EXPLOITATION or AID?

U.S. - Brazil Economic Relations

A CASE STUDY OF U. S. IMPERIALISM

Andre Gunder Frank

Andre Gunder Frank teaches at the University of Chile in Santiago. This article was originally published in The Nation of 16 November 1963.

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Does American aid and investment contribute much or little to, or even hinder, Latin American economic development? The recent argument between the Brazilian and American Embassies on this question with respect to Brazil invites analysis and comment. The Brazilian viewpoint, expressed by its Embassy in Washington (in charge of Roberto Campos de Oliveira) is that American aid is small and not altruistic. The American answer, delivered by U.S. Ambassador Lincoln Gordon in a lecture before the National Economic Council of Brazil is that in exporting capital the United States incurs great sacrifice and contributes significantly to the economic development of Brazil.

Unfortunately, if subjected to nondiplomatic analysis, the reality of the economic relations of the United States and Brazil, or any other Latin American country whose name could easily be substituted, appears much less pleasant than either Ambassador suggests. In the following, I summarize the arguments of the two Ambassadors on each of the topics discussed, appending my own comment.

1. Amount of Capital Transferred

Brazil: The real amount of resources the United States offers Brazil is smaller than generally imagined because it should be measured in funds transferred rather than in those committed and because from the gross the return flow of amortization and interest payments must be deducted.

United States: The American Ambassador does not understand why the Brazilian Embassy lends importance to the distinction between authorizations and disbursements, since the United States keeps its

Andrew Gunder Frank is currently visiting professor of economics at the University of Brasilia.

promises and thus makes the gap between the two only a matter of time. It is confusing and bad economics to deduct the amortization and interest payments from gross transfers because it deprecates the American capital's contribution to the construction of steel mills, hydroelectric plants, etc., while it is in Brazil. Moreover, American capital improves the Brazilian balance of payments. Measuring this way, it would appear that the flow of capital is not from the United States to Brazil, but rather from Brazil to the United States.

Comment: In reality, the net contribution of United States capital to Brazil is neither large nor small, but negative. The Brazilian Embassy's distinction between commitment and disbursement is easy to understand if one considers that, of the promises made at Punta del Este, some funds were canceled by the U.S. Congress and Executive, others are disbursed by private firms not bound by government agreement, and all of them are contingent on Brazilian compliance with United States demands about expropriation, International Monetary Fund financial policy, etc. For the balance of payments and the exchange rate, not promises, but transfers are significant.

The "appearance" that, if amortization and interest are counted, the outflow of capital is really from Brazil to the United States instead of vice versa unfortunately reflects reality quite accurately. Official Brazilian figures for the years 1947-1960 indicate an inflow of $1,814 million in new investment and loans and an outflow of $2,459 million in remittance of profits and interest. Adding an estimated $1,022 million of "services," largely representing clandestine remittances, total outflow becomes $3,481 million, or nearly twice the inflow, and the net outflow $1,667 million.

This outflow from Brazil is by no means a historical accident or a result only of Brazilian calculations. An ECLA study shows that in no decade of the past century has the total flow of goods and services out of Brazil been smaller than the flow into Brazil. Turning to Latin America (Argentina, Brazil, Chile, Peru, Venezuela, Colombia, Mexico) generally, U.S. Department of Commerce figures for the period 1950-1961 show net new private U.S. investment as $2,962 million and remittances of profit and interest thereon of $6,875 million, or well more than double the amount, for a net withdrawal of $3,910 million. U.S. aid and loans of $3,384 million and repayments and interest thereon of $1,554 million (to date, with more of course to come in the future), still leave a net capital movement to the United States of $2,081 million.

But in these calculations the flow *to* Brazil, such as of surplus food, is measured in often inflated, so-called market prices that the U.S. seller sets himself, while the flow *from* Brazil is measured in dollars actually bought by Brazil. Additionally, these data do not include most of the Brazilian and other national private capital, currently often estimated at $10 billion for Latin America, which is transferred abroad (such as to the famous Swiss and New York banks). The real effective drainage of capital from Brazil and the other capital-poor countries is thus even larger than appears from the above official figures. It is difficult to see how the American Ambassador imagines this constant American drain of funds from Brazil to be helping Brazil's balance of payments. It is, instead, a principal source of the balance-of-payments deficits.

