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ON THE MECHANISMS OF IMPERIALISM: *THE CASE OF BRAZIL*

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ON THE MECHANISMS OF IMPERIALISM: THE CASE OF BRAZIL

BY ANDREW GUNDER FRANK

It is madness for one nation to expect disinterested help from another.

—George Washington

The United States does not have friends; it has interests.

—John Foster Dulles

In an article which appeared in *The Nation* of April 27, 1964, entitled "Brazil in Perspective," I examined the official Brazilian and U.S. views of economic relations between the two countries as presented by Roberto de Oliveira Campos who was then Brazilian Ambassador in Washington and is now the minister in charge of economic policy in the military dictatorship which took power in April, and by Lincoln Gordon, then and now American Ambassador to Brazil. My conclusions were that both official views are wrong: the United States does not help Brazil a lot (Gordon) or a little (Campos), but rather exploits Brazil unmercifully and stunts and distorts its economic development. In this article I propose to probe more deeply into these questions, especially in the hope of throwing light on a few of the numerous and often hidden mechanisms of which the imperialist countries make use in their relations with the colonial and semi-colonial countries of the underdeveloped world.

The Flow of Capital from Brazil to the United States

I

It is widely believed that the United States and other developed capitalist countries contribute more capital to the underdeveloped countries than they receive from them. Nonetheless, all available statistics, including those compiled by the official agencies of the developed countries themselves, show precisely the opposite. Between 1947 and 1960, the flow of investment funds on private capital account from the United States to Brazil was \$1,814 million while the capital flow of amortization, profits, royalties, interest and other transfers from Brazil to the United States totaled \$3,481 million. For the seven largest Latin American countries (Argentina, Brazil, Chile, Peru, Venezuela, Colombia, Mexico), the United States Department of Commerce's conservatively calculated figures for the years 1950 to 1961 indicate \$2,962 million of investment flows on private account out of the United States and remittances of profits and interest of \$6,875 million; adding in American public loans and their Latin American servicing between the same years still leaves a conservatively calculated net capital flow of \$2,081 million *to* the United States.

FALSE

EVIDENCE

My present purpose, however, is not to dwell further on the amount of this capital transfer from Brazil and other countries to the United States. Instead it is proposed to inquire into some of the reasons for and sources of this, for Brazil and others, so prejudicial capital flow. When the facts finally force American business, political, and unfortunately also academic, spokesmen for American capital to admit the existence of this capital flow from the poor underdeveloped countries to the rich developed ones, they often try to defend it in the following terms: Either it is said that the direction of the flow is the result of the accidental or deliberate choice of a year or set of years in which the return flow on past investment happens to be greater than the outflow of new investment; or it is said instead (and sometimes in addition) that this drainage of capital from the poor underdeveloped countries really helps them to develop and that it is normal and logical that the capital flow into the investing and lending country—in this case into the United States—should be greater than the capital flow out of it because, after all, profits and interest legitimately earned abroad must be added to the amortization and repayment of the original investment.

The facts of economic life completely vitiate this American logic. If the disparity between capital inflow from and outflow to Brazil is as normal and legitimate as its defenders claim, then why is it that according to the late President John F. Kennedy the capital inflow to the United States from the underdeveloped countries in 1960 was $1,300 million and the capital outflow from the United States to the same countries $200 million, while in respect to the advanced countries of Western Europe the outflow from the United States ($1,500 million) exceeded the inflow ($1,000 million) by a wide margin? (Cited in *O Estado de Sao Paulo*, April 12, 1963.) Why does *U.S. News & World Report* (December 25, 1961), using Department of Commerce data, find the same pattern to obtain for the five-year period 1956-1961, that is, a ratio of inflow to the United States to outflow from the United States of 147 percent for Latin America, 164 percent for the underdeveloped world as a whole, and 43 percent for Western Europe? To eliminate still further the possibility that this disparity may be due to accidentally comparing years of low current outflow and high return flow of previous outflows, we may add up (as the Department of Commerce never does) the officially registered capital flows into and out of the United States for each year from 1950 to 1961 as reported in the *Survey of Current Business* and find that the total capital outflow is $13,708 million and the "corresponding" inflow $23,204 million, or an inflow/outflow ratio of 177 percent.* Are we to believe that it is normal and legitimate that profits and interest earned by the United States in weak underdeveloped countries are very much greater than in the strong developed ones, the United States included?

