philosophy. That is, there has been a tendency in Brazil for the intellectuals to consider themselves "white" and to be proud of their "whiteness", of their European civilization, of their French manners and cuisine and styles, and this means, of course, somewhat ashamed or prejudiced with respect to the negroes and Indians in their civilization and to the American props of their culture. In the last five years, however, with the imperialism of Italy, Germany, and Japan, with the example of China and Spain, with the collapse of Great Britain and France at Munich and with the counter-activity from the United States which, no matter how they may have felt, had this appeal -- Washington spoke about peace, non-intervention, continental solidarity and other ideals in which the Latin Americans think they thoroughly believe. That, for one thing. In another field the Brazilians have tended to discover and come to esteem the American aspects of Brazilian civilization. The last four or five years have been a partial Americanization of Brazil, and were it not for this fact, Brazil might have ere this gone into the totalitarian column.

We believe we are safe in saying that the majority of intelligent Brazilian intellectuals would like to see Brazil back definitely in the democratic column and as closely tied to the United States as possible.

The Masses

In a nation where 60 to 75 percent of the people are illiterate, it is impossible, of course, to speak of public opinion. There is, however, one great force which has tended to bring the masses closer and closer to the United States. Contrary to the opinion of professional Pan-Americanists and other reformers, the American movie, with all its faults, is the only cultural propaganda of the United States in Latin America today, and its influence is both universal and profound. Through the American movie the Latin American has achieved, of course, a false conception of many phases of American life. On the other hand it is somewhat realistic, and one which transmits itself into documentable realities such as new style kitchens, bathrooms, architecture, dances, styles in dress, etiquette, etc. This reaches the literates as well as the illiterates and achieves a greater significance as a cultural vehicle of propaganda because critics like Guilherme de Almeida, the poet number one of Brazil, a member of the National Academy of Letters and one of the outstanding social and intellectual lights of the nation, who writes a daily column in Brazil's most influential newspaper, has consistently harped on three features of the American movie, first, the technical perfection of American cinematography, the prevailing superiority of the American films over the European when it comes to plot, movement, direction, etc., because he claims that

an American film may be bad but it is never ridiculous through the failure of its directors, whereas many European films are ridiculous against the will of their makers, but Almeida has stressed as a third feature of the American movie the fact that they are morally clean and he has printed and re-printed the commandments under which presumably the American films are made. Whether he is right or wrong, the point is this -- this Brazilian critic is an outright propagandist for the American film and that means, of course, for the American civilization which produced it. Undoubtedly, there is a tremendous popular admiration for things American, and whether the movie is responsible or not, it is a factor which must be kept in mind when anti-American elements in the federal and other governments are discussed or alluded to.

The growing middle class in Brazil is perhaps just as United States minded as the intellectuals of which we spoke above. The urban proletarians and groups tend to follow the President in whatever policy he is sustaining at a given moment. The country workers have practically no say or weight in public affairs at all.

The Present Internal Situation in Brazil

Enough has been said about the personalities in Brazilian political life to give an idea of the present situation from that point of view. In theory, Brazil now has a corporative constitution and in the last year and two months it is claimed that in all sections but Sao Paulo the New State has won adepts and is going strong. On the other hand, the recent exile of outstanding leaders from north, central and southern states suggests that the opposition to this regime is strong enough to worry the President and that he has felt called upon to eliminate in this way one faction of those who would overthrow him. Recent cables suggest that the Green Shirts or Integralista Party is still active and unwilling to accept the new state of affairs. There is undoubtedly, even amongst the masses, but more particularly amongst the intellectuals and old-line Democrats, a strong undercurrent of opposition to President Vargas which produces unrest and uncertainty. This is reflected, of course, in business and banking circles and amongst the thousands of government employees who are constantly in fear of political upsets (and the latest private information which I have received from Brazil is that a big political upset is in the offing and that possibly the country may be torn by Civil War). Regardless of the situation created by Mr. Vargas, in all probability Brazil would be going through a period of extreme political turbulence at this time, anyway. The readjustments

brought about by the World War, the disastrous history of coffee, the rapid industrialization, and dislocation of peoples, the change in social ideas and customs, and other long and short-term trends which have been discussed elsewhere, would have created a situation of instability had there been no revolution of 1930 or coup d'etat of 1937.

Disregarding, too, the pressure of the totalitarians and Japanese states, Brazil is going through a period of groping for a political form of government conformable to her ethnic, economic, social and political conditions. This is just as true with regard to her educational policy and an illustration in this field will illuminate the situation as a whole. In the University of Sao Paulo, for example, the Brazilians are definitely trying out four different educational schools -- the Portuguese, the French, the German and the North American. After many years of English, French, German, and philosophic and literary influences, the Brazilians have decided to establish a higher education of their own in order to forge a Brazilian type of civilization. But when they set up their university they came to the decision that they themselves did not possess men of university caliber and that it was still necessary to import professors from abroad, but rather than expose themselves merely to one school they have chosen the four groups which we have mentioned.

This is extremely significant from the point of view of general United States-Brazil relationships. As yet, no definitive decisions have been made in Brazilian political or cultural life and everything is in a situation of equipoise, for the time being equally balanced, ready to teeter in one direction or another. The totalitarian states, Japan, Great Britain and France apparently have realized this fact (though their policy may be part of a general program) and are throwing all their weight into making the plates of the scales sink lower in their direction.

This provides the United States with an opportunity of throwing its weight into the balance in order to counteract the pressure of foreign competitors or swing Brazil definitely into an "American system", American being understood in the larger and Latin American sense of the word. In this educational situation the lone American professor is the only one who does not have any backing from his government. The Italians, the French and some of the Germans get, in addition to their Brazilian salaries, their European salaries. Every year's service in Brazil counts double for retirement purposes, they are given free passage back to Europe every summer, they have funds for taking Brazilian students and professors on tours of Europe, and shower the local university with gifts. The American professor is now teaching American History with books given to the University of Sao Paulo by the French Government, and his assistant who should be studying American History in the United States, is studying that subject in Paris on a French scholarship.

As we shall see in another connection, assuming that none of the totalitarian states have any sinister design on Brazil or Latin America, this culture-teering activity at least has brought out the absence of similar activity on the part of the United States and provides the Brazilians with a leverage in diplomatic affairs which they have not enjoyed up to this point.

At the moment when negotiations between Brazil and the United States open up, there are several short-term tendencies in Brazilian life which have a distinct bearing on the situation as a whole and which must be known in order that negotiations may not go completely awry. In the first place, Brazil has embarked on what is for that country a vast armaments program, which in the opinion of one of its clearest thinkers, may ruin the nation's economic life and bring it to the verge of bankruptcy. Dr. A. A. told me that he spoke to the minister of war and to General Goes Monteiro about the foolishness of using all of Brazil's gold reserves in order to make purchases of arms, partly in Germany (apparently because of the German connections of a relative of President Vargas) and once in possession of these armaments not having any money or credit with which to use them. A. A. asserts that the general scratched his head and said, "We never thought of that." Whether the story is true or not it is something that could possibly happen in Brazil and shows how unorthodox is much of Brazil's official thinking and planning.

The second temporary (?) trend is a wave of anti-foreignism, which is due in part to the gradual Brazilianization of Brazilian life, but in part due to the fact that the propagandists from abroad have over-reached themselves and have made the Brazilians realize some of the dangers which they have to face. The third is a definite wavering between democracy and Fascism on the part of certain officials in the Brazilian Government. The fourth trend, which may become permanent is a new rivalry with the United States over cotton.

The last is the fact that Brazil is now going through a period of transition in which all is temporarily confused both ethnically and culturally. The implications of the latter fact are extremely important. At this moment no one in Brazil knows in which direction the nation is moving nor are there any signs pointing to the new type of civilization which Brazil will construct. Therefore, it is practically impossible to sink anchors into any Brazilian institution and wrong to expect them to hold. To lend great sums of money to a nation in flux seems hardly advisable from any point of view. To bolster up the present regime if the majority are against it is to court loss of all when the regime falls. To groom a new man or group will prove boomerangish in other ways. For the present short-term policies seem best.

Incursion of Fascists and Other Nations into Brazil

Brazil, a nation larger than the United States, has a sparse population computed at from 40 to 45 millions of inhabitants. A vast majority of these are illiterate and poor, which means that the nation is socially and defensively weak. It is claimed that there is more unexplored territory in that nation than in the rest of the world put together, and it is well known, of course, that its known regions teem with mineral wealth and raw materials which industrial and have-not countries greatly desire. Brazil is one of the biggest potential markets in America and has been developing by leaps and bounds in the last 20 or 30 years.

For these and other reasons Brazil has become the focusing point of the attention of many of the nations of the world. Japan has placed about 175 thousand immigrants in Brazilian territory since 1920 and was developing, up until her war with China, a thriving trade with Brazil. Brazilian alarmists claim that the Japanese colonies are so located that at some future time they could form a united hand clear across Brazil and Peru shutting off the north from the south. There are many Brazilians who fear the "Japanese peril". Japan has indulged in culture-teering and has sent in the last year a tenor, a dancer, an archeologist, a Japanese Catholic mission, trade and other missions, who have gotten a great deal of publicity and who have sought to interest the Brazilians in Japanese civilization. The Japanese consulate in Sao Paulo is a veritable

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legation and the consul general (until recently) was a scholar, gentleman and diplomat who organized extremely impressive receptions and dinners to which he invited the elite of the city. It was he who founded the archeology society of Sao Paulo. In spite of the language barrier the Japanese have been eminently successful in making the better side of their culture known and felt in Brazil.

The largest foreign group in the nation is that of the Italians. They have been official immigrants for more than 50 years and have scattered about in the southern states, though their main headquarters are the city and state of Sao Paulo. There are over a million first and second generation Italians who in very recent times have been subjected to enormous propaganda from Italy. Italy, too, indulges in culture-teering on a large scale. There are more than 10 Italian professors in the University of Sao Paulo. In the last year two of the outstanding Italian dramatic companies played in the outstanding principal theaters of Brazil, and hardly a week goes by that some eminent Italian statesman, scholar, poet or artist does not visit Brazil and praise Brazil and his own country. There is a constant stream of Brazilian students and professors to Italy, and the Italian Government is extremely generous with official lapel decorations which are so influential in veering the opinion of individual Brazilians in the direction of the country whose government bestows it. Italy, too, makes great use of the local radio stations and of her short wave station in Rome, 2RO.

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Germany plays a similar game, though with a somewhat different technique. It is only fair to say that some of the fears expressed with respect to the fundamental purposes of Germany are not altogether absurd. It may be that Mr. Hitler himself has no designs on Brazilian soil. We are, however, dealing with an historical trend which is over 40 or 50 years old. Ever since the large migration of Germans to the State of Rio Grande do Sul and to other of the southern states of that Republic there has been gossip of the part which those states played in the plans of the German Empire and of its general staff. Samuel Flagg Bemis, in his diplomatic history of the United States documents the fact that even before the beginning of the construction of the Panama Canal that the United States feared that Germany would establish naval bases in the New World and that as early as 1903 she had designs on the State of Rio Grande do Sul. In one of the most famous novels of Brazilian literature written in 1903 the author describes the German peril as it existed then, and at the time of the World War Brazil took stringent measures to curb the activity of the Germans in the southern states and after the Integralista movement of May 1938, when it was alleged that the German Embassy had had more than close dealings with the leaders of the Brazilian Green Shirts, measures were taken to curb the activities of the Germans now acting under the direction apparently of the Hitler government.

Germany's use of the short wave radio for propaganda purposes is nothing short of miraculous from the point of view of technique and thoroughness in the preparation of programs for propaganda purposes. Her programs reach even tropical Brasil in the day time, better very often than the local stations themselves, and her programs in Spanish and Portuguese are calculated to be propaganda of the most disarming sort. One of Germany's most common techniques is to invite a Brazilian scientist or scholar to Germany to give him a royal good time at the expense of the German Government and then to put him on the radio to tell the folks back home what he has seen. Furthermore, the German short wave stations cultivate individual Germans in the "colonies" abroad. They mention literally hundreds of people by name in various parts of Brazil and Latin America and try to establish that personal contact which amounts to so much in the development of friendly relations between a mother country and her sons or former sons abroad. In spite of the fact that the Japanese, German and Italian countries have formed cysts they do have a large number of friends and often relatives in the Brazilian population and there is no doubt that they have converted many Brazilians to Nazism or to Fascism. It is claimed that these three groups, too, are very close to the Green Shirt party and that they themselves or the governments they represent have helped to finance a movement against the established regime.

(Regardless of that, however, I know definitely from the top leader of one of the parties involved in the presidential campaign of 1937 that a group of Germans offered to finance the campaign of the party if the State of Rio Grande do Sul were given its independence and were permitted to become part of the German Empire. This is as authentic as anything can humanly be.)

These nations if they have no sinister designs are making a tremendous bid to capture the trade of Latin America and to bring the Latin Americans as close to their own ideologies as is possible for economic reasons. Again assuming that they have no sinister designs, this is due to the well-known fact that the predilection of Latin Americans is to trade with those whose governments are somewhat similar to their own. In all the Latin American countries where there are totalitarians or a somewhat aristocratic group which is ruling the roost, nazism and fascism automatically appear to be more conformable to local conditions than democracy or communism. One of the reasons for the success of the totalitarians in their fight for Brazil is precisely this fact. But as we have stated on so many occasions in this report, Brazil has not as yet made her final decision and is in a state of equipoise.

Basic Considerations of Brazilian Evolution

The new or closer relationships between the United States and Brazil, if there is a sincere desire to place them on a more realistic basis, must be made to fit in with the more permanent trends in the political, social and economic evolution of Brazil. All of these naturally have a very definite bearing on whatever tie-ups present day Brazilian authorities may contemplate and in many instances may run contrary to the sincere intentions of those now in power. When a trend is definitely in the direction of nationalizing all resources and all production it would be extremely unwise to invest capital as though the good old days were still at hand even if the group now in power promises privileges of an extremely liberal nature. The trends are stronger than the will of the individuals now ruling and though temporary advantages might accrue in the long run both the United States and Brazil must suffer if the trends are overlooked or not taken into account.

All of the following long-term trends have a direct and indirect bearing on the evolution of Brazil in the years to come and will affect vitally (or slightly), but in some fashion, whatever agreements are reached in Washington with Sr. Aranha. In this instance the objective and outside scholar may be more of a realist than the Brazilian diplomat himself and though he may state boldly

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and loudly that Brazil wants so and so he may be wrong and moved by wish thinking. He and many Brazilians may want to adopt a policy or program now but if the trend is in the other direction, the United States, unless it is willing to alter the course of the trend, would be extremely unwise to buck the tide. As many of these are self-evident trends there is no need to document them and they will be merely listed in order to complete the picture of Brazil today.

(1) Brazil is a nationality in formation where Europeans, Africans and Indians as well as modern immigrants from Europe and Asia are being welded into a "race". As yet there is no "Brazil," "Brazilian public opinion" or "Brazilian people". This means that the United States Government even though negotiating with the Federal Government of Brazil is actually negotiating with a man and with a group of men who in this specific instance happen to come from Rio Grande do Sul, a state which has had little contact (much of it violent and revolutionary,) with the rest of Brazil. The problems, point of view, psychology and speech of the Rio Grandenses are different from that of the other Brazilians. Vargas and Franha seek of course to represent all Brazil but regardless of their intentions the rest of Brazil or many parts of it do not recognize their voice nor their minds as speaking for all Brazil. Many even laugh at the President's pronunciation of al when he says nacional. Regionalism is one of the most important influences in Brazil's

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political life. Though the tendency towards centralization, the development of a nationality and of a "race" are facts, they are the slowest working of all the trends.

(2) Since the World War and more particularly since the depression of 1929, (really 1924-25 for Brazil because then the price of coffee began to hit the skids), Brazil has moved in the direction of nationalizing its wealth and production. This has been accelerated by Vargas and in specific instances speeded up since November 10, 1937. This is a Latin American-wide trend which ends the good old days and imposes stiff requirements on the foreign investor, exporter or importer, banker or insurance broker or business house. Brazil has recently taken a whack at foreign oil and other foreign interests and the probabilities are that she will go even farther. In many cases purely personal, local or specific factors are involved but as long as they fit into a general trend the other more ephemeral explanations are of little importance, excepting to the actual interests hurt. "Nationalizing" is used in the Brazilian sense. It means transferring the ownership of a foreign concern into Brazilian hands by purchase, decree, expropriation or by whatever other means seems most expedient and getaway-able with at a given moment, or by imposing the requirement that a certain high percentage of employees and directors be Brazilians. Though there are ways in which the law can be circumvented the recent tendency has been to tighten up and actually to nationalize banks, business

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houses, insurance companies, schools and clubs though the nationalization of the latter has political and cultural significance rather than economic.

(3) In addition to the two above factors, it must be said that Brazil and the Brazilians are going through a process of Brazilianization and "Americanization". From the point of view of the relationships with the United States, this is one of the most important recent trends which has every indication of becoming more and more wide-spread and more and more characteristic of the people as a whole. The more Brazilian and American the Brazilians become, the more they will tend to veer in the direction of a closer tie-up with the United States and with the policies which Washington seems to be espousing at this particular moment. As this process is on the upturn just now and as the Brazilians are feeling their way towards a new type of civilisation (for themselves) any direct or indirect help of the United States which can be given in answer to direct requests from there, and which in no way can be interpreted as being either military, economic or cultural imperialism or mere propaganda would tend to accelerate the process and might steer Brazil definitely into the democratic column and more solidly into an "American system".

By "Brazilianization" is meant the process of shuffling off the European veneer and European preoccupations and predispositions of the Brazilian and the process which makes him proud of his own country, customs and culture even though they be less attractive than

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those of nations overseas which he admires. It is a process which is more natural than artificial and one which, though producing a cruder and rougher type of civilization, for a time, will be in the long run a far more stable civilization than that which has existed heretofore because more natural and less artificial.

By "Americanization" is meant the two-fold process of making Brazilians more and more aware of the fact that there is such a thing as an all-American civilization distinct from that of Europe or Asia, and that for the time being at least it is a civilization of which all who partake of it can be justly proud. Many Americans in this wider sense of the term American are beginning to perceive that all American conditions have tended to develop common outlooks, common needs, common traditions and other common experiences which make all of the Americans despite the great differences between them more similar to each other than they are similar to the European or Asiatic.

These two processes of Brazilianization and Americanization in themselves would never cause the Brazilians to associate themselves more closely with the United States than with other nations alone but if advantage is taken of the processes intelligently and opportunely, they will aid the United States in winning one of its major objectives in its Latin-American foreign policy.

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The second aspect of Americanization is one which has been discussed elsewhere and comes from the imitation of both superficial and other aspects of American life because of the influence of the movie, the returned student, and the exportation of American books.

(4) Ever since the world-wide depression and the assumption of power by Vargas in 1930, he who came from a southern and not a coffee state, the Federal Government has preached the necessity of crop diversification and has done what it could to widen the base of Brazilian economy. Vargas personally became very much interested in the planting and producing of cotton in large part because he felt that this would diminish the power and strength of the coffee states; cotton seemed to thrive beautifully in the north outside of the coffee areas. As soon, however, as the Paulistas began growing cotton themselves even between the coffee trees, Vargas made an attempt to develop the cacao industry in Bahia, and has also fostered the development of the citric fruit industry in Central Brazil. He has also done all he could to promote the planting and production of wheat.

In the last few years the industrialization of certain sections of Brazil has gone on apace and one of the main economic advisors of the President is Dr. Roberto Simonson, a Paulista industrialist who seemingly has little connection with the coffee

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planters of the state. Even though one of Vargas' main aims is to emancipate himself from the influential coffee group as long as coffee is still the main source of Brazilian revenue and wealth the Federal Government has found it necessary to interest itself in the coffee industry. Just prior to the coup d'etat of November 1937 after the failure of the Pan-American conference of the coffee nations, in Havana, the situation of the coffee states worsened rapidly day by day and it became apparent to all that drastic measures must be taken. Brazil issued a virtual ultimatum to the other coffee nations in America and announced to them that they must either cooperate with Brazil or that Brazil would let down the bars and flood the markets with her product, surpluses of which she had to burn and had been burning. The other nations refused to believe that Brazil was sincere but Brazil lived up to its promise and opened the gates of coffee with, of course, the immediate result that the price of coffee fell and even though the amount of Brazilian coffee exported increased, for the first time in five or six years Brazil has had an adverse balance of trade. Brazilian economists are of the belief that this situation is temporary, and that soon Brazil will not only recapture the markets which she has lost but will be able to influence the price of coffee and that more exchange will pour into the country than has come in for many years.

It is politically significant, however, that whatever President Vargas has done for the coffee planters and the coffee industry seems to have been done grudgingly and only when it appeared that the government's own main sources of indirect and direct revenue would dry up. This is an evidence of the lack of logic in the whole situation. As long as Brazil relies on the exploitation of coffee for a large percent of its revenues, one would believe that at least the Federal Government would nurse that particular industry, and though Vargas came to the aid of the coffee planter at the crucial moment, he has acted with respect to them as he has acted with respect to the United States. Either because of his antipathy for the United States, or for the coffee growers, President Vargas has done little to cultivate the good will of the nation which has poured in the biggest amount of exchange which Brazil has received from abroad or that of the Paulista. If, however, what he did in the case of coffee is any indication of what he will do with reference to United States Brazil relationships, he can be counted upon to back his negotiators here in Washington and set his seal of approval on a closer tie-up with the butter to his bread.

(5) Another tendency which must be taken into account has been the trend in the direction of political and economic centralization. This is an old Brazilian problem due to the historical antecedents, and to the lack of adequate means of communication between the various

regions of the country. In some respects even today, Brazil's internal life is comparable to that amongst foreign nations. Governors or state interventors have what virtually amount to embassies and legations allocated to each other, and most political movements in Brazil have been the result of combinations amongst these State administrative officers. Some states have customs duties or barriers for the goods coming in from other states and until 1930, many of the states could make what were tantamount to treaties with foreign nations and to make loans abroad as though they were sovereign states. Much of this has been changed since 1930 but the movement was greatly accelerated by the coup d'etat of 1937 and with one exception, today all the state interventors are hand-picked appointees of President Vargas and the only exception was and is one of his henchmen anyway. The constitution of 1937 very definitely centralizes all power into the hands of the Federal Government and more specifically into that of the President himself. Part of this was a very necessary reform in the political and administrative situation of Brazil but part of it has been to nullify the power of the Paulistas and to stalemate the opposition.

(6) Part of the above trend is explicable by another which is important in its economic, political and social implications. Modern tendencies have tended to break down the old colonial and

imperial props on which the republic rested up to and through the World War. With the abolition of slavery in 1888 and the first big collapse in the price of coffee in 1924 and 1925, the old large landed aristocracy of Brazil began to crack up and though this has tended to promote the subdivision of the large landed estates, it produced a period of transition during which no substitutes have yet been found for the statesmen, political and cultural leaders which that old aristocracy developed. In the political scene today there are none of those great towering figures which even in 1920 dominated the intellectual and political life of the nation. With the breakdown of this aristocracy, a small middle class has begun to appear and under republican institutions, individuals from the lower classes have begun to filter through to the top. But as they did not possess the wealth of the aristocracy, they were forced to obtain their education in the facilities available at home and these were notably inadequate as compared with the European and North American schools to which the scions of the old families had gone for their educations. In addition to all the other crises through which Brazil is now going, it is also going through an educational and cultural crises in part due to the breakdown of the old regime.

That has explained in particular a leftward trend in many sectors of Brazilian life and a socializing tendency on the part of President Vargas and some of his aides. When Vargas came into

power there were many who asserted that he had belonged to the Communist Party or that he was extremely leftist in his ideas and ideals. In any event, he soon realized how fickle was the loyalty of the army and of many other elements on which he had counted for support. Accordingly he made a definite play to bring the laboring men both in the city and in the country to his side and the Brazilians assert today that their country is the one which has the biggest program of social legislation of any in the world save perhaps Russia. Along with this trend in the direction of favoring the working man and protecting him against the employer, a fact which causes real hardships in stores and industrial plants, so it is said, in the big cities, and which does effectively protect the worker as he has never been protected before, is the fact that this social legislation, in many instances, was neither needed nor desirable, because conditions in Brazil in spite of a low standard of living were not comparable to those in certain mining and industrial areas in other nations whose laws were somewhat imitated. Leftism in Brazil, though recent and artificial, is a factor which affects American property and capital interests in that nation.

Along with this movement and closely attached to it has been a rather wide-spread trend in the direction of rehabilitating the

darker races in Brazilian life. Since 1930 a large number of scholars have begun to study, to praise and to attribute much of the finer things in Brazilian civilization to the Negro and also to the Indian. This tendency fits in with similar trends in other parts of Latin America and must be taken into account when any long-run view of Brazilian evolution is considered. Though there is little possibility that political or economic power will be shifted from the whites to the darker races, nevertheless, it is quite possible that the darker elements will play an ever greater role in Brazilian life and their policy will probably be more and more inward than outward looking.

(7) In the field of international relations, the rivalry with Argentina for hegemony in the South American continent must be taken into account because it is a constant factor. Two years ago the then minister of Justice who had been foreign minister just before, seriously discussed the Argentine plans for an invasion and an attack on Brazil. Fantastic as it may have seemed, there were moderate and objective Brazilians who believed sincerely in the possibility of a war with Argentina. Regardless of this, however, the two nations have been diplomatic and military rivals from the beginning of their independent histories and were even in colonial times, and it is jokingly said that anything for which Brazil stands, Argentina will automatically oppose.

In the case of Brazil-United States relationships Argentina plays an important and positive role. When the Good Neighbor Policy set out to conquer the friendship of all of the Latin American states, including that of Argentina, the Brazilians say they calmly advised the State Department that their efforts would prove fruitless and that it would be a serious mistake to throw into jeopardy the friendship of Brazil in order to win that of the Argentine Republic. Foreign Minister Macedo Soares claims that he warned Mr. Roosevelt himself about the foolhardiness of trying to win over the Argentine Minister Saavedra Lamas (a psychopathic case if there ever was one). The State Department, however, persisted, and on three or four different occasions, it has listened to Argentina and backed down on Brazil-United States projects. After each one of these incidents, Brazil has seemed to move closer to the totalitarian states. Even though this may have been for the mere effect, it has had the actual result of widening the breach between Washington and Rio. Because of the press reports which came from Lima, the Brazilian nation became rather violently anti-Argentine and just now apparently Argentina appears to be pushing Brazil into the arms of the United States. If, however, as a result of the negotiations about to begin, the United States should again back down because of Argentine protests, it might mean the definite and permanent loss of Brazilian friendship.

(8) What has just been said ties up with, on other long-term trends, the longstanding friendship with the United States. Brazil and United States occupy similar positions in America with respect to size, language, culture and many of their problems, and up until recently there was no economic or commercial rivalry between them and the economics of the two countries more or less complemented each other though the balance of trade has always been in favor of Brazil. In any event, one of the commonest phrases at all public functions in which representatives of the two countries have been involved has been the "one hundred year friendship between the two". And the tendency has been for this friendship to become stronger. Brazil declared war on Germany and later left the League of Nations in part to please the United States. It was Brazil that definitely saved the situation at the Peace Conference in 1936 and that apparently did much to keep the Lima Conference from blowing up.

The American State Department, however, has assumed that Brazil-United States friendship is so strong and so permanent that it need not be cultivated or nursed. This is a fatal mistake for two reasons, amongst others. In the first place, the Latin psychology of the Brazilian demands constant concrete expressions of friendship in order to keep it alive and because in the meantime, other nations have played leapfrog with themselves or with each other in order to wean Brazil away from the United States. Regardless of

everything else, it is only natural that a nation like Brazil, sorely in need of manufactured goods, agricultural implements, railway material, road building material, and automobiles, etc., and suffering from the exchange situation which makes the purchase of goods in North America almost prohibitive should be inclined to listen to the blandishments of European states who have similar commodities to offer and who indulge in a great deal of culture-teering and barter in order to carry through their trade agreements. These countries have provided Brazil with an independence and a leverage which she has never possessed before, and which even if there were no Fascistic-minded individuals in the Brazilian Government would tend to draw Brazil closer to those overseas rivals of the United States and somewhat away from a Brazil-United States axis.

Most thinking Brazilians, however, as has been said in several places in this report are extremely eager for a Washington-Rio de Janeiro axis to be formed in the new world, and they hope that in both nations efforts to cement the old traditional friendship will be successful and that this source of uncertainty will be removed.

(9) The last long-term trend which has a bearing on the present and future evolution of Brazil is the question of immigration. Brazil is a sparsely inhabited country with a need for

farm and factory hands, and which until 1934, welcomed the foreign immigrant with open arms. Prior to that date, several hundred thousands of Germans, Italians, Japanese, Near Easterners, Syrians and Turks, and since the war Central Europeans, and more recently German and Austrian Jews, as well as Russian refugees have poured into the nation. And though in 1934 the new constitution virtually put a stop to immigration in order to give the melting pot an opportunity to melt, a large number of immigrants are still entering Brazil and there are active voices raised in behalf of lowering the bars and letting even more immigrants into the country.

The big problem raised by this prospect is that due to the laxness and actual poverty of preceding administrations in Brazil the immigrants who have come in in the past have tended to congregate in cysts and to reproduce in Brazil a type of life similar to that which they lived at home. This is of course more true of the non-Latin colonies than of the Latin, who because their languages were similar to Portuguese, more or less automatically merged into the fringes of Brazilian life. The Germans and the Japanese, however, have not been assimilated, and though the Japanese claim they would like to become Brazilians, they too have their schools, restaurants, newspapers, and a life which is far more foreign than Brazilian. At the present time, most available sources of immigrants are precisely the so-called have-not

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nations, Germany and Japan, who according to some reports, would gladly send over more immigrants to Brazil. In view, however, of the fact that their man power is needed at home, some Brazilians have perceived in this willingness to export men to Brazil an evidence of military designs or plots and that the new immigrants might be nothing more nor less than soldiers. Regardless of that, the propaganda of the totalitarian states was first applied amongst these immigrants and as long as they remain unassimilated, they constitute a problem, if not a danger to the peace of the New World.

Brazil - United States Relationships

Introduction

The only mutually profitable international relationships are those frankly based on the realities. Hitherto there have been few, or no, factors or forces to test the strength of the ties which have bound Brazil and the United States in a traditional friendship. The United States bought a large percentage of Brazil's coffee in a trade which has always been favorable to Brazil; Brazil and the United States occupied with respect to the Spanish-speaking republics similar positions; the Brazilian Emperor, Dom Pedro II, was a great admirer of the United States as was Ruy Barbosa who formulated the republican constitution of 1891 which he adapted from the American charter of 1787. Popular as well as official friendship leaned heavily in the direction of the United States and Brazil declared war on Germany to be on Uncle Sam's side in that conflict. This situation of a long friendship with the United States lasted down to 1930, almost unabated. Then several occurrences took place which now approach a minor (or major) climax with the approaching visit of Foreign Minister Oswaldo Aranha. And as all informed people know these relationships have reached a crucial state where missteps and mistakes may prove fatal to United States-Brazilian cordiality.

In 1930 Getulio Vargas won the first successful revolution to overthrow a Brazilian constitutional government, this three days after Washington had backed the other horse. In 1933 Hitler came into power and in the same year the Good Neighbor policy began making a play for

Argentine friendship contrary to the advice and desires of Brazil. Every pro-Argentine move stretched the breach between Vargas and Washington and opened wider the gates through which the totalitarians and Japanese propaganda was poured in. In 1936, at the Peace Conference, Brazil hoped that she had won the United States back to the fold but on two or three subsequent occasions the United States has listened to Buenos Aires rather than to Rio and has enlarged still more the growing gap between the two nations.

If the invitation to Sr. Aranha is a recognition of this situation it constitutes a potentially important step in the right direction but one fraught with great dangers because of long and short term trends in Brazil, because of the personal equations involved, because of the internal situation in Brazil at the moment, because of the competition from abroad, both commercial and diplomatic, and because of a sentimental and unrealistic Brazilian (and Latin American) policy of the State Department, excellent in intentions and deserving of great credit for rather remarkable accomplishments but one which may come a cropper if the United States should win all of Latin America but lose Brazil.

To lose the only consistently good friend and neighbor the United States has had in all Latin America for over a hundred years would be lamentable from every point of view. The economic and financial stake of the United States and its citizens in Brazil, the present and potential trade and other considerations in this field alone are a challenge and demand that specific attention be given to Brazil-United States

relationships. They themselves are worth preserving. In the field of the imponderables, however, the stake may be even greater because Brazil is the key to the American system which the State Department and the President seem to have been building up since 1933 and 1936, and like Mexico offers a crucial test case of American foreign policy.

Brazil has been the focus of the interests and conflicting "isms" that see in that republic a vast, sparsely populated territory, teeming with wealth and natural resources, and which for the moment is internally weak from the military, social, political, and economic points of view. At the moment Brazil is poised on the fence between European Fascism and American democracy and is being pulled in two directions at the same time, a pressure which she cannot withstand for much longer. Brazil's long and traditional friendship with the United States has begun to waver, in part because of the tremendous pressure which she has been subjected to by Japan and the totalitarian states and partly because of the policy of Washington with respect to Argentina as well as for other reasons.

The Latin American or specifically the Brazilian policy of the United States Government must be of a twofold nature, one which leads the United States and its citizens to adapt their policy and ambitions as much as possible to long term trends discernible in Latin American and Brazilian evolution and another more opportunistic which acts in the present for the present and which has no pretensions at being permanent or fundamentally sound. The first requires expert guidance

on fundamental Latin American trends while the second demands the experts too, plus a fast-moving, wide-awake and live diplomacy which acts as fast if not faster than that of the totalitarian states. And the latter act like lightning.

United States' interests no matter what their nature, whether short or long term, are not safe in Brazil or Latin America if they clearly run counter to local trends. The scholar knew as far back as 1857 that Mexico would, in all probabilities, arrive at the policies adopted in 1934-1938. From 1910 the handwriting has been on the wall and whatever one may think of the method, justice, legal or other rights of the Mexicans to proceed as they have with respect to foreign owned property, no one in all conscience can claim after the 1917 Constitution that the Mexicans did not give due warning of what their eventual policy would be. The present difficulty arises from the fact that no one believed the Mexican people, no one studied the trends, no one, or few, pulled out in time. All immediately concerned believed they could buy the administrators into disobeying the law. This was possible for a time but not as a permanent method of solving the problem.