To speak of American capital, public or private, going into the development of basic heavy industry in Brazil is more than misleading. Under the Alliance for Progress, especially, the emphasis of American public capital investment in Latin America is on education and health — latrine-building, as it has been aptly dubbed. U.S. private capital, as the daily experience of anyone can attest, prefers the export, processing and service industries — Coca-colonization, in a word. Far from contributing to Brazil's industrialization, this investment, no less than more traditional investment in raw-materials extraction, serves to keep the economy underdeveloped. Indeed, it deforms the economy into one ever less able to develop by increasingly absorbing Brazilian capital and misdirecting it. Often, an initial sum of capital brought from the United States by an American firm is supplemented, or even multiplied, by borrowing Brazilian capital from local U.S. banks with Brazilian deposits, or from Brazilian banks, or even from the Brazilian Government. The combined capital is then invested not where it will best serve the interests of Brazil's development, but of the

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American firm's development. The earnings that are not shipped home are then reinvested in Brazil, often not by building new productive facilities, but by buying up or buying into existing Brazilian installations and thus transferring their direction into American hands also.

Now, the Brazilian "expropriation" proposal offers American investors government aid in withdrawing their capital from less profitable public utilities and transferring "a minimum of 80 per cent" into much more profitable industries. Thus, American capital, with financial and technical advantages due to its international connections and with additional special privileges granted by the Brazilian Government "to attract foreign capital," progressively denationalizes Brazilian industry, misdirects Brazilian investment, integrates the weaker Brazilian economy increasingly with the stronger American one on which it thus becomes dependent, and thereby adds further to Brazil's balance-of-payments difficulties.

2. Degree of U.S. Sacrifice

Brazil: American aid to Brazil between 1940 and 1962 has meant little or no sacrifice to the United States. Half the total comes from the Export-Import Bank, which consistently makes profits. Another 35 per cent represents the supply of agricultural surpluses under Public Law 480. American aid was tied to the purchase of American goods and was part of a program to develop foreign markets for goods that were in surplus at home and could thus contribute to the utilization of excess capacity in the export industry.

United States: The manner of financing is unimportant. Had American funds not been used in this way, they could have been put to some other use. Tying American aid to the purchase of American goods is natural and does not reduce the value of the aid, since useful aid must reflect itself ultimately in the transfer of real goods. In general, since the marginal capital-output ratio in the United States is higher than in Brazil, the investment of American capital in Brazil instead of at home really represents a considerable loss to the American economy. The excess-capacity argument could carry some weight only if the American economy had been chronically depressed since the war, which has not been the case.

Comment: American aid and investment are no sacrifice, but an instrument for obtaining considerable Brazilian riches and for preserving the present monopolist structure of the American economy. The capital output ratio is quite irrelevant to the issue. American firms do not invest in Brazil in a sector with the average of the latter's marginal capital-output ratio, and they do not draw their investment funds from such a sector of the American economy. Much more relevant to the firms are their profits in Brazil and their excess capacity at home. An American business commission in Brazil observed that "profits in Brazil are normally much higher than in the United States. It is not uncommon that a factory pays for itself in one or two years," — that is, makes a profit of 100 per cent or 50 per cent per year. These rates, however, refer only to profit on total capital invested. Since part of that total represents capital borrowed from Brazilian sources at low cost, and another part reinvestment of such earnings in the years following the original introduction of capital, it is similarly not uncommon that the real rate of earnings on American capital in Brazil is in the thousands of per cent per annum.

Turning to the U.S. economy, unemployment has not fallen below 5 per cent in several years and the minimum rate keeps rising. The excess installed capital capacity of these same large export firms is several times that percentage, whatever the average marginal capital-output ratio may be for the economy as a whole. For them, export and foreign earnings are a necessity, not a sacrifice. And as the Alliance for Progress makes so eminently clear — consider, for instance, the public statement by three of its official spokesmen, including David Rockefeller, that the Alliance should improve conditions for American investment in Latin America — the purpose of U.S. Government aid is to pave the way for the economic activity of this same private U.S. capital.

Just as U.S. Government purchase of surplus agricultural products and their subsequent shipment abroad as "food for peace" supports the increasing monopolization and therewith excess capacity of U.S. agriculture, government "aid" money provides the credits for foreign purchase of increasingly monopolized U.S. industry. At the same time, the strings attached to the money are designed to maintain or improve the political and economic climate abroad for this same U.S. economic activity. That also explains the tying of loans to purchases of U.S. goods. For real goods could be transferred through multilateral trade, if the U.S. Government did not wish to avoid helping Brazil to trade more with Western Europe — let alone with the Socialist countries. And the development of U.S. balance-of-payment difficulties only increases these same American needs.