The disparity between capital inflows and outflows is more realistically explained by examining, as I propose to do

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*These totals can be computed from the following issues of the *Survey of Current Business*: November 1954, pp. 9, 13; August 1955, pp. 18, 20; August 1957, p. 25; August 1959, p. 31; August 1961, pp. 22, 23; August 1962, pp. 22, 23.

in the paragraphs following, the source and composition of these flows than by appeal to any simplistic theories. In the first place, the argument that it is only logical for capital inflows to the United States to exceed outflows because, after all, the latter must earn a profit is premised on the unstated but erroneous assumption that official capital inflows into the United States are earnings on capital the United States previously sent abroad. As a matter of fact, much of the capital on which Americans "earn" profits in Brazil is Brazilian in origin and American only in ownership, control, and earnings. The Brazilian origins of "American" capital are manifold. We here take note of only those which fall under the titles of loans, concessions, and foreign exchange privileges.*

II

Direct loans from the government's Bank of Brazil to American firms and to mixed American-Brazilian consortia are common in industry, commerce, and agriculture. The two giant American world-wide cotton merchants, SANBRA and Anderson & Clayton, in 1961 received $54 billion cruzeiros in loans from the Bank of Brazil, or 47 percent of that bank's entire agricultural and industrial loan portfolio (reported by Congressman Jacob Frantz in Congressional debate and cited in *Semanario*, May 30–June 6, 1963). By re-loaning this money (at higher interest rates of course) to wholesalers and producers of cotton whom they thereby control; by buying up harvested stocks, storing them in government provided bins, and speculating with them later; by monopolizing important sectors of organization and distribution—these American firms use *Brazilian* capital to control much of the Brazilian domestic and export cotton market (as they also do that of many other countries) and to ship the profits therefrom home to the United States. Swift, Armour, and Wilson (recently involved in a public scandal for having partly exported and partly held back for a higher price the meat consigned to them by the government for storage and sale to the public), the A. & P.'s subsidiary Ameri-

II-A.

***The reader should note that the author thus omits entirely the largest single source, namely, the plowing back of profits by American branches and subsidiaries of a large part of the profits realized on their Brazilian operations.—The Editors**

can Coffee Company, and other American monopolies similarly derive fat profits from using Brazilian capital to monopolize critical sectors of the domestic and export markets. American banks like the ubiquitous National City Bank of New York, insurance companies, and other financial institutions evidently work almost entirely with Brazilian capital, loan much of it to American non-financial firms in Brazil, and then serve as a channel to send their own and others' profits on this Brazilian capital "back" home.

II-B

In the public utility sector especially, the ownership and earnings of so-called American capital are based, not on original investment of capital, but on concessions, exorbitant use rates, and other privileges. The capital is provided by Brazil. The Sao Paulo Light Co. (now merged with the Rio Light, Rio Gas, Brazilian Telephone and other companies in the Brazilian Traction Co.) in 1907 took over a concession already granted to two Brazilian individuals until 1950 and then got it extended to 1990. By engaging an ex-President as its lawyer to fight a legal battle through several courts up to the Supreme Court—still staffed by the ex-President's appointees—the company in 1923, contrary to the stipulations of its contract, obtained an extension of the concession for its telephone subsidiary. Later the concession of the gas subsidiary was also extended. For its starting capital the Sao Paulo Light issued bonds for $6,000,000. It then took over the already existing streetcars and associated properties. Following the usual procedure, the various light companies financed expansion of service to new areas by assessments on, and more recently by loans from, the communities to be served, while equipment was purchased out of earnings from exorbitant public utility rates. Even so, as any user can testify, service always lags far behind demand (electricity rationing is now normal in Rio and sometimes reaches blackouts of five hours daily). Through political influence and bribery, the company managed to delay the construction of competing facilities for 15 years at one site. In 1948 the company received $90 million in loans from the International Bank for which it obtained a guarantee from the Brazilian government. Part of this foreign exchange was used, of course, not to import new equipment, but to convert cruzeiro earnings into dollars for remittance to the United States. To avoid showing exorbitant profits, the company increased its registered capital base by issuing stock dividends to its owners. Between 1918 and 1947, Brazilian Traction made profits of $550 million of which $165 million were sent home. Now that public utilities have become unprofitable relative to other industries and that the Brazilian government wants to take them over in order to permit the expansion of needed service, the American owners bring all possible diplomatic and other pressure to bear in usually successful attempts to obtain once again the remaining equipment's value several times over through "expropriation." (Sources: Paulo F. Alves Pinto, *Antologia Nacionalista,* vol. 2, cited in Barbosa Lima Sobrinho, *Maquinas para transformar cruzeiros em dolares* and Sylvio Monteiro, *Como Atua o imperialismo ianque?*)