The case of Brazil is just as important, if not more important, as respects the future than was the case at the time of the 1910 Mexican revolution. In relation to Brazil, present short and long term American policies will influence the course of Brazilian evolution, the world situation, the "American system" and specific American economic, financial and commercial interests, present and future. The coming revolution in Brazil, and it seems inevitable, will affect all short

term policies and activities but will hardly alter over much the permanent trend of Brazilian evolution unless an absolutely extraneous influence enters the scene, and this is possible though, perhaps, improbable. But it is a scene which changes with lightning rapidity and which can be followed only by an experienced observer who can spend the time necessary to move around and talk to people in Rio, Sao Paulo, Bello Horizonte, Bahia and Porto Alegre where the sound gossip or information is to be heard. Ergo, it might be very wise to gamble, let us say, a million dollars a year in Brazil for the next five years on intelligent culture-teering but perhaps extremely unwise to lend the present regime 10, 20 or 60, or 100 million dollars for whatever purpose it might be or to counsel the investment of private funds in Brazilian business. A study of the long and short-term trends listed above will explain the reasons for the wisdom of quick short-time action and the unwisdom of more substantial sinking of American funds in Brazil. On the other hand, a full study of all the possibilities might counsel the investment of both amounts, one to bolster up the security of the other. Unless the United States is willing to finance for many years to come one regime as against another (and this would probably prove more costly in ponderable and imponderables than would be justified by the returns received) it should move most cautiously with regard to any individual or group in Brazilian life today. No person, group, nor any institutions have deep roots in Brazilian social or economic soil today. This soil has been plowed up by many forces and the true Brazilian civilization has still to show its head.

(1) It would be extremely dangerous from the point of view of the sum total interest of the United States either to clamp down or to blow off the lid of the Brazilian volcano. This could easily be done by the adoption of certain attitudes and policies in the course of the coming parleys. The lid of the volcano, of course, is President Vargas. Certain agreements reached between the United States and Brazil may strengthen the hold of President Vargas on Brazilian life and either entrench him for good or for evil, or it might increase the undercurrent of opposition to him and produce eventually a bigger explosion than the one which is even now expected.

(2) To groom Foreign Minister Oswaldo Aranha would, as I have already said, antagonize many groups in Brazil and possibly many elements in the Army who have many reasons to be against him. Furthermore, in many sections of Brazil Aranha has no reputation at all and is looked upon merely as a henchman of President Vargas and to that extent he enjoys all of the disfavor aimed against the President. But even if Aranha were strengthened or were to come into power, he is so unreliable that the United States would have no guarantee that he would protect her interests against those of other states. Nor is there any reason to believe that the underlying situation in Brazil would improve by having him at the top, because the Nation has reached the point where certain forces must work themselves out without artificial aid. It is possible to invent stop-gaps and adopt ephemeral remedies, but these would merely stave off the eventual day of reckoning. Our experience in Cuba and Mexico suggests how true this is.

(3) The situation in Brazil under Vargas is one of apparent stability. The only stable element in the situation is Mr. Vargas himself. However, he is constantly shifting generals and troops from one region to another in order to stalemate revolutionary activity and has had to change policy and other officials in many of the States in order to avoid uprisings against himself. There are constant changes in many fields and the impression is that Vargas doesn't know his own mind and is constantly changing so that even within the Presidency the stability is more of a man than of a program.

(4) On the other hand, it is extremely dangerous to the sum total interest of the United States to push Brazil away from the United States because, in all probability, the next move would be into the arms of the totalitarian states, from which she is not far removed at the present time. Failure in the negotiations in Washington, or failure to grant Brazil some of the concessions, favors or assistance which she needs and may demand will increase still more the growing official antipathy of Brazil for the United States and may strengthen the hand of the anti-United States elements in the Brazilian Republic.

(5) But whatever is done must be done without antagonizing the "Outs" in the Brazilian political life today. Shrewd diplomacy, without offending the Brazilian Government, would appear to be neutral with respect even to the Communists and Integralistas. In all probability, if these, the Paulistas or some other group came into power, the United States would want still to have Brazil as a market and to be able to

work to defend its investments in that part of the world or to save as much as can be salvaged.

(6) Substantial investments or loans to create a central bank or to provide Brazil with a stabilization fund, or for whatever purposes might be devised, would bolster up the present regime or Sr. Aranha and might conceivably swing the trend of Brazil in the right direction. On the other hand, consideration of all the political, economic, social and ethnic factors in Brazil suggests that this course would be extremely unwise and dangerous at this moment, as the possibilities that these investments might be completely wiped out are great. Brazil has already proved that she is willing to play ball with the rivals of the United States and even to discriminate against the American exporter and bondholder. There are groups more extreme in Brazil than the one now in power and because of the relative balance between these groups one of these might be shot to the top where it could do the United States untold harm.

(7) Not to help Brazil at the present time might involve a gradual worsening of the economic situation and delay the resumption of payments on the international debts of Brazil and the improvement of the exchange situation, with the consequent decrease in Brazilian importation of American goods. On the other hand, by the very nature of the balance of trade, the United States is one of the few customers of Brazil providing her with exchange and which Brazil does not use on her part in the improvement of Brazilian-United States relationships. If, on the

basis of this normal economic relationship favorable to Brazil, the Brazilians are not playing ball with their best customer, there is no reason to believe that Brazil will alter her attitude or policy with respect to United States interests even if the United States gives Brazil substantial economic assistance. Even though the withholding of economic assistance might prove dangerous, the danger already exists and would not be created or augmented because there are other policies which might be adopted to counteract the failure to make substantial loans or investments. Failure to assist Brazil would be a negative form of firmness which would impress the Brazilians and be a negative form of achieving positive results without the loss, present or potential, of good American money.

(8) There are several alternatives which, for many reasons, command themselves precisely at this juncture of Brazilian-United States relationships. One of these is to revive the wheat-coffee trade idea and to hold it out as a possibility and to let Argentina yell to high Heaven because that barter might become a two-edged sword which might produce magnificent political and economic results for the United States. It is a weapon which Washington can hold over the head of Argentina and make her more conciliatory because at the first indication that the United States was actually going to supply Brazil with wheat, she would have to adopt a more friendly attitude with respect to the United States. But, in the second place, this would please the Brazilians immensely and do much to wipe away the bad taste caused by former pro-Argentine moves, all of which tended to swing Brazilian opinion away from the United States.

(9) Another method which might appear at the outset to be somewhat crude, yet which, if properly publicized might yield good results, would be to make vague promises with respect to future assistance and to suggest indirectly what the conditions would be for extending that assistance. Definite and specific plans should be prepared in advance and discussed as though these might become the basis of future negotiations without, however, any commitments on the part of the United States Government. A mere indication of possibilities, allowing the Brazilians to make whatever inferences they might care to.

(10) The last suggestion is, without the knowledge of the Brazilians, without any publicity whatsoever and with cunning shrewdness, to embark on a program of culture-teering comparable to that of the totalitarian states. None of them has made any substantial loans to Brazil nor offered much more than certain privileges and concessions in the barter trade and yet, by their culture-teering, they have created an impression of being far more friendly to Brazil than the United States and far more willing to be of definite and specific assistance to their South American friend. The investment of a million dollars a year for this purpose in Brazil today would probably do more for the promotion and defense of present and future American interests than any substantial loan for the establishment of a central bank which, even with careful American supervision would be mismanaged, and even if the investment were lost, it would not be so great a loss as that made for the establishment of a bank or stabilization fund or some other purpose.

A Suggested Program for Intellectual Cooperation with Brazil

United States' Position in Brazil

For many reasons the position of Brazil is today weaker than it has ever been. Prominent Americans with letters of introduction from high United States officials have found it practically impossible to get to President Vargas and it is claimed that even the Embassy has difficulty in obtaining audiences. The Brazilian post requires a technique utterly different from that used in all the other Latin American republics and a personnel which has talents social and intellectual not needed in Cuba or Colombia or Argentina. Aranha himself has complained of the recent policy of the United States.

Two Americans in educational centers in Brazil have been bombarded by requests for more United States cultural activity. In the last few months at least three more or less prominent pro-United States societies have been formed and others have been spoken of. The Brazilians themselves have asked that the United States adopt a firm hand, a quick acting but extremely sensitive diplomacy and that Washington and private organizations in this country do something.

Heretofore and especially during the long reign of Ambassador Edwin V. Morgan the relationships between Rio and Washington were warmly pleasant, cordial and close. Mr. Morgan felt he could telephone the President at will and most business was carried on in an informal manner, the only way in which to handle the Brazilians, in office or in business. The very camaraderie in the approach of an American to a

Brazilian will carry the day even if the Brazilian does not like the idea being sold him.

With respect to Brazil the State Department has suffered from its ignorance of the country and from some of Mr. Sumner Welles's pet ideas and prejudices. He seems to act without advice or counsel and has sent to Rio a man who seems to follow his advice implicitly. Both Ambassador Jefferson Caffery and Mr. Donnelly, the Commercial Attache, have antagonized the Brazilians, more by their "Caribbean" manner than by intention. The Rio representative of Sao Paulo's newspaper, the "Estado de Sao Paulo" referred to these two as the "shadows who were irking and irritating Sr. Aranha and the Minister of Finance." Unless the writer is much mistaken Mr. Caffery has not been to Sao Paulo, still the Wall Street and Boston of Brazil, and to which the other Ambassadors go on periodic visits.

Recently when an American in Sao Paulo presented Brazil's outstanding actress, Mme. Dulcina de Moraes, in a play she proposes to put on in New York, to the English-speaking community of Sao Paulo, in her first performance in English, Mr. Caffery was unable to attend but did not do what the British Ambassador and Consul General did as graceful gestures to her. They wired her, sent flowers and made their real or assumed interest very much in evidence, gestures which mean so much in Brazil.

The business men complain that under the Good Neighbor Policy their interests are not safeguarded and some attribute this directly to Mr. Caffery's manner or lack of ability. Though the honeymoon of that policy should have ended long ago much of the present trouble

lies in the fact that both Mr. Welles and Mr. Caffery know SPANISH America quite well but do not know Brazil and its Portuguese culture and psychology. Each Latin American nation needs special handling in the State Department but Brazil more than all the others. Just now there seems to be no Brazilian specialist in the Department or in the field.

Brazil has proved conclusively that economic considerations are not always the mainsprings of her foreign policy. It would seem that Brazil of all nations should kowtow to the United States, who gives her bread and butter. But Brazil has never been so far removed from the United States as at this moment and though she may not take the final leap into the fascistic column she is very close. The writer of this report heard on the official National Radio Hour (from 8 to 9 P.M.) an hour, arranged and financed by the Brazilian Government, a Brazilian praising outright Mussolini, "an Italian genius", Fascism as the "great Latin contribution to the world" and a "salute to Rome as the new lighthouse of the world". This was in November 1936 just before the Peace Parley in Buenos Aires of that year. Many believe that Mr. Roosevelt's step delayed the coup d'etat just by 11 months and that but for the Peace Parley November 10, 1937 might have witnessed a full fascistic regime.

The majority of Brazilians are perhaps United States minded but this state of affairs under modern conditions needs cultivation. The rules of the game have been changed, and the United States must meet the competition of the totalitarians, of European democracies, and Japan in the diplomatic field and in that of "culture-teering". This

must be done or not the possibility of losing out in all Latin America must be faced frankly, losses which will be commercial, economic, financial, as well as strategic and moral or cultural. Whatever be the underlying purpose of the totalitarians, they have at least shown up the lack of similar activity of the United States and if they consider it desirable to spend millions every year for whatever purpose they may have, the United States must consider matching them in their own game.

The suggested program for intellectual cooperation with Brazil

It is just as important to formulate a double-barreled program of intellectual cooperation with Brazil and the Latin American countries as it is to adopt both long and short run diplomatic policies in our dealings with the Latin American Republics. In the field of intellectual cooperation it is necessary to reach individuals in official and public institutions as well as the masses in ways in which they too can be made to feel the interest or friendship of the republic of the north too.

We stress the tremendous need for altering radically our publicity with respect to our Latin American neighbors. Heretofore whether it be the fault of the State Department or not, or of the American news agencies, the Latin American nations have received the impression that Uncle Sam considers himself a stronger, wealthier and much wiser father or older brother who wants to do something for the Latin Americans. Naturally, as we have already said, this irritates the Latin Americans. No matter what the fundamental purposes of the

totalitarian states may be, or of France and England, none of them has ever issued publicity similar to that which comes out of Washington. Publicity which tells the Latin Americans in enormous headlines that Washington is going to solve their agricultural problem, going to make the biggest defense of democracy ever known in the history of the world, that the United States is going to defend all of the Latin American Republics from foreign aggression, and that in other ways the United States wants to help the Latin Americans solve their major problems.

Very often these promises are not matched by performances, a fact which constitutes a double irritation. The one being the dislike that all peoples have of being told that they need help and then of not having the help come which has been promised. But in the long run the only effective policy of assistance for intellectual cooperation is one which is practiced and not publicized, which functions not fails, which cannot be interpreted as imperialism or as pure propaganda for definite purposes. There is no use trying to hide that any such assistance has selfish purposes, but enlightened self-interest is universally recognized as a desirable attitude and is shared by the Latin Americans themselves and by all of the nations who are courting privileges and favors.

The following suggested program for intellectual and cultural cooperation with Brazil would, if intelligently put into practice (and we underscore intelligently because the whole success of a program of this sort depends in large part on the development of a

personnel to realize it, one which has the shrewd cunning of the Latin American as well as the solid virtues of the American), reach individual Brazilians (or Latin Americans), Brazilian institutions, government officials and the masses as well.

Art

Outside of the American movie and of a very few isolated great American artists and a large number of vaudeville or casino type of entertainers, the Latin Americans have absolutely no conception, unless they have travelled in the United States, of the artistic ability of our people. That is, they have not been able to see any of our great dramatic stars, or to hear, in person, any of our great operatic singers, or any of our great instrumentalists, and to the best of our knowledge no American painter or sculptor has ever had an exhibition in Latin America, nor has any effort ever been made to make available to the Latin Americans American books at a price which they can pay.

For example, if a Walter Hampden with his plays "Cyrano de Bergerac" and "Hamlet" could be financed on a tour of South American cities he would do much to break down the prevailing attitude that only the French, Italians, and Germans know how to act. The governments of the countries just mentioned have for many, many years subsidized the tours of their outstanding dramatic companies and artists to the Latin American world. A tour of Latin America by Lawrence Tibbett, known through the movies but never heard in person, would cause a riot in Latin America because he is the type of baritone who speaks the

language of the Latin Americans, as he delivers his great operatic arias precisely as the Italians do. Two Latin Americans were once overheard commenting at a presentation of the "Rogue Song", one of Mr. Tibbett's first movies, "How he sings! and an American, too".

It is no exaggeration to say that by and large the Latin Americans are utterly ignorant of the artistic life of North Americans. In view of the fact that because of the exchange and other considerations it is virtually impossible for the Latin Americans to finance the tours of foreign artists, and especially of the American artist who receives huge fees in dollars, this situation will not be corrected until the latter can be subsidized in some way or another. To go through, however, a dramatic season and to be able to see the outstanding French, German, Portuguese, Spanish, and Italian and even Japanese companies or artists without an opportunity of seeing the equivalent talent from the United States tends to deepen the impression that the North Americans are merely dollar minded. If \$200 thousand a year could be spent for this purpose in Brazil alone the result would be amazingly surprising in measurable and concrete commercial terms, paradoxical as they may seem.

Education

In the field of education the United States must finance somewhat as the European nations do the exportation of American professors and scholars so that they can live and teach in Latin American universities under conditions comparable to those of the Europeans and maintain the standard of living to which they are accustomed. This cannot

be done on the Latin American professorial wage scale and as long as travelling expenses to and from the United States are as high as they are now. Nor can the competition of the American professor be allowed to remain on purely intellectual grounds when his foreign rivals have trips to the home country to offer their Latin American students, large quantities of books to give to the local libraries and other material gifts of this sort. In general, no American professor should go to a Latin American university unless there is a demand for him, otherwise the subsidizing of an American professor might assume the appearance of intellectual imperialism and that, of course, would prove to be a boomerang. In the case of Brazil, however, in the last three years there has been a demand for at least twelve or fourteen American professors in extremely important positions and which have not been filled by the United States because of the lack of the necessary financial support. Some of these demands have been in the fields of journalism and political science, economics and sociology, as well as in history. In the University of Sao Paulo the Italian professors have been confined to the departments of science because the authorities feared their ideological propaganda. Therefore, that we Americans should be asked to teach political economy is gratifying indeed. One of those positions, however, has been filled by the British and another by the French because no support was forthcoming fast enough to fill the need. \$100 thousand a year for the support of American professors in Brazil would go a long

way and produce eventually much more in dividends than some of the notions which have been put forth.

A project to establish an American graduate school in Brazil has just been made. This would be the first attempt of this sort in that nation and would make possible the change and interchange of students about which so much unrealistic talk has been heard and which under present conditions is almost utterly impossible. This graduate school would be established in one of the oldest American institutions in Brazil and could be financed, according to the President of the college who has suggested the idea, with from \$70 to \$80 thousand a year. In addition to all of the other advantages of such an institution it would have the following. It would not be an imitation of what is being done by the totalitarians, would amplify the effectiveness and efficiency of an institution already enjoying great prestige, would provide American students with a place to go to and give Brazilian and Latin American scholars a proper center for studying under North American scholars, and would make feasible the exchange idea for which the State Department has planned without investigating to know whether there were opportunities for such exchange or not.

Another idea along the lines of educational cooperation which has been practiced, but so poorly that it has done more harm than good, is the sending of visiting scholars and professors to Latin America. Hitherto such institutions as the Carnegie Endowment for International Peace have subsidized the periodic trips of American

professors to lecture in Latin American universities. They have made a fundamental mistake, however, in attempting to send specialists in Latin American affairs and persons who presumably speak Spanish or Portuguese. Whereas what was required was not Latin Americanists who could learn more than they could teach or exhibit, but outstanding American authorities in no matter what fields regardless of their linguistic ability. A very recent illustration of that has just taken place and has proved to many observers the correctness of this view. The rivals of the United States have not made that mistake. There is a constant stream of writers, poets, scientists and what not from European and Asiatic countries who are sent because they are good and not because of their Latin American interests or knowledge of Spanish or Portuguese. When the United States begins sending its good anthropologists, economists, etc., a new attitude with respect to American scholarship will appear in Latin America with consequent demands for American professors and books. If five of those could be sent to Brazil a year and given \$5,000 for their expenses this would be a sum total investment of \$25,000 which, too, would have enormous repercussions in the end.

Press

Up to this point the United States has been backward in regard to Latin American newspapers, Specifically in the case of Brazil where there are no wealthy dailies as there are in Buenos Aires or Santiago the press situation is an extremely important one. The average Brazilian newspaper is so poor it welcomes all of the good

free material it can lay hands on, and as long as this is the case those governments ready to hand out free articles and news services receive far more publicity than the United States, news about which must be bought at very high prices from the press associations and from certain few specialized press services. One of these is French. There is a demand for this. A specific illustration is that of an American who happened to be able to write Portuguese and who accidentally broke into the columns of the outstanding Brazilian newspaper which had been largely pro-French in its tendencies. The owner and editor finally had to admit that the popular interest in articles about the United States was so great that he has sought to amplify that service and give his readers more than they have got in the past.

Just exactly in what manner competition with the European and Asiatic rivals of the United States can be met in the press is something which must be worked out, nevertheless there are many possible ways in which this can be done intelligently and shrewdly. One of the most effective, however, would be to finance the visit of outstanding Brazilian or Latin American journalists to the United States. Almost the most "tragic" aspects of the Brazilian-United States relations has been the fact that many Brazilians themselves have been the outstanding fighters for and promoters of the interests of the United States in Brazil. Practically everyone of these has gone unrewarded and has received no stimulus to continue his fight in our behalf. To bring a number of these individuals to the United States would be

one method in which the United States could create a group of influential friends who would become more and more enthusiastic about the United States and who presumably would write more and more favorably about the nation to the north. Though it is possible to subsidize writers and to hand out free articles, it would seem wiser to involve Latin Americans in a good-will net on a wider scale than is now being practiced, and to devise some method of bringing up the Latin American journalistic friends of the United States on pretexts to be thought out for shorter or longer stays. \$50 thousand a year devoted to that purpose would fill a crying need and would be a big step in the solution of this specific problem.

Radio

The great excitement about radio competition by Europeans in Latin America has tended to become somewhat hysterical. The number of short wave receiving sets in Latin America is still small, relatively speaking, and though they are tremendously important and influential, it is doubtful whether the direct propaganda over the air has not been boomerangish rather than positively valuable. There are two observations to be made, however, with respect to the use of the radio. In Brazil the United States is the only large and wealthy nation that has not taken time on the local stations nor exchanged programs with the Brazilian official National Hour. But whether there or on the short wave, conversations with representative Brazilians have revealed that, outside of the newscasts in Portuguese and Spanish, the Latin Americans would rather hear what the Americans hear

and not programs specially prepared for them. \$100 thousand a year to use on the local radio stations in Brazil under disarming titles might be money well spent.

Social

A project which received the signature of forty-four of the outstanding Brazilian scholars was presented to a foundation in this country which all who know of it believe would probably do more to cement the friendship between the United States and Brazil than practically anything else that has been suggested in the last few years. This is a vast social science integrated study of the social and economic aspects of the problem of nutrition in Brazil, to be carried out by eight or nine American scholars in cooperation with an equal number of Brazilian authorities, each of whom, with two or three Brazilian assistants and a number of lesser helpers, who would study in all Brazil all of the the factors that have a bearing on one of the main problems with which Brazil is coping at the present time. As the problem involves social, economic, anthropological, geographic, agricultural and other considerations, the four or five year program of study would bring to light more information about Brazil than has ever been known before, link Brazilian and North American scholarship as the scholars of two nations have never been joined hitherto, and the country financing such a survey would receive the official and popular gratitude of a whole nation because of its assistance in studying a vital national problem where no ideology propaganda could

crop in and where there would not be the slightest taint of imperialism. Such a survey would swing much of Brazilian scholarship towards American universities and might lead to a permanent conquest of the intellectual trends in Brazilian life which have a predisposition towards the United States anyway. The foundation approached, however, like most of the others, has its own ideas as to what should be done in Brazil and thus far has refused to act. This project could be carried out with \$250 thousand a year.

Books

The present exchange makes it practically impossible for the Brazilian scholar or student to obtain even the cheapest of American books. There is a great demand for these and the demand would increase by leaps and bounds if they were made more available. The British for many years have been subsidizing in some way or another the sale of books in other parts of the world and many reprints and even first editions are available in Brazil for slightly over one-half of what a fairly cheap Brazilian book itself costs. This will illustrate the situation. The famous Penguin books, known in this country, can be bought in Brazil for 4\$000; a similar book published in Brazil can be bought for 6\$000; a similar book from the United States would probably cost at least 70\$000, but the majority of expensive scientific text books cost as high as 200\$000 or 300\$000. This has had two results. One is that the sale of American books is greatly lessening, and for another, it has led the Latin Americans to buy American books in French or Spanish translations and thus to

get the information second hand. But many of the books which the Latin Americans should read are not available in translation or in any other form. But despite the price, the sale of books is increasing; the American magazines are becoming more and more popular in Latin America.

There seems to be absolutely no question that regardless of other commitments these in the field of intellectual and artistic cooperation done on a more realistic basis than is being done or planned by the State Department must be undertaken to safeguard the present and future sum total interests of the United States in Brazil and Latin America. Desirable in principle at any time, they are not only desirable but imperative now since the rules of the game have been changed. Their effectiveness, however, depends on the publicity and on the personnel chosen to carry it out and on a certain amount of continuity because the fruits will not appear at the outset.

MATERIAL FOR DISCUSSIONS WITH
THE FOREIGN MINISTER OF BRAZIL

MATERIAL FOR DISCUSSIONS WITH
THE FOREIGN MINISTER OF BRAZIL

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The prospective field for discussion with Aranha, the Brazilian Minister of Foreign Affairs, virtually covers the whole of the economic and political relations between the United States and Brazil. If the discussions are successful, this Government may undertake to do various things; in return the Brazilian Government would give certain undertakings and follow certain agreed-on courses of action.

The following is an attempt to summarize this field of action and agreement. It is intended to be a plan in which each item is but part of a whole scheme intended to serve Brazilian development and prosperity and to improve the basis of Brazilian-American economic and financial relationships. Within this scheme each part of the program must be considered in relation to the other parts.

The field of discussion will also include questions of national defense, and of cooperation toward a settlement of the Peru-Ecuador boundary dispute, neither of which is treated in the following pages.

Part I

Many considerations join to justify willingness on our part to extend financial and economic assistance to the Brazilian Government. On the basis of preliminary correspondence, Aranha undoubtedly expects to be able

to

to secure proffers of assistance.

This assistance might take any one or all of the following forms:

(1) Technical cooperation for the creation of a central bank in Brazil and the loan of funds to Brazil for the augmentation of the reserves of this bank. Such a loan might include the provision of gold and, in part, might be kept within the United States. Operations of the bank would have to be directed in such a way that the reserve could reasonably serve its normal function of meeting temporary external difficulties without being placed in danger of being rapidly dissipated in payment of excess imports by Brazil.

Whether in addition there might be created a Stabilization Fund is a matter to which perhaps the Treasury will want to give consideration.

(2) A long-term loan to be used for productive purposes within Brazil--such purposes to be generally agreed upon in advance. This loan would presumably be accompanied by an arrangement providing that the part of it used to finance imports would be spent in the United States.

Some such loan transaction might be within the power of the Export-Import Bank. However, there are reasons
for

for preferring to handle it on the basis of congressional authorization.

(3) As part of a plan for clearing up present delays in the provision of exchange for exports from the United States, and for preventing the recurrence of such frozen exchange indebtedness, the Export-Import Bank might to a limited extent participate in a plan devised for this purpose. Two previous "un-freezing" arrangements have been ineffective. It is believed that the Brazilian Government itself should find the means for paying off a part of these exchange arrears, and that if the rest is converted into an obligation, this obligation should run for as short a term as is feasible. No attempt has been made to decide exactly how far the Bank should go in participation, but prevailing opinion is that if it discounts the paper issued by the Brazilian Government for this purpose, it should be with recourse against the American exporter.

To provide a clearer picture of the problems involved in the foregoing, and in Parts II and III which follow, the following appendices have been prepared:

Appendix A--Brazil-United States Trade Statistics

Appendix B--Brazilian Foreign Debt

Appendix C--Brazilian Exchange Situation

Part II

Part II

The conditions under which these loans might be made and the agreements and arrangements with which it would be advisable to accompany them.

If these actions are to serve their purposes of contributing towards the economic development and stability in Brazil and the improvement of relations between Brazil and the United States, the Brazilian Government should at the same time deal with various outstanding difficulties and put into force policies that will prevent their recurrence, and enable this financial assistance to produce the results desired.

The main steps of this character which the Brazilian Government might be asked to consider outside of any agreements having to do directly with the creation of a central bank are:

(1) Elaboration of the necessary agreements on the basis of which the central bank and public works loans might be made.

(2) Development and fulfillment of the plan for resumption of service of the present Brazilian defaulted debts. This scheme would probably of necessity provide only modest payments, at any rate in the immediate future, and also perhaps permit Brazil to reacquire part of this debt at prices prevailing after loan service was resumed.

(3)

(3) Understanding as regards the possibility of American enterprises in Brazil remitting some earnings as interest or dividends. (See Appendices D and D-1.)

(4) Understanding in regard to the position of American enterprise in Brazil. (See Appendices D and D-1.)

(5) Agreement upon and enforcement of arrangements and policies which would

(a) Include necessary measures to deal with the present overdue exchange indebtedness.

(b) Administration of policies to prevent the creation in the future of similar exchange arrears.

(c) Arrangements to assure prompt provision of dollar exchange for future American exports.

(d) Arrangements that would safeguard the competitive position of American trade in the Brazilian market, particularly in respect to the competition of trade carried out on the basis of compensation or payments agreements.

This set of problems has attended Brazilian-American commercial relations steadily during the past few years. It is to be hoped that when and as Brazilian external economic affairs can be put on a more stable and assured basis, they will just disappear. But in the meantime, it is deemed important to have arrangements adequately dealing with

-3-

with them, and proposals that seem to meet diverse difficulties and requirements not too unsatisfactorily are set forth in the following Part III.

Part III

Elements of possible program to deal with existing difficulties in the exchange and trade field.

These difficulties have figured largely in our previous discussions with both Aranha and Souza-Costa and have been the subject of a vast amount of subsequent discussion. A great variety of suggestions has been put forward. No attempt will be made in this memorandum to examine all the alternative programs that might be put before the Brazilian Government for consideration as an adequate way of dealing with the situation. The committee has rather, on the basis of its discussion, tried to formulate that program which seemed to it the most promising and satisfactory preliminary basis of discussion with the Brazilian Government (bearing in mind that the program (a) must be reasonably effective, (b) acceptable to the Brazilian authorities, (c) not in conflict with our general commercial policy, (d) not giving ground for other countries, especially Germany, to claim that they are being unfairly pressed as part of a financial deal between ourselves and Brazil).

The

The essentials of the suggested basis of discussion are as follows:

(a) That the present trade agreement between Brazil and the United States be retained in force.

Reiteration of the Brazilian policy to so safeguard its trade arrangements with other countries as not to impair the natural and anticipated advantages of the Brazilian-American trade agreement.

(b) That the Brazilian Government give a clear reiteration of the pledge contained in the exchange of notes accompanying the Brazilian-American trade agreement to the effect that it would make dollar exchange immediately available for the payment of exports from the United States (this might be supplemented and made more significant by a further statement that the Bank of Brazil would undertake to keep in the United States at all times a fund for the provision of the necessary dollar exchange).

(c) That Brazil will undertake as long as its products are sold in the United States for free exchange, not to make any of the free exchange available for the payment of goods from countries which do not permit the acquisition of free exchange in payment for Brazilian products.

(d) That the Brazilian Government should work out a plan for dealing with the present overdue exchange arrears, providing

providing cash for some and refunding of the rest on as favorable terms as possible to the creditors.

(c) That in order to prevent the recurrence of this situation, the Brazilian Government have effective arrangements whereby the total exchange liabilities occurring will not be in excess of the exchange available. Of the alternative means of achieving that end it is suggested that the Brazilian Government might well consider the inauguration of a policy whereby it enforced flexibly differential buying and selling rates of exchange. Under such a scheme the size of the differential could be varied according to the necessity of discouraging imports at any given time. Besides the quality of flexibility this arrangement would have the merits of not involving automatically any discrimination as between Brazil's sources of supply and of further making exchange available to the Brazilian Government at a favorable rate.

If such a policy were effected, the Brazilian Government should promise that exchange would be provided for exports from the United States on a most-favored-nation basis (that the spread between the buying and selling rates applicable to American commerce should not be greater than that applicable to the commerce of any other country, including the commerce conducted under compensation arrangements).

This

This still would leave it possible for Brazil to establish a scheme of cross-rates applying to the trade with Germany and other compensation countries that would leave American trade at its present disadvantage or increase that disadvantage--if the Brazilian Government so chose. In that respect, we should be dependent upon the general pledge mentioned in (a) above--to effect which Brazil might have to continue to limit the quantity of its exports for blocked currencies.

(f) It would be agreed that there should be a periodic joint audit (possibly carried out on the basis of cooperation between the two central banks) of the exchange position of Brazil for the purposes of studying the effects of these arrangements and guaranteeing their satisfactory operation.

Part IV

As stated above, it is to be hoped that internal and external economic conditions in Brazil will so develop that the Brazilian Government will not need to exercise the methods of control which are the subject of the preceding section. To contribute to that outcome--and in logical connection with any plan of public works financing--attention should be given to the long-range economic development of Brazil and to the prospects for increasingly effective

effective cooperation between the United States and Brazil in other fields. The following would seem to merit detailed exploration:

1. Complementary products. Promotion of the production and sale in the United States of complementary products such as rubber, tropical oils, woods, minerals, et cetera is believed to be of tremendous potential importance and would appear to justify the creation of a joint investigating committee to report upon specific possibilities, some of which are indicated in the attached Appendix E. This Appendix likewise refers to the possible loan to Brazil of civilian experts of the American Government, under Public 545.

2. Storage in the United States of certain "strategic raw materials". A discussion of these possibilities is contained in Appendix F. The proceeds might be used to pay off in part a contemplated loan.

3. Aviation--see Appendix G.

4. Radio--see Appendix H.

5. Shipping--see Appendix I.

6. Immigration and labor problems, including the question of refugees--see Appendix J.

7. Cultural relations--see Appendix K.

BRAZIL-UNITED STATES TRADE STATISTICS

Mr. Smith of TA has prepared available statistics concerning Brazil-United States trade and other Brazilian trade, in the following five tables, for convenient reference in discussions with Aranha:

1. Brazilian imports and exports (in dollars) from the United States, Germany and the United Kingdom during the first nine months of 1937 and 1938 with Brazilian merchandise balances in trade with each of the three countries.
2. Brazilian imports (in dollars) of trade agreement items from the United States, Germany and the United Kingdom during the first nine months of 1937 and 1938. An explanatory note states that German competition was most severe in items not included in the trade agreement.
3. Brazilian imports (in dollars) according to countries of origin and exports according to countries of destination during 1934, 1935, 1936, 1937 and the first six months of 1938.
4. Brazilian coffee exports to principal countries of destination in 1934, 1935, 1936, 1937 and 1938, in bags.
5. Brazilian average coffee prices in milreis and gold shillings each year from 1929 to 1938, inclusive.

BRAZILIAN PUBLIC DEBTBrazilian Dollar Debt

	<u>Issued</u>	<u>Outstanding</u>
National	206,384,545	169,105,745
State	171,610,000	132,969,000
Municipal	<u>71,920,000</u>	<u>54,997,000</u>
	\$ 449,914,545	\$357,071,745

Total Other Foreign Debt
(National, State and Municipal)

	<u>Issued</u>	<u>Outstanding</u>
Pounds	316,280,136	161,838,358
Francs	687,867,686	628,391,807
Gold Francs	240,000,000	239,185,500
Florins	18,000,000	8,366,000

NATIONAL CONSOLIDATED PUBLIC DEBT (December 31, 1936)

<u>External</u>		
<u>Dollars</u>	<u>Pounds</u>	<u>Francs</u>
170,376,000	104,892,000	429,529,000
<u>Internal, Contos</u>	<u>Total, Contos</u>	<u>Total, Dollars</u>
3,505,000	12,457,000	1,067,316,000

Payments under Aranha Plan suspended November 30, 1937.

RA:RFW:GEB

BRAZILIAN EXCHANGE SITUATION

I

The present exchange control situation dates from December 23, 1937, when a monopoly of foreign exchange transactions was established under the Bank of Brazil, effective December 27, and exchange transactions were temporarily suspended.