3. Gains and Losses from Trade

Brazil: The terms of trade have been turning to the disadvantage of Brazil. Between 1955 and 1961, the prices paid for Brazilian products have fallen considerably, and the prices of American exports have risen. The result has been a loss to Brazil greater than the total of all aid since World War II.

United States: The argument of the Brazilian Embassy about the terms of trade is mistaken. In less professional circles, these price changes are described as a "process of exploitation" by the industrialized countries, especially the United States. Had the Brazilian Embassy chosen 1947-1949, instead of the high-price 1950-53 base, it would have come to the opposite conclusion. In each decade since 1920 the terms of trade were worse for Brazil, and only in the decade 1950s were they better, than at present. One might equally well talk of "presents" made to Brazil in the twelve years since 1950. The majority of serious students are highly skeptical of long-term generalizations about tendencies inherent in the terms of trade. Regarding the question, "Are coffee prices today too low?", simply as economists we would have to answer, "No." The idea that the industrialized nations in a certain sense "owe" the nations who export primary commodities a certain level of terms of trade seems neither reasonable nor desirable. There is no conspiracy to deteriorate the terms of trade. On the contrary, competition to sell is greater than ever.

Comment: Brazil and other poorer countries are falling increasingly behind the already industrialized ones. The economic relations between the two, taken as a whole, are quite evidently a contributing, if not the crucial, factor in this loss by the underdeveloped, raw-materials exporters. The countries which were able to avoid or break this relation have also been able to avoid this loss. If in the 1930s and 1940s the terms of trade were less favorable to Brazil, this was in good part due to the depression and the war and because Latin America generally acceded to American pleas to keep raw-materials prices lower than they might have been as their contribution to the war effort. The higher prices in the years 1950-1953 were, of course, due to the Korean War, during which this same American ideological argument carried less weight abroad; and since that time these prices have indeed fallen again. It seems difficult, thus, to accept the thesis that the prices of the 1950s constituted a gift to Brazil.

Instead, serious economists *can* demonstrate that the terms of trade, as part of the economic relationship taken as a whole, are too low, even at their highest, to prevent the exploitation and permit the development of Brazil and other poorer countries. Thus, the idea that the developed countries owe something to the underdeveloped ones seems quite reasonable and desirable unless one still wishes to advance the argument that "the hidden hand" regulates economic relationships. This is an argument long used to hide the fact that the general standard of living in Brazil, and in almost all other poor countries, was *higher before* they became entangled in the relationship of "trade," "aid" and especially of "foreign investment" than it is today. Moreover, not competition, but monopoly and cartels protected by suprastates such as the European Common Market, NATO, the petroleum industry, etc., and of course rising prices, are the trend in the industrialized world today. And these arrangements most certainly are conspiratorial and prejudicial to the underdeveloped world.

4. Effects of U.S. Capital in Brazil

Brazil: U.S. aid money has been well used by Brazil. The rate of the growth of income per capita has been one of the highest in Latin America for the decade 1950-1961. There is no better index of adequate use of foreign aid than the achievement of a high growth rate. More than 90 per cent of imports have been accounted for by essential raw materials, basic foodstuffs and equipment and parts.

United States: The substantial contribution of U.S. public and private capital to Brazilian economic growth in general, and especially to desirable structural change toward manufacturing, import substitution and increased export capacity, refutes the clichés about the "process of exploitation."

Comment: Both Ambassadors misdirect their analysis and exaggerate the effects of U.S. aid, which in reality retarded Brazilian economic growth. Evaluating the use of American aid, as does the Brazilian Embassy, by reference to the Brazilian growth rate is unacceptable. As the Brazilian note points out, recent per capita growth in most Latin American countries has been largely zero or negative, while in Brazil it has been 3 per cent for the period since World War II and 3.9 per cent since 1957. However, as the Minister for Planning, Celso Furtado, points out, the most important economic development in Brazil occurred during the 1930s when, due to the depression, American export of capital and goods reached its lowest point and Brazil changed over from importing all of its capital equipment to producing it at home. And during this crucial take-off into economic development, the per capita rate of growth registered was 0.3 per cent. Thus, the significant index of good use of foreign and domestic resources for Brazil is not, as the Brazilian Ambassador suggests, the growth rate as much as it is the creation of a national productive capacity, especially in heavy industry, and initially for the domestic market. To this process, American aid and investment decidedly does not contribute.