Addressing the Brazilian Senate in 1953, President Vargas' Treasury Minister said, "I have to declare that foreign capital . . . demands guarantees to enter the country, greater guarantees to remain in it, and still greater ones to withdraw from it. Therefore, it does not seem desirable for any country and still less for Brazil." (Quoted in Osny Duarte Perira, *Quem faz as leis no Brasil?,* p. 97.) After the establishment of a state petroleum company and threatening to do the same with electric power, the government of Vargas was, owing to foreign and domestic pressure, replaced by one which proposed the "creation of a climate favorable for the investment of foreign capital in the country." To this end the Superintendency of Money and Credit (SUMOC) issued Instruction 113 according to which, in the words of the President of the Federation of Industries of the State of Sao Paulo, "foreign firms can bring their entire equipment in at the free market price . . . national ones, however, have to do so through exchange licenses established in import categories. In this way there was created veritable discrimination against national industry. We do not plead for preferential treatment but for equal opportunities." (Quoted in Jocelyn Brasil, *O Pao, O Feijao, e as Forcas Ocultas,* p. 125.) Moreover, foreign firms were permitted to import used equipment (often already depreciated for tax purposes at home), while Brazilians could import only new machinery. As a re- II-C.

sult, Brazilians, who on this basis were unable to compete with foreign firms and/or who were unable to get assignments of foreign exchange from the Central Bank, were forced to combine with non-Brazilians who, though they might not contribute much of any capital to the common enterprise could contribute and capitalize on special privileges as foreigners. Ten years after Vargas, President Goulart was still forced to observe (*O Semanario*, September 26, 1963): "In fact it is incomprehensible—and much less justifiable—that in this time of renewed heavy burden for the people, innumerable superfluous or easily dispensable products which are consumed mainly by the richer classes continue to enjoy the benefits of an exchange rate of 475 cruzeiros [the market rate was then 800 cruzeiros]. The same exchange rate as for petroleum products and other basic goods is enjoyed by extract of whisky and of Coca-Cola. . . . The disappearance of our scarce foreign exchange resources occurs not only through imports. The concession of exchange privileges to remit foreign exchange destined for the payment of unessential services causes the same harmful effects to our balance of payments." It is worthy of note that, "fascist" or "communizing" or not, as Presidents Vargas and Goulart respectively have been termed by the foreign press, the effective power of these Presidents was evidently insufficient to combat the forces, inside and outside their own governments, which benefit from and fight to maintain those privileges which accrue to small but powerful foreign and domestic interests at the cost of national development. There are, of course, influential Brazilian interests which willingly cooperate in this provision of Brazilian national capital to American firms so long as, in association with this powerful ally from the North, they can participate in some of the spoils.

Effects on Brazilian Economic and Industrial Structure

III Spokesmen for the supposed advantages for Brazil of American investment often claim that the distribution of American investments and loans among productive sectors in the receiving country contributes to that country's economic development, and that the resulting import substitution is converting the Brazilian economy into one capable of self-sustained overall economic growth. The facts support neither of these contentions.

We have already noted in part what kind of contribution American owned, *but not supplied,* capital makes to Brazilian UNPROD- development in the trade and public utilities sectors which, UCTIVE according to the Department of Commerce, absorb 43 percent INVESTM'T of the total. Of the 791 American firms in Brazil in 1960, we must certainly call into question the allegedly essential contribution to the development of its economy made by the 125 III-A import, export, and other commercial houses; the banking, insurance, real estate, and other financial institutions, which are 64 in number; petroleum distribution (by the world-wide petroleum monopoly of notorious fame); retailing (such as Sears and Roebuck which outside the United States is a luxury chain); and publishing, advertising, hotels, cinema, and other services (including towel supply), which account for 77 more dubious contributions to a solid basis for Brazilian economic development (Barbosa Lima Sobrinho citing Editora Banas, in *Semanario*, September 26, 1963). Coca-Cola at least built or equipped a manufacturing plant.

As for the 54 percent of American capital which the Department of Commerce attributes to manufacturing, no detailed breakdown is given. In 1959, light consumer goods industry accounted for 48 percent of foreign, including American, manufacturing in Brazil, of which approximately 20 percent was in the food and beverage sector, including 17 bottling and ice cream firms (Editora Banas, *Capital extranjero no Brasil*). Even the 40 percent of United States investment which the Department of Commerce attributes to basic industry is not telling. To serve as a base for self-sustained industrialization and growth, investment must, all will agree, produce the materials and equipment—steel, machinery, trucks, tractors—necessary for expanded production. But the bulk of this investment is in the automotive industry, and there it does not produce primarily trucks and tractors which are needed for development purposes but which are not immediately profitable; rather, it seeks maximum profits in the production of passenger cars for the high-income market.