Several prior developments need to be noted for background:

1. On October 1, 1937, a maximum exchange allowance of \$1,000 a day was attempted for large companies importing on open account, such as the oil companies, automobile assembly plants, flour mills, etc., which continuously remit the proceeds of sales. Subsequently, individual agreements were made with these companies, increasing their respective quotas to a sum approximating their daily requirements. These constitute the daily quotas to which reference is frequently made below. The provision of exchange for these daily quotas was temporarily suspended, along with all other exchange transactions, at the close of December 1937.

2. The exchange quota measures did not apply to imports against sight or time drafts, which continued to be

be liquidated in full upon maturity until December 23, 1937.

3. Prior to November 13, 1937, two rates of exchange were maintained in Brazil. Part of the proceeds of exports from Brazil (35% in most cases) had to be delivered to the Bank of Brazil at the official rate, the remainder could be disposed of in the free market. On November 13, 1937 the official market was abolished, simultaneously with a reduction in coffee export taxes. Thereafter the full amount of all export bills could be sold in the free market.

4. Growing exchange stringency resulted in suspension of foreign debt service on November 30, 1937 and, as stated above, in the establishment on December 23 of a monopoly in the Bank of Brazil for all exchange transactions and the suspension of all exchange transactions. There has been no resumption of any payments on debt service; the situation with respect to other forms of payments is developed more fully below.

II

The Allocation of Exchange

The delays experienced in receiving exchange in payment for exports from the United States to Brazil fall into three categories: (1) The initial delay period
between

between the date on which payment becomes due and the date on which a draft or exchange contract is furnished by the Bank of Brasil, (2) The term of the draft or contract, (3) Other regulations tending to lengthen the period of delay.

1. The Initial Delay Period.

Importers in Brasil are required to deposit milreis against foreign drafts when they fall due. Except for a short period in September when no exchange was allocated, the Bank of Brasil has issued announcements each week that it would close exchange for the drafts against which milreis deposits had been made up to a certain date. At the same time it has announced that it would grant exchange contracts for daily quotas up to the same date as specified for drafts. There is therefore an initial period of delay in which milreis deposits have been made against matured drafts, but during which no foreign exchange is available. The delay also exists for companies with daily quotas.

This period of delay has fluctuated considerably. At the beginning of 1938 it was seven days. Subsequently it increased to almost six weeks in May, then declined to less than four weeks, rose to about six weeks again in October, and at present is 30 to 35 days. That is, during the

the week of January 23, 1939 the Bank of Brazil will grant drafts or exchange contracts for daily quotas and for drafts which have matured up to and including December 24, 1938.

2. Term of the Exchange Documents.

In addition to the delay described in the preceding section, there is further delay in that when maturities and daily quotas are liquidated, spot exchange is not granted. At the present time, drafts covering merchandise exclusively of United States origin are liquidated (after the period of delay) by sight drafts on New York, providing they have been sent to the Bank of Brazil for collection. Drafts not sent to the Bank of Brazil for collection have, since August 8, 1938, been liquidated by sixty-day exchange contracts. For the daily quota requirements of oil and motion picture companies, of flour mills, and of firms operating on open account, the Bank of Brazil issues contracts ranging from 90 to 180 days, depending on the type of transaction. (Most of these contracts are now said to be for 180 days.)

The provision of sight drafts for bills covering merchandise of United States origin collected through the Bank of Brazil and 90-day exchange contracts for bills forwarded to commercial banks compares with the liquidation

-3-

tion of other foreign bills, including German import bills, with 60-day exchange contracts. All United States export drafts, therefore, receive as good treatment as those of any other country with the single exception noted below, and those forwarded to the Bank of Brazil for collection receive preferential treatment as compared to any other country, including Germany.

In the case of imports from Germany, however, the initial delay period is somewhat less than for United States merchandise. For example, on January 16, 1939 the Commercial Attaché reported that the Bank of Brazil had closed exchange (i.e., had issued 60-day contracts) for German import bills through December 31, whereas for other bills liquidation was being made for maturities and daily quotas through December 16. The net treatment of United States exporters who received sight drafts was, therefore, better than that accorded to Germans; for other types of bills, on the other hand, German exporters were experiencing 16 days less delay than Americans.

3. Other Requirements Increasing the Period of Delay.

a) In addition to the foregoing, in October 1938 or thereabouts, Brazil began to tighten up on the open accounts, taking the position that the allocation of
exchange

exchange should be restricted to actual sales, and that working stocks on hand were not entitled to receive exchange. On October 17 it was reported by the Commercial Attaché that the Bank of Brazil had reduced daily quotas of General Motors Corporation of Brazil and Ford Motors of Brazil and that it continued to suspend the allocation of exchange contracts to the Standard Oil Company, the Atlantic Refining Company, and the Shell-Mexican Company on the grounds that these oil companies had remitted funds in excess of their requirements.

This works somewhat to the disadvantage of firms operating on open account in as much as Brazilian importers against drafts need not show any relation between imports and actual sales in Brazil, but may secure exchange when the drafts mature, even though the imports went into an increase of working stocks.

b) A letter from the Assistant to the President of the National Foreign Trade Council, dated January 30, 1938, also refers to a recent regulation requiring the actual dispatch of goods through the Customs House prior to making application (for exchange), which adds a further 15 days to the delay in receiving funds. (Text of notice given in despatch no. 1045, December 5, 1938.)

III

The Rate of Exchange1. The dollar rate.

Since the imposition of the present form of exchange control in December 1937, there has been only one variation in the exchange rate between the milreis and the dollar. The buying rate for dollars has been maintained continuously at 17.3 milreis to the dollar. Down to August 8, 1938 the selling rate was 17.6, on that date it was increased to 17.7 and has been maintained at that level since.

2. The compensation mark.

At the beginning of 1938 the compensation mark (selling rate) was maintained by the Bank of Brasil at 15.50 to the pound sterling. At that time this rate represented approximately a twenty-percent discount as compared to the Reichsmark. On February 3 the compensation mark was increased to 15 to the pound and on May 17 to 14.85 to the pound, the latter rate being then equivalent to 5.980 milreis per compensation mark. On June 15 the Bank of Brasil decided to tie the compensation mark to the dollar at the rate of 3.9830 compensation marks to one dollar (equivalent to 5.900 milreis to the compensation mark). This last step not only slightly increased the cost of the compensation mark to importers
of

of German goods, it also deprived the mark of the opportunity of depreciating with the pound sterling which automatically took place as long as the compensation mark was pegged in terms of the pound. In view of the depreciation of the pound in 1938, this change has turned out to be of substantial importance. (The Bank of Brazil could, of course, have offset any such advantage by altering the compensation rate as the pound fell.)

On June 18 the Bank began establishing rates for the compensation mark directly, i.e., without crossing with the dollar or any other currency. At that time the selling rate was fixed at 5.930 milreis. This has been subsequently increased, the most recent rate being 6.000 milreis, established on January 2, 1939.

At the same time the Bank of Brazil has steadily widened the spread between the buying and selling rates for the compensation mark. At the beginning of 1938 the buying rate was 100 reis below the selling rate. While the selling rate has been increased the buying rate has been lowered, reaching 5.500 milreis, which rate has been effective since January 12, 1939. The spread is, therefore, now 500 reis or five times as great as a year ago.

The

The current exchange rates are, in summary,

	<u>Buying Rate</u>	<u>Selling Rate</u>
	(in milreis)	
Dollar.....	17\$300	17\$700
Compensation mark....	5\$500	6\$000

On the basis of these selling rates the compensation mark is the equivalent of 33.9 cents. The reichsmark is currently quoted at 40.0 cents in New York, indicating a discount on the compensation mark in Brazil of slightly over 15 percent, as compared with 20 percent at the beginning of the year.

Further, the spread between the buying and selling rates is now 9.1 percent of the buying rate for the compensation mark as compared with only 2.3 percent for the dollar. In other words, the relative spread in the case of the compensation mark is almost four times as great as in the case of the dollar.

IV

The Exchange Tax

The exchange regulations which were put into effect at the beginning of 1936 provided for a three-percent tax, payable in milreis, on all foreign exchange remittances. This tax has been maintained on all remittances in payment of imports, in August 1936 it was increased

to

to six percent on all other remittances.

V

The Amount of Blocked Funds in Brazil

1. The aggregate amount of obligations arising out of imports from the United States for which exchange contracts or drafts had not been granted as of September 26, 1938 was stated by the Director of Exchange to be 800,000 pounds sterling. As of early October the National Foreign Trade Council estimated the amount currently due American creditors as around \$20,000,000 for imports. This latter figure, however, included the amount of unmatured contracts which had already been granted, which was not included in the Exchange Director's statement. The Council's figure may possibly also have included various other accounts, not specified, which would not have been included by the Bank of Brazil. The Council also estimated that an additional \$10,000,000 was then due on investments in Brazil.

2. On September 26 the Director of Exchange stated that 2,700,000 pounds sterling had also accumulated on account of Brazilian imports from countries other than the United States, making a total of 3,500,000 pounds sterling overdue for imports for all countries, in addition to all drafts and exchange which had been issued

and

and which had not yet matured.

3. At the close of October the records of the Bank of Brazil showed that unpaid import bills (from all countries) outstanding and not covered by exchange contracts amounted to 3,353,054 pounds sterling. On November 30 this figure was reported to be 3,378,800 pounds sterling. (Despatch no. 1048, dated December 5, 1938 from the Embassy in Rio.)

The letter of the Brazilian Minister of Finance to Secretary Morgenthau of December 2, 1938 confirms this figure ("about 43,500,000").

The Director of Exchange estimated at the close of November that import bills covering merchandise of United States origin and dollar invoices of products from countries other than the United States, such as petroleum products from Venezuela, Aruba, Peru and sewing machines from Canada, accounted for approximately 80 percent of the foregoing figures. (Despatch no. 1048.) This corresponds roughly with Aranha's statement in his note of January 4, 1939 that the delay which exists in the payment for imported merchandise was believed to reach 2,500,000 pounds more or less with the United States. As will be noted from figures shown below, it also corresponds with

with the most recent estimate received.

4. From the foregoing it would appear that the amount of unpaid and uncovered imports into Brazil has remained fairly constant over the last four or five months at about £3,500,000 (a little below this figure if anything). The only internal discrepancy which appears in the Brazilian figures is the estimate as of September 26 that United States merchandise accounted for only some 23 percent of the total blocked exchange and all the later estimates that the figure is around 60 percent. Since it is unlikely that merchandise of other than United States origin, shipped by American firms, would account for a discrepancy this large, this problem remains unexplained. However, it would not seem probable that delayed and uncovered payments for United States merchandise tripled or even increased at a substantially greater rate than delayed payments for imports into Brazil as a whole.

5. The most recent estimates of the blocked exchange position are given in a telegram from the Embassy dated January 24 (No. 28, January 24, 5 p.m.) and in a letter from the National Foreign Trade Council, dated January 30. These figures have been arranged in the following tables for comparison. It is believed that this arrangement is an accurate interpretation of these reports, although

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it is difficult to be certain of this. The Director of Exchange continues to assert that he does not have information as to the amount of exchange represented by exchange contracts which have been issued.

Figures from the Director of Exchange

Exchange contracts outstanding.....	Not available
Delayed exchange due to American exporters for which no contracts have been issued.	\$6,000,000
Unsold stocks of American origin.....	4,500,000
Needs in excess of daily quotas over and above the limits established by the Bank ^{1/}	<u>2,500,000</u>
	\$13,000,000

Position of American Oil Companies

	For oil of United States origin	For oil of other origin	Total
Exchange contracts outstanding.....		No estimate	
Arrears for which no contracts have been issued.....	\$ 735,000 ^{2/}	\$ 990,000 ^{2/}	\$1,725,000 ^{2/}
Arrears on stocks..	<u>3,000,000^{3/}</u>	<u>2,400,000^{4/}</u>	<u>5,400,000</u>
	\$3,735,000	\$3,390,000	\$7,125,000

1/ Alleged by companies to be a legitimate claim. Would undoubtedly be contested by the Bank of Brazil, which would claim that this amount has already been absorbed in past remittances by the companies involved.

2/ Apparently included in the \$6,000,000 above, although this is not entirely clear with respect to the \$990,000 for oil of other than U. S. origin.

3/ Apparently included in \$4,500,000 above.

4/ In addition to the \$4,500,000 shown above.

National

National Foreign Trade Council

Estimate of January 30, 1939

Arrears covered by exchange contracts:

On drafts submitted for collection..... \$ 3,000,000
On open account..... 3,500,000

\$ 6,500,000

Delayed exchange for which no contracts have been issued:

Overdue drafts..... \$ 7,000,000

Open accounts..... 13,100,000

\$20,100,000

Grand total..... \$26,600,000

(In addition to the above the Council includes \$5,000,000 of drafts which apparently are not yet overdue, which have been forwarded to banks for collection.)

Accounts of Oil Companies (included in the foregoing figures)

	<u>For oil of</u> <u>U.S. origin</u>	<u>For oil of</u> <u>other origin</u>	<u>Total</u>
Covered by contracts.....	\$1,340,000	\$ 660,000	\$ 1,900,000
Not covered by contracts.....	<u>4,660,000</u>	<u>4,040,000</u>	<u>8,700,000</u>
	\$5,900,000	\$4,700,000	\$10,600,000

In reconciling the foregoing estimates the following may be noted:

(1)

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(1) There is no Brazilian estimate to compare with the figure of \$6,500,000 of outstanding exchange contracts.

(2) The estimate of \$13,000,000 from Rio de Janeiro does not include the \$2,400,000 unsold stocks of oil of other than United States origin, and possibly does not include the \$990,000 of other arrears on such oil. The total figure reported by the Embassy should therefore be increased to at least \$15,400,000 for purposes of comparison with the Council's figure of \$20,100,000 over and above any amounts already covered by exchange contracts. There is no material at hand for reconciling the remaining difference.

5. A report from the Commercial Attaché dated January 16, 1939 (Despatch No. 1112, January 16, from the Chargé d'Affaires) breaks the figures down in different fashion, as follows:

"The Brazilian Government stated in a recent note that the arrears of import bills representing merchandise of United States origin, meaning the amount not covered by exchange contracts, approximated 2,500,000 pounds sterling. If this figure includes working stocks on hand, for which the Bank of Brazil has not been granting exchange, it might be correct. Inasmuch as this total represents a rough estimate, and in view of the importance of obtaining more reliable information, we applied to the Director of Exchange for more precise data and we secured the following:

Dollar

**Dollar Exchange for Merchandise Imported
from the United States Represented by
Milreis Deposited up to January 4, 1939:**

Received by the Bank of Brazil for collection - Rio de Janeiro.....	\$ 828,300.14
Received by other banks for collection - Rio de Janeiro.....	\$ 412,948.05
Daily quotas of firms operating in Rio de Janeiro, exclusive of petroleum companies.....	\$ 413,384.88
Petroleum companies - Rio de Janeiro....	\$1670,703.79
Santos - all banks.....	\$ 34,000.00
São Paulo - all banks.....	\$1703,000.00
Porto Alegre - all banks.....	\$ 188,453.00
Bahia - all banks.....	\$ 42,513.00
Recife (Pernambuco) - all banks.....	\$ 186,783.00
Fortaleza - all banks.....	\$ 18,698.00
	\$5494,557.84

Note: The figures do not include working stocks on hand for which the Bank of Brazil is not granting exchange. It is the policy of the Bank to restrict the allocation of exchange to actual sales.

Note: The figures do not include balance outstanding in banks in all parts of Brazil; they include only reports from the principal cities.

Note: The figures do not make any allowance for earnings and dividends.

"In commenting on the figures, the Director of Exchange stated that the total for the entire country, exclusive of stocks and earnings and dividends, would reach approximately \$6,500,000.00."

7. An estimate of the amount of earnings of American corporations in Brazil which might be transferred to the United States if exchange could be secured is set at

\$10,000,000

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\$10,000,000 by the Embassy in its telegram no. 28, January 24, 5 p.m.

The National Foreign Trade Council obtained information in its recent survey on some \$9,000,000 of funds awaiting transfer, which are the product of industrial, mercantile and agricultural operations. Some of these funds, the bulk of which is public utility earnings, represent earnings as far back as 1934.

VI

Bank of Brasil's Holdings of Compensation Marks

The Bank of Brasil's credit position in compensation marks at the end of 1938 was approximately ten million marks (about \$3,400,000 at the current rate for the compensation mark in Brasil) as against a maximum of thirty-six million marks in the first half of 1938. (Despatch No. 1109, January 16, 1939, from the Chargé d'Affaires). It is also reported by the Commercial Attaché that the Bank is determined to maintain this balance of ten million as a maximum. (Weekly Report No. 28, January 9, 1939.)

In order to reduce these holdings of compensation marks Brasil has restricted and at times suspended the purchase of compensation marks for the exportation of certain products, particularly cocoa, to Germany. Brasil has
also

also apparently refused to approve the exportation of other products, especially coffee and cotton, for compensation marks in excess of the quotas provided in the arrangement with Germany which has been continued from time to time. Germany has threatened to retaliate by reducing its coffee purchases from countries which do not encourage the importation of German products, but this appears not to have alarmed Brazilian officials. (Despatch No. 1109, January 18.)

EA:Stinebaver:EB:GEB

BRAZILIAN POLICY WITH REGARD TO INVESTMENTS OF UNITED STATES CAPITAL AND OPERATION OF UNITED STATES ORGANIZATIONS IN BRAZIL.

There has in recent years been a marked reduction - practically amounting to a cessation - of new investments of United States and other foreign capital in Brazil. The reduction in capital imports has been due in considerable part to the scarcity of foreign exchange for remittance of dividends and interest out of Brazil and has at the same time accentuated this scarcity of exchange. It is believed, however, that the reduction in Brazilian capital imports has been due, to an even greater extent, to the uncertainty arising from the undefined Brazilian policy with regard to the whole question of foreign investments in the country.

With large amounts of idle capital available in the United States, a temporarily unbalanced exchange situation would probably not in itself be sufficient to deter large new investments. At present, however, American organizations contemplating new investments in Brazil are counseled against such action because there is no assurance that they will receive treatment equal to that accorded Brazilian enterprises. Foreign oil companies have been prohibited from investing in developments of possible petroleum

petroleum resources; foreign utility companies are prohibited from investing in new electric power developments; measures are pending to implement the clause of the Brazilian Constitution prohibiting foreign ownership of banks and other financial organizations such as insurance companies; sales of meat by American packing houses have been curtailed by the municipality of São Paulo; and in general an attitude of uncertainty prevails. Rather than to undertake a detailed discussion of each one of these individual situations, it would seem preferable for the Brazilian Government to study carefully the whole outlook for development of natural resources and industry to determine the extent to which foreign participation is desirable. Then, the Brazilian Government could decide upon uniform bases for implementing the principles which were enunciated by President Vargas on November 10, 1938, as follows:

... "Brazil will place no difficulty in the way of entry of foreign capital which seeks reasonable remuneration, however, it will not tolerate foreign capital which desires exorbitant profits or which attempts to exercise tutelage over the national life, only appropriate for colonies or semi-colonies. Foreign capital may enrich itself but only if it enriches as well the national economy of Brazil. Capital the returns from which emigrate totally is a passive and sometimes negative influence in the march of national progress. This means capital which limits itself to the collection of interest and dividends which constitutes an onerous and permanent burden upon the balance of payments."

RAIRFWIGER

NATIONALIZATION OF BANKS

Article 145 of the Brazilian Constitution provides that banks of deposit may operate in Brazil only if their shareholders are Brazilians and that banks at present operating there shall be given a reasonable period in which to comply with this provision. Complying with this provision would require that American banks operating in Brazil would have to discontinue the acceptance of deposits, continuing merely in the status of agencies, or would have to be transformed into Brazilian stock companies and the shares transferred from the parent bank to Brazilian citizens.

The Brazilian Constitution thus requires that banks operating in Brazil be domestic corporations subject to Brazilian banking law, and that all the shareholders thereof be Brazilian citizens. Federal and state banking legislation in the United States permits only domestic corporations to accept deposits, foreign banking institutions being limited to certain agency functions. In the United States, however, the shares of domestic banking institutions may be owned by aliens and indeed a foreign banking institution may own the entire stock of a domestic banking corporation. In certain other spheres, however, alien ownership of the shares of corporations engaging in these activities is restricted.

-2-

As a consequence, and also in view of the situation in many foreign countries where the right to carry on certain businesses or professions is limited to nationals or to a very small proportion of aliens, it would be difficult to justify a formal protest to Brazil regarding the nationalization of banks of deposit if the latter are given a reasonable period in which to discontinue the acceptance of deposits without incurring losses due to forced liquidations. It may be deemed desirable, however, to point out informally to Brazil the disadvantages of reducing abruptly the amount of banking facilities in that nation and to urge, also informally, that the restriction on ownership of shares of domestic banking corporations in Brazil be made less rigid.

RA:EGG:HVN:SS

COOPERATION IN DEVELOPMENT OF BRAZILIAN RESOURCES
AND COMPLEMENTARY TRADE; LOAN OF EXPERTS

While the belief is general that there are many products native to Brazil or products that could be produced economically in Brazil which offer great opportunity for development, it is obviously difficult to point the way categorically to such possibilities. If the markets for such products were apparent and the cost of development reasonable, it is to be supposed that private enterprise would already have undertaken production on a larger scale.

Among the complementary products that are considered to offer important possibilities in Brazil are: rubber, various types of oil seeds and nuts, and various types of tropical woods. Further investigations would doubtless considerably expand the list.

In the case of rubber, the United States imports annually approximately 500,000 metric tons of the world production of about 900,000 metric tons, but Brazil now exports only about 13,000 metric tons a year. The Ford Company has invested several million dollars in the development of commercially useful rubber plants for propagation in Brazil but has as yet not progressed
beyond

beyond the initial stages of its project because of the scarcity of labor in the Amazon Valley. The Department's information indicates that health conditions in the Amazon Valley can be excellently controlled and that there is today an opportunity for the Brazilian Government to cooperate in development of this great natural region by assisting in attracting laborers to that area. At present an inadequate labor supply appears to be the most serious obstacle to successful development.

While United States citizens may assist in development of Brazilian natural resources through private investment of capital, the United States Government is prepared to assist in such development by cooperating in studying the possibilities of various products and in the loan of experts for investigation and surveys.

As concerns resources of an agricultural nature, the program of the Inter-Departmental Committee on Cooperation with the American Republics, contains the following reference:

"Department of Agriculture

Numerous studies have already been made of agricultural resources and problems, including specific commodities such as rubber, cotton, coffee and sugar; plants, especially of the tropics, plant pests and diseases; marketing, et cetera, et cetera. The Department of Agriculture has cooperated directly with foreign officials and

experts

experts who have come to Washington, and on various occasions at the request of foreign governments has loaned experts for limited periods to cooperate with such governments. It is proposed to continue these activities and to expand them along the following lines:

Among the projects mentioned thereafter in the report are the appointment of an Agricultural Attaché to the American Embassy in Rio de Janeiro; a survey of hardwood forest products of tropical American republics; a survey regarding soils, vegetation, climatic factors, disease conditions, et cetera, in the tropics (special attention to be given to products not grown in the United States, such as rubber). The carrying out of these projects is of course dependant upon appropriation of the necessary funds, the pertinent bills being now before the Congress.

In regard to complementary trade in general, it is of interest to note that the three largest United States imports (rubber, sugar and coffee) are tropical or semi-tropical products. Among products at present imported in large quantities into the United States and believed to be susceptible of increased production in Brazil are vegetable oils and oil seeds, fruits and nuts, and hides and skins. A considerable additional number of individual products may be mentioned - cottonseed (a substitute for tung oil), babassu nuts (providing a high quality

edible

edible and soap oil), numerous other types of palm oil and waxes, various types of plant fibers (such as piaçava, caracá, and uacima), and many types of useful and beautiful hardwoods (acapú, cedar, marapú, pereba, pau Brasil, janarandá, etc.). In all the instances cited the usefulness of the product has been established and the problem involved is the development of economical and systematic production, with uniform quality and adequate quantity.

Loan of civilian experts to the Brazilian Government

The foregoing indicates some of the possibilities which may emerge as a result of surveys and investigations which the Department of Agriculture hopes to inaugurate at its own initiative. In addition, authorization now exists (Public No. 545 of 1937) for the loan to the Government of Brazil of specialists and experts who might undertake specific cooperative work, should the Brazilian Government so desire. Although mention is made particularly of cooperation in connection with matters of complementary trade, experts of other branches of the Government (such as the Treasury Department, Labor Department, Tariff Commission, Department of the Interior, et cetera, et cetera) might also be made available should the Brazilian Government so request.

It

It is suggested that the most practical way to arrange such cooperation would be for the Brazilian Government to formulate its program and then to indicate within the scope of that program the type of cooperation which it might consider useful. Upon being informed of the objectives of the Brazilian Government and of specific wishes, the American Government would then endeavor to supply such personnel as might be desired.

RA:KOB:GEB

LOAN OF NAVAL HYDROGRAPHIC TECHNICIANS TO BRAZIL

In October 1938, the Brazilian Embassy in Washington transmitted a request on behalf of the Brazilian Government for three naval hydrographic technicians to organize a department for hydrographic survey in the Brazilian Navy. The United States Navy granted furloughs to a chief photographer, an engraver and a lithographer, who were hired under contract directly by the Brazilian Government, through the Naval Attaché of the Brazilian Embassy.

The three technicians are reported to have gone to Brazil in November 1938 and the families of two of them have recently joined them.

(These arrangements were not, of course, made under the provisions of Public No. 545, and the technicians do not receive any remuneration from this Government.)

RA:RFW:GEB

AVIATION

United States aviation interests are encountering increasing European competition in Brazil as in other South American countries. French and German companies operate transatlantic services to Brazil and Italian and British services are expected to be inaugurated in the near future. There is also competition from European aircraft manufacturers and it has recently been rumored that German interests are proposing the sale of a large number of light maneuverable planes and the construction of a number of landing fields in Brazil.

Mr. Welles may consider it advisable in his conversation with Dr. Aranha to refer to the European competition and to suggest that it is in the interest not only of the United States but of Brazil and this hemisphere as a whole that the efforts of European interests be not too greatly encouraged. At the same time Dr. Aranha could be assured of the desire of this Government to cooperate as far as possible with private United States interests in order that they may provide services equal or superior to those preferred by European interests. It might be pointed out to Dr. Aranha that the Department would be very willing to take up with the Export-Import Bank the matter of
aiding

aiding United States enterprises in meeting the credit terms offered by their European competitors. As a concrete proposal, Mr. Welles might request Dr. Aranha to use his efforts to assure that United States enterprises will always be given an equal opportunity with European enterprises to submit proposals or bids on any projects in connection with aviation developments in Brazil. (In this regard, it is of interest to note that United States airplane manufacturers state they are unable to compete with European offers in Brazil without special credit facilities such as those that might be provided by the Export-Import Bank.)

Dr. Aranha's attention might profitably be invited to two matters of regional importance in which Brazilian support would be desired, namely the Habana Convention on Commercial Aviation and the Permanent American Aeronautical Commission.

The Habana Convention was signed on February 20, 1928 at the Sixth International Conference of American States. It relates generally to the conditions under which the civil aircraft of each contracting party will be permitted to enter the territory of the other parties. The Convention has been ratified by the United States, Mexico, the Dominican Republic, Haiti, and all the Central American

American countries except El Salvador. Only two South American countries have ratified the convention, namely Chile and Ecuador. It is believed that it would be in the interest of the development of international aviation in the Western Hemisphere for all the Pan American States to ratify this convention.

The organization of the Permanent American Aeronautical Commission was provided for in a resolution adopted at the Inter-American Technical Aviation Conference held at Lima in September 1937. This commission will codify public and private international air law, and study various technical aviation matters. The resolution contemplates that each country will organize a national commission to cooperate with the CAPA. This Department is cooperating with the Civil Aeronautics Authority in the organization of the United States National Commission. During the Lima Conference, Brazil, Argentina and Uruguay opposed the creation of the CAPA on the ground that the codification of air law should be undertaken on a worldwide rather than on a regional basis. Without the active cooperation of all the American Republics, the work of the CAPA, to which the aeronautical authorities of the United States attach great importance, cannot be entirely effective.

IN:SSS:SL:BN

DESIRE OF BRAZILIAN GOVERNMENT TO OBTAIN BIDS
FROM AMERICAN AIRCRAFT COMPANIES FOR THE
ESTABLISHMENT OF AN AIRCRAFT FACTORY IN
BRAZIL.

The attached memorandum from Mr. Yost of January 25, 1939 relates to a proposal from the Brazilian Government for the establishment of an aircraft factory in Brazil, upon which American companies were invited to bid.

It will be recalled that this proposal, which had already been communicated to the War and Navy Departments in the summer of 1938, was the subject of some discussion in the Liaison Committee. The War and Navy Departments in memoranda submitted to Mr. Welles stated that they did not believe that the conditions of the Brazilian proposal were sufficiently attractive to interest responsible American aircraft manufacturers, but that possibly the Brazilian Government might care to consider revising its proposal with a view to making it more attractive. The War and Navy Departments both expressed the view that it was highly desirable that should such an aircraft factory be established in Brazil, that it should be in American hands. However, they felt that in the circumstances even German or Italian companies would not be greatly interested in the proposal.

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In view of the expansion of our own aircraft production, it may become increasingly difficult to obtain not only the machines, tools, and other equipment needed for such factory, but also trained engineers and operators to install and operate such a factory. It would therefore seem the more important that Brazil, if it does desire to interest American companies, should be willing to revise its proposal.

RA:Chapin:BAE

January 25, 1939

CONFIDENTIAL

Co - Mr. Green
RAI

Mr. Charles C. Anthony, Vice President of Byrne Doors, Incorporated, Detroit, Michigan, was referred to me this afternoon by the Secretary's office. Mr. Anthony asked that the subject of our conversation remain strictly confidential.

It appears that Mr. Anthony, who spent some years in Central and South America before the depression, has been negotiating with the Brazilian Government for the sale of equipment for five seaplane bases and of equipment for an aviation repair shop. The negotiations have recently been extended to cover all necessary material for an aviation factory. Mr. Anthony's firm is not equipped to supply more than a small part of the material for the factory, but he has approached other firms who could supply this material. At the request of the Brazilian Embassy, he has approached the Export-Import Bank and asked whether the deposit of dollar exchange in the Bank of Brazil would provide sufficient basis for a one or two year credit to be extended by the Export-Import Bank for this transaction

transaction. He said that he was informed by the bank that such deposit would provide adequate basis for such a credit.

A day or two ago, Mr. Anthony was asked by the Brazilian Embassy to inquire of General Craig whether or not the extension of such a credit for this transaction by the United States Government would involve any stipulation that the Brazilian subsidiary of Pan American Aviation have any degree of supervision over this proposed aircraft factory. Mr. Anthony ventured the suggestion that this question might be more properly addressed to the State Department, but the Embassy, specifically Major Machado, had replied that he did not wish to take the matter up with the State Department at this time. Mr. Anthony explained that he had considered it his duty to bring these facts to the attention of this Department and that he had not yet seen General Craig in regard to the matter.

He referred to a Brazilian law providing for the establishment of the aircraft factory in question and said that he was in a position to know that since the enactment of this law German and Italian interests were making serious efforts to obtain the contract for its construction. He expressed the hope that if the Brazilians did eventually bring the matter to the attention of the Department we would

would do everything in our power to see to it that American manufacturers obtained the contract. He said that he would keep me informed as to any future developments in his negotiations with the Brazilian Embassy.

Charles W. Yost

00:10WY:VIG

RADIO

1. The proposal several years ago of the Department of National Propaganda of Brazil for reciprocal broadcasts between that country and various other nations met with little favorable response on the part of the National Broadcasting Company and the Columbia Broadcasting System. On the other hand, Germany and Italy accepted the proposal. There have been within the past year increasing evidences of interest in South American broadcasting on the part of the two American companies and, while the Department is not in a position definitely to speak for them, it is felt that they are probably now prepared to consider such a proposal favorably.

This suggestion might be broached to the Brazilian Foreign Minister with a view to ascertaining whether his Government is now sufficiently interested in a reciprocal arrangement to warrant our discussing the matter with the American companies, or whether his Government would be prepared to consider a general convention regarding reciprocal broadcasts to be negotiated at the Second Inter-American Radio Conference which is scheduled to be held in Santiago, Chile, early in 1940.

2. At the First Inter-American Radio Conference held at Habana, November 1 - December 13, 1937, it was

suggested

suggested that the Second Conference be held at Santiago, Chile, early in 1940 to make it coincide with the Third South American Regional Conference on Radio Communications, the Second South American Regional Conference on Radio having been held in Rio de Janeiro in 1937. It was felt to be in the best interests of radio communications in the Americas to have the two conferences coincide and if possible be definitely combined at Santiago.

While the Department has no evidence that there will be any lack of cooperation at Santiago between North and Central America on the one hand and South America on the other, the South American countries evidenced a distinctly clamorous attitude at Habana and it would be helpful if Dr. Aranha's collaboration could be obtained so that the Brazilian delegation to the Santiago Conference might lend its influence toward the greatest possible cooperation there.

3. In connection with the contemplated Santiago Conference, Dr. Aranha might be reminded that this Government has not yet been informed that Brazil has given its approval to the Inter-American Arrangement Concerning Radio Communications, Habana, 1937. While this Government cannot, of course, give approval of the document

-3-

document by Brazil, it might be suggested to the Foreign Minister that he look into the question of approval by Brazil of this engineering document.

If he indicates that his Government is not prepared to accept it in its present form, the hope might be expressed that there be included in the Brazilian proposals for the Santiago Conference such modifications as may seem to it to be necessary.

(The Division of Cultural Relations concurs in the foregoing.)

IN: HDOtterson: FMD

SHIPPING

Informal discussions have been held with Admiral Land, Chairman of the United States Maritime Commission, and it is agreed because of Dr. Aranha's views and influence in United States and Brazilian shipping and because of the absence of any treaty of navigation under the terms of which national treatment for American ships could be claimed in Brazil, that no discussion on shipping be had with Dr. Aranha or if any discussion on the subject is projected that it be in the form of a proposal that a treaty of commerce and navigation be negotiated.

Discussion leading to the above recommendation may be summarized as follows:

(1) Dr. Aranha may be commended for the influence he apparently has asserted in making the Brazilian maritime freight rate control law inoperative. The terms of this act were protested to him while he was Ambassador to Washington and it is believed that largely through his efforts, the law remained on the books without coming into operation.

(2) It is reliably reported that Dr. Aranha as Foreign Minister recently requested the Minister of War of Brazil to instruct his agents in the United States to ship

ship a substantial portion of airplanes purchased by the Brazilian Government over the new American Republics Line.