It is perhaps his use of an incorrect criterion which permits the Brazilian Ambassador to go on to make his strange claim that the "aid" resulted in the import of goods important for Brazil's economic development. For a country of continental proportions with every conceivable raw material, and perhaps the greatest agricultural potential on this globe, it seems indeed a strange argument to claim that Brazil is putting its resources to good use when it imports "essential" raw materials and "basic" foodstuffs, instead of importing equipment and technology which would permit it to develop that potential. Much of the "equipment and parts," to say nothing of the remaining 10 per cent of imports, should undoubtedly have also been produced nationally.

Even disregarding the negative consequences of foreign aid and investment, their contribution to total investment in Brazil is, contrary to the American Ambassador's claim, minuscule and easily forgone. According to a Brazilian estimate for the years 1950-1954, all foreign (including American) investment amounted to 1.32 per cent of Brazilian Gross National Product, or 8.2 per cent of total investment in Brazil. For the period 1955-1959, a Brazilian estimate of the share of foreign investment is 2 per cent of gross and 2.8 per cent of net investment. But, as we saw earlier, large parts of even this small "contribution" of foreign capital are no contribution at all, since much of this capital was Brazilian to begin with and is foreign only in ownership, control and earnings. It is evident, therefore, that Brazil could easily find national capital that would more than substitute for so small a foreign addition to her total investment, and dispense at the same time with the damages inflicted by foreign investment on its economic development.

The American Ambassador's assertion that U.S. capital has contributed to desirable structural change in the Brazilian economy is even less founded in reality. Rather, American capital has contributed to the already much too great concentration of capital in Sao Paulo to the prejudice of the other regions, especially of the Northeast. Similarly, capital has flown into the export, processing and service industries to the disadvantage of basic industries and Brazil. Tariff exclusion of relatively inessential products has drawn national, but proportionally especially foreign, capital into the production of these same relatively inessential, but protected, products. The American Ambassador's "import substitution" is therefore at best a two-edged sword. But even this substitution of specific imports does not necessarily contribute to the reduction of imports as a whole. On the contrary, if this investment goes into certain kinds of processing, it makes "essential"—as the Brazilian Ambassador observes in another context — the import of more raw materials. If it helps to shift the distribution of income to groups with higher propensities to import, it increases imports as a whole. As for increasing export capacity, to which the American Ambassador also refers, Brazilian capacity to export non-raw materials remains notoriously low. And using scarce resources to increase Brazil's capacity to export *raw materials* is certainly a most questionable policy.

5. Economic Policy for Brazil

United States: The serious problem for Brazil is the expansion of export earnings. Since Brazil cannot hope to regain the predominant position in the coffee, cacao, and sugar markets already lost to new producers, Brazil should follow the example of Japan which, when faced with declining earnings from textile exports. expanded into shipbuilding and electronics. Following a similar policy, Brazil could expand its exports of iron ore, meat and manufactured products. And in order not to cut itself off from technological progress and thereby from economic progress, Brazil should continue to invite foreign investment.

Comment: Brazil's urgent need at this time is not still more outward-directed, but rather inward-directed, economic development. Far from emphasis on exports, as the American Ambassador suggests, this requires regional and sectoral economic integration and additional basic industry for national needs. Least of all does it imply or permit using the resources urgently needed for that national task to expand two lines of raw-material exports — iron ore and meat — to serve the needs of the already industrialized countries.

It is difficult to see how the American Ambassador draws the lesson he does for Brazil from the example of Japan. Japan expanded into shipbuilding and electronics, but Brazil is to expand into iron ore and meat. Moreover, Japan is at a quite different stage of economic development than Brazil. The export market Japan was losing was in textiles, not in coffee. How did that country achieve this degree of industrialization and development? Not by pursuing the policy the American Ambassador prescribes for Brazil, but by doing precisely the opposite. In fact, Japan is the crucial example among the capitalist economies, as the Soviet Union is among the Socialist, which, in order to achieve the take-off into economic development in a world of already industrialized and imperialist countries, began by isolating itself substantially from foreign trade and totally from foreign investment and control. Neither country found it necessary, let it be noted, to permit such foreign investment in order to take advantage of the technology of the industrially more advanced countries. Only *after* they had forged an economic structure and their own control thereof, which permitted them to take advantage of more intimate economic ties with already advanced countries, did Japan and the Soviet Union enter into such relations. Thus, Japan indeed does provide the example most relevant to Brazil's present economic organization; but the national stance it points to is one of independence, not one of dependence. Let it be noted, however, that on this road Japan also became an imperialist power itself, with all that implies.