In general, then, American enterprises in Brazil tend to produce non-essentials, and they do so largely with Brazilian capital.

But this is not all. The composition of foreign investment and its effects on the structure of the Brazilian economy are crucial to the maintenance of underdevelopment there. It is often claimed that American investment in Brazil results in

III - B

import substitution which creates Brazilian capacity for autonomously-directed and self-sustained economic development. Examining only American investment in the most basic sectors, we find, unfortunately, that the facts demonstrate largely the opposite. It is characteristic of American investment in Brazil and elsewhere that the giant investing corporations set up only a part of a particular productive process abroad and keep a critical, though it may be a smaller, part under their immediate control at home. The archetype of this arrangement is the Brazilian assembly plant of an American corporation which is made to depend on the import from the parent corporation of the basic equipment needed, later of its spare parts and replacements, often of critical components, especially the highly tooled ones, of critical raw materials, associated patents, technicians, transport, insurance, and above all, of the technical and organizational schema of the productive process.* Significantly, this arrangement also serves to eliminate any existing or potential Brazilian markets for inventive engineering and ties Brazilian technological development to the American economic structure; the reason is, of course, that the solutions to technical problems are already engineered into the productive process in the United States and are exported to Brazil in the form of the technological organization established there.

The Brazilian economy is tied still further to the stronger American economy when American interests "cooperate" with Brazilian capital in joint enterprises, or when American firms

III - C

farm out part of the productive process to local suppliers of components. While the propaganda has it that the United States

*Much the same pattern was noted and criticized by the American observer John Gerassi (*The Great Fear*, 1963) in Latin American petroleum, mining, steel, automotive, machine building, and other industries.

is stimulating private enterprise and economic development, the reality is that American corporations use Brazilian capital for their own purposes, transferring part of the risk and cost of demand fluctuations to the local supplier, channeling Brazilian capital into the provision of goods and services which maximize the American corporations' profits, and binding the Brazilian economy increasingly to themselves in particular and the American economy in general. Moreover, American influence thus increases not only in the Brazilian economy but also in Brazilian political life; and, interestingly, in view of the claims about import substitution, this process results in increasing American determination of the composition even of Brazilian imports. Brazilian exports, of course, have been largely in American hands. Thus, what to Americans may appear as "the natural process of import substitution" appears to Brazilians, other than those directly cooperating in the process, as what it is: the progressive domination of the Brazilian economy and the strangulation of its capacity for national development.

The problem of imports is compounded by that of exports which are not keeping pace. The United Nations Economic Commission for Latin America (ECLA) notes that, subtracting petroleum, Latin American exports have risen only 40 percent since 1938, while world trade has doubled and the trade of the developed countries has tripled. ECLA notes further, "that the deterioration of Latin America in world trade is one of the most important points of strangulation of its economic and social development." (*Jornal do Brasil,* January 22, 1964.) Add to this the drain of capital out of Brazil and the misuses of its own resources engendered by foreign investment, and the result is Brazil's chronic balance of payments deficit. Now come the foreign loans.

These loans, we are asked to believe, are also development-producing. The fact is that to an increasing extent they are deposited in New York banks to cover the dollar needs of Americans in Brazil. As Simon Hanson has repeatedly pointed out in his *Latin American Letter* (for American businessmen) and in *Inter-American Economic Affairs* (Summer 1962), Alliance for Progress dollars are destined to serve as the source

IV-D

of the foreign exchange needed by Brazil to buy out American owned (but as we saw, not supplied) capital in Brazilian public utilities, and to pay for imported equipment, materials, technicians, and service "needs" that (as we also saw above) American corporations have built into the Brazilian economy's underdeveloped structure. As these loans come with economic and political strings attached, Brazil thus loses control of critical sectors of her economy to foreign interests on foreign investment, domestic production, export, import, and loan accounts. These levers of control integrate the weaker Brazilian economy ever more into the stronger American economy, render the oligarchic Brazilian allies of American interests ever more dependent on the United States, and structure *under*development all the more firmly into the very foundations of Brazilian society.

MISCELLANEOUS ON FOREIGN AID

Beyond these considerations, some observations about recent features of American aid in Brazil may be illuminating. It is well to note that, though included in the dollar totals of aid, loans under Public Law 480, euphemistically called "Food for Peace," do not supply a single dollar but consist rather of cruzeiros derived from the sale in Brazil of American surplus wheat which, like all other "dumping," competes unfairly with and inhibits the development of Brazilian wheat production.