(3) Under a law of April 10, 1937 (law No. 430 Diario Official of April 15, 1937), Brazil sought to rehabilitate the Lloyd Brasileiro. Among the provisions of this law in favor of this Brazilian shipping line were included exemptions from all duties and taxes of importations for the use of the Lloyd Brasileiro exemption from the 2 percent gold tax and a reduction of 50 percent of the consular fees for both the companies' ships and the shippers who employ Lloyd Brasileiro ships. Government shipments by the Lloyd Brasileiro or cargo for the company's own use were exempted from the freight stamp tax.

One of the above items has been under attack as discriminatory to foreign shipping and that is the 50 percent reduction in consular fees. This item, while not large in terms of money, is said to be of considerable effect in influencing shippers to ship by the Lloyd Brasileiro to the exclusion of other lines. However, since no treaty covering navigation exists between Brazil and the United States, no appeal for the removal of this apparent discrimination can be sustained on treaty grounds.

Dr. Aranha is known to hold some views in regard to shipping

shipping between Brazil and the United States which have not been seriously considered by the Maritime Commission. These views may be said to be embodied in the speech which Dr. Aranha made on board the steamship Brasil on the day of its inaugural voyage on October 20, 1938 when he said, "We shall be able to enter, in the near future, into an accord whereby all merchandise exchanged between the United States and Brazil will be transported under our flag." This statement would seem to be based on a proposal which Mr. Joseph Kennedy placed before the Maritime Commission in 1937. The proposal was not given consideration.

In view of the fact that Brazilian vessels have carried less than 25 percent of the trade between Brazil and the United States and that United States ships have not carried more than 25 percent of the traffic between the United States and Brazil, it is obvious that 50 percent or more of the United States - Brazilian trade carried in ships of other nationalities could not be picked up jointly by the existing Brazilian and United States services nor could the Brazilian fleet under any foreseeable plan increase to the extent that they would comply with Dr. Aranha's idea.

IN:JES:BM

POLITICAL REFUGEES

The misunderstanding which for some months prevented the Brazilian representative from assuming the position of Vice Chairman of the Intergovernmental Committee on Political Refugees was resolved in November and Mr. Helio Lobo attended the meetings of the officers of the Committee on December 2 and January 23. He has been most co-operative and helpful throughout.

The Embassy at Rio de Janeiro reported on November 23 that a Council of Immigration and Naturalization had recently been created and that Brazil's current immigration policy was considerably more liberal concerning the admission of certain classes of Jewish refugees than had previously been the case. Mr. Lobo, however, advised Mr. Rublee in confidence on December 22 that he had received his instructions concerning the next meeting of the Committee and that they were most disappointing. His Government, which he had believed would take approximately five thousand involuntary emigrants a year for the next three years, was prepared to admit only three thousand in all, on condition that they were proven agriculturalists and possessed \$2,500 each in addition to steamship fares and settlement expenses.

Dr. Isaiah

Dr. Isaiah Bowman is of the opinion that the Brazilian Government, while loath to admit Jewish refugees in general, would react favorably to a suggestion that a refugee colonization project, with sound financial backing and expert supervision, be undertaken in the dry north-eastern provinces of Ceara, Paraiba and Rio Grande Do Norte. He states:

"The area suffers from recurrent droughts but is highly productive when irrigated. It is that part of Brazil which corresponds to our dry West. The Brazilians have borrowed our ideas and our engineers and have made progress. The advantages of settlement here might be summed up in the following terms: possibility of fair-sized group settlement, controlled health conditions, nearness to the sea, settlement based on capital economically expended on technical projects whose character is well known. The low latitude (4 degrees to 8 degrees S) seems to be a drawback, but there is some elevation above the sea and the capital expenditures would sustain low grade labor available from elsewhere in Brazil."

No specific information is available as to the amount of capital which might be available for this particular project, but the private organizations are thinking in terms of raising \$100,000,000 for settlement in the Dominican Republic, Mindanao, British Guiana or other suitable areas. It is quite possible that settlement in Brazil would be more favorably regarded than settlement in these other areas.

While the Brazilian Government has indicated an interest solely in receiving agriculturalists, it is not impossible

-3-

sible that the Government might also be interested in the establishment in Brazil of manufacturing or other non-agricultural enterprises for the production of goods now imported from Europe. The refugees include a large number of persons with special skills and long experience in various activities which might advantageously be transferred from Germany to the Americas.

The settlement possibilities of Brazil are immense compared to those of other areas and it would be most helpful if the Brazilian Government could be interested in principle in soundly financed, scientifically-developed, non-competitive refugee colonization in such areas and carrying on such activities as the Brazilian Government might consider best suited to the promotion of its national interest.

END TCA:EMC

JAPANESE, GERMAN AND ITALIAN POPULATIONS IN BRAZIL

With regard to Señor Aranha's statement to Mr. Beotten (Telegram no. 16, January 17, from Rio) that "the question of Japanese and other immigration into Brazil is a subject of mutual interest and he desires during the discussions to ascertain our views regarding the wisest policy for Brazil to adopt", the following summary information concerning immigration into Brazil may be of use:

The Political Division of the Brazilian Foreign Office in a confidential study has made an approximate calculation showing the following foreign-born residents in Brazil (despatch no. 916, September 22, 1936, from the Embassy at Rio de Janeiro):

Japanese	280,000
Germans	220,000
Italians	800,000

The total immigration into Brazil of these nationalities from 1887 to 1936 is recorded as follows:

Japanese	177,304
Germans	154,999
Italians	1,353,734

The only explanation for the estimate of 280,000 foreign-born Japanese at present in Brazil, with only 177,304 recorded as having entered the country, and for the estimate of 220,000 foreign-born Germans in Brazil with only 154,999 recorded as having entered the country, would

-2-

would appear to be the entrance of considerable numbers before 1887 and the possible unrecorded entry of a considerable number. Such unrecorded entry may easily have occurred before immigration was controlled as at present.

While it is almost impossible to calculate the number of descendants from immigrants it appears probable that Japanese and descendants number from 300 to 400 thousand (of the total of 177,304 Japanese immigrants about 18,000 are recorded entered before 1918); that Germans and descendants number from 500 to 700 thousand (of the total of 154,999 German immigrants recorded, about 80,000 entered before 1918); and that Italians and descendants number from 3 to 4 million (of the total of 1,353,734 Italian immigrants recorded, about 1,218,803 entered the country before 1918). The Italians are so effectively assimilated that there is little real individual identity to the population of that origin.

RAIRFWIGRSIGKB

CULTURAL RELATIONS1. The Convention for the Promotion of Inter-American Cultural Relations.

RG would be very much interested in having suggested to Dr. Aranha the steps that may be taken in the near future to carry into effect the Convention as related to the exchange of students and professors. This Convention, which has been ratified by both the United States and Brazil, can be put into effect as soon as the ratifying powers find themselves prepared to do so. It would be extremely useful, in view of the fact that the Department has already set up the mechanism for carrying out the Convention and has made definite budget proposals, to ascertain if the Brazilian Government is ready to enter into the exchange arrangement. It would seem possible that by this next autumn this Government would be in a position to carry out this obligation. Since one of the most important ratifying countries is Brazil, it would seem advisable to ascertain informally whether that government is prepared to cooperate for this reciprocal interchange.

2. Films.

It might be possible to consider means for encouraging
the

the increased circulation of informational-educational films produced by the Government of the United States and of a reciprocal arrangement whereby Brazilian films, especially for use in the school system, might be secured for this country. It does not seem that this could be more than an informal proposal, merely to call the attention of the Brazilian Government to the fact that this Department is vitally interested in the increase of the movement of informational films and places a great deal of emphasis on the reciprocal character of this exchange.

RC:Pattee:ML

RA:EOB:GER

TREASURY DEPARTMENT

194

INTER OFFICE COMMUNICATION

DATE May 3, 1939.

TO Secretary Morgenthau,
FROM E. H. Foley, Jr., Acting General Counsel.

The accompanying affidavit is designed for use in a proceeding in a New York State Court, brought by an importer to compel the Federal Reserve Bank of New York to certify to you a different rate of exchange for the Brazilian milreis from the one heretofore certified by the Bank pursuant to law for use in calculating duties on imports. If the importer should succeed, it would result in confusion and uncertainty in the liquidation of entries.

The success of the Bank depends, in part, upon a showing that its certifications are made as an agent or instrumentality of the United States. The affidavit is intended to aid the Bank in making that showing by indicating your interest in the proceeding as Secretary of the Treasury, and by showing the use made of such certifications by the Treasury Department in the assessment and collection of duties.

E. H. F.

May 3, 1939

My dear Mr. Attorney General:

Re: Armand Schwab, Inc., v. The Federal Reserve Bank of New York, pending in the Supreme Court of New York for the County of New York.

The above-entitled proceeding was initiated by an importer for the purpose of obtaining a judicial review of the rate of exchange of the Brazilian milreis on December 19, 1938, January 15, 1939, and February 8, 1939. These rates were certified to the Treasury Department by the Federal Reserve Bank of New York, pursuant to section 522(a) of the Tariff Act of 1930 (U.S.C. title 31, sec. 572(a)), for the Department's use in the assessment and collection of customs duties. The importer seeks an order directing the Bank to certify to the Treasury Department, for such use, new and different rates of exchange for Brazilian currency on the dates specified. The return date of the petition is tomorrow, May 4, 1939.

The orderly collection of the customs revenue would, of course, be seriously disturbed by a ruling subjecting exchange

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rates duly certified to the Treasury Department to judicial review by a state court, and subjecting the agency making the certifications to the orders of such state court. Consequently, the Department is anxious that the court decline to take jurisdiction of the above-named proceeding or to grant the relief requested in the petition.

The Bank and this Department agree that the Bank's case would be materially strengthened if the United States should apply for leave to file a brief as amicus curiae and support its application by filing the accompanying affidavit of the Secretary of the Treasury. It will therefore be appreciated if you will authorize and instruct the United States Attorney for the Southern District of New York to take appropriate steps to obtain such leave.

It may be noted in this connection that the possibilities of such a course of action have already been informally discussed with the United States Attorney in New York.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

WHS:hl 8-3-39

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

----- X
ARNAUD SCHMOLL, INC.,

Petitioner,

-against-

THE FEDERAL RESERVE BANK OF NEW YORK,

Respondent.
----- X

AFFIDAVIT

WASHINGTON)
DISTRICT OF COLUMBIA) ss.:
UNITED STATES OF AMERICA)

HENRY MORGENTHAU, JR., being duly sworn, deposes and says:

1. I am, and since January 1, 1934, have been, the Secretary of the Treasury of the United States of America. As Secretary of the Treasury, I have had, at all times, charge and supervision of all activities of the United States Customs Service of the Treasury Department.

2. This affidavit is made in connection with the above entitled proceeding to show the interest of the Treasury Department of the United States in such proceeding.

3. Pursuant to the provisions of paragraph (a) of section 522 of the Tariff Act of 1930 (U.S.C. title 31, sec. 372), the Federal Reserve Bank of New York, the Respondent herein, on or about December 19, 1935, January 15, 1936, and February 8, 1936, certified to me as Secretary of the Treasury the buying rates in the New York market at noon for cable transfers payable in foreign currencies, including Brazilian milreis, on said dates, respectively.

4. Pursuant to the provisions of paragraph (a) of said section 522 of the Tariff Act of 1930, I caused the Commissioner of Customs to make public the rates certified to me, as stated in paragraph 3 hereof, by

- 2 -

said Federal Reserve Bank of New York for said dates December 19, 1935, January 15, 1936, and February 8, 1936, respectively, as the values of the various foreign currencies for use in the assessment and collection of duties on merchandise imported into the United States, in appropriate cases, where the value of any such foreign currency proclaimed by me as provided in paragraph (a) of said section 522 varied by 5 per centum or more from the value of such currency so made public by me pursuant to paragraph (c) of said section. Such values were so made public by publication thereof in Treasury Decisions Nos. 48064, 48100, and 48155, respectively. Those Treasury Decisions were furnished, immediately following their respective publications, to the collectors of customs for the several customs collection districts and to others concerned throughout the United States Customs Service. The published values, including the values for Brazilian milreis, were caused by me to be furnished the customs appraising officers for use in determining the appraised values, in appropriate cases, of merchandise imported into the United States which had been exported to the United States from foreign countries upon said dates of December 19, 1935, January 15, 1936, and February 8, 1936, respectively; and were caused by me to be furnished to the United States collectors of customs as aforesaid for use, in appropriate cases, in assessing and liquidating customs duties upon such merchandise.

5. The rates thus certified to me by said Federal Reserve Bank of New York and the similar rates certified daily, except Sundays and holidays, by said Bank, are, and have been, the values of various foreign currencies made public by me, and have been used in the assessment of large amounts of customs duties collected by the Government of the United States and paid into the Treasury of the United States since on or about May 27, 1921, the date of the enactment of paragraph (c) of section 403 of the Act of May 27, 1921, 42 Stat. 17, an antecedent of paragraph (a) of section 522 of the Tariff Act of 1930.

- 3 -

6. All actions set forth above, including the action of the Federal Reserve Bank of New York, and all actions of customs appraising officers and collectors of customs in accordance therewith, were entirely in performance of functions of the Government of the United States.

(Signed) H. Morgenthau, Jr.

Subscribed and sworn to
before me this 3d day
of May, 1939.

(Signed) Samuel H. Marks
Notary Public.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: May 17, 4 p.m., 1938

NO.: 161

STRICTLY CONFIDENTIAL

Upon his return today, Aranha's health was much improved.

(1) Aranha will meet the Minister of Finance tomorrow in order to discuss the resumption of payments on the dollar bond indebtedness (see Department's No. 74 of May 3, 6 p.m.). As to the future of the Washington agreements his general impression is very good.

(2) He emphasized the interest of the Brazilian Government in the success of Major Macedo Soares' mission in the United States. The Government of Brazil has decided to improve all of the principal existing railroads, especially the Central do Brasil, and to erect a steel factory here in Rio, and to that end to purchase in the United States a considerable quantity of railway equipment. Today Aranha telegraphed Macedo Soares that he is authorized to undertake both negotiations; Soares is to discuss the steel factory matter with Herman Greenwood, the United States Steel Company representative. A flattering offer to finance and construct the factory has been received by the Brazilian Government from Krupp. Von Bohlen himself

wishes

-2-

wishes to come to Rio for that purpose. However, Brazil prefers doing the business in the United States, and desires to handle it with the United States Steel Company in some sort of cooperative manner.

(3) Aranha has not yet gone forward with the matter of the central bank, owing to his illness, but intends to take it up in the near future.

CAFFERY

EA:DJW

01411038

01411038

TRANSMISSION RECEIVED
JAN 10 1938
U. S. DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: May 17, 7 p.m., 1939

NO.: 164

CONFIDENTIAL

Press despatches from Rome which have been published here recently to the effect that the Fascist Party is conducting a campaign for reducing coffee drinking in Italy were referred to by Aranha, who said that the news had created a strong impression here in Rio. The despatches intimated that the purpose of the campaign is to compel Brazil to enter into a barter agreement with the Italian Government. Aranha received a visit today from the Italian Ambassador who expressed the desire to enter into negotiations on the subject with Brazil. Aranha made the following reply: The Brazilian Government never enters into negotiations under a menace or a threat. I shall be glad to talk to you when your threat is withdrawn.

CAFFERY

EA:DJW

EDA

~~SECRET~~
RIO DE JANEIRO

Dated May 20, 1939

Received 11: 40 a.m.

Secretary of State

Washington

169. May 20, noon.

By 160, May 13, 1 p.m.

The Bank of Brazil decided today to release for publication in the United States and Brazil on May 21 instead of May 22 the notice concerning the liquidation of American arrears, including exchange contracts already granted and collections for which contracts have not been allocated.

Please ask Department of Commerce to advise district officers of this action as widest publicity is desirable for American exporters.

CAFFERY

WWG:PTG

EDA

~~SECRET~~
RIO DE JANEIRO

Dated May 20, 1939

Received 11:42 a.m.

Secretary of State

Washington

170, May 20, 1 p.m.

The Bank of Brazil has just announced that in addition to the c.i.f. value of imported merchandise, importers may now purchase exchange in the free market for banking charges, stamps, telegrams and interest on overdue bills from date of maturity to date of payment, provided such charges are for the amount of the importers. Furthermore, arrears of these expenses which importers have not been permitted to remit, may also be liquidated in the free market.

Mr. Thomas of the National Foreign Trade Council is interested in this matter.

Please inform Department of Commerce.

WWC:PEG

CAPPERY

PARTIAL PARAPHRASE OF TELEGRAM SENT

204

TO: American Embassy, Rio de Janeiro

DATE: May 22, 4 p.m., 1939

NO.: 94

The Export-Import Bank has informed the Department that the Bank of Brazil proposes to charge six-tenths of one percent to American exporters who receive immediate payment of their claims.

This has disturbed the Export-Import Bank inasmuch as it was not contemplated at the time the credit was arranged that such charges would be made. After full consideration, however, the Bank has concluded that no complaint should be lodged with the Bank of Brazil on this ground. You may, however, when appropriate occasion presents itself, indicate informally to officials of the Bank and of the Government the disappointment of the Export-Import Bank.

I may say for your information that the basis of the Bank's decision not to make any complaint is that the six-tenths of one percent for sixty days is equivalent to three and six-tenths percent per annum, which is what it costs the Bank of Brazil to make the cash available immediately. Furthermore, the funds now advanced will go to shippers

shippers who made sales with the full knowledge that exchange was being provided upon a delayed basis and who undoubtedly made provision in their prices therefor.

HULL

EA:DJW

CJ

GRAY

RIO de JANEIRO

Dated May 24, 1939

Received 2:16 p.m.

Secretary of State,
Washington.

171, May 24, 1 p.m.

My 160, May 13, 1 p.m., Department's 94, May 22,
4 p.m.

The Embassy has finally been able to persuade the Director of Exchange that the Bank of Brazil should not collect the discount of 0.6 per cent (six tenths of one per cent) in liquidating deposits for payment of merchandise of American origin made from February 19 to April 8 inclusive for which exchange contracts have not been granted. This decision which becomes effective at once applies to all deposits whether for collections, open accounts or daily quotas. The Bank has instructed its agencies in Brazil to liquidate promptly all of these obligations. This ruling does not affect the payment of exchange contracts already allocated which the Bank is now paying subject to an interest charge corresponding to 3.6% per annum.

Please

-2- #171, May 24, 1 p.m., from Rio de Janeiro

Please request the Export Import Bank to notify the twelve participating banks of this decision and the Department of Commerce to advise exporters through its district officers.

CAFFERY

KLP

Rio de Janeiro

Dated May 27, 1939

Received 11:30 a.m.

Secretary of State,
Washington.

179, May 27, 1 p.m.

A list of American arrears is proceeding satisfactorily and the Director of Exchange informs me that all American arrears not covered by exchange contracts will be paid in full before the middle of June.

The Bank of Brazil has instructed its agency in Bahia to suspend the purchase of German compensation marks in payment for cocoa for exportation to Germany. This decision was made after the bank received notice that German firms had contracted for two hundred and forty thousand bags of Bahia cocoa. Director of Exchange suspects that the German firms intend to dispose of most of this cocoa in other countries.

Please inform Department of Commerce.

CAFFERY

March 1, 1939

My dear Mr. Farish:

I beg to acknowledge receipt of your letter of February 28th and have noted its contents carefully.

I am glad to have the information in regard to the position of your affiliated companies.

Yours very truly,

✓
Secretary of the Treasury

Mr. William S. Farish,
Chairman of the Board,
Standard Oil Company,
New York, N. Y.

STANDARD OIL COMPANY

(Incorporated in New Jersey)

NEW YORK

210

OFFICE OF THE PRESIDENT

February 28, 1939

The Honorable Henry M. Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

BRAZIL

Reference is made to the negotiations which are now in progress with the Brazilian Foreign Minister, Dr. Aranha. It has been reported that one of the subjects under discussion is a possible loan to Brazil for the purpose of liquidating outstanding commercial debts arising from imports of merchandise into that country. In the light of that possibility, we have recently explained orally to Mr. Lockhead the position which our affiliated companies, the Standard Oil Company of Brazil and the Caloric Company, occupy in regard to petroleum imports into Brazil. It has been the practice of these companies for some time to import most of their supplies of petroleum products from countries other than the United States, recently about 1/5 coming from the latter country, a similar proportion from Talara, Peru and about 3/5 from Aruba, Netherlands West Indies.

The principal reason why our affiliated companies in Brazil import most of their supplies from Talara and Aruba is that those sources represent the most economical points from which to obtain their requirements. Throughout the world we endeavor to adhere to the general practice of supplying our various markets from the most economical sources although of course exchange restrictions, clearings and quotas often make other arrangements necessary. This general practice in our foreign business is in conformity with the basic principle to which our Government adheres, namely that international trade should be based upon the free exchange of goods and be multi-lateral in character as opposed to direct barter or bi-lateral trade arrangements. Furthermore, it should be pointed out that our practice of supplying Brazil from low cost foreign sources assists in the conservation of oil in the United States. The petroleum products which we ship to Brazil from Talara and Aruba are manufactured from Peruvian and Venezuelan crude respectively.

We are, of course, not familiar with the progress of the present negotiations with Dr. Aranha and do not know what

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The Honorable Henry M. Morgenthau, Jr.

February 28, 1939

arrangements will be consummated. However, if financial assistance is rendered to Brazil in order to liquidate import debts owing to American corporations, we hope that any such assistance will not be limited solely to exports of United States origin. We understand that there are other American corporations in a position similar to our own affiliates with respect to their imports into Brazil and we feel that any sound and fundamental solution of the Brazilian exchange problem should provide for the liquidation of commercial indebtedness owing to American corporations whether or not the merchandise imported originated in the United States. We feel sure you will agree with our contention that the question involved really concerns the liquidation of unpaid commercial claims of American companies operating in Brazil.

In the two Congelados Agreements which were arranged in 1933 and 1936, our affiliated companies were permitted to participate with respect to imports into Brazil from countries other than the United States. They were considered to be in the same category as other American exporters for the full value of the Brazilian imports. At the present time the Standard Oil Company of Brazil and the Caloric Company owe to our subsidiary companies in the United States in excess of \$5,000,000 covering the c.i.f. cost of petroleum products imported into Brazil from the countries above mentioned since the last Congelados Agreement.

We earnestly request your assistance in protecting the interests of our affiliates in Brazil along the lines indicated above. We are taking the liberty of writing a similar letter to the Secretary of State.

Very truly yours,

W. Danah

March 2, 1939

Welles asked me to see Aranha and I said, "I have a suggestion to make. Why don't you let Aranha talk to the Federal Reserve Board? This is a Central Bank matter. Aranha saw Governor Harrison yesterday. I feel that my usefulness with Aranha is gone and, as the Chinese say, 'I have lost face'. If he started fresh with Eccles he might get much further and be more successful. I feel that my usefulness with Aranha is just over."

Welles said, "I don't see why you feel that way," and I said, "I think I have every reason to. Think about it anyway. I am going up on the Hill in a little while and this afternoon I have a Manufacturers' Association meeting and I am going to this luncheon for Aranha which is being given by the Business Men's Advisory Council."

IN RE: STATE DEPARTMENT
(Dr. Aranha)

March 3, 1939.
2:35 P. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Lochhead
Mrs. Klotz

H.N.Jr: Archie, Dr. Aranha was here yesterday with Sumner Welles of the State Department, and left me a long draft of a document which they wanted to give me in the form of a letter, in regard to forming the Central Bank, and they wanted me to answer it and say that I will be glad to help them at the proper time, (the proper time being up to them to decide to form such a bank) and give them whatever facilities we can, legally and properly, and that we would like them to have a financial attache in Washington, and we would expect to put one in our Embassy there to assist them.

Now if you and Harry can get something like that fixed up for me and send it over to Mr. Welles. And I don't think he has a copy of that. Send him a photostat of that. And let me take a look at it.

Lochhead: This will go as a suggested form of reply?

H.M.Jr: Yes, just the same as this. I don't think Welles has a copy of that. That is all they want.

(Meeting concluded)

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JOSEPH H. JONES
CHAIRMAN OF THE BOARD

March 4, 1939

Dear Henry:

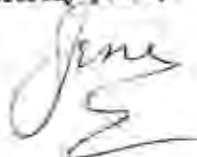
At the President's request, as you know, we have been endeavoring to work out loan arrangements with the Export-Import Bank to assist the Government of Brazil in its purpose to discontinue official control over foreign exchange operations in so far as such control affects commercial relations between the United States of America and the United States of Brazil, and for financing American exports of heavy goods to Brazil.

Tentative agreements have been reached as indicated by letter from the Export-Import Bank to the Foreign Minister, draft of which is enclosed.

From our several discussions with Foreign Minister Aranha, it appears that, in addition to the credits necessary to meet the present exchange situation, probably not more than \$10,000,000 or \$15,000,000 will be needed to finance exports to Brazil during the next 12 months. This will probably absorb the funds available to the Bank for export credits to Brazil during the next year. Should trade between our two countries continue on a mutually satisfactory basis and more long time credit be required, it will be necessary to enlarge the lending authority of the Bank. This can be discussed later.

It is our understanding that the Export-Import Bank's letter is not to be released to the Foreign Minister until certain other important matters under discussion between the State Department and the Foreign Minister, and about which we are not fully advised, have been determined to the satisfaction of the State Department.

Sincerely yours,



Honorable Henry Morgenthau, Jr.,
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Minister:

Reference is made to your communication of _____.

The Export-Import Bank will undertake to establish acceptance credits for the Banco do Brasil in order to assist the Government of Brazil in its purpose to discontinue official control over foreign exchange operations in so far as such control affects commercial relations between Brazil and the United States. Such credits will be provided directly or through American commercial banks satisfactory to the Banco do Brasil and ourselves, and shall be repayable in instalments over a period not exceeding 24 months.

To permit the Bank of Brazil ample opportunity to liquidate its obligations under the credit, it is suggested that each original draft shall be payable at 3 months' sight and may be satisfied at maturity by the payment of 10% of the face amount thereof and the delivery of a renewal draft payable at 3 months' sight for the balance; and thereafter at 3 month intervals, similar transactions shall take place, except that the two last instalments shall each represent 20% of the face amount of the original drafts. The total amount of such credits outstanding at any one time, whether representing original or renewal drafts, shall not exceed \$19,200,000. The discount, including the acceptance commission, shall be 1% flat upon each draft or acceptance — equivalent to an annual rate of 4%. The details of the transaction will hereafter be arranged between the Export-Import Bank, or the approved commercial banks, and the Banco do Brasil, but it shall be understood that all drafts shall be liquidated on or before June 28, 1941.

To aid in improving Brazil's transportation facilities and the development of her other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States, the Export-Import Bank will cooperate with the American manufacturers and exporters in supplying the requirements for these developments by participating with such manufacturers and exporters, to the extent that its funds may be available for such purposes, in the extension of credits of a tenor calculated to enable the Government of Brazil and the Banco do Brasil to create the necessary exchange without disrupting normal purchases from the United States, or too rapidly depleting Brazil's supply of foreign exchange.

The Export-Import Bank understands that credits of the kind under consideration will be of a commercial character and will bear a rate of interest commensurate with the individual transactions, not in excess of 5% per annum. Accordingly, we would prefer that any advances should be against the obligations of the Banco do Brasil or other qualified banking institutions, and that adequate assurances be made by the Brazilian authorities that the requisite dollar exchange will be available for repayments. It is suggested likewise that provision be made for periodic payments to the end that no single payment will occasion any serious depletion of your country's exchange reserve.

Within the period during which the Bank is in position to assist in providing these credits, and to the extent that its funds may be available for this purpose, we will consider any specific proposals as they may develop.

Sincerely yours,

Export-Import Bank
President

Export-Import Bank of Washington
Washington, D. C.

Gentlemen:

In order to increase trade between the United States and Brazil, the Government of Brazil would like to meet without delay all present and future trade obligations to United States firms and nationals, an arrangement that will be mutually beneficial to the United States of America and the United States of Brazil. My Government also contemplates the improvement and extension of Brazil's existing transportation facilities and the establishment and expansion of basic industries essential to the domestic economy of Brazil. To accomplish this, credits will be required, credits extending in some instances as long as five and possibly ten years, depending upon the character of the purchases for which the credits will be used.

These objectives can be greatly facilitated by the establishment by your Bank of acceptance credits in favor of the Banco do Brasil in order to permit the Brazilian Government to meet amounts due to American exporters to Brazil and to enable the prompt remittance of dollar exchange for future purchases of industrial and agricultural products of the United States of America. Such acceptance credits, if extended, will be utilized from time to time as required during the remainder of the calendar year 1939; and will be reimbursed in quarterly instalments over a period not exceeding twenty-four months for any individual item.

Suitable steps will be taken by the Government of Brazil to insure the acquisition by the Banco do Brasil of the dollar exchange required to extinguish the obligations as they mature.

The Government of Brazil is undertaking the economic development of the Brazilian Nation and proposes, among other things, to assist in the establishment of certain basic industries, improve transportation facilities, and to undertake other projects designed to increase the productive capacity of the Nation. The cost of the activities contemplated will be met by revenues other than those presently allocated to meet the normal expenses of the Government.

Substantial quantities of industrial goods produced in the United States are urgently needed to accomplish the purposes envisaged but the acquisition of such goods against cash payments would seriously affect the ability of Brazil to continue normal purchases from the United States and would strain my Government's foreign exchange resources. To obviate the inconvenience of restricting normal trade and the danger of too rapidly depleting Brazil's supply of foreign exchange, the Brazilian Government will need the longer term credits indicated, all of which will be used for the purchase of American products.

The amount of such credits and the time within which they can be most advantageously utilized, and repaid, will depend largely upon the progress of developments in Brazil. The tenor of individual credits will naturally be governed largely by the character of the product to be financed, but it is hoped that provision can be made in certain instances for payments over a period of ten years from the date of purchase.

It is our understanding that industrial credits approved by the Export-Import Bank ordinarily require the cooperation of the interested American manufacturers or financial institutions. We further understand that under existing law the Export-Import Bank is not empowered to advance funds subsequent to June 30, 1941.

We will welcome an expression of your attitude towards the two proposals we have outlined herein.

Very truly yours,

(COPY)

Confidential

Export-Import Bank of Washington
Washington, D. C.

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Gentlemen:

In order to increase trade between the United States and Brazil, the Government of Brazil would like to meet without delay all present and future trade obligations to United States firms and nationals, an arrangement that will be mutually beneficial to the United States of America and the United States of Brazil. My Government also contemplates the improvement and extension of Brazil's existing transportation facilities and the establishment and expansion of basic industries essential to the domestic economy of Brazil. To accomplish this, credits will be required, credits extending in some instances as long as five and possibly ten years, depending upon the character of the purchases for which the credits will be used.

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-3-

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We will welcome an expression of your attitude towards the two proposals we have outlined herein.

Very truly yours,

The Brazilian Government has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis, and of controlling credit and the money market.

The creation of a Central Reserve Bank is desirable first and foremost in order to coordinate under the direction of one competent Board of Directors all the functions and operations of a central bank - many of the elements of which already exist in one form or another in the several departments of the Bank of Brazil and of the Brazilian Treasury - so that that body may guide and carry out effectively the monetary and banking policy of Brazil. At the present time these functions, insofar as they exist, are carried on by the virtually uncoordinated Exchange and Rediscount Departments of the semi official Bank of Brazil (the Commercial Department handling fiscal agency operations) and the note issue section of the Treasury. As a result the Exchange Department may, and in the past on occasion actually has attempted to, execute an exchange policy tending to maintain an external value of the milreis completely out of equilibrium with the internal value of the milreis as affected by the policy of the Rediscount Department and, independently by that of the Treasury's issue section.

In addition to this major objective of coordinating the external and internal aspects of monetary policy, there are a number of specific ways in which an efficient Central Reserve Bank may be of assistance in the development of the Brazilian economy, including: (1) it may regularize the issuance of notes, removing this function from the direct exigencies of public finance; (2) it may be instrumental in the establishment of an effective money market and in improving techniques for its

its control, as have been the recently created Central Banks in other american countries; (3) as a consequence of (2) it may facilitate the regular issuance of Treasury bills, notes, and bonds, and aid in the development of additional banking and credit services for the financing of Brazilian industry and agriculture; and (4) it may establish efficient methods for collecting economic data necessary for the proper determination of external and internal monetary policies.

The draft organic law for the proposed Central Reserve Bank is outlined below. The Minister of Finance of Brazil, during his visit to the United States in 1937, explained the subject to the Secretary of the Treasury and American technicians, and he then had the opportunity of discussing and clarifying details for the project.

The capital of the Bank shall be 60,000 contos of reis, one-third to be subscribed by the Government, one-third by banks operating in Brazil, and one-third by public subscription. The Bank shall be governed by a Board of Directors consisting of a President and Vice-President appointed by the Government and additional directors elected by the shareholders.

The principal activities of the Bank shall be:

- a. To issue notes
- b. To hold the monetary reserve deposits of the banks of Brazil
- c. To buy and sell, discount, and rediscount bills of exchange
- d. To make advances guaranteed by gold bullion, bills of exchange, or Federal securities
- e. To buy and sell gold
- f. To buy and sell foreign exchange
- g. To engage in open market operations in certain Federal securities, as well as in

in gold, exchange, and commercial bills

h. To act as fiscal agent

i. To act as clearing house

The Bank shall be required to maintain minimum reserves of 25 percent of the total of its outstanding notes and sight obligations. This reserve will be composed initially of gold holdings, of balances abroad in free currency, and of public debt certificates of the National Treasury. As gold holdings are increased (such increase being ensured through purchases of gold produced within the country) the Bank will reduce by an equivalent amount the part constituted by bonds.

The Treasury already possesses 30 tons of gold worth about \$35,000,000, or, at prevailing exchange rates, about 13 percent of the currency in circulation. Purchases of domestically produced gold may be estimated at an average of 8 tons annually; thus it may be foreseen that within five years the gold reserve will have attained 70 tons (about \$80,000,000) or, in other words, more than 32 percent of the present note circulation.

Until the minimum reserves of the Bank can be constituted entirely in gold and exchange and until the economic position of Brazil attains a definitely favorable level, the Central Reserve Bank will endeavor to eliminate accidental fluctuations in the balance of international payments and those arising from the irregular timing of in-and-out payments by a policy of adapting the balance of payments to normal exchange resources. To this end, in the manner of an exchange equalization fund, the Bank will resort to the sale of Federal securities in the open market whenever it becomes necessary to prevent inflows of capital from having their full effect on the domestic money market.

market.

In the opposite circumstances, the Bank would find it necessary to draw against available funds abroad, and to this end a line of credit in American currency, intended exclusively for this purpose, and estimated at \$50,000,000, would be desirable in order to ensure relative stability in the value of the milreis, within the policy described. Once the possibility of obtaining this line of credit has been ascertained, the Brazilian Government will proceed with the creation of the Central Reserve Bank in order to attain the objectives set forth briefly above.