Conclusion

The two Ambassadors, although both highly reputable economists of similar training, evidently have quite different official views of Brazilian-American economic relations. As they themselves imply in their reference to the diplomatic schizophrenia of defending abroad what one denounces at home and vice versa, their differences may probably be traced to the circumstances and interests of the two countries, of the two worlds, of the rich and of the poor, whose diplomatic representatives they are. The American describes a relationship in which Big Brother selflessly provides much of the capital, technology and good advice (like that of the Ambassador himself), which the little brother, Brazil, needs to grow up into an independent industrialized adult. Though Americans do not really owe Brazilians anything, they incur considerable sacrifices on Brazil's behalf; and any gains they may derive are quite accidental and extraneous to the relation. Finding it difficult to accept this rosy picture, the Brazilian suggests instead that the real importance of U.S. aid is to the U.S. economy itself, that the hand-in-aid gives only little and that even this

and more is taken away in trade by the other hand. Still, being the official diplomatic representative of, among other influential groups, Brazilian groups which benefit from current Brazilian-U.S. relations, the Brazilian Embassy paints a picture that is not altogether dark.

Dispensing with diplomatic polity, but still confining the discussion largely to the topics selected by the Ambassadors, the comments of the present author suggest that, in its current form, this relation is neither "very" nor "slightly" beneficial, but instead definitely prejudicial to Brazil. Far from contributing capital to, and improving the structure of, the Brazilian economy, the United States draws capital out of Brazil and with what remains gains control of Brazilian capital and channels it into directions that increase Brazil's dependence on the United States and hinder Brazil's economic growth. The terms of trade form neither an accidental nor an extraneous but an integral part of this process. Far from pointing the way to Brazil's industrialization and development, the American Ambassador's recommended policies — emphasis on private enterprise, foreign investment, more raw-materials exports, etc.—would maintain Brazil's position as an underdeveloped, dependent economy. It appears, thus, that the United States takes away with both hands; the picture is neither rosy nor neutral, but quite dark.

The picture would emerge still darker or pitch-black if the analysis were extended beyond the selected topics to include the entire economic relationship between Brazil and the United States. Consider, for instance, the imposition, on threat of withholding short-term credits, of the policy of the International Monetary Fund. Supposedly to reduce balance-of-payments deficits, this policy calls for reducing exchange restrictions and thus permitting more transfer of capital out of Brazil; Brazilian devaluation to make the cruzeiro cheaper and the dollar dearer; supposedly anti-inflationary measures which shift income from the poor to the rich, thereby weakening domestic production and increasing the demand for imports—all of which results in new balance-of-payments deficits, new loans and new dosages of the same IMF medicine.

One might ask, if all this "aid" is really so damaging to Brazil, why does Brazil permit and even seek it? Again, the answer is to be sought in the very Brazil-U.S. relationship itself. First, of course, the relationship does reward *some* Brazilians with profits and power. These groups then apply this same power to efforts to maintain the relationship. Second, with time Brazil becomes so dependent that breaking away involves such high costs in the short run — whatever the long run gains—that many other groups, and especially any government, are loath to accept them. Thus, in the short run, failure to receive credits to refinance the already existing debt would force a cut of imports that are necessary in the same short run, because in the meantime the same economic relationship has destroyed or prevented the creation of productive capacity that would obviate these imports. If, going a step further out of the relationship, American investments are threatened, the short-term cost, as the case of Cuba demonstrates, is the stoppage of all trade. In a word, Brazil and other countries find themselves in a kind of debt-slavery relationship not unlike that of the peasant with his moneylender-landlord the world over, a relationship in which the very exploitation appears to make its own continuance necessary.

Finally, for what it may be worth, and as the analysis by the American Ambassador and in part that by the American-trained Brazilian Ambassador demonstrated, the United States also supplies the economic science—and the ideology as well—that tries to pretend this exploitative relationship is really necessary and desirable.

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