The major American-financed capital project in Brazil, the Volta Redonda steel mill was, in fact, built by the United States during the Second World War to provide steel in Brazil for the United States' own wartime needs: Brazilians have been paying for the mill ever since. As for the much heralded aid for the development of the "depressed Northeast," the governor of one of its states has publicly pointed out that with a population of 25 million and one of the world's lowest standards of living, this area received $13 million from the Alliance for Progress while the state of Guanabara (including the city of Rio de Janeiro) with 4 million inhabitants and the highest per capita income among Brazil's 22 states was allocated $71 million. The governor of this latter state, it just so happens, is the presidential candidate of the ultra-right economic interests, the Brazilian Barry Goldwater, who spends his American-supplied dollars on parkways marked "works of the government of Carlos

Lacerda" and on other projects such as forcing slum dwellers to move out to "John Kennedy village" located 20 miles out of town, while burning down their houses in the center of town to make room for a new tourist hotel. That's development!

Underdevelopment, Industrialization, and Foreign Investment

Finally we may briefly broach what is undoubtedly the most difficult but the most important matter of all, the economic history of underdevelopment and development, and the role of foreign trade and investment therein. The events in this history which are critical for the understanding of the problems under discussion are universally known albeit all-too conveniently forgotten in certain circles.

IV

The expansion of metropolitan mercantilism and capitalism to Latin America, Africa, and Asia wrought the destruction of productive and viable agricultural and also industrial economies on these continents and most notoriously in Mexico, Peru, West and East Africa, and India. Arriving mostly by force of arms and establishing alliances in these societies (and in newly established ones such as Brazil) with old and newly created exploitative oligarchies, the metropolitan economies reduced the large bulk of the world's people to levels of abject poverty that they had never suffered at the hands of their previous own or foreign masters. In our times, it has become fashionable to call these societies "underdeveloped," as though they have always been this way. The developing metropolitan powers pillaged the peoples in these political and economic colonies of capital which they used to industrialize their own economies. By incorporating them into what is now known euphemistically as the world market, they converted these now *underdeveloping* economies into appendages of their own. As we have seen above, this process continues unabated in our day.

Lest it be thought that the United States is only a newcomer to this exploitative process which produces development for some at the expense of underdevelopment for others, it is well to remember that the initial industrial capital of the Northeastern United States was derived largely from the slave trade and from the products of Southern slavery. Though the forms have been modernized, the content and the effects of the expansion of capitalism in contemporary times remain essentially what they always have been; the level of living of the majority of the people is still *falling*. The United Nations Food and Agricultural Organization (FAO) supplies part of the evidence. Taking per capita food production in 1934-1938 as 100, in the three crop years 1959/60, 1960/61, and 1961/62, it was 99, 100, and 98 in Latin America, Africa, and Asia (excluding the socialist countries) respectively; while it was 113 for the world as a whole, and 145 for the countries universally known for the failure of their agriculture, the Soviet Union and Eastern Europe (FAO, *The World State of Agriculture and Nutrition*, 1962, p. 15 of the Spanish edition). But these figures tell only part of the story. The other part lies in the combination of low or negative economic growth rates with the increasing *inequality* of the distribution of income in countries for which estimates are available, such as Brazil, Argentina, Mexico, and India. The result is that while foreign and domestic exploiters enrich themselves, the masses of the people in the underdeveloping countries are suffering an absolute decline in their per capita incomes.

This article has been an attempt to report on a few of the mechanisms of imperialist exploitation of underdeveloped countries. It is not, and is not intended to be a substitute for inquiry into the structure and transformation of the imperialist system. But even these structurally derived mechanisms of imperialism in action, though no doubt familiar to practicing imperialist and allied businessmen and diplomats, are all too unfamiliar to many of those who would combat imperialism. Yet an understanding of contemporary imperialism in action is essential to the theoretical base necessary for any successful struggle against the system. And there are many more such mechanisms of imperialism in action. (Hamza Alavi has recently reported on some others in his "U.S. Aid to Pakistan," *Economic Weekly*, Bombay, Special Number July, 1963, reprinted in French as "Pakistan: le fardeau de l'aide americaine" in *Revolution*, Paris.) But even where reports of economic mechanisms of imperialism exist, they are usually studies of individual firms, industries, incidents, etc. Not only do these make tedious, if necessary, reading, as those who have followed this report this far will have found out; but in the absence of more inclusive and quantitative information on such matters as real profit rates and totals, concessions, financial control, imperialist-nationalist joint ventures, etc., we can reach only a very inadequate understanding of even these mechanisms of imperialism. It is hoped, therefore, that students in the underdeveloped countries, as well as in underdeveloped regions and sectors of the industrialized nations, will increasingly report on the hard facts of imperialism.