March 6, 1939

Sumner Welles called me this morning. He said that he had made a couple of changes, one in my letter to Aranha which I sent him yesterday and another in Aranha's letter to me. I said that these changes were satisfactory to me.

JR

GRAY

London

Dated March 7, 1939

Rec'd 3:18 p.m.

Secretary of State,
Washington.

306, March 7, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. In the course of a brief conversation Sir Frederick Leith-Ross inquired about the current press reports to the effect that the United States is contemplating granting a large credit to Brazil and expressed the hope that in connection with any such negotiations Brazil would be enjoined to deal with its defaulting external obligations. Leith-Ross went on to comment on blatant character of Brazil's default and gave it as his opinion that while it was desirable to clear away some of the debris of the past by reducing the service on such foreign loans he had taken the position in the case of Greece that it was unwise for the Export Credit Guarantees Department to enter into new commitments unless Greece made a real attempt to deal with her existing obligations. He added that due to the Sino-Japanese conflict China was an entirely different case.

Two.

-2- #306, March 7, 7 p.m., from London.

Two. The volume of trading in the foreign exchange market has been unusually small today but the same trend continues, the dollar being offered. Again the amount of married gold was large, 83 bars out of 183, and the British fund took a small number as well.

KENNEDY

KLP

RECEIVED

MAR 10 1941

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

RE BRAZILIAN NEGOTIATIONS

March 7, 1939.
3:30 p.m.

229

Present: Mr. Cane
Mr. Gaston
Mr. Foley
Mr. White
Mr. Lochhead
Mr. Briggs

H.M.Jr: Do you (Briggs) want to sit down here?

Briggs: Let's see what you have there.

H.M.Jr: Where do we start?

Briggs: Well, here's a complete set, beginning with the proposed press release and including all the exchanges of documents, the letters that he will write us and the letters that will be sent in reply.

H.M.Jr: Do you mind if I read this out loud?

Briggs: No indeed.

H.M.Jr: Just sit where you are.

This is the press release.

"Senhor Aranha reached Washington last month, in response to an invitation extended to him on January 9, 1939 in which reference was made to the close and friendly ties which have traditionally united Brazil and the United States and to the various questions of importance in which the two Governments are equally interested. During the past several weeks a series of discussions on all topics of mutual interest has been held between Senhor Aranha and the officials and experts of the Government of Brazil accompanying him, and officials of the Government of the United States. In conversations with the Secretary and Under Secretary of State, the Secretary of the Treasury, the Secretary of Agriculture, officials of the Export-Import Bank of Washington and other officials of the Government

of the United States the area of possible collaboration has been carefully explored and important decisions have been reached.

"The Government of Brazil plans to free the exchange market for normal commercial transactions and to facilitate the transfer of an equitable future return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. In order to facilitate this improved exchange situation the Export-Import Bank will extend appropriate acceptance credits to meet amounts due American exporters for imports from the United States. Moreover, Senator Aranne has indicated that it is the desire of the Government of Brazil to observe a general policy which will encourage the cooperation of United States citizens who have invested or who in the future may invest their capital and technical experience in the development of Brazilian resources and national economy.

"Arrangements have also been made by the Export-Import Bank for the extension of credits which will facilitate the purchase by Brazil of American products the importation of which will assist in improving Brazil's transportation facilities and the development of her other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States. These facilities will at the same time aid American manufacturers and exporters in extending the market for their products.

"It is anticipated that the Brazilian program of national development may likewise benefit by plans for surveys of tropical agricultural possibilities by experts of the United States Government and by the subsequent loan, should the Government of Brazil so request, of experts available under the terms of Public No. 545, enacted last year."

Terms of Public No. 545?

Briggs:

That's the Act which authorizes the loan of American officials to foreign governments.

H.M.Jr: I see.

"In that connection views have been exchanged relative to the development in Brazil of complementary, non-competitive products for which a substantial market is believed to exist in the United States, provided an assured supply can be developed. In the development and expansion of complementary trade it is believed that the two Governments may find a field for increasingly effective cooperation.

"The Government of Brazil has indicated its desire to organize a Central Reserve Bank, and the Treasury Department is prepared to lend appropriate assistance to that end.

"There are attached copies of notes exchanged between the Minister of Foreign Affairs of Brazil and the Secretary of State.

"Cooperation in many other fields of activity not taken up in the above-mentioned exchange of notes was also profitably discussed with Sennor Aranha and the officials and experts of the Brazilian Government who accompanied him to this country.

"Sennor Aranha has likewise engaged in discussions with the Foreign Bondholders Protective Council, Inc., relative to the status of the Brazilian dollar debt and has announced that the Government of Brazil intends to resume payments on July 1, 1939, on account of interest and amortization on such debts in accordance with a temporary arrangement for three years."

well, of course, he isn't going to pay the whole thing. Nine million a year, is that it?

Briggs: Something like that, yes.

H.M.Jr: What's the total, 300 ...

Briggs: It comes to 357 million. His idea is to utilize about six million a year in payment of interest - greatly reduced rate - and about three million for purchase of bonds in the open market, to retire them.

H.M.Jr: Six million is about what, two percent?

Briggs: Little less than two percent on the whole amount outstanding.

H.M.Jr: One percent be retired?

Briggs: (Nods yes)

H.M.Jr: Ye gods - well, I'm not going to read that all now.

Briggs: That includes his letter to you and the draft of your letter in reply, about which Mr. Welles has spoken with you.

H.M.Jr: Well, this is the main part. (Nods silently for brief period)

Well, here too: "The Government of Brazil has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis, and of controlling credit and the money market. The Central Reserve Bank will endeavor to eliminate accidental fluctuations in the balance of international payments and those arising from the irregular timing of in- and out-payments by a policy of adapting the balance of payments to normal exchange resources. To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to insure relative stability in the value of the milreis within the policy described. A copy of a communication addressed by my Government to the Treasury - and so forth.

Now, I'm going to look at that. I think you fellows - I'll reserve my remarks for a minute, but I don't think I'm going to be able to do what you

Briggs: Here's a copy of his letter here.

H.M.Jr: I've got it all here. I've got it all here.

Well, here's my draft, and this is the point that bothers me, gentlemen, see? "I shall also be glad

to discuss at that time any arrangements between our Governments..." - this is my letter to him - "... which properly fall within the scope of this department. The Treasury department of the United States will be glad to assist your Government in establishing such a bank..." - get this; this is new - "... in its operations, inclusive of the extension of a line of credit in American currency..."

How the hell are we going to do that? I mean they walk over here this morning and dump this thing in my lap. I've just been all through this thing. The President of the United States said we shouldn't use the stabilization fund to do it where we were buying milreis, and on that basis he didn't want it. And here I should do it to the Central Bank. I just don't see now I'm going to do it. I said I wouldn't do the other without a concurrent resolution of Congress, and I've been through testifying four times on the Hill now.

And it's like all of these things. They come in this morning, put it on my desk, want an answer tomorrow morning, and the man's been here for three weeks; and I'm not going to be rushed off my feet for anybody.

I say in my things: "I would also like to recall our discussion of last week with reference to the maintenance of a financial attaché by your Government..." Well, that we'll arrange. I don't care, that's unimportant.

"I would also like to recall our discussion of last week with reference to the maintenance of a financial attaché by your Government at the Embassy in Washington. I think the work of such an official in Washington would be helpful and would doubtless serve to extend the field of cooperation between the two Treasuries. This will be particularly true since this Government intends to maintain at the Embassy of the United States in Rio de Janeiro an officer fulfilling a similar role, and the officer so designated will proceed to Rio de Janeiro in the immediate future."

That part doesn't matter. But I asked Mr. Welles

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this morning to underline the part which is new, and the part which is new here - you can see this in blue pencil. I just can't do it. I'm not going to be pledged to anything like that. I'm not going to do it. The hell with it.

Gaston: No limitations. It doesn't say "under certain conditions."

Hanes: He says we "will be glad to assist your Government in establishing such a bank in its operations, inclusive of the extension of a line of credit in American currency, in any way that is legally and appropriately possible."

H.M.Jr: Yes, but I might be able to do this thing legally - I don't know - but ...

Hanes: That's just what I was going to ask. Is there any way that is legally and appropriately possible that we can do it? Have you got any such authority?

Foley: I think we probably can rig something out.

H.M.Jr: This, gentlemen, is an unsecured loan to a central bank which is going to be created. I could do the thing legally, but if the President didn't want me to do it on a straight exchange basis, and this thing is with no term - I mean this is an indefinite period. In the case of the Export-Import they agreed to set aside ten percent of their foreign exchange to repay them. And then I come along with no security, no time, no understanding; it can be interpreted in any way possible. I just won't do it.

Hanes: Does that violate the Johnson Act in any way?

Gaston: No.

H.M.Jr: But - no, but look, you've sat with me for four times, I've been all through this thing. And am I going to suddenly make out of the stabilization fund, because that's the only place I can go, an unsecured loan, with no collateral, no time for repayment?

Lochhead: In one draft they took that part out.

H.M.Jr: Well, they put it back. I'll tell you what they put back. Here, I underlined it. Mr. Welles underlined it in his letter to me.

"To this end..." - this is strange to me - "To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to insure relative stability in the value of the milreis within the policy described."

What I asked him was to leave out that last paragraph entirely. I'm just not going to be hooked on this thing, that's all.

White: If it's the Treasury that's expected to do it, then your remarks hold true. You can't. If it's not the Treasury, then why is it necessary for the Treasury Department to do the assisting? If it's from a central bank or if it's from some private bank, then why should it be linked up with the Treasury particularly?

H.M.Jr: Well, the Federal Reserve Board or the Federal Reserve of New York - the Federal Reserve won't touch it; I won't touch it either.

Danes: You could say in perfectly good faith that you would "assist in the establishment of such a bank in its operations in any way that is legally and appropriately possible," and leave out the part about extension of a line of credit.

H.M.Jr: But that's what he wants. I can't do it.

Danes: I don't see how you can do it.

H.M.Jr: Johnny, you've been up there. Supposing I'm taken sick tomorrow - hope I won't - and you've got to go out to explain this thing. I'm out for a month. Do you want to explain it?

Gaston: Not enough sand over that one to cover it.

H.M.Jr: Supposing I'm sick for a month and you're Acting Secretary; you've got to go up and explain why we agreed to give them a dollar credit - the United

States Treasury, through its stabilization fund, to give the Central Bank of Brazil a line of credit unsecured.

Hanes: That was not included in the provisions of the Act. Have we got any legal right, authority to do it through the stabilization?

Foley: I think we could probably spell you out authority for it; but it's running counter to the policy that the Secretary has expressed in his appearances before the Committee.

White: Not only that, but a lot of water has flowed under the bridge the last week or two; whereas one attitude might

H.M.Jr: Would you (Briggs) mind letting Mr. Hanes sit here a minute; I want to save time for you, because I'm not going to hold up the State Department the way I'm doing it.

Is this the only one we've got?

Hanes: That's your draft.

Briggs: That's the copy sent over to you. Here's the one I just brought. If you'd let me have that back ...

H.M.Jr: I'll let you have this one; then if I could fix this one the same.....

Briggs: Here's the one.

H.M.Jr: Just so we have it.

Now, what I say here - "to assist your Government in establishing such a bank in its operations" and leave out this sentence right here.

Hanes: Leave out this right here - "inclusive..."

H.M.Jr: (To Briggs) Look, I'm leaving out the sentence "inclusive of the extension of a line of credit in American currency."

White: Well, that's the part that's

H.M.Jr: I won't do it.

Now, in Mr. Aranha's letter to me - you've got another one there, please. May I have a complete set? Which is the one

Briggs: You're keeping this one. This is the one I'm taking back.

H.M.Jr: Just put that in your lap.

Now, this is where he underlined it here - the last page, 6. "To this end, a line of credit in American currency...." - last sentence off.

Hanes: Well, is it necessary to strike his sentence?

H.M.Jr: I don't want to accept it.

Hanes: You're not accepting it when you say you'll be willing to He's asking for something here - maybe I don't get the background of this thing correct, but he's asking... This is what he wants. This is what he gets.

Briggs: This is what he writes to the Secretary, and the one you turn over is what he gets in reply.

White: It depends on how it's phrased, whether the assistance implies Does the acquiescence that we will offer assistance in their operations - does that by itself imply that the operations include this extension of currency, according to the way Aranha's letter is phrased?

H.M.Jr: Well, Aranha's letter says: "To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable." I say I don't want to get that.

Briggs: You say merely in reply, sir, that the objectives are ones you find yourself in sympathy with. "I shall be glad to discuss at that time any arrangements between our Governments which properly fall

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within the scope of this Department. The Treasury Department of the United States will be glad to assist your Government in establishing such a bank in its operations, in any way that is legally and appropriately possible."

H.A.Jr: Yes, but he can refer back to this - "I told Morgenthau what I wanted and he's agreed to do it."

Briggs: Certainly wouldn't be specifically covered with this thing out.

H.A.Jr: Look, a fellow writes a letter and he says to me, "I want a line of credit in American currency. This is what I want."

I write back, "I'll do everything legally I can."

The inference is I'm going to do it.

Foley: That's right. If you leave that in his letter to you, you've got to put something in the reply that negatives that request.

Hanes: If we added a paragraph there - I would set forth frankly our position, which is, I take it, that we aren't going to extend any American currency to any foreign country without some consent or permission or at least bringing Congress into our confidence. I think the Secretary could say in complete frankness exactly what he means to do: that we're willing to help - in good faith, we're willing to help by going to the Congress, and here's a desire to do it from the standpoint of American commerce and American business.

Foley: I don't think you can put that in a letter.

Hanes: I didn't say put it in a letter. I say the Secretary can say in perfect good conscience that in order to get such a request as this answered sufficiently to do anything, we would have to take this up with the appropriate authorities.

White: Seems to me the paragraph avoided that definite reference in your earlier letter.

H.W.Jr: In the earlier letter

White: It skirted around that point.

H.W.Jr: Here's the earlier letter, and this thing is left out. I'm not going to do it, and I'm not going to do it for anybody. I'm just not going to do it.

In fact, it was the same thing on the Canadian treaty. They come in here with a whole whisky business, gave me two hours to settle the thing.

I'm not going to do it. The inference is - I write it and then he goes down and says, "I told Morgenthau I wanted a line of credit, and he said he'd do everything possible" - the inference is I'm going to do it.

Hanes: I should think it would be in a perfectly open frame of mind and perfectly cooperative - it would be thoroughly cooperative with his objective if in appropriate language we say at the end of that sentence: "We're going to do everything we/that's legally and appropriately possible. However, in reference to your last statement"

Foley: "... I am not in a position to make any commitments at this time."

Hanes: "... we are not in a position to make such a commitment at this time."

Foley: Yes.

Hanes: "We look with favor upon trying to do what we can to assist."

H.W.Jr: Now, we can carry out Mr. Hanes' suggestion. In other words, I want a negative in there. If they keep this sentence in, I want a negative. I say very silently that without specific authorization from Congress I can't comply with that request.

Griggs: Could you go so far as to indicate sympathy for it?

H.W.Jr: Well, I do that. No, I'm not sympathetic to the ...

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Hanes: Not through the stabilization fund. You're sympathetic if it could be done

H.A.Jr: ... through Congress.

Hanes: That's right. Not through the stabilization.

Briggs: I mean indicate sympathy, assuming favorable ...

White: Under the appropriate conditions.

Hanes: The Secretary has said in not one Committee but three Committees now that I've heard, that the stabilization fund has never been used for any purpose except that set forth in the Act, and never will be. Now, for him to say or let anybody draw the inference that he is going back on those statements - we just can't be put in that position. He can't. So I think you can cover it with appropriate language which will give the idea that he is receptive to anything that might come through the Government which would be helpful to bring this about, provided we can do it legally, ethically, so forth, keeping our word to Congress.

Briggs: It probably would be useful to find out exactly how Aronson would prefer to have it done, in that case: whether he'd prefer to have it taken out of his letter or prefer to include it in his letter with a separate specific statement on your part indicating sympathy for the objective sought and a willingness to take up the matter with Congress.

H.A.Jr: I want, if I may, to just make it a little bit clearer. First, either leave it out entirely in his letter, or if he insists on leaving it in then I've got to point out that in my interpretation I cannot do this at present and I'd have to go to Congress to get specific direction from Congress to make him a loan.

White: Mr. Secretary, would you want that in the letter?

Briggs: Excuse me - could you go one step beyond that and say that you were in sympathy with him provided Congress assented?

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H.M.Jr: No, I'm not in sympathy with doing it through the stabilization fund, and I have no other authority. I'm not in sympathy with it, I won't do it through the stabilization fund. I'm not in sympathy.

Briggs: You wouldn't seek authority to do that.

H.M.Jr: No, no, not in view of my ten days' testimony. I could have done it when I wanted to do it, and wanted to do it through the Export-Import. But the State Department didn't want me to do it and they killed it and they recommended to the President it shouldn't be done that way. Now, I say they're right and since then I've testified that they're right. I don't want to do it through the stabilization fund. I wouldn't make an unsecured loan and I wouldn't ask Congress to give me the authority to make an unsecured loan. I mean, hell, if I was going to do it I'd want to do the way the Export-Import did, with the ten percent set aside of these duties - was it 20 or 24 months' limit?

Briggs: 24.

H.M.Jr: Whatever it is - and this thing paid off. But this thing would run on forever.

Now, if they want to send up a million dollars worth of gold and borrow a million dollars worth of dollars and do it the way we do for the Chinese, O.K. But I want the same kind of security, which is that they send a million dollars worth of gold up here and against that they borrow - we buy a million dollars worth of milreis and give them a million dollars and they leave the milreis here. If they want to do something like that, that machinery is already set up.

Briggs: They had an arrangement of that sort in '37.

H.M.Jr: Exactly. But I'm very sorry, I will not enter into such an agreement and I can't accept the letter from him without pointing out the fact that I don't want to do it that way.

Now, I know time is short; I'm very sorry that I'm

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left at the tail-end of the whole thing; after three weeks they leave me to the very last and I get this thing at 7:20 this morning. I've been on the Hill from 10 o'clock until 10 minutes of two. I had my lunch and I saw the Chinese Ambassador at three, and you came next. So that's the order.

Now, Mr. Welles said to give him an answer tomorrow morning. I'm trying to play fair, so I'm giving you the answer now.

Briggs: Well, we appreciate that very sincerely, sir.

A.A.Jr: But I just - I can't do it; I'm out of sympathy with this method.

Do I want Brazil to create a Central Bank? Yes.
Will I help Brazil to create a Central Bank? Yes.
But will I lend her the money to do it? No.

What?

Briggs: I'll take this one and the other one...

A.A.Jr: Now we've got another thing. If you don't mind, I'd like a set of that.

Briggs: Yes, I'm leaving you a complete set. The ones I'm taking are the ones Mr. Welles sent over to you.

A.A.Jr: Now one other thing. I just got this - came in. May I read this in your presence, please. This is from Jesse Jones. Nobody's seen this.

"Dear Henry:

"At the President's request, as you know, we have been endeavoring to work out loan arrangements with the Export-Import Bank to assist the Government of Brazil in its purpose to discontinue official control over foreign exchange operations in so far as such control affects commercial relations between the United States of America and the United States of Brazil, and for financing American exports of heavy goods to Brazil.

"Tentative agreements have been reached as indicated by letter from the Export-Import Bank to the Foreign Minister, draft of which is enclosed.

"From our several discussions with Foreign Minister Aranha, it appears that, in addition to the credits necessary to meet the present exchange situation, probably not more than \$10,000,000 or \$15,000,000 will be needed to finance exports to Brazil during the next twelve months. This will probably absorb the funds available to the bank for export credits to Brazil during the next year. Should trade between our two countries continue on a mutually satisfactory basis and more long-time credit be required, it will be necessary to enlarge the lending authority of the Bank. This can be discussed later.

"It is our understanding that the Export-Import Bank's letter is not to be released to the Foreign Minister until certain other important matters under discussion between the State Department and the Foreign Minister, and about which we are not fully advised, have been determined to the satisfaction of the State Department."

Then comes his letter. Is this included in your letters?

Briggs: Yes, it's included.

H.J.Jr: This is the whole thing. I thought he was going to ask me to do something. He isn't asking me to do anything.

When Mr. Welles was here he said the thing that Aranha was so sore at yesterday afternoon was that - if you (Hanes) will remember, you came into my office yesterday after speaking to Jesse and said that you convinced Jesse to make him a 3.6 rate, which made him very happy; when the papers came over, it was 4 percent, the rate.

Hanes: It's still 3.6.

H.J.Jr: I'm just repeating what Welles said.

Hanes: I don't care what the rate was in the papers. The rate is still 3.6 percent. Pierson told me last night - Pierson told me that on account of some

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difficulty with some local banks, that the local banks thought the rate ought to be 4 percent. I said, "Well, who's doing it, the local banks or is the Export-Import Bank doing it?"

And he said, "It's the Export-Import Bank."

I said, "The rate is 3.6."

H.M.Jr: It's 4 percent there.

Hanes: The rate is 3.6 percent.

H.M.Jr: Here you are - 4 percent.

Lochhead: Pierson said it had been changed again - the rate. I mean I confirm what you (Hanes) said. He said to me it would still be 3.6.

Hanes: That's an early draft. Just didn't change it. The rate last night was still 3.6. And I said to Pierson, "If you're going to change this thing, don't leave me out on the limb here, because I've already told Aranha you're going to make the rate 3.6, which I think is a very fair rate."

He said, "We're not going to change the rate from what you and Mr. Jones agreed." So that's that.

H.M.Jr: Well, do you (Briggs) know what's happened during the day on the rate?

Briggs: My understanding is that it's 3.6.

H.M.Jr: Yes.

Well now, there you are. You've got it from the horse's mouth, so to speak. You're (Hanes) in sympathy with what I'm saying, aren't you?

Hanes: Absolutely, sure.

Briggs: He'll be back tomorrow morning, Mr. Secretary, and we'll have an opportunity to take him

H.M.Jr: Who'll be back?

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Briggs: he's in New York now.

W.A.Jr: Who?

Briggs: Aranha.

W.A.Jr: But Mr. Welles is here.

Briggs: Oh yes. I'll tell him when I get back.

W.A.Jr: Well, I want to do all I can to help, but I can't go back on ten days' testimony. And if the President is so sure that he doesn't want the stabilization fund to do this other loan, which has some chances of being repaid, I'm sure he won't want me to do this one out of the stabilization fund. It has no security, no time limit, no chance of repayment. And I don't want to, even by any inference, in fairness to Mr. Aranha and his government, have him think - to go away thinking that I'm inferring that he's going to get one dollar out of the Treasury under our present authority.

Briggs: All right, sir. Maybe we can still work something out. He will, of course, be somewhat disappointed. I think he was very much counting on some sort of assistance of that kind.

W.A.Jr: Well, whoever led him to think he could get that I think is the person who's made the mistake. Whoever encouraged Mr. Aranha to think he could get that kind of assistance out of the United States Government - that person made a great mistake, because I wasn't consulted at any time. I mean at no time have I been consulted about extending a line of credit from the stabilization fund to a central bank of Brazil. Now, somebody encouraged Mr. Aranha to think he could get it; whoever that person is, I think, should be severely criticized.

Briggs: Here's a complete set of these documents, sir, which I'll leave.

W.A.Jr: And please just remember that while I feel very forcefully on this, it is not meant to be directed

at you. I mean I appreciate your coming. I speak intensely, but it has no personal significance of any kind, and I appreciate your coming over.

Briggs: I understand, sir.

(Briggs leaves)

H.M.Jr: State Department must think we're even stupider than some people think we are. I mean I think it's the goddamndest performance. They've got a luncheon - want to blow this tomorrow morning before the President has them for lunch. They wait until the last minute, then with a pistol to my head they say, "Cough up fifty million dollars."

White: Ten days ago the situation could have been quite different. It's not the same now.

Foley: They killed it.

White: Well, it might have been.

Lockhead: We know what it is now.

White: It is no longer the situation

H.M.Jr: Ten days ago I dropped everything and for five days we worked day and night to do this thing for Aranha; from Saturday to Thursday, and then they killed it. I wanted to do it. I was doing it with enthusiasm and enjoyment. And then they stepped on it. And then the sons of guns wait and hold this thing up until tomorrow morning, and I think this release is to be tomorrow, you see - and then sweep me off my feet. Did the same thing on the Canadian treaty.

White: That phrase was an out for them because of what they did here; that would leave them able to tell Aranha, "It's all right, this loan will be taken care of; the Treasury will take care of that when the time comes up." Otherwise, they would have been licked, because Aranha thought things were going splendidly, and in the light of that last conversation they had to do something like that.

H.M.Jr: have you any doubts as to the saneness of my position?

Hanes: I would have had doubts of your sanity if you agreed to do anything.

H.M.Jr: Foley, have you any doubts?

Foley: No, sir, none at all.

Lochnend: None.

H.M.Jr: Harry?

White: None.

H.M.Jr: Now, will you three gentlemen, for Mr. Hanes and myself, draw up the kind of paragraph that I can live with, in case they say, "What would you do?" See what I mean?

Foley: You mean his letter to you or in your reply? Both?

H.M.Jr: Both. And you've got everything that I've got in the world on this thing.

Hanes: Make it as cooperative as you can without committing us.

H.M.Jr: But, doing what Hanes said, let's be a hundred percent honest about it, and not let this fellow go away thinking, "On, I wrote Morgenthau I wanted this credit. I say I want it and Morgenthau says simply, 'I'll do everything I can legally'" - which anybody could interpret, not knowing the background, that it was a promise on my part to carry it out.

John, I write you a letter - "Dear Johnny: Please lend me a thousand dollars. I need a thousand dollars to start a chicken farm." And you write me back: "Dear Henry: I'll do everything I can legally to help you."

I go around and show it to the bank. "This shows you what kind of a friend Johnny is. I just asked him for a thousand dollars, and here's his reply." On the strength of that, I can cash the check.

Foley: Got the money, got the power.

H.M.Jr: I mean that's the way it reads publicly. They don't know we struck that thing out. They must think I'm awful stupid.

You (Hanes) didn't see the Canadian treaty, with all the millions of dollars involved. They come over here - they're reducing the British whisky 50 percent - the tariff; never say a word to us on the whole Canadian treaty. And they gave us one half a day to approve it. And we had I don't know how many millions of dollars of suits pending against Canada - millions and millions and millions of dollars.

I mean it's studied, it's planned, it's all carefully planned. "We'll wait until the end. Morgenthau wants to see this thing go through." The original idea was mine to bring somebody up here. "We'll just sweep him off his feet."

White: They're left in an awful pickle.

Foley: They asked for it.

H.M.Jr: Now, wait a second. No, I want to look you in the eye, and anybody else - I'm not doing this to put anybody in a pickle.

White: No, no.

H.M.Jr: I want you to know this. I'm not doing anything to get even with anybody. I cannot after my testimony make an unsecured loan to run without any termination at any time, no promises of repayment, out of any fund over which I have the trusteeship.

White: There's no question in my mind of that after the categorical statement you made.

H.M.Jr: But I'm not doing it to put anybody in the hole, because I would, if I could do it, do everything possible to cement the friendship between the two countries, and I'm not doing it to put anybody in the hole. But I mean if they're in a hole, they've got nobody to blame but themselves. I didn't want you to think that I'm doing this for that reason, because I'm not.

Confidential

March 7, 1939

DISCUSSIONS BETWEEN HIS EXCELLENCY
SENHOR OSWALDO ARANHA, MINISTER OF FOREIGN
AFFAIRS OF BRAZIL, AND OFFICIALS OF THE
GOVERNMENT OF THE UNITED STATES

Senhor Aranha reached Washington last month, in response to an invitation extended to him on January 9, 1939 in which reference was made to the close and friendly ties which have traditionally united Brazil and the United States and to the various questions of importance in which the two Governments are equally interested. During the past several weeks a series of discussions on all topics of mutual interest has been held between Senhor Aranha and the officials and experts of the Government of Brazil accompanying him, and officials of the Government of the United States. In conversations with the Secretary and Under Secretary of State, the Secretary of the Treasury, the Secretary of Agriculture, officials of the Export-Import Bank of Washington and other officials of the Government of the United States the area of possible collaboration has been carefully explored and important decisions have been reached.

The

-2-

The Government of Brazil plans to free the exchange market for normal commercial transactions and to facilitate the transfer of an equitable future return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. In order to facilitate this improved exchange situation the Export-Import Bank will extend appropriate acceptance credits to meet amounts due American exporters for imports from the United States. Moreover, Senhor Aranha has indicated that it is the desire of the Government of Brazil to observe a general policy which will encourage the cooperation of United States citizens who have invested or who in the future may invest their capital and technical experience in the development of Brazilian resources and national economy.

Arrangements have also been made by the Export-Import Bank for the extension of credits which will facilitate the purchase by Brazil of American products the importation of which will assist in improving Brazil's transportation facilities and the development of her

other

other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States. These facilities will at the same time aid American manufacturers and exporters in extending the market for their products.

It is anticipated that the Brazilian program of national development may likewise benefit by plans for surveys of tropical agricultural possibilities by experts of the United States Government and by the subsequent loan, should the Government of Brazil so request, of experts available under the terms of Public No. 545, enacted last year. In that connection views have been exchanged relative to the development in Brazil of complementary, non-competitive products for which a substantial market is believed to exist in the United States, provided an assured supply can be developed. In the development and expansion of complementary trade it is believed that the two Governments may find a field for increasingly effective cooperation.

The Government of Brazil has indicated its desire

to

to organize a Central Reserve Bank, and the Treasury Department is prepared to lend appropriate assistance to that end.

There are attached copies of notes exchanged between the Minister of Foreign Affairs of Brazil and the Secretary of State.

Cooperation in many other fields of activity not taken up in the above-mentioned exchange of notes was also profitably discussed with Senhor Aranha and the officials and experts of the Brazilian Government who accompanied him to this country.

Senhor Aranha has likewise engaged in discussions with the Foreign Bondholders Protective Council, Inc., relative to the status of the Brazilian dollar debt and has announced that the Government of Brazil intends to resume payments on July 1, 1939, on account of interest and amortization on such debts in accordance with a temporary arrangement for three years.

Draft
3/7/39

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Note from Senhor Aranha to the Secretary of State

Excellency:

With a desire to foster continued mutually beneficial economic relations between Brazil and the United States and to develop the national economy and natural resources of Brazil, the Government of Brazil, after due deliberation and the considered discussion of its authorized representatives with the authorized representatives of the Government of the United States of America, is undertaking or intends to undertake in the near future the following policies and actions to attain the objectives mentioned:

I

It is the intention of the Government of Brazil to issue a decree-law freeing the exchange market for normal commercial transactions. This will ensure the provision of funds in payments for imports from the United States in accordance with the note of the Brazilian Ambassador to the Secretary of State of the United States of February 3, 1935. This measure will also facilitate the transfer of an equitable future return

upon

-3-

upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. I believe that, as a result of the discussions between the authorized representatives of our respective governments, a substantial accord has been reached as to the basis of the provisions.

In order to proceed with this proposed facilitation of exchange transactions, the Government of Brazil finds it necessary to provide dollar exchange to meet amounts due American exporters for imports from the United States. To make this provision, my Government has addressed a communication to the Export-Import Bank of Washington with a view to obtaining the extension of appropriate acceptance credits for this purpose by that organization. A copy of this communication is enclosed as Appendix A.

II

The Government of Brazil has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis,

and

-3-

and of controlling credit and the money market. The Central Reserve Bank will endeavor to eliminate accidental fluctuations in the balance of international payments and those arising from the irregular timing of in- and out-payments by a policy of adapting the balance of payments to normal exchange resources. To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to ensure relative stability in the value of the milreis within the policy described. A copy of a communication addressed by my Government to the Treasury Department regarding this matter is enclosed as Appendix B.

III

With particular view to the systematic economic development of the Brazilian nation, my Government, in its communication to the Export-Import Bank of Washington, a copy of which is enclosed as Appendix A, took up the question of obtaining longer term credits to finance Brazilian purchases of industrial goods in the United States, and the terms of repayment of such credits.

These

-4-

These credits are believed to be necessary to the proper utilization within a reasonable period of the known resources of Brazil, for the benefit of the Brazilian people and the further stimulation of Brazilian-American trade.

IV

The Government of Brazil is especially desirous of stimulating the systematic large-scale production of agricultural products native to Brazil or capable of successful introduction to Brazil which will complement production and find a market in the United States. The Government of Brazil will, of course, appreciate the cooperation of the Government of the United States in the study and development of such products which may provide the United States with assured sources of supply.

V

In consideration of the important relationship between the preservation of normal international trade relations and normal service of the foreign debts of

the

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the Government of Brazil and its political subdivisions, my Government has discussed this problem extensively with the Foreign Bondholders Protective Council, Inc., and has informed that organization that it will resume payments on July 1, 1939, on account of interest and amortization on the external dollar debts in accordance with a temporary arrangement for three years. The details of this arrangement are being worked out with the Foreign Bondholders Protective Council, Inc., and will be announced by my Government after my return to Rio de Janeiro.

VI

To further the development of the Brazilian national economy, my Government wishes to encourage the valuable cooperation of United States citizens who have invested or who in the future may invest their capital and technical experience in the development of Brazilian resources and national economy. Without attempting to enumerate specific measures which may be taken to ensure such encouragement, I assure Your Excellency that my Government intends to observe a general policy which will inspire

the

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the confidence of United States investors.

I avail, etc.

Draft
3/7/39

Confidential
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Note from the Secretary of State to Senhor Aranha

Excellency:

I have received with gratification your communication of March , 1939, in which you enumerate policies and actions which the Government of Brazil, after due deliberation and the considered discussion of its authorized representatives with the authorized representatives of the Government of the United States, is undertaking or intends to undertake in the near future in order to foster continued mutually beneficial economic relations between the United States and Brazil and to develop the national economy and natural resources of Brazil. As you well know, my Government is keenly desirous of taking any steps possible in order to continue and expand the economic cooperation between Brazil and the United States.

My Government is pleased to note that it is the intention of the Government of Brazil to establish and maintain a free exchange market for normal commercial transactions

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transactions and to facilitate the transfer of an equitable future return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. I am informed that the Export-Import Bank of Washington has found it possible to assist in the facilitation of exchange transactions by extending appropriate acceptance credits in order to provide dollar exchange to meet amounts due American exporters for imports from the United States.

I am also informed that the Treasury Department finds itself heartily in sympathy with the objectives stated in your communication to it regarding the establishment of a Central Reserve Bank, and will be glad to assist your Government in the establishment of such a bank and in its operations, by placing at your disposal its advisory facilities and by the extension of a line of credit in American currency, in any way that is legally and appropriately possible.

I

-3-

I am further informed that the Export-Import Bank, with a view to cooperating in the facilitation of trade between the United States and Brazil and in the development of Brazilian natural resources, has agreed to consider the arrangement of suitable longer term credits to finance Brazilian purchases of economic equipment in the United States.

Copies of communications in regard to these matters addressed to you by the Export-Import Bank and the Treasury Department are enclosed as Appendices A and B.

The Government of the United States is interested in cooperating with the Government of Brazil in every practicable way in the study and development of agricultural products and production which will complement production in the United States. In this regard, as you are aware, legislation has already been enacted which authorizes the loan of experts of the Government of the United States to assist the Government of Brazil

in

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in specialized agricultural studies and developments. Plans have also been formulated for surveys of agricultural possibilities, including the development of tropical hardwoods, rubber, and other products, which surveys could readily include the coincidental study of many additional native products of Brazil. Draft legislation which would provide authorization for these surveys is now before Congress.

In relation to this general program of economic cooperation between the United States and Brazil, I welcome the information that your Government plans to resume payment on July 1, 1939, on account of interest and amortization of the external dollar debt of the Government of Brazil and its political subdivisions, in accordance with a temporary arrangement for three years, and that it is the intention of your Government to pursue a policy of encouraging investments of United States citizens in Brazil.

Accept, Excellency, the assurances of my most distinguished consideration.

Confidential

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My dear Mr. Minister:

Reference is made to your communication of _____.

The Export-Import Bank will undertake to establish acceptance credits for the Banco do Brasil in order to assist the Government of Brazil in its purpose to discontinue official control over foreign exchange operations in so far as such control affects commercial relations between Brazil and the United States. Such credits will be provided directly or through American commercial banks satisfactory to the Banco do Brasil and ourselves, and shall be repayable in instalments over a period not exceeding 24 months.

To permit the Bank of Brazil ample opportunity to liquidate its obligations under the credit, it is suggested that each original draft shall be payable at 3 months' sight and may be satisfied at maturity by the payment of 10% of the face amount thereof and the delivery of a renewal draft payable at 3 months' sight for the balance; and thereafter at 3 month intervals, similar transactions shall take place, except that the two last instalments shall each represent 20% of the face amount of the original drafts. The total amount of such credits outstanding at any one time, whether representing original or renewal drafts, shall not exceed \$19,200,000. The

-2-

The discount, including the acceptance commission, shall be 0.9% flat upon cash draft or acceptance -- equivalent to an annual rate of 3.6%. The details of the transaction will hereafter be arranged between the Export-Import Bank, or the approved commercial banks, and the Banco do Brasil, but it shall be understood that all drafts shall be liquidated on or before June 28, 1941.

To aid in improving Brazil's transportation facilities and the development of her other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States, the Export-Import Bank will cooperate with the American manufacturers and exporters in supplying the requirements for these developments by participating with such manufacturers and exporters, to the extent that its funds may be available for such purposes, in the extension of credits of a tenor calculated to enable the Government of Brazil and the Banco do Brasil to create the necessary exchange without disrupting normal purchases from the United States, or too rapidly depleting Brazil's supply of foreign exchange.

The Export-Import Bank understands that credits of the kind under consideration will be of a commercial

-3-

character and will bear a rate of interest commensurate with the individual transactions, not in excess of 8% per annum. Accordingly, we would prefer that any advances should be against the obligations of the Banco do Brasil or other qualified banking institutions, and that adequate assurances be made by the Brazilian authorities that the requisite dollar exchange will be available for repayments. It is suggested likewise that provision be made for periodic payments to the end that no single payment will occasion any serious depletion of your country's exchange reserve.

Within the period during which the Bank is in position to assist in providing these credits, and to the extent that its funds may be available for this purpose, we will consider any specific proposals as they may develop.

Sincerely yours,

Export-Import Bank
President

*Confidential
Appendix B*

DRAFT

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My dear Mr. Secretary:

The Brazilian Government has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis, and of controlling credit and the money market.

The creation of a Central Reserve Bank is desirable first and foremost in order to coordinate under the direction of one competent Board of Directors all the functions and operations of a central bank - many of the elements of which already exist in one form or another in the several departments of the Bank of Brazil and of the Brazilian Treasury - so that that body may guide and carry out effectively the monetary and banking policy of Brazil. At the present time these functions, insofar as they exist, are carried on by the virtually uncoordinated Exchange and Rediscount Departments of the semi-official Bank of Brazil (the Commercial Department

handling

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

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handling fiscal agency operations) and the note issue section of the Treasury.

In addition to this major objective of coordinating the external and internal aspects of monetary policy, there are a number of specific ways in which an efficient Central Reserve Bank may be of assistance in the development of the Brazilian economy, including:

- (1) it may regulate the issuance of notes, removing this function from the direct exigencies of public finance;
- (2) it may be instrumental in the establishment of an effective money market and in improving techniques for its control, as have been the recently created Central Banks in other American countries; (3) as a consequence of (2) it may facilitate the regular issuance of Treasury bills, notes, and bonds, and aid in the development of additional banking and credit services for the financing of Brazilian industry and agriculture; and (4) it may establish efficient methods for collecting economic data necessary for the proper determination of external and internal

monetary

monetary policies.

The draft organic law for the proposed Central Reserve Bank is outlined below. The Minister of Finance of Brazil, during his visit to the United States in 1937, explained the subject to the Secretary of the Treasury and American technicians, and he then had the opportunity of discussing and clarifying details for the project.

The capital of the Bank shall be 60,000 contos of reis, one-third to be subscribed by the Government, one-third by banks operating in Brazil, and one-third by public subscription. The Bank shall be governed by a Board of Directors consisting of a President and Vice-President appointed by the Government and additional directors elected by the shareholders.

The principal activities of the Bank shall be:

- a. To issue notes
- b. To hold the monetary reserve deposits of the banks of Brazil
- c. To buy and sell, discount, and rediscount bills of exchange

d. To

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- d. To make advances guaranteed by gold bullion, bills of exchange, or Federal securities.
- e. To buy and sell gold
- f. To buy and sell foreign exchange
- g. To engage in open market operations in certain Federal securities, as well as in gold, exchange, and commercial bills
- h. To act as fiscal agent
- i. To act as clearing house

The Bank shall be required to maintain minimum reserves of 25 percent of the total of its outstanding notes and sight obligations. This reserve will be composed initially of gold holdings, of balances abroad in free currency, and of public debt certificates of the National Treasury. As gold holdings are increased (such increase being ensured through purchases of gold produced within the country) the Bank will reduce by an equivalent amount the part constituted by bonds.

The Treasury already possesses 30 tons of gold worth about \$35,000,000, or, at prevailing exchange rates, about

-5-

13 percent of the currency in circulation. Purchases of domestically produced gold may be estimated at an average of 8 tons annually; thus it may be foreseen that within five years the gold reserve will have attained 70 tons (about \$80,000,000) or, in other words, more than 32 percent of the present note circulation.

Until the minimum reserves of the Bank can be constituted entirely in gold and exchange and until the economic position of Brazil attains a definitely favorable level, the Central Reserve Bank will endeavor to eliminate ^{periodical} accidental fluctuations in the balance of international payments and those arising from the irregular timing of in-and-out payments by a policy of adapting the balance of payments to normal exchange resources. To this end, in the manner of an exchange equalization fund, the Bank will resort to the sale of Federal securities in the open market whenever it becomes necessary to prevent inflows of capital from having their full effect on the domestic money market. In the opposite circum-

stances,

-6-

stances, the Bank would find it necessary to draw against available funds abroad. To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to ^{help} ensure ~~relative~~ stability in the value of the milreis, within the policy described.

Believe me

Sincerely yours,

This must be answered if it stays in this letter

Draft
3/7/39

Appended
Confidential

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My dear Mr. Minister:

I have your letter of March 3, 1939 before me, which contains an outline of the plan that the Brazilian Government has under consideration for the establishment of a Central Reserve Bank.

The objectives stated therein are those with which I find myself heartily in sympathy and I hasten to assure you that whenever your Government deems the time appropriate to undertake further steps the advisory facilities of this Department will be placed freely at your disposal.

I shall also be glad to discuss at that time any arrangements between our governments which properly fall within the scope of this Department. The Treasury Department of the United States will be glad to assist your Government in the establishment of such a bank and in its operations, ~~including the extension of a line of credit in American currency~~, in any way that is legally and appropriately

His Excellency

Oswaldo Aranha,

Minister of Foreign Affairs.

appropriately possible.

I would like to recall our discussion of last week with reference to the maintenance of a financial attaché by your Government at the Embassy in Washington. I think the presence of such an official in Washington would be helpful and would doubtless serve to extend the field of cooperation between the two Treasuries. This will be particularly true since this Government intends to maintain at the Embassy of the United States in Rio de Janeiro an officer fulfilling a similar role and the officer so designated will proceed to Rio de Janeiro in the immediate future. The appointment of these officials should facilitate and expedite the course of further discussion of the objectives above mentioned.

Believe me

Sincerely yours,

My dear Mr. Minister:

I have before me your letter of March 3, 1939, containing an outline of the plan which the Brazilian Government has under consideration for the establishment and operation of a Central Reserve Bank.

Our discussion appears to me to bring out plainly the soundness of the objectives envisaged in this plan and of the useful results that may be attained both for the Brazilian economy and for the future development of Brazilian-American trade and monetary relationships.

I am therefore instructed by the President to advise you that when and as the Brazilian Government may decide to move forward in this matter, this Government will be glad to assist it by placing at the disposal of your Government/^{the} advisory facilities of the Treasury Department. Moreover, if the Brazilian Government in its further examination of the question decides that, as part of the plan of cooperation between the financial and monetary

His Excellency

Oswaldo Aranha,

Minister of Foreign Affairs of Brazil,
Care of the Brazilian Embassy.

monetary authorities, it can usefully be assisted by the
according of loan facilities to the new institution, the
President will be glad to present to Congress a request

for authorization to place at the disposal of the Govern-

under such terms and conditions as deemed wise
ment of Brazil gold up to the amount of \$50,000,000, to

serve as possible supplementary assets in case of need.

This fund, I understand from you, might or might not be
drawn upon, but it would be certain to be helpful in the
event that the new institution should have to deal with
special situations of a temporary character. You have
informed me that in the event this amount is drawn upon,
the Government of Brazil would plan to make repayment
from its future production of gold.

I would also like to recall our discussion of last
week with reference to the maintenance of a financial
attaché by your Government at the Embassy in Washington.
I think the work of such an official in Washington would
be helpful and would doubtless serve to extend the field
of cooperation between the two Treasuries. This will be

particularly

particularly true since this Government intends to maintain at the Embassy of the United States in Rio de Janeiro an officer fulfilling a similar role and the officer so designated will proceed to Rio de Janeiro in the immediate future. The appointment of these officials should facilitate and expedite the course of further discussion of the objectives above mentioned.

Believe me

Sincerely yours,

Confidential

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March 7, 1939

Mr. Briggs:

Attached are the following papers relating to the proposed Brazilian exchange régime:

1. Draft decree-law submitted by the Brazilian Minister of Foreign Affairs.
2. Memorandum regarding the interpretation of Article 11 as regards the transfer of earnings of investments in Brazil of United States citizens, agreed to by the Brazilian Minister of Foreign Affairs.
3. Memorandum regarding the interpretation of Articles 8 and 9.
4. Letter signed by Dr. Souza Dantas stating that the Brazilian Minister of Foreign Affairs approved the memorandum regarding the interpretation of Articles 8 and 9.

It was agreed yesterday by the Minister, Dr. Souza Dantas, and myself that Article 2 would have to be amended so that the word "exclusively" applied only to the dealings of private banks and not of the Banco do Brasil.

RA:Collado:MJC

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A credit of 20 million dollars to the Carteira Cambial of the Bank of Brasil (Exchange Department of the Bank of Brasil) in order to release the exchange for the current trade, is suggested in the following terms:

DECRET

Art. 1 - Liberty for exchange operations in connection with normal trade shall be reestablished in the terms of this Decree and to take effect on the date of its publication.

Art. 2 - Export drafts shall be sold in the open market and shall be applied exclusively to payments of imports.

Paragraph - The Exchange Control Department will supply export permits only upon presentation of proof by the exporter to show that the exchange has been sold in accordance with the terms of this Decree.

Art. 3 - The Banks purchasing export drafts shall be obligated to sell to the Bank of Brasil on a sight draft on London or New York in accordance with the rate established daily by the Bank of Brasil, 10% of the amount of each bill of exchange purchased.

Should the exchange draft be issued in other currency the conversion to pounds sterling or dollars shall be made on a basis of its parity in London or New York on the day of purchase.

Art. 4 - The purchase of exchange for the payment of importations shall be made in the same manner as that of sales for exportation in the open market and with the previous authorization of the Exchange Control Department.

Art. 5 -

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Art. 5 - The exchange for the payments of collections overdue up to the date of this Decree, the equivalent of which in Brazilian currency has been deposited in the form of instructions in effect cannot be purchased in the open market. The Banco do Brasil will furnish the necessary coverages for this purpose through the official exchange rate in effect on the date of the publication of this Decree or that of the open market as may be found more convenient for the purchaser.

Art. 6 - Transfers other than those issuing from current export and import trade may be made only through the Banco do Brasil.

Art. 7 - Foreign tourists shall sell openly to the Banks, Exchange Houses or Banking Firms the amounts of their letters of credit, travellers' checks or foreign exchange and may re-exchange the national currency should they so desire. The funds made available in this manner to the Banks, Exchange Houses or Banking Firms must be applied by them exclusively in the sale of drafts, letters of credit, payment orders or foreign currency, to persons duly authorized to purchase same through the Bank Control for purposes of travel or living expenses abroad.

Paragraph - Such operations must be entered separately and reported daily to the Bank Control (Fiscalização Bancária).

Art. 8 - Exchange operations in compensated currencies shall be handled exclusively by the Banco do Brasil which shall alter its quotation in accordance with the fluctuations of currencies having free course in the international open market.

Art. 9 -

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Art. 9 - The Bank of Brasil may not maintain a "bought" exchange position on compensated currencies and may purchase them only for coverage of sales made previously or at the same time.

Art. 10 - With the exception of the Banco do Brasil, Banks shall not maintain a "bought" position above 5000 pounds sterling or its equivalent in other currencies.

Art. 11 - The Banco do Brasil will perform all exchange operations pertaining to private capital, swaps, reports and others, at the rates prevailing in the open market. The Bank shall take care of the service of private capital within the limits of its available funds as practicable.

Art. 12 - All governmental departments and public services, federal, state or municipal, must handle all their operations and transactions through the Banco do Brasil.

Art. 13 - The Banks, Exchange Houses or Banking Firms which violate the provisions of this Decree, applying for purposes other than those herein prescribed the funds available, shall have their banking licenses cancelled and may no longer operate on exchange transactions.

Art. 14 - All provisions to the contrary are hereby revoked.

Draft
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Appendix A-1

Memorandum Regarding the Interpretation of Article 11
as Regards the Transfer of Earnings of Investments in
Brazil of United States Citizens

It is agreed in principle that in regard to the future earnings of investments in Brazil of United States citizens the Banco do Brasil shall effect through the open market the transfer of an equitable return on such investments. This shall not, however, restrict the right of the Banco do Brasil to suspend such transfer temporarily in periods of national emergency as reflected in the balance of international payments.

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February 17, 1939.

Meeting between Messrs. Souza Dantas and Pentead,
and Messrs. Feis and Collado of the
State Department

The meeting was held by appointment in order to ascertain whether there was common understanding of the way in which articles 8 and 9 of the memorandum on exchange which had been presented by the Brazilian Delegation would operate. The resulting discussion showed that as among the participants there was complete identity of understanding.

In substance, that understanding foresaw that these articles would operate in practice in the following way:

(1) That as at present, all buying and selling of compensation marks in Brazil would have to go through the hands of the Bank of Brazil (or any other official institution that was established in its place).

(2) That the Bank of Brazil would operate on the general policy of balancing currently purchases and sales of compensation marks. In that way it would avoid ever being in a substantially "bought" position in compensation marks. It was recognized that for practical reasons the Bank might have to carry from time to time a balance of
small

- 2 -

small working dimensions and a figure of two or three million marks as a maximum was mentioned.

(3) It was brought out that in order to have this balance maintained, it might be necessary for the Bank of Brazil to suspend from time to time the purchase of compensation marks. The Brazilian representatives suggested that it might be useful if an agreement could be reached between the Brazilian and German Governments regulating the movement of Brazilian exports by some small time period, quarterly or monthly, and the American representatives agreed that such an agreement might well serve a useful purpose.

It was understood that the intention of the Brazilian Government was to maintain in full effect the limitations of exports for compensation marks now contained in the German-Brazilian commercial agreement.

(4) It was agreed that when and as the general scheme of freeing the exchange was carried through it would be necessary to maintain a cross selling rate between the compensation currencies and the dollar or pound. It was agreed further that a suitable cross rate to be put into effect at the time of the inauguration of this policy was the existing cross rate between the compensation mark and the dollar.

This rate was figured out to be 2.95 compensation marks to the dollar. This in turn was arrived at by a comparison

comparison of the selling rates for the dollar now in existence (17.7 milreis) and the selling rate for the compensation mark now existing (6.0 milreis).

(5) It was further agreed that in the future then the Bank of Brazil should so regulate the selling rate of the mark that it would fluctuate with the dollar, thereby maintaining the cross rate of 2.95 to the dollar.

(6) The question of spread to be maintained by the Bank of Brazil between the buying and selling rates of the compensation mark was discussed. The present spread between the buying and selling rate of the compensation mark, exclusive of the 3 percent tax, figures at about 8 1/3 percent of the selling rate, while the spread now applicable to the dollar, is about 2.6 percent. The American representative suggested it would be helpful if the present spread on the mark of 8 1/3 percent could be retained. The Brazilian representatives agreed in principle that an attempt should be made to retain it, but stated in the event that it seemed advisable they would wish to feel free to amend policy in the matter, discussing this subject with us.

(7) Finally, the American Delegation brought to the attention of the Brazilian Delegation the suggestion that Brazil should not employ any free currencies arising from

- 4 -

from its export to buy in compensation countries. The Brazilian representative said that such in fact was their present ruling policy, and said that their intention would be to maintain that policy but that in exceptional instances it might be departed from. The case cited was the purchase in Germany of something greatly desired in Brazil but made in part of raw materials imported into Germany; the German authorities might then insist on receiving a certain fraction of the payment in free currencies.

EA:HF:LWW

March 8, 1939

10:30 a. m.

Present:

Mr. Welles
Mr. Lockhead
Mr. White
Mr. Foley

HM, Jr.: If you don't mind, I am having these people in, the time being so short, because we went all over this with these gentlemen. These are the people who have been advising me.

Mr. Welles: I will come right to the point. I think that if the letters that we went over yesterday afternoon are to be in the shape that you left them, the whole negotiation is over, the whole thing blows up and is a complete flop and failure.

Aranha's point of view is this: he has come to the United States on account of the invitation that we extended to him, thinking that some effective form of cooperation could be devised between the two Governments which we have had very much at heart and very much in mind. As a result of it, he finds himself confronted with obligations on his part to agree roughly to transfer to the United States every year approximately \$36,000,000 or \$37,000,000, -- I don't recall the breakdown now, but that is a fact, -- including resumption of payment on the American-held dollar debt. In return for that he gets credit facilities from the Export-Import Bank for twenty-four months, amounting to \$19,200,000. That is not something that will be favorably regarded in Brazil.

My request is that we try to find some way out of the difficulty this morning. Before he came here, you and I discussed the situation and my understanding, clearly, was that you felt it was possible, both legally and properly, that the Stabilization Fund be utilized

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in some such way as we have been discussing with him.

HM, Jr.: Oh, no! No! I think that you are very much in error, because at no time have I any records or any recollection that there was to be an advance to a Central Bank by the Stabilization Fund for an unsecured loan.

Mr. Welles: The loan, of course, would have to be secured.

HM, Jr.: At no time -- and I would like to ask the people, please this is terribly important -- does anybody remember? Please be just 1,000% careful.

Dr. White: The first time it was raised definitely -- or at least some of us suspected that's what they had in mind, but it was never mentioned until one of the conferences and the moment it was mentioned I definitely stated and so reported in writing to you that no such request had been made, to my knowledge, by Dr. Aranha to the Secretary and that, therefore, we were in no position to even begin to discuss any of the details and that until you had presented the matter to us, we could not discuss the project in conference. And then Dr. Dantas said that he would take it up with Dr. Aranha at once. So that it is very clear in my mind that in any conference that I was present or any statement that you made that no request was made with respect to a Stabilization loan, though I think it is pretty plain we suspected they had something like that in their mind.

HM, Jr.: Before they arrived here?

Dr. White: We thought they would ask, because that would be proper. I mean that they would like to have it, but after reading their initial memorandum then the suspicion definitely grew that they would ask ..

Mr. Welles: May I interject at this point. I am not discussing an unsecured loan, nor do I see any intrinsic difference between the project that was first discussed, which was a \$20,000,000 credit which

has now been handled through the Export-Import Bank, which you are personally in favor of handling through the Stabilization

HM, Jr: Was. No longer.

Mr. Welles: Was.

HM, Jr: I have testified four times on the Hill since then.

Mr. Welles: That's what we are now discussing.

HM, Jr: Since I went to the President and the President said he did not want Stabilization Fund and I had in my envelope, and did not have an opportunity to draw it out, a Concurrent Resolution which I was going to ask Congress to pass before I would make that loan and which I sent you a copy of -- then we went over to see the President. The President said no. Since then I have testified three times before the House and one time before the Senate and I am more convinced than ever that I should not make a transaction of that kind to any country without getting specific authorization from Congress.

Mr. Welles: Well

HM, Jr: Now if I may finish. Up to the time that the President told me no and up to the time that Fels recommended so definitely that he did not want it done that way, I was enthusiastic for doing it. Then the President, without even listening, like a snap of the finger, said, 'I don't want it done that way; I want it Export-Import,' since then we have -- and actually I am guided and I take it he has a good reason for not wanting it, but I did have and you had, before we went over there, a copy of a Concurrent Resolution.

Since then we have testified and we find that certainly both in my testimony and the questions that they asked me, that I could not possibly consider the thing without getting specific authorization from

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Congress, because they don't want it -- not out of the Stabilization Fund -- and I would have to go back on everything which I said. And aside from the fact that I am, frankly, opposed to even recommending it, I think that if the next day or two I recommended such a thing the chances are they would not pass the Stabilization Fund legislation. It has not been reported out of either Committee and I think the whole Stabilization Fund is more important for the benefit of all the people than making one loan to one country.

Now, again going back to the original thing. Mr. Aranha was talking about \$16,000,000 when he was here; talking about setting aside 10% of his foreign exchange, and he was talking about eighteen months. Now, this thing comes along; no time limit; no method in sight of repayment, and no security.

Mr. Welles: Well

HM, Jr.: If I am wrong on the whole thing, I would like to be enlightened.

Mr. Welles: I think on the whole thing you are wrong, because you have never asked him what type of security was to be offered.

HM, Jr.: I have never had a chance to.

Mr. Welles: Well, if you don't mind my saying it, it's not my fault. The man is here for the purpose of talking to you.

HM, Jr.: He was brought over here Thursday afternoon. Then these letters came and I lost no time -- I think I called you Saturday night and said that the last paragraph, where it refers to money, I would like to leave it off.

Mr. Welles: I beg your pardon! You said as long as the sum was omitted. And I specifically mentioned

HM, Jr.: If you look on the photostat copy,

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which I wrote on in my own handwriting across the top, "I suggest leaving the last paragraph off."

Mr. Welles: And I then spoke to you on the telephone and asked was it all right to add one sentence, revise and add, and you said it was all right provided the sum was left out. That, of course, is just a detail.

HM,Jr: It's just a detail, but this thing is very important.....

Mr. Welles: It is.

HM,Jr: to the Treasury and to have this thing, after three weeks, suddenly rushed at us, I don't think is fair to us.

Mr. Welles: Well, I must admit it is not a question of rushing. Discussion took place here with your Treasury people over a period of some days.

HM,Jr: The memorandum from Dr. Aranha was given to me noon luncheon, Wednesday or Thursday, last week, and that was the first time that I knew that we were going to be brought back into the scene. And it was Thursday, at luncheon, you asked me whether I would again see him. As far as I knew, after Feis' visit here, I took it for granted we were out. Thursday I was brought back into the scene again.

Mr. Welles: Well, the effort I want to make is try to find some way to relieve this situation. Is there some way of doing it?

HM,Jr: Not through the Stabilization Fund.

Mr. Welles: I believe some way can be found.

HM,Jr: Not through the Stabilization Fund.

Mr. Welles: You mean to say you now oppose the idea, even with the idea of a Concurrent Resolution of the Congress?

HM,Jr: Without security?

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Mr. Welles: Obviously they would have to offer security.

HM, Jr: Well, if he offers security, we have got an arrangement with them, in force.

Mr. Welles: This would have to be a special arrangement, of course.

HM, Jr: What's the matter with the arrangement we have in force?

Mr. Welles: What does that arrangement specifically provide for?

Mr. Lochhead: It provides for purchase of milreis to supply them with dollar exchange with the contract for forward purchasing of milreis secured by gold deposited here. Exactly the same type as the Chinese or Mexican arrangement that we made and described in detail in our report.

HM, Jr: And which we have explained to Congress and which nobody seemed to object to. Nobody objected to our arrangement with either China or Mexico.

Mr. Welles: Is it now possible to revise that letter in some way to make it clear that that can be done for this purpose?

HM, Jr: I am willing to point out we have such an arrangement and would be glad to see them make themselves available of the arrangement which was made in 1937.

Mr. Lochhead: The arrangement we made in 1937 is not a matter of public record, of course.

HM, Jr: But we referred to it in my testimony.

Mr. Welles: It was made public then in the testimony.

Mr. Lochhead: In our press release we said we would make dollar exchange available to them.

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HM, Jr.: But in my testimony I referred to the Brazilian arrangement of 1937 which, for reasons of their own, they have not made use of.

Mr. Hanes: I have not been in on this and don't quite understand it. It may be a stupid question. Just what is the proposal? How much money do they want.

Mr. Welles: I am not sure how much money they want. What they want is an agreement on the part of the Treasury Department here that if they do create a Central Bank along the lines in the memorandum given to the Secretary of the Treasury, that they will have credit facilities in this country.

Mr. Hanes: In what amount? What is the indicated amount? Is it \$20,000,000?

Mr. Welles: They mention \$50,000,000.

Mr. Hanes: All to come from the Treasury?

Mr. Welles: I doubt if they require anything like that amount.

Mr. Hanes: My understanding is they would finance only a portion of it through the Brazilian Government and local interests and individuals.

Mr. Welles: Divided into three parts, Brazilian Government, local capital and roughly a third of what is required probably by credit facilities here.

HM, Jr.: This isn't a loan for them to buy locomotives up here.

Mr. Hanes: No, I understand that. This is for a Central Bank. That's what I am asking. What is the amount of credit that we are going to commit ourselves for? I was trying to get the over-all picture and if it's \$16,000,000 or \$20,000,000 it seems to me that we can work out some way, but I don't think the Treasury ought to make any statement that it

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will do anything in the light of what Henry has said on the Hill four times -- not once, but four times -- that this Stabilization Fund has not been used at any time for any purpose except that specifically stated in the Act and it does not specifically state in the Act that we have authority to grant loans or credit to some foreign nation for the purpose of setting up a Central Bank. What we are really doing is buying stock in a Central Bank for another country.

(Mr. Morgenthau left the office for a few minutes at this point.)

I don't know what the policy would be, but it seems to me that if we were going to enter into such an arrangement as that, we ought to go before the Committees and tell them what we are trying to do and why, which is, in my opinion (I speak for myself without talking to anybody else) it's bad business for us to let this fellow go back without doing something for him. I think it's very, very bad business.

Mr. Welles: I think it is not only tragic; I think it's fatal.

Mr. Hanes: It means throwing Brazil aside.

Mr. Welles: That's definitely a fact.

Mr. Hanes: And, in addition to that, we discredit one of our best friends in Brazil, so I am opposed to either of those courses.

Mr. Welles: I am very grateful to you for saying that, because I feel more strongly than I can say.

Mr. Hanes: I feel we have not much chance in South America and Brazil is the only thing we have to tie to and if we do a good job we may have some party, by word of mouth, saying, 'Maybe we had

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better go up there and do some business with those boys', and if we send him back discredited with his own country, we do him injury and ourselves. So I am in favor of trying to work out some plan, but I would not be in favor, in the light of what I have heard -- all this testimony, and I know the temper of those boys up there and it's a political situation, Sumner; it's a very delicate political situation and Henry has made a perfectly fine statement before those Committees and they are pleased with his statement, I think. I have not heard anybody say anything to the contrary, and I think we are all right in so far as the Stabilization Fund is concerned in getting it renewed. I think we will get a favorable report on it -- but if we were going to do anything like this, I would be in favor of going before a sub-committee of the Banking and Currency in the Senate and this Coinage, Weights and Measures in the House, and just saying, "Here are the facts. We have a chance to trade with a foreign country and it requires our putting forward credit to them, maybe from the Stabilization Fund; maybe upon authorization from the President through some other source." I don't know what our legal authority would be in that case, but if we went before that Committee with a good, sound business proposition, I think they would give us clearance. I don't believe it would require a Joint Resolution. I don't know. That's something for the lawyers to determine.

(At this point, the Secretary returned.)

I was just saying, Henry, I don't know anything about the background; have not been in on any discussions; but I do feel this way: we have in Aranha a fine friend. The German interests in Brazil, in his own country, for instance, he has 1,000,000 Germans. The German press decidedly are trying to discredit Aranha. If he goes back there empty handed, they are going to tear Aranha apart and take away our best friend, Brazil, and our best friend in South America, and I wish we could work out some way to do this on a businesslike basis and not be left holding the bag.

HM, Jr: So do I. But here we are, brought in at the 11th hour and 59th minute. Export-Import Bank has

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everything that he can put up. The Bondholders get the rest and, as far as I know, there isn't anything left to give the Treasury and we are left holding the bag.

Mr. Welles: I am awfully sorry to take issue with you, but I do object to your saying you are being brought in the 11th hour and 59th minute. You were the first person this was discussed with. Central Bank has not been discussed with you or any other official in the Treasury.

HM, Jr.: And George Harrison.

Mr. Welles: This was started three weeks ago.

HM, Jr.: But there is

Mr. Welles: I want you to be fair, because I feel strongly ...

HM, Jr.: And I feel strongly

Mr. Welles: But this has never been anywhere except in the Treasury.

HM, Jr.: I am sorry to differ with you, but I feel that after the man has been here five days, the State Department, who had this matter in charge, went on and, as far as I knew, we were out. We had these people down here and they met with him and everybody told him and his own man agreed that this thing should be postponed. And the next thing that I knew was when you asked me to see this fellow. And, as far as I was concerned, I just forgot it. I just wiped it off the slate.

Mr. Welles: Let me remind you that there were three proposals: one was exchange credit; the other was the commercial credit, and the third was the Central Bank proposition. After your talk with the President, when I was with you, that day the exchange matter was handed over to the Export-Import. The State Department had no more connection with that than you did. I had

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never spoken to the President about it before I went over with you. That was entirely his responsibility. The Central Bank matter has always been in your hands; has never been discussed with anybody except your people in the Treasury. And I don't think it is quite fair to say it is handed to you at the 11th hour.

HM, Jr.: The fact is Aranha was here constantly and when everything else is taken care of -- the Export-Import Bank, the two things that they are going to do, the foreign bondholders' thing -- and then that's all taken care of, practically finished, you who are making his appointments ask me to see him Thursday.

Mr. Welles: I asked you to see him on account of the difficulty that had arisen and you very courteously did so.

HM, Jr.: That's between you and him, and that's the first notice that I had that we were going to be brought back into the picture. None of that makes any difference if I could see a way to do the thing.

Mr. Welles: That's all that I am asking. I am asking your help.

HM, Jr.: The will is still there and I had these people in and, I don't know the way I put it, but if I wrote Hanes a letter and say "I want to borrow \$5,000 from you to start a chicken plant on my farm" and Hanes writes back, "Thanks. I have got your letter and I will do everything that I can legally and properly to assist you to organize a chicken plant on the farm" -- he does not mention any money." I not knowing anything, a stranger, would say, "That's awfully nice of Hanes. He goes to help out Morgenthau and give him \$5,000 to start a chicken plant." And knowing Aranha and knowing how smart he is, I don't want to leave him by inference after repeated statements I have made on the Hill about foreign loans that he is going to get something from me when I don't think he is.

Mr. Hanes: May I interrest to ask another question. I heard you say something about American creditors here. Those \$370,000,000 of bonds. Going to start the same date of service on those things?

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HM,Jr: Yes. The first of July.

Mr. Hanes: Is that involved in the plan?

Mr. Welles: Yes. That's an agreement between him and the Protective Council. He is already authorized to say that on the first of July he will start with a yearly payment of \$9,500,000 on a three-year temporary basis. They tried to get him up to \$11,000,000 or \$11,500,000.

HM,Jr: To interrupt you there -- Hanes and I are going to leave -- I gave you all the papers last night. Is there any way that you know -- you have been with me on the Hill -- is there any way the Treasury can do to assist this and not fly in the face of what I have said? I would welcome it.

Dr. White: Through Stabilization?

HM,Jr: Through anything in the Treasury. Can anybody see an out? I welcome it.

Dr. White: Except possibly the Treasury could take the initiative, if it so deemed appropriate, to recommend to Congress that they consider an extension of credit to Brazil for certain purposes, but it would not apply to the Treasury any more than it would to any other Department except in so far as you are advising them on the Central Bank.

HM,Jr: This is what I am willing to do if the State Department would approve and the President, I am willing to go to Congress and recommend that \$50,000,000 worth of our gold be earmarked and loaned to Brazil outright and left here, but that we make a \$50,000,000 loan of our gold which they can borrow against here on certain terms of payment.

Dr. White: That's the form it might take.

HM,Jr: And leave the Stabilization Fund out. I don't want to touch it, but I am perfectly willing -- I don't know any better way to put our gold to use than to take "X" amount, \$25,000,000 or \$50,000,000, deposited

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in the Federal Reserve for their account and Brazil, the Bank of Brazil, let them borrow against that, but take it right out and let it be Treasury to Treasury; nothing to do with Stabilization. That I am willing to do if the President will say so.

Mr. Welles: I can't ask more.

HM, Jr.: But I am willing to recommend that to Congress as a straight loan.

Mr. Welles: I think it's much the better way of handling it and the best solution.

HM, Jr.: That is what I made months ago. And to say to Congress that this policy is to apply to only this hemisphere. That I am willing to do.

Mr. Welles: Not another thing in the world that I want.

You are lunching with the President?

HM, Jr.: With a lot of other people today.

Mr. Welles: Can't we stay after lunch with Aranha and the President and talk this out?

HM, Jr.: I would love it. Does this suit you?

Mr. Welles: Nothing could suit me better.

HM, Jr.: I take the responsibility, share it with you, to bring this man here and, God!, I want to help him.

Dr. White: It's entirely distinct. It would not be a Treasury loan except the Treasury would provide the funds.

HM, Jr.: Straight Treasury to Treasury. For instance, I bumped into Ham Fish at the theatre. "Hello, my Congressman!" "Hello, my constituent!" He said, "I just want to tell you, on the South American thing, that's the one thing I think the Administration is right on."

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Mr. Lochhead: Thinking in terms of one day, I must say that if Brazil was content to borrow against the gold in 1937, it still holds good and if they had to have something for a day, we will provide dollar exchange against milreis under the 1937 arrangement.

Mr. Hanes: That's still in effect?

Mr. Lochhead: I say, we can't forget that if it is a very difficult situation and the man has to have something

HM, Jr: It is there and he now understands it for the first time.

Are you satisfied?

Mr. Hanes: Yes.

Mr. Welles: There is not another thing in the world that he wants.

HM, Jr: You would support that?

Mr. Hanes: Yes, you bet your life. I would do anything to help that country.

Mr. Welles: There is not another thing in the world that he wants except assurance that you are prepared, with the President's backing, to make that recommendation to Congress.

HM, Jr: I am prepared. I am prepared.

Dr. White: With the appropriate safeguards accompanying a loan.

(At this point, Secretary Welles left. Mr. Hanes also left to go to his office for some papers to take to the Hill.)

Mr. Lochhead: You are all right. Mr. Hull said that Aranha would probably make a statement on Wednesday. Now you have it right up there.

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HM,Jr: This has to come from the President.

Mr. Lochhead: Absolutely!

HM,Jr: Some place, if you look back over six months, I said I am in favor of making direct gold loans.

Mr. Lochhead: For South America.

Mr. Foley: We have had legislation drafted for a long time.

HM,Jr: I didn't back water with Mr. Welles.

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Washington, March 8, 1939.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

The Brazilian Government has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the mil-reis, and of controlling credit and the money market.

The creation of a Central Reserve Bank is desirable first and foremost in order to coordinate under the direction of one competent Board of Directors all the functions and operations of a central bank - many of the elements of which already exist in one form or another in the several departments of the Bank of Brazil and of the Brazilian Treasury - so that that body may guide and carry out effectively the monetary and banking policy of Brazil. At the present time these functions, insofar as they exist, are carried on by the virtually uncoordinated Exchange and Rediscount Departments of the semi-official Bank of Brazil (the Commercial Department handling fiscal agency operations) and the note issue section of the Treasury.

In addition to this major objective of coordinating the external and internal aspects of monetary policy, there are a number of specific ways in which an efficient Central Reserve Bank may be of assistance in the development of the Brazilian economy, including:

- (1) it may regulate the issuance of notes, removing this function from the direct exigencies of public finance;
- (2) it may be instrumental in the establishment of an effective money market and in improving techniques for its

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control, as have been the recently created Central Banks in other American countries; (3) as a consequence of (2) it may facilitate the regular issuance of Treasury bills, notes, and bonds, and aid in the development of additional banking and credit services for the financing of Brazilian industry and agriculture; and (4) it may establish efficient methods for collecting economic data necessary for the proper determination of external and internal monetary policies.

The draft organic law for the proposed Central Reserve Bank is outlined below. The Minister of Finance of Brazil, during his visit to the United States in 1937, explained the subject to the Secretary of the Treasury and American technicians, and he then had the opportunity of discussing and clarifying details for the project.

The capital of the Bank shall be 60,000 contos of reis, one-third to be subscribed by the Government, one-third by banks operating in Brazil, and one-third by public subscription. The Bank shall be governed by a Board of Directors consisting of a President and Vice-President appointed by the Government and additional directors elected by the shareholders.

The principal activities of the Bank shall be:

- a. To issue notes
- b. To hold the monetary reserve deposits of the banks of Brazil
- c. To buy and sell, discount, and rediscount bills of exchange
- d. To make advances guaranteed by gold bullion, bills of exchange, or Federal securities.
- e. To buy and sell gold
- f. To buy and sell foreign exchange

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- g. To engage in open market operations in certain Federal securities, as well as in gold, exchange, and commercial bills
- h. To act as fiscal agent
- i. To act as clearing house.

The Bank shall be required to maintain minimum reserves of 25 percent of the total of its outstanding notes and sight obligations. This reserve will be composed initially of gold holdings, of balances abroad in free currency, and of public debt certificates of the National Treasury. As gold holdings are increased (such increase being ensured through purchases of gold produced within the country) the Bank will reduce by an equivalent amount the part constituted by bonds.

The Treasury already possesses 30 tons of gold worth about \$35,000,000, or, at prevailing exchange rates, about 13 percent of the currency in circulation. Purchases of domestically produced gold may be estimated at an average of 8 tons annually; thus it may be foreseen that within five years the gold reserve will have attained 70 tons (about \$80,000,000) or, in other words, more than 32 percent of the present note circulation.

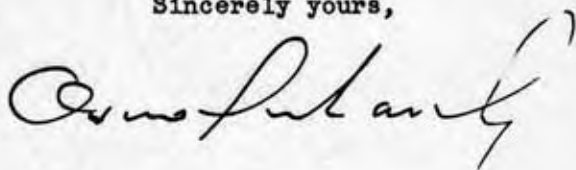
Until the minimum reserves of the Bank can be constituted entirely in gold and exchange and until the economic position of Brazil attains a definitely favorable level, the Central Reserve Bank will endeavor to eliminate unusual fluctuations in the balance of international payments and those arising from the irregular timing of in- and out-payments by a policy of adapting the balance of payments to normal exchange resources. To this end, in the manner of an exchange equalization fund, the Bank will resort to the sale of Federal securities in the open market whenever it becomes necessary to prevent inflows of capital from having their full effect on the domestic money market. In the opposite circumstances, the Bank would find it necessary to draw against available funds abroad. To this end a line of

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credit in American currency, intended exclusively for this purpose, would be desirable in order to ensure relative stability in the value of the milreis, within the policy described.

Believe me

Sincerely yours,

A handwritten signature in cursive script, appearing to read "O. S. F. L. A. G." with a large flourish at the end.

March 8, 1939.

Secretary Morgenthau

E. H. Foley, Jr., Acting General Counsel

Attached is the following material relative to economic assistance to Latin American Countries:

1. Your letter of June 7, 1938 to the President enclosing draft bill authorizing the Secretary of the Treasury to make certain foreign loans to countries in the Western Hemisphere and for other purposes; together with his memorandum of June 10, 1938 to the effect that it was too late in the Session to try to get anything through like this.
2. A memorandum dated June 27, 1938 sent from Mr. Clichton to you concerning the President's memorandum of June 10 to you setting forth reasons why the proposed legislation was not resumption of dollar diplomacy.
3. A memorandum dated November 3 from Messrs. Clichton and White discussing a program of economic assistance to Latin American countries.
4. A proposed letter to the President for your signature discussing a program of economic assistance to Latin American countries, enclosing an outline for specific economic assistance to Brazil. (At your request, this letter was submitted to Mr. Taylor for consideration.) Our records do not show that this letter was ever sent.

(Initialed) EHFJr.

EHFJr/fm

Typed 5/8/39

3 copies made

Attachments (4)

June 7, 1938

My dear Mr. President:

I appreciate fully that any suggestion of new legislation at this date is almost out of the question.

However, I am taking the liberty of sending you herewith a draft of a bill which you may feel is of sufficient importance to ask the leaders of Congress whether they could still get it through at this session.

It is unnecessary to point out to you the constantly increasing financial difficulties in which various South American and Central American countries are finding themselves and the dangers to which that exposes them; and, with this in mind, I feel that if Congress gave you the power as suggested in this bill, your hand would be greatly strengthened.

Sincerely yours,

The President,
The White House.

A B I L L

To authorize the Secretary of the Treasury to make certain foreign loans, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever the President, after consultation with the Secretary of State and the Secretary of the Treasury, shall determine and proclaim that, by reason of a violation or threatened violation of the Monroe Doctrine, or by reason of a disturbance or threatened disturbance of the peace of nations of the Western Hemisphere, an emergency exists and that financial assistance to any government in the Western Hemisphere will, in the interests of the United States, aid in the preservation of the Monroe Doctrine and of peace in the Western Hemisphere, the Secretary of the Treasury is authorized, on behalf of the United States, to make loans to any such government at such times and upon such terms and conditions as the Secretary of the Treasury, with the approval of the President, shall deem appropriate; Provided, That the amount loaned to any one such government shall not at any time exceed in the aggregate \$ _____; and Provided further, That such loans shall bear interest at a rate not less than the rate borne by the then last issued obligations of the United States having a substantially similar maturity. For the purpose of making loans under this Act, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under said Act, as amended, are extended to include loans made hereunder.

(Introduced by HO)

(C O P Y)

Secretary Morgenthau

Mr. Oliphant

cf. President's memorandum of June
10 concerning bill to make
certain foreign loans.

The proposed bill is not Dollar Diplomacy for the following reasons:

(1) Dollar diplomacy meant the exploitation of weak countries by American banking, commercial and industrial interests for their own benefit and with little regard to the genuine economic, social, or political interests of such countries. The American Government, in order to aid and protect such private investors and develop and expand the field of their activities, took action which was in derogation of the "inherent sovereignty and independent rights" of such countries. The record is replete with evidence that American private interests for their own financial gain would not hesitate to milk such countries dry and to foster revolutions and disorder in order to protect their investments or to enable them to make such investments. The record is also replete with evidence that the intervention of this Government in such situations was not in the interest of the other countries involved, but in order to save the dollars of American investors. The following paragraph from "Dollar Diplomacy" by Keating and Freeman is of interest in this connection:

"A similar summary of Government co-operation with American finance in Latin America would show variations of the Monroe Doctrine ranging from mere warnings to armed intervention and the establishment of protectorates. It would include the determination of boundaries; the prevention of filibustering inimical to American financial interests and the helping of filibustering advantageous to American financial interests; the administration of Americans of the custom house in Santo Domingo, Haiti, and Nicaragua; the annexation of Porto Rico and the purchase of the Virgin Islands; the financial annexation of Central America and Cuba, where protectorates of one sort or another have been established; armed intervention to protect debt claims or banking interests or oil interests; the destruction of independent government in three republics; the smothering of revolution in Panama, Honduras, and perhaps Mexico; the building of the Panama Canal; the option on a canal route in Nicaragua, and attempts to obtain a third Canal route; interference with elections; the refusal to recognize governments not subject to the control of American interests and the active support of governments backed by American interests; the acquisition

of naval bases at Guantanamo, Asena Bay, the Corn Islands, Fonseca Bay, and St. Thomas; the establishment of native constabularies under American officers, similar to the British colonial system; diplomatic interference by an economic interpretation of the Monroe Doctrine, for the purpose of blocking Latin-American concessions to European investors; the active soliciting of loan business for New York banking houses; and the carrying on of a ceaseless campaign on behalf of the oil interests against the attempts of Mexico to nationalize its natural resources.*

(2) The proposed Bill on the other hand enables this Government, not private interests, to make loans to Latin American countries. By this bill this country will profit not at the expense of Latin American countries, but because Latin American countries with the loans obtained through this bill will be able to rehabilitate themselves economically, and will be able to maintain the democratic form of government and social and political institutions native to this hemisphere and will thereby be better able to aid in the preservation of the Monroe Doctrine and of peace in the Western Hemisphere. The making of such loans would strengthen the constituted Latin American governments in repelling subversive social and political influences coming from without the Western Hemisphere, particularly those influences which thrive in an unhealthy economic climate.

(3) No charge has been made that our trade agreements with Latin American countries constitute dollar diplomacy, nor has the charge been made that this country's silver, gold and foreign exchange agreements with Mexico and Brazil constitute dollar diplomacy, even though they were efforts on the part of this government to lend assistance to Mexico and Brazil to enable such governments to deal with certain of their economic problems to the advantage of both parties to the agreement. In its economic aspects the making of the loans provided by the bill would have the same fundamental purpose as the trade agreements, namely, the increase of trade between this country and Latin American countries, for the benefit of both parties to the agreement. Accordingly, the proposed bill is no more dollar diplomacy than trade agreements. Furthermore, the loan device is superior to the trade agreement device as a method for improving relations between this country and Latin American countries, since the loan device can be more readily and effectively used to deal with economic and trade problems arising in this country's relations with any of the Latin American countries. That economic cooperation between this country and Latin American countries does not constitute dollar diplomacy would best be suggested by the following statement made by Sumner Welles in an article which he wrote for the April, 1937, issue of "Foreign Affairs":

"At a time (1937-4) when the Cuban people were experiencing the most tragic episode of their history, since they achieved their

Independence, this government, through a practical policy of economic cooperation, equally beneficial to the trade interests of both countries, rescued Cuba from commercial and financial ruin and from actual starvation."

(4) Indeed the proposed bill would have the effect of stifling dollar economy as it has hitherto existed since it would enable Latin American countries to obtain much-needed credits without exposing themselves to predatory tactics of those private investors that have been active in the field in the past two generations. The proposed bill is consistent with and will help effectuate, the President's "good neighbor" policy, since the purpose of the bill is really to help Latin American countries and thereby help this country, rather than to help this country at the expense of Latin American countries.

cc: Mr. Nathan S. Phillips

November 3, 1938

Secretary Vоргenthau

H. Oliphant and H. D. White

Subject: Economic assistance to Latin American Countries

The three major purposes of such assistance would be: (1) To develop immediately more export trade with Latin America and lay a basis for a much larger trade in the future; (2) to strengthen the currencies of Latin American countries and to promote exchange stability between the dollar and those currencies; (3) to encourage the growth of democratic institutions in Latin America and to check the incursion of political and commercial practices inimical to the peace, ideals and economic interests of the United States.

Four types of economic assistance to Latin American countries can be made — either separately or in combination:

1. A gold loan to strengthen the currencies of Latin America and to promote exchange stability between the dollar and those currencies.

A loan of gold can be made via the Stabilization Fund for the purpose of stabilizing the exchange rate between the dollar and the currency in question. That is one of the specific objectives for which the Stabilization Fund was created, one of the objectives of the silver program of this Administration.

A condition of the gold loan should be that the gold be kept on earmark (in the Federal Reserve Bank of New York) for the purpose of supporting currency in the international exchange market and used only after other supplies of foreign exchange have been exhausted in the settlement of legitimate commercial balances. The loan should be at very low rates of interest and for a period long enough to serve the purpose in hand.

A loan of this type can be extended under conditions which while satisfying the objectives of helping to stabilize the currency will involve small risk of substantial loss provided this loan is combined with one or more of the other types of economic assistance.

This loan can be made without additional legislation.

2. An extension of credit or of credit guarantee to develop immediately more export trade with Latin America.

The establishment by the Export-Import Bank of a three-year revolving dollar fund containing a sum adequate for the purpose in hand. These dollar credits should make available funds for the short-term financing of American exports to Latin America of specified items. The items so selected should be those items which are being purchased from those countries which are engaged in trade practices antithetical to American trade policies. The list of articles that may be so financed could be drawn up after joint consultation.

The Export-Import Bank activities might take the form of both extensions of credit and of credit guarantees (along the lines of the British Export Credit Corporation).

3. An extension of a long-term loan for productive purposes to lay the basis for larger trade in the future by helping the Latin American countries to develop their resources on a sound basis and to help raise the standard of living of the Latin American people.

In order for loans of this type to successfully achieve our objectives, they must be made subject to the following conditions:

(a) Loans must bear a low rate of interest. One of the important reasons why past private loans to Latin American countries have had such a bad record of default is that the effective price of interest has been exorbitantly high and the low birth productivity of Latin American industry has not been adequate to meet such charges. American enterprise in Latin America, as developed by private foreign capital, has been directed toward increasing the exports of these countries without adequate attention to their internal productive capacities, and their raw materials.

The proposal for long-term loans by the United States Government is best regarded as a means of reorganization of the Latin American economy which will be directed toward long-run growth. Even though these long-term loans carry a rate of interest as high as 10 percent in the early years to pay the high rates of interest on the United States private borrowing.

(b) The second condition would be that a part of the proceeds of the loans (say 25 percent) be spent for the purchase of supplies and equipment in the United States and the balance be spent in the borrowing country. (A portion of the remaining

dollar funds must sooner or later be spent in the United States.) The purpose of this condition of the loan is to provide the domestic economy with financial resources that will strengthen their internal banking system and lower rates of interest for private borrowing in the Latin American countries. This will encourage the growth of native industry on its own resources and intensify the effect of the American loan. ✓

(c) The third condition is that the loan would be devoted to a domestic rehabilitation program including public works, the creation of new industries, and the modernization and expansion of existing industries. The program selecting the types of industries to be encouraged could be worked out by a joint planning board.

New legislation along the lines indicated last June would be required to authorize those long-term loans.

11/7/38

Attaché was prepared to send to Secretary for
presentation to the President on _____
but the Secretary indicated he would like to
have Taylor go over it.

My dear Mr. President:

In my letter of October 17, 1938, I expressed the view that one of the two directions in which we can effectuate our foreign policy is to render economic assistance to Latin American countries. In this letter I would like to suggest a plan for assistance to appropriate Latin American countries. (The Brazilian situation presents a good opportunity for launching the program, and a specific proposal is therefore appended.)

Economic assistance to Latin America has, I take it, three major objectives:

- (1) To develop immediately more export trade with Latin America and lay the basis for much larger trade in the future.
- (2) To promote exchange stability between the dollar and the currencies of Latin America.
- (3) To encourage the growth of democratic institutions in Latin America and to check the incursion of political and commercial practices inimical to the peace, ideals and economic interests of the United States.

If we are to have any success in attaining these objectives, I am convinced that we must have a new approach. We must decide once and for all that the economic and political interests of the United States call for the adoption of a program in our good neighbor policy as courageous, as broad, and as fundamental as was the New Deal for the United States. The program submitted below for your consideration is of such a nature. It consists of what might be termed a three prong loan. The decisive consideration in judging the merits of the loan must not be short-run considerations of profit or loss. No effective step can be taken if the problem is to be approached merely on a basis of a banker's estimate of financial risk. I admit the plan is a bold one but I believe the potential gains so far outweigh in political, social and economic importance the risks of monetary loss involved, as to make it merit your careful consideration. The plan is one that will likely win the enthusiastic support of American businessmen, and one that is the best answer to those critics who ask of what use is our vast accumulation of unused gold, silver and capital.

The following proposal is set forth in general terms for all Latin American countries and would, of course, require modification to meet the special situation in each country.

A necessary prerequisite of extending assistance to any country in Latin America should be an understanding that the country in question will abandon as soon as possible clearing agreements and will actively discourage the use of multiple currencies, blocked balances, compensation or barter arrangements in its import trade.

Though two of the three parts of the proposal can be made under existing powers, the most important part — the long term loan — does require new legislation.

Part 1. An extension of credit or of credit guarantees to develop immediately our export trade with Latin America.

The establishment by the Export-Import Bank of a three-year revolving dollar fund containing a sum adequate for the purpose in hand. These dollar credits should facilitate American exports to Latin America of specified items which these countries now import from Germany, Italy and Japan.

Part 2. An extension of a long term loan for productive purposes to lay the basis for larger trade in the future by helping the Latin American countries to develop their resources on a sound basis and by helping raise the standard of living of the Latin American people.

In order to successfully achieve our objectives and to avoid "dollar diplomacy", this prong of the loan should be made subject to the following conditions:

(a) Loans must bear a low rate of interest. One of the important reasons why past private loans to Latin American countries have had such a bad record of default is that the effective rates of interest have in most cases been exorbitantly high in relation to the long-run productivity of South American industry. This part of the proposal is designed to help bring about a fundamental reorganization of the Latin American economy.

(b) The loan must be devoted to a domestic rehabilitation program including public works, the creation of new industries, and the modernization and expansion of existing industries.

(c) Any portion of the proceeds expended on foreign goods or services needed for the project must be expended in the United States.

(d) The government or private native interest must supply an equity for each project equal to 50 percent of the funds advanced from the proceeds of our loan.

(e) Projects must be owned and controlled by the government or by nationals of the borrowing country.

Part 3. A gold (or, and silver) loan to strengthen the currencies of Latin America and to promote exchange stability between the dollar and these currencies.

A loan of gold can be made via the Stabilization Fund for the purpose of stabilizing the exchange rate between the dollar and the currency in question. This is one of the specific objectives for which the Stabilization Fund was created.

~~FILE COPY~~

This part of the loan can be made under conditions which, while satisfying the objectives of helping to stabilize the currency, will involve small risk of loss.

The proposed loans should be supplemented by measures designed to increase the ability of Latin American countries to meet their obligations that would be involved in adoption of the above proposals. These measures could include stimulation of American tourist travel to Latin America through grants of special rates on American vessels, and by promotion of approved travel routes; by careful surveys of Latin American products with a view of promoting increased consumption in the United States of Latin American products, etc.

There are three chief objections that doubtless will be offered against the plan I am suggesting:

1. It will be claimed that we would be making loans to countries now in default on foreign obligations held by citizens of the United States.

This cannot be avoided if any substantial economic assistance is to be granted. An inescapable handicap facing any attempt to give economic and financial assistance to most Latin American countries is the presence of the burden of defaulted foreign debts. These are so large that if substantial service on them were attempted any economic assistance we might wish to give would be absorbed and dissipated. Were economic assistance granted with a condition of settlement of the loans it would constitute a clear case of imposing a burden upon the American people for the purpose of bailing out foreign bondholders, a burden which would have no compensatory feature for the country involved. Furthermore, if such assistance were made conditional upon prior settlement of the defaulted debts the foreign bondholders would impose terms which would probably vitiate the beneficial effects of any assistance granted by us. Therefore, if we are to grant economic aid it must be with the understanding that the aid is to be independent of any settlement to be made. However, helping to build up the Latin American countries economically will enable them eventually to service their defaulted foreign obligations.

2. It will be claimed that such aid constitutes "dollar diplomacy".

I do not feel that claim would be justified for the following reasons:

(a) Dollar diplomacy meant the exploitation of a weak country by private American banking, commercial and industrial interests with the aid of the American Government. The American Government, in order to aid and protect such private investors and develop and expand the scope of their activities, frequently took action or threatened to take some action which was in derogation of the "inherent sovereignty and independent rights" of such countries.

(b) The plan I am suggesting, on the other hand, would enable not private interests, but the Government itself, to make loans to Latin American countries in order to assist them in rehabilitating themselves economically and to maintain stable governments. Instead of United States citizens maintaining control or actually operating enterprises in the Latin American countries, thus directly engendering the "dollar diplomacy" feeling, the enterprises would be in the hands of the Latin American governments or their own citizens. The making of such loans would strengthen the constituted Latin American Governments in repelling subversive social and political influences coming from without the Western Hemisphere, particularly those influences which thrive in an unhealthy economic climate. They are designed to preserve for the nationals of the borrowing country complete control and ownership of the enterprises in their country.

(c) In its economic aspects the making of such loans by the Government would have the same fundamental purposes as the trade agreements, namely, the increase of trade between this country and Latin American countries for the benefit of both parties to the agreement.

(d) The proposed type of loan would, indeed, have the effect of stifling dollar diplomacy as it has hitherto existed since it would enable Latin American countries to obtain much-needed credits without exposing themselves to unfortunate tactics of those private investors that have been active in this field for the past two generations. The proposed loans are consistent with, and will help effectuate, the President's "good neighbor" policy, since their purpose is really to help Latin American countries and thereby help this country, rather than to help this country at the expense of Latin American countries.

3. It will be claimed that the Latin American governments will surely default on some portion of the loans to us.

Admittedly that is a possibility, but the very low rates of interest, the use to which the loans are to be put, and the fact that it is the United States Government making a loan to help Latin American progress (and not a loan for private profit, foreign exploitation, or to conduct a war) are factors which make the loans unique, and less subject to default. Even were default to take place some time in the future, we would have obtained advantages which would outweigh the possible financial losses.

Sincerely,

The President,

The White House.

BB:HDW:HG:lrs
M 5/38

Proposal for Economic Assistance to Brazil

Brazil presents an excellent opportunity for the initiation of a program of economic assistance to Latin American countries in accordance with the plan set forth in the accompanying letter.

The President of Brazil stated to Mr. Pierson of the Export-Import Bank on September 17, 1938, that "he hoped we would assist Brazil to finance their public works program". He mentioned that you had offered financial assistance to Brazil when you were there.

1. Brazil is greatly in need of economic assistance.

2. She has recently had some difficulties with Germany over clearing agreements and is probably in a position to drop her cooperation with German trade practices if she secures help from us.

3. Brazil has great productive potentialities that await only capital for development, and has the possibility of becoming as populous a country as the United States.

4. The presence of large German, Italian and Japanese minorities make Brazil especially vulnerable to anti-democratic movements.

5. If we could help Brazil to limit her cotton production and diversify her economy, we would be helping Brazil and ourselves.

The plan as adapted specifically to the Brazilian situation might take the following form.

A necessary prerequisite of extending assistance to Brazil should be an understanding with the Brazilian Government that no clearing agreements will be undertaken with any country and that Brazil will actively discourage the use of multiple currencies, blocked balances, compensation or barter trade in her import trade.

A second condition of any assistance to Brazil shall be an agreement with the United States to join our cotton program to the extent of limiting her cotton crop.

If agreement can be reached on these two conditions, the following measures will constitute the program of economic assistance, provided that appropriate action can be obtained from Congress to grant the long term loan described in (under 3).

Extension by the Stabilization Fund of a \$50 million gold loan to the Government of Brazil.

(a) The gold to be kept on earmark with the Federal Reserve Bank of New York.

(b) The gold to be withdrawn for purchase of dollars only after Brazil's other foreign exchange assets (including her total gold holdings) are used up in the settlement of legitimate and usual commercial transactions.

(c) The loan to be extended for six months, renewable every three months, and to bear interest at 1/2 of 1 percent above the Federal Reserve Bank of New York's discount rate, now 1 percent.

2. The creation of a revolving credit of \$50 billion by the Export-Import Bank to finance at low rates of interest the exportation of American goods for Brazilian consumption of only those items that Brazil now imports from the United States. The Export-Import Bank to pass on the acceptance of the credit risk on a more generous basis than would be available for a loan to an individual exporter.

3. The extension of a \$100 million loan by the Reconstruction Finance Corporation, the terms to be advanced in quarterly amounts of \$12 1/2 million per quarter. The interest on the loan to be 3 percent on the unpaid balance and the annual payments to be amount to 6 percent of the total loan, the percentage being applied to the reduction on the principal of the debt. The conditions of the loan to be:

(a) Brazil to be the contractor for the project undertaken a sum equal to 50 percent of the amount provided for the project by the United States.

(b) The control and property ownership of the projects must remain in the hands of Brazilian Government or Brazilian nationals.

(c) Not less than 25 percent of the quarterly sums transferred shall be expended in the United States for American goods or American services, the balance to be for foreign services needed for the projects are to be obtained from the United States.

(d) The proceeds of the loan to be used exclusively for the purpose of developing industrial enterprises of a kind which will be of benefit to the Brazilian people in the not too distant future.

March 9, 1939.

My dear Mr. Minister:

I have before me your letter of March 8, 1939, containing an outline of the plan which the Brazilian Government has under consideration for the establishment and operation of a Central Reserve Bank.

Our discussion appears to me to bring out plainly the soundness of the objectives envisaged in this plan and of the useful results that may be attained both for the Brazilian economy and for the future development of Brazilian-American trade and monetary relationships.

I am therefore instructed by the President to advise you that when and as the Brazilian Government may decide to move forward in this matter, this Government will be glad to assist it by placing at the disposal of your Government the advisory facilities of the Treasury Department. Moreover, if the Brazilian Government in its further examination of the question decides that, as part of the plan of cooperation between the financial and monetary authorities, it can usefully be assisted by the according of loan facilities to the new institution, the President will be glad to present to Congress a request for authorization to place at the disposal of the Government of Brazil, under such terms and conditions

- 2 -

as deemed wise, gold up to the amount of \$50,000,000, to serve as possible supplementary assets in case of need. This fund, I understand from you, might or might not be drawn upon, but it would be certain to be helpful in the event that the new institution should have to deal with special situations of a temporary character. You have informed me that in the event this amount is drawn upon, the Government of Brazil would plan to make repayment from its future production of gold.

I would also like to recall our discussion of last week with reference to the maintenance of a financial attaché by your Government at the Embassy in Washington. I think the work of such an official in Washington would be helpful and would doubtless serve to extend the field of cooperation between the two Treasuries. This will be particularly true since this Government intends to maintain at the Embassy of the United States in Rio de Janeiro an officer fulfilling a similar role and the officer so designated will proceed to Rio de Janeiro in the immediate future. The appointment of these officials should facilitate and expedite the course of further discussion of the objectives above mentioned.

Believe me

Sincerely yours,

His Excellency

Oswaldo Aranha,

Minister of Foreign Affairs.

JDW
Typed in
3/8/39

March 9, 1939.

My dear Mr. Minister:

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Believe me

Sincerely yours,

His Excellency

Oswaldo Aranha,
Minister of Foreign Affairs of Brazil,
Brazilian Embassy, Washington

Typed 3/8/39 fm

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brasil

DATE: March 11, 1939, 11 a.m.

NO.: 66

Reference is made to my telegram No. 57 of March 4.

I am told by the Director of Exchange that today the usual weekly distribution of exchange will not be announced by the Bank of Brazil.

The following is confidential:

There is uncertainty on the part of the Minister of Finance and the Bank of Brazil as to the plans for freeing exchange. Special consideration is now being given to this and other matters relating to the exchange situation. According to the Director, by next week a definite decision may be made. In addition, the Director said that the sale of export bills to the Bank of Brazil has come to a standstill because of the uncertainty as to the Government's future policy with regard to exchange.

You are requested to inform Commerce of the foregoing.

SCOTTEE.

EA:LWW

March 14, 1939.

Dear Mr. Pierson:

Thank you for your letter of March 10th, which encloses a copy of one you have recently received from Dr. Souza Nantas, dealing with exchange obligations of the Banco do Brasil. I have been interested in reading this.

I wonder if in the future you would be good enough to send similar material addressed to the attention of Mr. Archie Leckhead. Mr. Leckhead has recently been designated a member of the Board of Trustees to succeed Mr. Wayne Chatfield Taylor. He therefore is particularly interested in seeing such communications.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Warren Lee Pierson,
President, Export-Import Bank of Washington,
910 Seventeenth Street,
Washington, D. C.

GWF/dbs

EXPORT-IMPORT BANK OF WASHINGTON
OFFICE OF THE PRESIDENT
WASHINGTON

327

March 10, 1939

My dear Mr. Secretary:

I am enclosing for your information a copy of a letter received from Dr. Souza Dantas in which he sets forth in some detail the more important exchange obligations of the Banco do Brasil to American exporters.

The items mentioned will be among those liquidated through the acceptance credits to be established by the Export-Import Bank.

Sincerely yours,

Warren G. Gurnea

President

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury

4 6 5 2 ✓ - Back

Confidential

Brazilian Embassy

Washington, March 8, 1939.

Mr. Warren Lee Pierson, President
The Export-Import Bank of Washington
Washington, D. C.

My dear Mr. Pierson:

I have the pleasure of listing below for your information the principal American exporting firms which hold dollar exchange in Brazil, either through exchange contracts or through the respective legal deposits in milreis.

Rio de Janeiro

Metro Goldwyn Mayer de Brazil.	\$ 72,000.
International Film, S.A.	3,460.
Fox Film do Brasil, S.A.	100,000.
Paramount Film S.A.	72,000.
Universal Pictures do Brasil	65,700.
Warner Brothers.	84,000.
RKO Radio Pictures	90,000.
U.A. of Brazil	58,800.
Columbia Pictures do Brasil.	<u>55,649.</u>
	601,609.

Texas Oil Co.	1,747,000.
Caloric Co.	1,405,671.
Standard Oil Co.	1,197,000.
Atlantic Refining Co.	<u>440,000.</u>
	4,789,671.

Caixas Registradores	136,180.
International Harvester	799,047.
Singer Sewing Machine Co.	125,000.
Companhias de Electricidade	247,959.
Linotipo do Brasil S.A.	120,334.
Ingersol Rand.	<u>79,908.</u>
	1,508,428.
	<u>6,899,708.</u>

Sao Paulo

General Motors	2,485,848.
Ford Motor Company	1,364,180.
Singer Sewing Machine Co.	300,000.
Armour & Co.	188,491.
Goodyear Tire & Rubber Co.	90,000.
Aluminum Union	<u>22,613.</u>
	4,451,132.

Grand Total\$11,350,840.

2.

Applications for exchange covered by presentation of documents awaiting distribution are as follows:

Rio de Janeiro

RKO Radio Pictures.	\$ 16,000.
Metro Goldwyn Mayer	32,000.
Universal	11,500.
Warner Brothers	16,800.
Fow Film.	20,000.
United Artists	11,200.
Paramount	11,000.
Columbia Pictures	<u>9,000.</u>
	127,500.

Caloric Co.	104,000.
Standard Oil Co.	588,000.
Texas Co.	374,000.
Atlantic.	<u>308,000.</u>
	1,374,000.

International Harvester	100,000.
Ingersoll Rand.	23,000.
Linotipo do Brasil, S.A.	17,000.
Singer Sewing Machine Co.	<u>25,000.</u>
	165,000.
	<u>1,666,500.</u>

Sao Paulo

General Motors.	377,571.
Ford Motor Co.	374,000.
Singer Sewing Machine Co.	95,000.
Goodyear T. & R. Co.	<u>80,000.</u>
	926,571.

Grand Total

\$ 2,593,071.

The difference between these amounts and those referred to in our conversations is represented by coverage in other Banks and contracts in small amounts with a large number of firms in Rio de Janeiro, Sao Paulo and other cities.

Very sincerely yours,

Marco de Souza Dantas

April 11, 1939

6 p.m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

57.

Your 107, April 9, 7 p.m., and 109, April 10, noon.

Comparison of the text of decree-law No. 1201 with the draft decree-law furnished the Department by Aranha, a copy of which was transmitted to the Embassy with instruction No. 307 of March 9, 1939, indicated three principal differences:

1. The proportion of export drafts which must be sold to the Bank of Brazil at the official rate has been increased from ten to thirty per cent.

2. Article 9 of Aranha's draft, prohibiting the Bank of Brazil from maintaining a bought position in compensation currency, has been eliminated.

3. Article 11 of Aranha's draft regarding non-commercial exchange transactions has been eliminated.

It is also noted that the initial official buying rate has been set at 16.500 milreis, whereas it had been the Department's understanding that this buying rate would be established initially at the going rate, or 17.300 milreis.

Can you inform the Department why these changes have been

- 2 -

been made, and if it is the intention of the Brazilian Government to devote the additional twenty per cent of official exchange to external debt service and the transfer of earnings? In connection with the latter, reference is made to Section 1 of the letter of Aranha to the Secretary of State, dated March 8, 1939, and to the memorandum regarding the interpretation of Article 11 of the draft exchange decree, as regards the transfer of earnings of investments in Brazil of United States citizens, which was transmitted to you with instruction No. 307 of March 9.

Please inform the Department also what buying and selling rates for compensation marks are being maintained, with especial reference to the understandings indicated in the memorandum of February 17, 1939, which was also transmitted with instruction No. 307 of March 9. Moreover, please inform the Department regarding movements of the "free" buying and selling rates for dollars.

Your telegram No. 110, just received, refers only to the first point mentioned above.

OFFICE OF THE SECRETARY OF STATE
HULL (HF)
RECEIVED
MAR 10 1939
DEPARTMENT OF STATE
WASHINGTON, D. C.

RA:EGC:MJC

RIO DE JANEIRO

Dated April 11, 1939

Rec'd 6:05 p.m.

Secretary of State

Washington

112, April 11, 6 p.m.

In conversation today with Aranha and with the Exchange Director of the Bank of Brazil both informed me that as soon as the acceptance credits of \$19,200,000 agreed upon at Washington are available, prompt action will be taken to clear up American exchange arrears. In view of this present cooperative attitude on the part of the Brazilian authorities, I think it would be well to make these acceptance credits available to the Bank of Brazil without further delay.

I venture to suggest the Embassy be advised by telegraph as to when these acceptance credits will be opened.

SCOTTEN

EA:DJW

RECEIVED

APR 12 1939

RECEIVED
APR 12 1939
U.S. DEPT. OF STATE
WASHINGTON, D.C.

REB

GRAY

Rio de Janeiro

Dated April 12, 1939

Rec'd 2:49 p. m.

Secretary of State,
Washington.

113, April 12, 1 p. m.

Department's 57, April 11, 6 p. m.

Supplementing Aranha's statement in my 110, April 11, noon, the Director of Exchange this morning informed me that it was found necessary to increase the proportion of the Government's share of exchange derived from export drafts from 10% to 30% because it was decided that 10% was inadequate based upon last year's official remittances which amounted to 9,549,998 pounds. This amount is roughly 17% of Brazil's total exports in 1938, which amounted to approximately \$295,000,000. Moreover it was deemed advisable to establish a reasonable reserve fund for governmental purposes. The Director informs me in confidence that the Government may allocate part of the reserve fund for remittances of earnings and dividends.

Although the Bank of Brazil has not fixed a limit for its bought position on compensation marks, the Director informs me that it is his intention to maintain the position at

REB

2-#113, From Rio de Janeiro,
Apr. 12, 1p.m.

at a safe level for normal trading operations with Germany. With respect to the compensation mark situation the Director states that the bank has now adopted the following policy: The Bank of Brazil will maintain the monopoly and will allow German banks to purchase compensation marks only for the liquidation of their own collections and all transactions will be subject to the control of the Bank of Brazil. The Director states that he has issued instructions to alter the quotations on compensation marks in accordance with the fluctuations of exchange of international acceptance on the free market. Although the German banks are now quoting a selling rate of six milreis and a buying rate of five mil 500 reis for compensation marks, the Director states that he will take steps at once to bring these quotations into line with the policy outlined above.

The Director of Exchange is entirely disposed to allocate exchange for the remittance of dividends and earnings when the exchange position of the bank permits. The Director has called for a statement of the actual amount of arrears of earnings and dividends now due to American companies operating in Brazil. At my suggestion the Director will today receive the Manager of the local subsidiary

REB

3-#113, From Rio de Janeiro
Apr. 12, 1p.m.

subsidiary of the American and Foreign Power Company to discuss their exchange problems.

The Director states that the Government decided upon an official buying rate of 16.500 milreis in order to acquire at this lower rate exchange for official requirements of the Government. It appears to the Embassy that an official selling rate for dollars based in part upon the official buying rate of 16.500 milreis is more advantageous to American exporters than the former rate of 17.300 milreis. For example, today banks are selling dollars in liquidation of import bills at 18.500 milreis exclusive of the 5% tax. If the official buying rate were 17.300 the selling rate in the free market for dollars for payment of imports would be increased correspondingly.

On the day the decree law went into effect firms offered export drafts on the free market at 19 milreis and gradually reduced quotations to 18 milreis yesterday. The milreis firmed today with banks buying 70% of export drafts at from 18.300 to 18.400 milreis and banks are selling dollars for the liquidation of import bills at from 18.420 to 18.500 milreis exclusive of the 5% tax.

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MAY 1964
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U.S. DEPT. OF STATE
WASHINGTON, D.C.

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CSB

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GRAY

Rio de Janeiro

Dated April 14, 1939

Rec'd 1:40 p.m.

Secretary of State

Washington

114, April 14, 11 a.m.

Brazilian Argentine foreign exchange agreement signed yesterday in Buenos Aires. A resume of the text follows:

Article one. The Argentine Government assures previous permits for official exchange for merchandise of Brazilian origin issuing them in such a manner as not to prejudice national industry and the normal development of commerce with other countries.

Article two. Export drafts of Argentine products destined to Brazil will be negotiated in the official exchange market of Argentina.

Article three. The Government of Brazil assures payment of importations from Argentina under the most favorable conditions established by the Brazilian foreign exchange regime.

Article four. (full text). Both Governments obligate themselves to take all measures which may be necessary to prevent the normal development of Argentine Brazilian commerce from being disturbed by the action of measures such as
export

WL -2- Rio de Janeiro April 14, 1939 1:40 p.m. #114

bounties or any other type of compensation on sales which are equivalent to the artificial determination with the Brazilian Government prices or which in a general manner impede the free movement of supply and demand in prejudice to one or the other country.

Article five. This agreement will remain in effect during the present conversations in connection with the conclusion of definitive treaty of commerce of which it will form a part.

SCOTTEN

CSB

TELEGRAM SENT

AC

GRAY

April 14, 1939

8 p.m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

58

Your 112, April 11, 6 p.m.

Export-Import Bank is prepared to make acceptance credits available promptly on receipt of advices re allocation of total amount \$19,200,000 among commercial banks which are to conduct actual operations. In this connection Export-Import Bank has been awaiting reply to Mr. Pierson's letter of March 16th to Dr. Sousa Dantas and cablegram of March 21 to Banco do Brasil (Sattelgeral). Upon receipt of such advices the Export-Import Bank will notify the agent commercial banks, which will in turn transmit individually by airmail to the Banco do Brasil the final details of the arrangement.

Terms of arrangement are substantially as follows: Banco do Brasil is to draw on designated banks within amounts separately allotted drafts of a tenor not exceeding three months sight signed by duly authorized officers and for individual amounts to be specified by the drawees.

Said

AO - 2 - #58, April 14, 1939, 8 p.m., to Rio de Janeiro

339

Said drafts are to be accepted by the drawees and thereafter discounted by them at the rate of 3.6% per annum proceeds being held at disposal of Banco do Brasil. One day prior to maturity of acceptances Banco do Brasil to pay not less than 10% of face amount in cash and present a renewal draft for balance for acceptance and discount. One day before maturity of renewal acceptance Banco do Brasil is to pay a further 10% or more of amount of original draft in cash and present another renewal draft for balance for acceptance and discount. And so on except that the cash payment at time of seventh renewal is to be not less than 20% of amount of original draft, leaving assuming no augmentation of payments 20% for the final draft. Thus all drafts would be liquidated in full within 2 years. No original draft may be presented for acceptance after June 30 of this year and no renewal draft after March 30, 1941, it being understood and agreed that all acceptances shall be retired on or before June 30, 1941.

The proceeds of these acceptance credits are, of course, to be used by the Banco do Brasil only for the purposes envisaged in the exchanges of letters with Aranha at Washington.

HULL

RA:EGC:WJC:EA

NC

TELEGRAM SENT

GRAY

April 14, 1939

9 p.m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

59.

Your 113, April 12, 1 p.m.

Reference is made to the exchange arrangements mentioned in Section 1 of the letter of Aranha to the Secretary of State, dated March 8, 1939, and described in more detail in the documents transmitted to the Embassy with instruction number 307 of March 9, 1939.

It is the Department's position that, while minor modifications were of course expected, it was anticipated that no important changes would be made without prior discussion. The Department is of the opinion that the increase from ten to thirty percent in the proportion of export drafts which must be sold to the Bank of Brazil at the official rate is of considerable importance. Nevertheless it feels that the present situation is acceptable if the increased yield is devoted primarily to external debt service and transfer of earnings. We feel that the

Brazilian

NC -2- Telegram sent to AMEMBASSY, RIO DE JANEIRO
April 14, 1939

Brazilian Government should keep us fully and currently informed as to the disposition of this official exchange.

Regarding transactions in compensation currencies, the Department assumes that the understandings indicated in the memorandum of February 17, 1939, will be carried out in substance.

Concerning the penultimate paragraph of the Embassy's telegram, the Department, although it is not of the opinion that the point must be pressed further, fails to agree with the Embassy's argument. Since the spread between the official and free buying rates is not fixed, the free rate being a market rate, it would be expected on purely theoretical grounds that if the official buying rate were 17.300 milreis, the free buying rate would be slightly lower than 18.300 to 18.400, and the free selling rate correspondingly decreased.

RA:EGC:MJC EA

HULL
(SW)

REB

GRAY

342

Rio de Janeiro

Dated April 17, 1939

Rec'd 5:25 p. m.

Secretary of State,
Washington.

118, April 17, 4 p. m.

The Embassy brought the Department's SB, April 14, 8 p. m. to the attention of the Director of Exchange of the Bank of Brazil this morning. The Director stated that he has not yet seen Mr. Pierson's letter of March 16 to Sousa Dantas nor cablegram of March 21 to the Bank of Brazil. He states he will immediately call for the above with a view to communicating with the Export-Import Bank. (In this connection, I suggested the Export-Import Bank be advised not to address any further communications to Souza Dantas as the latter, although still connected with the Bank of Brazil, has not since his return to Rio been consulted at any time by the Bank of Brazil or the Minister of Finance regarding the matters discussed in Washington nor is he being consulted regarding the operation of the new exchange policy.) Aranha informs me confidentially that

REB

2-#118, From Rio, Apr.17,4p.m.

that on account of Souza Dantas' complete lack of harmony with the Minister of Finance he must remain for the time being at least entirely in the background.

SCOTTEN

NPL

HRE

GRAY

RIO DE JANEIRO

Dated April 17, 1939

Rec'd 6:04 p.m.

Secretary of State

Washington

119, April 17, 5 p.m.

~~Embassy's~~

Departamento's 103, April 5, 2 p.m.

The Bank of Brazil closed exchange today for maturities and daily quotas for February 16.

A circular issued today by the Bank of Brazil authorized an increase in the commercial banks "bought" position in free exchange from \$5000 to \$10,000 daily. Authorization is now given for the closing of future exchange for (A) merchandise already imported (stocks), within the limits for daily quotas now established, and, (B) a maximum of 2,000 pounds (also daily) for remittances without drafts (open accounts).

Commercial banks are purchasing 70% of export drafts at 18.350 milreis to 18.420 milreis and selling free exchange for payment of import drafts at 18.500 milreis to 18.550 milreis. The Bank of Brazil has increased the selling rate for compensation marks from 6 milreis to 6.100 milreis and the buying rate from 5.500 milreis to 5.700 milreis. In this connection the

Director

HRE 2-#119 From Rio de Janeiro April 17, 5 p.m.

Director of Exchange informs me in confidence that the Bank of Brazil has effected a substantial reduction in its "bought" position so that today it amounts to only 3,723,226 compensation marks.

SCOTTEN

NPL

19 1939

1151
ARGENTINA SIGNS EXCHANGE AGREEMENT WITH
BRAZIL

WASHN -

APR 19 1939

ADD ARGENTINA SIGNS AGREEMENT WITH BRAZIL
WASHN - AN EXCHANGE AGREEMENT EMBODYING
MUTUAL CONCESSIONS HAS JUST BEEN SIGNED BY
ARGENTINA AND BRAZIL ACCORDING TO A CABLE FROM
AMERICAN EMBASSY AT RIO DE JANEIRO MADE
PUBLIC BY DEPT OF COMMERCE

CHM
UNDER AGREEMENT ARGENTINA GAVE ASSURANCE
THAT PRIOR PERMITS FOR OFFICIAL EXCHANGE
MOST FAVORABLE TO IMPORTER WILL BE GRANTED FOR
MERCHANDISE OF BRAZILIAN ORIGIN - THESE PERMITS
WILL BE GRANTED IN SUCH A MANNER AS NOT TO PRE-
JUDICE ARGENTINE NATIONAL INDUSTRY AND
NORMAL DEVELOPMENT OF COMMERCE WITH OTHER
COUNTRIES

BRAZIL COMMERCE DEPT REPORTED IN TURN GAVE
ASSURANCE THAT IMPORTS FROM ARGENTINA WILL BE
PAID FOR UNDER MOST FAVORABLE CONDITIONS
PERMITTED BY BRAZILIAN EXCHANGE CONTROL
SYSTEM

-0-

TELEGRAM SENT

MB

GRAY

April 20, 1939

4 p.m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

65

Your 119, April 17, 5 p.m. and previous correspondence.

Reference is made to points 4, 5 and 6 of the memorandum of February 17, 1939, regarding transactions in compensation currencies which was transmitted to the Embassy with instruction No. 307, March 9, 1939. The Brazilian representatives agreed that the cross selling rate between the compensation mark and the dollar should be maintained at not greater than 2.95 compensation marks to the dollar, and further agreed in principle that an attempt should be made to retain the existing spread between the buying and selling rate of the compensation mark, exclusive of tax, of 8-1/3 percent of the selling rate, but stated in the event that it seemed advisable they would wish to feel free to amend policy in the latter matter, discussing the subject with us.

The Department notes that the present cross rate between the free selling rate of 18,500 milreis to the dollar

MB #2- #65, April 20, 4 p.m. to Rio de Janeiro

dollar and the selling rate for compensation marks of 6.100 milreis is 3.03 compensation marks to the dollar. The spread between the selling rate of 6.100 milreis and the buying rate of 5.700 milreis for compensation marks is 6.6 percent.

The Department assumes that the understandings regarding transactions in compensation currencies will be carried out in substance, but places at the discretion of the Embassy whether or not to take these specific points up with the Minister of Foreign Affairs. The Department notes with interest that there has been a substantial reduction in the Bank of Brazil's bought position in compensation marks.

Please inform the Department, but without, however, bringing the matter in any way to the attention of the Brazilian Government, whether any progress is being made towards the establishment of a Central Reserve Bank and whether there are any indications that the Brazilian Government will request a loan of gold such as was envisaged in the recent arrangements.

HULL
(SW)

832.5151/1363

RA:EGC:MJC EA

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: May 4, noon, 1938

NO.: 135

Reference my 118, April 17, 4 p.m.

I am informed by the Director of Exchange that the Bank of Brazil has not yet received letters from the Continental Illinois Bank and from the First National Bank both of Chicago, and the Guaranty Trust Company of New York, confirming their participation in the 19,200,000 dollar acceptance credit; also that the letter from the Chemical National Bank of New York in this regard is not complete. The Chemical National Bank did not transmit the original and one copy of its agreement with the Bank of Brazil and the latter Bank will proceed to liquidate the American arrears when these letters are received here.

I am assured by the Director that the bank will modify the exchange policy to permit the opening of credits and the purchase of future exchange. This will greatly assist American exporters.

CAFFERY

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1200 1210

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: May 9, 1 p.m., 1939

NO.: 150

Exchange was closed today by the Bank of Brazil for daily quotas and maturities for February 17 and 18.

I am informed by the Director of Exchange that he has decided to proceed with plans for liquidating the arrears of American firms, although he has not yet received the letter from the Continental Illinois Bank and a final decision with respect to the participation of the Guaranty Trust Company. Should the Guaranty Trust Company continue to reject the proposal, he will either give their quota of two million dollars to a new bank or distribute it among the banks already included in the group. However, he will consult the Export-Import Bank before doing so.

The Bank of Brazil's original estimates of American firms totaled forty-seven million dollars, exclusive of earnings and dividends. We pointed out that this figure was too high and that probably it included commercial arrears of other countries which invoice merchandise in dollars to Brazil. The Bank of Brazil re-examined the records and is checking with all the commercial banks operating in this country, at the Embassy's request. The estimate of American arrears, as revised, is now approximately \$26,000,000. In order to make up the difference

between the acceptance credit of \$19,200,000 and the foregoing figure of \$26,000,000, the Director of Exchange states that the Bank will use part of its current credits in London and New York which amount to 600,000 pounds (sterling) and \$16,000,000, respectively.

A letter outlining the procedure for the liquidation of American arrears will be sent by the Director to the Export-Import Bank on May 13. The Director states that it is his intention to make a public announcement next week both in Brazil and the United States with respect to the payment of American arrears.

Will you please repeat first paragraph to Commerce.

CAFFERY

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ST. CINCINNATI, OHIO

EA:FL:DJW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

52

DATE May 9, 1939.

TO Mr. White

FROM Mr. Adler

Subject: "United States Trade Drive in South America", (London Financial News, April 26, 1939).

Summary of Article

1. The agreement with Brazil (a) introduces a system of open subsidies to American exports, and (b) makes a virtual gift of \$120 millions to Brazil in the form of a loan. The United States Government was prepared to go much further, but the Brazilians were afraid of more "free gifts".

2. This agreement marks a break with the old New Deal foreign policy, a return to the old "dollars diplomacy", and the initiation of an aggressive penetration and unification of Latin America. The justification for this policy is sought in an exaggeration of the extent and dangers of German commercial and political aggression in Latin America.

3. There is much confusion as to the means and ends of this policy. The State Department thinks, in terms of American "collective security", another group in terms of economic penetration, and yet another in terms solely of military expediency, which they use to justify subsidizing the production of rubber in Brazil and tin in Bolivia.

4. But because the United States cannot absorb the raw materials Germany purchases in Latin America, it is unlikely that the Brazilian agreement will have an immediate successor.

5. Great Britain will be the real sufferer of this aggressive American drive.

In Washington it is taken for granted that Germany, Italy and Japan will suffer from United States economic penetration, but it is Great Britain that will be harmed most.

While British trade will be threatened, even more important is the direct threat to British investments. In the first place, Latin American countries will be enabled to remain in default and still obtain new money, (cf. Brazil agreement) and no matter what arrangements will ultimately be reached, sterling bonds will be completely forgotten. Secondly, the United States may find it necessary to condone Latin American expropriations of foreign capital. This danger is the greater as there is little sympathy for the foreign investor in the present United States Administration.

PARAPHRASE OF TELEGRAM SENT

353

TO: American Embassy, Rio de Janeiro

DATE: May 10, 8 p.m., 1939

NO.: 80

Your 150, May 9, 1 p.m.

The Banco de Brazil yesterday received a telegram from the Export-Import Bank saying that the Guaranty Trust Company has decided not to participate, and requesting that its quota be distributed to the other banks, suggesting that a Cleveland bank be added to the group.

The difference between the revised estimate of American arrears of \$26,000,000 and the total of \$13,944,000 furnished to Mr. Warren Lee Pierson by Dr. Souza Dantas in his letter of March 8, 1939, has been noted by the Department. A portion of this difference may possibly represent new arrears resulting from the increased lag in closing exchange for daily quotas and maturities. Will you please inform the Department to what extent, if any, this is the case, what other explanations there may be for the difference, and whether there has been a corresponding increase over the last two months or so in the foreign dollar and sterling balances of the Bank.

W. L. P.

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

354

FROM: American Embassy, Rio de Janeiro

DATE: May 11, 5 p.m., 1939

NO.: 156

Reference Department's telegram 80, May 10, 6 p.m.

The quota of \$2,000,000 originally allotted to the Guaranty Trust Company has been transferred to the National City Bank of Cleveland by the Bank of Brazil.

I am informed by the Director of Exchange that the difference between the revised estimate of American arrears of \$26,000,000 and the total of \$13,944,000 furnished Mr. Warren Lee Pierson by Dr. Sousa Dantas in his letter of March 8, 1939, represents chiefly new arrears resulting from the increased lag in closing exchange for daily quotas and maturities. In my opinion, Dr. Sousa Dantas' figures were too low. In order to ascertain the true amount of American commercial arrears, the Bank of Brazil is still checking the records of commercial banks. The Director of Exchange is of the opinion that the final figures may be lower than \$26,000,000.

The foreign sterling and dollar balances of the Bank have increased correspondingly over the last two months, chiefly because of the seasonal sale in free foreign exchange of the Sao Paulo cotton crop.

CAFFERY

EA:DJW

HRE

GRAY

355

RIO DE JANEIRO

Dated May 11, 1939

Rec'd 6:04 p.m.

Secretary of State
Washington

157, May 11, 6 p.m.

As the Department is aware the Bank of Brazil has not granted exchange for a number of shipments of merchandise imported into Brazil before September, 1937, by firms operating on open accounts and daily quotas. The Embassy has constantly reminded the Bank of Brazil of the importance of allocating this exchange. Today the Bank authorized purchases in the free market of exchange covering importations cleared through Brazilian customhouses before September, 1937, and for which exchange has not yet been granted. Inasmuch as these transactions are limited to firms operating on daily quotas and open accounts, the Bank has decided to increase their daily quotas by 1000 pounds each until the firms' arrears are liquidated. Firms must present proof of actual importation and sale of merchandise in Brazil.

Please inform Department of Commerce.

CAFFERY

EMB:NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: May 13, 12 noon, 1939

NO.: 159

STRICTLY CONFIDENTIAL

This morning a promise was secured from the Director of Exchange by the Embassy to give to the Brazilian subsidiary of the American and foreign power group fifty thousand dollars a week for dividends and earnings.

I am also informed by the Director that he has authorized the payment of eighty-three thousand dollars, for expenses incurred in 1937, to All America Cables.

CAFFERY

EA:DJW

REB

357

GRAY

Rio de Janeiro

Dated May 13, 1939

Rec'd 4:21 p. m.

Secretary of State,

Washington.

160, May 13, 1 p. m.

Department's 80, May 10, 8 p. m.

The Bank of Brazil today took steps to liquidate exchange arrears of American firms by forwarding to the participating banks into the United States ninety-day sight drafts corresponding to the credit allotted to each bank, and a letter outlining the procedure for liquidating the arrears. The chief points of the letter are summarized as follows:

The American banks will confirm by telegraph to the Bank of Brazil the actual opening of the credits on May 22nd. Bank of Brazil will release to the press in Brazil and the United States the following notice: "The Bank of Brazil offers to liquidate promptly all pending collections covering merchandise of American origin for which milreis have been deposited subject, however, to a discount of six-tenths of one percent. If the American exporter does not wish to take advantage of this offer the Bank of Brazil will

REB

2-#160, From Rio, May 13, 1 p.m.

will liquidate said deposits by sixty days exchange contracts without discount (interest charge). The American exporters who avail themselves of the offer of prompt liquidation of their collections are requested to take immediate steps to issue the necessary instructions of their respective collecting banks. If said instructions are not received by the collecting banks within a period of twenty days from the date of this announcement, the Bank of Brazil will reserve the right to liquidate these collections by means of sixty days exchange contracts."

Although the foregoing notice refers only to collections (drafts) not covered by exchange contracts, the Director of Exchange informs me that similar treatment will be accorded to the deposits of firms operating on daily quotas and open accounts for which contracts have not yet been granted.

On the same date the Bank of Brazil will advise holders of exchange contracts here that it will liquidate the contracts by sight draft on American banks subject, however, to interest charge correspondence 3.6% per annum. The holders of the contracts (chiefly firms operating on open account and daily quota) will have ten days in which
to

REB

3-#160, From Rio, May 13, 1p.m.

to accept or reject the offer. If they reject it they will receive exchange upon maturity of the contracts. It is understood that the Bank of Brazil will liquidate arrears on the basis of the exchange rate and the exchange tax in effect at the time of the deposit of the milreis.

Bank of Brazil states definitely that it must impose an interest charge correspondence 3.6 per annum. The Director states that although the acceptance credits will cost Bank of Brazil 4.86% over a period of two years it is willing to restrict the charge to the basis of 3.6% per annum for all American arrears.

The Director states that the interest charge will not apply to the drafts of American companies under \$1000 for which no exchange contracts have been granted but he does not want to disclose this information. I repeat that the plan refers only to American arrears.

Please inform Department of Commerce.

CAFFERY 03711248

NPL

COPIES 1/2

1/2/1941

1/2/1941

REB

TELEGRAM SENT

GRAY

May 17, 1939

6 p. m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

88

A financial column in New York Journal of Commerce, May 17, reports that Brazil is expected to make on June 30 a proposal to American bondholders (only) offering the following terms subject to the qualification that payments will require the possibility of transferring funds across the exchange: Payments will be in three classes: (1) Government bonds and Sao Paulo coffee loan 3 percent; (2) State bonds 2 1/2 percent; (3) municipal bonds in two classes, the upper receiving 2 percent and the lower 1 1/2 percent.

Can you ascertain any basis for the story?

HULL
(HP)

EA:FL:EB RA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

361

DATE JUN 13 1939

TO Secretary Morgenthau
FROM Mr. Foley

For your information

An importer brought an action in the New York State Supreme Court to require the Federal Reserve Bank of New York to certify a different rate of exchange for the Brazilian milreis so that the importer's customs duties might be reduced. Mr. Justice Rosenman dismissed the action saying that a State court has no jurisdiction to compel a Federal instrumentality to perform a Federal function. We cooperated with the counsel for the Federal Reserve Bank and the United States attorney in this case.

E. J. F.

JUN 14 1939

My dear Mr. Ambassador:

Thanks for your letter of May 22nd. I am sorry to hear that Aranha has not been well and hope that he will be able to return to work as soon as possible, and that matters will then move more expeditiously.

Many thanks for your information with respect to the exchange operation and the dollar bond indebtedness situation.

I am only too glad to assure you of my continued cooperation whenever it may be of service to you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Jefferson Caffery,
Ambassador Extraordinary and
Plenipotentiary,
Embassy of the United States,
Rio de Janeiro, Brazil.

AM:ls
6/6/39



EMBASSY OF THE
UNITED STATES OF AMERICA

Rio de Janeiro, May 22, 1939.

363

My dear Mr. Secretary:

Aranha told me the other day that, owing to his illness and forced absence from Rio, he had not yet gone ahead with the Central Bank business. I shall let you know as soon as anything in that connection develops.

For similar reasons, nothing has yet been done in regard to the commercial credits. I shall let you know as soon as anything develops.

The exchange operation, as you of course know, is going ahead satisfactorily.

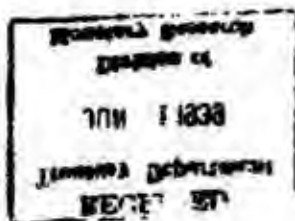
Aranha tells me it is still his intention to resume payments on the dollar bond indebtedness in some form on July 1st, next.

Again assuring you of my appreciation of your cooperation and understanding during our recent Washington negotiations, and with all good wishes,

Very sincerely yours

Jefferson Caffery

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.



FS

GRAY

Rio de Janeiro

Dated June 15, 1939

Rec'd 11:10 a.m.

Secretary of State,
Washington.

192, June 15, noon.

With a view to giving the exchange market greater stability and avoiding sharp fluctuations at the opening of the market the Bank of Brazil today authorized banks to maintain a "bought" position of a maximum of \$50,000 in free exchange as compared to \$10,000 previously. Furthermore the Bank of Brazil increased its rediscount rate from 6 to 7%, this being designed to strengthen the milreis.

The milreis of the free market is slightly firmer.
Please inform Department of Commerce.

CSB

CAFFERY

RECEIVED

JUN 18 1939

U.S. DEPARTMENT OF THE TREASURY
Office of the Secretary
Federal Reserve Bank of New York

TREASURY DEPARTMENT

365

INTER OFFICE COMMUNICATION

DATE June 23, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

For your information - Re: Brazil

Heard this morning that State Department, on basis of recent cables, expects Brazil will make a "temporary payment", amount thereof not known, on debts July 1.

J.P.C.

60-5
- 1
(Paraphrase of Telegram)
204

66

Rio de Janeiro

Dated June 30, 1939

Secretary of State
Washington

One. The 30% of exchange acquired by the Bank of Brazil at the official rate is estimated to be equivalent to about \$75,000,000 annually, and \$15,000,000 has already been so acquired. The balance of the latter figure at present unexpended is \$2,373,000. All the currently estimated annual official exchange requirements of the government (Embassy's telegram 113, April 12) may be covered by about \$50,000,000. The Bank of Brazil will use the balance as a working fund. The official exchange requirements of the government have been averaging about \$50,000,000 annually since the new exchange regime began and the balance has permitted the Bank of Brazil to check sharp breaks in exchange rates without entering the market as the largest buyer. The bank also draws on the balance to pay quotas of \$380,000 daily (Embassy's despatch no. 1396, June 28) when expedient.

Although earning and interest transfers are not regularly made the bank has granted exchange for earnings
and

and administrative expenses in exceptional cases. It grants weekly quotas in some instances and when the amounts are small it sells exchange for the entire amount (Embassy's despatch no. 1155, April 28 and telegram 159, May 13). These remittances are not made from the 30% fund of official exchange but through the special free exchange market. The selling rate on the special free market is now 21 mil 850 reis plus a tax of 10%. Private transactions have been sanctioned by the Bank of Brazil provided the foreign exchange offered represents new capital for investment in Brazil. The bank receives 30% of the exchange in such cases at the official rate and imposes a remittance tax of 10%. Such transactions have been consummated recently at rates approximating 25 milreis for the 70%. I am informed in confidence by the Director of Exchange that the present tax of 10% on the special free market will shortly be reduced to 5%, also that commercial banks will be permitted to buy personal checks not in excess of \$500 each at the buying rate on the special free market. Bootleg operations will thus tend to be restricted. The commercial arrears of countries other than the United States and Germany for which exchange has not been closed are stated by the Director to amount to 15,523,640. His intention

is

-3-

is to expedite the liquidation of these arrears and when accomplished to inaugurate a plan of regular remittances of earnings and dividends. Current negotiations with the Bank of Brazil for unfreezing agreements similar to the American agreements have resulted in delay in the liquidation of these arrears.

Two. American commercial arrears have been cleared up although some of the drafts are still en route to the United States. Americans are receiving commercial payment on a current basis. I am informed by the Director that it will be about fifteen days before a detailed statement of the settlement of American arrears as described in the second paragraph of your telegram will be available, because of the delay in receipt of information from banks in remote parts of the country (Embassy's despatch no. 1339, June 3, and 1348, June 5).

Three. The Bank of Brazil's 'bought' position in compensation marks amounted to 3,400,000 compensation marks on June 1. German firms purchased approximately 36,000 metric tons of São Paulo cotton during June with the result that the 'bought' position on June 29 reached 15,985,488 compensation marks (Embassy's telegram 189, June 12 and despatch No. 1359, June 12). I am informed

by

-4-

by the Director that the cotton will be exported in such a way as to allow the market to absorb the compensation marks and to reduce the bank's risk.

CAFFERY

RECEIVED

JUN 11 1966

JUN 11 1966
JUN 11 1966
JUN 11 1966

BC

Gray

Rio de Janeiro

Dated July 4 1939

Received 11:15 AM

Secretary of State,
Washington.

210 July 4, 11 a.m.

Reference my telegram No 204 June 30, 3 p.m.

A decree promulgated July 3 reduces the tax on
exchange remittances for payment of other than import bills
from 10 to 5 percent. Hereafter all remittances will be
subject to a uniform tax of 5 percent.

CAFFERY

EDA NPL

0411-349

JUL 11 1939

RECEIVED
JUL 11 1939
U.S. DEPT. OF STATE

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy,
Rio de Janeiro, Brazil
DATE: July 29, 1939, noon
NO.: 230

A copy of a strictly confidential circular to be opened on August 10 sent under seal to agencies of the Bank of Brazil has been furnished me by the Director of Exchange of that bank. The circular informs the bank agencies that the German compensation mark will be crossed with the dollar effective August 10. It is stated that it will approximate three point thirty three compensation marks to the dollar although the cross rate has not been definitely established. Four hundred and fifty reis or 7.38 percent will be fixed as the spread between the buying and selling rates for compensation mark. A report by airmail will contain the text of the circular.

Statistics just released by the Brazilian Government show that the favorable trade balance from January to May inclusive amounted to \$9,585,678 as compared with an unfavorable balance of dollars \$13,607,186 in the corresponding months of 1938. Imports from the United States in the first five months of this year amounted to \$31,650,661

-2-

as against \$23,049,754 for imports from Germany. These statistics are based upon the compensation mark value of imports from Germany instead of the reichsmark value as reported in the official statistics of the government.

CAFFERY

WEN:KLP

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JUN 10 1944
THE TOWNSHIP OF WINDHAM
NEW YORK
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CJ

GRAY

RIO DE JANEIRO

Dated August 22, 1939

Rcd'd 3:44 p.m.

Secretary of State,
Washington.

261, August 22, 4 p.m.

My 135, May 4, noon last paragraph.

A circular of the Bank of Brazil made public today permits banking establishments to open credits abroad for the importation of merchandise, however, the exchange will not be closed until the merchandise is dispatched through customhouses in Brazil and the documents approved by the Fiscalization Department of the Bank of Brazil.

CAFFÉRY

NPL:EMB

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RIO DE JANEIRO

Dated August 28, 1939

Rec'd 3:05 p.m.

Secretary of State

Washington

269, August 28, 4 p.m.

Owing to the European situation the Bank of Brazil is restricting the purchase of exchange to dollar export bills. The bank is selling dollar exchange at 19 milreis 950 for dollar collections received by it and for daily quotas. Firms applying for other exchange for the liquidation of import bills are requested to deposit milreis at the rates in effect on August 24 or purchase from other banks at prevailing rates.

Other banks are restricting purchases to actual requirements. They are paying 19 milreis 950 to 20 milreis for export bills and selling dollar exchange for their own collections at approximately 20 milreis 150.

The Director of Exchange informs me that the bank's position in pound is just about equal to the current unpaid obligations in pound. Also that the bank's position in German compensation marks is approximately 7,400,000 compensation marks and that in the event of war the bank could liquidate this position without loss.

CAFFERY

WVC
PEG